

China retail market

Q4/2022

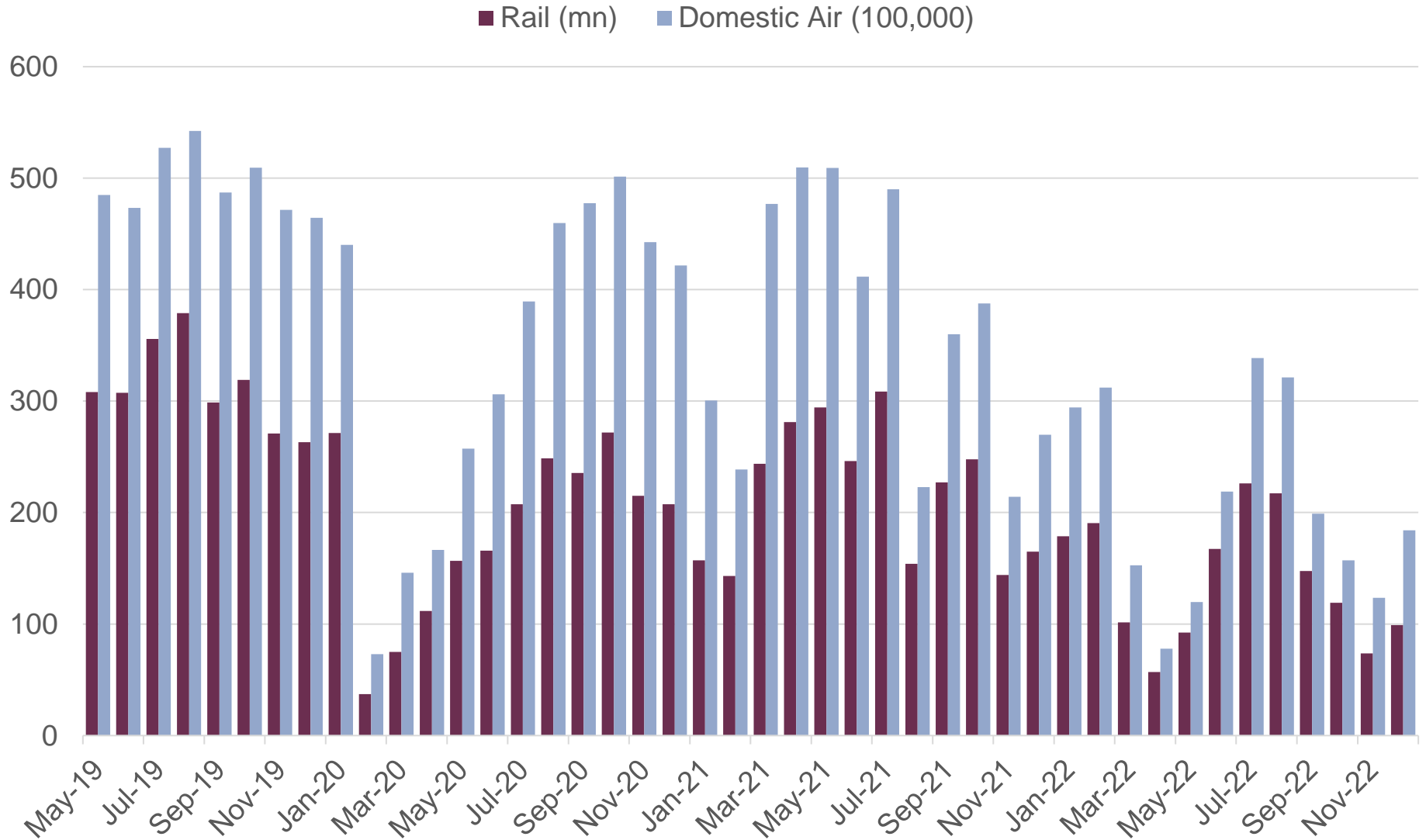
Retail growth fell due to COVID outbreak

- Retail growth fell due to COVID outbreak, the total retail sales in 2022 was RMB 43,973.3 billion, fell 0.2% YoY.
- Strictly covid controls can impact consumer confidence which has been trending down since early 2021, especially local cases outbreak in 2022.



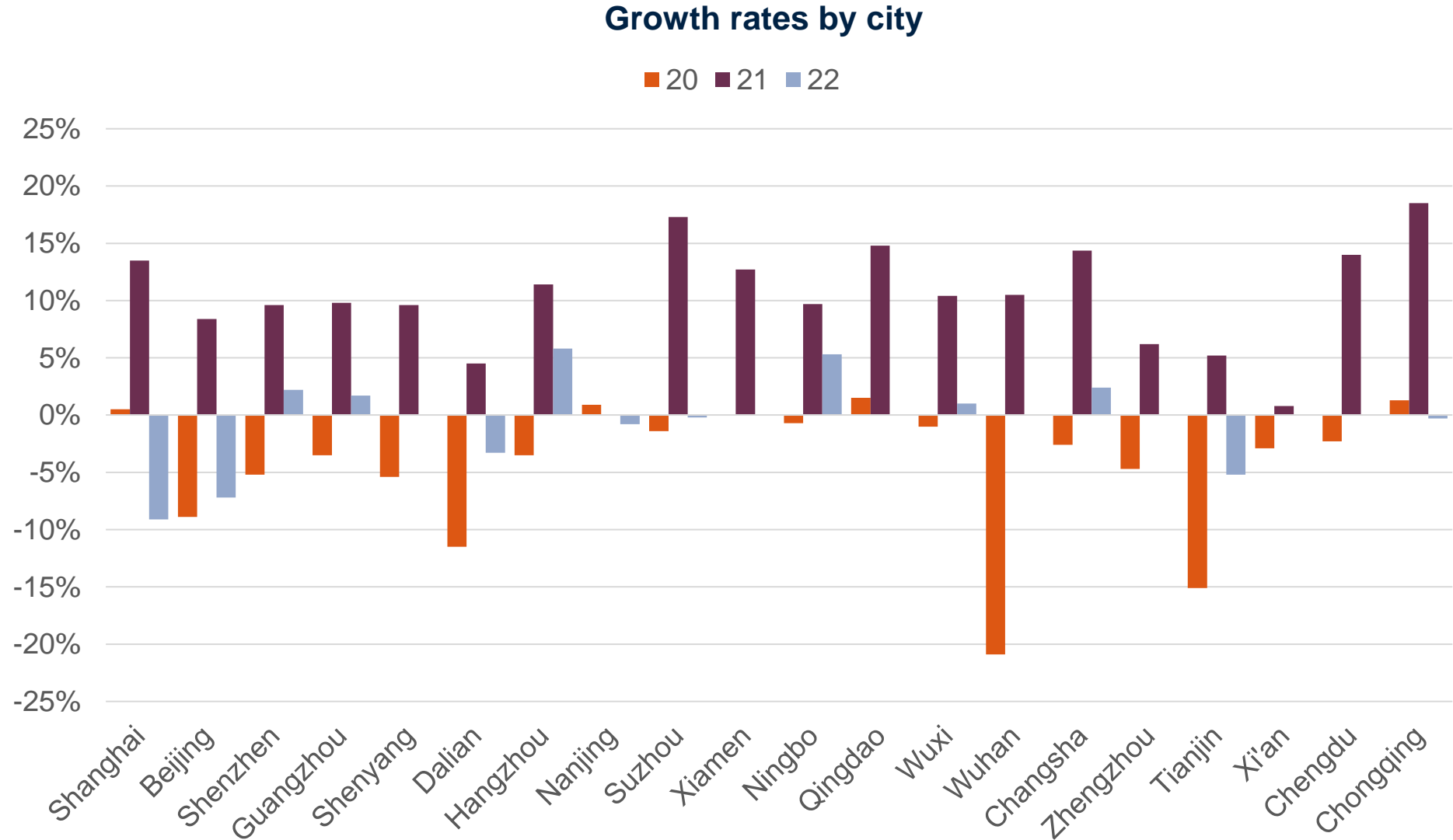
Uneven recovery in domestic travel

- Concerns over local covid outbreaks, necessity to quarantine and travel disruption continues to plague domestic tourism despite initial strong recovery.
- Particularly challenging now with Omicron variant and several important events this year (Beijing Olympics, 20th NPC).
- The full-scale impact of the recent outbreak on the market remains to be seen.



