

CONTINUED RENTAL CORRECTIONS WITH NON-PRIME NEW SUPPLY

East China Retail Market Update H2 2018

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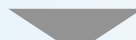





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Summary & Recommendations

In H2 2018, driven by personal income tax cut, integration of online and offline retailing, and retailers' transformation, we foresee that the market demand for retail space will stay firm over 2019-2023. We think average rent will be pulled down by a wave of supply in non-prime areas in 2019-2020, but should then grow steadily in 2021-2023.

We recommend that:

- > To win competition from heavy new supply in 2019, landlords need to retain customers by attracting experiential retailers and updating brand mixes regularly.
- > Retailers in East China retail markets seeking to expand their presence significantly can take action in 2019, as new projects are concentrated in non-prime areas.

	H2 2018	Full Year 2019	2018-23 Annual Average
 Demand <ul style="list-style-type: none"> > On back of personal income tax cut and retailers' transformation, we expect retail demand to remain firm over 2019-2023. 	 1.30 million sq m	 2.76 million sq m	 1.53 million sq m
 Supply <ul style="list-style-type: none"> > Mostly located in non-prime areas, about 7.7 million sq metres (82.9 million sq feet) of new supply is scheduled to come online in major East China markets over 2019-2023, and over one-third of it is likely to be completed in 2019. 	 1.26 million sq m	 3.50 million sq m	 1.59 million sq m
	HOH / End H2	YOY / End 2019	Annual Average Growth 2018-23 / End 2023
 Rent <ul style="list-style-type: none"> > Average rents should decline in 2019 with the influx of heavy new supply. Hangzhou should see a recovery after 2019, but Shanghai and Nanjing will likely keep declining as the volume of new supply stays high until the end of 2020. 	 -0.5% RMB25.2 (psm per day)	 -2.7% RMB24.5 (psm per day)	 -0.2% RMB25.0 (psm per day)
 Vacancy <ul style="list-style-type: none"> > The vacancy rate in Nanjing should decline in 2019, while Shanghai and Hangzhou should edge up under heavy supply. We expect the limited new supply to reduce the vacancy rate of East China markets over 2020-2023. 	 -0.9pps 5.8%	 3.1pps 8.9%	 0.2pps 6.9%

Source: Colliers International

Note: The indicator within above sectors refer to the East China Cities of Shanghai-Hangzhou-Nanjing as a whole, not to any particular market in the region

USD1 to RMB6.86 as of end-2018. 1 sq m = 10.76 sq ft

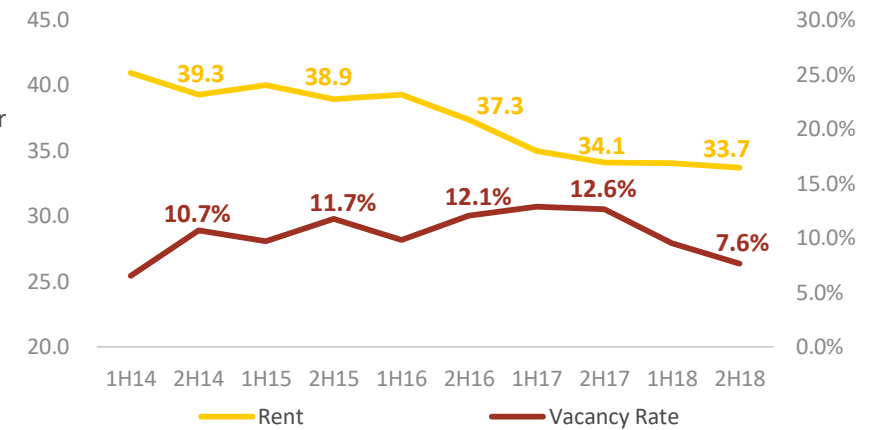
SHANGHAI REVIEW AND OUTLOOK



In H2 2018, experience-oriented stores continued supporting market demand for Shanghai’s retail to stay healthy. New attractions like an indoor zoo were introduced to shopping centres, e.g. JOLI ZOO in Paradise Walk. Despite seven new projects (LuOne, Shimao Festival City, LCM, L+ Mall, Xintiandi Plaza, POPC and CITIC Pacific Wanda Plaza) totaling 743,000 sq metres (7.99 million sq feet) lifting the city’s stock by 11.0%, the vacancy rate declined to 7.6%, which is the lowest level in the past three years.

