MARKET IN MINUTES
Savills Research

Retail

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Sports-related brands expand aggressively

The proportion of leisure and entertainment tenants in malls continues to increase as interactive experiences energise retail spaces and increase time spent in malls

- Retail sales grew by 6.3% year-on-year (YoY) in the first two months of 2019, 0.4 of a percentage point (ppt) lower than the same period in 2018.
- Just one new project, Orstar City, was launched onto the market in Q1/2019, adding 44,000 sq m of space to the market.
- Vacancy rates increased by 0.2 of a ppt quarter-on-quarter (QoQ) to 6.8% in prime retail areas, and 1.1 ppts QoQ to 7.9% in non-prime retail areas.
- First-floor rents increased 0.3% in Q1/2019 to RMB27.7 per sq m per day.
- Many traditional department stores in the city's prime retail areas are currently under renovation, helping to improve the retail environment of those locations and stimulate consumer spending.
- Sports-related brands were some of the most aggressive in their investment and expansion in Shanghai, while gyms and fitness centres became more boutique and innovative.
- Demand for leisure and entertainment brands in malls has been increasing in recent quarters as landlords look to energise retail spaces, drive footfall and increase consumer engagement and time consumers spend in their spaces.

> "Due to growing competition in non-prime areas, the overall vacancy rate of shopping centres in Shanghai reached 7.6%, the highest level in nearly six quarters."
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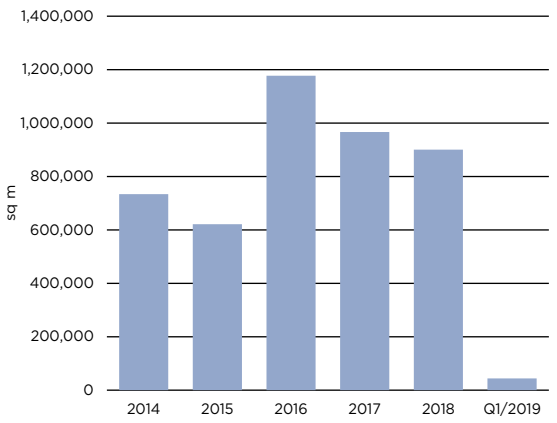
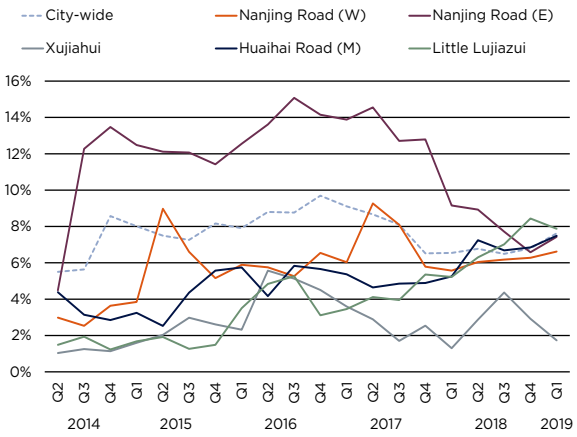
GRAPH 1: Shopping Mall Supply Within Outer Ring Road, 2014 to Q1/2019



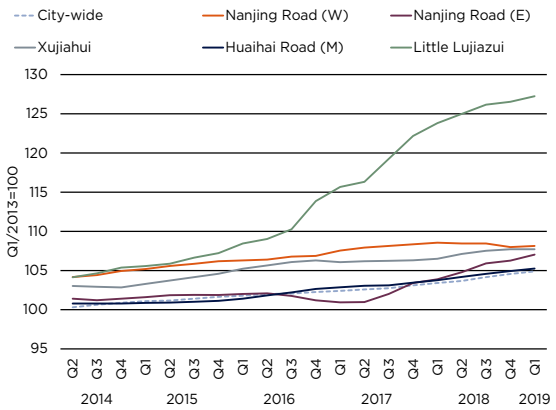
Source Savills Research

GRAPH 2: Vacancy Rates By Prime Areas, Q2/2014 to Q1/2019



Source Savills Research

GRAPH 3: Rental Indices By Prime Areas, Q2/2014 to Q1/2019



Source Savills Research

SUPPLY AND STOCK

Just one new project was launched onto the market in Q1/2019, adding 44,000 sq m of space. The project, Orstar City, is located in the Zhenru area in Putuo district. It is positioned as an experiential shopping centre, which ticks this retail box for the Zhenru sub-centre and the surrounding communities and families. Major tenants include DXM Cinema, Yonghui Superstores, Will's Fitness, QiQi Hut kids' restaurant, and children's equestrian club Jay's Ranch.

