

Briefing Retail sector

November 2017



Image: The MixC

SUMMARY

A strong September helped boost third quarter retail sales. In particular, sports and cosmetic products recorded outstanding sales during holiday week.

- Retail sales grew by 8.0% year-on-year (YoY) in the first nine months of 2017, 0.1 of a percentage point (ppt) higher than the same period in 2016.
- One new shopping mall project, The MixC opened with 240,000 sq m of retail GFA.
- First-floor shopping mall rents increased 0.5% quarter-on-quarter (QoQ) in prime and non-prime retail

areas to an average of RMB50.5 and RMB16.6 per sq m per day respectively.

- Vacancy rates of prime and non-prime areas decreased to 6.0% and 8.2% respectively, the lowest level of the past four quarters.
- Small rejuvenated projects enriched the Puxi market with their unique historical architecture and refining tenant mix.

“City wide vacancy rates decreased for third consecutive quarter with the Pudong market’s vacancy rates at their lowest levels since 2004.”

James Macdonald, Savills Research

→ Sports and Cosmetic Products Led Holiday Sales Growth

As the most important holiday in China aside from The Spring Festival, the golden week from Oct 1 to Oct 7 was overshadowed by rainy weather, but still saw the total number of tourists equal to that of last year. Tourism income increased 2.6% year-on-year (YoY). Retail sales of key enterprises saw a 10.7% growth YoY during the golden week, higher than the same period of 2015 and 2016. Tourists contributed 16% of offline Alipay transactions¹ and 8.3% of box office².

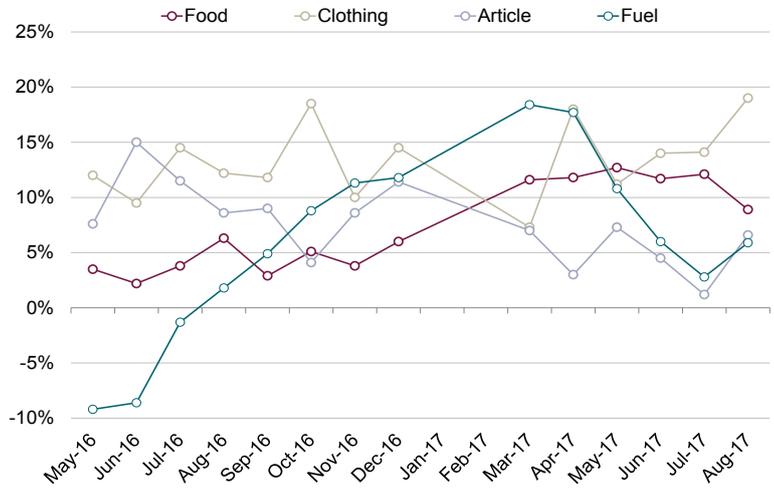
Retail sales from Sep 9 to Oct 9 (officially promoted as Shanghai Shopping Festival) of key enterprises increased 9.7% YoY, 0.5 of a ppt lower than same period of 2016. Among the five prime areas, Huaihai Road (M) led with its sales growing by 19.6%. In the non-prime areas, Hongqiao, Suzhou Creek and Zhuyuan saw sales grow over 10%. Two outlet projects in Pudong: Florentia Village and Shanghai Village saw their sales grow around 50%. After opening for two and one years respectively, the two outlets saw steady growth of sales revenue and continued to attract new tenants. Lululemon will open its first outlet store in Asia in Shanghai Village while Prada and Burberry have already opened in Florentia Village in the third quarter of 2017.

Of all categories, sports and cosmetic products showed the strongest growth

¹ Source: Alibaba
² Source: Alibaba

GRAPH 1

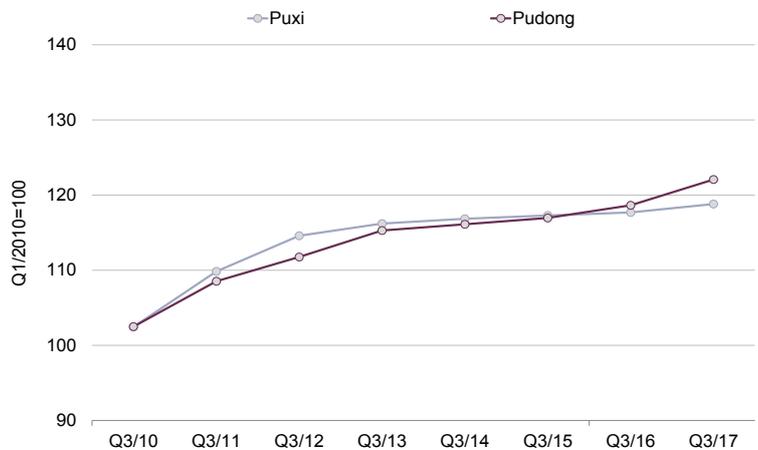
Monthly Retail Sales Growth by Sector, May 2016-Aug 2017



