

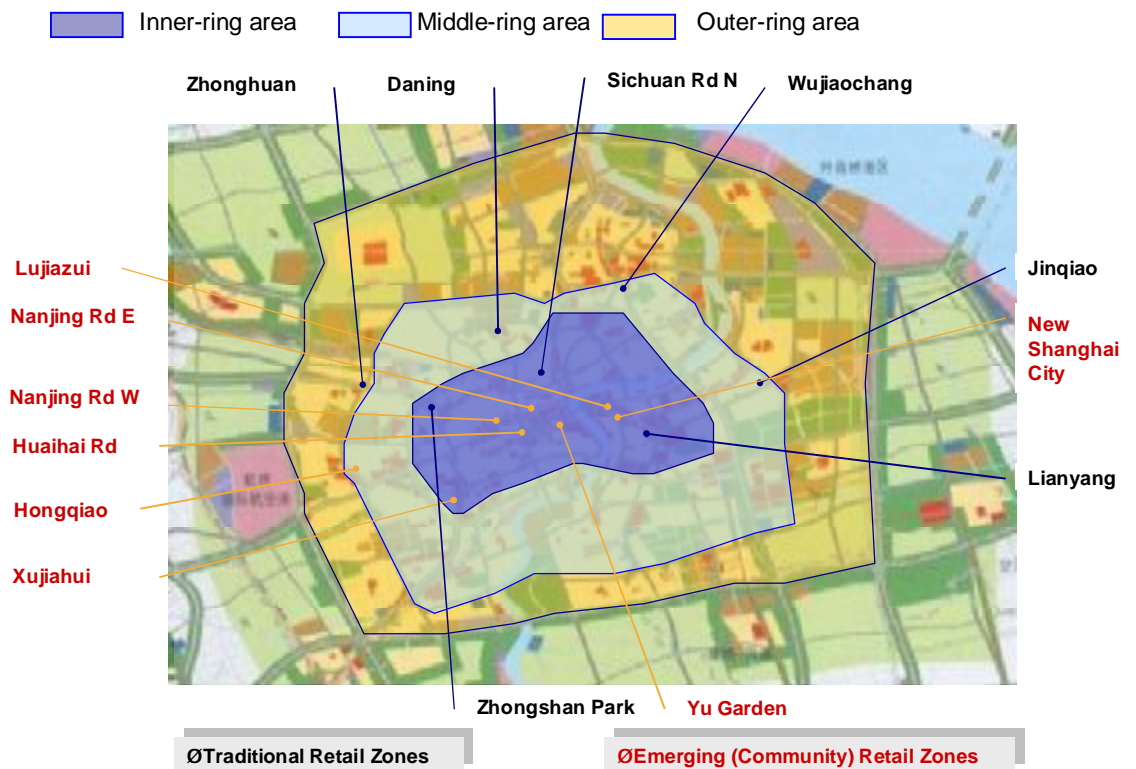


## Part II. Shanghai Retail Property Market: An Analysis on Market Fundamentals of Different Retail Zones<sup>1</sup> (Jun 2009)

### 1. Major Shanghai Retail Catchment

The evolving development of Shanghai's retail market has culminated in clearer delineation between traditional retail zones and emerging retail zones<sup>2</sup>. This article analyses the development potential of prime retail properties<sup>3</sup> in different retail zones.

Graph 1 Major retail catchment in Shanghai



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<sup>1</sup> This article constitutes Part II of the retail market series which analyses factors affecting retail property performance across different districts. Part I of the series analyses Shanghai's retail market fundamentals from macro perspectives.

<sup>2</sup> The traditional areas refer to East and West Nanjing Road, Yu Garden, Huaihai Road, Lujiazui and Hongqiao; the emerging areas refer to the other new commercial hubs, such as Daning and Wujiaochang etc.

<sup>3</sup> Prime retail properties refer mainly to shopping centres, including shopping malls, shopping podiums and all retail complexes with F&B, retailing and entertainment, and with GFA ≥ 15,000 sq m. Department stores are not included.

