

Briefing Retail sector

April 2018



Image: Middle Huaihai Road

SUMMARY

Market enjoyed a respite from new supply in Q1/2018 while rising sales figures gave retailers renewed confidence.

■ Retail sales grew by 6.7% year-on-year (YoY) in the first two months of 2018.

■ No new supply was launched in the first quarter of 2018.

■ Overall rent on first floor space increased 0.3% quarter-on-quarter (QoQ) to RMB27.8 per sq m per day.

■ Overall vacancy rate increased 0.1 of a percentage point (ppt) to 6.5%.

■ Pudong's largest commercial land plot transaction in the past ten years occurred in February 2018.

“Growing investment from online players in offline markets is expected to further shake up the market to the benefit of consumers.” James Macdonald, Savills Research

Market commentary

Shanghai's retail market continued its recovery in Q1/2018 with a handful of retailers recording YoY growth in sales of 10.4% over the two-week Spring Festival holiday. Large shopping malls also reported satisfactory sales performances over the same period.

Overall first floor rents increased by 0.3% in Q1/2018 to RMB27.5 per sq m per day. Pudong rents increased by 0.7% QoQ, compared to 0.2% in Puxi. Nevertheless, the district's rents still remain 30% lower than the average level for Puxi.

Citywide vacancy rates increased 0.1 ppt to 6.5%. Lease expirations in a few regional projects in Pudong resulted in vacancy rates rising 0.1 ppt to 4.8%. Puxi vacancy rates remain at 6.8%.

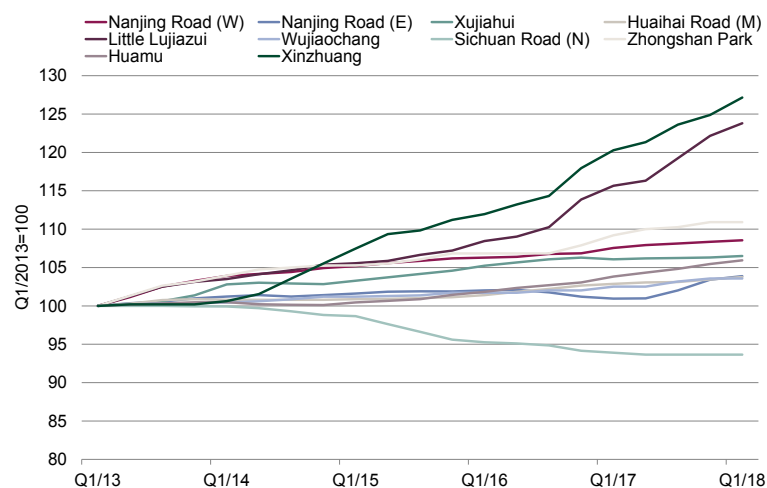
Luxury brands continued to reorganise their store networks at the beginning of 2018. Bally and Ermenegildo Zegna closed their stores in Q1/2018 at Huaihai Road (M) while Chanel expanded in Little Lujiazui.

Puxi

Nanjing Road (E) was one of the best performing retail areas in Q1/2018 with vacancy rates falling to 9.4%, the first time rates have dropped below 10% in the last three years. All of the major complexes recorded a pickup in occupancy rates, particularly on higher floors. Beauty Farm agreed to 1,000 sq m in Yifeng Galleria, while Mosaic Shanghai leased around

GRAPH 1

Rental indices by selected areas, Q1/2013-Q1/2018



Source: Savills Research

1,000 sq m to F&B tenants. The city's main pedestrian street is expected to welcome more excitement in 2018 with the opening of two indoor amusement parks – Shanghai Dungeon under the Merlin Group and Hello Kitty Park, a joint venture (JV) between Shimao Group and Sanrio. Further to the east, the Huangpu government and local SOE Shanghai Jiushi announced plans to jointly develop the second phase of Rock Bund. A number of restaurants in the first phase, including recently opened Horiguchi Coffee and Vanilla, have already become popular, especially on social media.

