

Retail



Brands experiment with in-store F&B offerings

New projects and evolving retail formats continue to shape the market.

- Retail sales fell 0.7% YoY in the first five months of 2024. The wholesale & retail sectors decreased by 0.5%, and accommodation & F&B sectors declined by 3.1% YoY.
- Only one new project within the Outer Ring Road was launched in Q2/2024, adding 98,000 sq m of new supply to the Shanghai retail market.
- The citywide vacancy rate increased by 0.1 ppt in Q2/2024, reaching 11.7%, but decreased by 1.0 ppt YoY. Prime retail area vacancy rates declined by 0.2 ppt QoQ to 9.4%, while non-prime retail areas saw a 0.1 ppt QoQ rise to 12.2%.
- First-floor rents fell by 0.6% in Q2/2024 to an average of RMB25.7 psm pday, down 0.7% YoY.
- With the arrival of the summer holidays, the newly leased area for children-related services has shown steady growth, and the demand for education and training has rebounded.
- Brands are extending consumers' dwell time or enhancing revenue efficiency through various store-in-store formats or by directly entering other brand spaces.
- Seven shopping malls are slated to open in 2H/2024, collectively adding 645,000 sqm of retail space.

“Footfall numbers continue to improve, but expenditure and retailers' confidence is lagging.”

JAMES MACDONALD, SAVILLS RESEARCH

Savills team

Please contact us for further information

RESEARCH

James Macdonald
Senior Director
China
+8621 6391 6688
james.macdonald@savills.com.cn

RETAIL

Aileen Zhong
Senior Director
Shanghai
+8621 6391 6688
aileen.zhong@savills.com.cn

Joey Chio
Senior Director
Shanghai
+8621 6391 6688
joey.chio@savills.com.cn

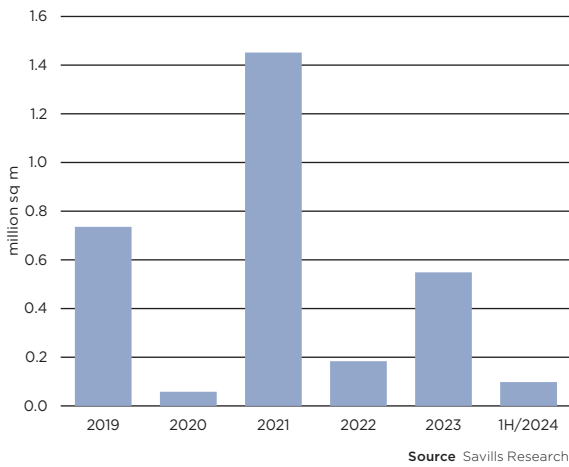
Elaine Chan
Senior Director
Shanghai
+8621 6391 6688
elaine.chan@savills.com.cn

STRATEGIC ADVISORY SERVICES

Nicky Zhu
Senior Director
Shanghai
+8621 6391 6688
nicky.zhu@savills.com.cn

Savills plc
Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 600 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.

GRAPH 1: Shopping Mall Supply Within The Outer Ring Road, 2019 To 1H/2024



SUPPLY AND DEMAND

Retail sales fell 0.7% YoY in the first five months of 2024, largely due to the base effect with the first few months of 2023 recording strong growth as the country emerged from COVID-19 restrictions. The wholesale and retail sectors fell by 0.5%, and the accommodation and F&B sectors fell by 3.1% YoY. However, monthly retail sales returned to growth in May after three consecutive months of YoY declines.

Only one new project within the Outer Ring Road was launched in Q2/2024: the 98,000 sqm Xuhui Vanke Plaza, located at Shanghai South Railway Station. The project includes a large green area and has incorporated many sports brands, including skateboarding, squash, rock climbing, and camping, while promoting communities through events and activities. Described by some as a Park Oriented Development (POD), the scheme also promotes sustainability through specialist stores such as the Xianyu Recycle Shop and Vesta Deli & Squash.

With the summer holidays around the corner, the newly leased area for children-related services has shown steady growth. In addition to indoor amusement parks, theatres, sports venues, and other entertainment spaces with stable rental demand, the demand for education and training has rebounded. Key players such as Only Education have entered CapitaMall Hongkou and One East, and New Oriental has opened stores in Raffles City Changning and CapitaMall Hongkou. Retailers targeting youth subcultures, such as ACG (anime, comics, and games), have also attracted significant footfall and market attention. In addition to many store openings in existing malls, the second quarter also saw plans to renovate Umax Life Plaza in Wujiaochang into an ACG-themed shopping mall.

