

# POST COVID-19 – RECOVERY

Looking Beyond COVID-19:  
Shanghai's May 5th Shopping  
Festival – A big assist for the  
city's retail property market

May 2020

GREATER CHINA OCCUPIER RESEARCH



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Consumption is a major driving force and a ballast stone for any city's economy and Shanghai is no exception. Shanghai has always attached great importance to stabilising and expanding resident-led consumption and one recent example of this is the city's 'Three-Year Action Plan (2018-2020)', which was launched in April 2018 to invigorate the 'Shanghai Shopping' brand and accelerate the creation and the further solidification of Shanghai as an important consumption destination from an international perspective.

Having said this, the recent COVID-19 outbreak has had a sizeable impact on consumption and on Shanghai's overall economy.

The COVID-19 outbreak and the subsequent home confinement period hit Shanghai's consumer goods market, with the month of February seeing the greatest drop in total retail sales of consumer goods. According to the Shanghai Bureau of Statistics, total retail sales of consumer goods in February in Shanghai decreased 37.9% year-on-year (y-o-y). Given the tight and rapid action by the authorities, the spread of the epidemic was controlled in late February, and in late February and early March, citizens in Shanghai were able to return to work and venture out more to shop. Subsequently, in March, the city's total retail sales of consumer goods decreased at a slower y-o-y rate of 20.3%, up 17.6 percentage points from the February figure.

To further improve the performance of total retail sales of consumer goods in Shanghai, and in turn, the city's overall economy, stimulating consumption will be key.

Consumption is now recognised as a major economic driver not just in Shanghai but for the economy in China as a whole. According to the National Bureau of Statistics, in 2019 in China, consumption was a key economic component, contributing 57.8% to GDP growth in the country.

With the COVID-19 outbreak impacting Shanghai's retail sales, so the retail property market in the city in Q1 2020 has also been affected.

In Q1, most shopping centre landlords started to compress their rental expectations to achieve a stable occupancy rate. Many landlords, in partnership with their tenants, announced a reduction in rent or the offering of a one month rent-free period to combat and mitigate the harsh COVID-19-influenced business conditions. In Q1, the overall vacancy for mid-end to prime shopping centres in Shanghai's primary hub areas rose slightly to 8.8%, up 0.4 percentage points quarter-on-quarter (q-o-q). Meanwhile, average first floor rent in mid-end to prime shopping centres in the same areas dropped by approximately 1.8% q-o-q to RMB 885.5 per sq m per month.

Currently, with China now being in control of the domestic COVID-19 epidemic outbreak, on 13 March, the National Development and Reform Commission issued the 'Implementation Guidelines on Promoting Consumption Expansion to Accelerate the Strong Consumption Market'. Local governments are expected to spend nearly RMB 5 billion to stimulate consumption and to revive the general economy. With its recent launch of the 'May 5th Shopping Festival', Shanghai is now driving this initiative forward.



Launched in the first week of May this year, the 'May 5th Shopping Festival' is set to be a major catalyst for retail consumption by bringing together the four economic components of the 'Shanghai Shopping' brand, the recently issued 12 retail consumption policy measures, local retail platforms, retail merchants, retail goods, products and services and the city's consumer population all 'under one roof' to provide a massive boost to consumer spending, and in turn, to revive and return the city's overall economy to a normal footing.

Moving forwards, boosted by Shanghai's 'May 5th Shopping Festival', we expect online shopping in Shanghai to further develop and to further drive retail sales growth.

What's more, given the importance of the city's retail market in China and abetted by the 'May 5th Shopping Festival' in Shanghai, we expect international retailers to continue to place huge importance on the Shanghai market, and if they have an existing presence, to ensure they at least maintain a footing or look to further expand their business.

Into the second quarter, stimulated by the consumption-boosting directives, including Shanghai's 'May 5th Shopping Festival', we also anticipate retail sales of consumer goods

to see an uplift over the next few months in Shanghai.

With consumers in Shanghai now encouraged to buy, customer footfall traffic volume to retail outlets, including the city's prime shopping centres, will pick up in the next few months when compared to the previous four months of this year.

With customer footfall traffic volume to prime shopping centres in Shanghai anticipated to grow, we expect retail sales at these types of properties to also increase over the next few months. This increased sales volume will, in turn, boost the business volume of tenants. Even though 2020 is expected to see much new prime shopping supply complete in Shanghai overall, given the big-assist directives like the 'May 5th Shopping Festival', we envisage vacancy and rentals at prime shopping centres throughout the city to stabilise for at least the next 12 months.

The COVID-19 outbreak has been an unprecedented event in China. Its impact has been felt across geographies, society, the economy and the property market in the country. This report centres on Shanghai's 'May 5th Shopping Festival'. After providing a background on:

- COVID-19's impact on Shanghai's retail economy, and;
- The Shanghai retail property market,

...the report then explains:

- What Shanghai's 'May 5th Shopping Festival' is, and;
- What impact this festival will have on prime shopping centres in Shanghai.

# SHANGHAI'S RETAIL ECONOMY – COVID-19 IMPACT

Consumption is a major driving force and a ballast stone for any city's economy and Shanghai is no exception. Shanghai has always attached great importance to stabilising and expanding resident-led consumption and one recent example of this is the city's 'Three-Year Action Plan (2018-2020)', which was launched in April 2018 to invigorate the 'Shanghai Shopping' brand and accelerate the creation and the further solidification of Shanghai as an important consumption destination from an international perspective.

Having said this, the recent COVID-19 outbreak has had a sizeable impact on consumption and on Shanghai's overall economy. When examining this impact and the importance of consumption in being a driving force for economic recovery in the city, we need to examine a number of factors, including:

