

Briefing Retail sector

October 2014

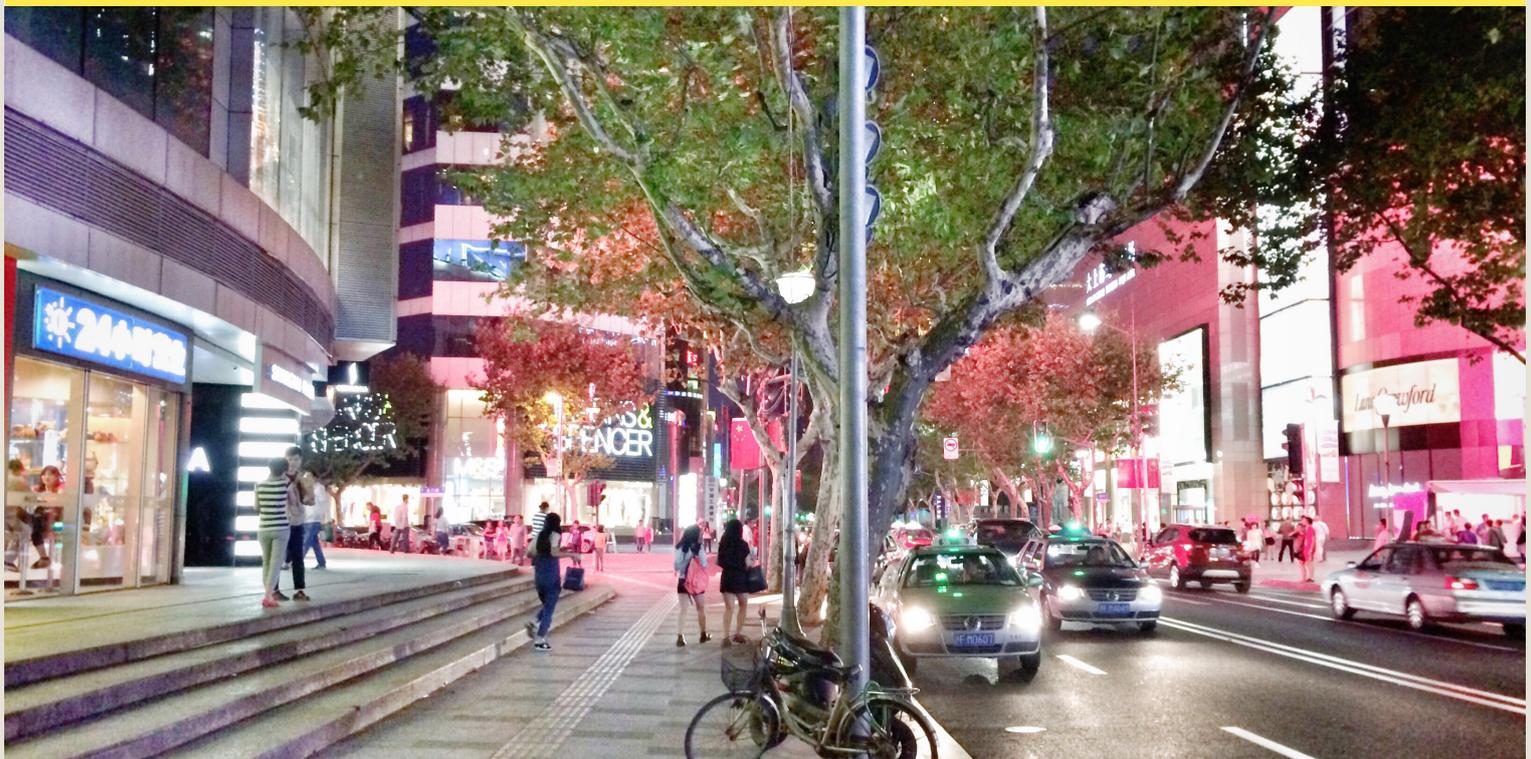


Image: Huaihai Road (M), Huangpu district

SUMMARY

Shopping mall rents begin to trend down as landlords, anticipating a supply surge over the coming quarters, remain eager to secure suitable tenants.

