Kids’ brands remain active

Children’s education and entertainment brands expanded aggressively while new kids’ categories emerged.

- Retail sales grew by 7.1% year-on-year (YoY) in the first five months of 2019, 0.2 of a percentage point (ppt) lower than in the same period in 2018.

- Just one new project, the 44,400 sq m Life Hub @Upbund in Hongkou District, was launched onto the market in Q2/2019.

- Vacancy rates fell by 0.1 of a ppt quarter-on-quarter (QoQ) to 6.8% in prime retail areas, and 0.2 of a ppt QoQ to 7.8% in non-prime retail areas.

- First floor rents increased 0.4% QoQ in Q2/2019 to an average of RMB27.6 per sq m per day.

- The luxury market remains upbeat with many brands active in the city’s leading landmark projects; nevertheless, the market scale remains limited as only a handful of retail developers have been able to successfully capitalise on demand.

- Kids’ brands were particularly active in Q2/2019, with education, entertainment, and other service sector kids’ brands contributing significantly to overall demand while new kids categories emerged.

- Around 800,000 sq m of new supply is expected to open in the second half of the year, with only two projects larger than 100,000 sq m—both of which are in Pudong.

“Competition in non-prime retail areas continues to intensify, with more small- and medium-sized shopping centres expected to launch in the second half of the year.”

JAMES MACDONALD, SAVILLS RESEARCH
**Retail**

**SUPPLY AND STOCK**

Just one new project was launched in Q2/2019, adding 44,400 sq m to the market. Life Hub @ Upbundle, developed by Chongbang, is in the Ruihong retail area in Hongkou district, close to Linping Road Station (Line 4). Major tenants include Will’s Fitness high-end brand W Yoga & Fitness, Inlove KTV and the Canadian coffee chain Tim Hortons. The project includes several children’s personal development and entertainment brands to meet the demands of neighbourhood families as well as a first-floor bazaar offering a variety of art, design and lifestyle brands, which fits the concept of community life that the project is trying to promote.

The luxury market remained upbeat as leading landmark projects welcomed new brands and worked with retailers to upgrade their stores. Plaza 66 added Gucci and Dunhill while MaxMara prepared to open a store in IAPM. At the same time, several luxury brands in IFC Mall and Grand Gateway 66 began upgrading their storefronts to cater to consumers’ increasingly discerning tastes. However, the market size remains limited, with only a handful of retail developers able to successfully capitalise on demand from the luxury market.

Kids’ brands, as well as mainstream brands that are increasingly incorporating provisions for kids, expanded aggressively in Q2/2019. Landlords are eager to secure children’s service sector brands that focus on entertainment and personal development.

The renovation of the Kids’ 3rd Home theme area in Super Brand Mall in Little Lujiazui business area was completed in Q2/2019. The store, located on the second floor, occupies more than 4,000 sq m and offers a range of children’s retail, education and personal development brands as well as children’s F&B outlets, creating a one-stop kids’ retail destination.

Early childhood learning brands, particularly those that focus on English and arts instruction, also recorded significant demand. For example, a new training centre of the Chinese Opera & Dance Theatre was added to The Place in Hongqiao area; and Changfeng Joy City introduced Shangyin Piano and MagicSTEM. Additionally, children’s F&B, photography, sports and health brands continued to actively seek out new locations. At the same time, new kids’ retail categories began to emerge as landlords looked to attract families to spend time and money at shopping centres. Some recent examples include a children’s gym, sports education centre as well as a children’s massage spa and dentistry clinic.

**RENTS AND VACANCY RATES**

The overall vacancy rate in Shanghai fell by 0.1 of a ppt to 7.6% in Q2/2019. Vacancy rates fell by 0.1 of a ppt QoQ to 6.8% in prime retail areas, due mainly to the introduction of temporary art exhibitions to occupy the vacant areas of some projects in Nanjing Rd (E) and Huaihai Rd (M).

Vacancy rates also fell by 0.2 of a ppt QoQ to 7.8% in non-prime retail areas. First-floor rents increased 0.4% QoQ to an average of RMB27.6 per sq m per day. Rents in prime retail areas rose 0.5% QoQ to an average of RMB35.9 per sq m per day. Non-prime average rents grew 0.3% QoQ to an average of RMB16.8 per sq m per day. Among them, rental growth rates of Nanjing Rd (E), Xinzhuang, Zhangjiang and Qibao business area were higher than the overall level of Shanghai, each growing by over 1.0%.

**MARKET OUTLOOK**

Eleven new projects, totalling roughly 800,000 sq m, are expected to open in 2H/2019. The new projects are mostly small- and medium-sized shopping centres with only two centres larger than 100,000 sq m—both of which are in Pudong. Opening dates for several other large regional shopping centres have been postponed to next year.

Although concerns about the economy’s health remain, proactive steps taken by the government to shore up consumer demand, such as tax cuts, along with the innovative design, products and concepts offered by retailers could bring renewed confidence to the consumer market.