Accumulated sales growth fell affected by COVID

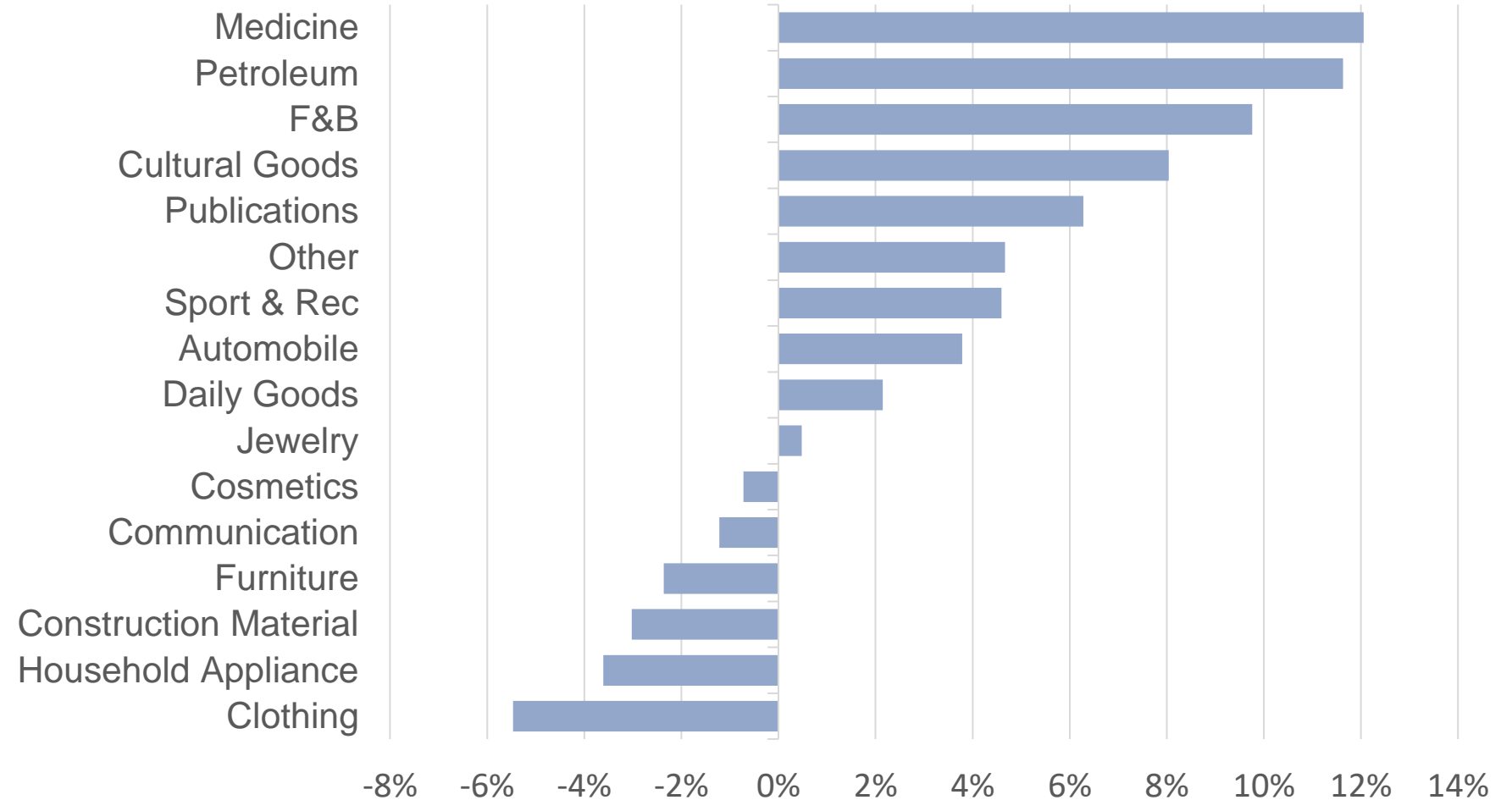
- Several cities' retail sales affected by local COVID-19 cases among key 20 first and second tier cities.
- The retail market is expected to recover in 2023 as the control released.



Accumulated sales growth remains sound

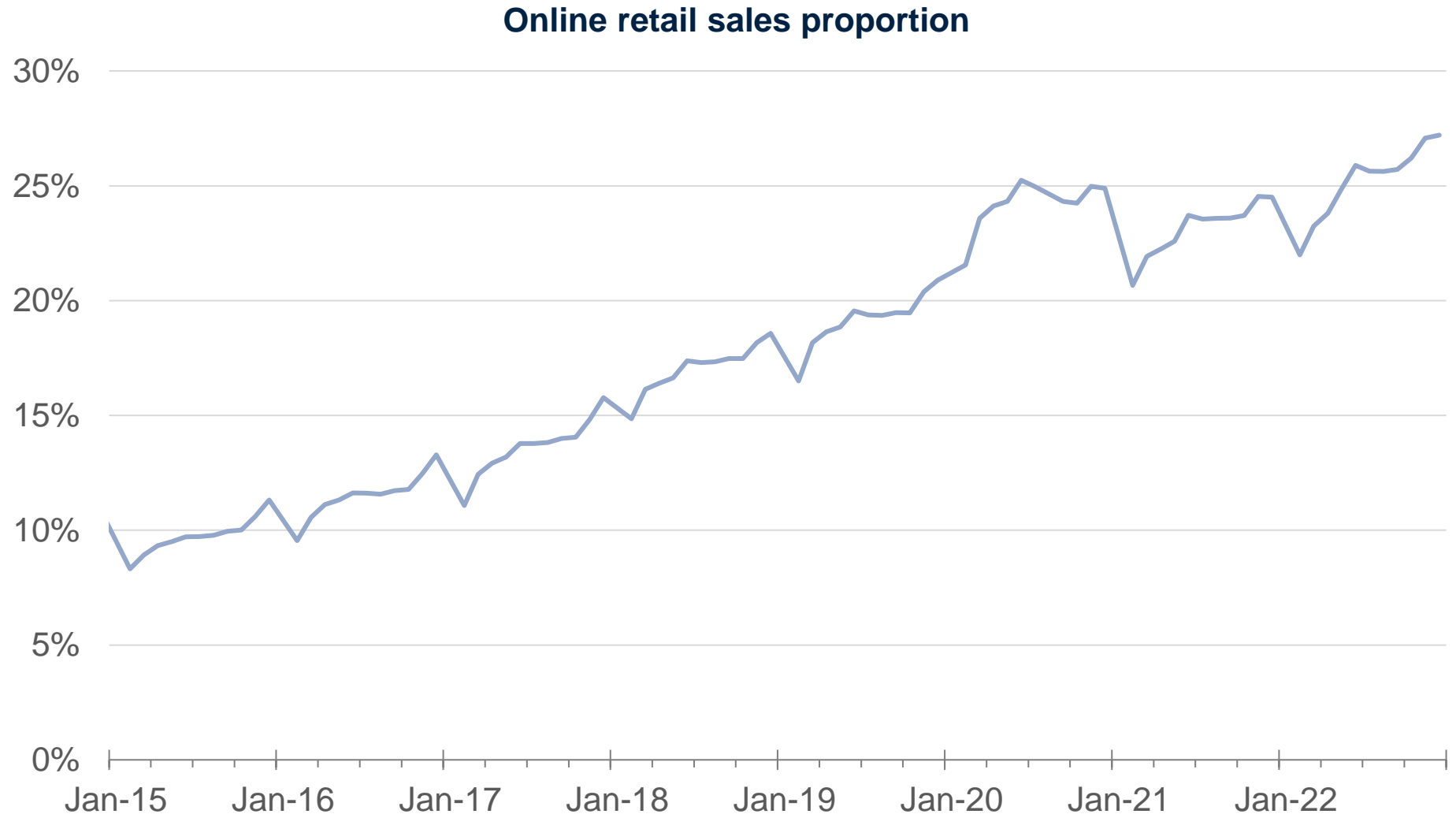
- Due to the impact of the epidemic, several consumption categories decreased significantly in 2022
- Consumption of non-essential items decreased, and the restriction of in-store eating in some cities reduced consumption of F&B.

