RETAIL SERVICES

SHOPPING SHANGHAI

A three-year action plan for the city's retail market

CUSHMAN & WAKEFIELD
戴 德 梁 行

NEW YORK

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PROLOGUE

Kelvin Li
Managing Director, East China, Cushman & wakefield

Shanghai has and will always be a leading commercial centre in China. With its strong commercial genes, Shanghai continues to offer a broad commercial platform with rich business-friendly resources to those enterprises looking to do business in the city. On this note, as a leader in the field of commercial property services, Cushman & Wakefield is committed to assisting Shanghai in its future goal of becoming an 'excellent global city' by 2035.

Jenny Wei

Head of Retail Services, East China, Cushman & Wakefield

As one of the most developed commercial retail markets in Asia, Shanghai is a leading global fashion hub and plays an indispensable role in the business expansion of many international and domestic brands. In the future, I believe Shanghai will be an even more dynamic commercial city. No doubt, inspired by the city's 'Shopping Shanghai' commercial retail development plan, its commercial centre status, and its importance as a retail market influencer, it will continue to grow.

Shaun Brodie

Head of Occupier Research, Greater China
Cushman & Wakefield

Shanghai has all the attributes to push forward with its envisioned goal of becoming a leading global commercial retail centre by 2020. From catchment population capacity, to purchasing power to retail property assets, Shanghai stands in good stead to achieve further retail market maturity and growth.

INTRODUCTION

Shanghai has always been about business. From its earliest days, business has been the key development driver for the city and from the retail perspective, Shanghai today is now an influential international centre for the consumer. Alongside this, a plethora of business opportunities on many levels are now up for grabs for those retailers who choose to set up operations in the city and who can offer the right product that befits the China marketplace.

Even though Shanghai has been on the radar of many global retailers of note for some years now, the Shanghai government has not rested on its laurels. It is constantly tweaking and pushing the development dial and one recent directive which is set to establish the retail market development framework for the city for the coming years is the three-year action plan entitled 'Shopping Shanghai' (2018-2020).

This report takes a deeper dive into what 'Shopping Shanghai' (2018-2020) is all about, and also analyses the retail-related macro-economic and retail-related real estate drivers and retail-related trends behind the development and growth of retailing in Shanghai.

So, what is 'Shopping Shanghai'?...

‘SHOPPING SHANGHAI’ (2018-2020)

On 22 April 2018, the Office of the Shanghai Municipal Committee of the Communist Party of China and the Shanghai Municipal Government officially issued the ‘Three-year Action Plan for Speeding up the Development of International Consumption’ by launching the ‘Shopping Shanghai’ (2018-2020) action plan. The main elements of this action plan are:

1.To develop Shanghai into a location fit for purpose for the launch of new global products, in essence to establish Shanghai as a key international new product launch market, especially in areas such as the city’s Huangpu District, Jing'an District, Pudong New Area and Xuhui District;

2.To optimally leverage Shanghai’s China International Import Exposition platform and encourage all districts in the city to introduce nationally and internationally well-known brands and retailers. In addition, to assist retailers in opening up their first stores and flagship stores as well as setting up their business operation headquarters in the city. Moreover, the action plan aims to support brands in their market expansion in China. In the longer term, the goal is to develop Shanghai into the most developed commercial retail centre in China and optimise the effectiveness of its ‘first store’ economy;

3.To place more emphasis on the usage of smart technology within retail, such as 5G virtual reality equipment, augmented reality and wearable devices;

4.To promote the development of new consumption such as the ‘Single Economy’, the ‘Her Economy’, the ‘Child Economy’, the ‘Silver Economy’ and the ‘Wedding Economy’ to better cater to the retail consumption needs of different consumer groups in Shanghai;

5.To establish branding for major promotion events, such as Shanghai Shopping Festival, Shanghai Fashion Week, Shanghai Tourism Festival and Shanghai International Film Festival. To accelerate the high-quality development of e-commerce platforms in the fields of life services, cross-border retail and social media platforms and to promote the innovative development of self-service retail, intelligent shopping, digital marketing and intelligent retail hubs. Meanwhile, the plan aims to provide a boost to sustainability by expanding the number of green shopping centres and green restaurants in Shanghai;

6.Finally, the plan is looking to advance the upgrading and transformation of general retailing in Shanghai by strengthening commercial retail landscape planning, by creating a better environment for small traditional ‘Shanghai style’ shops to operate in and by further developing Shanghai’s ‘nightlife’ retailing.

Now that we have an understanding of the ‘Shopping Shanghai’ policy direction, let’s take a look at the economic fundamentals driving the retail market in Shanghai.

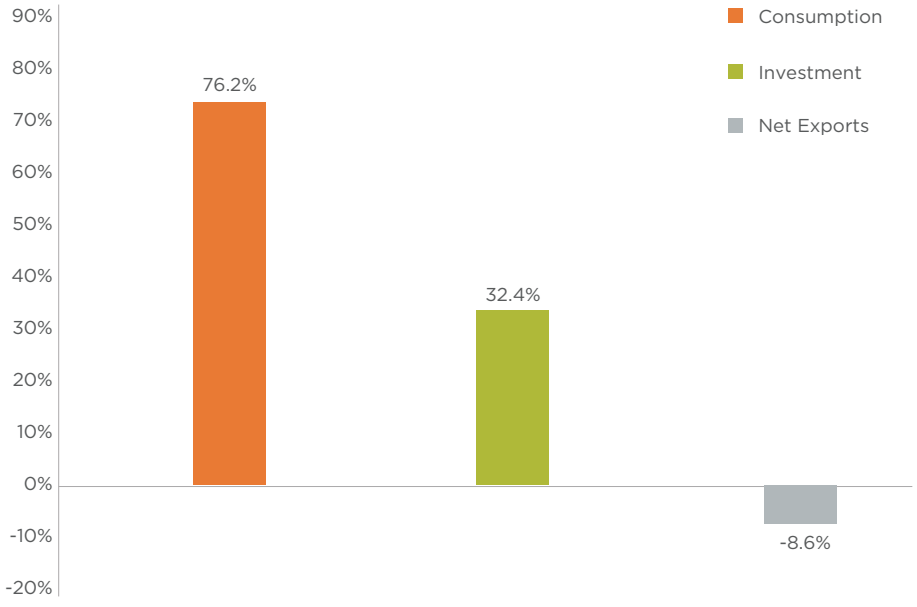
01 SHANGHAI RETAIL-RELATED MACRO-ECONOMIC DATA ANALYSIS

Before diving into the economic fundamentals behind Shanghai's retail market, it's always good to take in the scene from the China perspective and on this note we can start by looking at the major economic drivers for the country's economy and the key indicators for the county's retail economy.

1 Consumption – Key to GDP Growth and Commercial Real Estate Expansion

Consumption, investments and net exports have for some time been the main economic drivers for China's economic growth. In 2018, China's GDP exceeded RMB90 trillion for the first time, ranking second in the world. However, what's interesting is that 76.2 % of China's GDP growth in 2018 stemmed from consumption, rendering it the key driving force for growth in the country (Figure 1).

Figure 1: Consumption – Key in 2018

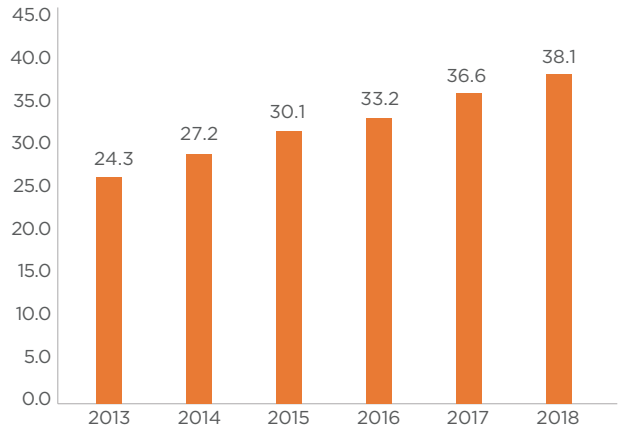


Source: National Bureau of Statistics (China), Cushman & Wakefield Research

2 Total Retail Sales Consistently Growing

With the development of emerging industries in China and the further development of the tertiary industry in the country, the middle-class (along with its spending power) has expanded. Hand in hand with this growth, the total retail sales of consumer goods in China has also consistently increased. In 2018, the figure was RMB38 trillion, a nominal increase of 9.0% (Figure 2).

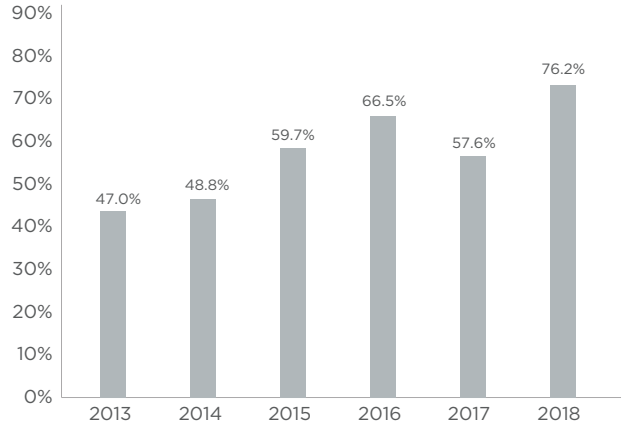
Figure 2: Total retail sales in China (2013-2018) (RMB trillion)



Source: National Bureau of Statistics (China), Cushman & Wakefield Research

Moreover, from 2013 to 2018, the contribution rate to China's GDP from consumption has been increasing consistently, further rendering consumption the key driving force for economic growth in the country for the last five years. Consumption's contribution rate to economic growth has risen 18.6% y-o-y (Figure 3).

Figure 3: Consumption's contribution to GDP (2013-2018)



Source: National Bureau of Statistics (China), Cushman & Wakefield Research

3 Shanghai's Retail Market – Largest in China

In 2018, Shanghai's retail market was the largest in China, enjoying RMB1.3 trillion in total retail sales of consumer goods and a healthy growth rate of 7.9%. What's more, Shanghai enjoyed the greatest percentage increase in total retail sales in 2018 among all the four first tier cities in China – Beijing, Shanghai (itself), Guangzhou and Shenzhen (Figure 4).

Figure 4: China's first tier cities: Total retail sales of consumer goods (2018)

Source: National Bureau of Statistics (China), Cushman & Wakefield Research

Incremental sales growth has also been observed in different consumer goods categories in Shanghai. Classified by industry, the total retail sales and growth rate of the Wholesale & Retail Trade Industry in 2018 was higher than that of the Hospitality & Catering Industry. Classified by category, Garments and Fuel enjoyed the fastest growth, at 15.4% and 13.7%, respectively (Table 1).