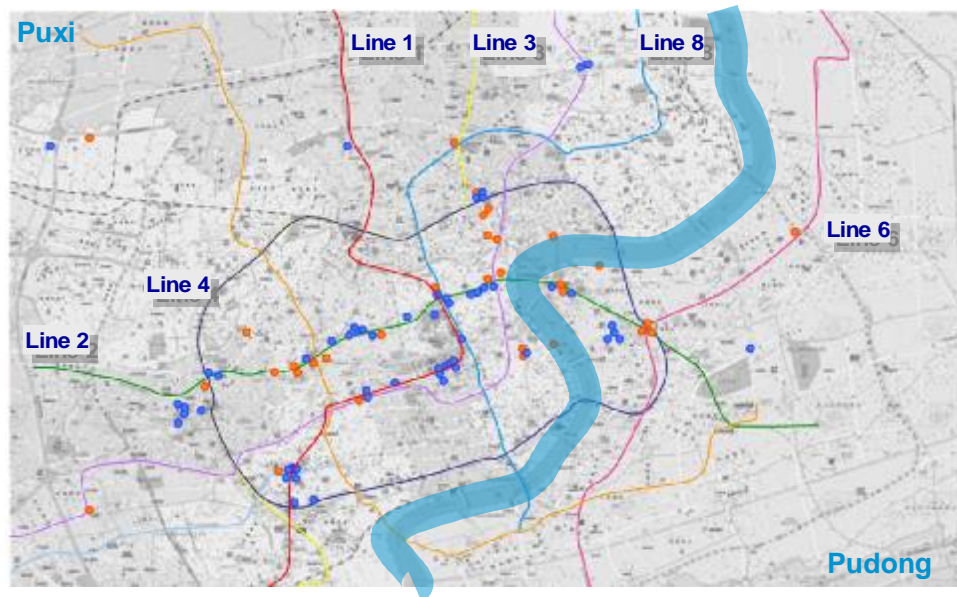


## 2. Spatial Distribution of Major Retail Zones

The spatial distribution of retail properties is highly related to accessibility. Huff Model <sup>4</sup> indicates that **consumption propensity is directly proportional to the size of retail space, but inversely proportional to the square of distance**. It is not difficult to understand that the clustering of more shopping space in a certain area helps to attract more consumers, and consumers will avoid long travelling time for shopping.

Relevant consumer survey on downtown shopping centers also suggests that metro is the major mode of transport for consumers in Shanghai. However, while the metro lines help to shorten traveling time of the consumers, and thus induce more consumers to a shopping center, there may also be diversion effect due to competition from other shopping centers along the metro lines. The expansion of the metro network therefore will pose both opportunities and challenges to the existing shopping centers.

Graph 2 Metro lines and shopping centres in Shanghai<sup>5</sup>



● Current stock    ● Future supply

## 3. Adequate New Supply in Traditional Retail Zones

Current information suggests that more high-end shopping space would come along with the erection of more new Grade A office buildings in the west end of Nanjing Road West, which further reinforces the image of

<sup>4</sup> Huff Model was raised by Professor David.L.Huff in 1963 to forecast the scale of certain retail catchment, improved by Japanese researcher further.

<sup>5</sup> Currently Line 1-4, 6 and 8 are in operation within the graph indicating area

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Nanjing Road West as an upper-class shopping area. In Pudong, the completion of retail facilities in IFC II and Metropolis will change the retail landscape in Lujiazui and Century Park area. Revamping and upgrading of the New Railway Station area and Sichuan Rd. North area will also bring along new supply.

**Table 1 Major future supply in the next 3 years**

Retail Catchment	Future supply during 2009-2011	Retail GFA (sq m)	
New Railway Station	Kerry Everbright City Phase III 嘉里不夜城3期	15,000	
	May Flower Plaza 五月花广场	30,000	
	Citic Pacific Projec 中信泰富项目	60,000	
Sichuan Rd.North	Jiajie International Plaza 嘉杰国际广场	15,800	
	Shanghai 108 Plaza 上海108广场	22,000	
	Shanghai Rose Shopping Plaza 玫瑰广场	27,900	
	Park Place 越洋广场	40,000	
Nanjing Rd. West	Ivy (818) Building 长春藤 (818) 大厦	20,700	
	Wheelock Plaza 会德丰广场	10,000	
	Kerry Center Phase II 嘉里中心二期	63,000	
	Lujiazui	IFC II 国际金融中心二期	97,500
	Zhuyuan	Metropolis 世纪大都会	100,000
<b>Total</b>		<b>501,900</b>	

Source: Colliers International Shanghai (CIS) Research

#### 4. Homogeneity and Competition

Industry research shows that Shanghai's core retail zones possess a very extensive catchment up to a 8-km radius. As such, the close proximity of several large shopping centers within a core retail zone, coupled with the overlapping of catchment of different core retail zones, has intensified competition among the retail operators.

