

Briefing Retail sector

November 2018



Image: Shimao Plaza, Nanjing Road (E)

SUMMARY

Retailers are going all out to rise above the competition and create aesthetically-pleasing and consumer-engaging store fronts.

- Retail sales grew by 8.0% year-on-year (YoY) in the first eight months of 2018, 0.2 of a percentage point (ppt) lower than the same period in 2017.
- Two new projects launched onto the market in Q3/2018, contributing a total retail GFA of 206,000 sq m.
- Average rent on first floor space increased 0.4% quarter-on-quarter (QoQ) to RMB28.0 per sq m per day.
- Vacancy rates increased by 0.1 of a ppt in Q3/2018 to 6.3% in prime retail areas, while rates fell by 0.2 of a ppt to 6.4% in non-prime retail areas.
- Growing demand for co-working space will help increase the sector's market share in the shopping mall market to around 0.6% by end of 2018.
- Numerous first-store and new concept stores opened in new projects to stimulate consumer spending.

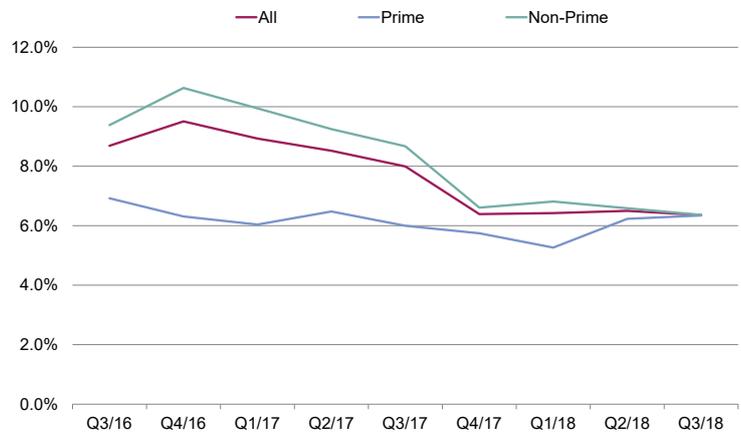
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 "It seems like every new store opening up nowadays is a flagship store or innovation house. It doesn't matter whether it's happening online or offline, the competition for eyeballs is fierce." James Macdonald, Savills Research

Market commentary

Retail sales grew by 8.0% YoY in the first eight months of 2018, 0.2 of a ppt lower than the same period in 2017. Sales rose by 9.6% YoY in 395 retail and F&B enterprises during the Mid-Autumn festival and National Day holidays (24 September to 7 October) to RMB13.8 billion. The districts of Yangpu and Changning grew by 32.8% and 24.1%, respectively, according to a sample survey by the Shanghai Commission of Commerce. Shanghai welcomed 10.4 million visitors over the seven days of Golden Week, an increase of 12.0% YoY and the highest upturn in three years. Tourism revenue reached a total of RMB10.29 billion, up 11.4% YoY, according to the Shanghai Tourism Administration. Future events such as the 2018 Shanghai Shopping Festival (28 September to 11 November) and the first China International Import Expo (5 November to 10 November) will likely stimulate consumption in Q4/2018.

Two new projects, LuOne in Huangpu district and LCM in Pudong New Area, launched onto the market in Q3/2018, contributing a total retail GFA of 206,000 sq m. LuOne connects directly to the Madang Road station, which offers access to metro lines 9 and 13. The project is a mixed-use development, with retail GFA of 86,000 sq m and office GFA of 47,000 sq m, and was developed by CapitalLand. LuOne is positioned at the mid-to-high end. Its opening occupancy rate stood at 95%, with tenants including G-super, OSGH Cinema and Tmall IMV flagship stores. LCM, located close to the

GRAPH 1
Vacancy rates by area, Q3/2016-Q3/2018



Source: Savills Research

North Yangjing Station, is a mixed-use development co-developed by Hongkong Land and Cifi Group, and provides 120,000 sq m of retail space and 100,000 sq m of office space. The project is positioned as a fashion and lifestyle destination. Its anchor stores include the Palace Cinema and the world's first Peppa Pig World of Play theme park.

The overall vacancy rate in Shanghai decreased by 0.1 of a ppt to 6.4% in Q3/2018. Vacancy rates increased by 0.1 of a ppt to 6.3% in prime retail areas, while they fell by 0.2 of a ppt to 6.4% in non-prime retail areas. In prime areas, the upgrading of Grand Gateway 66's north building has been completed but not fully occupied, and renovation has begun on the south building. Thus the vacancy rate in Xujiahui grew by 2.0 ppts QoQ. The vacancy rate in West Nanjing Road also increased slightly to 6.3% as several tenants in Citic Square withdrew due to the ongoing tenant mix adjustment in the building.