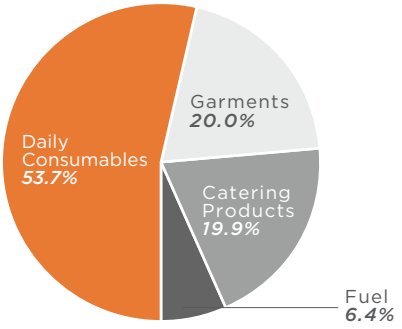
Table1: Shanghai retail sales: By industry and by category (2018)

Industry[1]	Jan-Dec (RMB Trillion)	Growth Rate(%)
Classified by industry		
Wholesale & Retail Trade Industry	1.2	8.2
Hospitality & Catering Industry	0.1	4.2
Classified by category		
Daily Consumables	0.7	5.5
Catering Products	0.3	5.5
Garments	0.3	15.4
Fuel	0.1	13.7
Total Retail Sales of Social Commodites	1.3	7.9

Source: Shanghai Municipal Bureau of Statistics, Cushman & Wakefield Research

What's more, Daily Consumables contributed the most to total retail sales in Shanghai in 2018. This category's sales volume was followed by Garments, Catering Products and Fuel (Figure 5).

Figure 5: Shanghai retail sales proportion: By category (2018)

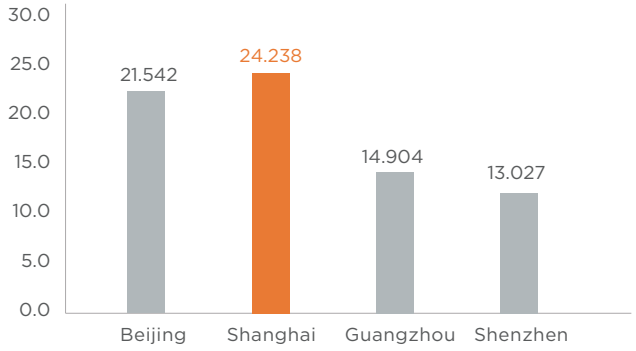


Source: National Bureau of Statistics (China), Cushman & Wakefield Research

Shanghai's Population and Disposable Income on the Up

In 2018, among the four first tier cities of Beijing, Shanghai, Guangzhou and Shenzhen, Shanghai had the highest number of permanent residents. Thus, retailers in Shanghai have a huge catchment population with which to sell their goods and products to (Figure 6).

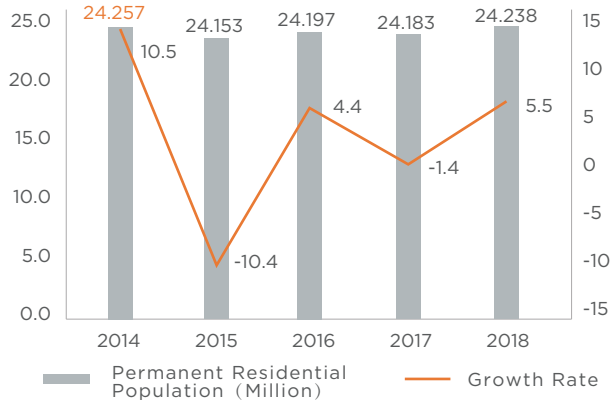
Figure 6: The total permanent resident population in China's first tier cities (2018) (million)



Source: National Bureau of Statistics (China), Cushman & Wakefield Research

In 2018, the total permanent resident population in Shanghai was 24.238 million, which is around 55,000 higher than that in 2017. Since the natural increase in the permanent resident population was calculated to be 44,000, the net inflow of permanent residents from other areas was 11,000 in 2018 (Figure 7).

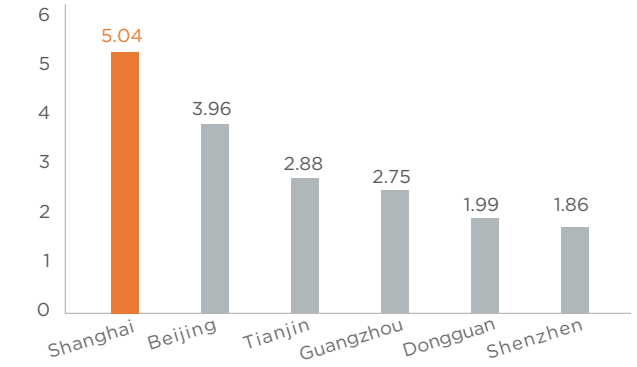
Figure 7: Shanghai permanent resident population growth (2014-2018)



Source: Shanghai Municipal Bureau of Statistics, Cushman & Wakefield Research

Interestingly, from 2009 to 2014, Shanghai's permanent resident population has experienced a net inflow of 5.04 million people, ranking first among all cities in China (Figure 8).

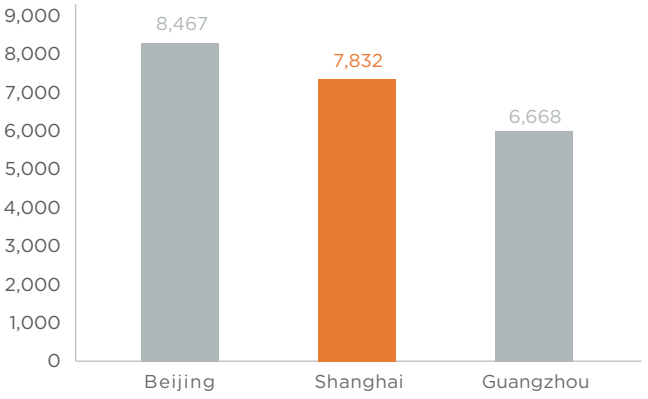
Figure 8: People inflow 2009 to 2014: Top cities in China (million)



Source: National Bureau of Statistics (China), Cushman & Wakefield Research

When looking at the spending power among Shanghai citizens, Shanghai ranked second in 2018 in terms of a provincial ranking in China. With an average wage of RMB7,832 per month, Shanghai sat in second place between Beijing and Guangdong (Figure 9).

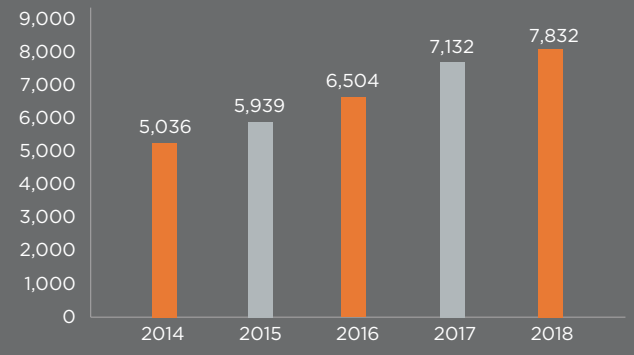
Figure 9: Top provinces in China – Average monthly wage (2018) (RMB)



Source: National Bureau of Statistics (China), Cushman & Wakefield Research

Spending power within Shanghai is also increasing. In 2018, the average monthly wage in the city was RMB7,832, which was 9.8% higher than that in 2017 (Figure 10).

Figure 10: Average monthly wage in Shanghai (2014-2018) (RMB)



Source: National Bureau of Statistics (China), Cushman & Wakefield Research

To double down on the point about the spending power of Shanghai residents, in 2018, the per capita disposable income of Chinese residents was RMB28,228 per year. With a y-o-y increase of 8.8% from 2017, the per capita disposable income of Shanghai residents had reached RMB64,183. This far exceeded the national average and ranked the highest across all cities in China (Figure 11 and Table 2).

Figure 11: Per capital disposable income in China four first tier cities (2018) (RMB)

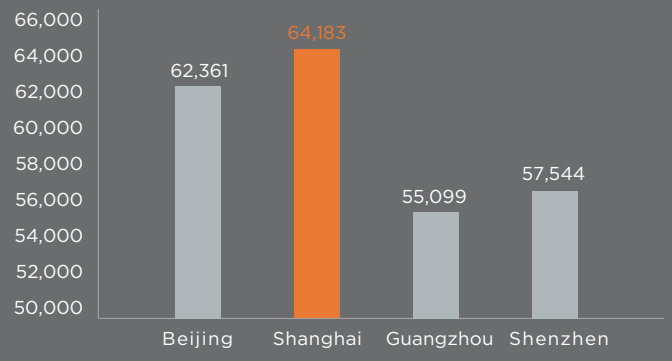


Table 2: Per capita disposable income for Shanghai residents (2018) (RMB or %)

Indicator	Per capita disposable income of Shanghai residents in 2018 (RMB)		
	All Residents	The Residents in Urban Area	The Residents in Rural Area
Per Capita Disposable Income (RMB)	64,183	68,034	30,375
Per Capita Consumption Expenditure (RMB)	43,351	46,015	19,965
Per Capita Disposable Income Growth Over the Previous Year (%)	8.8	8.7	9.2
Per Capita Consumption Expenditure Growth Over the Previous Year (%)	8.9	8.8	10.4

1.Disposable income of residents: This refers to the sum of final consumption expenditure and savings that residents can use, that is, income that residents can use freely, including both cash income and physical income. According to the source of income, disposable income includes wage income, net operating income, net property income and net transfer income.

Source: Shanghai Municipal Bureau of Statistics, Cushman & Wakefield Research

Moreover, Shanghai's tourism market is also a big consumption driver. In 2018, the number of international tourist arrivals in Shanghai was 8.9 million, which was a y-o-y increase of 2.4% (Table 3).

Table 3: Number of international tourist arrivals in Shanghai (2018)

Indicator	Jan-Dec	y-o-y increase (%)
International Arrivals	8,937,000	2.4
Foreigners	6,859,000	2.2
Hong Kong & Macau Residents	768,000	4.3
Taiwanese	1,310,000	2.2

Source: National Bureau of Statistics (China), Cushman & Wakefield Research

To better cater to international tourists, duty-free stores in Shanghai are in the process of upgrading their services. In the future, there will be more choice in terms of duty-free available commodities. The tax rebate procedure will also be made more straightforward to cater to the increased cross-border shopping demand stemming from international travellers.