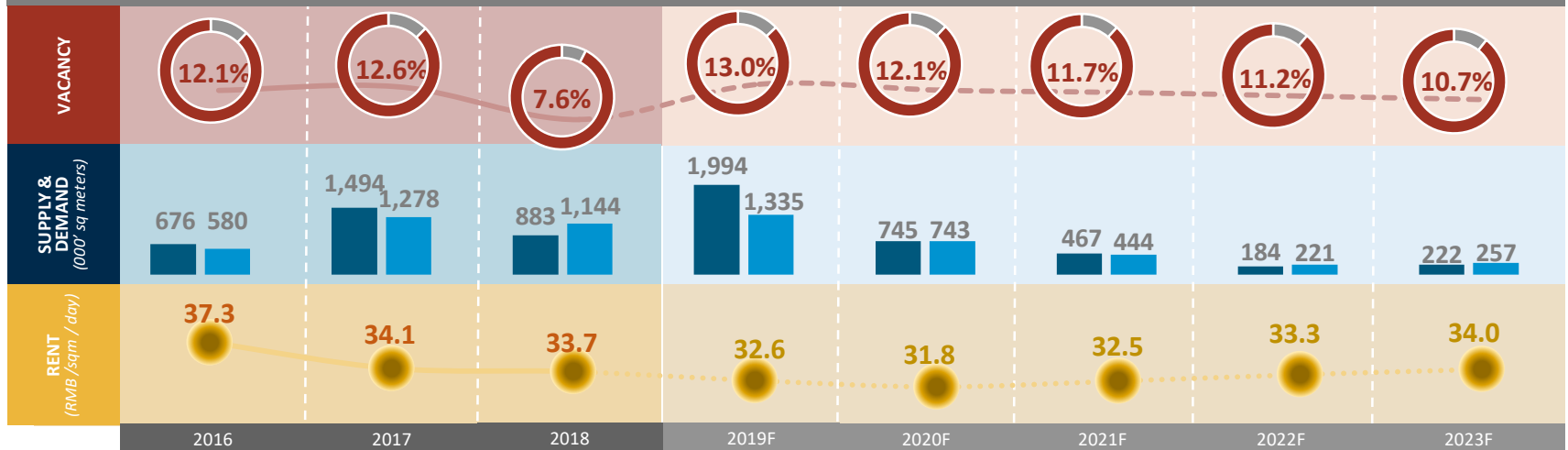
Driven by personal income tax cut, combination of online and offline retailing, and retailers’ transformation, supply pressure should be eased over 2019-2023. Although the city’s average rents should have a moderate correction over 2019-2020, as most of the new projects are located in non-prime areas, rents should then grow steadily over 2021-2023 as supply eases amid firm demand.

Figure 1: Shanghai Retail Property Market Average Rent and Vacancy Rate (2014-2018) (RMB per sq metre per day)



Source: Colliers International

Figure 2: Shanghai Retail Property Market Outlook (2016-2023F)



Source: Colliers International

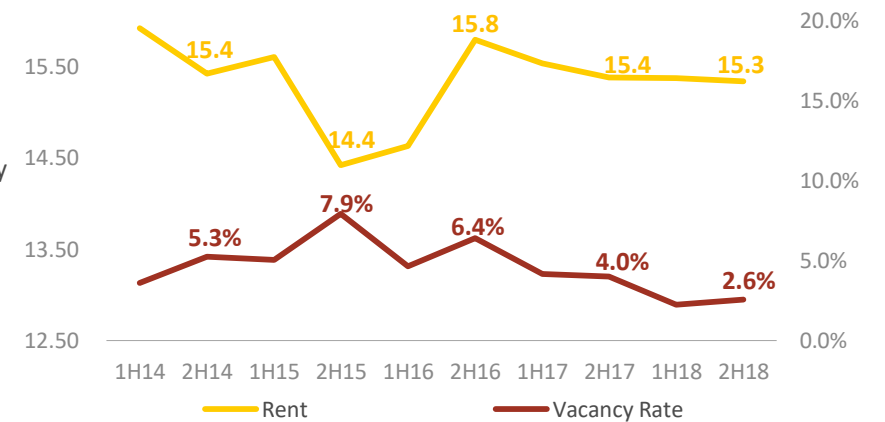
HANGZHOU REVIEW AND OUTLOOK



In H2 2018, market demand for retail space remained robust in Hangzhou. Notably, online retailers and the electric car sector expanded in shopping malls. The city's vacancy dropped to 2.6% despite four new completions (77-Zone E, Joy City, Huanglong Vanke K-Lab and In City PH2). Although the vacancy rate hit a historical low, the two out of four new projects in non-prime areas pulled down the city's rent slightly by 0.2% hoh.

