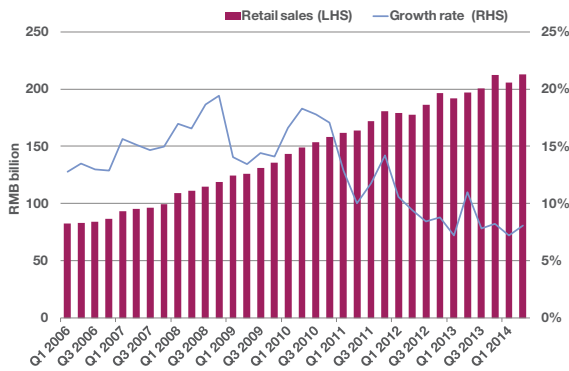


Asian Cities Report **Shanghai Retail**

2H 2014

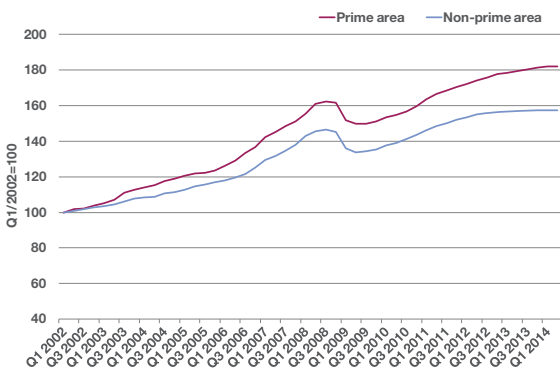


GRAPH 1
Retail sales and growth rate, Q1/2006–Q2/2014



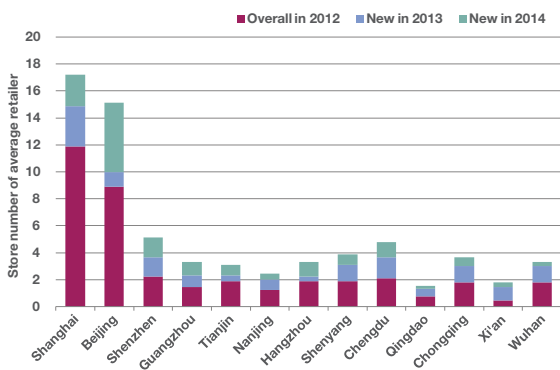
Source: Shanghai Statistics Bureau, Savills Research & Consultancy

GRAPH 2
Rental indices, Q1/2002–Q2/2014



Source: Savills Research & Consultancy

GRAPH 3
Average number of stores for selected mass market fashion brands, 2012–2014



Source: Savills Company websites, Savills Research & Consultancy

Who is expanding?

Affected by the slowing economy, retail sales growth rates in Shanghai continued to slow to less than 10% in the first six months of 2014. Additionally, the city is faced with an average annual supply influx of 1.0 million sq m over the next three years, placing downward pressure on city-wide rental levels.

Since 2H/2013, Shanghai's overall rental growth has continued to slow. Although a select number of leading projects were able to achieve an annual rental growth rate of around 5%, other projects, especially new ones, are finding it more difficult to reach previous expectations. As a result, large space mainstream fashion retailers are now seeing a trend of paying purely based on turnover rates with no base rents.

From a retailers' perspective, the decision to enter a market is normally part of a long-term strategy. Currently, retailers are generally selective and cautious about store openings and expansions. However, the potential for a long-term growth story in China remains and Shanghai continues to be the first choice for many international brands entering the China market.

As the market leans away from landlords and more towards the demand side, opportunities arise for retailers to have more premium location choices to select from. Some existing brands are close to saturation in terms of store expansion but newer brands, upgrading stores and F&B retailers are making up the leading demand in the market.

Fashion

Shanghai boasts the largest number of stores in mainland China across almost all retail categories, from luxury fashion to coffee shops. After a rapid expansion strategy from 2008 to 2012, Louis Vuitton now has four stores in Shanghai, three duplex stores and a flagship in Plaza 66

occupying four storeys. H&M already quadrupled its number of stores and is now present in 16 shopping malls. Although Gap entered the market late in 2011, it now has 14 stores (including two outlets) in Shanghai as of mid-2014.

Since 2013, many existing brands have slowed their expansion plans, shifting focus to existing store management or upgrading. New store openings now go through longer periods of decision-making and negotiations than ever before. However, key locations are still the main target for these brands. For example, H&M opened a four-storey street-front store on Nanjing Road (E), while Inditex signed The Place in Hongqiao to introduce a number of brands under the group. Uniqlo, currently one of the most aggressive brands, is actively expanding into new potential areas around the city.

For existing brands, most newly opened stores have introduced new concepts. The above-mentioned H&M and Inditex Group stores will introduce new home decor lines, while Nike is also trying to further differentiate its store experience. On Huaihai Road (M), Nike's 3,700 sq m five-storey flagship covers a wider range of products, while the store in IAPM mall (less than 1 km away) focuses on more avant-garde, designer shoe series of the season.