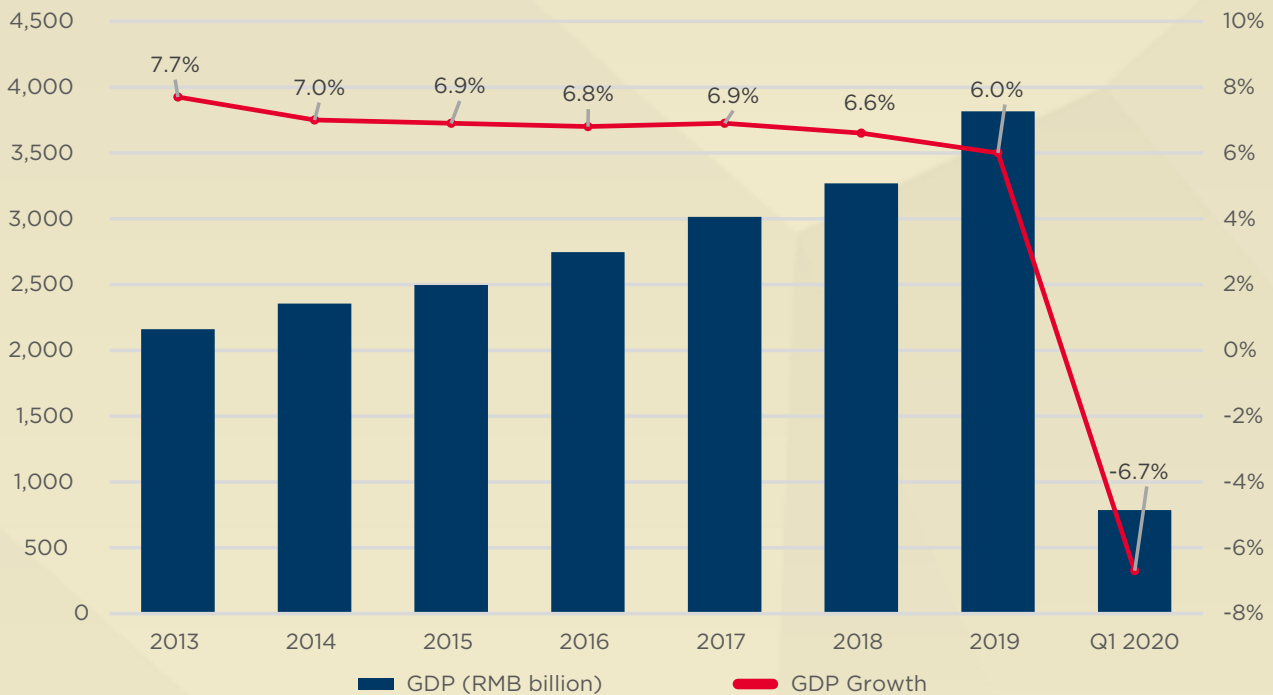
- Shanghai's GDP;
- Shanghai urban residents' disposable income;
- Shanghai total retail sales of consumer goods, and;
- Consumption's contribution to economic growth.

## Shanghai's GDP

In the first quarter of 2020, under the influence of the COVID-19 outbreak, Shanghai's gross domestic product (GDP) reached RMB 785.66 billion, down 6.7% year-on-year (y-o-y) (Figure 1).

**Figure 1:**  
**Shanghai GDP and y-o-y growth (2013-Q1 2020)**

Source: Shanghai Bureau of Statistics, Cushman & Wakefield Research



After the lockdown period, enterprises in Shanghai actively returned to work to minimise the impact of the epidemic outbreak. Work productivity levels in most industries, such as manufacturing, transportation, retail, catering and real estate, have gradually recovered, with the cumulative economic decline narrowing in March. What's more, the information technology and financial industries in the city have bucked the decline trend by registering y-o-y economic growth of 13.1% and 7.3%, respectively.

### **Shanghai urban residents - Disposable income**

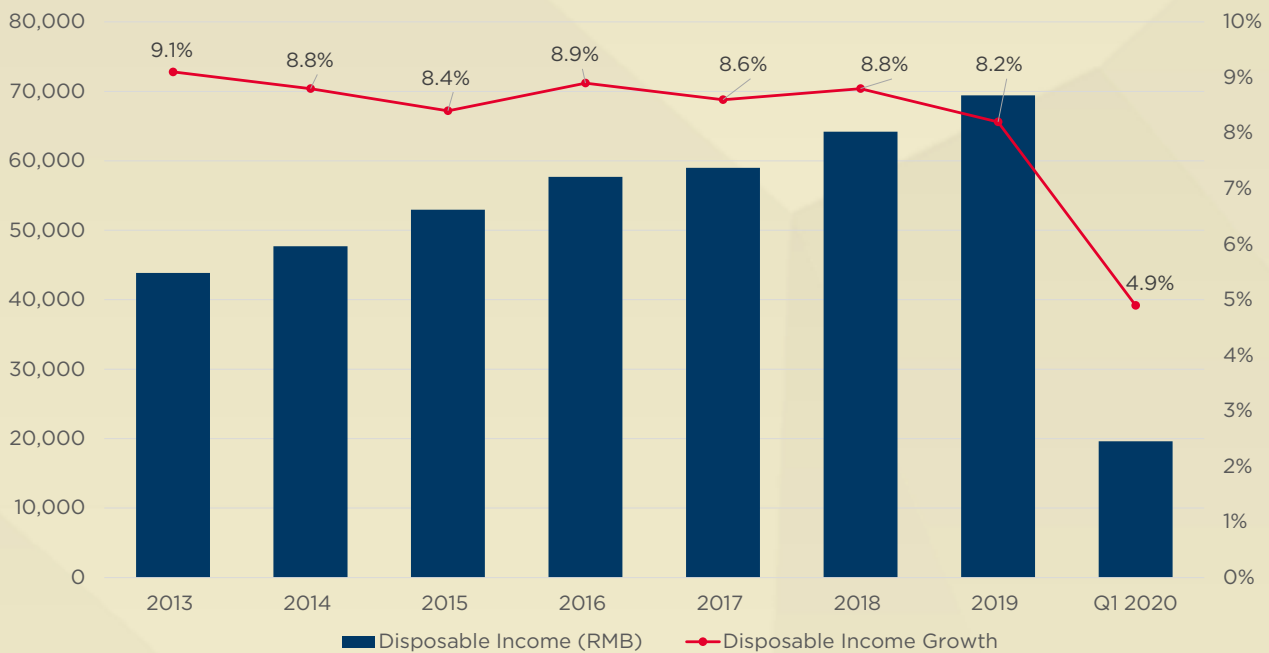
In Q1, per capita disposable income of urban residents in Shanghai increased by 4.9% y-o-y. Meanwhile, even though the rate of growth dropped 44.6 percentage points over the same period, it still remained positive at 4.9% (Figure 2).

### **Shanghai total retail sales of consumer goods**

The COVID-19 outbreak and the subsequent home confinement period hit Shanghai's consumer goods market, with the month of February seeing the greatest drop in total retail sales of consumer goods. According to the Shanghai Bureau of Statistics, total retail sales of consumer goods in February

**Figure 2:**  
**Shanghai disposable income of the urban population and y-o-y growth (2013-Q1 2020)**

Source: Shanghai Bureau of Statistics, Cushman & Wakefield Research



in Shanghai decreased 37.9% y-o-y. Given the tight and rapid action by the authorities, the spread of the epidemic was controlled in late February, and in late February and early March, citizens in Shanghai were able to return to work and venture out more to shop. Subsequently, in March, the city's total retail sales of consumer goods decreased at a slower y-o-y rate of 20.3%, up 17.6 percentage points from the February figure (Figure 3).