- One new shopping mall, Sun City Plaza, was launched in Q3/2014, adding 39,300 sq m of retail supply to the market.
- First-floor shopping mall rents in prime areas fell 0.1% quarter-on-quarter (QoQ) to an average of RMB46.4 per sq m per day, while rents in non-prime areas fell 0.5% QoQ to an average of RMB16.9 per sq m per day.
- Benchmark projects in non-prime areas recorded strong rental performances, increasing 0.8% QoQ.
- Shopping mall vacancy rates in prime locations increased 0.6 of a percentage point (ppt) in Q3/2014 to 4.0%.
- A historical high of 566,000 sq m of shopping malls is expected to open in the fourth quarter of the year.

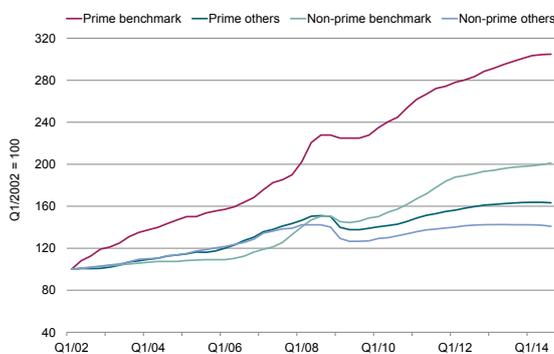
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 “Landlords of established shopping malls are continuing to remove anchor tenants and subdivide larger units to generate higher rental rates and offer consumers more variety within their malls.”

 James Macdonald, Savills Research

➔ **Market commentary**

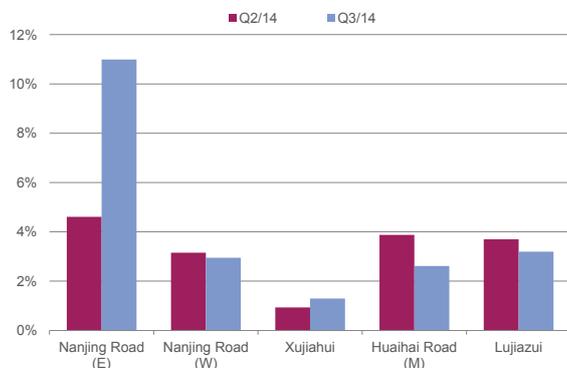
Shanghai's retail market had a relatively quiet third quarter with both new supply and rental changes remaining stable. While demand from F&B remains healthy there were very few significant leasing transactions recorded in the fashion category. New stores tend to be 80 to 150 sq m in size as a result of subdivision within previously larger units in key shopping malls.

GRAPH 1 **Retail rental indices, Q1/2002–Q3/2014**



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, Q2/2014 vs Q3/2014**



Source: Savills Research

Rents

Overall rents in prime areas fell 0.1% QoQ while non-prime areas decreased 0.5%. Although asking rents remained unchanged, landlords are becoming more willing to offer incentives such as longer rent free periods as well as other more generous lease terms, resulting in a downward trend in effective rents. Benchmark projects continue to outperform the market with a 0.4% rental growth QoQ driven by market leaders in non-prime locations. As a result of their lower base of rental comparison as well as demand from existing retailers looking to expand into leading projects in more decentralized locations, non-prime benchmark projects are expected to continue to outperform the rest during the remainder of the year.

Supply

Sun City Plaza, a 39,300 sq m shopping mall, held its soft opening in the third quarter. The project has a total of ten retail floors though only five floors are currently open to the public with over 90% leased out to F&B operators. Located close to Hanzhong Road metro station (Line 1 & future line 12), the project is situated on Hengfeng Road, a key business area of Zhabei district. Over the next five years the surrounding area is expected to see an additional 100,000 sq m of retail space added to the market, helping to rejuvenate the area along Suzhou Creek.