5 Middle and High-End Fashion Consumption – Continuing to Grow

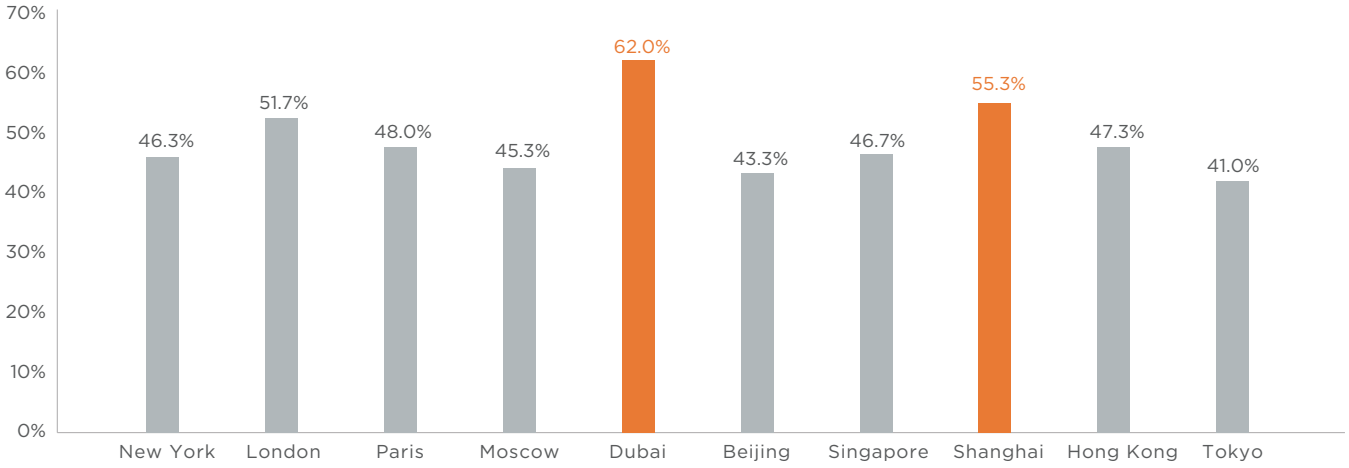
Shanghai Fashion Week

Over the last few years, Shanghai Fashion Week has become the fifth largest fashion week in the world. Today, more than 200 fashion brands are directly involved in the event. Shanghai Fashion Week is not only a platform for established international and Chinese fashion designers and brands to gather together, but it also serves as a platform to promote up-and-coming international and domestic fashion labels. Shanghai Fashion Week is also a stage to launch the 'Largest Order Season in Asia'. During the 2018 Shanghai Fashion Week, fashion-related consumption increased by 58%. What's more, the average fashion-related spend per customer has constantly increased over the years. Reaching RMB3,319.2 in 2018, fashion-related spending per customer increased 39% when compared to 2017. Shanghai Fashion Week will continue to be an important event in the years to come and will play a key role in influencing and promoting the 'Shanghai Shopping' initiative.

Higher Concentration of International Retailers and Brand Resources

When examining international retailers from around the world, Shanghai is often chosen as the place to open their first store in China. Many international high-end brands have chosen Shanghai as their headquarter base not just in China but also their hub for the Asia-Pacific region. The concentration of international retailers in Shanghai is 55.3%, more than that in London and now ranks the second highest in the world. Furthermore, 90% of the global high-end brands have their China market first store located in Shanghai. Additionally, 180 well-known domestic designers and 80 select shops have also settled in Shanghai (Figure 12).

Figure 12: International retailer aggregation in Shanghai (2018): Second largest in the world

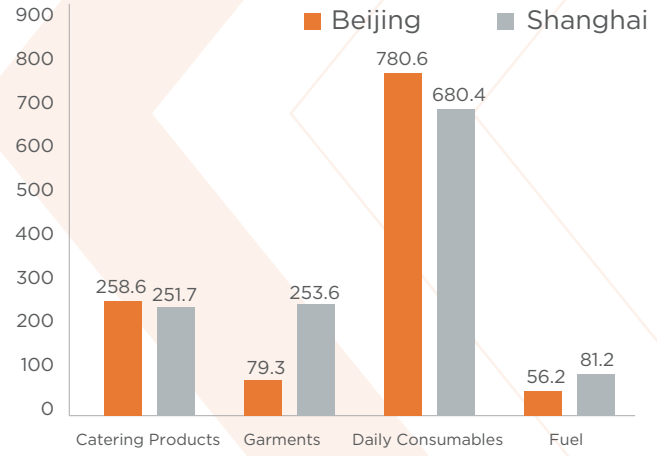


Source: Shanghai Municipal Commission of Commerce, Cushman & Wakefield Research

Significant Contribution to Fashion Consumption by Shanghai Residents

According to data released by National Bureau of Statistics (China), Shanghai residents' expenditure on fashion (garments) consumption is relatively high, with the total standing at RMB253.6 billion at the end of 2018 (Figure 13).

Figure 13: Sales of consumer goods in Beijing and Shanghai (2018) (RMB billion)



Source: National Bureau of Statistics (China), Cushman & Wakefield Research

In 2018, the retail sales of clothing, cosmetic and jewellery products, in particular, in Shanghai increased 12.7%, 13.2% and 14.6%, respectively. Moreover, the retail sales of clothing and cosmetics in Shanghai accounted for 20% and 25% of total retail clothing and cosmetics sales in China respectively.

Diving down deeper, it's now time to gain an overview of Shanghai's retail property market and examine in detail some of the major consumption-related trends the city is experiencing.

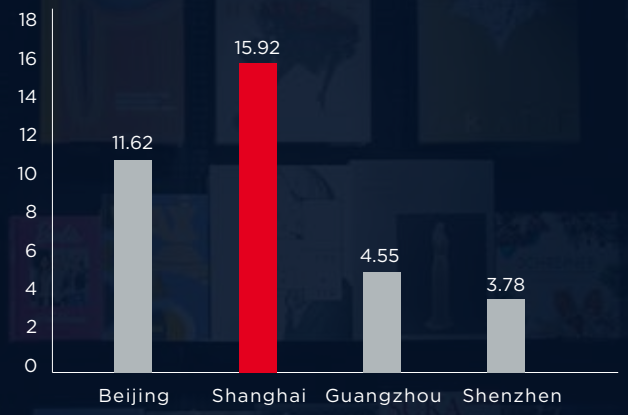
02

SHANGHAI RETAIL-RELATED REAL ESTATE DATA ANALYSIS

Overview and Six Trends

Shopping centres in Shanghai have experienced tremendous changes over the last few years, with the advent of retail technology, online shopping and the changing habits of new generations of shoppers – The Millennials and Generation Z. Subsequently, the market has undergone structural reform, with the improvement of existing stock and the expansion of prime supply. By the end of the first quarter of 2019, the total floor area of prime shopping centres in Shanghai reached 15.92 million sq m, an increase of 0.3% when compared with the previous quarter and ranking first among the four first tier cities in China in terms of prime stock volume (Figure 14).

Figure 14: The four first tier cities in China: Retail stock volume (Q1 2019) (Million sq m)



Source: Cushman & Wakefield Research

Among all the retail hubs in Shanghai, the five primary retail hubs are located along Nanjing West Road, along Nanjing East Road, along Huaihai Middle Road, in Xujiahui and in Lujiazui. The main secondary retail hubs are located in Wujiaochang, along North Sichuan Road, by Century Park, by Changfeng Park, by Zhongshan Park and in Hongqiao.

Primary Area Secondary Area

The Nanjing West Road retail hub is a centre for international brands and luxury products. Westgate Mall, Plaza 66 and Citic Square used to be the three core projects in the area. However, with the opening of Jing'an Kerry Center, Reel and HKRI Taikoo Hui over the last few years, the Nanjing West Road retail hub has expanded its geography.

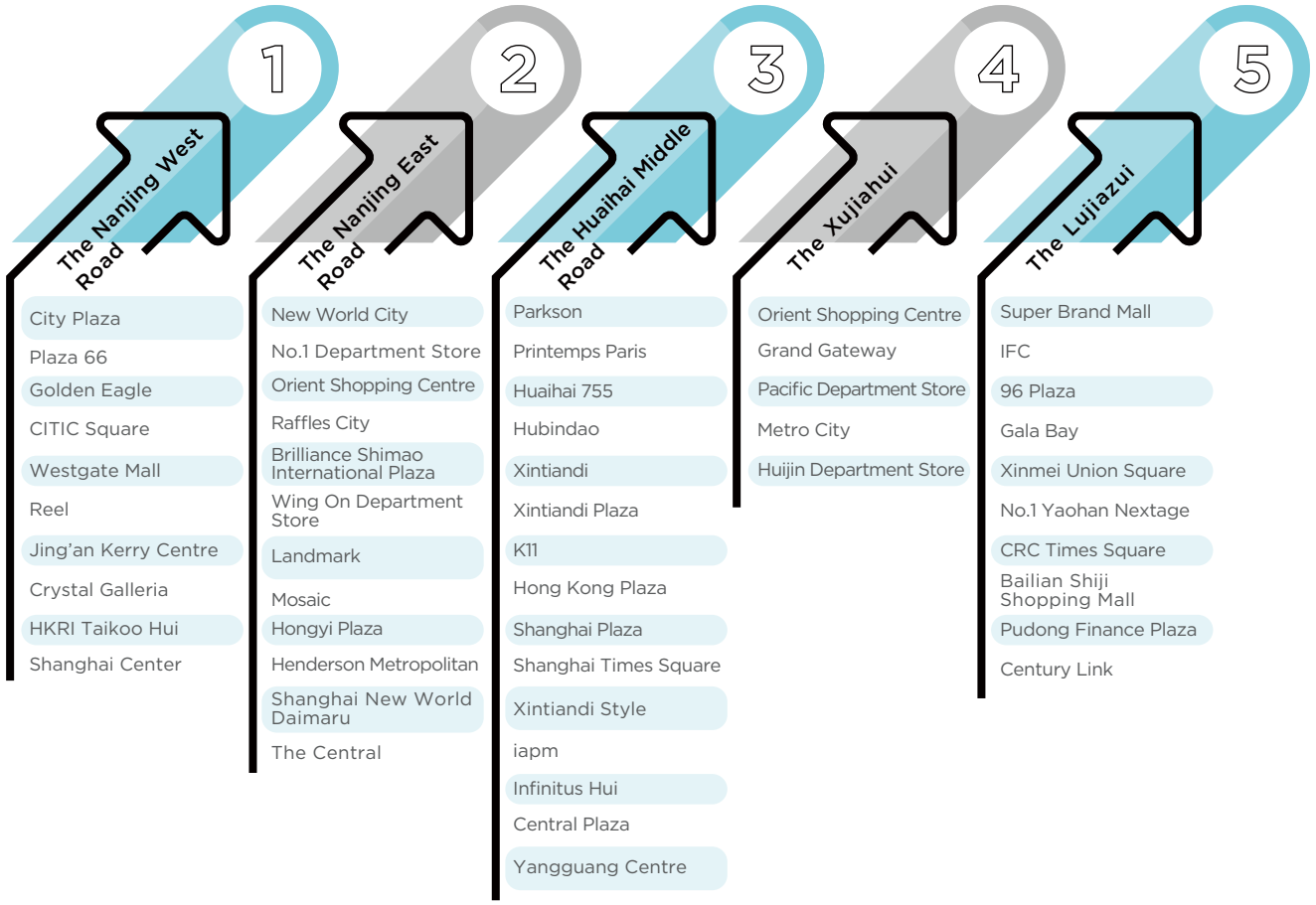
The Nanjing East Road retail hub is known as the 'The Best Pedestrian Street in China' and is the busiest domestic tourist and pedestrian street in Shanghai. Both major domestic and international brands have chosen this retail hub to set up their China/Shanghai flagship store. In the past, the Nanjing East Road retail hub was predominantly made up of traditional department stores. In 2017 the hub began a large-scale renovation and upgrading programme.