Brands are extending consumers' dwell time or enhancing revenue efficiency through various store-in-store formats or by directly entering other brand spaces. Diverse categories, such as coffee shops, florists, bookstores, and sports venues, continue to generate fresh buzz for brands. For example, the luxury men's fashion brand Zegna

opened its first Zegna Caffè in HKRI Taikoo Hui. Trendy brands including Goodbai, D.Desirable, and 13 De Marzo opened coffee shops in their stores in the Hengshan-Fuxing retail area.

RENTS AND VACANCY RATES

The citywide vacancy rate increased by 0.1 ppt in Q2/2024, reaching 11.7%, but fell 1.0 ppt YoY. Prime retail area vacancy rates fell by 0.2 ppt QoQ to 9.4%, down 1.7 ppts YoY, while non-prime retail areas saw a 0.1 ppt QoQ rise to 12.2%, down 0.9 ppt YoY. Demand was uneven, but more than 70% of retail areas experienced footfall growth exceeding 15% YoY in June. Meanwhile, key tourist areas such as Nanjing Rd (E), Wujiaochang, HTH, and Expo saw footfall increases of over 30% YoY.

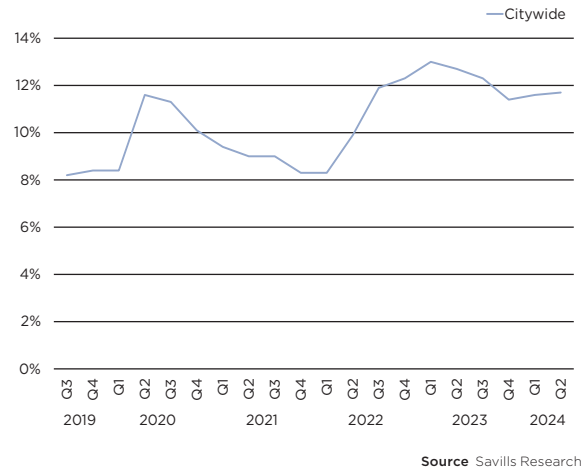
First-floor rents fell by 0.6% in Q2/2024 to an average of RMB25.7 psm pday, down 0.7% YoY. Prime and non-prime area rents fell by 0.5% and 0.6% QoQ, and by 0.4% and 0.7% YoY, respectively. Although some brands are still looking for new locations, overall expansion demand is soft. Meanwhile, landlords continue to offer preferential rental terms to brands to maintain best-in-class tenants, especially in first-floor locations.

MARKET OUTLOOK

Seven shopping malls are slated to open in 2H/2024, collectively adding 645,000 sqm of retail space. These include Livat, AIA Financial Centre, and Huamu Time Edition. The market will be closely observing how these small to mid-size projects fare compared to more established projects.

Existing projects continue to see moderate improvement in occupancy rates, but soon-to-complete projects face significant leasing challenges, with retailers reticent to take a risk on a new location in the current environment unless the developer/operator has a strong track record. Consequently, the vacancy rate is expected to remain high for the rest of the year. Economic fundamentals and consumer confidence need to recover further before retailers ramp up expansion plans. Until vacancy rates fall further, the market will remain favourable to tenants, with short-term rental performance expected to remain weak.

GRAPH 2: Citywide Vacancy Rate, Q3/2019 To Q2/2024



GRAPH 3: Citywide Rental Index, Q3/2019 To Q2/2024

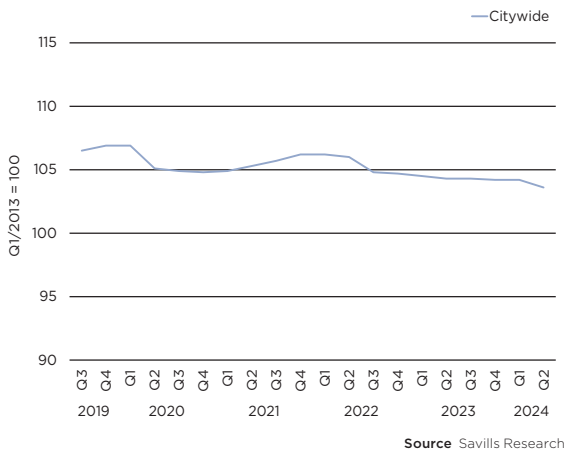


TABLE 1: Selected Leasing Transactions In Q2/2024

TENANT	CATEGORY	PROJECT	AREA	GLA (SQ M)
Popome+	Children-related Services	Global Harbour	Caoyang	2,900
Decathlon	Sports & Outdoors	Hall of the Moon	Ruihong	2,500
Nitori	Home & Lifestyle	Longhua Hui	Xuhui Riverside	930
Hugo Boss	Fashion	Jing'an Kerry Centre	Nanjing Rd (W)	900

Source: Savills Research