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Savills World Research
Shanghai

Briefing
Retail sector

July 2014

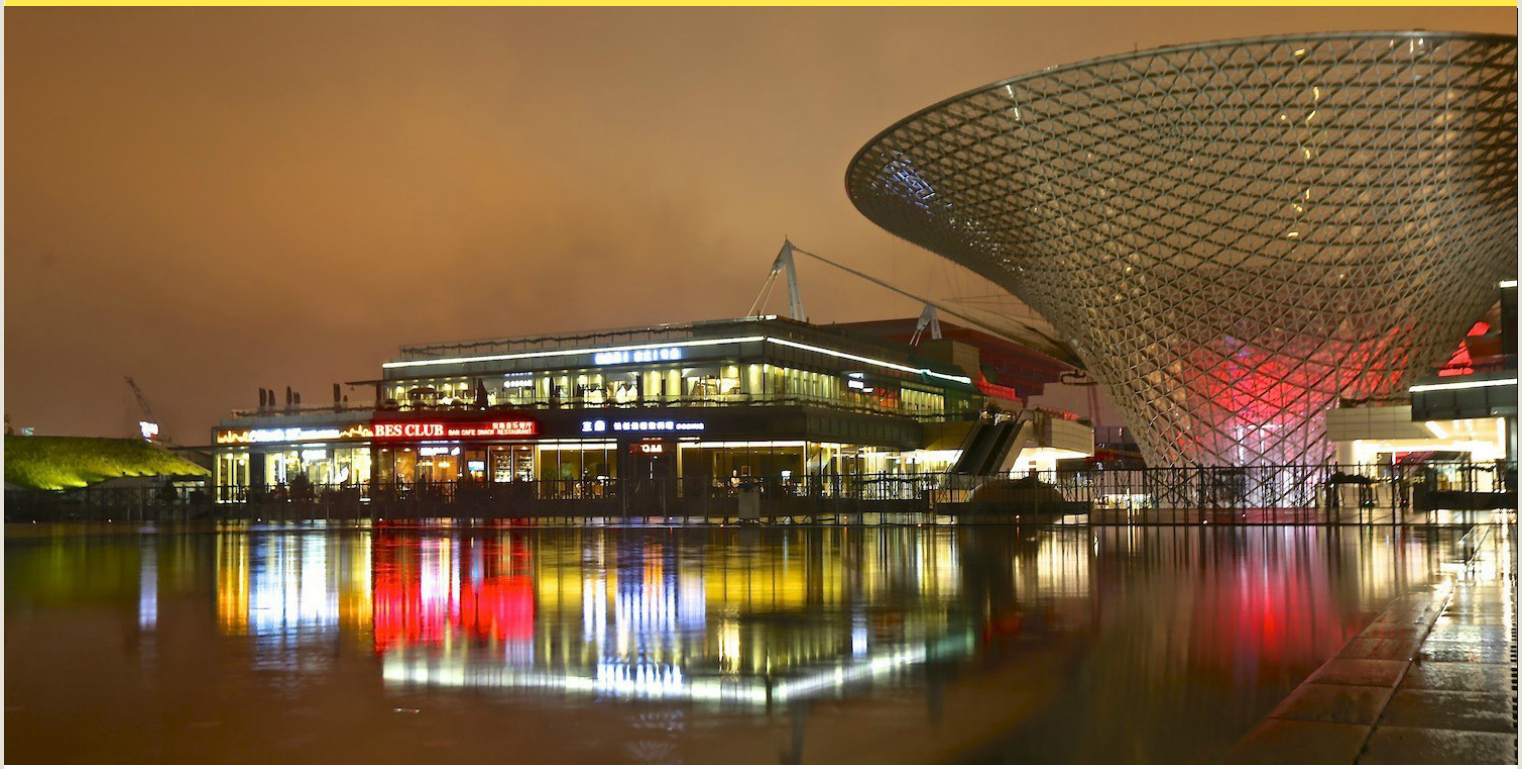


Image: The River mall, Pudong district

SUMMARY

The continuous softening of overall rents, and diverging performances of rents and business will be the main themes of the market in the coming two years.

- One new shopping mall was launched in Q2/2014, adding 260,000 sq m of retail supply to the market.
- First-floor shopping mall rents in prime areas increased by 0.1% quarter-on-quarter (QoQ) to an average of RMB46.4 per sq m per day, while rents in non-prime areas decreased by 0.1% QoQ to an average of RMB17.2 per sq m per day.
- Shopping mall vacancy rates in prime locations increased by 0.3 of a percentage point (ppt) in Q2/2014 to 3.4%.
- The rental gap between benchmark and non-benchmark projects is expected to widen further.
- A further 605,000 sq m of shopping malls is expected to open in the second half of the year.