Growth rates by category, 2022



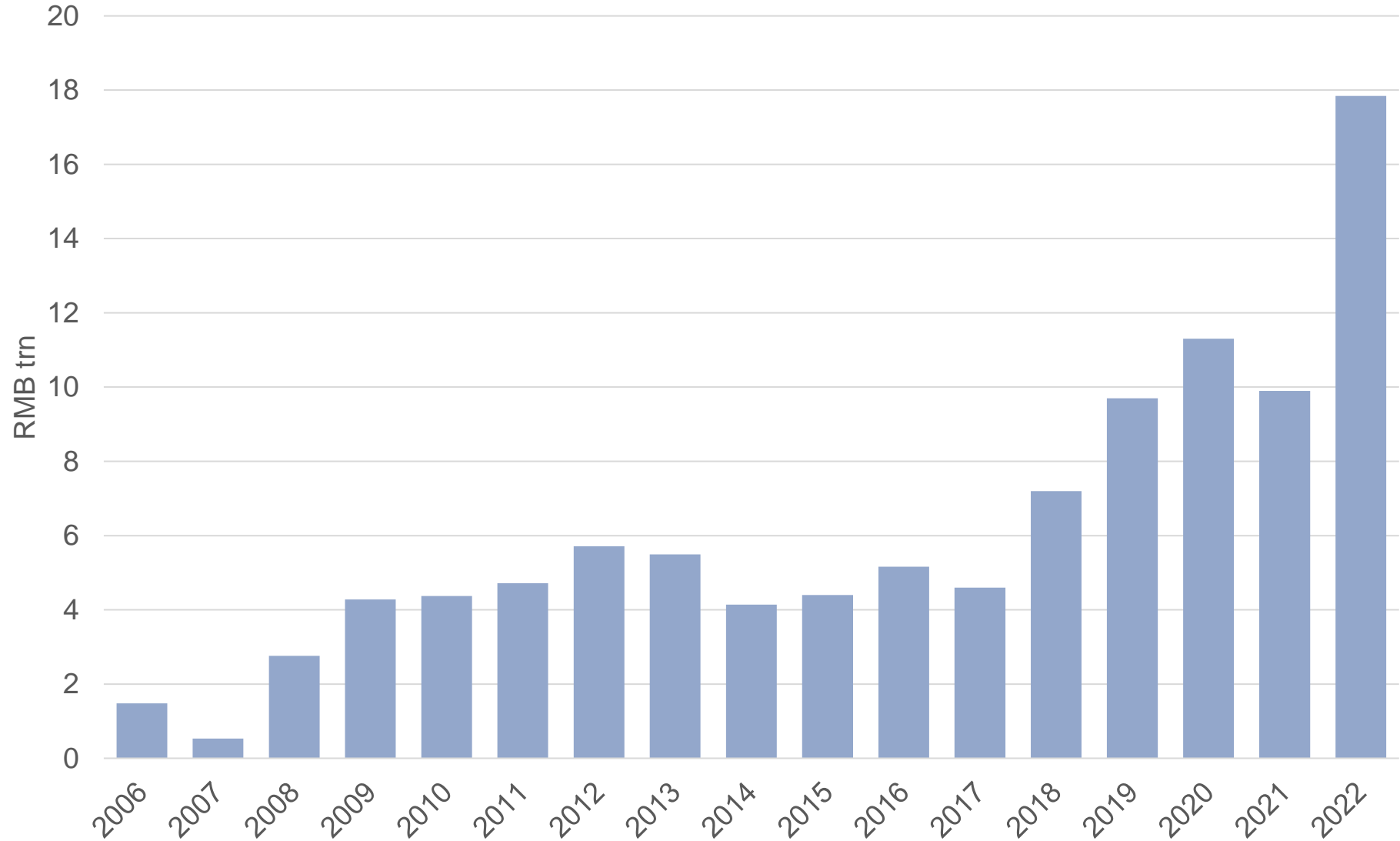
Proportion of online sales reached historical high

- Proportion of online sales reached to historical high as consumers shift to online in response to covid.
- Part of retail sales shifted to online affected by the epidemic.



Household savings

Household savings jumped in 2022 with households choosing to save more or unable to spend money due to travel restrictions and lockdowns. Expectations are for a revival of consumption in 2023



Sectors that potentially will lead the recovery



Sports

- Health-conscious consumers
- Policy support
- Winter Olympics



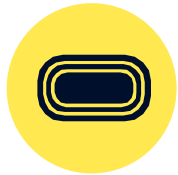
NEV

- Remain optimistic about industry future



F&B

- Coffee and dessert better positioned.
- Focus on new-entry brands



Personal care

- Everyone flood into a barber shop and body care, BRAND new image!



Emotional value drive urban retreat's development

Stress of urban life

+



Impact of COVID

Urban Retreat



Escape the urban steel forest



Rest and relaxation in short time



Stay with friends or family



Get close to humanity and nature

Demand

A playground for family

Pet-friendly, emerging sports to heal and decompress

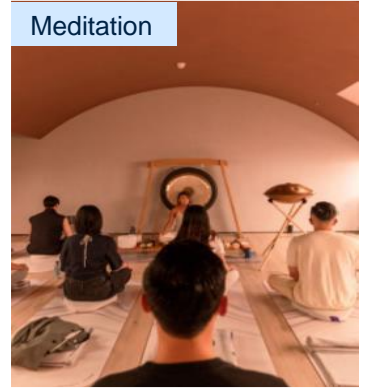
Urban farms, orchards, natural landscapes

