Briefing
Retail sector

October 2015

Image: Grand Gateway, Xuhui district

SUMMARY

Projects postponed as retailers drag out lease negotiations and slow down expansion plans. Annual supply levels are now expected to fall short of previous forecasts.

- Retail sales grew 8.0% year-on-year (YoY) in the first eight months of 2015, 0.4 of a percentage point (ppt) lower than the same period last year.
- Two new project completions added 155,600 sq m of retail space to the market.
- First-floor shopping mall rents in prime retail areas increased 0.1% quarter-on-quarter (QoQ) to an average of RMB46.1 per sq m per day, while non-prime areas decreased 0.1% to RMB16.6 per sq m per day.
- Shopping mall vacancy rates in prime locations increased 0.2 of a ppt in Q3/2015 to 5.5%.
- The sports-related segment is active, with several brands opening new stores. More specialised and higher-standard gym operators are emerging as a fitness craze sweeps the city.

"Healthy absorption rates in a number of new projects along Nanjing Road (W) and in the Gubei-Hongqiao area have pushed down these areas' vacancy rates, while other areas have been less fortunate."
James Macdonald, Savills Research

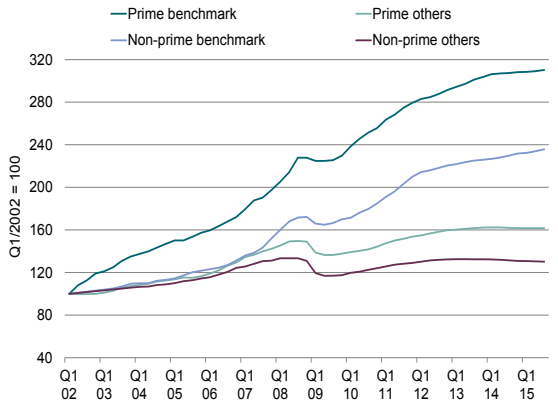
Market commentary

Shanghai's retail sales grew 8.0% in the first eight months of 2015, 0.4 of a ppt lower than the same period last year.

More and more reputable and established projects such as Grand Gateway and Super Brand Mall are in the process of considerable renovation in an attempt to thwart new competition that enters the market and threatens their market share. Such modifications include adding more vertical transportation to improve accessibility within malls, increasing leasing spaces, improving street front façade visibility, and uncovering and introducing more private lifestyle brands.

GRAPH 1

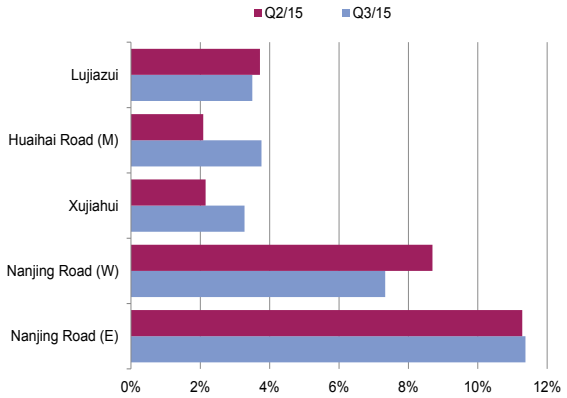
Retail rental indices, Q1/2002–Q3/2015



Source: Savills Research
Note: Benchmark refers to 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, Q2/2015 vs. Q3/2015



Source: Savills Research

First-floor shopping mall rents in prime retail areas increased 0.1% QoQ to an average of RMB46.1 per sq m per day, while non-prime areas decreased 0.1% to RMB16.6 per sq m per day.

Supply

Two new shopping malls held soft openings in the third quarter, adding a total of 155,600 sq m of retail space to the market – including the 31,000 sq m The Place (Ph3) in the Gubei-Hongqiao area and the 124,600 sq m The Hub in the Hongqiao Transportation Hub.

With the third phase having been launched, The Place is now the largest retail project in the Gubei-Hongqiao area, with a total retail GFA of 110,000 sq m. Inditex and H&M now occupy over 2,000 sq m of space each in the first and third phase, respectively.

