

“The eastern stretch of Nanjing Road (E) sees the introduction of a number of trendy mid-end retailers raising the profile of the street and bringing it further in line with Shanghai’s other retail areas.”



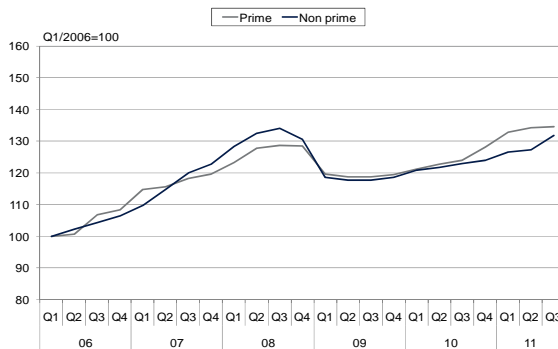
Image: Kerry Parkside, Century Park of Pudong district

- Average first-floor shopping mall rents in prime areas increased by 0.3% quarter-on-quarter to an average of RMB39.9 per sq m per day.
- Three new shopping malls were launched in the third quarter, bringing a total of 164,900 sq m of supply to the market.
- A number of projects in secondary areas performed especially well in the third quarter, helping to bring non-prime average rents up 3.7%.
- Several fast-fashion brands enter the eastern end of Nanjing Road (E) Pedestrian Street for the first time.
- Prime shopping malls vacancy rates increased by 0.2 of a percentage point quarter-on-quarter to 2.8%.

Market overview

Average retail rents maintained their upward momentum in the third quarter, increasing 1.5% quarter-on-quarter. The strong performance of a number of projects in secondary areas helped to push up average rents in non-prime areas.

Retail rental index, Q1/2006–Q3/2011



Source: Savills Research & Consultancy

Prime retail properties saw little change in rents in the third quarter as the market consolidated the increases recorded over the last year, with average rents increasing just 0.3%. By the end of the third quarter, prime rents had increased by 5.0% year-to-date. The vast majority of prime projects recorded few changes to the tenant mix of their first and second floors, with the exception of Grand Gateway which continues to raise the positioning of the project.

More changes were recorded in the secondary retail areas where young and trendy brands continued to expand aggressively. Greater demand for projects in these locations helped to push up average rents by 3.7% in the third quarter in non-prime retail locations

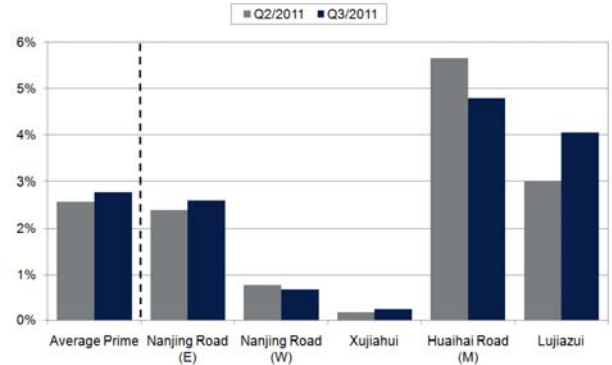
Rent ranges for main retail areas, Q3/2011

Area	Shopping Mall*	Street Shop
	(RMB per sq m per day)	
Xujiahui	45–65	30–40
Huaihai Road (M)	25–60	25–50
Nanjing Road (W)	55–70	40–60
Nanjing Road (E)	45–65	40–80
Lujiazui	25–45	25–35

Source: Savills Research & Consultancy

* Refers to achievable rents for 100-150 sq m typical first floor retail units leased to a fashion retailer

Prime vacancy rates by area, Q2/2011 vs Q3/2011



Source: Savills Research & Consultancy

The average vacancy rate in prime areas increased by 0.2 of a percentage point to 2.8% by end of the third quarter.

The Huaihai Road (M) vacancy rate continued to fall in the third quarter to 4.8%, its lowest level for two years. All projects recorded increased occupancy rates apart from Shanghai Central Plaza, which is preparing to reposition itself in line with its new surroundings.

