

Briefing Retail sector

May 2015



Image: Shanghai New World Daimaru

SUMMARY

Rental growth remained subdued in the first quarter as vacancy rates increased for the fourth consecutive quarter.

- Retail sales for the first two months and Spring Festival slightly improved year-on-year (YoY).
- Shanghai New World Daimaru, located on Nanjing Road (E), added 60,000 sq m of retail space to the market.
- First-floor shopping mall rents in both prime and non-prime retail areas remained unchanged in Q1/2015 at an average of RMB46.4

and RMB16.7 per sq m per day respectively.

- Shopping mall vacancy rates in prime retail locations increased 0.3 of a percentage point (ppt) in Q1/2015 to 4.4%.
- Both prime and non-prime areas are witnessing an increasing pressure as the city expects an influx of supply in 2015.

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 “The opening of the first upscale project along Nanjing Road (E) is expected to bring new momentum to the area’s rejuvenation”

James Macdonald, Savills Research

➔ Market commentary

Retail sales performance improved slightly in Q1/2015 compared to same period last year, with the first two months recording nominal growth rate of 8.1% YoY. During the Spring Festival, sales of a sample of retail companies increased 12.6% YoY, also higher than 2014 at 5.7%.

Service and entertainment sectors were the main drivers of sales, with jewellery and golden products also contributing significantly due to the traditional hot season and depreciation of gold price. However, considering the slowing of the nation-wide economy, significant improvement of physical retail market still has a long way to go.

Rents

Rental growth continued to be subdued, while tenant adjustment was quiet in Q1/2015. During the first quarter, overall rents remained unchanged although there continues

to be a divergence in performance of different projects. Benchmark projects in both prime and non-prime areas increased 0.1% QoQ, while other projects in non-prime areas continued to record a decrease of 0.1% QoQ.

However the softening of the market brings more challenges to new projects, as most will have to offer higher discounts to certain retailers to achieve an optimal tenant mix.

As overall rental growth tends to continue to soften and less demand is seen from retailers that take-up large space as well as high rents, rental growth could only be realised through more innovative endeavours. Aside from the stable contribution of F&B tenants, interior design is playing a more important role as customers show an increasing appreciation for unique retail design as opposed to traditional retail layouts. This allows landlord to embed more flexible units such as kiosks and floats which helps to generate higher total rental income.

Nanjing Road (E)

In the first quarter, Nanjing Road (E) saw the only new supply of the market. Shanghai New World Daimaru launched its soft opening, adding 60,000 sq m of space to the retail market. The project is developed by Shanghai New World Group with Daimaru introduced for management. First floor tenants include luxury brands such as Gucci, Bottega Veneta and Van Cleef & Arpels, while upper floors provide a wider range of choices from sports clothing to trendy accessories.

Shanghai New World Daimaru is the first upscale retail project along the main street of Nanjing Road (E) and one of only a few cases in the area over the past decades with overseas operators involved. Aside from the upmarket tenant mix, the retractable roof and spiral escalators are quite innovative and eye-catching among the cookie cutter shopping mall designs today.

The project is located at the eastern end of Pedestrian Street, which is also a key refurbishment/development area in the near future. Compared to the middle section of the road, the eastern end has gradually set up a younger and trendy image with Apple, Forever 21, Gap and Sixty Eight already opened. Pull & Bear and Chocolate will soon unveil their first stores in the area. Further east to the Bund, a number of historical buildings are also under re-positioning or refurbishment. Although the complexity of building heritage and rights restrain potential renovation, the unique history of the area holds huge untapped potential.

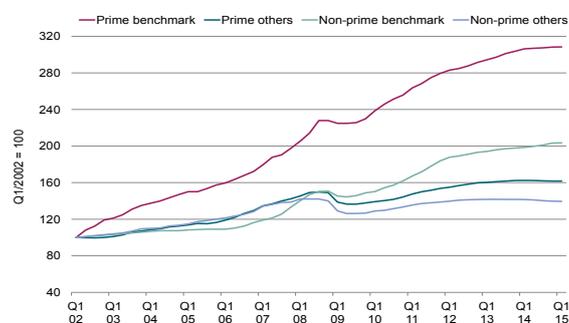
Retailer

■ D.I.G.