In contrast, the sparse geographical area in sub-urban districts has helped minimize overlapping of the catchment of shopping centers in emerging

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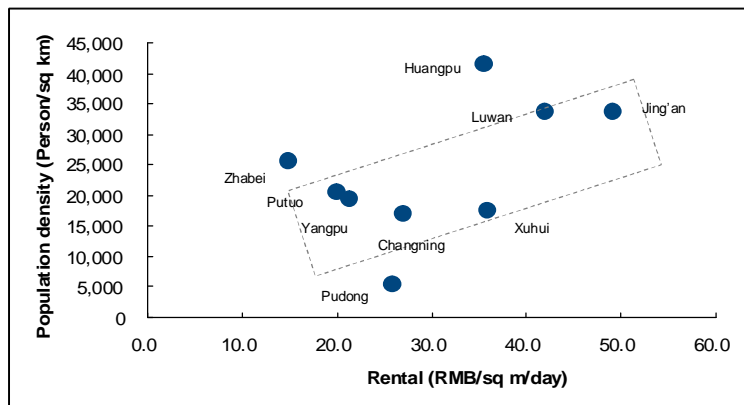


districts. In addition, these shopping centers are well-supported by favourable demographics amidst continuous decentralization of population from the city center to emerging districts. Against this background, shopping centers in emerging retail zones face less competition.

In view of the large new supply coming on stream, which retail zones have larger potential to outperform their peers? We put the relationships of population, population density and resident income with rental performance of shopping centers in perspective.

Graph 3 below demonstrates that in general, **retail rent in a district shows positive linear relationship with its population density**. However, partly due to the lack of high-quality retail facilities, Pudong achieved a comparatively high rent despite its low population density. This is probably due to limited supply of good-quality shopping centers in the district against the strong demand from local residents, most of them belong to the middle-income group. This suggests larger potential for new high-end retail facilities in Pudong. The low rent level in Zhabei against a high population density suggests that rent level could elevate in due course along with more mature operations of the retailers. Similarly, the relatively low average rent of retail facilities in Huangpu is constrained by some agingly retail outlets in the district, which implies the need for renovation and upgrading.

**Graph 3 Population density and rents of shopping centres**



Source: Colliers International Shanghai (CIS) Research

From the income perspective, the analysis shows no apparent statistical correlation between retail rent and income level of residents in a district. It is thus apparent that retail rent is more determined by population density than income level.

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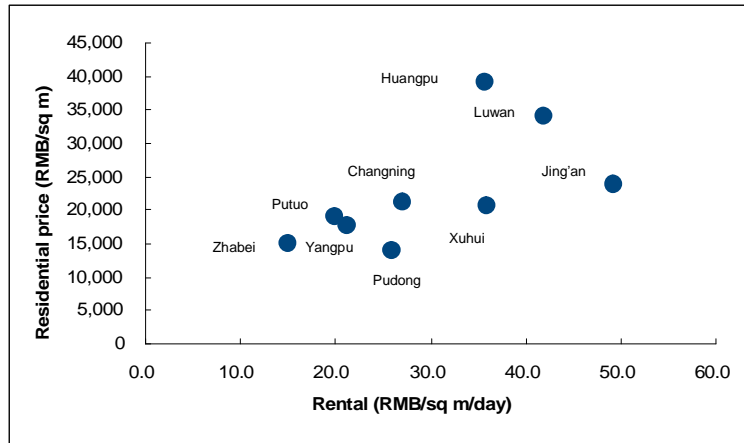
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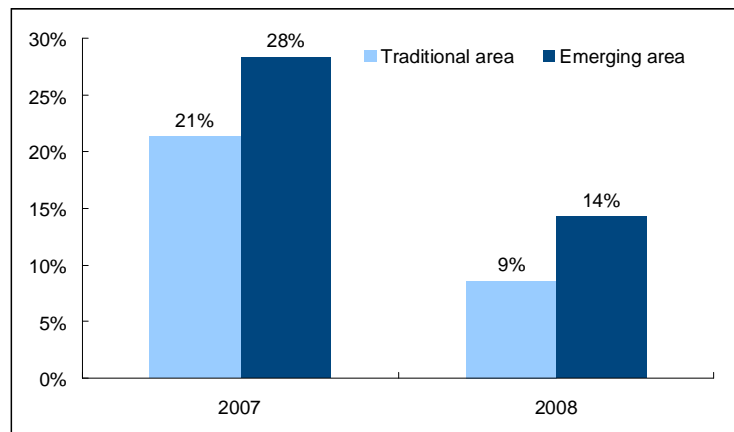
**Graph 4 Resident income and rent of shopping centres**



