

# Briefing Retail sector

April 2014

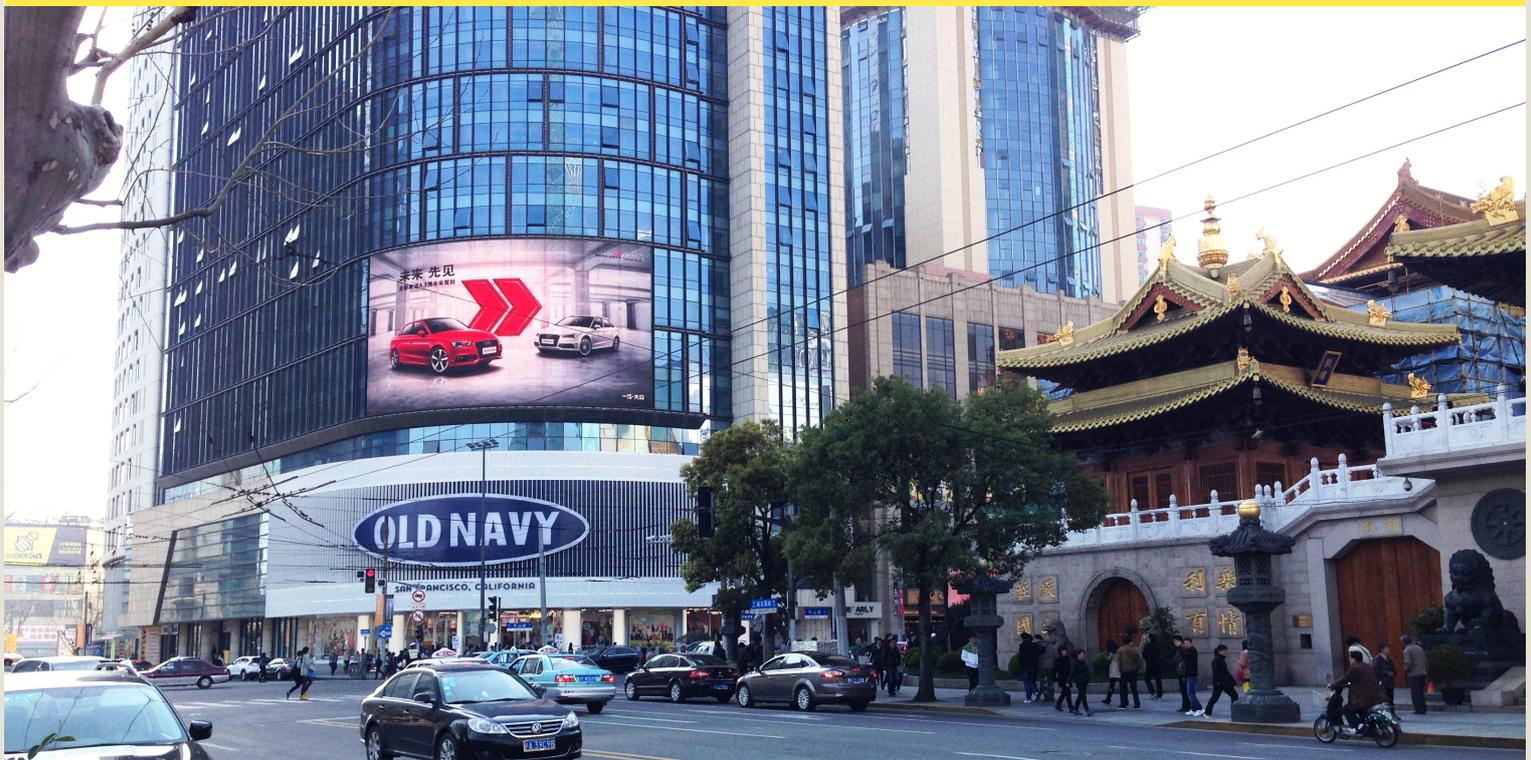


Image: Nanjing Road (E), Huangpu district

## SUMMARY

Shanghai's retail market is expected to continue softening in 2014, as retailers remain conservative on expansion plans and new supply floods the market.

- Two new shopping malls were launched in Q1/2014, adding 80,000 sq m of retail supply to the market.
- Shopping mall vacancy rates in primary locations fell by 1.0 percentage point (ppt) in Q1/2014 to 3.1%.
- The Shanghai Free Trade Zone launched a pilot cross-border e-retail platform.
- A further 985,100 sq m of shopping malls is expected to open in the remainder of the year.
- First-floor shopping mall rents in primary areas increased by 0.5% quarter-on-quarter (QoQ) to an average of RMB47.4 per sq m per day, while rents in non-primary (secondary and emerging) areas increased by 0.1% QoQ to an average of RMB18.5 per sq m per day.

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 “Sales vary greatly between non-prime locations, resulting in a marked divergence in project leasing performance.”  
 James Macdonald, Savills Research  
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### ➔ Market commentary

The market saw growth moderate further, continuing the trend seen in early 2013. Affected by the slowing economy, retailers are generally very selective and cautious on store openings and expansions. In the first quarter of 2014, average rents in primary, secondary and emerging locations increased by 0.5%, 0.1% and 0.0% respectively on a quarterly basis.

Two new projects, Eco City and Sunland Shopping Mall, held soft openings in the first quarter, adding a total of 80,000 sq m of retail GFA to the market.

