

Briefing Retail sector

July 2014



Image: Suning Plaza, City Outlets

SUMMARY

The large amount of supply will provide more options for retailers, and a project's location and capability to sustain footfall will hold higher consideration.

- Chengdu's overall retail sales reached RMB170.33 billion in the first five months of 2014, up 12.9% year-on-year (YoY).

- Two new shopping malls, Perennial Qingyang Mall and Shihao Square, were launched in the second quarter, adding approximately 285,000 sq m to the market.

- City-wide prime shopping mall vacancy rates increased by 0.6 of a percentage point (ppt) quarter-on-quarter (QoQ) to 6.9%, down 2.6% YoY.

- First-floor prime shopping mall rents increased by 1.4% to an average of RMB17.6 per sq m per day, up 2.7% YoY.

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 “Amid continuing fierce competition, a noticeable divergence in sales performances has resulted in existing shopping malls undergoing repositioning.” Dave Law, Savills Research

➔ **Economic overview**

Boosted by the Qingming and International Workers holidays, Chengdu's overall retail sales maintained a strong growth rate to reach RMB170.33 billion in the first five months of 2014, up 12.9% YoY. At the end of Q1, Chengdu's urban residents' disposable income per capita had increased 8.5% YoY without taking inflation into consideration. This is faster than general economic growth. Meanwhile, Sichuan's consumer confidence index rose by 0.2 of a ppt to 107.6 in Q1/2014, down 3.2% YoY.

Supply

Perennial Qingyang Mall

- Opened in April 2014, Perennial Qingyang Mall is a mixed-use development of approximately 800,000 sq m, consisting of a five-star hotel, office, retail, apartment and residential components. The shopping mall covers 135,000 sq m.

- Covering four floors (B1/F to 3/F), Perennial Qingyang Mall comprises fashion, supermarket, F&B, wellness, electronics, children's and entertainment brands. Anchor tenants include Yonghui Supermarket, Jinyi (IMAX) Cinema, HOLA and Love Song KTV.

- The project is expected to fulfill the need for a development like this in western Chengdu, improving the quality of life and convenience of nearby residents.

Shihao Square (Phase II)

- Shihao Square (Phase II) opened in May 2014, adding approximately 150,000 sq m to the market. The project is a mixed-use development of approximately 760,000 sq m, comprising office, apartment, residential, hotel and retail components. The retail GFA of Shihao Square (Phase II) is 150,000 sq m and the total GFA of the shopping centre is up to 200,000 sq m when combined with Ito Yokado which opened in 2011.

- Shihao Square (Phase II) is the first one-stop shopping centre in Dayuan area, introducing nearly 140 brands covering seven floors (B1/F to 6/F). This project includes fashion, F&B, entertainment, services and children's venues. Anchor tenants include CGV Cinema, Champion Ice Rink, C&A, Food Paradise, Tom's World and K-Boss KTV.

Rent

Overall first-floor shopping mall rents increased 1.4% in Q2/2014 to RMB17.6 per sq m per day. Rents in primary areas increased 9.4% QoQ to an average of RMB36.3 per sq m per day, up 12.1% YoY. Rents in non-primary areas fell 0.7% QoQ to an average of RMB13.1 per sq m per day, up 0.2% YoY.

Due to large-scale retail repositioning, rents have undergone considerable changes this quarter. On one hand, thanks to the strong demand of retailers and consumers, some leading shopping malls in primary areas introduced high-quality brands, which led to rental increases. On the other hand, due to the lack of demand in non-prime areas, many retailers decided not to fulfil or renew their contracts, leading to the closure of stores. As a result, landlords have had to offer discounts to attract suitable tenants.

Vacancy rates

City-wide prime shopping centre vacancy rates rose by 0.6 of a ppt in Q2/2014 to 6.9%. Primary area vacancy rates fell 2.0 ppts to 5.4% QoQ, while non-prime area vacancy rates rose 1.0 ppt to 7.1% QoQ.

Regarding primary areas, Fortune Center decided not to renew the leases of the 1/F upon expiry but chose to invest in renovations in order to attract more prime brands. Due to this, vacancy rates increased 10%. At the same time, the good market performance of Jinzhan in the last six months has enhanced the confidence of retailers in this project. Many F&B retailers chose to open stores, resulting in vacancy rates decreasing by about 10% QoQ.