Vacancy

Overall vacancy rates in the nine key retail areas increased 0.4 of a ppt in Q3/2014 to 4.2% with both prime and non-prime area recording rises.

Prime areas increased 0.6 of a ppt to 4.0%. Nanjing Road (E) recorded the largest vacancy increase rising 6.4 ppts QoQ to 11.0% due to the re-opening of Mosaic Shanghai (formerly Plaza 353), which was purchased by Macquarie in 2012. The project has introduced H&M as an anchor tenant and a total lettable area of around 3,500 sq m spanning five floors. Around 90% of units in high zone

assigned for F&B usage have been leased out while leasing of mid zone to fashion and accessories retailers has been slower.

Huaihai Road (M) recorded the biggest decrease in vacancy rates falling 1.3 ppts QoQ to 2.6%, its lowest in the past 12 months due to the improvement in performance of Xintiandi Style and Shanghai Times Square. After undergoing tenant adjustments, Xintiandi Style now allocates around 20% of total space to F&B, 15 ppts higher than three years ago, resulting in improved footfall for the mall.

Although overall vacancy rates in the nine key retail areas remain low, the rate is expected to rise in the coming 12 months as a number of new projects are scheduled to be launched on to the market.

Outlook

566,000 sq m of new supply is scheduled to be added to the market in Q4/2014, a historical high in what is typically the most active quarter of the year. Of the seven new projects, two projects located in Zhangjiang, Pudong district will account for one third of the total GFA.

In the last year the time it takes to negotiate leases for fashion tenants has lengthened, as a result we are likely to see more landlords launch projects onto the market in phases. Tenants from the F&B sector and other footfall generators are likely to open earlier than other categories of retailers. This approach, while useful in generating cash flow for the landlord earlier and generating atmosphere, will have to be carefully managed by landlords to ensure shoppers are not overly aware of vacant areas. ■

Retailers expansion

MICHAEL KORS

Michael Kors

Michael Kors plans to add three new stores to the Shanghai market in IFC Mall, Raffles City and The River Mall. After these openings, the brand will have a total of eight stores in Shanghai including one at Hongqiao airport and one outlet store.

rouge&lounge

Rouge & Lounge

The Korean accessories brand opened its first store in Shanghai in June 2014 with plans to expand into two landmark

shopping malls: Grand Gateway 66 in Xujiahui and Jing'an Kerry Center on Nanjing Road (W).

moussy

Moussy

Although the Japanese fashion brand closed its store in Henderson Metropolitan on Nanjing Road (E), it opened two new stores in Super Brand Mall in Lujiazui and Daning Life Hub in Zhabei district.

南京大牌档

南京大牌档

The well-known Nanjing based restaurant opened its first Shanghai store in January 2014, and is

currently fitting out two new stores in Hong Kong Plaza on Huaihai Road (M) and Wanda Plaza in Wujiachang.



Tao Heung

The Hong Kong based Cantonese restaurant signed two new stores in Crystal Galleria and Shanghai Arch Walk. Both occupy over 1,000 sq m of lettable area and are expected to open in the Q4/2014.

Project focus

The Place

■ The Place (南丰城), the largest retail project in Hongqiao, Changning district, comprises of a renovated retail podium (originally completed in 2002) with a new extension (phase 3). The combined retail GFA stands at 115,000 sq m.

■ The project is around 10 minutes walk from Loushanguan Road Station (Metro Line 2). Despite the ten minute walking distance the Changning district

government has already started construction of an underground passageway to connect the key projects within the area, while also allowing direct access to the Loushanguan Road Station.

■ Scheduled to open in Q4/2014, The Place has already secured a number of big space retailers such as Inditex Group and Ole supermarket. An open-air plaza within the project has already attracted a number of popular western restaurants.

The Place, given its scale, is one of the most diversified malls in the Hongqiao area. The project is the only mall to include a cinema operator.



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