As landlords adapt to the new business realities of a post-COVID-19 market, both rents and occupancy rates fell in Q2/2020.

- Retail sales fell 13.8% year-on-year (YoY) in the first five months of 2020. But the decline has narrowed since March, with retail sales for May up 0.6% YoY.

- No new projects were launched onto the market in 1H/2020. Future supply is likely to be significantly delayed due to the continued impact of COVID-19 and economic uncertainty.

- Vacancy rates in prime retail areas increased by 2.2 percentage points (ppts) quarter-on-quarter (QoQ) to 9.5% while non-prime retail areas grew by 3.4 ppts to 12.1%.

- First-floor rents fell 1.6% in Q2/2020 at an average of RMB26.5 per sq m per day as landlords adapted to the new business realities of a post-COVID-19 market.

- F&B outlets, particularly domestic casual dining, were hardest hit by COVID-19 and accounted for more than 40% of the newly vacant space in Q2/2020. However, there were still several brands actively expanding, looking to secure premium locations at favourable rates.

- Luxury brands have generally seen a much faster recovery in product sales than the overall retail market.

- Domestic retailers such as skincare and cosmetics stores, electronic products, and new energy vehicles continued the expansion of their store networks in Q2/2020.

- As the economy and business activity returns to normal, the window of opportunity for further significant rent discounts continues to narrow.

“The retail market saw a significant adjustment in the second quarter with vacancy rates rising to their highest level in recent memory. Nevertheless, as the city returns to a form of normalcy and the market stabilises, landlords and retailers are starting to look to the future.”

JAMES MACDONALD, SAVILLS RESEARCH
**Retail**

**Post COVID-19**
Retail sales fell 13.8% year-on-year (YoY) in the first five months of 2020. But the decline has narrowed since March, with retail sales in May increasing 0.6% compared to May 2019.

F&B outlets were hardest hit by the outbreak and accounted for more than 40% of the newly vacated retail units in the city in Q2/2020. Relinquished units were more apparent in the mid and high zones of shopping malls. Several mid and large locations were unable to cover ongoing operational costs and instead closed their doors for good. At the same time, several chains adjusted store layouts and closed underperforming stores, contributing to the rise in vacancy rates this quarter. However, the F&B segment as a whole is expected to rebound quickly and remain a key component of many malls, as many of the new store openings in Q2/2020 were, in fact, F&B operators. There were several new local brands actively growing and looking to secure premium locations at favourable rates, including Tai’er (太二), Songhelou (松鹤楼) Suzhou Noodles and Wok Man (胡子大厨).

Luxury brands experienced a faster recovery in sales than the overall retail market. Shanghai’s leading luxury malls saw footfall levels almost rebound to the 24-month average and are expected to continue to increase in July. Despite the fact that several brands increased their product prices, sales volumes recorded little impact, underscoring the sector’s strength. Tom Ford and Roger Vivier opened new locations in IFC Mall, while Italian brand Herno launched in Plaza 66. The ongoing impact of the epidemic on international markets means that retailers in the near term will be even more reliant on Chinese consumers than they have been in the past.

**MARKET OUTLOOK**

No new projects were launched onto the market in 1H/2020. Future supply is likely to be significantly delayed due to the continued impact of COVID-19 and economic uncertainty.

Domestic retailers such as skincare and makeup collection stores, electronic products and new energy vehicles continued the expansion of their store networks in Q2/2020, with these segments recording respectable sales during the last five months or seeing a quick rebound as the city came out of lockdown. Growing online activities, such as remote working, increased demand for electronic devices, while livestreaming’s increasing popularity drove the expansion of emerging domestic cosmetics brands into offline markets after finding large online followings. Although new-energy vehicle showrooms account for a relatively small amount of the city’s total occupied space, the industry’s prospects have improved thanks to renewed policy support and consumer adoption. The segments relatively high rental affordability will mean many landlords are likely to seek them out as potential tenants.

With COVID-19 continuing to spread in many overseas markets and the abundance of travel restrictions and costlier flights limiting travel options, well-heeled outbound tourists have sought out domestic travel itineraries. At the same time, the continued recovery of the domestic economy and effective containment of local transmissions have boosted demand. As such, the window of opportunity for further significant rental discounts continue to narrow, though it may take time for occupancy rates to fully recover.

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**RENTS AND VACANCY RATES**

Overall shopping mall vacancy rates grew by 3.1 ppts in Q2/2020 to 11.6%. Prime retail area vacancy rates increased 2.2 ppts to 9.5%, and non-prime area vacancy rates increased 3.4 ppts to 12.1%. Xujiahui was the only submarket to buck the trend with rates falling 0.9 of a ppt QoQ.

First-floor rents fell 1.6% in Q2/2020 at an average of RMB26.5 per sq m per day as landlords adapted to the new business realities of a post-COVID-19 market.

**TABLE 1: Selected Leasing Transactions In Q2/2020**

<table>
<thead>
<tr>
<th>TENANT</th>
<th>CATEGORY</th>
<th>PROJECT</th>
<th>AREA</th>
<th>GLA (SQ M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loft</td>
<td>Home &amp; Lifestyle</td>
<td>Metro City</td>
<td>Xujiahui</td>
<td>1,000</td>
</tr>
<tr>
<td>Super Monkey</td>
<td>Leisure &amp; Entertainment</td>
<td>Changing Raffles City</td>
<td>Zhongshan Park</td>
<td>500</td>
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<tr>
<td>Sephora</td>
<td>Accessories</td>
<td>Jing’an Kerry Centre</td>
<td>Nanjing Rd (W)</td>
<td>350</td>
</tr>
<tr>
<td>Shake Shack</td>
<td>F&amp;B</td>
<td>Grand Gateway 66</td>
<td>Xujiahui</td>
<td>300</td>
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<tr>
<td>Mi</td>
<td>Electrical &amp; Electronics</td>
<td>Global Harbour</td>
<td>Caoyang</td>
<td>230</td>
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</tbody>
</table>

Source: Savills Research