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Savills World Research
Shanghai

Briefing
Retail sector

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Image: Middle Huaihai Road

SUMMARY

Expectations are high for 2018, following a full year of indicators pointing to sustainable market recovery in 2017.

- Retail sales grew by 8.1% year-on-year (YoY) in 2017, 0.1 of a percentage point (ppt) higher than 2016.
- A total of 966,500 sq m of shopping mall area launched in 2017, 18% lower than 2016.
- First-floor shopping mall rents increased 1.4% YoY in 2017 to an average of RMB27.4 per sq m per day. Nanjing Road (W) remains the most expensive area while Little Lujiazui recorded highest growth at 7.4%
- Despite new supply, city-wide vacancy rates continued to decrease to 6.4% by Q4/2017, 2.6 ppts lower than Q4/2016.
- A total of 13 new shopping malls with 1.3 million sq m of retail GFA are expected to open in 2018, with Puxi and Pudong each accounting for 50%.

"Increasing competition from both online and offline for shoppers' attention and money puts the onus upon shopping centre management teams to create the most fulfilling retail experiences and environments possible." James Macdonald, Savills Research

Blurring Online and Offline

In 2017, concerns grew as to whether the recovery of the retail market could be sustained. These fears proved unfounded as the whole year saw total retail sales grow by 8.1% year-on-year (YoY), 0.1 ppt higher than 2016. The consumer index also recorded its highest level in the past three years.

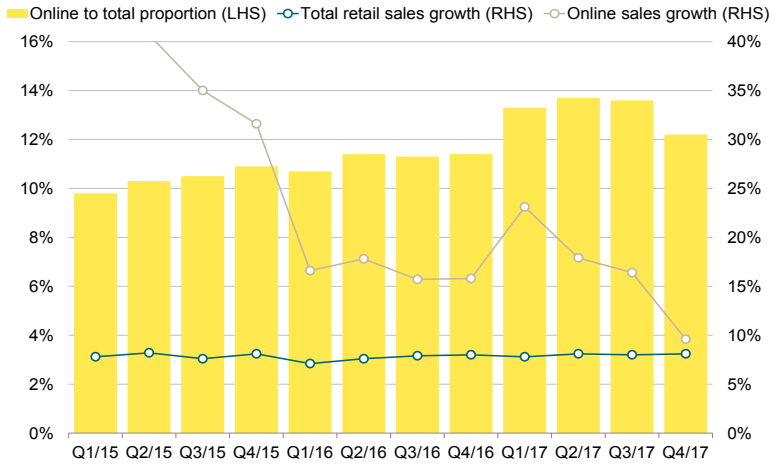
Online sales accounted for 12.2% of total retail sales in 2017, 0.8 of a ppt higher than 2016. It is interesting to see that the percentage has decreased for consecutive two quarters since it peaked at Q2/2017. 2017 also saw online sales grow by 9.6% YoY, with it being lower than 10% since 2015.

A survey on Shanghai consumers shows that 14.7% of the consumers mainly purchase online, but more than half of the consumers would like to visit physical stores before shopping online. With growth of the online market slowing down, online leaders have started to look for opportunities in offline markets. In 2017, Alibaba not only continued to expand its own fresh supermarket business but also bought a major stake in Sun Art, the leading hypermarket operator in China, bringing its data analytical knowledge to traditional supermarkets. Tencent became a shareholder of Yonghui Supermarket which opened a new brand—Super Species—which combines a fresh supermarket and in-store meal preparation. Two of these stores have already opened in Shanghai. Seecoo, leading online luxury fashion retailer announced a cooperation with Parkson, which could leverage the other's brand resources and platforms.

More brands that started as online retailers are now trying provide higher quality and better designed products, with many beginning to open physical stores after winning a loyal consumer base online. Such brands include: designer sports brand Particle Fever opening in Kerry Parkside, women's underwear brand Neiwai in Jing'an Kerry Centre and furniture brand Zaozuo in The MixC.

GRAPH 1

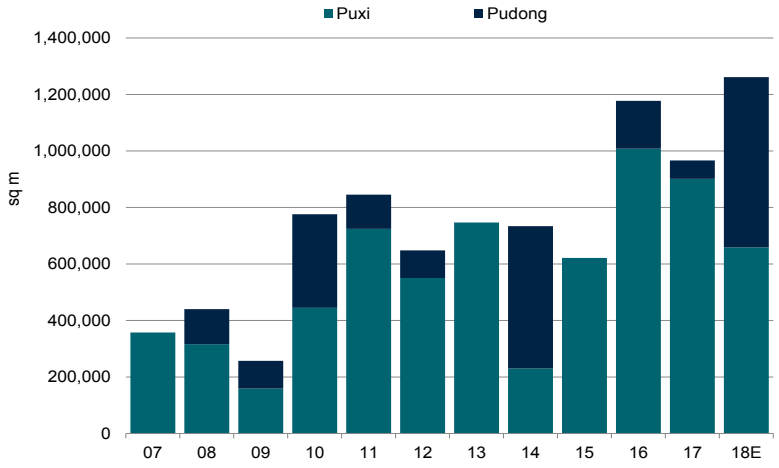
Online and Total Retail Sales Growth, 2017



Source: Savills Research

GRAPH 2

Pudong and Puxi Supply, 2007-2018E



Source: Savills Research

People are not choosing between online and offline any more, but seeing the two as a whole with increasingly blurred lines. As online platforms and retailers feed back into the physical market, a physical store is regarded as a place for more than just sales. Big data and other new technology could help stores increase the speed of products arrangement, delivery and return as well as stronger branding though consumer analysis. From a retailer's perspective, the sales turnover of a single store will unlikely to be critically important in the future.