Newer brands, especially those that entered the market after 2012, are showing stronger aspirations for expansion. New Look, Old Navy, American Eagle Outfitters and Moussy have all opened more than two stores since 2H/2013. Forever 21 is also looking to open a new store since it opened the first one in 2012. This is also the case for a selective number of higher positioned brands such as Michael Kors and Sandro.

Although there is a trend of "going online", brick and mortar stores remain the bread and butter for

fashion brands and are believed to be irreplaceable. For some new international brands, an online store in Tmall is a good way to test the market and understand consumer preferences – however, a combination of online and offline channels continues to be the mainstream strategy for most brands.

F&B

The anti-corruption campaign that began in 2012 has had the most impact on the high-end F&B market. It has been reported that X E Flavor will completely shift its main F&B business into other fields. The majority of mature high-end Chinese restaurants are adjusting strategies by launching new menus or new brands targeting wider mass market consumers, while delaying the opening of new high-end stores. For example, Shanghai Min is opening a new mass market brand called “The Dining Room” with a smaller space and a more affordable menu.

Mass market restaurants continue steady expansion. Starbucks now has over 200 stores in Shanghai. Korean branded coffee shops are also keen to enter the market. Coffee Bene, Tous Les Jours, Hollys Coffee and Zoo Coffee all entered Shanghai since late 2012 and are looking to cover more locations city-wide. Pizza Express opened five new restaurants since 2H/2013 and now has a total of 11 restaurants in Shanghai.

A number of large scale mass market brands (~1,000 sq m – mostly Chinese cuisine restaurants) have recently entered the Shanghai market. They have performed well and many are looking to open more stores. Hong Kong based Tao Heung secured space in two new shopping malls schedule to open in 2H/2014. Nanjing based Dapaidang is also looking at expansion in both prime and non-prime areas. Hangzhou based Grandma's Home is expected to bring more of its subsidiary brands

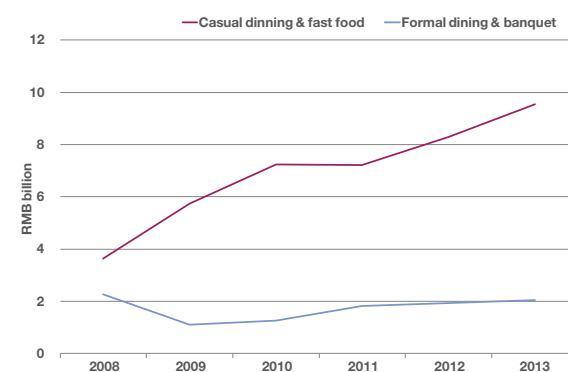
to Shanghai in coming months. The main concern for the F&B market is not the economic slowdown but rising costs of rents and labour. Some smaller F&B retailers such as coffee, dessert and Western bistros are now paying base rents comparable to fashion brands in the first floor of shopping malls. The development of the online market has fostered a number of O2O platforms designated to provide food delivery service through cooperation with restaurants. However, physical existence is a fundamental part of F&B businesses. Some restaurants are considering opening smaller stores or set up 50 sq m kiosks in food court areas in order to balance rising costs.

Outlook

There is still a significant amount of interest from overseas retailers to enter China market. Brands such Topshop, J Crew and Scotch & Soda are all considering opening stores in mainland China. Benchmark projects are expected to benefit most from this demand as their core locations and management are of particular interest to new entry brands.

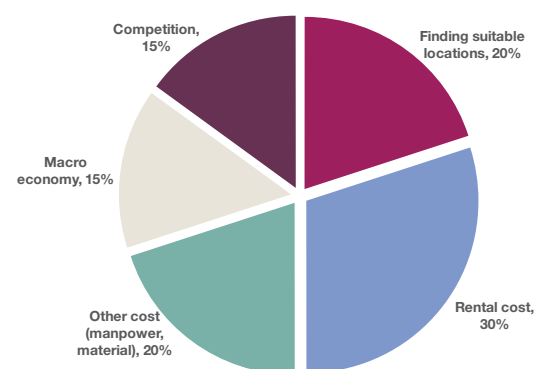
The market is also looking forward to seeing more innovative brands or ideas to attract consumers. For example, as disposable income increases and air pollution poses more of a threat, people are caring more about leading a healthy lifestyle which stimulates demand for sports related products and organic food restaurants. Some concept stores have begun to focus on promoting health and lifestyle products that are seen as great potential for future business growth. ■

GRAPH 4 Revenue of F&B chain stores in Shanghai, 2001–2013



Source: CEIC, Savills Research & Consultancy

GRAPH 5 Key business concerns of surveyed F&B companies, 2013



Source: Savills Research & Consultancy

TABLE 1 Selected leasing transactions, 1H/2014

Retailer	Category	Location	Area (sq m)
Old Navy	Fashion	Nanjing Road (W)	1,750
M&M's World	Confectionary	Nanjing Road (E)	1,400
Tao Heung	F&B	Jing'an Temple	1,250
Jade Garden	F&B	Xujiahui	850
New Look	Fashion	Zhongshan Park	800

Source: Savills Research & Consultancy

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