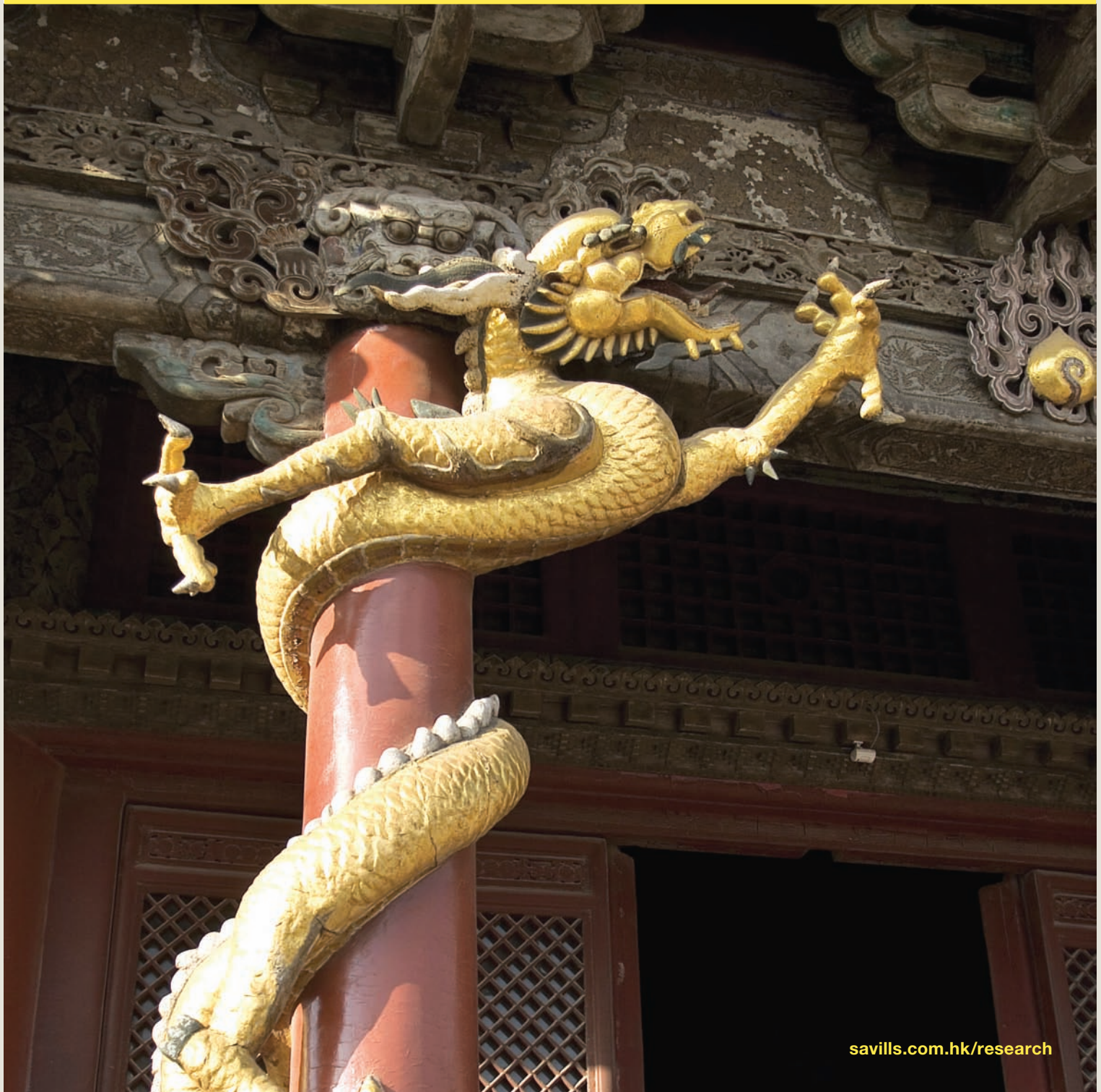


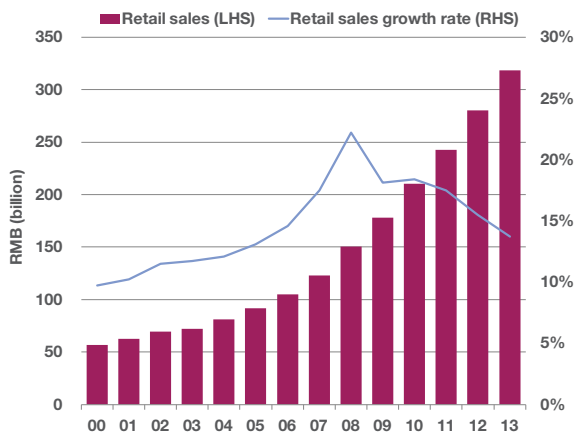
Asian Cities Report

Shenyang Retail

1H 2014



GRAPH 1
Retail sales, 2000–2013



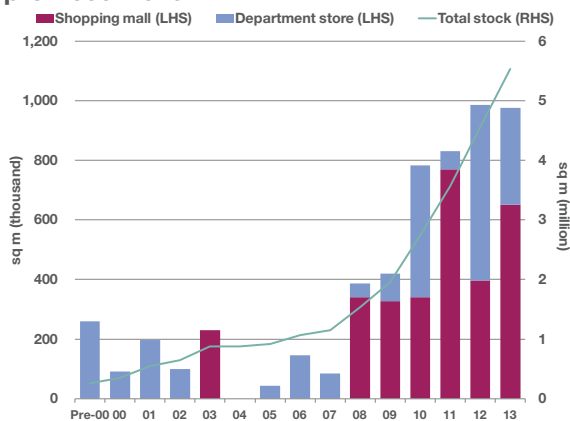
Source: Savills Research & Consultancy

MAP 1
Major retail areas



Source: Savills Research & Consultancy

GRAPH 2
Mid- to high-end retail supply and stock, pre-2000–2013



Source: Savills Research & Consultancy

Economic overview

In the first nine months of 2013, Shenyang’s GDP increased by 8.3 year-on-year (YoY), to RMB522.31 billion. Retail sales reached RMB229.79 billion in the same period, up 13.3% YoY. Meanwhile, urban residents’ disposable incomes grew by 10.1% YoY to RMB22,090.

Market overview

As a major economic, cultural, transportation and trade hub of northeast China, Shenyang’s retail market attracted customers from both the locality and other small to medium cities in northeast China, such as Tieling, Anshan, Fushun and Benxi. Consequently, the city has the second largest retail market nationwide, following Beijing, in terms of mid- to high-end retail stock.

Shenyang’s retail market is mainly divided into five traditional retail areas, four emerging areas and two specialty retail areas.

Traditional retail areas

Taiyuanjie and Zhongjie are the two oldest and most mature retail catchments in the city.

Located in Heping district, Taiyuanjie has a total mid- to high-end retail stock of 690,000 sq m and is currently home to a number of department stores, such as The Centre (Phases 1 to 3) and New World Department Store. Department stores dominate this area, accounting for 60% of the total stock, with only two shopping centres entering Taiyuanjie in 2003 and 2010 respectively. However, since 2008, the market has witnessed increased competition from the popularity of shopping centres and e-commerce. As a result, a total of five mid- to high-end department stores were closed during the past five years, including Mansion Mode, Isetan and New Mart.