Selected leasing transactions, Q3/2011

Tenant	Trade	Project	Location	GLA (sq m)
The Grandma's	F&B	China Resources Times Square	Lujiazui - Zhangyuan Road	1,400
Zara	Fashion	Hongkou Plaza	Sichuan Road (N)	1,000
Hollister	Fashion	Raffles City	People's Square	900
Gap	Fashion	Hongyi Plaza	Nanjing Road (E)	800
Rubis	Beauty service	Shanghai Central Plaza	Huaihai Road (M)	250

Source: Savills Research & Consultancy

Prime market – Nanjing Road (E)

Nanjing Road (E) has witnessed the biggest change in terms of positioning and retail mix in 2011 out of all the prime locations. While the majority of large fashion flagship stores are still domestic brands, such as Meters Bonwe, Li Ning and Bosideng, a number of foreign brands are muscling-in on their territory, especially along the eastern stretch of the pedestrian street. In Q3, Hollister took around 900 sq m of space in both Raffles City and Plaza 353, while Gap, Moussy, Apple and Forever 21 all plan to open stores along the road in the near future.

As the most famous address in Shanghai, especially for Chinese shoppers, Nanjing Road (E) enjoys high footfall every day. The introduction of more international brands is expected to further intensify the competition between retailers for street-front stores. Landlords, however, are still faced with the problem of how to get shoppers off the streets, into their malls and up to the upper floors when footfall drops off so quickly.

Prime market – Xujiahui

Grand Gateway, now named Grand Gateway 66, revised its tenant mix in the third quarter. Agnes b and DKNY were moved to the second floor from the first floor, with their original units being replaced by Vivienne Westwood and Loewe. Other new tenants on the second floor include David Mayer Naman, Spige and Ilaria.

According to Hang Lung's 2010/2011 annual report, Grand Gateway 66's rental income increased 13% year-on-year. Considering the continued adjustment of Grand Gateway 66's tenant mix to keep in line with the latest consumer trends, it is believed another significant rental increase could be expected for 2011, above the market average.

Prime market – Nanjing Road (W)

Jing'an Kerry Center kicked-off pre-leasing activities in the third quarter and has so far been well received by the market. The 86,000-sq m project is located on Nanjing Road (W), near Jing'an Temple, and has three towers connected by an overhead walkway. While asking rents are some of the highest in the city the project's prime location, reputable developer and the limited new supply in the area over the last two years have all managed to attract a wide range of retailers.

Emerging market – Century Park

haveKerry Parkside, a 45,000-sq m shopping mall, was launched onto the market in the third quarter. Across the road, construction of another shopping mall, Himalayas Center, has also recently been completed and the project is now carrying out leasing activities. Both projects direct access to Huamu Road Metro Station on Metro Line 7.

Kerry Parkside is positioned to target mid- to high-income families and the surrounding working population. The Shanghai New International Expo Center, located in close proximity to these projects, is also expected to bring considerable footfall to the shopping malls. The projects also provide a shuttle bus service for six key areas in Pudong, including Century Avenue Metro Station, the Lianyang community and Century Park.

Current tenants of Kerry Parkside include Ole, Gap, H&M, Muji and South Beauty.

Pudong metro map, 2020



Source: Savills Research & Consultancy

Shanghai's municipal government has, for over ten years, identified four major business sub-centres in Shanghai, one of which is Century Park. This is supported by the planned junction of four metro lines along with the city's Maglev Line at Longyang Road Metro Station, making it probably Shanghai's biggest MRT interchange.

Currently, the area remains relatively undeveloped with close to 500,000 sq m of land directly to the south of the station waiting to be developed.

Project focus

Parkside Plaza



Located to the west of Changfeng Park, Parkside Plaza is positioned as a one-stop leisure retail centre for residents in the west of Shanghai, as well as the office staff in the nearby Changfeng office park.

Parkside Plaza map



Source: Savills Research & Consultancy

The project is located approximately 800 m from Metro Line 13, which is scheduled to open in 2012 and interchange with Metro Line 15 in the future. Its large scale enables it to include a rich and varied number of retailers. Supermarkets and F&B outlets are the two main tenant categories, accounting for approximately 50% of the total.

While Changfeng is still an emerging area with a lot of development to come, retailers seem cautiously optimistic about the area's future, considering its close proximity to Hongqiao (five minutes by car) and the confidence of a number of high-end developers such as China Overseas and Guoco Land.

The project is expected to open in Q4/2011. Signed tenants are reported to include Tesco, H&M and Huayi Brothers Cinema.

Location:	Changfeng, Putuo district
Owner:	Grosvenor, Vega Wharlock
Retail GFA:	126,000 sq m
No. of storeys:	6 (B1-L5)
Estimated opening:	Q4/2011

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