

8.7%
Disposable Income

YoY Chg 12-Mo. Forecast



4.0%
Population



5.8%
Consumption Expenditure



Source: Statistics Bureau of Shenzhen Municipality
(Figures are growth rates as of 2018.)
Oxford Economics, Cushman & Wakefield Research

SHENZHEN ECONOMIC INDICATORS JAN - DEC 2019

6.7%
Total Retail Sales of
Consumption Goods
Growth

YoY Chg 12-Mo. Forecast



14%
Online Sales of
Goods Growth



3.4%
CPI Growth



Source: Statistics Bureau of Shenzhen Municipality,
Oxford Economics, Cushman & Wakefield Research

Market Competition Intensifies as Landlords React to Conditions

Under strict conditions from the coronavirus outbreak, shopping malls in Shenzhen shortened opening hours or closed completely to comply with containment measures, especially after the Spring Festival period. As consumers curtailed outdoor activities, footfall and sales in all bricks-and-mortar stores, save essential daily goods and food stores, dropped to the bottom.

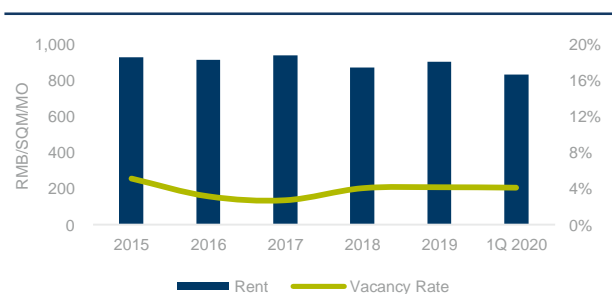
To bring relief to tenants' losses and strengthen relationships, landlords of prime shopping malls offered rent-free periods of one to weeks. Average monthly rentals for prime shopping malls dropped 7.97% q-o-q to RMB830.6 per sq m in the quarter. Ahead, considering that the market may rebound once the epidemic ends, mature malls with low vacancy rates will face less pressure on rentals. However, new projects with letting difficulties or projects with relatively high vacancy rates may experience intense competition, resulting in further rental drops.

Leasing activities and lease surrendering were infrequent as the epidemic severely disrupted business. The citywide vacancy rate remained at 4.1% at the end of the quarter. However, the virus containment measures heavily impacted tenants' wellbeing, especially those lacking capital support, and this will be reflected in the vacancy rate in the short-term. We can expect the vacancy rate to rise in Q2. On the demand side, some brands suspended their expansion plans. For example, Starbucks estimated a loss of US\$430 million in their China operation revenue in Q1, and suspended business expansion. Scenarios such as this will continue to weigh on leasing demand in Q2. Nonetheless, as the epidemic is being controlled, the market is expected to recover later this year. Brands are expected to resume business plans, improving leasing demand.

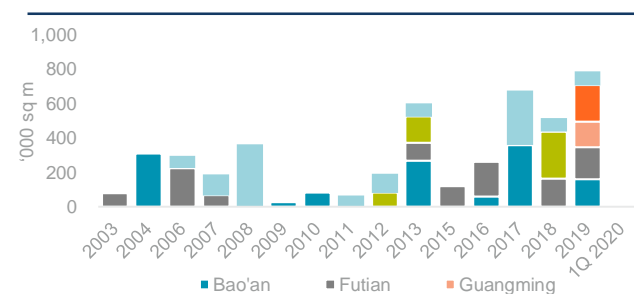
Non-Core Prime Retail Will Usher in Development Opportunities

Some projects under construction suspended completion in the face of the crisis environment. Despite the postponement of some launches scheduled for 2019 landlords have continued to actively work on progress. Ahead, we can expect mall operators to exert a strong focus on hygiene management systems when upgrading software and hardware facilities, and pay more attention to green and open areas with good ventilation. We also anticipate factors such as the jobs-housing balance to make neighborhood retail centers in the non-core area increasingly important, and this community retail base will utilize omnichannel strategies and take a greater share of daily consumption ahead.

RENT / VACANCY RATE



RETAIL SUPPLY PIPELINE BY SUBMARKET





MARKET STATISTICS

SUBMARKET	INVENTORY (SQM)	VACANT (SQM)	VACANCY RATE	UNDER CNSTR TILL 2023 (SQM)	OVERALL AVG RENT (RMB/SQMMO)*
Luohu	417,829	3,918	0.9%	512,000	1700.00
Futian	1,150,000	81,980	7.1%	198,000	927.00
Nanshan	1,286,500	58,770	4.6%	854,083	794.55
Longgang	502,000	16,160	3.2%	90,000	524.00
Bao'an	850,000	13,380	1.6%	305,000	678.00
Longhua	210,000	10,500	5.0%	200,000	380.00
Guangming	150,000	3,000	2.0%	-	400.00
SHENZHEN TOTALS	4,566,329	187,708	4.1%	2,159,083	830.6

* Rentals are calculated by NLA and considered as consistently achievable for prime space in prime shopping centers, excluding management fee, promotional fee and other fees.

SIGNIFICANT STORE OPENINGS 1Q 2020

PROPERTY	SUBMARKET	TENANT	SECTOR
Wongtee Plaza	Futian	THE COLORIST	Makeup
Wongtee Plaza	Futian	Muji	Household Products
One Avenue	Futian	Tesla	Showroom
Bao'an Maxland	Bao'an	PappaRich	F&B
UniWorld	Longhua	Bond Education	Education

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

PROPERTY	SUBMARKET	EXPECTED OPENING DATE	SQM
Baoneng Global	Nanshan	2020	132,000
Gateway Phrase II China Merchants	Nanshan	2020	80,000
OH Bay OCT	Bao'an	2020	65,000
Houhaihui	Nanshan	2021	72,083
Joy City	Bao'an	2022	100,000

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