As for the Huaihai Middle Road retail hub, this area mainly attracts mid- to high-income shoppers. Nowadays, it has become the favourite shopping destination for white-collar workers.

The Xujiahui retail hub is one of the city's main central retail centres. The hub is now being developed into a regional retail hub, which integrates culture and commerce.

Last but not least, the Lujiazui retail hub, located in the principal CBD area in Shanghai – Little Lujiazui – is surrounded by grade A office buildings, five-star hotels and luxury residences. Both tourists and office workers are attracted to the retail offering in this area (Figure 15).

Figure 15: The major commercial retail projects in Shanghai's primary retail hubs



Source: Cushman & Wakefield Research

The Nanjing West Road retail hub includes two sub hubs; the 'Meihengtai' sub retail hub (which includes Westgate Mall, Plaza 66 and Citic Square) and the Jing'an Temple retail sub hub. The Meihengtai retail sub hub mainly consists of high-end luxury shopping centres, among which garments and bags occupy the highest market share compared to other product categories. The Jing'an Temple retail sub hub has a large number of high-end department stores that focus on commodity and garment retail (Figure 16).

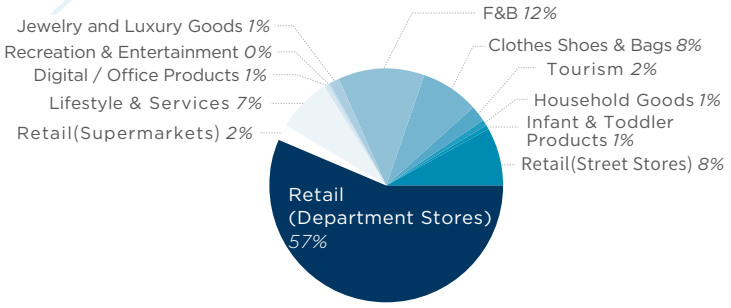
While the Nanjing East Road is dominated by department stores, the target customers of the Huaihai Road retail hub are the younger shopper groups. Thus, the frequency of retail project updating, upgrading and tenant mix change in this hub is relatively regular. What's more, the highest sales revenue in this area is generated from garments and bags while relatively less sales revenue stems from department store projects.

Similar to the Huaihai Road retail hub, the main consumption category in the Xujiahui retail hub is also garment and bags. However, in this area a relatively smaller amount of retail project stock exists.

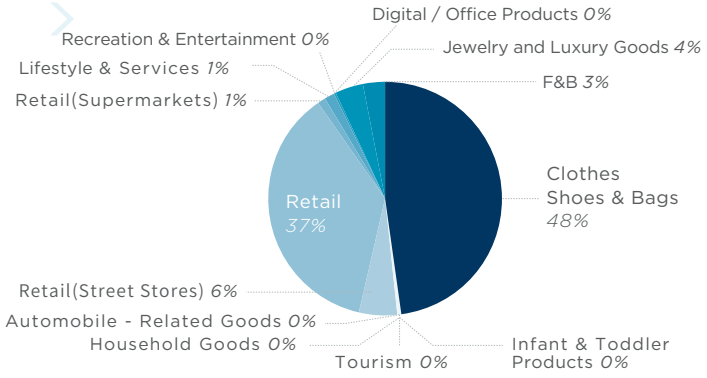
The Lujiazui retail hub, on the other hand, is home to a number of sizeable retail projects. At 44%, however, it is another sub hub in Shanghai which derives much of its completed retails sales from its department stores.

Figure 16: Shanghai primary retail hubs (and Nanjing West Road sub hubs) – Sales by retail products and services (2018)

NANJING EAST ROAD

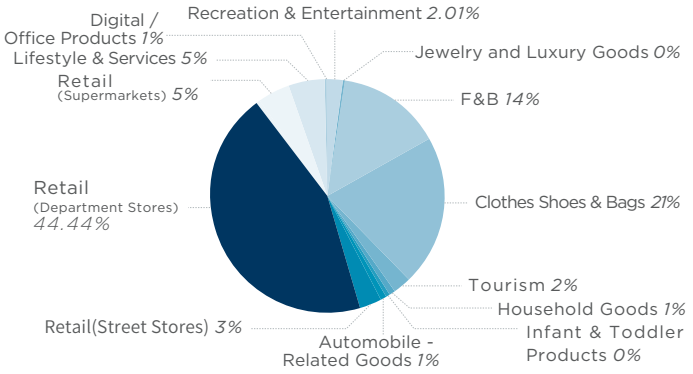


HENGMEITAI

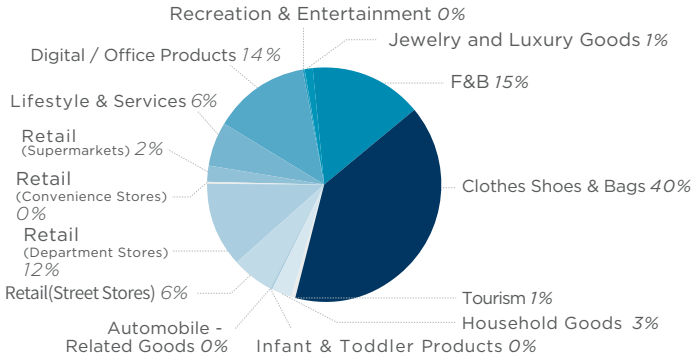


These traditional primary retail hubs in Shanghai have been mostly developed in a strip, along the major thoroughfares in downtown Shanghai. Meanwhile, as the city's metro system has rapidly expanded its network of lines over the last 15 years, so secondary retail hubs have also sprouted and blossomed commercially.

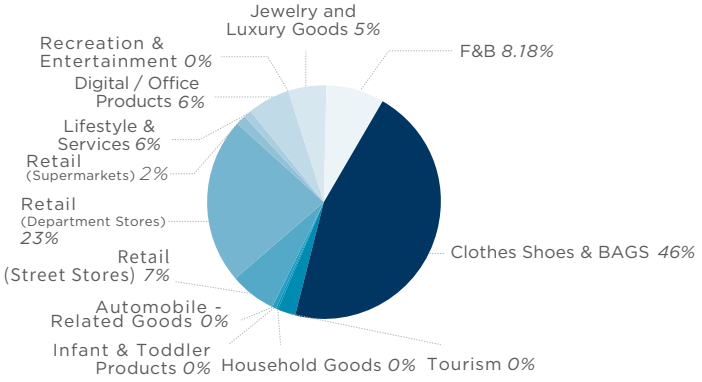
JING'AN TEMPLE



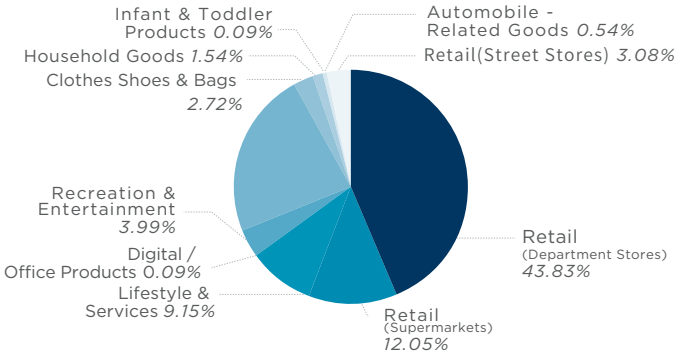
Huaihai Middle Road



XUJIAHUI



LUJIAZUI



Source: Special Committee on Big Data Application, Yangtze River Delta Urban Economic Coordination Society, Cushman & Wakefield Retail Services, Cushman & Wakefield Research

When considering the physical retail properties in Shanghai, there are a number of trends influencing and impacting the market. Six of the more important trends are as follows:

Trend 1: More Premium Commercial Projects to Evolve in Primary Retail Hubs;

Trend 2: Rapid Growth of Commercial Supply in Secondary Retail Hubs;

Trend 3: Continuous Growth in Business Turnover for all Types of Shopping Centres

Trend 4: Continuous Development and Refinement of Brands – Retailers Seeking Prime Development;

Trend 5: The Most Developed 'First Store' Economy in China – Innovation Fostering Sustainable Development, and;

Trend 6: Urban Renewal Brings Vitality to Commercial Projects.

TREND 1: More Premium Commercial Projects to Evolve in Primary Retail Hubs

At present, Shanghai's primary retail hubs have a considerable amount of existing prime retail property stock. What's more, there is limited space for new commercial supply. Therefore, there will be fewer new retail projects in the city's central area in the future. Additionally, the scale of new retail supply projects in the prime central retail hubs will be much smaller than that of the secondary retail hubs. However, those existing and future projects in the primary hubs will continue to improve and optimise to capture as many customers as they can from the citywide catchment population and beyond and thus generate higher sales revenue and ultimately, elevated asset value (Figure 17 and 18).