### Consumption's contribution to economic growth

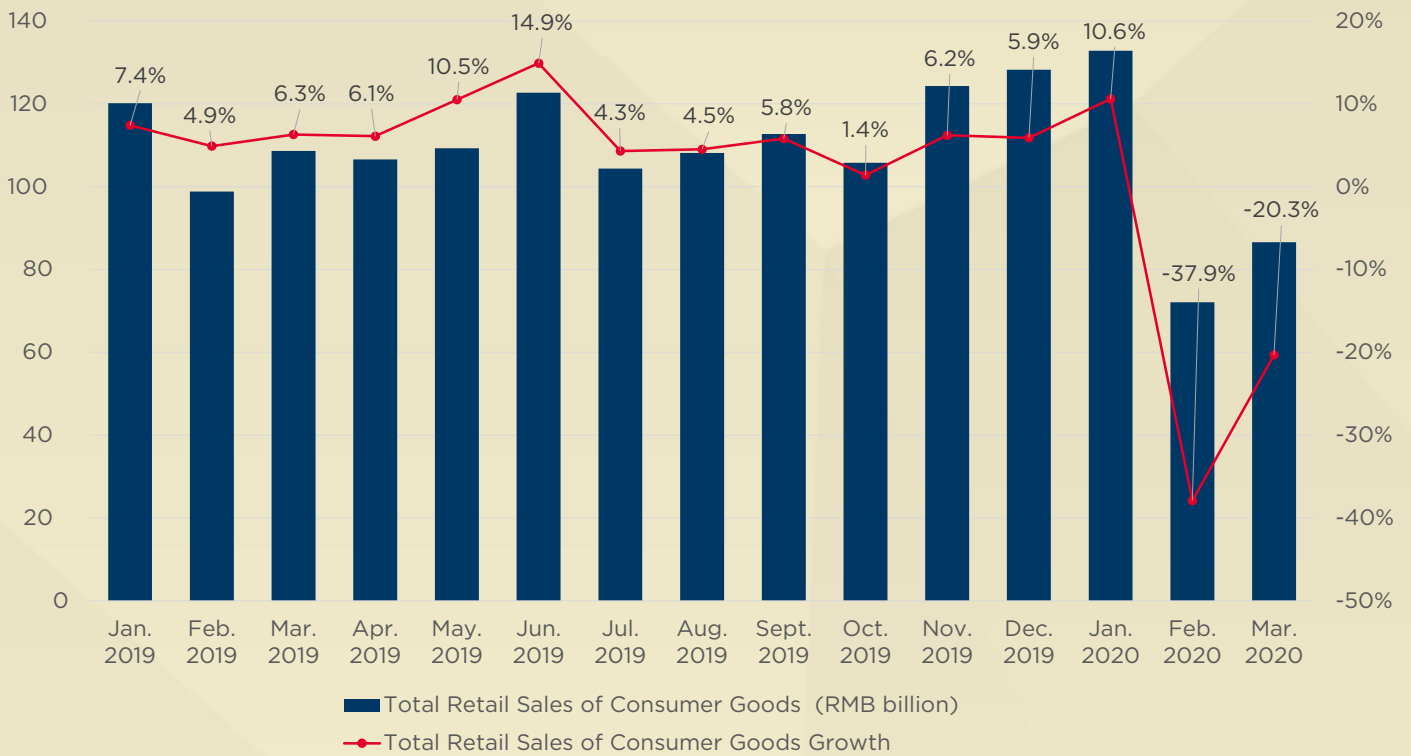
To further improve the performance of total retail sales of consumer goods in Shanghai, and in turn, the city's overall economy, stimulating consumption will be key. Consumption is now recognised as a major economic driver not just in Shanghai but for

the economy in China as a whole. According to the National Bureau of Statistics, in 2019 in China, consumption was a key economic component, contributing 57.8% to GDP growth in the country (Figure 4).



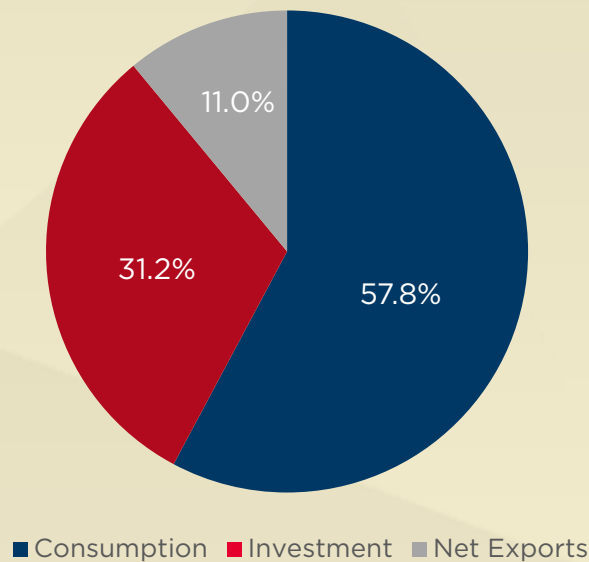
**Figure 3:**  
**Shanghai total retail sales of consumer goods and y-o-y growth (January 2019-March 2020)**