"Landlords are attempting to attract consumers from online to offline shopping through innovative events and SNS promotions."

James Macdonald, Savills Research

Market commentary

In the first six months of 2014, the retail sales growth rate continued to slow at below 10%, while the growth rate of online sales remained high at around 30%. Although most do not think physical stores will be replaced, many existing brands are exploring how to use their online platforms to merge online and offline business. In the second quarter, Burberry and Muji opened Tmall stores, while H&M also announced online store plans for the China market.

Landlords are attempting to attract consumers back to traditional shopping malls. Initiatives include free WIFI, mobile apps and promotions through key social networking channels in order to keep consumers in malls for longer periods of time. The hosting of large events has also proved effective; it is reported that the exhibition of Monet artworks in K11 attracted a total of 400,000 people to the mall in three months, which helped increase revenues by over 20% year-on-year.

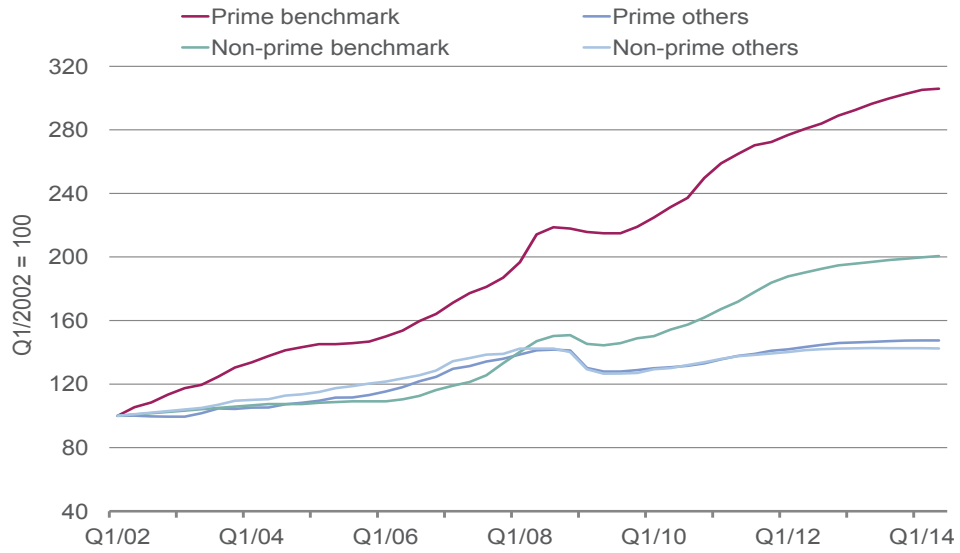
As the market mature, asset management will play a more important role than before, as the gap in rental growth between different grades of projects is widening. It is expected that some benchmarking projects will still manage an annual 5% to 8% increase in rental rates, while some underperforming projects will see rental declines.

In the second quarter of 2014, average rents in prime areas continued to see slowing growth of 0.1% QoQ, mostly driven by benchmark projects. Meanwhile, in non-prime areas, the differing performance of projects resulted in a decrease of 0.1% QoQ in average rents. The continuous softening of overall rents, and diverging performances of rents and business will be the main themes of the market in the coming two years.

Vacancy is still at low levels in prime areas, despite an increase of 0.3 of a ppt to 3.4%. Lujiazui increased 2.0 ppts to 3.6%, mainly due to the refurbishment and re-planning of some projects, such as Shinmay Union Square. At only 24,000 sq m GFA, this is the smallest shopping mall in Lujiazui, and the project is refurbishing its entrance facade and re-dividing units to attract more trendy brands.

