

Retail



A flurry of projects opens before the national holidays

Rents show signs of stabilisation with prime area rents increasing after five consecutive quarters of declines.

- Retail sales grew by 18.3% YoY in the first eight months of 2023, with wholesale and retail up by 16.4% YoY and accommodation and F&B up by 44.8% YoY.
- Four new projects within the Outer Ring Road were launched in Q3/2023, adding a total GFA of 272,000 sqm.
- New projects included a range of specialized sports brands and tenants focused on youth trends and local culture.
- The citywide vacancy rate fell 0.4 ppt QoQ to 12.3%, down 0.4 ppt YoY. Prime retail area vacancy rates fell 0.9 ppt QoQ to 10.2%, while non-prime retail areas down 0.3 ppt QoQ to 12.8%.
- First-floor rents remained flat in Q3/2023 at an average of RMB25.8 psm pday, down 0.5% YoY.
- Children-related retail venues have seen a rebound in demand and subsequently have been spurring new demand in shopping malls.
- The withdrawal of anchor tenants as long-term leases expire and/or brands adjust store strategies, and test landlords' leasing ability.

- One shopping mall is expected to open in Q4/2023, adding 140,000 sqm of retail space to the market.

“The market is gradually improving with occupancy rates and rents slowly recovering. A more encouraging outlook is expected as the autumn and winter peak season approaches.”

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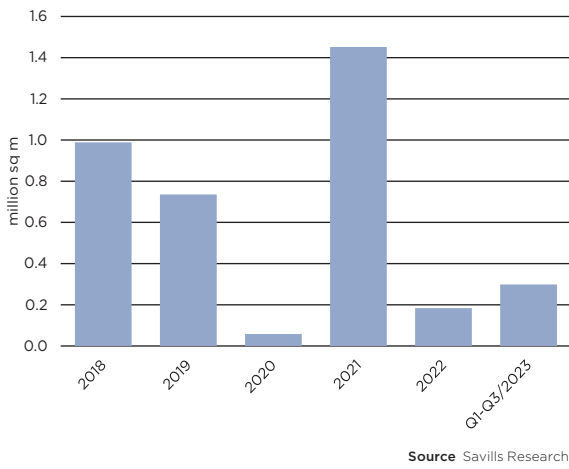
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GRAPH 1: Shopping Mall Supply Within The Outer Ring Road, 2018 To Q3/2023



SUPPLY AND DEMAND

Retail sales grew by 18.3% YoY in the first eight months of 2023. Wholesale & retail sectors were up by 16.4%, and accommodation & F&B up by 44.8% YoY.

Four new projects within the Outer Ring Road were launched in Q3/2023, adding a total GFA of 272,000 sqm. New projects included:

- Dream Gala, Minhang, 82,000 sqm
- Longhua Hui, Xuhui Riverside, 88,000 sqm
- T Centre Mall, Zhenru, 67,600 sqm
- L+ Plaza, Qiantan, 34,000 sqm

New projects included a range of specialized sports brands and tenants focused on youth trends and local culture. Longhua Hui introduced the first Zaidi Centre, a multi-brand retailer, showcasing a range of trendy and designer fashion brands with over 5,000 sqm of space. Longhua Hui also boasts traditional Chinese cultural blocks and exhibitions as well as Longhua Zen Food, offering more time-honored foods and products. T Centre Mall, meanwhile, introduces a one-stop sport-themed community featuring golf, surfing, table tennis and other specialist sports retailers. Dream Gala, on the other hand, appeals to families with its aquarium on the mall’s upper floors.

Children-related retail venues have seen a rebound in demand and subsequently supported new demand in shopping malls. Since the double reduction policy in 2021, operators have made significant changes to store networks and offerings. New locations focus on entertainment, such as family entertainment centres and children’s theatres, while education and training centres are now dominated by non-academic categories such as music, art, and sports. For example, Neobio opened a new store in Aegean Place, Popome in T Centre Mall, and Space Zoom Family Experience Centre in Gala Mall.