Luxury brand Burberry opened new stores on the first floors of iAPM and Shanghai IFC, while the K11 store closed down. IFC continues its adjustment of several luxury brands: Fendi is now located on its first floor, Gucci expanded in to the space formerly occupied by Van Cleef & Arpels (VCA), which has in turn moved to central island on the second floor, and Lanvin closed.

The demand for co-working space is growing steadily, with brands most

often setting up on the upper levels of shopping centres. For example, Le Space rented units L9-L10 at the Super Brand Mall in Little Lujiazui, and Mixpace replaced the KTV on Crystal Galleria's seventh floor in the West Nanjing Road area. It is expected that the sector's market share of the shopping mall market will increase to around 0.6% by the end of 2018.

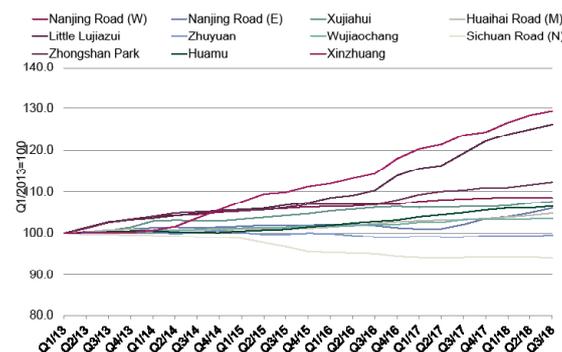
First floor rent increased 0.4% QoQ to an average of RMB28.0 per sq m per day. The attractions of East Nanjing Road were enhanced by the completion of the Shimao Plaza renovation and upgrade, which sparked an increase in rents in surrounding malls as well. Thus, the average rent of East Nanjing Road rose by 2.4% QoQ.

Numerous first-store and new concept stores opened in new projects

Shanghai's consumers have high standards with regard to the image and experience of a brand. In order to attract customers, shopping centres have recently introduced various new brands to the market in the form of first-stores, flagship stores and new concept stores. Many of these stores can be seen in new projects and upgraded projects, such as the recently reopened Shimao Plaza.

Shanghai, as a cosmopolitan city, is highly receptive to foods from different countries and cultures. Several F&B brands chose Shanghai

GRAPH 2
Rental indices by selected areas, Q1/2013-Q3/2018



Source: Savills Research

as the first place to open in mainland China during the quarter. For instance, Japanese coffee brand, Doutor Coffee, opened its first store on Wujiang Road while LeTao, a dessert brand from Hokkaido, debuted in Xintiandi and later opened outlets in Shanghai IFC and Grand Gateway 66. Shake Shack, a New York burger joint, also signed a lease in Xintiandi, and is expected to open in 2019.

General retail brands are innovating with flagship stores or new concept stores that combine with new technologies, with the aim to integrate online and offline consumption. In Shimao Plaza, Nike's first House of Innovation Shanghai 001 launched with mobile

payment capabilities and NikePlus membership services. Sephora's first concept store in Asia features an e-commerce wall and provides virtual artist experiences. Zara's new retail concept pop-up store, located in Shanghai Times Square, is completely designed to enhance its e-commerce business, with dressing rooms that consumers can book through Taobao APP and all orders delivered through online channels. Additionally, some well-known self-media¹ brands are now opening offline stores. For instance, Cat's Kitchen (日食记) is now located in Shimao Plaza while Yitiao (一条) opened shops in LuOne, LCM

¹ Self-media or we-media refers to independently operated social media accounts usually run by individual users. It provides latest news and has high interaction rates with audiences.

and Skymall all on the same day, turning its online influence into offline consumption.

The indoor leisure and entertainment theme park sector has also expanded to shopping centres to attract young shoppers and families. Both Merlin Entertainment's The Shanghai Dungeon in Mosaic Shanghai and Peppa Pig World of Play in LCM held their soft openings in Q3. The indoor zoos Mr. ZOO in Citic Wanda Plaza and Julie's Zoo in Paradise Walk are scheduled to open soon. Hello Kitty theme park, which occupies the sixth to eighth floors of Shimao Plaza, is currently under renovation. ■

TABLE 1 **Leasing transactions, Q3/2018**

Tenant	Category	Project	Area	GLA (sq m)
Quanjudu	F&B	The Place	Hongqiao	970
ABC Cooking Studio	Leisure & Entertainment	iAPM	Huaihai Road (M)	380
Shake Shack	F&B	Xintiandi	Huaihai Road (M)	300
Champion	Fashion	HKRI Taikoo Hui	Nanjing Road (W)	210

Source: Savills Research

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