Vacancy rates in New Jiangwan Town in Yangpu District fell 3.3 ppts QoQ to 16.8%. Footfall in the area's leading project, U Fun, continued to improve. As a relatively new area of Shanghai, New Jiangwan Town started seeing real estate development only after 2005. There were concerns regarding the low population density and weak retail atmosphere, but the success of U Fun should give more confidence to developers of future projects. Nevertheless, key questions, such as how to deal with tough competition from the more mature Wujiaochang and whether there is enough consumer demand for new developments, still remain ahead of the development of 270,000 sq m of retail space close to Sanmen

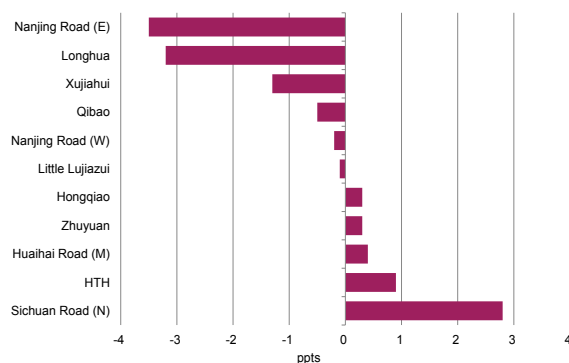
Road Metro Station, a project that is expected to launch in the coming years.

Sichuan Road (N) vacancy rates increased 2.8 ppts to 12.4% in Q1/2018. The mid-section of the road continued to struggle as a number of projects changed hands in the past three years. The area is expected to face growing pressure in the near future due to a lack of clear brand positioning and the completion of a number of bigger malls in the nearby North Bund area, such as the 110,000 sq m Sinar Mas Plaza scheduled for completion this year.

A number of decentralised areas, which have received significant supply over the past two years, including Hongqiao Transportation Hub (HTH), Qibao and Longhua, have recorded vacancy rates of roughly 12% as well as flat rents in Q1/2018. Despite flagship projects such as The Hub in HTH recording significant improvements, the area as a whole still needs time to develop and establish itself. Given the number of leading online players, including Alibaba, VIP, Ctrip, Dianping and JD established offices in the area, HTH could potentially be a test field for online and offline retail trials, and this could possibly serve as a point of differentiation for HTH versus other retail areas.

GRAPH 2

Vacancy rates quarterly change by selected areas, Q1/2018



Source: Savills Research

Pudong

Lease expiries and tenant adjustment in Zhangjiang led to vacancy rates rising by 1.2 pts in Q1/2018. Me & City took the 1,000 sq m unit next to the Jinke Rd Metro Station, which was previously occupied by Mixxo. Rental growth in the area is expected to outperform the whole of Pudong thanks to the growing popularity and maturity of the area.

Huamu's vacancy rate fell to a historical low of 2.9% in Q1/2018. Da Pai Dang opened its first restaurant in Pudong at Laya Plaza, almost three years after its debut outlet in Puxi.

Pudong vacancy rates have moderated to 4.5% over the last six months, but with a number of large malls scheduled to open in the remainder of 2018 this figure is expected to increase by 2.0 to 3.0 pts, to a level similar to Puxi's. As supply stabilises to roughly 200,000 sq m per annum for the period 2019 to 2021, vacancy rates are expected to trend down again in 2019.

In February, Pudong saw its largest land plot deal transacted in over a decade. The Longyang Road plot has a site area of 250,000 sq m and an aboveground GFA of 1.38 million

sq m, of which office will account for 1.04 million sq m and retail for 270,000 sq m (there may also be additional retail space belowground). Local SOE Shanghai Real Estate, Shentong Metro and Pudong Railway Construction successfully acquired the plot for RMB13.7 billion, at an accommodation value of RMB10,018 per sq m. The plot is located in between Zhangjiang and Huamu sub-city centre and connects with four metro lines and the Shanghai Maglev, giving it great connectivity to the rest of the city and the Pudong Airport. ■

TABLE 1
Leasing transactions, Q1/2018

Tenant	Category	Project	Area	GLA (sq m)
Icicle	Fashion	The Hub	HTH	1,000
Me & City	Fashion	Chamtime Plaza	Zhangjiang	1,000
C&A	Fashion	Vivo City	Xinzhuang	900
Champion	Fashion	K11	Huaihai Road (M)	90

来源：第一太平戴维斯市场研究部

Please contact us for further information

Research



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

Central Management



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

Retail



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

Strategic Advisory Services



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

Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 600 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.