Source: Shanghai Bureau of Statistics, Cushman & Wakefield Research



**Figure 4:**  
**Consumption - Key to GDP growth in China (2019)**

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



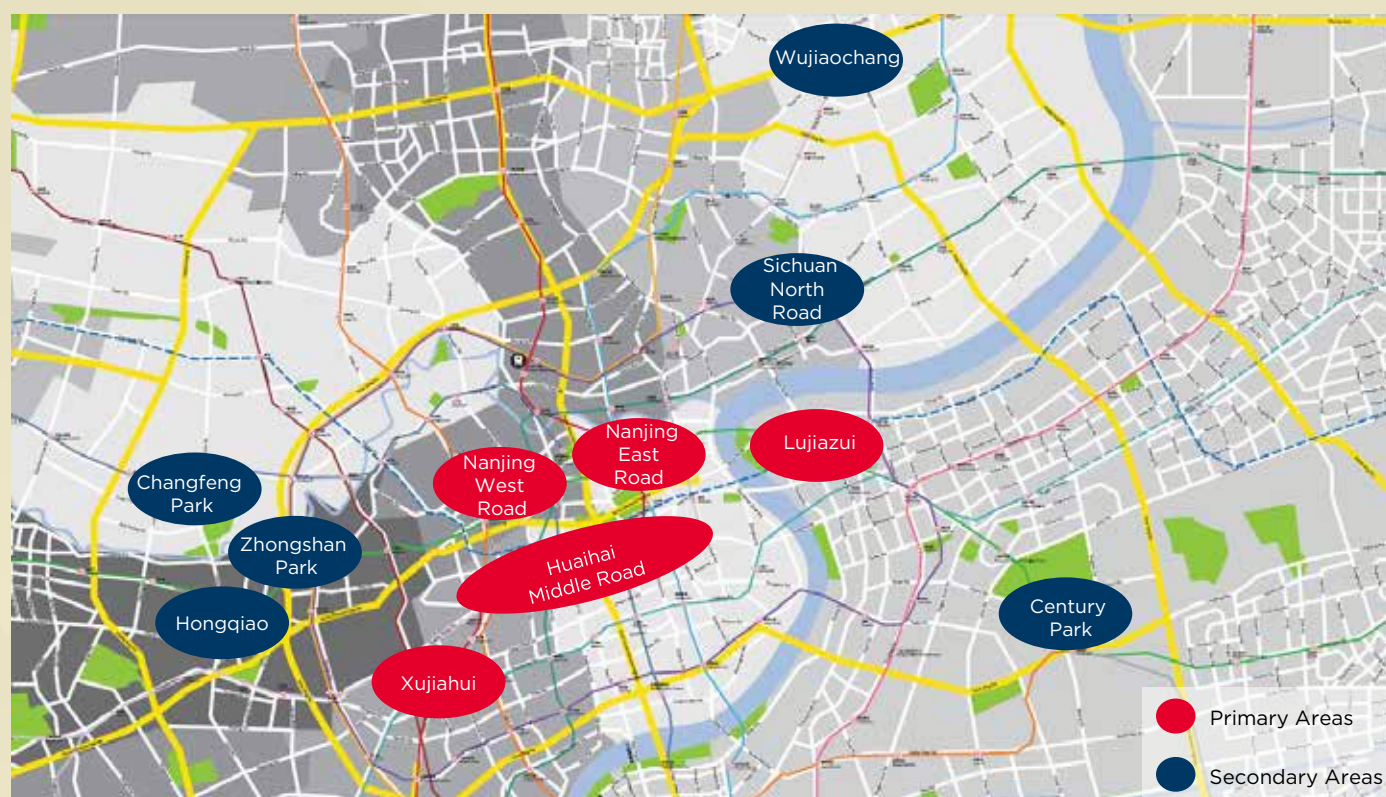
# SHANGHAI'S RETAIL PROPERTY MARKET – COVID-19 IMPACT

With the COVID-19 outbreak impacting Shanghai's retail sales, so the retail property market in the city in Q1 2020 has also been affected, with the greatest business pressure being placed on the F&B, entertainment and service sector tenants in the quarter (Figure 5 and Table 1).

In the quarter, several well-known restaurant chains, gyms and cinemas suspended their operations and faced financial cash flow difficulties during the height of the outbreak. During the outbreak, online channels did help to relieve pressure on some bricks-and-mortar retailers during this period. What's more, some international retailers have employed a wait-and-see attitude in response to the outbreak and for a clearer outlook on market conditions to emerge. However, many new domestic retail brands may still continue with business expansion plans to enhance their market penetration and gain market share (Figure 6).

**Figure 5:**  
**Shanghai prime retail property market –**  
**Hub locations**

Source: Cushman & Wakefield Research



**Table 1:**  
**Shanghai prime retail property market –**  
**Primary hub market statistics (Q1 2020)**

Source: Cushman & Wakefield Research

MARKET STATISTICS

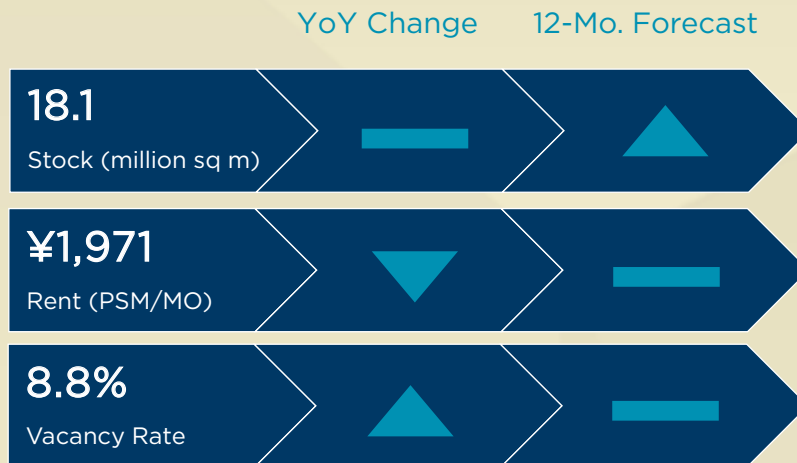
SUBMARKET	INVENTORY (SQM)	VACANT (SQM)	VACANCY RATE	UNDER CNSTR TILL 2022 (SQM)	OVERALL AVG RENT (RMB/SQM/MO)*
NANJING EAST ROAD	514,060	15,405	3.0%	0	2,096.7
NANJING WEST ROAD	578,820	22,747	3.9%	196,000	2,463.7
HUAIHAI MIDDLE ROAD	465,560	20,613	4.4%	0	1,633.5
XUJIAHUI	313,000	10,240	3.2%	231,417	2,326.9
LUJIAZUI	1,029,978	48,302	4.7%	0	1,609.4
OTHERS TOTALS	15,188,509	1,476,694	9.7%	7,313,479	628.0
SHANGHAI TOTALS	18,089,927	1,594,001	8.8%	7,740,896	885.5

\* Rental rates are calculated by NLA and considered as consistently achievable for prime space (usually the ground floor) in major shopping centres, excluding management fee, promotional fee and other fees.



**Figure 6:**  
**Key Shanghai prime retail property market**  
**indicators – Y-o-y change and 12-month**  
**forecast (Q1 2020)**

Source: Cushman & Wakefield Research



Given softened market conditions in the quarter, tenants in the leasing market have gained an upper hand in lease negotiation bargaining power. While retailers now enjoy more choice in terms of available locations, given the uptick in vacancy, they are also more prone to pick potential store sites in Shanghai's mature submarkets, and expect those chosen store locations to be priced at reasonable rentals at the same time.