Humanistic history, culture, art places

A place for a brief escape

Form

Meditation



Stove-boiled tea



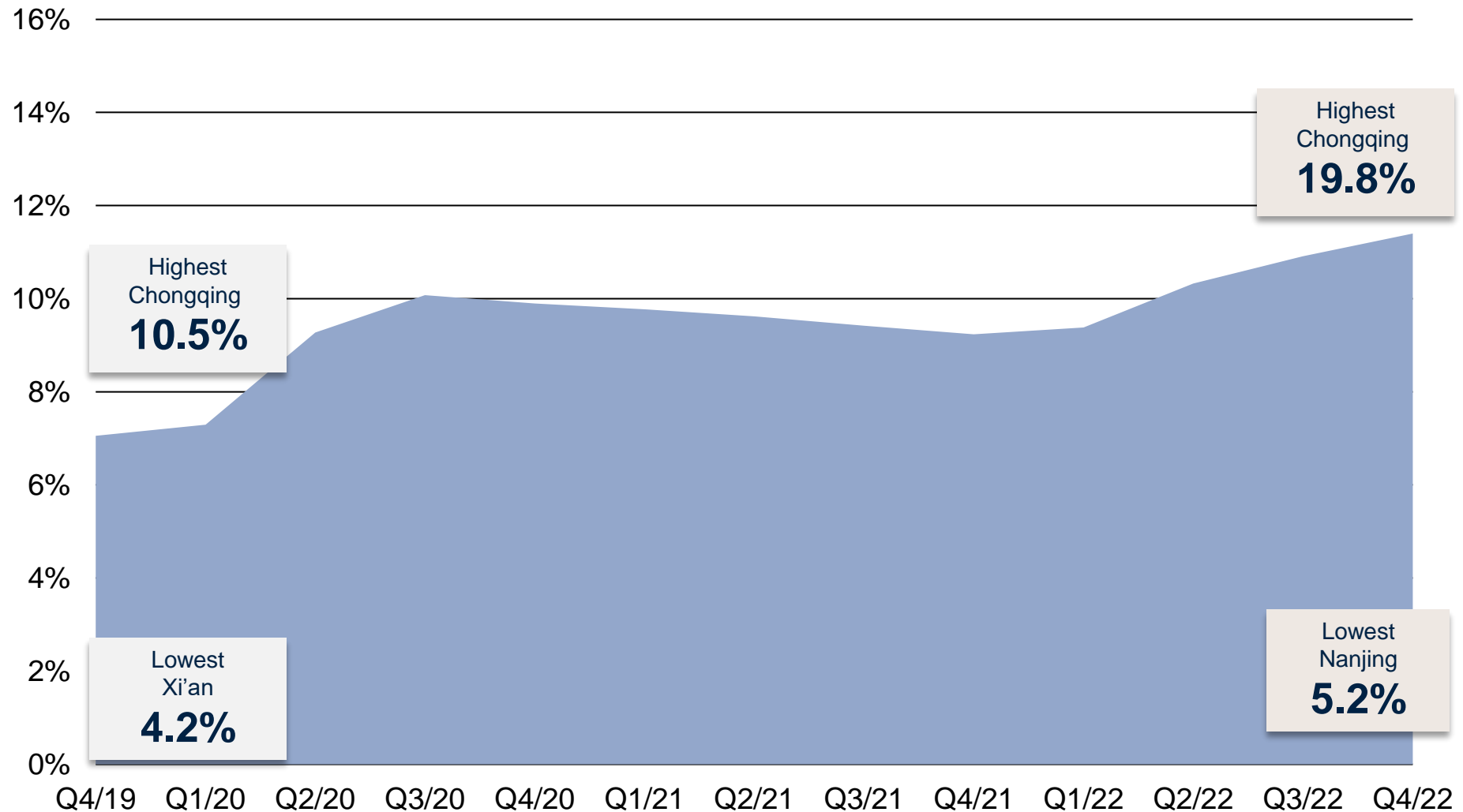
Camping & frisbee



Vacancy rate continued to decrease though mildly

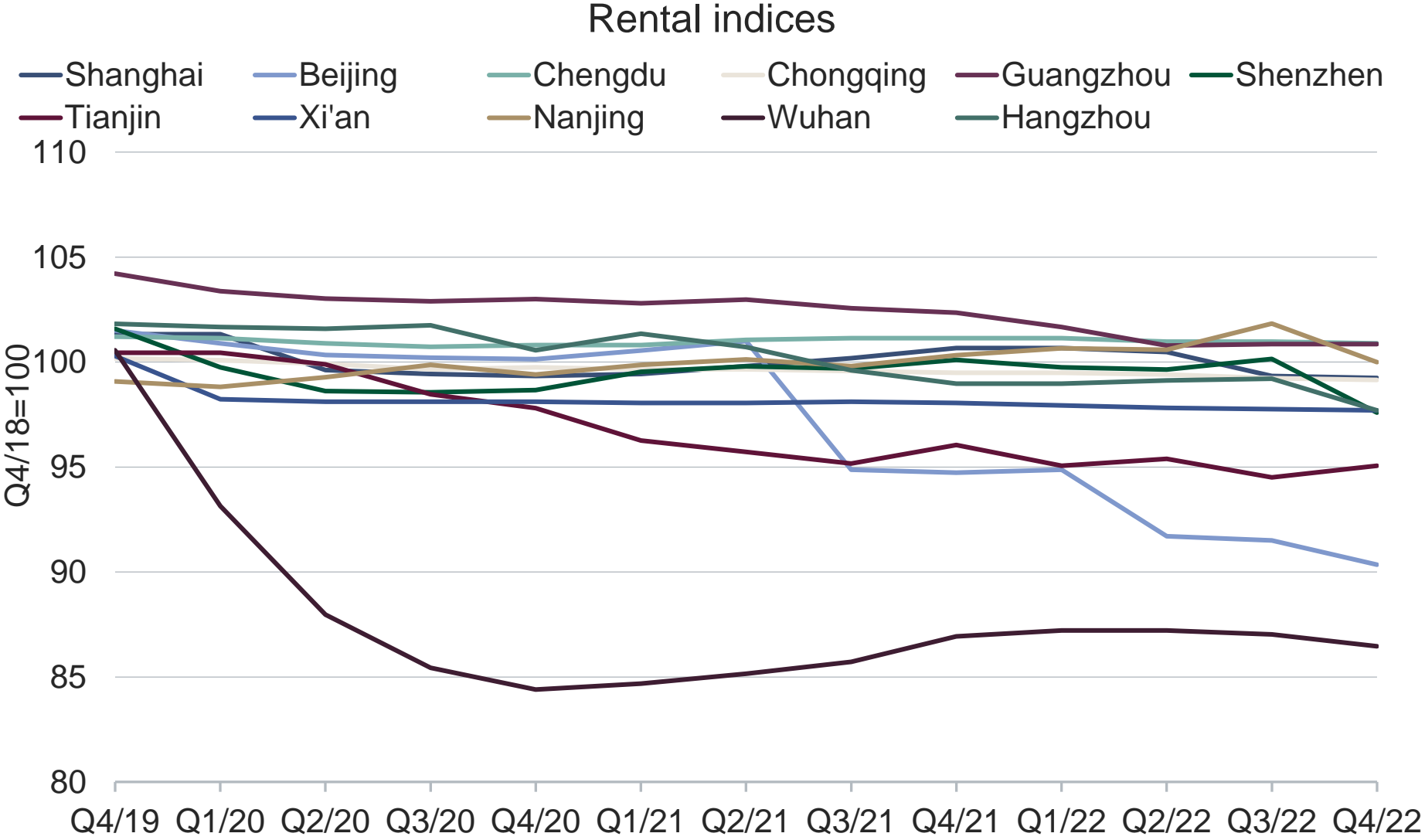
- Several cities recorded high vacancy rate affected by the outbreak and consumption expectation.

Average vacancy rate of key cities



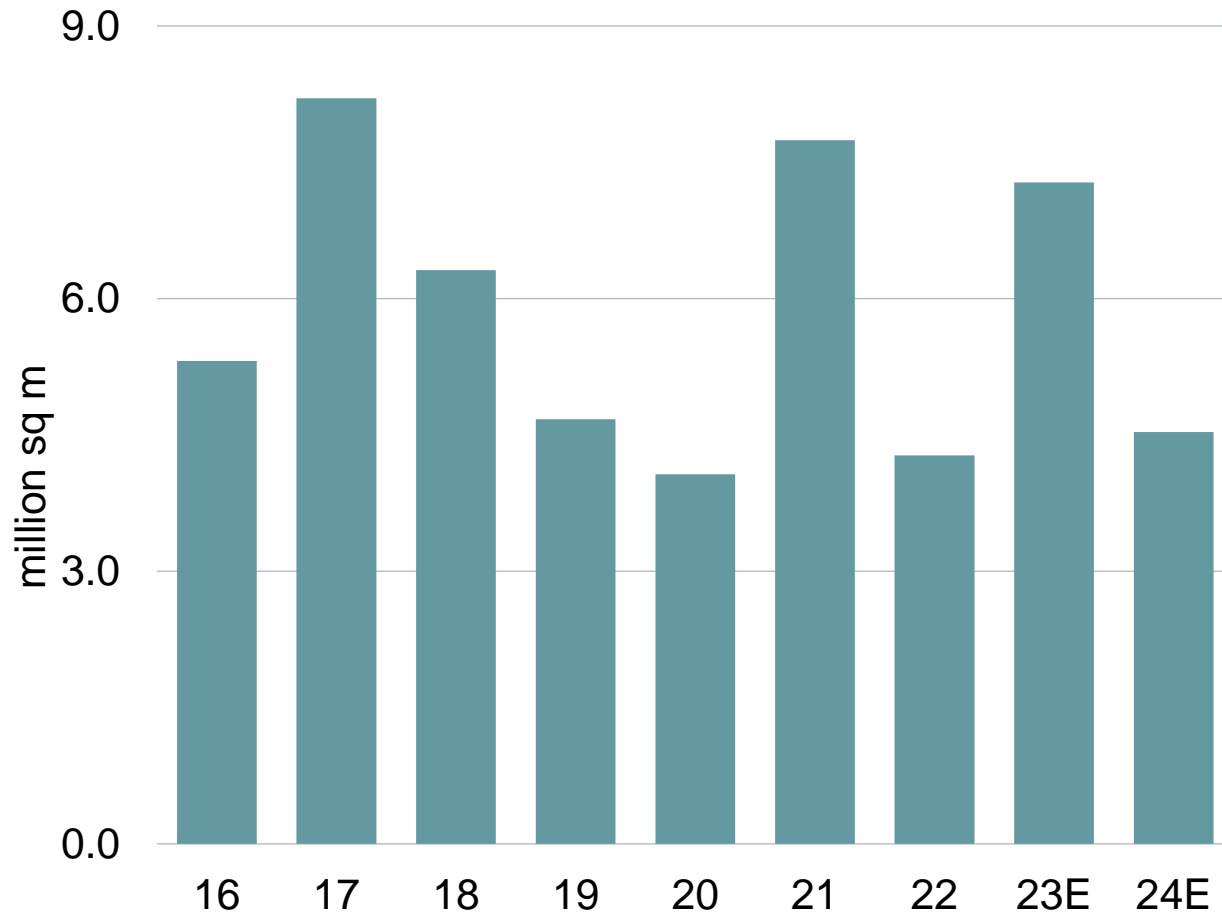
Average rents fell

- Most cities' average rental fell due to covid break up along with the negative impacts of economic uncertainties, but rental performances diverge between different cities