Sports-related brands were some of the most aggressive in terms of investment and expansion of their businesses in Shanghai. Excellent financial performances in the larger Chinese market give sports retail brands strong confidence as they expand in Shanghai. For example, Under Armour and Puma opened several new stores in Q1/2019, and Adidas set up its Asia-Pacific and Greater China Homecourt in Shanghai. The younger generations are keen on hip-hop culture and support products made in China. In order to cater to their consumption preferences, traditional domestic sports brands such as Li Ning and Anta have not only upgraded their store images, but also established sub-brands including China Li Ning and AntapluS to create unique Chinese street fashion brands with the ambition to go global.

Gyms and fitness centres have become more boutique, innovative and specialised. Gyms that use pay-per-use and monthly card models—represented by LEFIT and Super Monkey Fitness—are popular. Compared with traditional, large fitness centres that occupy around 1,000 sq m, these boutique gyms only demand about 150-300 sq m, which allows landlords greater flexibility with tenant adjustment and offers them higher unit rents. Innovative use of new technologies in gyms also helps to increase price points. For example, ZE Speed takes advantage of EMS (Electric Muscle Stimulation) machines, and Jumplify Bungee Workout Theatre combines bungee equipment with fitness classes. These fitness centres target high-end customers who want to improve their exercise efficiency and are willing to try new technologies. Additionally, Keep, an online exercise and fitness application, has opened offline gyms named Keepland, where it sets up fitness courses with the help of online data collection. Keep also plans to launch a delivery service for light, healthy food in the future.

RENTS AND VACANCY RATES

The overall vacancy rate in Shanghai grew by 0.8 of a ppt to 7.6% in Q1/2019. Vacancy rates increased by 0.2 of a ppt QoQ to 6.8% in prime retail areas and rose by 1.1 ppts QoQ to 7.9% in non-prime retail areas. Among the notable changes, projects in Suzhou Creek, Shibei and Xinzhuang business areas all underwent large-scale tenant adjustments, with vacancy rates changing significantly in the short-term.

First-floor rents increased 0.3% QoQ to an average of RMB27.7 per sq m per day. Rents in prime retail areas rose 0.4% QoQ to RMB51.7 per sq m per day. Non-prime average rents grew 0.3% QoQ to RMB16.8 per sq m per day; Zhangjiang and Jinqiao business areas saw significant increases of 1.7% and 1.4%, respectively.

MARKET OUTLOOK

Many traditional department stores in the city's prime retail areas are currently under renovation to improve their retail environments and stimulate consumer spending. For instance, New World Complex in Nanjing Road (E) area is temporarily closed and has begun renovation; it plans to increase its proportion of F&B tenants and will also introduce the first Naruto theme park in China, an indoor rock climbing facility, and an ice and snow world for young consumers and families. In addition, Huijin department store in Xujiahui and Yong'an department store in Nanjing Road (E) business area will upgrade and adjust their tenant mixes while No.1 Department Huaihai Branch will merge into a new shopping centre with Jinjiang International Shopping Centre in the Huaihai Road (M) area.

The proportion of leisure and entertainment brands in shopping centres increased to 13.1% by the end of 2018. Hongqiao Transportation Hub (HTH) and the Longhua and Changfeng areas contain the highest ratios in Shanghai while the Nanjing Road (E) and HTH areas saw the biggest increase in this retail sector, with the YoY growth rate exceeding 3.5%. Demand for leisure and entertainment brands in malls has been increasing in recent quarters as landlords look to energise retail spaces, drive footfall, and increase consumer engagement and time spent in their retail spaces. Tenants such as family entertainment centres, indoor theme parks and diversified niche sports have become great weapons to attract customers.

TABLE 1: Selected Leasing Transactions In Q1/2019

TENANT	CATEGORY	PROJECT	AREA	GLA (SQ M)
Samsung	Electrical & Electronics	Hongyi Plaza	Nanjing Road (E)	830
Under Armour	Sports & Outdoors	Westlink Plaza	Xinzhuang	370
Blue Frog	F&B	Touch Mall	Longhua	220
Coach	Fashion	Raffles City	Nanjing Road (E)	150

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