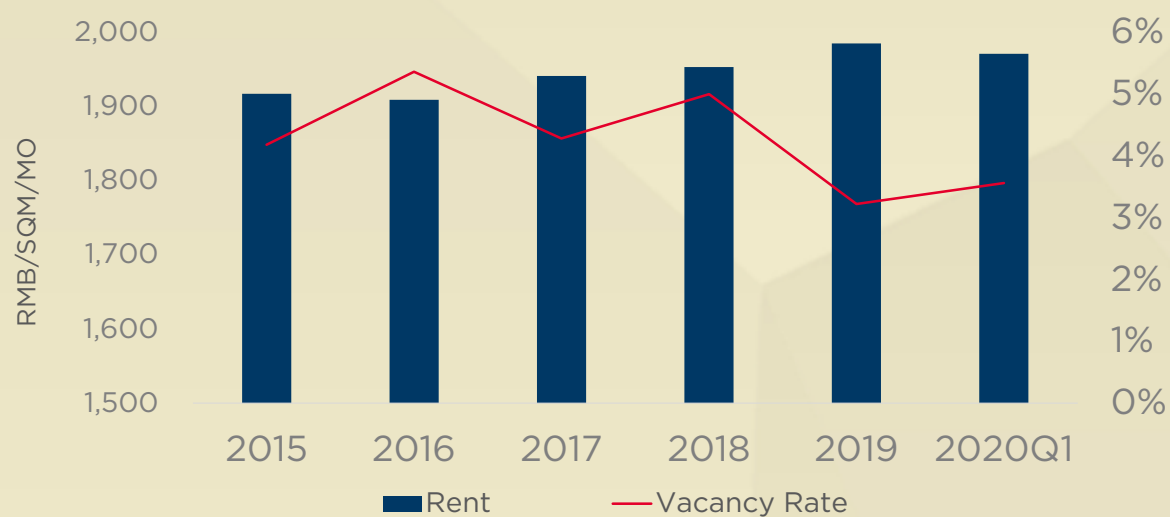
In Q1, most shopping centre landlords started to compress their rental expectations to achieve a stable occupancy rate. Many landlords, in partnership with their tenants, announced a reduction in rent or the offering of a one month rent-free period to combat and mitigate the harsh COVID-19-influenced business conditions. In Q1, the overall vacancy for mid-end to prime shopping centres in Shanghai's primary hub areas rose slightly to 8.8%, up 0.4 percentage points quarter-on-

quarter (q-o-q). Meanwhile, average first floor rent in mid-end to prime shopping centres in the same areas dropped by approximately 1.8% q-o-q to RMB 885.5 per sq m per month (Figure 7).

Currently, with China now being in control of the domestic COVID-19 epidemic outbreak, on 13 March, the National Development and Reform Commission issued the 'Implementation Guidelines on Promoting Consumption Expansion to Accelerate the Strong Consumption Market'. Local governments are expected to spend nearly RMB 5 billion to stimulate consumption and to revive the general economy. With its recent launch of the 'May 5th Shopping Festival', Shanghai is now driving this initiative forward.

**Figure 7:**  
**Shanghai prime retail property market - The**  
**five primary hubs - Average vacancy and**  
**rental (2015-Q1 2020)**

*Source: Cushman & Wakefield Research*





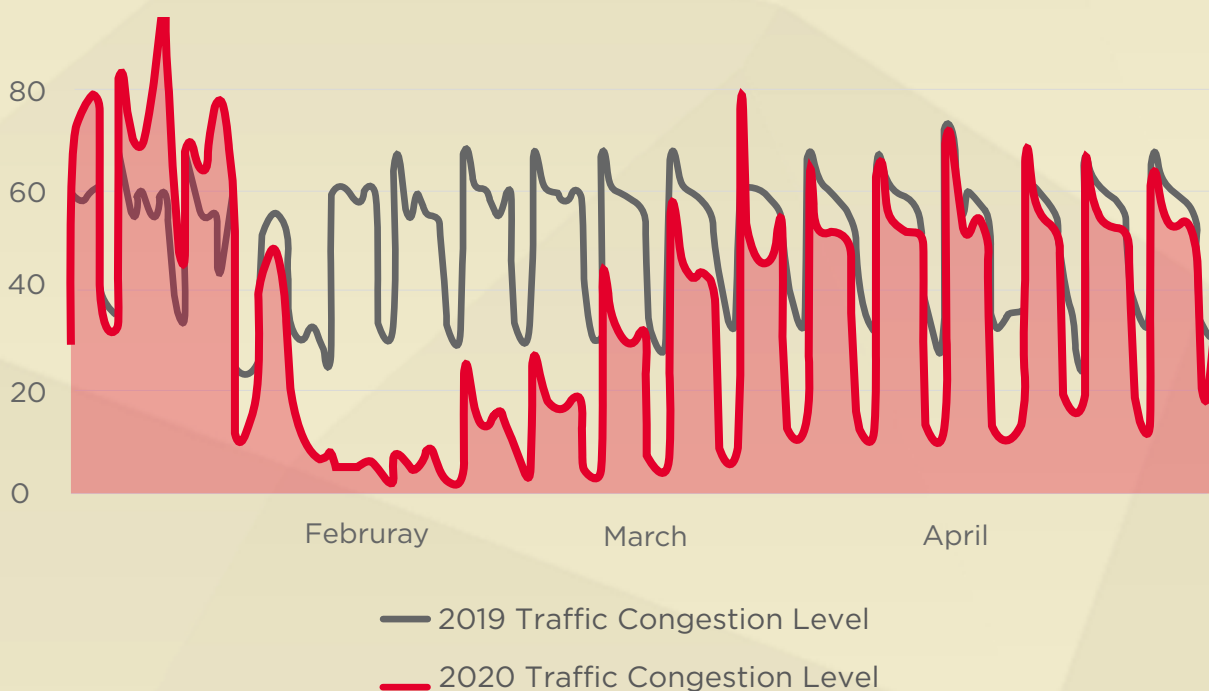
# SHANGHAI'S MAY 5TH SHOPPING FESTIVAL – WHAT IS IT?

In January and February of this year, as citizens stayed at home during the COVID-19 outbreak home confinement period, traffic levels in Shanghai decreased and customer footfall traffic volume to shops and shopping centres in Shanghai subsequently dropped as well (Figure 8).