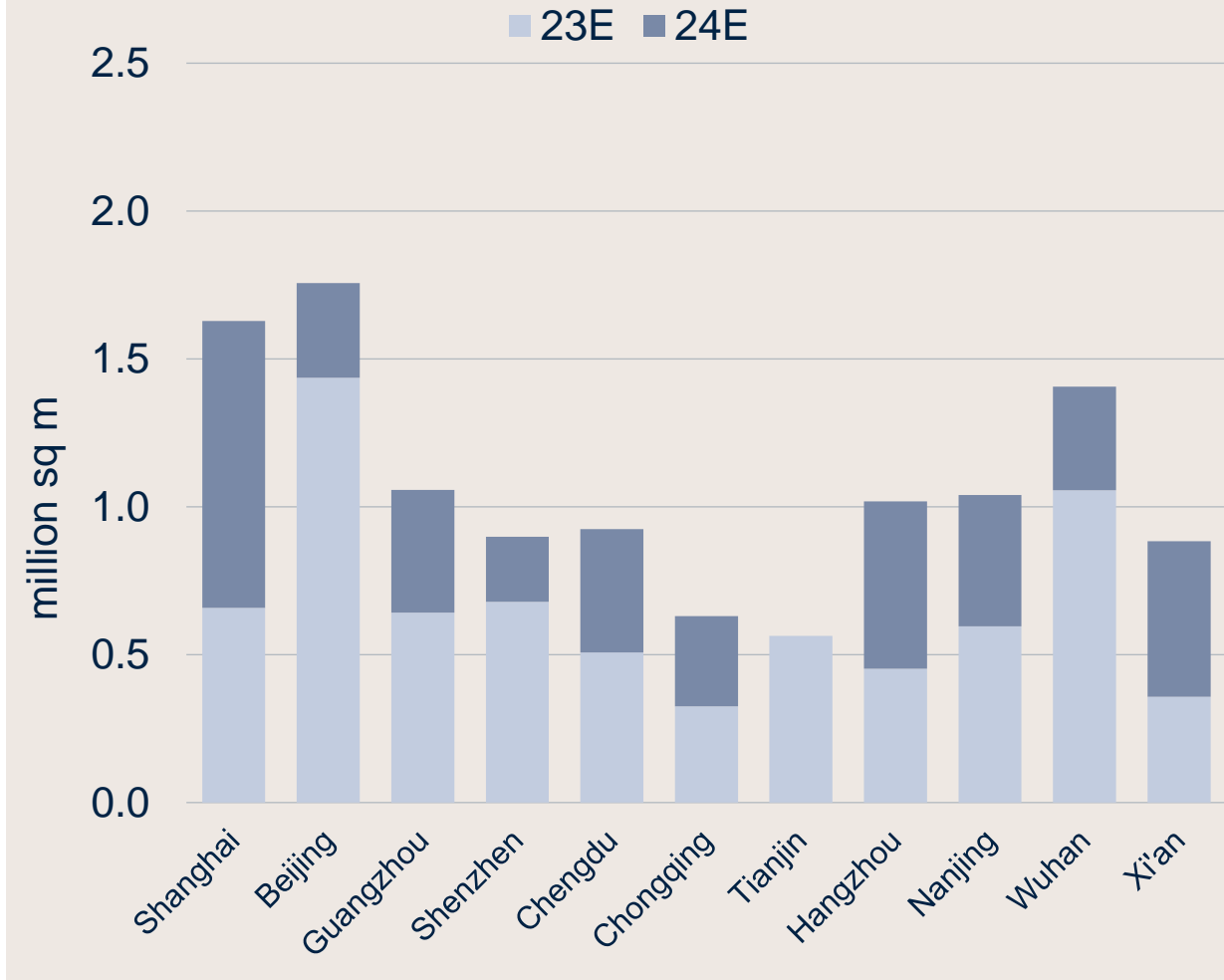


Average retail supply over the peak, future increase is expected to slow

Shopping mall supply in key 11 cities



Shopping mall future supply in key 11 cities



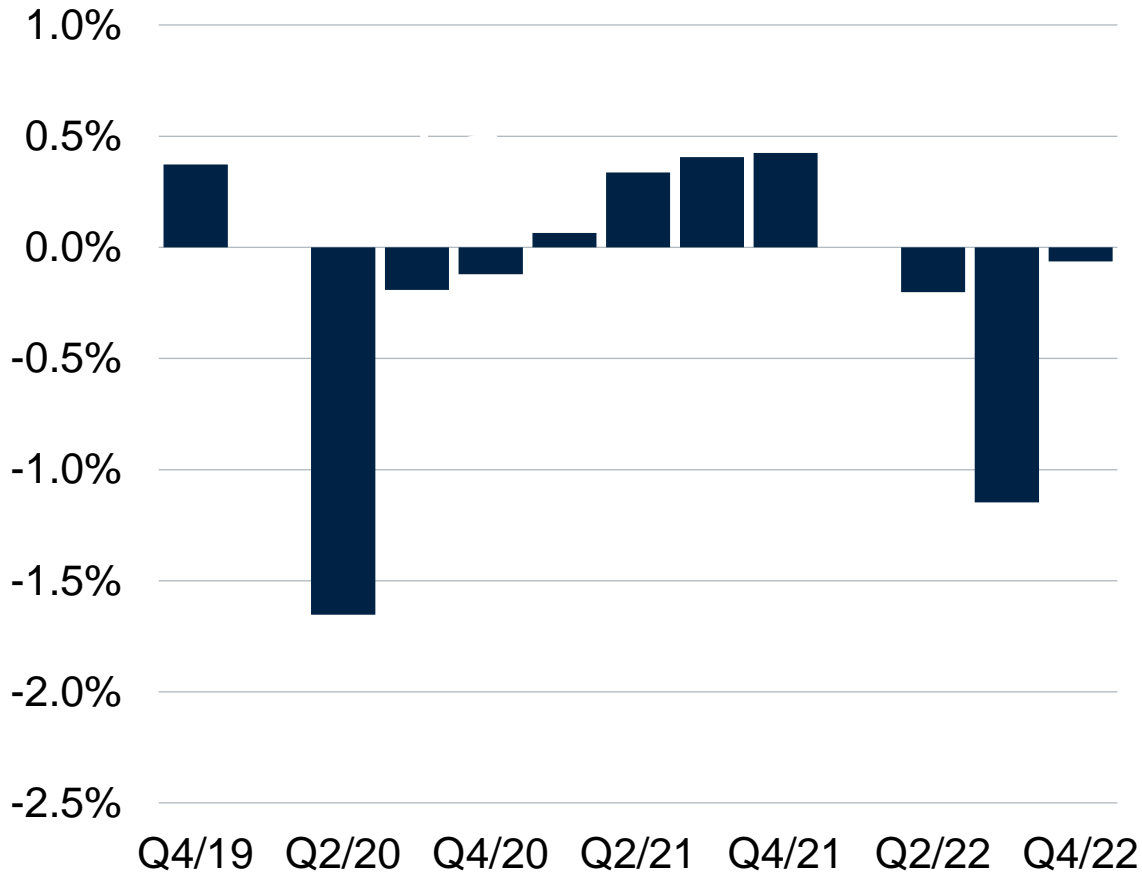
Shanghai Retail Market

Q4/2022

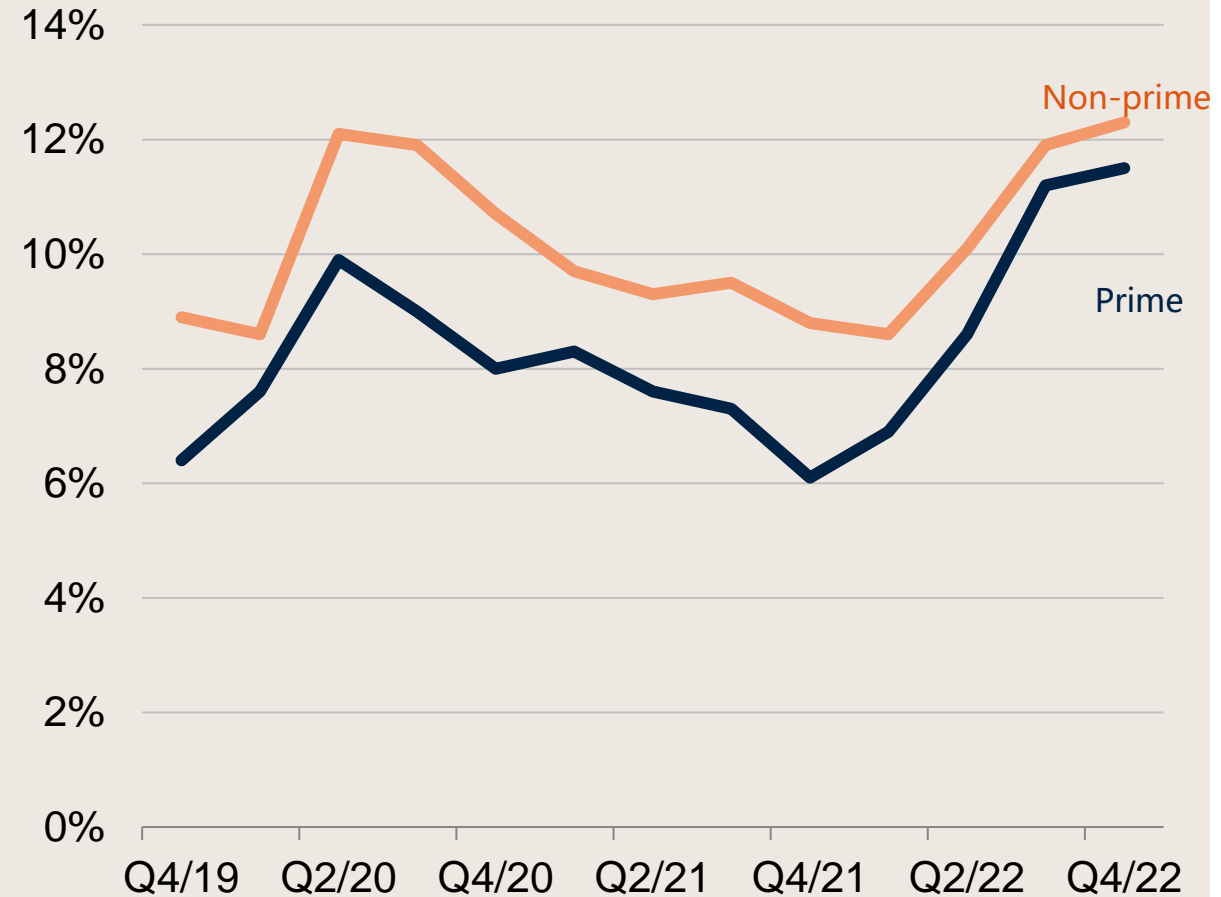


Rent and occupancy rate declines slow significantly in Q4/22

Rents only fell 0.1% QoQ in Q4/2022

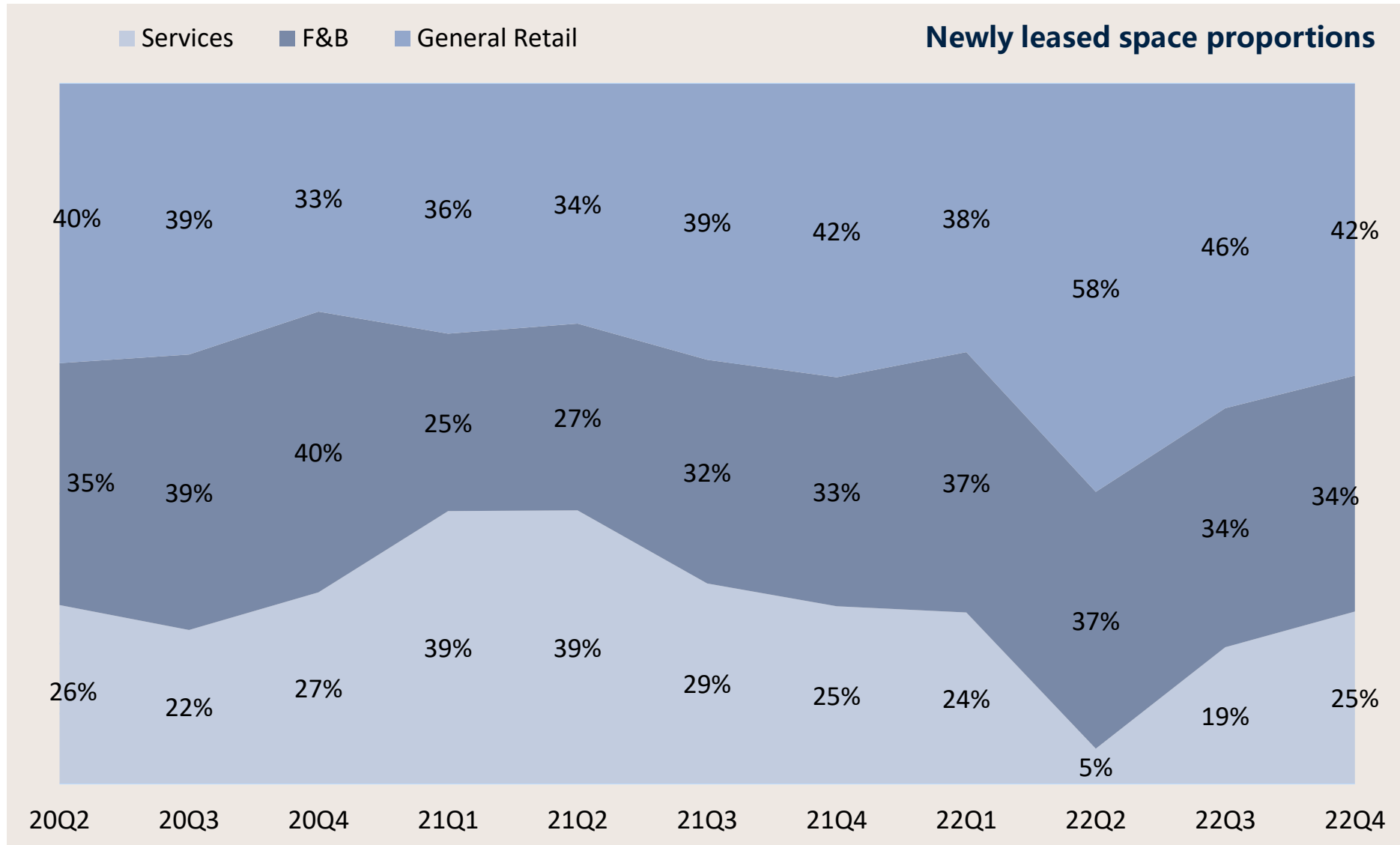


Vacancy rates grew 0.4 pts QoQ in Q4/2022



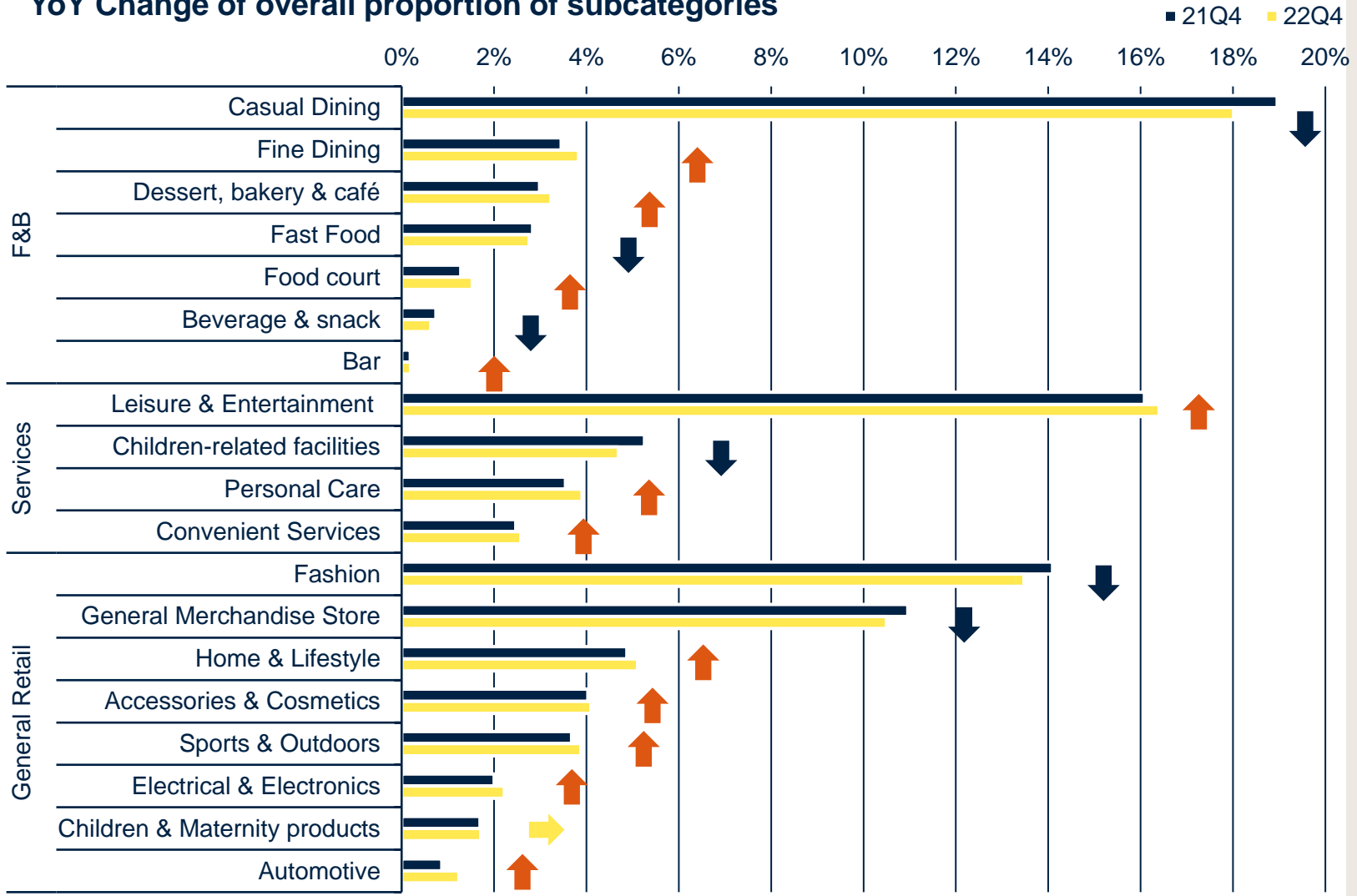
New lease breakdown

- F&B sector was relatively stable despite the impact of the city lockdown on the retail market, while the proportion of new leased areas of the service sector dropped sharply and only roughly recovered in Q4/22.
- Leisure & entertainment, general merchandise store and automotive are the top three sectors with increased proportions of new-leased areas. Specialised fitness categories such as Pilates and entertainment venues including KTV and stand-up comedy stores were particularly active.