In non-prime areas, Suning Plaza promoted City Outlet to take up space, causing the project's vacancy rates to fall by 15%. Meanwhile, as AUX Plaza failed to position itself correctly in the periphery market, the vacancy rate for this project increased by 30% QoQ.

Market information

- Chanel opened a 690-sq m boutique in Chengdu IFS in June 2014. This is the first boutique store in western China which includes ready-to-wear fashion, handbags, shoes, accessories, fine jewellery and watches.

- Fendi opened a 400-sq m store in Chengdu IFS in June 2014. It is the first concept boutique in China, as well as the fifth currently operating around the world. This is the first boutique in China to offer made-to-order clothes and shoes to Chinese consumers.

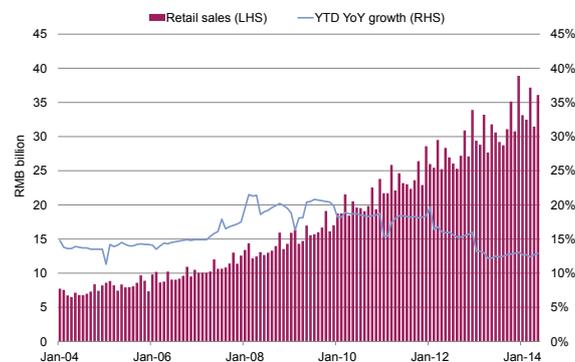
- Hai Di Lao Hot Pot launched its first store in Chengdu this June. The store, located in Yangguang Center, is about 1,700 sq m.

- Innisfree opened in its first store in southwest China in Raffles City in May 2014 and a second location has been chosen in CapitaMall Jinniu.

Market outlook

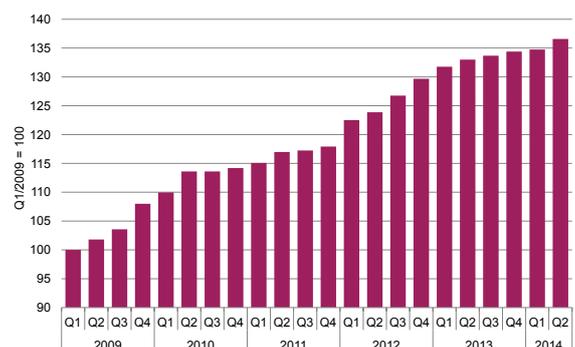
Chengdu's retail market is undergoing significant changes, with renovation and repositioning exercises occurring city-wide. In primary areas, strong demand from retailers and customers helped to upgrade current projects and strengthen competitiveness.

GRAPH 1 **Retail sales, Jan 2004–May 2014**



Source: Chengdu Bureau of Statistics, Savills Research

GRAPH 2 **Retail rent index, Q1/2009–Q2/2014**



Source: Savills Research

However, due to the lack of purchasing capability, many retailers in non-prime areas have had to close stores, resulting in some projects needing to reposition more quickly.

Looking ahead, the retail market expects a number of high-end

shopping malls, such as Tai Koo Li and the Atrium, to enter the market in Q3/2014. It is expected that these new projects will emphasise the cluster effect in primary areas. On the other hand, as it is hard to increase the number and purchasing capability of customers in non-prime

areas in a short amount of time, this could result in a divergence between primary and non-prime areas. ■

Project focus

Tai Koo Li

Located at the junction of Chunxi Road and Hongxing Road, Tai Koo Li is a 250,000-sq m mixed-use development, consisting of office (Pinnacle One), service apartment, boutique hotel (the Temple House) and retail components. The total retail GFA is 100,000 sq m.

Tai Koo Li introduces a fast lane and slow lane concept. The fast lane gives a taste of the metropolitan fashion life, with brands such as Hermes, Cartier and Gucci, while the slow lane creates an experience of the slow life, with famous F&B brands, such as Blue Frog, FABB, Zhengdou and Ding Tai Fung, confirmed to launch in this project.

TABLE 1

Tai Koo Li

Location	9 Dongda Street,	
Developer	Jinjiang District, Chengdu	
Retail GFA	Swire Properties, Sino-ocean	
Expected handover	100,000 sq m	

Source: Savills Research

Please contact us for further information

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