In order to fully support enterprises during this trying period, the authorities in Shanghai initially issued several policy measures, such as 'Several Policy Measures to Support the Steady and Healthy Development of Service Enterprises' (referred to as the 'Shanghai 28 Articles'). These policies were designed to

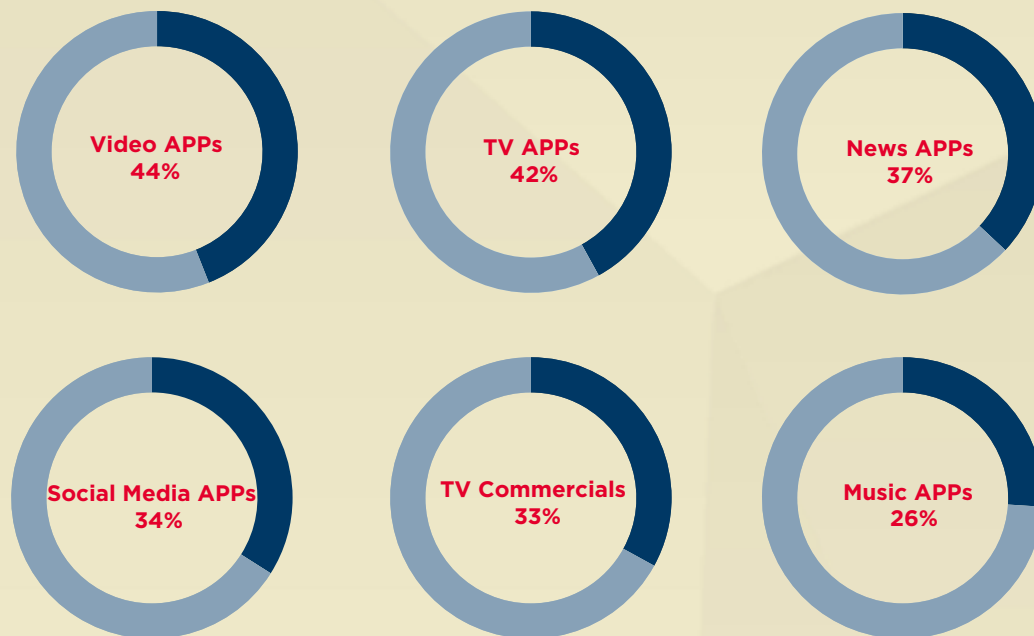
**Figure 8:**  
**Shanghai traffic congestion levels (Early 2019/2020)**

*Source: TomTom, Cushman & Wakefield Research*



**Figure 9:**  
**The top six online entertainment activities**  
**during the Spring Festival in China (2020)**

Source: Kantar, Cushman & Wakefield Research



help various enterprises, including enterprises involved in commercial retail trading, tackle the many issues faced, including:

- Reducing operating costs;
- Gaining access to financing facilities;
- Coordinating business solutions to the issues at hand, and;
- Satisfying the demand and need for epidemic prevention materials.

Meanwhile, many retailers adapted to and acted quickly in response to the rapidly changing business landscape by coming up with innovative business models and solutions. Since March, given the greater engagement with the Internet by citizens while at home, many retailers have successfully launched a series of marketing and promotional activities, such as Cloud

shopping, Cloud live product/service promotional broadcasting, 'Cloud Fashion Week', etc. to generate and realise sales (Figure 9).

Moving forward, to mitigate the economic impact of COVID-19, the city of Shanghai has followed the central government's directive on stimulating domestic consumption by recently introducing a number of consumption-boosting policy measures, and by launching the 'May 5th Shopping Festival'.

Behind the measures and the festival, there are three main aims:

- To invigorate and promote general consumption in the city's economy;
- To promote Shanghai as an important consumption destination from an international perspective and to enhance the 'Shanghai Shopping'

brand, including its four components of:

- The starter economy (involving new retail goods, products and services, new retail brands and new retail shops);
  - The night consumption economy;
  - The brand economy, and;
  - The tax-free economy.
- To adapt and/or adopt any proven new online business development models/formats put into use during the outbreak period and organise the 'May 5th Shopping Festival' to better promote and realise consumption, via new online business modes or through traditional brick-and-mortar retail sales.

When considering the 'number of consumption-boosting policy measures' recently launched in Shanghai, the 12 policies and measures will focus on:

- Augmenting consumer confidence;
- Stimulating consumption, and;
- Promoting and expanding the consumption of quality goods, products and services.

Launched in the first week of May this year, the 'May 5th Shopping Festival' is set to be a major catalyst for retail consumption by bringing together the four economic components of the 'Shanghai Shopping' brand, the recently issued 12 retail consumption policy measures, local retail platforms, retail merchants, retail goods, products and services and the city's consumer population all 'under one roof' to provide a massive boost to consumer spending, and in turn, to revive and return the

city's overall economy to a normal footing.

In terms of targeted goods, products and services to be consumed during the whole festival period, these can be broken down into five major consumption categories:

- Emerging consumption (featuring an assortment of online shopping retail platforms);
- Leisure consumption;
- Automobile consumption;
- Information consumption (involving such consumer items as online books, games and smart 5G and IPTV products and services) and;
- Home improvement consumption.

As for timing, the 'May 5th Shopping Festival' will span several major public holidays, such as Labour Day, Children's Day and the Dragon Boat Festival.

What's more, a plethora of Ecommerce platforms, commercial enterprises, retail brand enterprises and retail goods and product producers will participate extensively throughout the festival period. Moreover, various consumption-related promotional activities will be held every day during the same period, and at the time of writing, more than 130 key activities and more than 700 special activities have been organised. During the shopping festival, these activities will take place in districts, in major retail areas and in well-known shopping centres throughout Shanghai. Some selected examples include:

#### **District examples:**

- Hongkou (which will host a 'Live Happily' themed campaign in association with local shopping centres located in the district), and;

- Putuo (which will host an automobile festival).

**Major retail area examples:**

- Nanjing Road;
- Huaihai Road;
- Lujiazui;
- Xujiahui;
- Wujiaochang, and;

- Hongqiao.

**Well-known shopping centre examples:**

- Bailian;
- New World City;
- Joy City;
- Global Harbour, and;
- Wanda.



# WHAT'S NEXT? – SHANGHAI'S PRIME SHOPPING CENTRES TO BENEFIT FROM SOLID FESTIVAL SUPPORT

Shanghai has always had a strong retail economy. In 2019, the total retail sales of consumer goods in Shanghai reached RMB 1.35 trillion, ranking first among cities in China for three consecutive years. What's more, even though the impact of COVID-19 has been immense, Shanghai's economy has shown great resilience. For example, in the first quarter of this year, given the development of 'new consumption' business models and digital technology in the city, online shopping transaction volume was up by a very healthy 19.1% y-o-y. Moving forwards, boosted by Shanghai's 'May 5th Shopping Festival', we expect online shopping in Shanghai to further develop and to further drive retail sales growth.