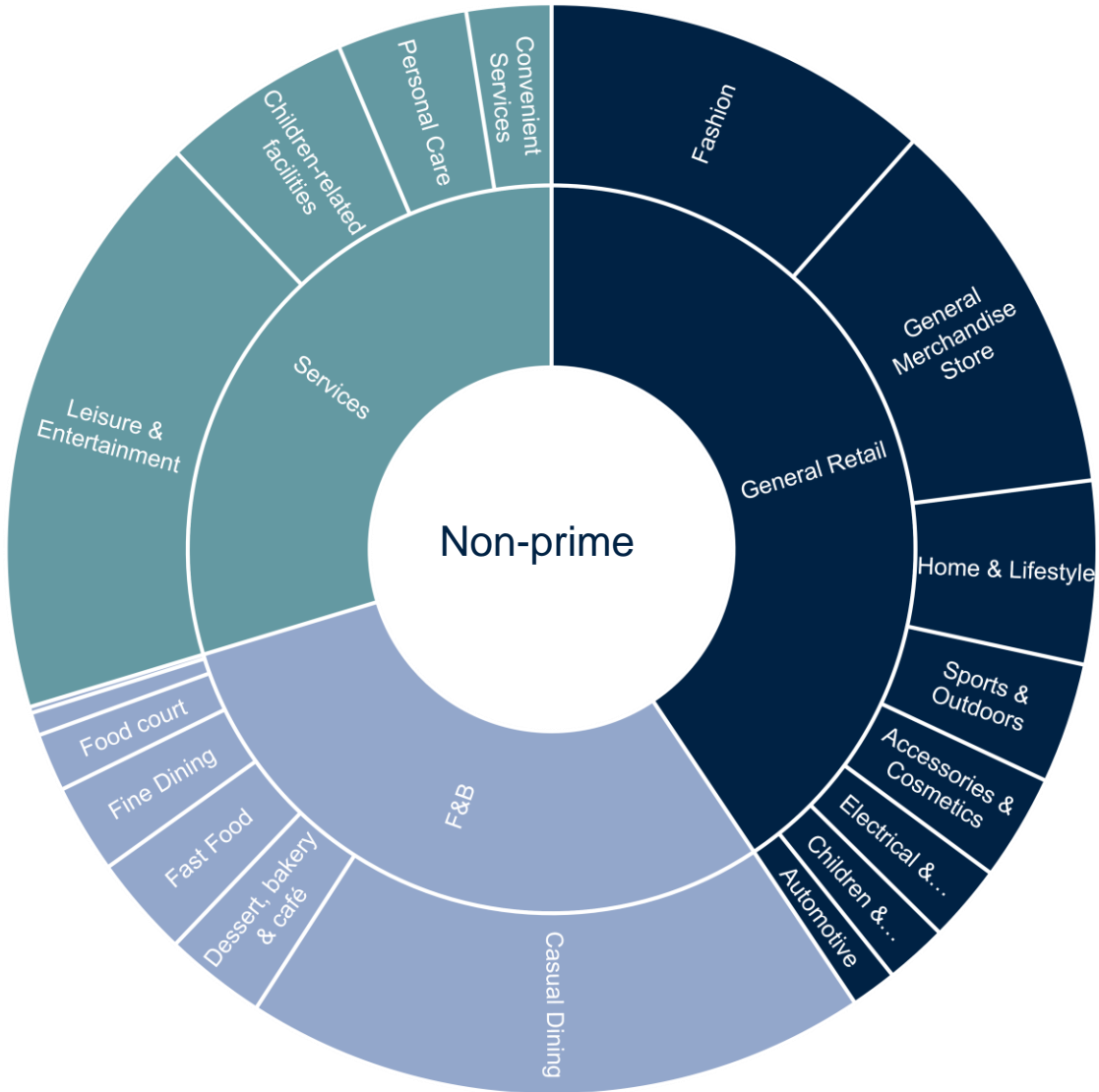
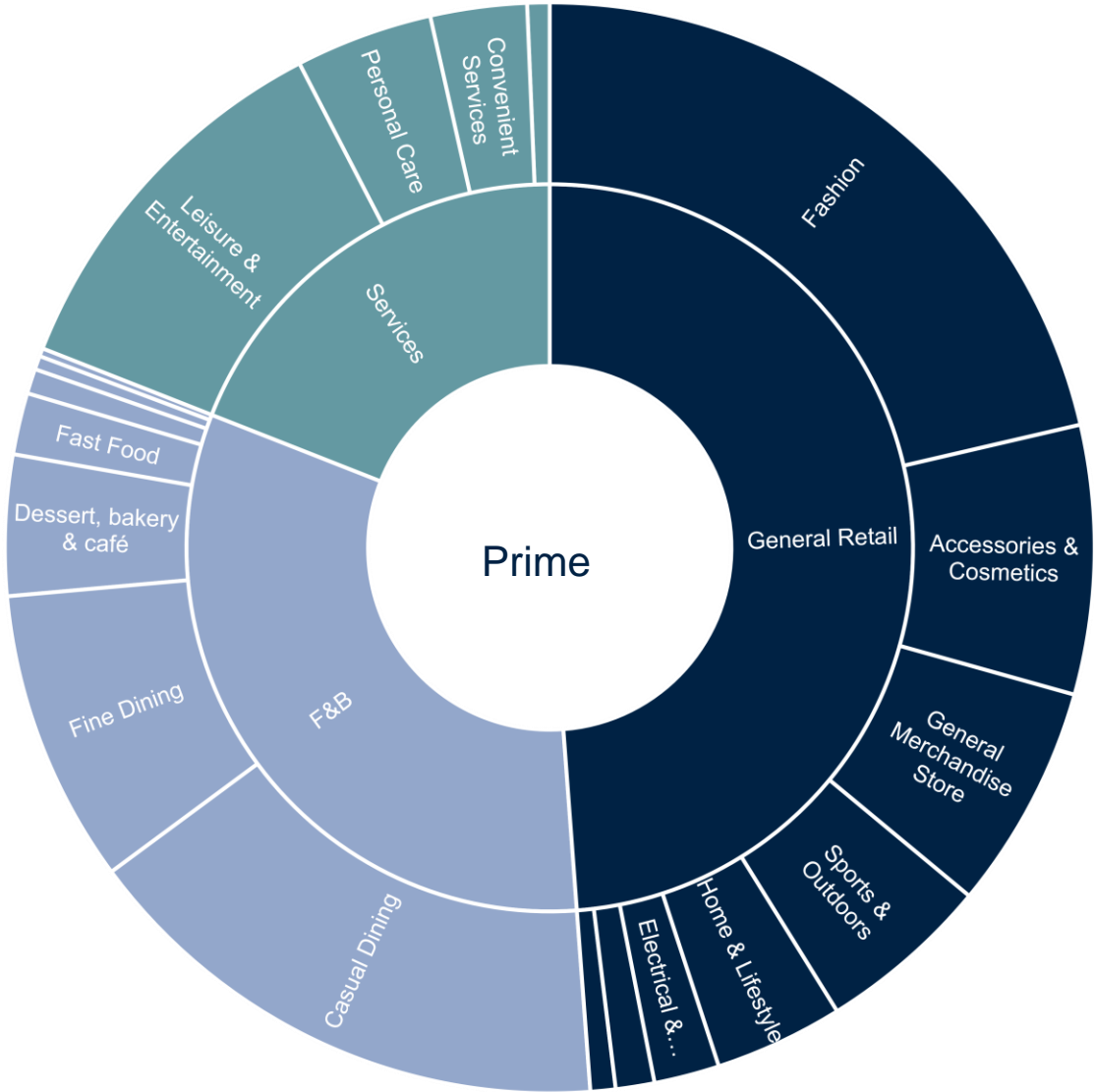
Upgrading of consumers' lifestyle drives tenant structure adjustments

YoY Change of overall proportion of subcategories



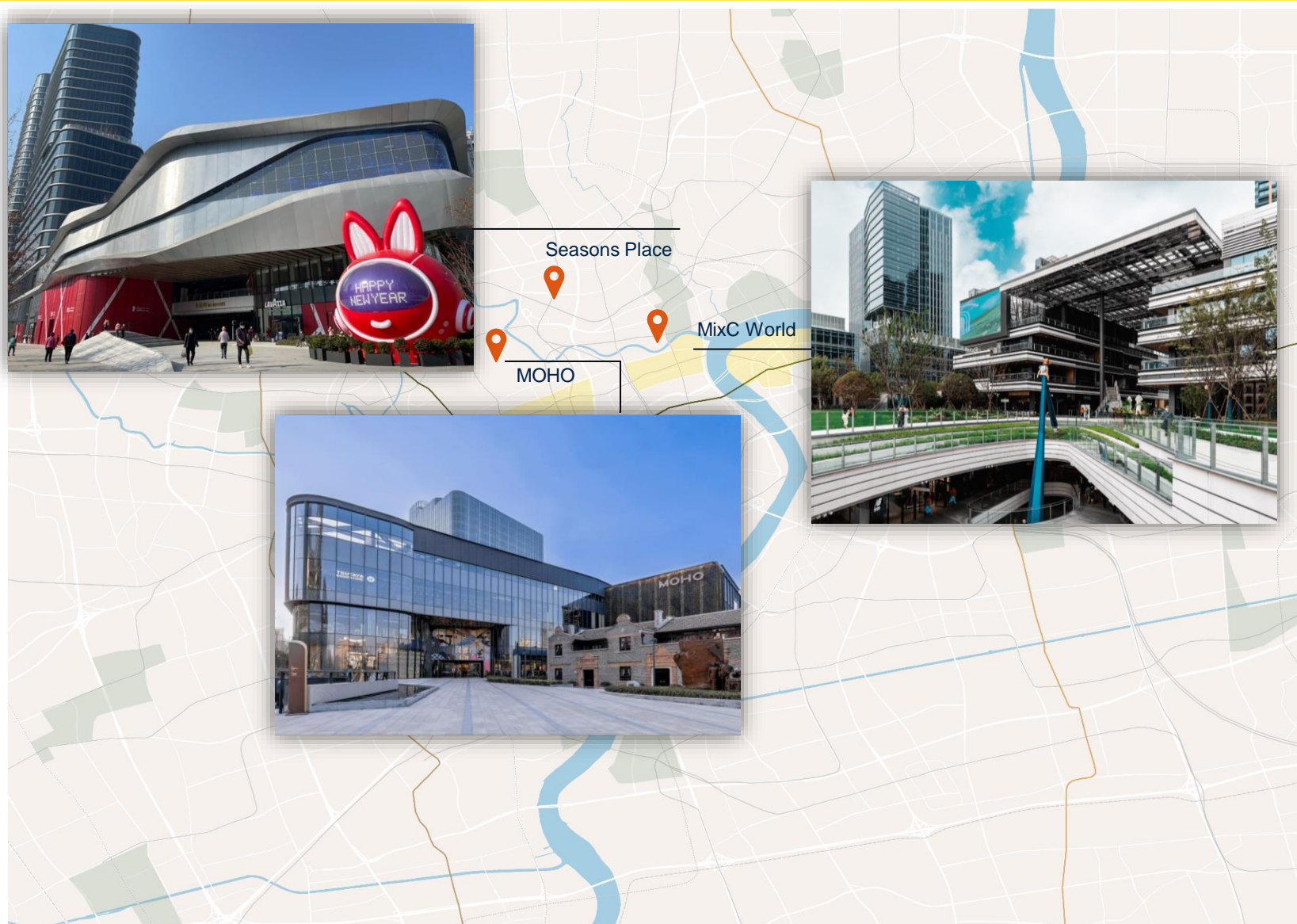
- F&B unit price increased, quality brands are more popular: Proportion decreases were recorded in casual dining, fast food, drinks and snacks, whilst increases were noted for fine dining, coffee and desserts.
- Projects still favoured service categories due to footfall attraction, but education and training institutions saw a significant decline in the proportion of children-related facilities given the dual impact of regulatory policy and covid.
- Retail sector is more diversified, and pop toy trend drives the growth of home & lifestyle categories; due to the impact of miniaturisation and upgrading to membership stores, the proportion of supermarkets decreased. Aldi expanded aggressively, and many Carrefour stores reduced their store areas to transform into membership stores.