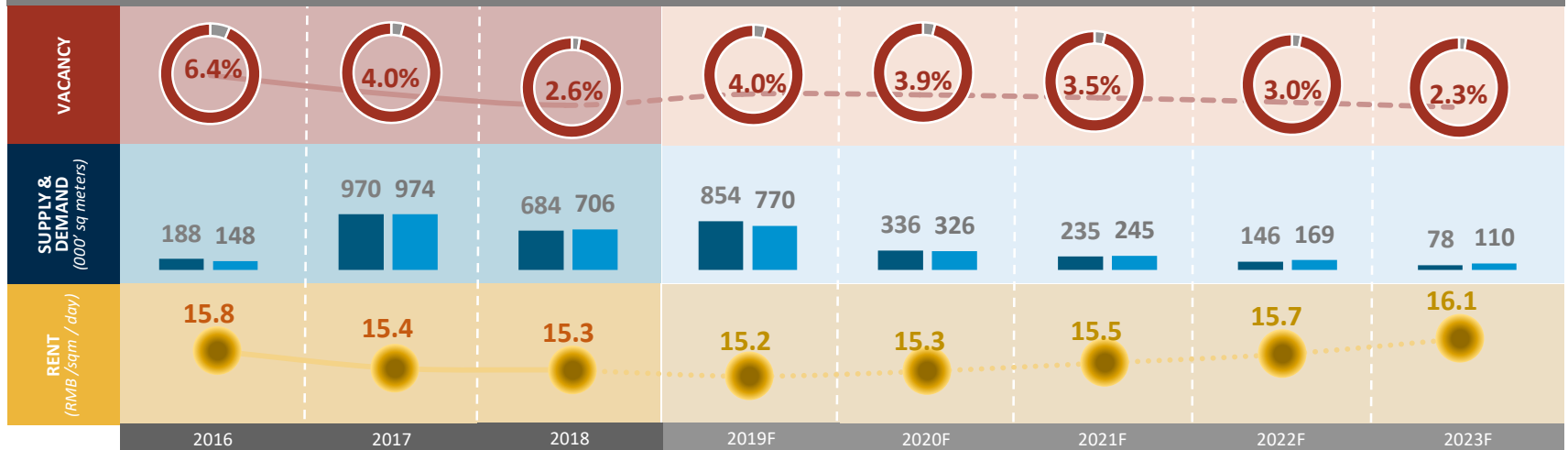
Favorable factors such as personal income tax cut and retailers' transformation and new positioning should alleviate supply pressure, resulting in a low vacancy rate over 2019-2023. However, the average rent is likely to be pulled down by 0.9% yoy in 2019, as seven out of nine new projects are located in non-prime areas. Rent should then show steady growth during 2020-2023.

Figure 3: Hangzhou Retail Property Market Average Rent and Vacancy Rate (2014-2018) (RMB per sq metre per day)



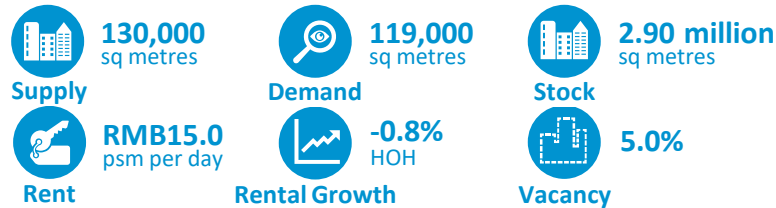
Source: Colliers International

Figure 4: Hangzhou Retail Property Market Outlook (2016-2023F)



