MARKET IN MINUTES

Savills Research

Retail

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Zhuyuan sees uplift in retail environment

The completion of new projects in Zhuyuan in 2018 supported the debut of several new brands.

- Retail sales grew by 7.9% year-on-year (YoY) in 2018, 0.2 of a percentage point (ppt) lower than in 2017.
- A total of 900,000 sq m of retail space launched onto the market in 2018, 7.3% lower than new supply in 2017. Three new projects launched onto the market in Q4/2018, contributing a total retail GFA of 380,000 sq m.
- Two upgraded projects opened in Q4/2018, More Mee in Zhuyuan and Xintiandi Plaza in Huangpu district, both offering 30,000 sq m GFA.
- Century Link, L+ Mall and the upgraded More Mee opened in Zhuyuan in 2018, bringing new brands such as Galleries Lafayette, Coscia and Spacelab to Shanghai and enhancing the appeal of this business area.
- First floor rents increased 0.3% quarter-on-quarter (QoQ) to an average of RMB27.7 per sq m per day, up 1.3% YoY.
- Vacancy rates increased by 0.9 of a ppt YoY in Q4/2018 to 6.8% in prime retail areas, and rose by 0.1 of a ppt YoY to 6.8% in non-prime retail areas.
- Fourteen new projects with a total of 1.1 million sq m of retail space are expected to launch in 2019. Despite the Shanghai retail market facing supply and demand challenges, growing demand from new retail, experiential retailers and cross-sector brands will support reasonable rental growth of leading projects.

> "The retail market will still face supply pressures in 2019, with consumer confidence also a challenge, resulting in limited rental growth in the overall market."
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> JAMES MACDONALD, SAVILLS RESEARCH

Savills team

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 Chiina
+8621 6391 6688
siuwing.chu@savills.com.cn

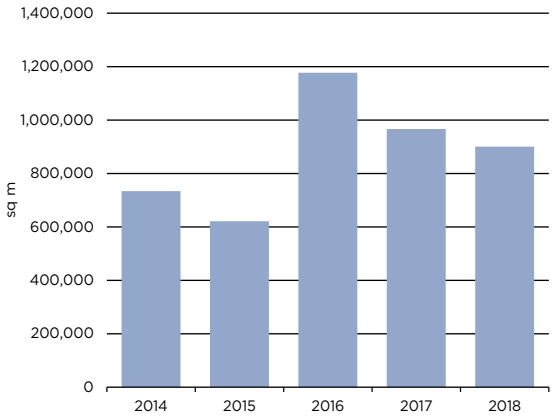
RETAIL

Alieen Zhong
Senior Director
Shanghai
+8621 6391 6688
alieen.zhong@savills.com.cn

STRATEGIC ADVISORY SERVICES

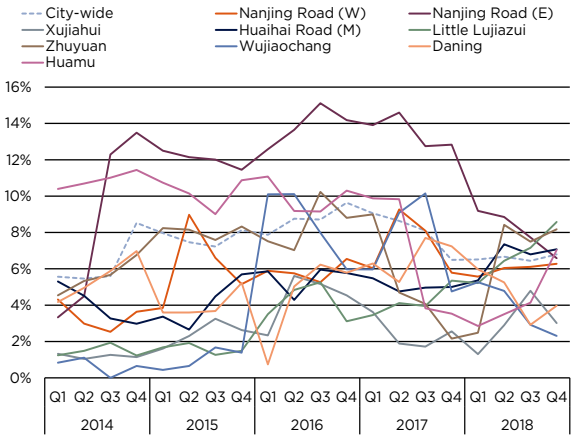
Nicky Zhu
Director
Shanghai
+8621 6391 6688
nicky.zhu@savills.com.cn

GRAPH 1: Shopping Mall Supply Within Ring Road, 2014 to 2018



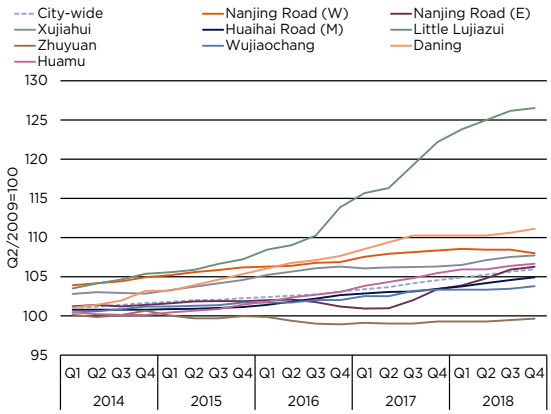
Source Savills Research

GRAPH 2: Vacancy Rates, Q1/2014 to Q4/2018



Source Savills Research

GRAPH 3: Rental Indices By Selected Areas, Q1/2014 to Q4/2018



Source Savills Research

SUPPLY AND STOCK

A total of 900,000 sq m of retail space launched onto the market in 2018, 7.3% less than 2017. Three new projects were launched onto the market in Q4/2018, contributing a total retail GFA of 380,000 sq m.