The Hub is the first retail project to open in the Hongqiao Transportation Hub area and is situated closest to the airport and transportation hub. The project, developed by Shui On Land, sets the retail benchmark for the area. Tenants include established fashion brands such as H&M, Gap and Uniqlo, while also introducing such brands as Marc O'Polo and Pollini to the Shanghai market for the first time. There were also a number of firsts in the non-apparel segments, including the first restaurant by Shanghai Tang, the first Emperor UA IMAX Cinema in Shanghai, the E Cube Club which caters for children, and four F&B brands under the Imperial Group.

Vacancy

Vacancy rates in prime areas increased 0.2 of a ppt to 5.5%. Healthy take-up of space in the recently-opened Crystal Galleria helped to push down vacancy rates along Nanjing Road (W) by 1.4 ppts.

Huaihai Road (M) recorded the largest increase in vacancy rates, rising 1.7 ppts, with some F&B operators leaving the area as their leases expire. Nevertheless, many of these vacated units are believed to already be under negotiation by new tenants. In addition, the upcoming project of Hu Bin Dao (Ph1) has recorded strong pre-leasing commitments. The area is therefore unlikely to see any further increases in vacancy rates in the short term.

In non-prime areas, Wujiaochang vacancy rates increased 1.6 ppts in Q3/2015 to 2.4%, primarily as a result of the closure of Superstar KTV, which is believed to be part of a strategic tenant adjustment by the Wanda Group. Nevertheless, the area still maintains one of the lowest vacancy rates among all non-prime areas.

Gubei-Hongqiao saw vacancy rates fall for the fourth consecutive quarter as new projects continued to attract tenants.

Retailer

While there has been no significant reduction in retail space requirement from luxury retailers, they are adopting various strategies to account for the slower market conditions. Some brands are reducing store sizes, with 80-120 sq m stores more likely than 300 sq m plus stores. Furla recently took over Lancel's unit in CITIC Square on Nanjing Road (W) and will open a two-storey flagship store before the end of 2015. Lanvin is also planning to expand its existing store in IFC Mall.

In response to consumers growing attention to health and wellness, the sports-related sector has seen a pick-up in activity, with sports brands being particularly active in recent months. Puma, New Balance and Onitsuka Tiger all opened new stores. Under Amour opened a flagship store on Huaihai Road (M), while Adidas occupied more than 1,000 sq m in Global Harbour. High-end gym operators are also emerging, such as J-Star Fitness, Y+ and Rinascita, while at the same time there is more specialisation, with a number of gyms focusing in areas such as cross-fit, boxing or spin classes. Vanke Mall in the Minhang district, which is scheduled to open in 2016, will allocate around 5,000 sq m of space as a comprehensive sports zone to meet the growing demand from related brands and categories.

The children-related sector is another highlight, with seven out of the nine projects that have opened in the past twelve months allocating nearly a whole floor to related tenants.

Project focus

Hu Bin Dao

Hu Bin Dao is an upcoming shopping mall in the Xintiandi area, managed by Shui On Land. With a total retail GFA of 51,000 sq m, the project is composed of two retail podiums which are connected via an underground walkway and will be opened separately in Q4/2015 and 2016.

Hu Bin Dao enjoys convenient transportation links – a 10-minute walk to Huangpi Road (N) station (metro line 1), Xintiandi station (line 10) and Laoximen station (line 8) – while also being situated in a prime retail area. The project also benefits from the strong consumption power of workers in the surrounding Grade A office towers, residents in the nearby luxury residential buildings, and tourists to Xintiandi.

Positioned as a high-end urban lifestyle mall, Hu Bin Dao provides a varied tenant mix from other retail projects in the surrounding areas. Many of the brands originated in Shanghai and operate only a few, but successful, stores. Starbucks, one of the few big chains that are present in the mall, opened a 450 sq m Starbucks Reserve store – their largest to date in Shanghai.

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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