Source: Colliers International

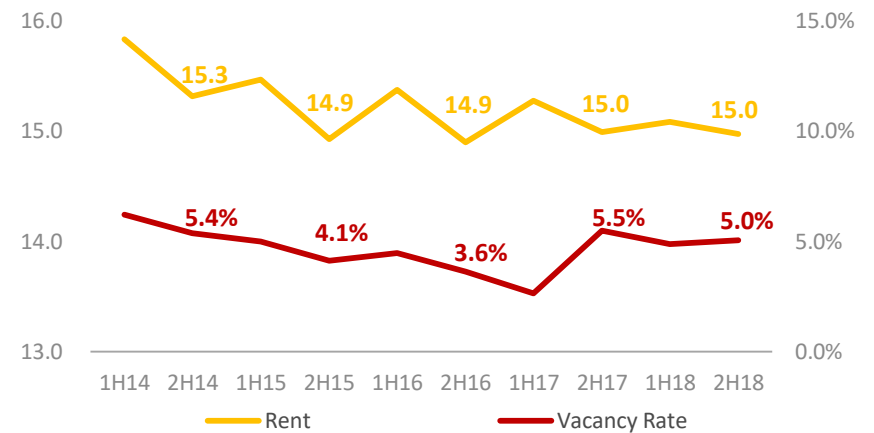
NANJING REVIEW AND OUTLOOK



Experiential retailers stayed strong and traditional retailers are turning to be more experience-oriented. Experiential brand mixes also became more diversified. For example, Pandora opened its first cafe in mainland China at Nanjing’s GE World Mall in November. Two new projects, Yanziji and 52+ Mall, were launched in H2 2018. Due to their below-average rental rate, the average ground floor rent decreased by 0.8% hoh to RMB15.0 (USD2.2) psm per day. Excluding the effect of new supply, the overall rent edged up by 1.0% hoh.

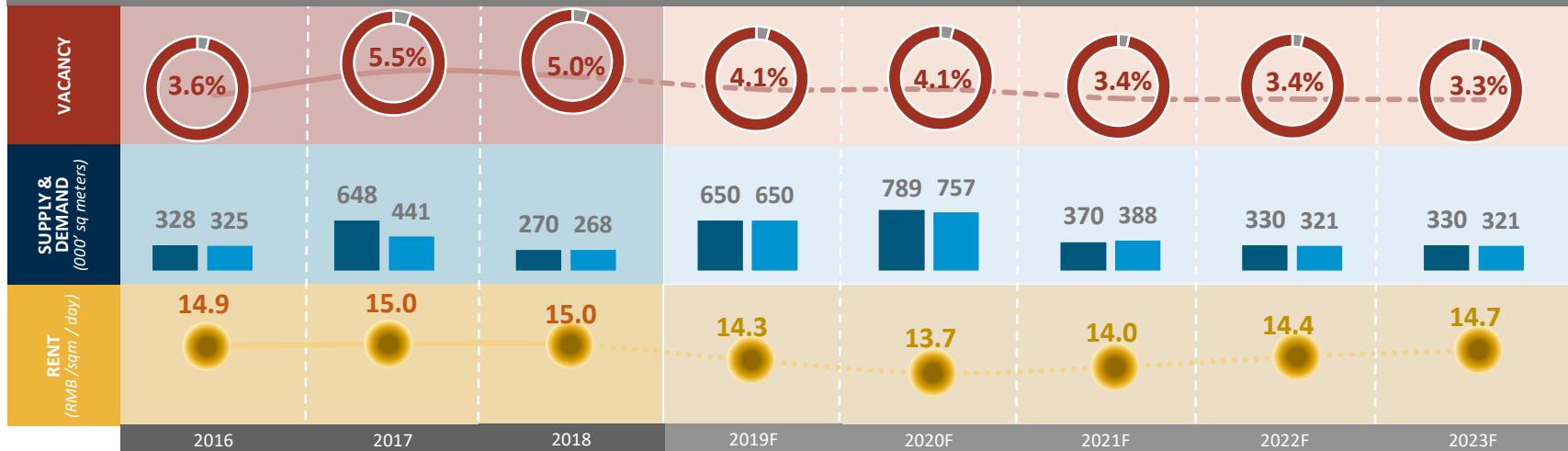
Although new supply should remain heavy over 2019 and 2020, robust demand should persist, resulting in a decreased vacancy rate. Rental rates, however, should see a mild decline during the period due to the new supply in the non-prime areas, but should start to rise over 2020-2023 when the volume of new supply starts to ease.

Figure 5: Nanjing Retail Property Market Average Rent and Vacancy Rate (2014-2018) (RMB per sq metre per day)



Source: Colliers International

Figure 6: Nanjing Retail Property Market Outlook (2016-2023F)



Source: Colliers International

INVESTMENT MARKET

Shanghai

The investment market for Shanghai retail properties remained strong during H2 2018, with six en-bloc transactions recorded, covering a total of 680,000 sq metres (7.3 million sq feet) according to Colliers International. The deals included Capitaland's purchase of Star Harbor for RMB19.5 billion (USD2.8 billion) and Blackstone's acquisition of Vivo city for RMB7.6 billion (USD1.1 billion).

Hangzhou

According to the Hangzhou government, China Resources Land bought a plot in Yuhang at an accommodation value of RMB7,241 (USD1,056) psm for a total of RMB3.6 billion (USD500 million). The project is scheduled to be built into a mixed-use development for retail, office, residential and hotel in the future.

Figure 7: Major en-bloc transactions in Shanghai



Source: Colliers International

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