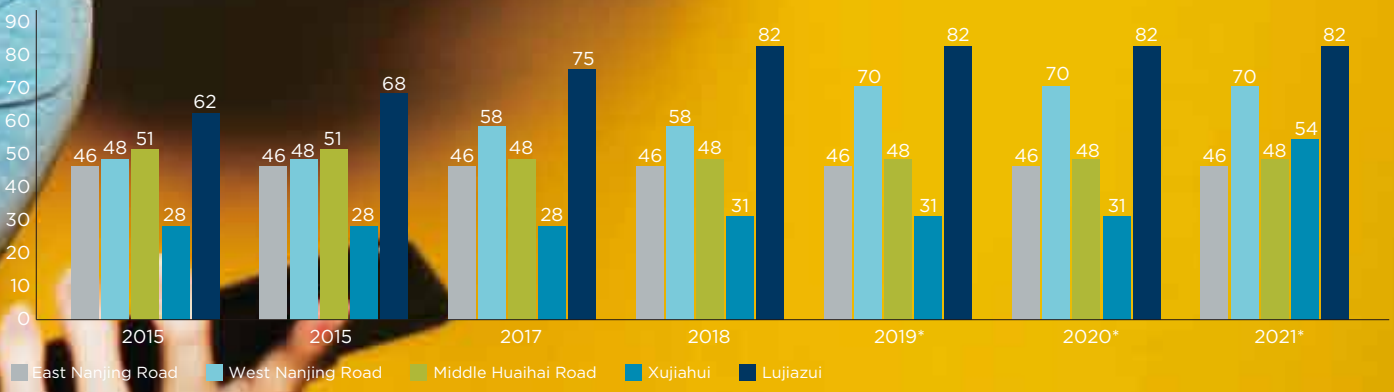
With four new upcoming commercial projects, the Huaihai Middle Road retail hub will provide the largest amount of area of new supply compared with the other three primary retail hubs. Three new projects are about to be open on Nanjing West Road whereas two will open in the Xujiahui retail hub; the Xujiahui International Trade Center Phase I and II. Additionally, one new commercial project will open in the Nanjing East Road retail hub. Among the upcoming projects in the primary retail hubs, many of them will be existing projects which have closed for renovation and upgrading work, such as New World City and Shanghai JC Mandarin. These particular projects are expected to see an increase in total sales and expected profits...and with this, these projects will exert a positive impact on the transformation and upgrading of the primary retail hubs in Shanghai. All in all, premium properties in the city's primary retail hubs are still the first choice for international brands when entering the Shanghai market (Figure 19 and 20).

Figure 17: Future prime retail property projects in Shanghai's primary area (2019-2022)

Total Supply: 0.62M sq m

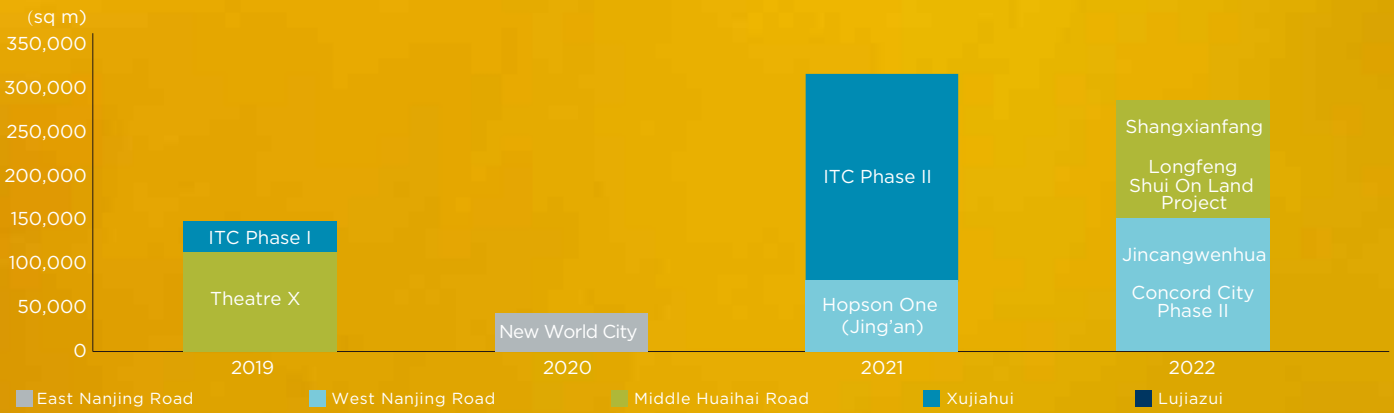
Source: Cushman & Wakefield Research

Figure 18: The prime retail stock in Shanghai's primary retail hubs (2015-2021)



Source: Cushman & Wakefield Research (Note: Unit: 10,000 sq m)

Figure 19: Future retail supply in Shanghai's primary retail hubs (2019-2022)



Source: Cushman & Wakefield Research

TREND 2:
Rapid Growth of Commercial Supply in Secondary Retail Hubs

New prime commercial retail property supply in Shanghai's secondary retail hubs is constantly increasing. The retail area per capita is rising year-by-year. Meanwhile, inter-project competition is heating up as new projects complete. This new supply, however, will offer retailers a wider store location choice. As resident spending power increases and consumption volume in the area grows, so this trend will continue to support the development of the retail market in the city's non-prime area in the future (Figure 21).

Shanghai's secondary retail hubs now occupy the biggest proportion of retail stock. This fact is due to the Shanghai's 'polycentric' development pattern which has been supported by the expansion of Shanghai's metro system and the growth of the suburban residential population

Shanghai's metro network (Q2 2019)

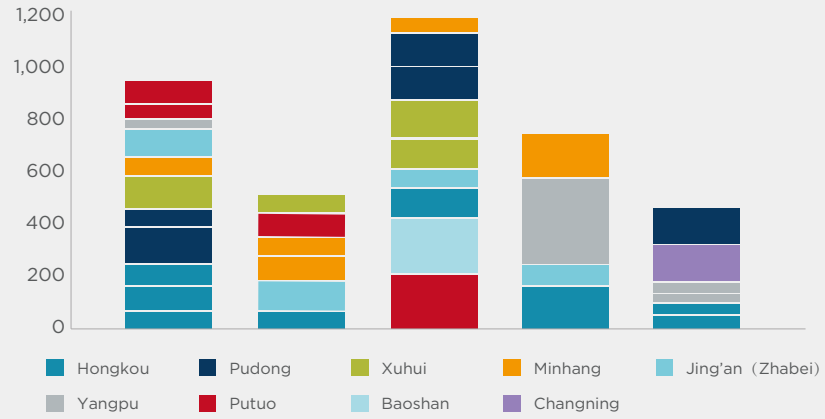
Current Length	705 km
Number of Lines	16
Number of Stations	413
Daily Rides	10.16 million
Annual Rides 2018	3.71 Billion
Planned Upgrades 2025	Lines 13, 14, 15, 18, 19, 20, 21, 23, Chongming Line, Jiamin Express, Airport Express

Source: Cushman & Wakefield Research

(Figure 22).

Shanghai's primary retail hubs are still undoubtedly important to the consumers in Shanghai and beyond. The city's secondary retail hubs also have an important part to play, albeit more at the immediate 'community' level. Moving forward, to stay ahead of the competition, primary area located retail projects will continually look to improve their retail offering while secondary retail projects will focus on further refining and tailoring their retail offering to suit the surrounding suburban catchment population and

Figure 20: Future retail supply in Shanghai's secondary retail hubs (2019-2022)

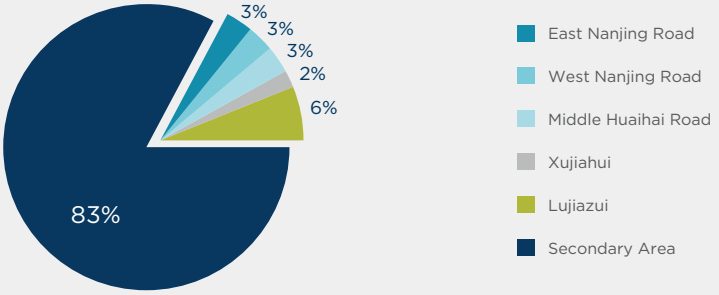


Source: Cushman & Wakefield Research

Figure 21: Future prime retail property projects in Shanghai's secondary hubs (2018-2022)

Total Supply: 9.48 M sq m

Figure 22: Prime retail stock distribution in Shanghai (Q2 2019)



Source: Cushman & Wakefield Research

TREND 3:
Continuous Growth in Business Turnover for all Types of Shopping Centres

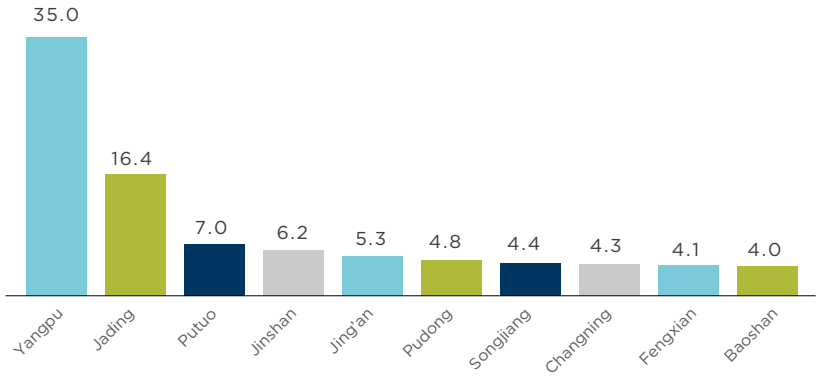
When analysing business turnover, shopping centres in Shanghai have generally enjoyed solid growth. However, in 2018, shopping centres in four districts in particular; Yangpu, Jiading, Putuo and Jinshan, enjoyed higher year-over-year (y-o-y) growth when compared to centres in other districts (Figure 23).

The main reason for this is retail market maturity, with the newly developed commercial retail hubs experiencing rapid sales turnover growth and the older, more mature hubs seeing growth plateauing as the growth band for project sales optimisation narrows.

In terms of retail sector business turnover in Shanghai in 2018, the three-sector split was 66.9%, 25.8% and 7.3%, respectively for retail, catering and service-oriented consumption. In general, over the last few years, there has been a transition from pure retail consumption to service-oriented consumption (Figure 24).

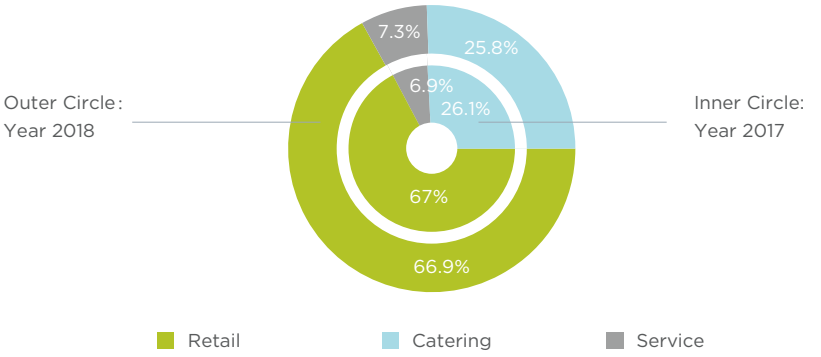
With respect to retail sector growth rate, in 2018, the growth rate of services-oriented consumption was the highest out of the three sectors, at 11.6% compared to the previous year. Pure retail saw steady growth of 5.2% on the year, while catering declined somewhat from the previous year to register a growth rate of 4.3% in 2018 (Figure 25).