The withdrawal of anchor tenants (fast fashion flagship stores, gyms and

supermarkets) from several malls as long-term leases expire and/or brands adjust store strategies, are a test of the landlord’s leasing ability. Quality projects have been able to quickly replace tenants and even achieve rental increases, while other projects take longer to fill voids. Global Harbour replaced Vanguard with Ole while Cloud 9 replaced Carrefour with Freshippo Premier, the first of its kind. Other large anchor tenants that closed locations Carrefour, Tera Wellness and H&M have led to temporarily elevated vacancy rates in those projects.

RENTS AND VACANCY RATES

Citywide shopping mall vacancy rates fell 0.4 ppt in Q3/2023 to 12.3%, down 0.4 ppt YoY. Prime retail area vacancy rates fell 0.9 ppt QoQ to 10.2%, down 0.9 ppt YoY; and non-prime area vacancy rates fell 0.3 ppt QoQ to 12.8%, up 0.7% YoY. Several projects were launched without having leased all units to open before the Mid-Autumn / National Day to capture holiday sales. Nevertheless, the improvement in occupancy rates of most existing projects meant that the overall vacancy rate still declined.

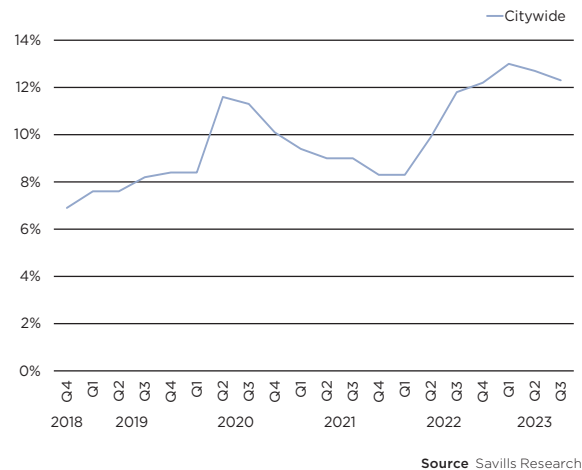
Citywide first-floor rents remained flat in Q3/2023 at an average of RMB25.8 psm pday, down 0.5% YoY. Prime area rents grew 0.1% to RMB49.6 psm pday, after five consecutive quarters of decreases, down 0.1% YoY; and non-prime area rents also kept flat at RMB16.0 psm pday, down 0.5% YoY respectively.

MARKET OUTLOOK

Only one new shopping mall is expected to open in Q4/2023. The 140,000 sqm Unimall Max is located in Zhenru, enhancing the overall retail atmosphere of the area. Bailian Xijiao Shopping Mall, meanwhile, is expected to finish renovation and re-open in Q4/2023.

The market has gradually improved with occupancy rates and rents slowly recovering. A more encouraging outlook is expected as the autumn and winter peak season approaches.

GRAPH 2: Citywide Vacancy Rate, Q4/2018 To Q3/2023



GRAPH 3: Citywide Rental Index, Q4/2018 To Q3/2023

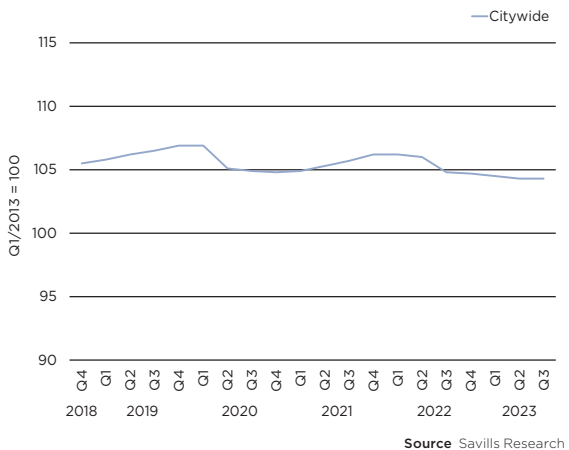


TABLE 1: Selected Leasing Transactions In Q3/2023

TENANT	CATEGORY	PROJECT	AREA	GLA (SQ M)
Ole	General Merchandise Store	Global Harbour	Caoyang	12,800
Neobio	Children-related Facilities	Aegean Place	Qibao	1,300
Uniqlo	Fashion	Hopson One	Wujiaochang	900
Honma	Sports & Outdoors	Hu Bin Dao	Huaihai Rd (M)	700

Source: Savills Research