Source: Savills Research

GRAPH 2

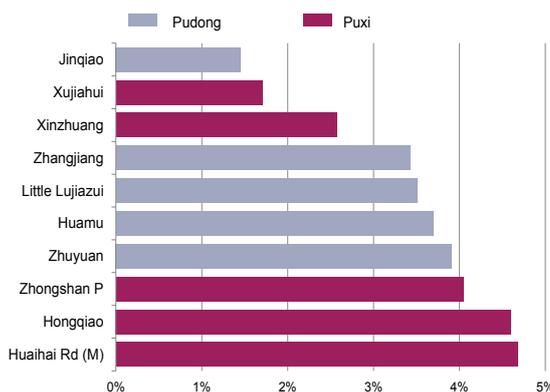
Rental indices, Q3/2010-Q3/2017



Source: Savills Research

GRAPH 2

Rental indices, Q3/2010-Q3/2017



Source: Savills Research

with 21.5% and 16.3% respectively. New stores of sports brands opened in all the five prime areas in the third quarter. On Huaihai Road (M), Descente opened in iapm with limited products on sale; on Nanjing Road (W), Adidas opened its first basketball store in Jiu Guang Department Store; in Little Lujiazui, Puma opened in IFC Mall; in Xujiahui, Nike opened Kicks Lounge in Grand Gateway 66; on Nanjing Road (E), New Balance opened a 1,000 sq m flagship store in the newly opened Bund Centre, providing professional training services as well as traditional products on the shelf.

It was a hot Shanghai summer and this impacted consumers' outdoor spending. However, clothing and food spending have been stable, which is positive news for landlords.

Vacancy Rate in Pudong Market Reached Historical Low

City-wide vacancy rate decreased for the third consecutive quarter. In Q3/2017, vacancy rates decreased 0.3 of a ppt QoQ to 7.7%. Although the newly opened, The MixC, added 240,000 sq m of new space to the market, a high pre-commitment rate of over 90% helped the overall market keep calm.

Pudong market still outperformed Puxi in terms of occupancy. The population of Pudong³ is around 30% of Puxi⁴ while retail stock is 23% of Puxi. Key retail areas are more concentrated which is particularly good for shopping mall business. By end of the third quarter, average first floor rents of shopping malls in Pudong increased 2.9% YoY. Little Lujiazui, the prime area of Pudong saw its rent increased 8.2% YoY, highest of all prime areas.

Pudong vacancy rates decreased to 4.2% in the third quarter, their lowest level in history since 2004. All key retail areas saw a decrease in vacancy rates. Other than the Expo site, all key areas are among the top ten lowest vacancy rate areas in Shanghai. In Huamu, the introduction of Baoyan Mall and Dodo Baby Centre in Himalayas Centre, pushed down the area's vacancy rate by 5.8 ppts. Kerry Parkside is providing more western restaurants by introducing two popular restaurants from Puxi: Pintxos and Beef Liberty and is fully occupied by end of the Q3.

³ Within outer ring road

⁴ Within outer ring road plus Xinzhuang, Qibao and Meilong

Puxi vacancy rate decreased 0.1 of a ppt to 8.6% with varying performances in each area. New Jiangwan and Core Hongqiao Transportation Hub managed to push down their vacancy rates by 5.1 and 3.9 ppts QoQ respectively with new leisure or children-related anchor tenants. U Fun in New Jiangwan now has allocated around 30% of its occupied space to children-related tenants, one of the highest ratio among all projects in Shanghai.

Diversified Types of Supply Further Enrich Puxi Market

Puxi market has faced increased supply pressure in recent years, accounting for 86% and 97% of new supply in 2016 and 2017. In the coming five years, the majority of projects over 100,000 sq m will still be located in Puxi.

This has made new landlords more cautious for opening. During the past two years, most landlords were not willing to disclose opening plans, unless pre-commitment rates reached over 70% (though opening rates could be much lower). The MixC which

opened in Q3 is a case rarely seen that could reach an opening rate of over 90%.

Along with these big scale shopping mall developments, the ongoing rejuvenation development of Puxi also brought a number of chic projects onto the market. For example, in 2017, Feng Sheng Li (Nanjing Road (W)), Yong Ping Li (Former French Concession) and the Bund Centre (Nanjing Road (E)). In October, Prada unveiled a renovated 2,000 sq m historical town house on Shaanxi Road (N), as a showroom and exhibition centre for the brand.

Most of such projects are owned by the government or SOEs but it is expected that more private capital groups be allowed to participate. Such small scale projects or buildings are particularly welcomed by the market due to the architecture, landscape and unique feeling, which is something entirely different from big-box shopping malls. It will also be beneficial to the overall (especially prime areas) retail market in Shanghai to provide something unique to both tourists and residents. ■

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