Zhongjie has a total mid- to high-end retail stock of 1.8 million sq m and consequently is the largest retail area in Shenyang. Compared with Taiyuanjie, Zhongjie enjoys a wider ranging and stylish tenant and brand mix by accommodating several prime shopping centres, such as Joy City – Shenyang (by COFCO) and Palace 66 (by Hang Lung Properties), operated by mature retail property developers. These projects attracted a number of fast-fashion, lifestyle, health and beauty, F&B, and entertainment retailers including H&M, Zara, Gap, MUJI, Sephora and CGV, many of which entered the Shenyang market for the first time, and therefore brought a significant upgrade to the retail market.

Emerging retail areas

The three major emerging markets, namely North Station, Municipal Government Square and Wulihe evolved with the development of the Golden Corridor, an 18-sq km strip running through the city centre initiated by the government in 2003. The cluster of high-end residential communities combined with office developments along the Golden Corridor generated new demand to support these retail areas. Retail developments in these three areas are typically positioned as high-end or mid- to high-end projects, and attracted a series of luxury, secondary luxury, watch and jewellery, and fashion retailers to cater to the affluent residents. Representative projects include Shenyang Charter Shopping Centre, The MixC and Forum 66.

Supply, stock and demand

Shenyang’s mid- to high-end retail market witnessed slow development before 2007, with average annual supply of only 111,000 sq m between 2000 and 2007. However, the market has evolved rapidly since 2008, with average annual supply

of 730,000 sq m between 2008 and 2013. As a result, the market witnessed an oversupply problem in recent years due to this large amount of new supply combined with a relatively homogenous tenant and brand mix seen in many projects. Shopping centres began to dominate the market in the same period and account for approximately 55% of the total stock.