POPC is a mixed-use development close to Lianhua Road metro station (line 1), with retail GFA of 150,000 sq m, office GFA of 180,000 sq m and hotel GFA of 50,000 sq m. Its major tenants include G-Super, Super Species and Nitori. POPC offers a variety of themes – anime, e-sports, technology, culture and innovation – and introduced several overseas animation stories and characters to build an anime space of 6,000 sq m to fulfil the desires of young customers.

Sinar Mas Plaza connects directly to the International Passenger Transport Centre metro station (line 12). The mixed-use development's total GFA is 420,000 sq m and the shopping mall's GFA is 90,000 sq m. Filling the retail gap in the North Bund area, Sinar Mas Plaza is a mid-to-high end mall, housing new retail and experiential brands such as CGV Cinema, Hema supermarket, Miniature World and Space Club.

L+ Mall is the retail component of Pudong Financial Square. It connects to two metro stations – Dongchang Road (line 2) and Shangcheng Road station (line 9) – with retail and office each having 140,000 sq m GFA. L+ Mall's levels 1 to 4 are reserved for high-end brands, and levels 5 to 11 house younger brands. Its anchor stores include a 23,000 sq m Galeries Lafayette, Palace Cinema, Ole and EZ5 Live House.

Two upgraded projects, More Mee and Xintiandi Plaza, opened in Q4/2018, with GFA of both malls at 30,000 sq m. More Mee, formerly known as Buynow, an electronic and digital market, is close to line 9's Shangcheng Road station. The newly renovated mall's diversified brand mix includes lifestyle, popular F&B and child-related services to better serve surrounding white-collar workers, students and families. Xintiandi Plaza, located at South Huangpi Road metro station (line 1), has been upgraded from the Pacific department store. To attract young and female audiences and improve on Pacific's offerings, Xintiandi Plaza introduced several new F&B brands.

Zhuyuan recorded 280,000 sq m of new supply in 2018 for a total of 492,000 sq m, replacing North Sichuan Road as the biggest secondary retail area in Shanghai. With the opening of Century Link, More Mee and L+ Mall, consumers in the area can now enjoy new brands such as Galleries Lafayette, Coscia and Spacelab, as well as an overall enhanced submarket.

RENTS AND VACANCY RATES

First floor rents increased 0.3% QoQ to an average of RMB27.7 per sq m per day, up 1.3% YoY. Rents in prime retail areas rose 1.5% YoY to RMB50.2 per sq m per day. In particular, average rents in Little Lujiazui and East Nanjing Road area grew significantly. Non-prime average rents grew 1.2% YoY to RMB16.8 per sq m per day; active tenant adjustment in Zhangjiang, Xinzhuang and Jinqiao increased rental growth in these areas by more than 5.0%.

Vacancy rates increased by 0.9 of a ppt YoY in Q4/2018 to 6.8% in prime retail areas, and the same rose by 0.1 YoY to 6.8% in non-prime retail areas. The vacancy rates of prime and non-prime areas were similar in Q4/2018, with the great operational abilities of some projects making up for location disadvantage. Although the high vacancy rates of some new projects in non-prime areas had a significant impact on overall rates, there could still be improvement in the future.

MARKET OUTLOOK

Fourteen new projects with a total of 1.1 million sq m of retail space are expected to launch in 2019, with the significant new supply and the macroeconomic environment leading to a limited increase in overall rents. As consumers increasingly emphasise the quality of the shopping environment, older developments might be forced out of the market. However, growing demand from new retail, experiential retailers and cross-sector brands, such as indoor ski parks and restaurants and bars with live bands will sustain a reasonable rental growth for leading projects with higher footfall. Additionally, despite having lower initial rents and occupancy rates, some existing projects will continue to improve their rental growth by introducing new brands and improving tenant mix.

TABLE 1: Selected Leasing Transactions In Q4/2018

TENANT	CATEGORY	PROJECT	AREA	GLA (SQ M)
Tesla	Automotive	Changning Raffles City	Zhongshan Park	390
Lululemon	Sports & Outdoors	Kerry Parkside	Huamu	210
Lady M	F&B	iAPM	Huaihai Road (M)	180
Calzedonia	Fashion	Hongyi Plaza	Nanjing Road (E)	110

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