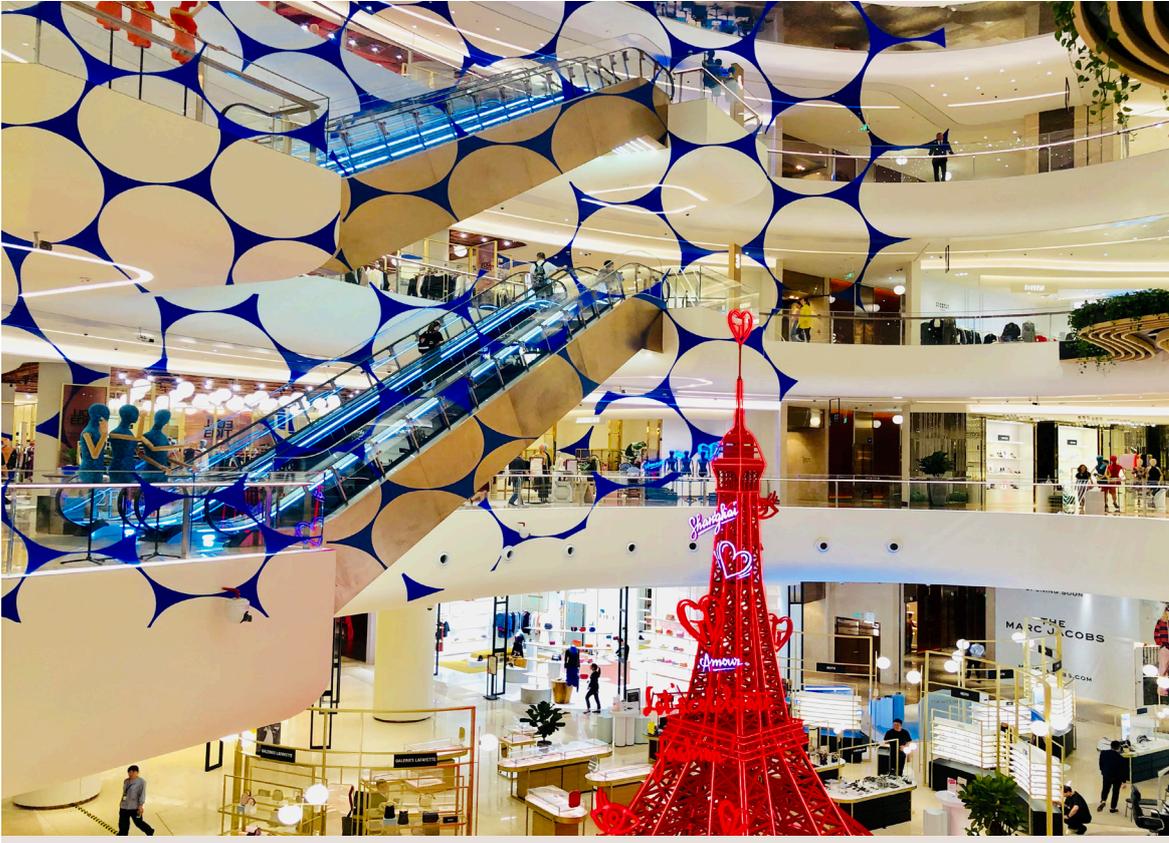


Retail



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.”