Shanghai is also now well known for its international retail offering. For instance, the number of first stores opened by international retailers, the number of international retailer flagship stores and the concentration of international retailers in Shanghai is high not just for China but also from a global perspective. What's more, many international high-end brands have settled their China and Asia-Pacific

headquarters in Shanghai. Given the importance of the city's retail market in China and abetted by the 'May 5th Shopping Festival' in Shanghai, we expect international retailers to continue to place huge importance on the Shanghai market, and if they have an existing presence, to ensure they at least maintain a footing or look to further expand their business.

Now that the outbreak has been effectively contained in China, pent-up consumption demand is expected to be released in Q2, and this built up demand in Shanghai will be further boosted by the guidelines and measures recently issued by both national-level and Shanghai municipal-level authorities. Into the second quarter, stimulated by the consumption-boosting directives, including Shanghai's 'May 5th Shopping Festival', we anticipate retail sales of consumer goods to see an uplift over the next few months in Shanghai.

With consumers in Shanghai now encouraged to buy, we expect customer footfall traffic volume to retail outlets, including the city's prime shopping centres,



to really pick up in the next few months when compared to the previous four months of this year (Figure 10).

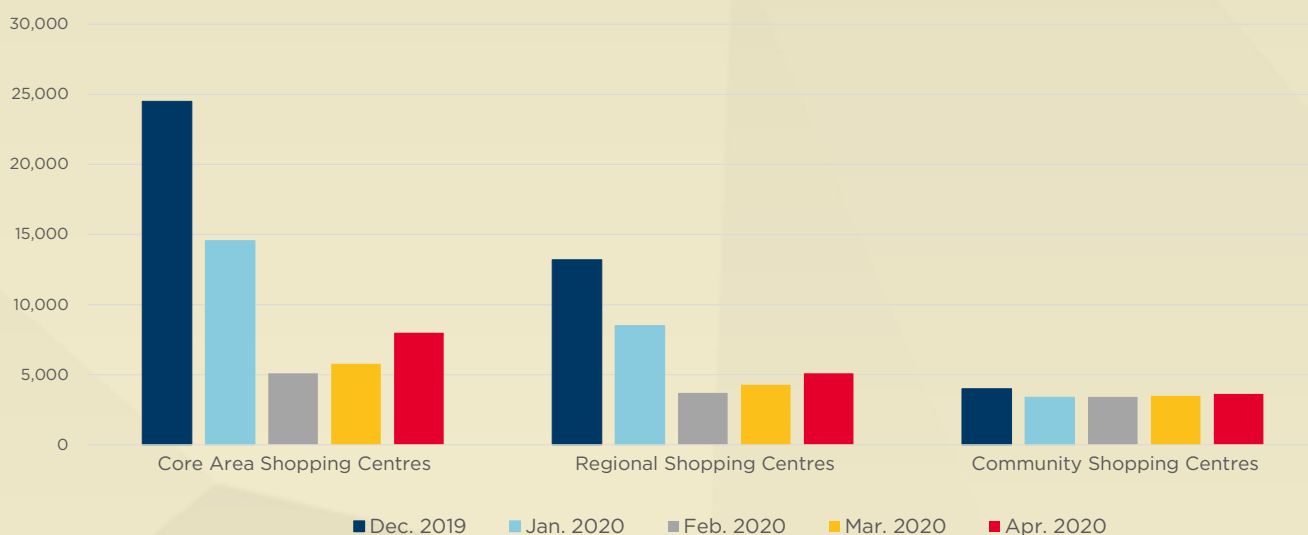
Already, Shanghai is off to a good start.

According to Shanghai Tourism Big Data Joint Innovation Lab, over the recent Labour Day holiday period, over 7.07 million tourists visited the city. What's more, according

**Figure 10:**  
**Selected Shanghai shopping centres:**  
**Average daily customer footfall traffic**  
**(December 2019-April 2020)**

*Source: Cushman & Wakefield Retail Services, Cushman & Wakefield Research*

Daily Customer Footfall Traffic



to Shanghai Municipal Commission of Commerce, within 24 hours of the launch of the 'May 5th Shopping Festival', consumption payment volume reached RMB 15.68 billion in Shanghai.

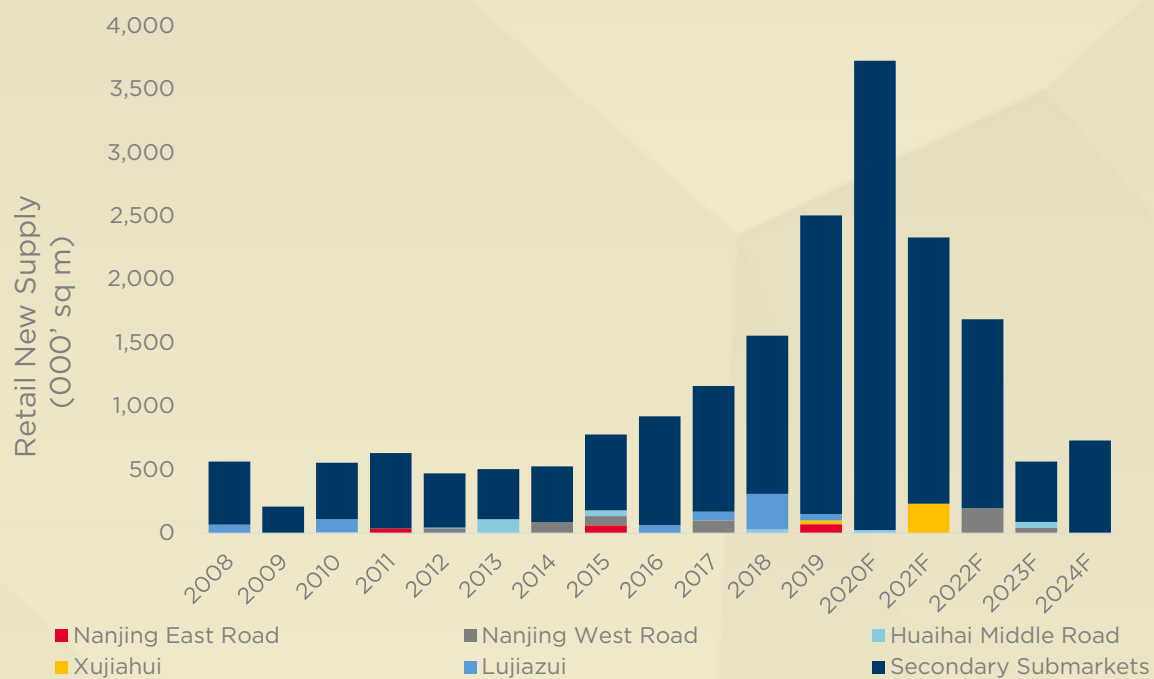
With customer footfall traffic volume to prime shopping centres in Shanghai anticipated to grow, we expect retail sales at these types of properties to also increase over the next few months. This increased sales volume will, in turn, boost the business volume of tenants. Even though 2020 is expected to see much new prime shopping