Figure 23: Shanghai shopping centre turnover – The top 10 districts (2018) (%)



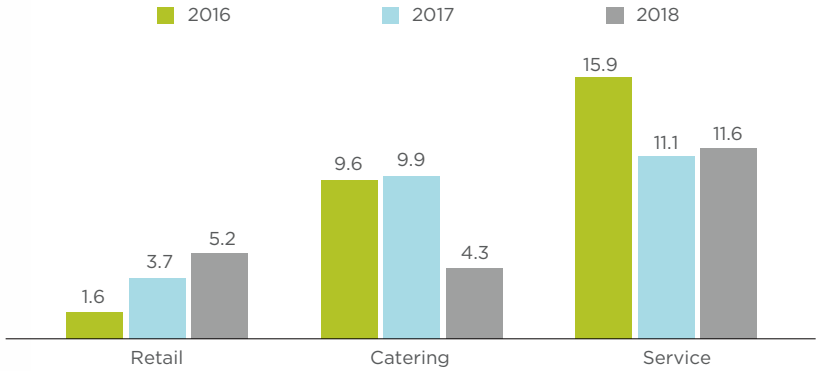
Source: Shanghai Municipal Commission of Commerce, Cushman & Wakefield Retail Services, Cushman & Wakefield Research

Figure 24: Retail sector business turnover in Shanghai (2018)



Source: Shanghai Municipal Commission of Commerce, Cushman & Wakefield Retail Services, Cushman & Wakefield Research

Figure 25: Retail sector business turnover growth rate in Shanghai (2016-2018) (%)



Source: Shanghai Municipal Commission of Commerce, Cushman & Wakefield Retail Services, Cushman & Wakefield Research

TREND 4:
Continuous Development and Refinement of Brands, Retailers Seeking Prime Development

Along with market development, brand positioning needs to constantly evolve with changing market conditions and increasing competition. Brand optimisation and upgrading means brands have to constantly refine themselves to satisfy the needs of consumers in Shanghai. Generally, within the retail market in the city there has been a shift change from quantity to quality. Intertwined in this general change, there are 10 influential trends, including catering more to Generation Z consumers, the use of Key Opinion Leaders (KOLs), and the use of retail technology such as VR to boost the shopping experience.

What's interesting of late is the recognition of traditional local brands and craftsmanship in Shanghai among the city's consumers. Local brands and craftmanship recognition are other elements that the 'Shopping Shanghai' plan is striving to promote. Following on from this and to continue to make local brands and products more relevant among local consumers, it will be important to bring new elements, new technology and new services to traditional brands to continually improve their quality and match the changing demands of consumers. At present, there are 1,128 China time-honoured brands, 180 of which call Shanghai home (Figure 26).

Figure 26: Three time-honoured brands in Shanghai

1

The well-known brand 'Phoenix' will be upgraded to meet the needs of young people

2

'Hongshuangxi' will be developed into a comprehensive sports equipment company

3

The brand 'Huili'
Long regarded as a labourer shoes, the brand 'Huili' will be transformed into a hip and fashionable brand

TREND 5:

The Most Developed 'First Store' Economy in China, Innovation Fostering Sustainable Development

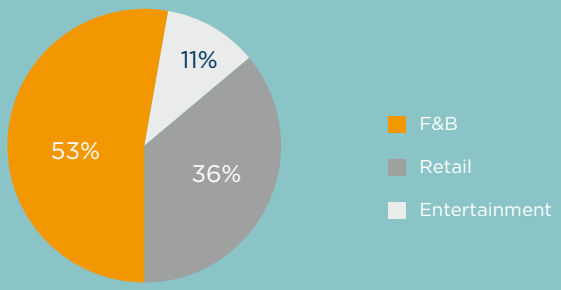
The 'first store' is often used to establish a beachhead for the new-entry brand to enter the market. It also serves as a testing ground for new sub brands or new retail formats within the overall brand to see how they fare and whether they can be rolled out to other stores in the market once they open. The 'first store' economy in Shanghai is the leading economy of its kind in the country and is great indicator of the city's high degree of market openness (Figure 27).

Figure 27: The number of 'first stores' in major cities in China (2018)

Source: China 'First Store' Economic Development Report, Cushman & Wakefield Retail Services

In terms of the number of first stores, 589 first stores were opened in Shanghai in 2018. Many of them are international brands, coming from more than 30 countries and regions. In 2018, F&B stores were the dominant first store business format. This was followed by retail stores and entertainment stores (Figure 28).

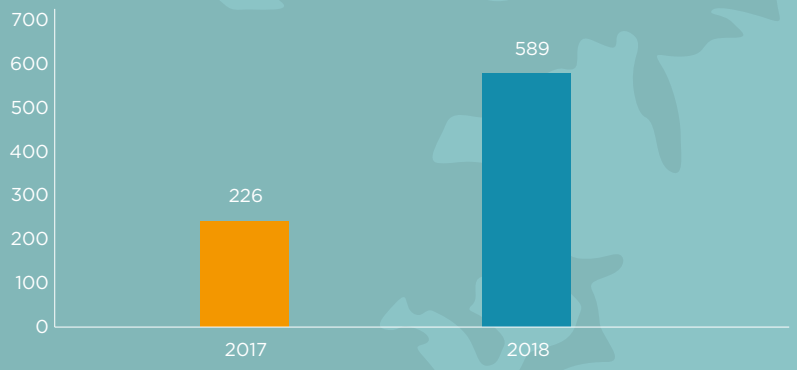
Figure 28: The proportion of 'first store' openings in Shanghai (2018)



Source: Shanghai Municipal Commission of Commerce, Cushman & Wakefield Retail Services, Cushman & Wakefield Research

In 2018, the number of first store openings in Shanghai was 2.6 times of that in 2017, and much higher than in the other major cities in China. The surge in the number of first store openings also demonstrates the rapid growth of the 'first store' economy in Shanghai (Figure 29).

Figure 29: The number of 'first store' store openings in Shanghai (2017-2018)



Source: China 'First Store' Economic Development Report, Cushman & Wakefield Research

When examining the distribution of first stores in Shanghai, 60% of them are located in Huangpu, Pudong and Jing'an. Huangpu District, with three major citywide retail hubs, Nanjing East Road, Huaihai Middle Road and Yu Garden, has the largest number of first stores when compared to the other districts. Meanwhile, Pudong District, with three newly opened shopping centres, namely LCM, Lujiazui Center and Century Link, in second place geographically speaking, has slightly more first stores than Jing'an District.

In addition, this year, Shanghai would like to achieve the goal of opening at least 500 first stores in the city, thereby further solidifying its position as a major centre for major brands (Figure 30).

Figure 30: Selected brands which have opened 'first stores' in Shanghai

First Store(Mainland)
Zizzi

First Store(China)
LeTao

First Store(Asia)
M&M

First Store(Mainland)
Diamanti Per Tutti

First Store(World)
SALAR MILANO

First Store(China)
BOSE

First Store(Shanghai)
SPACE CLUB

First Store(Asia)
LEGO

First Store(China)
Dyson

Source: Cushman & Wakefield Retail Services

TREND 6:
Urban Renewal Brings Vitality to Commercial Projects

Land supply for primary retail hub development in Shanghai has already been virtually exhausted. Thus, urban renewal will increasingly become a crucial source for new retail project supply. In the future, urban renewal in Shanghai will not just focus on architectural and cultural preservation but take into account actual user demand (Figure 31).

Urban renewal is an essential planned activity to redevelop buildings and areas in Shanghai. The main purposes for urban renewal are conservation, rehabilitation and redevelopment. Currently, the process of urban renewal in Shanghai is at development stage 3.0-4.0, which aims to utilise technology and best practice sustainability ideas to drive efficiency, drive optimisation, enhance the spirit of community and augment the general living experience of the citizens.

Figure 31: Urban renewal goals, objectives, methods and processes

Source: Cushman & Wakefield Retail Services Services

With a higher level of commercialisation, primary retail hubs in the city are experiencing a faster pace of urban renewal when compared to other retail hubs in the city.

The renovation and upgrading of major retail hubs are already in full swing. The Nanjing East Road retail hub is focusing on renovating and upgrading Shanghai No. 1 Department Store, Yong'an Department Store, Shimao International Plaza and The Central. Its purpose is to create a prosperous world-class commercial retail hub and rebuild the image of 'The best pedestrian street in China'. The concept of forming an International Business nucleus with the Nanjing West Road retail hub being the main axis is now in the works. With the advantages brought by the three retail sub hubs of Jing'an Temple, Meihengtai and HKRI Taikoo Hui, Nanjing West Road is fast developing into the most extensive, the most active and the classiest shopping district in Shanghai. Through inheritance, integration and development of traditional customs and culture, the Yu Garden retail sub hub is being developed into a tourism destination that features many traditional cultural characteristics in Shanghai. Also, it is built to serve the role as an international gold and jewellery trading zone that is able to attract well-known domestic and international brands. With regard to the Xujiahui retail hub, many of the commercial projects in the area have undergone renovation and reconstruction. On top of that, the construction of mega commercial complexes and a central commercial corridor area has been able to facilitate the development of an integrated retail hub which combines business, travel, culture and entertainment (Figure 32).

Urban Renewal 1.0:
Greenfield and Brownfield Development

Urban Renewal 2.0:
Quantitative Development

Urban Renewal 3.0:
Qualitative Development

Urban Renewal 4.0:
Technology, Sustainability, Efficiency, Optimization,Community and Life.

Source: Cushman & Wakefield Retail Services

Figure 32: Selected Shanghai Primary hub/sub hub upgraded positioning

Retail Hub	Original Position		Upgraded Position
East Nanjing Rd	Culture, Tourism	→	World-class commercial projects and 'the best pedestrian street' in China.
West Nanjing Rd	Luxury	→	An international commercial retail hub.
Yu Garden	Old Town Culture	→	A tourism destination that features many traditional cultural characteristics
Xujiahui	Complex	→	An integrated retail hub featuring a combination of business, travel, culture and entertainment.
Dongjiadu (Future)		→	A retail business centre that is also home to financial enterprises.
Middle Huaihai Rd (Future)	Fashion	→	An integration of 'Shanghai style' commercial retail areas with 'new retail'.