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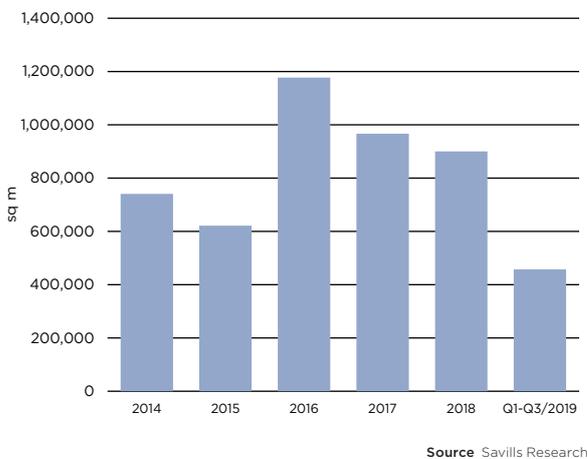
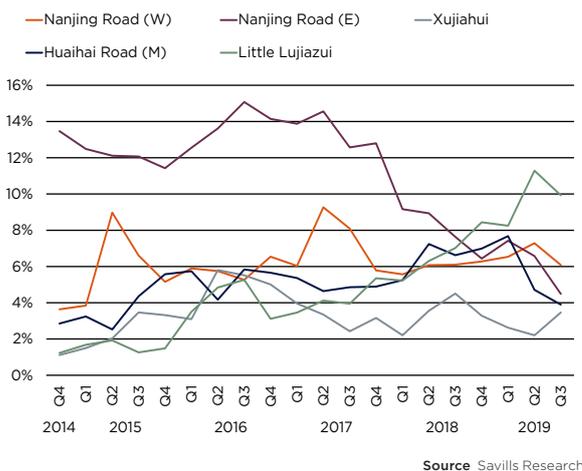
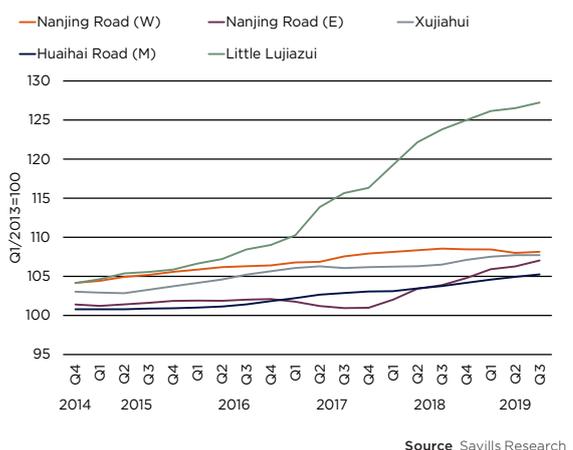
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GRAPH 1: Shopping Mall Supply Within The Outer Ring Road, 2014 to Q3/2019**GRAPH 2: Vacancy Rates By Prime Areas, Q4/2014 to Q3/2019****GRAPH 3: Rental Indices By Prime Areas, Q4/2014 to Q3/2019****SUPPLY AND STOCK**

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 Walk, Bailian 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.

Skincare and cosmetics speciality stores or counters are in high demand. With their high rental affordability, developers are keen to provide these retailers with high footfall and good visibility locations on first and basement floors in dedicated beauty and makeup areas. More than ten international beauty brands entered the beauty zone in the basement floors of Grand Gateway 66; IFC Mall basement floors added Clé de Peau Beauté, Giorgio Armani and Estee Lauder; while Sky Mall replaced the original Victoria's Secret store with two stores offering Lancome and Shu Uemura.

Sports brands have stepped into the void created by some fast-fashion brands by rolling out more traditional store sizes and formats, while also committing to larger flagship stores to promote their latest brand innovations.

Consumer technology brands continue to flourish as well. As new technological advancements encourage shoppers to upgrade to the latest models and unit prices continue to rise, brands are increasingly demanding more physical locations and rental affordability. Along Nanjing Road (E), Huawei and Samsung are joining Apple's flagship store to create a richer consumer tech environment. Huawei plans to open a 5,000 sq m China flagship store in the space vacated by Forever 21, while Samsung opened its new flagship store in Hongyi International Plaza in Q3/2019.

Despite a slowdown in car sales in China, mid- to high-end and new-energy car brands continued to secure prime first-floor locations in shopping malls, encouraged by developers looking to diversify offerings and fill malls.

Mercedes Benz entered BFC and Hopson One; Maserati opened a store in L+ Mall; while new-energy car brands such as Nio, Tesla and EV-World opened new stores in The Place in Hongqiao, Hall of Moon in Hongkou, and Bailian Southern Shopping Mall (which was reopened in Q3/2019), respectively. Despite most brands choosing first-floor corner spots away from the main internal shopper flow, they garner significant interest from shoppers and can draw footfall to a mall while affording the pricier first-floor rents.

RENTS 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—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 and further improve the surrounding retail atmosphere. Additionally, two mega-projects with retail GFA's in excess of 100,000 sq m are also expected to launch, namely Woli City in Yuqiao, Pudong, and Mount Oasis in Baoshan District. Given this new supply, year-end supply should reach roughly 900,000 sq m, on par with last year.

TABLE 1: Selected Leasing Transactions In Q3/2019

TENANT	CATEGORY	PROJECT	AREA	GLA (SQ M)
NetEase Yeation	Home & Lifestyle	HKRI Taikoo Hui	Nanjing Road (W)	350
MUJI	Home & Lifestyle	The MixC	Qibao	460
Mercedes Benz	Automotive	Hopson One	Wujiaochang	450
Sephora	Accessories	Grand Gateway 66	Xujiahui	350

Source: Savills Research