Retail vacancy rates increase

Xi’an looks to stimulate consumption to rebound from the impact of COVID-19.

- In 1H/2020, the average vacancy rate in Xi’an increased by 2.8 percentage points (ppt) QoQ to 7%, up 3.3 ppt YoY and reaching a ten-year historical high.
- There were no new projects in the Xi’an retail property market in Q2/2020, and the total stock of the market remained at 5.79 million sq m.
- Rent in the city fell 0.1 of a ppt YoY to RMB327.8 per sq m per month.
- Some shopping malls have been extensively renovated and cleared of tenants, while a large number of businesses have closed due to poor operations.
- The Xi’an government began issuing vouchers in May to guide and expand consumption and boost business in the city. At the same time, many companies implemented special outdoor activities, using these offline marketing activities to drive commercial retail consumption in Xi’an.
- Most brands are cautious about expanding their retail footprint due to the epidemic, though affordable luxury and tea businesses have continued their expansion pace.
- Business adjustment and renovation is still a focal point for landlords in Xi’an, a trend that has been apparent in the market since 2019.

“With the epidemic gradually coming under control in Xi’an, the government is focusing on rejuvenating the consumer market. Stimulating consumption is key not just for the retail market but the city’s overall economy.”

SOPHY PAN, SAVILLS RESEARCH
Although most brands are cautious to expand their retail footprint due to the epidemic, affordable luxury and tea businesses continued their expansion. In Q1/2020, the affordable luxury fashion brands Michael Kors and Salvatore Ferragamo opened stores in G Park and Zhongda International, respectively, while Lego and Pop Mart also opened stores in G Park. Vip.com expanded its network and opened shops in Wanhe City, CT Mall and Starry Street in Q1/2020. In addition, Hey Tea opened in new stores in Suning shopping mall and Zhongmiao Plaza, while Seven Bus’ first store opened in Joy City.

**MARKET TRENDS**

Business adjustment and renovation was still a major trend in the Xi’an retail market in Q2/2020. The original B1 floor of IMix Park has been transformed into a ‘Fashion Block’, bringing nearly ten new fashion brands to position the mall as a home for fashion trendsetters. In addition, the adjustment of the core business district was another significant market trend during Q2/2020. The upgrading and renovation of the Kaiyuan Shopping Mall in the core area, in particular, attracted significant attention. Many new elements have been introduced onto the ground floor, such as the Nike Kicks Lounge L1 Experience store, Japanese high-end sports brand Descente, luxury collection store Elekta, and American brand Belé. Zhongda International Hi-tech Mall implemented “Her Economy”, a special promotion that added several international beauty brands on the first floor of the shopping mall. Zhongda International South Gate is currently undergoing renovations on its fourth floor, which should attract more brands to the project. Moving forward, the city’s malls are expected to undergo further transformation and upgradings.

**VACANCY RATE**

There were no new projects in Xi’an retail property market, and the total stock of the market remained at 579 million sq m in Q2/2020. The impact of COVID-19 on the business operation is gradually becoming more apparent. Some shopping malls have adjusted and cleared tenants, while many tenants have closed and left shopping malls due to poor operations. Thus, the average vacancy rate of shopping centres in Xi’an increased by 2.8 ppts QoQ to 7%, up by 3.3 ppts YoY, and reached a 10-year historical high in Q2/2020.

**CONSUMPTION CHANGES**

With the epidemic gradually coming under control in Xi’an, the government is focusing on how to rejuvenate the consumer market. The government began issuing vouchers in May to guide and expand consumption and boost the retail business market. At the same time, companies and landlords actively carried out outdoor activities, driving commercial retail consumption energy through offline marketing activities. Typical cases include Joy City, Golden Eagle and Zhongmiao Plaza which focused on building new consumption opportunities, such as the ‘Starry Night Market’ and ‘South City Night Lane’ outdoor street markets, which attracted a large number of consumers.

**MARKET OUTLOOK**

Looking forward to 2H/2020, three projects are expected to enter the market, which will bring more than 200,000 sq m of new supply to the Xi’an retail market. Two of the projects are located in non-core areas. The entry of the new projects will further promote the commercial atmosphere in the outer urban areas of the city. Xi’an’s business environment has entered a period of adjustment after the challenges of the COVID-19 epidemic. As the overall commercial market tries resumes its normal operating environment, the developments in the Xi’an retail market are critical for the city’s overall health and growth.

**TABLE 1: Xi’an Future Supply, 2H/2020**

<table>
<thead>
<tr>
<th>PROJECT</th>
<th>RETAIL GFA (SQ M)</th>
<th>SUBMARKET</th>
<th>DEVELOPER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wuyue Plaza</td>
<td>125,000</td>
<td>Xi Xian New District</td>
<td>Seazen Holdings</td>
</tr>
<tr>
<td>Xi’an Taiyi City Mall</td>
<td>60,000</td>
<td>Bellin</td>
<td>Shaanxi Hualong Group</td>
</tr>
<tr>
<td>Longfor Paradise Walk</td>
<td>77,000</td>
<td>Chanka</td>
<td>Longfor Properties</td>
</tr>
</tbody>
</table>