Source: Cushman & Wakefield Retail Services

In the future, the speed of urban renewal in Shanghai will be further accelerated in order to pursue a sense of collective cultural preservation, value add commercial stock, project protection and life and living activation. Through this, new vitality and new business opportunities will be brought to urban commercial projects in Shanghai .

RET

F Collective Cultural Preservation

P Project Protection

TAIL

A Value Add Commercial Stock

L Life and Living Activation

Having now gained an insight into Shanghai commercial retail property market, let's finally focus our attention on the characteristics and behaviour of consumers in Shanghai.

03

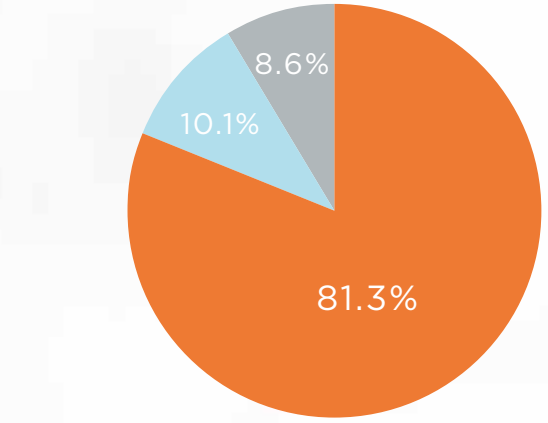
SHANGHAI CONSUMPTION CHARACTERISTICS AND BEHAVIOUR – THREE KEY POINTS

Consumption Undergoing Structural Reform

According to the Sixth National Population Census in 2010, people aged 15-64 accounted for 81.3% of the more than 23 million permanent residents in Shanghai (Figure 33).

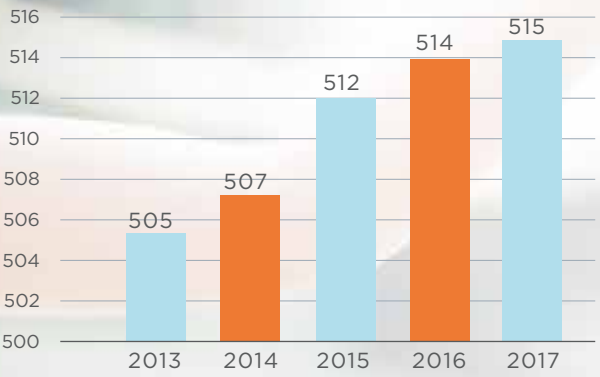
In the past few years, the demand for food, clothing and household items as well as entertainment, have both seen explosive growth. The increase in the number of university students in Shanghai, as well as greater awareness of more varied goods and services due to the proliferation of the Internet and increased exposure to international travel, have also widened and improved overall levels of consumption in the city (Figure 34).

Figure 33: Shanghai's population by age group



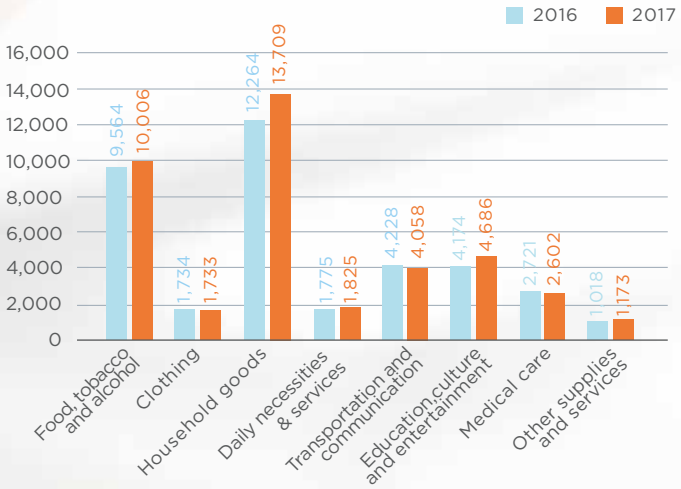
Source: Shanghai Municipal Bureau of Statistics, Cushman & Wakefield Research

Figure 34: The number of students in higher education in Shanghai (2018) (000, people)



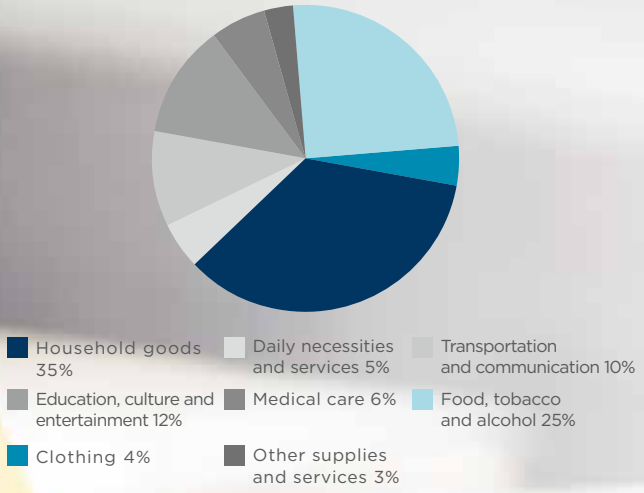
Source: Shanghai Municipal Bureau of Statistics, Cushman & Wakefield Research

Figure 35: The average consumption expenditure of Shanghai residents (2016-2017) (RMB)



Source: Shanghai Municipal Bureau of Statistics, Cushman & Wakefield Research

Figure 36: The ratio of goods, products and services consumed in Shanghai by Shanghai residents (2017)



Source: Shanghai Municipal Bureau of Statistics, Cushman & Wakefield Research

The most significant consumption growth between 2016 and 2017 in Shanghai was in educational services, cultural services, entertainment services, daily necessities and services and household goods. As well, the growth rate for food, tobacco and alcohol consumption has slowed. Thus, the Engel coefficient for Shanghai residents has declined while the standard of living has improved (Figure 35 and 36).

As consumption patterns in Shanghai improve and change, consumers are more inclined to go for quality in terms of goods and services. Increasingly, they also know what they want, and they are less likely now to purchase on impulse.

2 The Middle-class Propeling Consumption Growth

The group of people driving consumption growth in Shanghai is also undergoing major changes. It is estimated that by 2020, 81% of total consumption growth will be derived from the middle-class. Moreover, the number of upper middle-class (monthly household disposable income between RMB12,500 and RMB24,000) people and the wealthy (monthly household disposable income above RMB24,000) will double. In the next five years, they will contribute around 75% of the increment for total private consumption.

The generation of people born in the 1980s and 1990s are fast becoming the core group of second-generation middle-class consumers. Consumers from this generation group are not only looking for high-quality goods and services that meet their own needs, but they are also looking for higher, more fulfilling experiences, personalisation and spiritual enjoyment from their shopping encounters and retailers will need to be aware of this in order to fully tap their purchasing power .

In 2020, the number of upper-middle people and the wealthy will double, reaching 100 million and accounting for 30% of total households in China

Middle-class (Monthly household disposable income between RMB 12,500 and 24,000) + The Wealthy (Monthly household disposable income above RMB 24,000)

Upper middle-class and wealthy groups to drive consumption in Shanghai

Shopping Habits

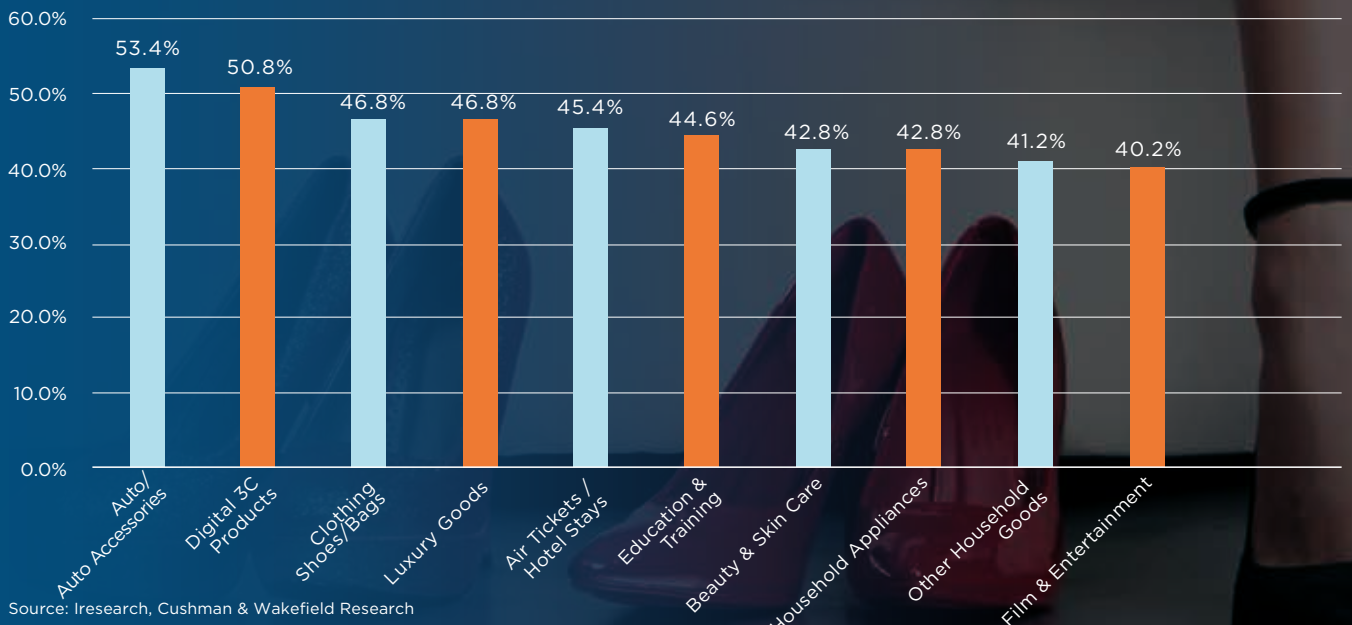
- High Brand awareness
- High-quality goods
- Use of international purchasing agents

→ **Shopping Characteristics**

- High Emotional Consciousness
- The Pursuit of 'Beauty'
- To aspire to become an ideal person through consumption
- Representative Brand: Heytea

When it comes to goods and product purchases, the middle-class in Shanghai is very interested in those that are associated with leisure and entertainment. Such goods and products include automobiles and auto accessories, digital 3C products (computers, communication equipment and consumer electronics), clothing/shoes/bags and luxury goods. Thus, for this group of people, price is no longer the single greatest concern (Figure 37).