GRAPH 1

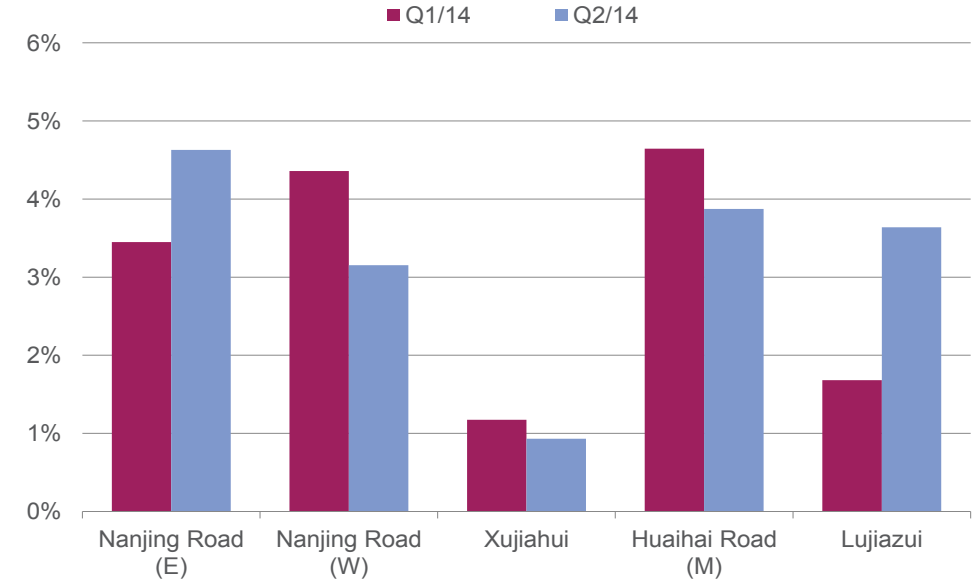
Retail rental indices, Q1/2002–Q2/2014



Source: Savills Research
Note: Benchmark means five to six market-leading projects based on a comprehensive assessment of reputation, management, design, business and developer experience.

GRAPH 2

Vacancy rates in prime areas, Q1/2014 vs Q2/2014



Source: Savills Research

Story of scale

One new project, The River Mall (Phase Two), held its soft opening in the second quarter, adding a total of 260,000 sq m of retail GFA to the market. The first phase of The River Mall opened in the fourth quarter of 2012.

The whole project boasts a total retail GFA of 300,000 sq m, making it the second largest shopping mall in Shanghai. As the only retail project in the Expo area, The River Mall has a total length of around 1 km, similar to

Nanjing Road (E) Pedestrian Street. Leasing activity has been satisfactory considering the current market conditions, and notable tenants include the first Luyu restaurant in Shanghai under the Grandma's Home Group, the first Keen store in Shanghai, Poly cinema, as well as high-end brands such as Armani Collezioni and Pandora.

Newer projects are facing slowing leasing progress, as many existing international fashion brands have already secured locations in key retail areas and are very selective on emerging locations, unless the project has considerable scale, reputable developers, less competition and higher prospects for earnings.

Even for newer brands, the scale of a project is becoming a very important deciding factor for non-prime store locations. In the second quarter, American Eagle Outfitters and New Look opened two new stores respectively, all located in projects over 100,000 sq m.

Supply from 2014 to 2016 is expected to total 34 projects, 30 of which are located in non-prime areas. Eleven of the 15 projects in non-prime decentralised areas are over 100,000 sq m GFA, while all the projects in non-prime downtown areas are smaller. Although "bigger is better" may still rule in decentralised and suburban areas, this is becoming increasingly difficult in downtown locations as land plots tend to be much smaller and are situated among more than one established project, leading to greater competition.

This may lead to some future developments in emerging downtown locations reconsidering their plans and adjusting the size of the mall ahead of construction. Some developers have already chosen to reduce retail GFA to focus on serving the surrounding consumers and office staff, rather than competing with market icons in mature locations. ■

Selected leasing transactions

American Eagle Outfitters

The US apparel brand opened two new stores in Songjiang Wanda Plaza and Wujiaochang Wanda Plaza, both located in the university area. The brand now has four stores in Shanghai.

Jade Garden

The Hong Kong restaurant under the Maxim Group will open its new store at Grand Gateway. After the opening of the first store in Jing'an Kerry Center in 2013, the restaurant has been regarded as one of the hottest dining places in Shanghai.

Fossil

The US accessory brand will open two new stores in prime areas of Shanghai in Raffles City, Puxi and Super Brand Mall, Pudong.

Old Navy

The US apparel brand will open its second store along Nanjing Road (W) in Mall 818, neighbouring H&M, American Eagle Outfitters, Gap and Marks & Spencer.

Yunhaiyao

The popular Beijing-based Yunnan cuisine restaurant opened its first store in Shanghai in South Plot, Xintiandi. The restaurant takes up two floors in a Shikumen-style building with a net area of around 600 sq m.

Project focus

SOHO Fuxing Plaza

- Developed by SOHO China, SOHO Fuxing Plaza comprises one Grade A office tower and a few lane-style buildings for office and retail usage. The project has achieved LEED Gold Pre-certification with energy saving technology.

- The project is directly connected to Madang Road Station (Metro line 10 and future 13) and is adjacent to one of Shanghai's famous tourism destinations Xintiandi.

With a total retail GFA of 22,000 sq m, the retail podium is targeted to mainly serve the office staff and surrounding residents. The combination modern/traditional space is also an ideal venue for various activities and events.

- A number of F&B retailers have already signed leasing agreements, including Watami and Secret Recipe. The project is expected to open in the second half of 2014.

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