Let's Do Lunch

Among all new leased spaces in 2017, F&B took most space in some key retail areas, especially in the areas that have new projects opening such as Nanjing Road (W), Longhua and Qibao. In Longhua, the space newly leased by F&B nearly tripled

the second category—leisure. Even in Nanjing Road (W), where fashion maintains the highest proportion in the city, F&B leased 16% more new space than fashion.

As the most active category in the current market, F&B is also becoming the key anchor for landlords. F&B accounted for 30.4% of total space in the overall market by Q4/2017, increasing another 0.2 of a ppt YoY. Prime locations are still the key focus for international restaurants. Lady M opened two stores in IFC Mall and Xintiandi; Ho Hung Kee, a Michelin starred restaurant from Hong Kong, opened its first mainland store in HKRI Taikoo Hui; while Song Fa from Singapore opened in Jing'an Kerry Centre.

Chinese cuisine continued to grow its share in F&B as large-space restaurants are usually occupied by Chinese restaurants. However, there is growing difference between each area. For example, during the past two years, both Huaihai Road (M) and Wujiaochang have witnessed a growing proportion of Chinese restaurants in its F&B market. Huaihai Road (M) increased from 43% to 46%, while Wujiaochang increased from 58% to 65%. In other words, Huaihai Road (M) still looks to appeal a broader range of global customers with over 50% F&B being international tastes, while Wujiaochang is shifting to more local tastes.

Work Hard, Play Hard

For the leisure category, cinemas are becoming a much desired category almost for all new projects. The category also recorded the highest proportion in the newly-leased leisure tenants in 2017.

The leisure market also witnessed more emerging sub-category tenants bringing a greater dynamic to the market. Boutique fitness studios accounted for 27% of total newly leased gym tenants in 2017, increasing 5.0 ppts from 2016. Compared to traditional large leisure tenants such as cinema and bookstores, fitness tenants usually show higher profitability and flexible configurations. Functioning

TABLE 1

Top 3 Categories with Most Newly-leased Spaces, 2017

	Fashion	F&B	Accessories	Kids	Home & Lifestyle	Beauty	Leisure	Supermarket	Service	Electronic	Sports & Outdoors	Cosmetics
Nanjing Road (E)		1				3	2					
Nanjing Road (W)	2	1						3				
Huaihai Road (M)							2			3	1	
Xujiahui					3						1	2
Little Lujiazui	3	1					2					
Zhongshan Park	2	1					3					
Zhuyuan		3					2			1		
Sichuan Road (N)	3	1		2								
Hongqiao		1				3	2					
Daning		3	2	1								
Huamu		1		2					3			
Caoyang		1		3							2	
Longhua		1					2	3				
Wujiaochang	1	3									2	
HTH		2					1				3	
Xinzhuang			2	1						3		
Zhangjiang		3		2				1				
Qibao	3	1					2					

Source: Savills Research

as destination retail, fitness tenants usually have regular clients and location and environment are less important than convenience. Therefore, they could accommodate projects in even the most troubled assets.

Outlook

A total of 13 new projects, with 1.3 million sq m of retail GFA, are expected to open in 2018, with Puxi and Pudong districts each hosting approximately 50% of the volume. Zhuyuan in Pudong will see two new projects—Century Link and L+ Mall collectively adding 280,000 sq m of retail space to the market, which will make the area become the biggest non-prime retail area of the city by 2018 at 640,000 sq m of retail stock. L+ Mall already signed with Galeries Lafayette China to jointly operate its first department store in Shanghai.

Puxi new supply is expected to decrease by 27% in 2018. However, a number of renovated projects including Shimao Plaza on Nanjing Road (E) and Changfeng Joy City in Putuo district will also re-open to the market, which makes the actual supply figure about the same level as 2017. Some urban rejuvenation area in city centre, such as North Bund and South Bund, will see their first retail projects opening to the market. These locations are combining historical architecture and newly-built mixed-used projects, which are particularly challenging for the first round of leasing and operation. It is expected that these new projects will focus on F&B and leisure to gradually establish their reputation in the market.

The overall rental level of the market is expected to remain stable. Any rent increase is more dependent on the operations of a particular project and the loyalty of its core customers. From a location perspective, street-front units along Nanjing Road (E) are expected to outperform as retailers are putting more emphasis on displays and experiences.

Please contact us for further information

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