Figure 37: The Shanghai middle-class consumer: The top 10 favourite purchases (2018)



Source: Iresearch, Cushman & Wakefield Research

In terms of consumer behaviour, the middle-class has also been increasingly influenced by Generation Z' as they pursue a sense of presence, participation, ritual and happiness. In the meantime, this generation desire to be members of the 'SoLoMoMe' (Social, Local, Mobile and Me) consumer group. Hence, personalised demand has begun to occupy the dominant position regarding consumer behaviour within the Generation Z group in Shanghai.

1. Decreased interest in mass-market products
2. More attention to the appearance and experience of the products
3. Increased proportion of emotional elements

Finally, as Shanghai's middle-class has grown, so the retail format has changed to satisfy changing demand. Grocery stores have been upgraded to convenience stores; farmer's markets have been replaced by the fresh zones in supermarkets; two-yuan and ten-yuan stores have also been replaced by new brands like Miniso. In general, both the soft and hard factors of commercial retail stores have been constantly improved to better satisfy the needs of the city's fast growing new middle-class.

3 Continuous Innovation in Retail

Consumers are now the focal point for the entire retail industry in Shanghai and two aspects which have transformed and will continue to transform retailing in the city are technology, and culture.

FACTOR 1

The Influence of Technology on Retail

Advancements in technology are giving retailers in Shanghai more opportunities and more methods to interact with consumers. Retail tech that is associated with cloud computing, the Internet of Things, Big Data, artificial intelligence and VR, has been rising and has optimised demand-side functions. Meanwhile, a new generation of ICT (Information and Communication Technology) has aided supply side procedures and processes as well with both sets of technology being used to good effect by many retailers in Shanghai to reduce costs and optimise overall operations.

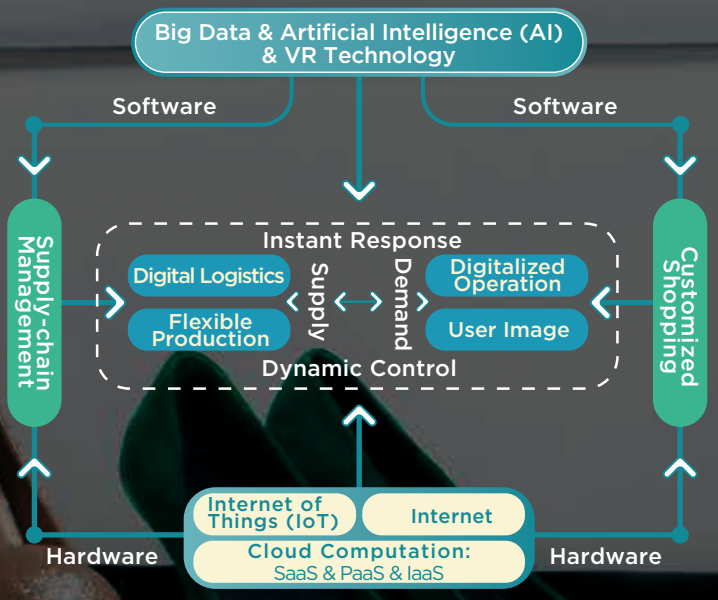
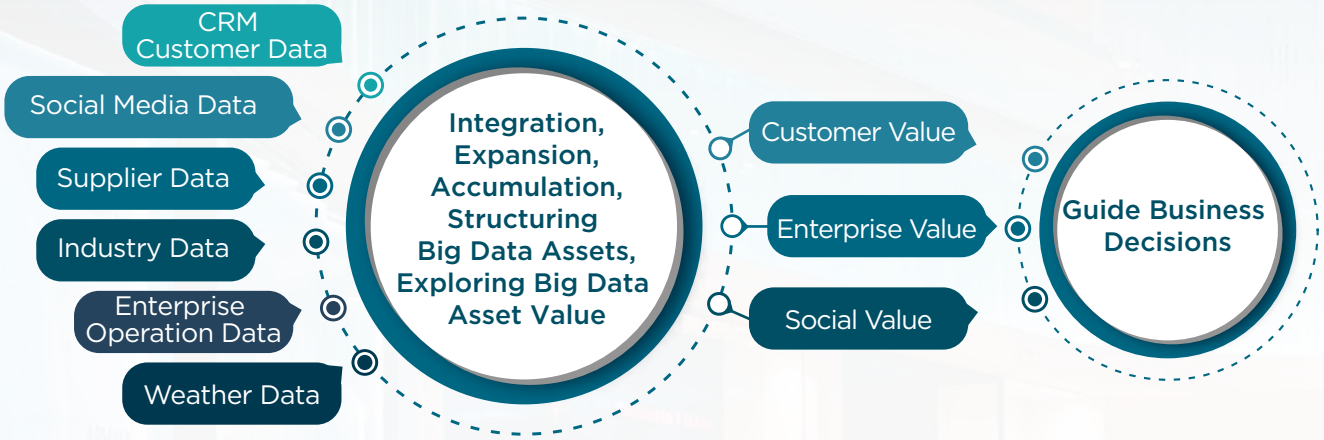


Figure 38: Big Data adding value to Shanghai retailers



Source: Iresearch, Cushman & Wakefield Research

If we look just at Big Data on its own, this particular technology has also transformed the operations of retailers in Shanghai on many levels. Data can be derived from sources including customers, social media, and suppliers. When fully integrated and analysed, Big Data can add value to retailers in Shanghai by elevating customer value, enterprise value and social value. Ultimately, when effectively utilised, Big Data can be a useful tool to guide good business decisions (Figure 38).

To date, the Internet has become an integral part of consumers' daily lives in Shanghai. Mobile payment is the norm now and online purchasing is frequent. Under this new retail modus operandi, the traditional distinction between online and offline retail in Shanghai is steadily blurring. Moving forward, only by complementing the advantages of online and offline can a comprehensive shopping experience be provided to consumers in Shanghai. This has not been lost on many traditional retailers and Internet enterprises, and many have joined forces to provide the seamless online/offline retail service demanded by consumers in the city.

Online Advantages

Price Information, Stock Location, etc.

Offline Advantages

Touch, Feel and Experience of the Product

In Shanghai, there are a number of retailers operating in the city which have successfully blended online and offline retailing.

In the future, full integration of online and offline retail in Shanghai will materialize and this amalgamation will undoubtedly improve the efficiency of the overall retail supply chain within the city and reduce costs.

HEMA

RED HOME

MI HOME (XIAOMI)

YIT

Source: VectorStock, Freerange, Freepik.com, Cushman & Wakefield Retail Services

FACTOR 2

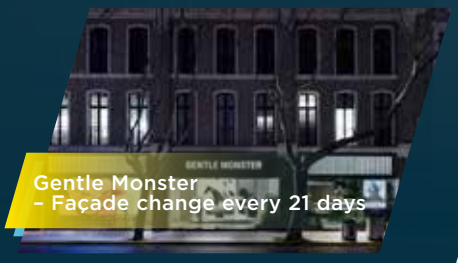
The Influence of the Discerning Consumer on Retail

Finally, with the improvement in living standards, various creative new retail formats have entered Shanghai's retail market. They have done so in order to meet evolving consumer demand. Demand trends are changing. Through factors such as education, the Internet, travel, and peer influence, consumers in Shanghai are becoming more discerning as their tastes mature and change. What's more, the consumer shopping culture in Shanghai is also transforming the ways goods and services are delivered, and as such, the overall consumption experience is now a front and centre priority for many retailers in Shanghai.

Experience – Changing the ways retail goods and services are delivered

Differing from traditional retailing, new retail in Shanghai is fast focusing on the participation, the feelings and above all the retail experience of consumers. A plethora of shopping venues around the city, such as shopping streets and shopping centres, are consequently changing by heightening the sense of consumer experience. Current retail experience examples in Shanghai include handmade workshops, baking classrooms, creative retail stores, distinctive catering restaurants, theatre style commercial retail space and exhibition retail space.

Starbucks Roastery Workshop
– Appreciating the art of coffee roasting



Gentle Monster
– Façade change every 21 days

Shanghai K11
– 'Pink Love' event

KEY TAKEAWAYS

Shanghai is now a leading international retail centre in China. It has steadily developed its commercial retail offering to correspond with its planned positioning as an 'excellent global city' and the 'Shopping Shanghai' Shanghai municipal government directive will go a long way in achieving this goal for the municipality.

Among the four first tier cities in China (Beijing, Shanghai, Guangzhou and Shenzhen), Shanghai enjoys the greatest consumption capability in the country. Its retail market has enormous potential for further growth, with mid-to-high end fashion consumption now experiencing significant growth.

In order to expand the influence of 'Shopping Shanghai' and help put Shanghai squarely on the international retail map, the city has been actively organising and hosting notable international fashion events such as Shanghai Fashion Week. This particular event has consistently attracted numerous international clothing retailers to show their latest wares in the city.

Shanghai is now home to many high-quality retail property developments. What's more, more quality supply is expected to complete in the near to mid-term future in the form of new build projects and urban renewal projects. At present, Shanghai is home to the largest volume of commercial retail property stock in China and this supply is being influenced by six major development trends:

1. Commercial retail projects in Shanghai's primary areas are continually improving their hard asset quality and their related retail-associated services. These projects are still the first location choice for international retailers entering the Shanghai, if not China, market for the first time;

2. Commercial retail projects in Shanghai's secondary areas are undergoing rapid growth in terms of supply. At the same time, the improvement in transport infrastructure, commercial property agglomeration around suburban hubs and the increasing suburban population will boost consumption and will lead to the further retail market growth within the city's secondary areas;

3. All types of shopping centres have been experiencing continuous growth in business turnover, especially retail properties in Shanghai's suburban districts;

4. Consumers, and consequently brands, in Shanghai are moving from 'quantity' to 'quality' in relation to purchase and sales, respectively. Furthermore, the recognition of traditional brands and craftsmanship has reflected the value of these types of local brands and has helped spur the advancement of the 'Shopping Shanghai' promotion and development policy. Added to this is the adoption and implementation of new technology and services to push the Shanghai retail experience to a new level;

5. Shanghai currently enjoys the status of having the most developed 'first store' economy in China. 589 'first' stores opened in Shanghai in 2018 and it is estimated that 500+ more 'first' stores will open in 2019;

6. Urban renewal is bringing vitality to Shanghai's retail market. With a greater level of commercialisation, Shanghai's primary areas are seeing the number of urban renewal projects increase at a rapid pace.

Finally, as Shanghai's middle-class becomes the dominant contributor to consumption growth in the city, their discerning shopping traits will continue to transform retail in Shanghai for the years to come. Online and offline retail barriers will be blurred, retail goods and products will further improve, and the retail shopping experience will be heightened, thus further fostering development of the retail market in the city.

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