Retail market holds firm

Cosmetics, sports and consumer technology brands step into the void created by some international fast-fashion retailers who are increasingly losing out to domestic brands.

- Retail sales grew by 7.4% year-on-year (YoY) in the first eight months of 2019, 0.6 of a percentage point (ppt) lower than the same period in 2018.
- Five new projects launched onto the market in Q3/2019, contributing a total retail GFA of 369,000 sq m. Four of them are located outside the Inner Ring Road.
- Vacancy rates fell by 1.0 ppt quarter-on-quarter (QoQ) to 5.8% in prime retail areas, and rose by 1.0 ppt QoQ to 8.8% in non-prime retail areas.
- First-floor rents increased 0.3% QoQ in Q3/2019 to an average of RMB27.3 per sq m per day.
- Cosmetics, sports and consumer technology brands continued to expand aggressively in Q3/2019. The variety and flexibility of their store sizes and configurations allowed for many different shopping centre formats.
- Mid- to high-end and new-energy car brands also continued to grow—securing prime first-floor locations in shopping malls as developers looked to diversify offerings and fill malls.
- Around 520,000 sq m of new supply is expected to open in Q4/2019—among them is One ITC, the first phase of Shanghai ITC, which is expected to further improve Xujiahui’s retail environment.

“Shanghai is expected to see another 520,000 sq m completed in the final quarter of 2019, bringing supply to 900,000 sq m and on par with last year.”

JAMES MACDONALD, SAVILLS RESEARCH
SUPPLY AND STOCK

Five new projects launched onto the market in Q3/2019, contributing a total retail GFA of 369,000 sq m. The projects are Lihpao Land, Crystal Plaza, Longfor Huajing Paradise Mall, Ballian Quyang Shopping Mall and Bund Finance Centre (BFC). Four of them are located outside Inner Ring Road. BFC, the only project within the inner road, held its soft opening several months ago.

Cosmetics, sports and consumer technology brands continued to expand aggressively in Q3/2019. The variety and flexibility of their store sizes and configurations allowed for many different shopping centre formats.

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ERS AND VACANCY RATES

Citywide vacancy rates increased by 0.6 of a ppt in Q3/2019 to 8.1%. Prime retail area vacancy rates fell by 1.0 ppt QoQ to 5.8% while non-prime retail areas increased by 1.0 ppt QoQ to 8.8%. Given the fact that many new projects are in emerging retail areas—for far from the city centre where the retail atmosphere is immature—occupancy rates at completion are often less than ideal. Excluding new supply, non-prime vacancy rates fell 0.5 of a ppt to 7.3% as recently launched projects continue to fill remaining stores units and the citywide vacancy rate fell by 0.5 of a ppt QoQ to 7.0%.

First-floor rents increased 0.3% in Q3/2019 to an average of RMB27.3 per sq m per day. Both prime and non-prime retail rents rose 0.3% in Q3/2019 to an average of RMB50.3 and RMB16.6 per sq m per day, respectively. Zhangjiang and Wujiaochang rental growth slightly outperformed the rest of the market. Recently completed space in those areas stabilised and created a greater critical mass to attract consumers from further afield while also enhancing the surrounding retail environments.

MARKET OUTLOOK

Six new projects, totalling about 520,000 sq m, are expected to open in Q4/2019. One ITC, the first phase of Shanghai ITC, located in Xujiahui will introduce several luxury brands into the city centre where the retail atmosphere is stabilised and created a greater critical mass to attract consumers from further afield while also enhancing the surrounding retail environments.

<table>
<thead>
<tr>
<th>TENANT</th>
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<th>PROJECT</th>
<th>AREA</th>
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<td>Grand Gateway 66</td>
<td>Xujiahui</td>
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TABLE 1: Selected Leasing Transactions in Q3/2019

Source: Savills Research

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