Mainstream brands are taking longer to make decisions on store openings and locking onto a short list of primary

TABLE 1 Selected leasing transactions, Q1/2014

Tenant	Trade	Project	Area	GLA (sq m)
Yonghui	Supermarket	Shanghai Bestride Square	Pengpu	9,000
M&m's world	Confectionary	Brilliance Shimao International Plaza	Nanjing Road (E)	1,400
Bund's Secret	F&B	Shanghai Times Square	Huaihai Road (M)	1,100
New Look	Fashion	Cloud Nine	Zhongshan Park	800
Genius At Work	F&B	Jing An Kerry Center	Nanjing Road (W)	230

Source: Savills Research

locations. The newly signed (opened) H&M and Old Navy are street front projects on Nanjing Road (E) and Nanjing Road (W) which are already securing high daily footfall.

Thanks to the strong entrance of non-fashion categories on Nanjing Road (E) and Huaihai Road (M), primary areas continued to witness satisfactory absorption with vacancy rates decreasing by 1.0 ppt in the first quarter to 3.1%.

The attraction of street stores is abating compared with shopping malls, which provide more comprehensive choices, newer designs and a comfortable environment. On Huaihai Road (M), although a number of street stores closed, shopping malls are still performing well. In the first quarter, vacancy rates in Huaihai Road (M) decreased 3.0 ppts to 4.7%. Higher floors of Shanghai Times Square are welcoming new restaurants and children-related tenants. Xintiandi Style has replaced some fashion units with F&B outlets, setting up open space for seats outside along Madang Road to attract more footfall.

Non-primary areas have started to see a divergence. In the first quarter, Sichuan Road (N) lost around 5,000 sq m of space due to the closing of Zara and Sunlife food town, resulting in a 2.4-ppt increase in vacancy rates to 10.0%. However, some well managed projects with less pressure of competition within the region, such as Daning Life Hub in Puxi and Kerry Parkside in Pudong, are still expected

to see satisfactory rental growth and close to full occupancy.

### Sunland Waigaoqiao

The newly opened Sunland Shopping Mall (Phase one) is located in Waigaoqiao, Pudong district. With a retail GFA of 60,000 sq m, the project introduced Auchan, Xingmei cinema and a number of restaurants to meet the daily needs of surrounding residents. It has also cooperated with Waigaoqiao Free Trade Zone and acts as a "trade and exhibition platform for imported commodities".

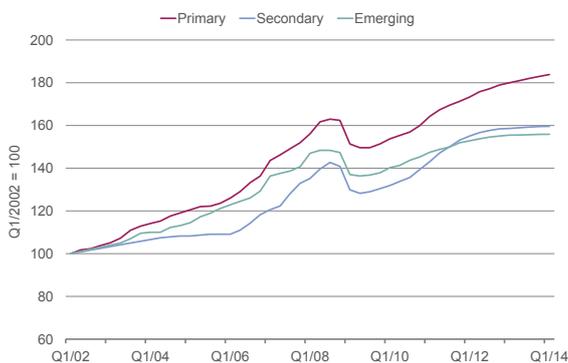
At present, about half of the retail space is leased to companies trading or retailing who are using the space for the sale or exhibition of imported goods.

Kuajingtong, a government-supported online shopping site, has also set up its physical store inside the mall, displaying some products and promoting the site. At present, there is still a very limited number of products on the site, with only around ten styles of certain luxury branded bags.

Future phases of Sunland project will launch a further 200,000 sq m of retail space, introducing more exhibition stores, and F&B and lifestyle tenants with waterfront views.

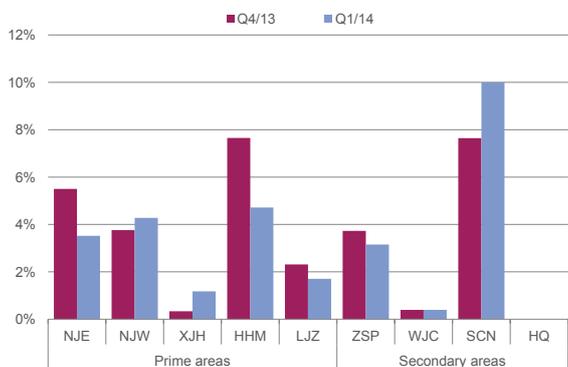
In the first quarter, Decathlon signed a built-to-suit contract with Waigaoqiao to secure a 9,100-sq m retail space in a nearby plot with a transaction price of RMB20,700 per sq m for forward purchase. ■

GRAPH 1 Retail rental indices, Q1/2002–Q1/2014



Source: Savills Research

GRAPH 2 Vacancy rates by area, Q1/2014



Source: Savills Research  
 Note: From left to right, Nanjing Road (E), Nanjing Road (W), Xujiahui, Huaihai Road (M), Lujiazui, Zhongshan Park, Wujiachang, Sichuan Road (N) and Hongqiao.

## Project focus

### Crystal Galleria

■ Developed by Phoenix Property Investors, Crystal Galleria is a mixed-use project in the Jing'an Temple area of Jing'an district. The project includes 73,000 sq m of retail and 13,000 sq m of office space.

■ The project is directly connected to Jing'an Temple Station (Metro line 2 and 7) and is adjacent to Jing'an Temple public transportation hub.

■ As part of the western stretch of Nanjing Road (W), Jing'an Temple area now

extends the upscale positioning of Nanjing Road (W), with a number of new retail projects such as Jing An Kerry Center and Eco City opened in the past two years. The nearby Jiu Guang Department Store is on the list of top five department stores with the highest sales turnover in Shanghai.

■ The project is positioned as a dynamic and energetic destination targeting young consumers of the city. With a unique split-level design, upper floors of the project provide nice open space for dining and lifestyle brands.

■ The project is currently in the leasing period and is expected to open in the second half of 2014.



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