Shenyang's mid- to high-end retail market welcomed a second historical supply peak in 2013, with eight projects debuting and bringing a total retail GFA of 976,000 sq m. Three of the new project were department stores, all built as larger projects, with retail GFAs of over 100,000 sq m, to improve the trade mix in an attempt to attract customers in a market dominated by shopping malls.

Overall demand from luxury and fashion (including fast-fashion) retailers slowed in 2013 due to reinforced anti-corruption policies initiated by the government, combined with a relatively saturated market. Meanwhile, demand from F&B, children's, entertainment (including cinemas, KTVs, ice parks and so on) and lifestyle retailers strengthened as landlords attempted to introduce these tenants with the intention of attracting footfall to their projects. Secondary luxury and designer label retailers also showed interest in prime projects located in traditional retail catchments. As a result, despite a large amount of supply entering the market, city-wide vacancy rates fell to 11.0% by the end of 2013.

Rent

Prime shopping mall retail rents witnessed a slow appreciation over the past three years. Between 2011 and 2013, retail rents grew at a compound annual growth rate (CAGR) of 3.4% to RMB359.4

per sq m per month, with half-on-half (HoH) growth of just 0.6% in 2H/2013, much lower than that of Dalian (8.5%), its northeast China counterpart.

This was largely a result of a substantial level of new supply in recent years intensifying market competition. Given the increasing competition between projects in an oversupplied retail market, many landlords have to maintain the same rental offerings or even offer rental incentives to secure healthy occupancies. Meanwhile, landlords attempted to introduce F&B, child-related brands, entertainment and lifestyle retailers in order to offer a better experience to local shoppers. In contrast, fashion retailers, which usually have higher affordability, became rather cautious on expansions in the local market.

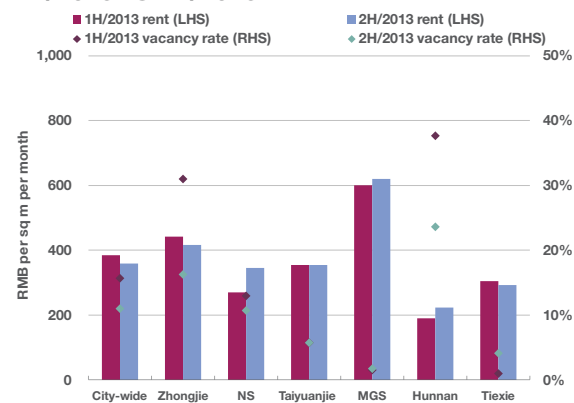
Outlook

The oversupply problem is expected to intensify further as 11 new projects are scheduled to debut in the next two years, adding a total retail GFA of 1.3 million sq m to the high-end retail market and enlarging current stock by 27% by the end of 2015. More shopping malls will be handed over in the coming two years, with new projects located along the Golden Corridor and in non-prime retail areas such as Tiexi.

Due to this large amount of new supply being injected into an already saturated market, mid- to high-end shopping mall rents are expected to fall further as landlords either offer rental incentives to attract suitable tenants, particularly fashion retailers, or commit more retail space to F&B, lifestyle, children's and entertainment retailers, despite their weak rental affordability compared with fashion and accessory brands, to encourage more footfall. ■

GRAPH 3

Major retail area rents and vacancy rates, 1H/2013 vs 2H/2013



Source: Savills Research & Consultancy
NS = North Station; MGS = Municipal Government Square.

TABLE 1

Selected retail leasing transactions, 2H/2013

Tenant	Trade	Project	Location	NLA (sq m)
DuoDuo World	Children	Star Mall Shenyang Plaza	Tiexi	10,000
H&M	Fashion	Palace 66	North Station	500
Tongdelai	F&B	Wanda Plaza	Tiexi	400
Coach	Fashion	Jiu-Guang Department Store	Zhongjie	400
SHANGHAI MIN	F&B	Rich Gate Phase II	North Station	400
Xiyuji	Children	Longemont Shopping Mall	Zhongjie	350
AU Hers	Fashion	Joy City	Zhongjie	240
Casio	Watch	Palace 66	Taiyuanjie	200

Source: Savills Research & Consultancy

TABLE 2

Future projects, 2014

Project	Retail area	Retail GFA (sq m)
Happy Family Mall	Taiyuanjie	105,000
UNI-Mall	Beihang	70,000
Sunwah IFC	Municipal Government Square	90,000
Lotte Shopping Center	North Station	300,000
Kerry Center	Wulihe	60,000
Orchard Summer Place	Wulihe	30,000
New World K11 Shopping Centre	Wulihe	300,000
Yifang Plaza	Municipal Government Square	140,000

Source: Savills Research & Consultancy

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