supply complete in Shanghai overall, given the big-assist directives like the 'May 5th Shopping Festival', we envisage vacancy and rentals at prime shopping centres throughout the city to stabilise for at least the next 12 months (Figure 11).

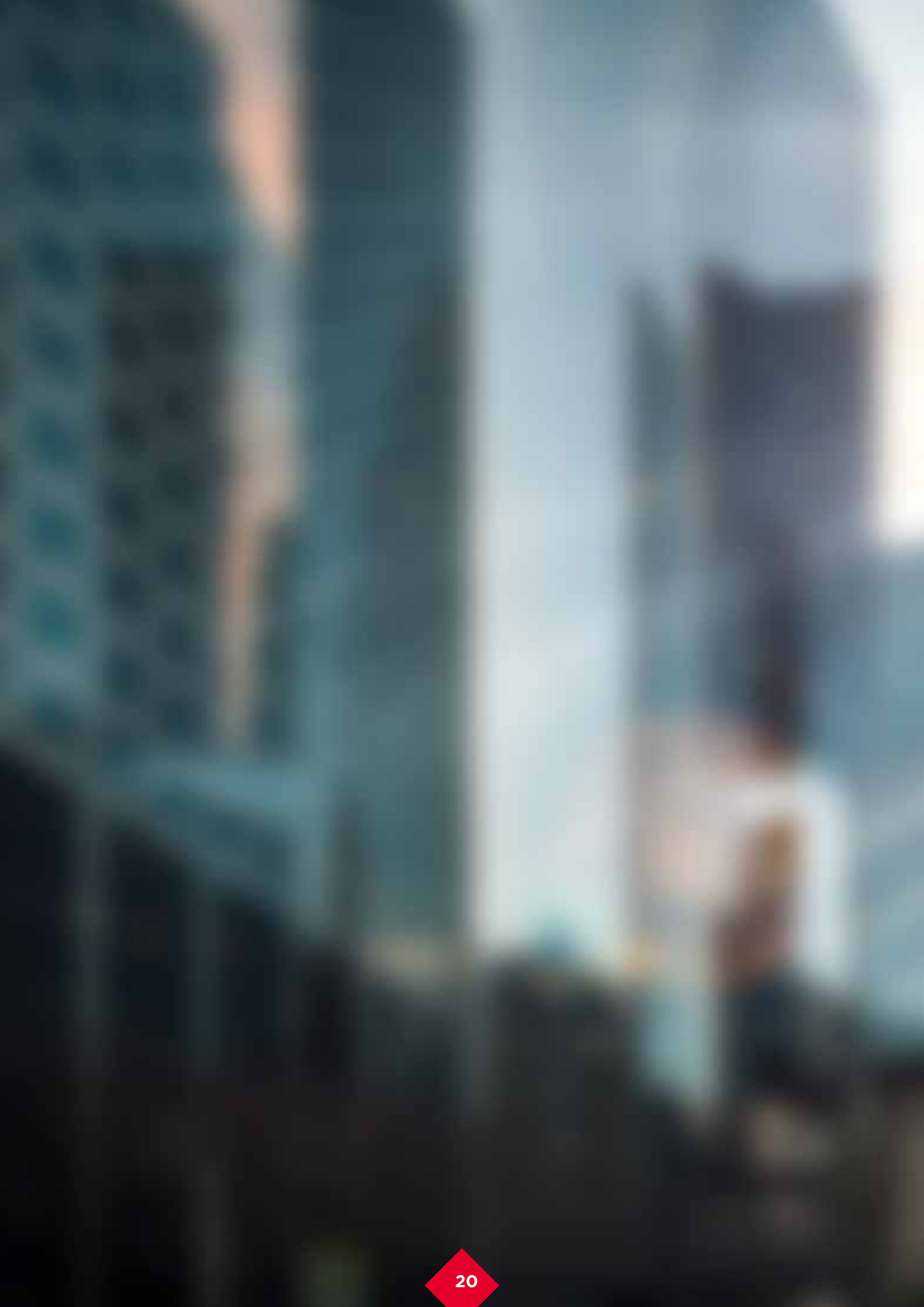
**Figure 11:**  
**Shanghai prime shopping centres – New supply (2008-2024)**

Source: Cushman & Wakefield Research

Note: F-Forecast



- With the COVID-19 outbreak impacting Shanghai's retail sales, so the retail property market in the city in Q1 2020 has also been affected.
- In Q1, most shopping centre landlords started to compress their rental expectations to achieve a stable occupancy rate.
- Launched in the first week of May this year, the 'May 5th Shopping Festival' is set to be a major catalyst for retail consumption in Shanghai.
- Moving forwards, boosted by Shanghai's 'May 5th Shopping Festival', we expect online shopping in Shanghai to further develop and to further drive retail sales growth.
- What's more, given the importance of the city's retail market in China and abetted by the 'May 5th Shopping Festival' in Shanghai, we expect international retailers to continue to place huge importance on the Shanghai market, and if they have an existing presence, to ensure they at least maintain a footing or look to further expand their business.
- Into the second quarter, stimulated by the consumption-boosting directives, including Shanghai's 'May 5th Shopping Festival', we also anticipate retail sales of consumer goods to see an uplift over the next few months in Shanghai.
- With consumers in Shanghai now encouraged to buy, customer footfall traffic volume to retail outlets, including the city's prime shopping centres, will pick up in the next few months when compared to the previous four months of this year.
- With customer footfall traffic volume to prime shopping centres in Shanghai anticipated to grow, we expect retail sales at these types of properties to also increase over the next few months.
- Given the big-assist directives like the 'May 5th Shopping Festival', we envisage vacancy and rentals at prime shopping centres throughout the city to stabilise for at least the next 12 months.





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