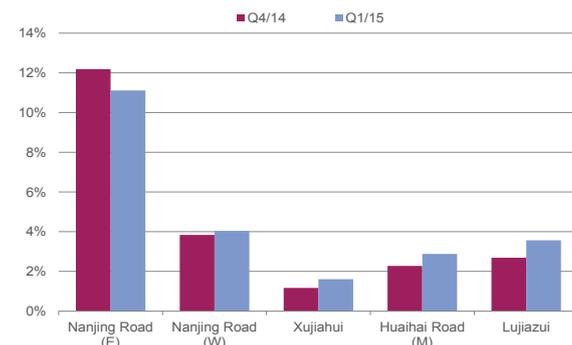
D.I.G. is a supermarket brand operated by Shanghai Waigaoqiao International Trading Operation Center and has quickly opened over 10 stores since 2014 through self-management or franchise. Store size ranges from 1,500 to 4,000 sq m. Benefiting from Waigaoqiao's free trade zone trading policy, the supermarket aims to provide imported goods by direct sales with value price. D.I.G. also plans to open in other cities.

GRAPH 1 Retail rental indices, Q1/2002–Q1/2015



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, Q4/2014 vs. Q1/2015



Source: Savills Research

Vacancy

Overall vacancy rates in prime areas increased 0.3 of a ppt to 4.4%, a fourth consecutive quarter increase. Four of the five prime areas recorded an increase with only Nanjing Road (E) decreasing 1.1 ppts. The majority of new vacant space is due to the closure of previous fashion stores that are rethinking brand strategy at the end of their lease term. Despite continued expansion plans, increasing prevalence of the closure of underperforming stores is expected.

Non-prime areas showed a more divergent performance. Vacancy rates in Hongqiao decreased 4.9 ppts as a number of retailers opened or began fitting out in The Place and Arch Walk, while Sichuan Road (N) increased for the fifth consecutive quarter to 11.5% as many domestic brands closed their stores or counters.

Both prime and non-prime areas are seeing increasing pressure as continuous new supply is expected to launch into these areas or nearby locations. On the other hand, while Nanjing Road (E) is expected to receive limited supply and therefore less competition, it will take longer to upgrade the image of the area and attract diversified retailers.

■ Yuan



Best known for its organic herb soap, Yuan opened first store in Mainland China in Shenzhen in 2013. The Taiwanese lifestyle brand will arrive in Shanghai market in 2015 by opening two stores at iapm and IFC Mall.

■ Nolboo



The Korean restaurant opened its first store in Shanghai in 2014 and is expanding to more areas. In the first quarter, Nolboo was fitting out its new stores in Joy City and Chamtime Plaza with both expected to open in the second quarter.

■ Yuyuto



Yuyuto opened two new stores in the first quarter at Chamtime Plaza and The Place. Yuyuto is known for its diversified store strategy based on different locations and consumer target. The Place will have Yuyuto Mom's Club while Chamtime Plaza will see a snow world themed court with a larger size of around 1,500 sq m. ■

Project focus

Shanghai Tower

■ Shanghai Tower is a 632 m high skyscraper located in the financial hub of Little Lujiazui. The building is composed of office, hotel, retail and an observation deck sections with 24 sky gardens scattered over the levels and direct access to Metro Line 2 (Lujiazui Station).

■ The retail section includes a 60,000 sq m shopping mall (B2-4F) and a few more floors in different zones providing auxiliary facilities such as convenient stores and beauty service.

■ The project is adjacent to two of the most successful shopping malls in Shanghai, IFC Mall and Super Brand Mall. To differentiate itself, the landlord is expected to bring a number of new retailers to the city. Meanwhile, art and cultural elements are widely utilized in the project to bring new experience to the consumers. Eslite Bookstore and Guanfu Museum will occupy more than one floor of the building.

■ Shanghai Tower is currently under leasing and is expected to open in the second half of 2015.



Please contact us for further information

Savills Research



James Macdonald
Director, China
+8621 6391 6688
james.macdonald@savills.com.cn

Savills Retail



Siu Wing Chu
Deputy Managing Director
+8621 6391 6688
siuwing.chu@savills.com.cn



Aileen Zhong
Senior Director
+8621 6391 6688
aileen.zhong@savills.com.cn



Nicky Zhu
Director
+8621 6391 6688
nicky.zhu@savills.com.cn

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