Source: Colliers International Shanghai (CIS) Research

In fact, shopping centers in emerging retail zones, such as Daning in Zhabei and Zhonghuan in Putuo, have outperformed their peers in traditional zones in terms of faster rental growth.

**Graph 5 Rental growth in different zones**



Source: Colliers International Shanghai (CIS) Research

## 5. Market Opportunity

Steady consumption growth together with expansion demand from both domestic and international brands, as well as existing brands with bigger space concept will be the key drivers underpinning demand for retail properties. However, performance of shopping centres will diverge across different locations.

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**Retail operators in traditional areas are projected to see more remarkable performance.** After the financial crisis, **some operators refrain from expansion in outskirts areas to reduce risk but maintain footholds in downtown CBDs.** The Expo is also seen as additional incentive for retailers to stay in the city centre. Underpinned by the above factors, rent can be maintained at a higher level and continue to grow in tandem with economic growth. Nonetheless, the highly concentrated and clustering of several large shopping centers also see intense competition among the retail operators.

**New retail projects located in the vicinity of the traditional retail zones** (such as New Railway Station and Sichuan Rd. North), albeit with large population density and strong people flow, **would face intense competition from retail facilities in the traditional retail zones.** In this regard, **the new projects, especially during their initial stage of operation, should identify the market gap complementary to those projects in the city center to avoid direct competition with the latter.**

**The good demographic fundamentals, as well as considerable geographical distance among different retail zones in emerging districts and hence little competition, would be advantageous to new retail projects in emerging districts.** These retail projects, such as those in Wujiaochang, Daning and Zhonghuan, should be able to fill the gap to cater for community need of residents. In the coming few years, as urban development and the metro network stretch farther from the city centre, more opportunities for retail property are to be discovered in these emerging retail zones.

**Table 2 Opportunities and threats of different retail zones**

	Opportunities	Threats
<b>Traditional retail zones</b>	Operators prefer securing footholds in prime CBD than expanding to outskirts areas to reduce risk	Highly concentrated and clustering of large shopping centers see intense competition among retail operators
	2010 EXPO	
<b>Peripheral of traditional retail zones</b>	Identify market gap complementary to projects in the city center	Extensive catchment of large shopping centers in traditional retail zones diverts some consumers originated within the local precinct
<b>Retail properties in emerging districts</b>	Good demographic fundamentals supports consumption	Hinge more on consumer spending by local residents and thus their income growth
	Considerable distance between major shopping centers of emerging districts minimizes competition	
	Urban development and metro network stretches farther afield bring along more opportunities	

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## Note: Part I Highlights

*Given the strong market fundamentals, the relapse in consumption growth, if any, will only be a “blip”, and will not alter the long-term growth trend in retail sales.*

*The constraint on consumption is not on income, in our view, but on consumer confidence and propensity. Once consumer confidence recovers, the steady income growth will warrant a full-fledged recovery in consumption, and good quality retail facilities would stimulate propensity of consumers.*

*Rental affordability is well supported by the strong retail sales, we believe competition will be more on quality than on prices. Those shopping malls with proper market positioning catering for the need of their catchment should be able to uphold rental.*

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