Prime and non-prime areas – Tenant structure (2022)



Source: Savills Research Prime areas: Nanjing Rd (E), Nanjing Rd (W), Huaihai Rd (M), Xujiahui, Little Lujiazui

New supply – shopping mall within the Outer Ring Rd (2022)

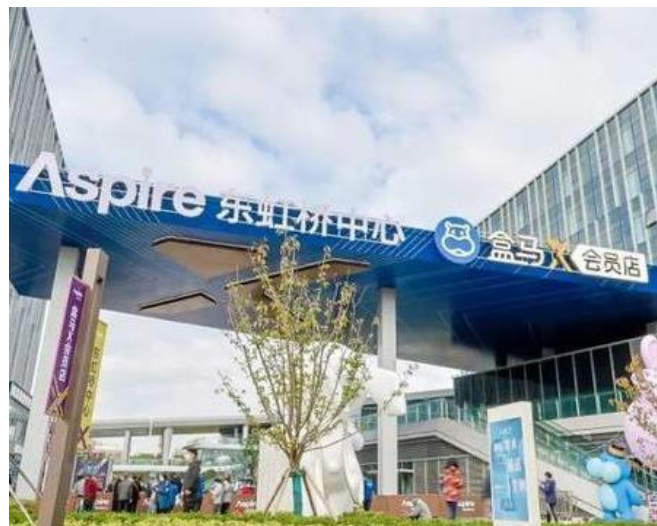


New Supply	GFA (sqm)
MixC World	47,000
Seasons Place	58,737
MOHO Shanghai	78,000
Total	183,737

Other significant projects



Zhangyuan West



Aspire

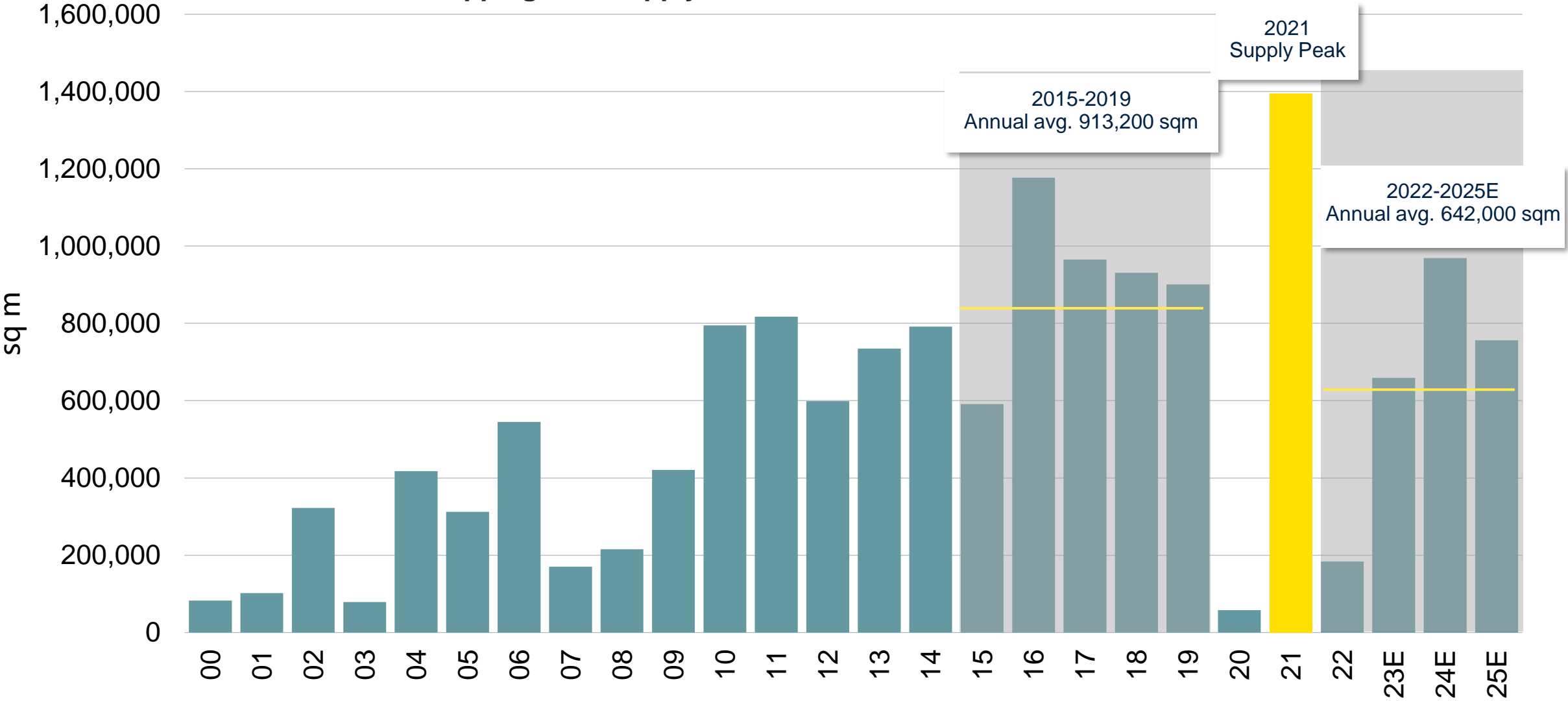


Longfor Fengxian Paradise Walk

Business Area	Nanjing Rd (W)	HTH	Fengxian
GFA (sq m)	19,900	45,200	140,000
Project Type	General Retail	General Retail	Shopping Mall
Major Tenants	Dior, Louis Vuitton, Gucci, Vacheron Constantin, Blue Bottle	Hema X, Zui Hui Huang (醉辉皇), Jing Yi Chuan (景忆川), LAS Diving	StarX Cinema, Yonghui Superstores, Cartoony Park, Star Party KTV、MUJI、Calvin Klein Jeans

Future shopping mall supply below pre-covid level

Shopping Mall Supply in the Urban Area, 2000-2025E



Relaxing covid rules



As the covid policy is optimised, although the retail market is still affected by the peak of infection in the short term, the public's willingness to go out to consume will gradually recover, and footfalls and leasing transactions will return to normal.

Tourists return



The number of tourists also is expected to increase as Shanghai remains to be a popular tourist destination in China. Traditional business areas, including East Nanjing Road, are expected to benefit from the recovery of the tourism market.

Targeting of consumer groups



Featured brand owner-principal stores, independent buyer stores, pop toys, and Sankeng culture (三坑: JK, Lolita & Chinese traditional clothing) and other emerging categories with more fashionable elements are increasingly sought after by young consumers; experience atmosphere and interest circle to create a successful environment will determine the footfall trend of the project.

Unique projects



Unique projects with unique features, such as characteristic blocks and subculture themes, will attract more attention. Traditional boxes also make use of seasonal characteristics or project forms to create different experiences and enhance the interaction between projects and consumers.



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