

Briefing Retail sector

April 2014



Image: International Finance Square (IFS)

SUMMARY

International Finance Square (IFS) and Yangguang Center opened in Q1/2014, adding 280,000 sq m to the Chengdu retail market.

- Chengdu's overall retail sales reached RMB65.59 billion in the first two months of 2014, up 12.7% year-on-year (YoY).
- Two new shopping malls, IFS and Yangguang Center, were handed over in Q1/2014, adding approximately 280,000 sq m to the market.
- City-wide prime shopping mall vacancy rates dropped 1.5 percentage points (ppts) quarter-on-quarter (QoQ) to 6.3%, down 3.4% YoY.
- Prime shopping mall rents increased by 0.3% to RMB16.5 per sq m per day in Q1/2014, up 2.2% YoY.

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“Many high-end international brands are looking to lease in the highly anticipated IFS. The project is expected to deliver explosive growth and milestone changes to the CBD. As a result, rents and occupancy rates may rise in the area.” Dave Law, Savills Research

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➔ **Retail sales**

Boosted by the Chinese New Year, retail sales totalled RMB65.59 billion in the first two months of 2014, up 12.7% YoY. This positive trend is likely to continue as the coming short-term holidays typically generate higher footfall and boost retail sales.

Supply

IFS (IFS国际金融中心)

- Debuted in January 2014, IFS is a mixed-use development of approximately 760,000 sq m, consisting of five-star hotels, International Grade A office, retail and residential components. The shopping mall's total GFA is 217,000 sq m.

- Covering nine floors (B2/F to 7/F), IFS comprises a department store, supermarket, cinema, restaurants and entertainment facilities. Anchor tenants include the Lane Crawford

designer luxury store, UA (IMAX) Cinema, Great Supermarket, a Page One book bar, an ice rink and Megabite.

Yangguang Center (阳光新业中心)

- Yangguang Center, located in Jiuyanqiao area on the First Ring Road, opened in January 2014 adding 63,200 sq m to the Chengdu retail market. The project is a mixed-use development comprising office, retail and residential components.

- The project is a diversified shopping mall containing fashion, F&B and entertainment facilities. Yangguang Center has brought in dozens of popular international and domestic brands, as well as OSGH Cinema's southwest flagship store and Good Home Supermarket. The shopping mall provides a more convenient one-stop shopping experience.

absorbed by the market and attracted new tenants, significantly raising its occupancy rates.

In the non-prime business district, the newly opened Yangguang Centre's occupancy rates are over 90%. Meanwhile, since Suning plaza brought in City Outlets as its anchor tenant, more new merchants have been attracted. It has completed a new round of tenant adjustments and plans to re-open in the second quarter of this year.

Market information

- The Taiwanese creative fashion brand STAYREAL, already open in Beijing, Shanghai, Wuhan and Nanjing, will open in IFS.

- Chengdu's high-end private clubhouse sector is suffering from a phase of repositioning following the recent anti-corruption campaign initiated by the government. Many clubhouses suspended their operations before Chinese New Year, while others have been closed for over half a year. The proportion of existing businesses which relate to luxury food services, business and government-budgeted services has shrunk significantly. Consequently, these private clubhouses have had to cut down on their pricing and shift to markets supported by family spending.

Market outlook

Higher rental prices and occupancy rates have successfully increased developer and retailer confidence in the market. In 2014, Chengdu is expected to receive 14 more high-end commercial projects, adding nearly 1.46 million sq m to the market. Most of these are distributed across non-prime areas (about 1.21 million sq m), while only 0.25 million sq m is in prime areas. The decentralisation trend has gradually presented itself in the Chengdu market.

More prime brands have entered the Chengdu market for the first time at high-end projects. This is expected to better meet the demands of younger customers and the middle-class population. However, it remains uncertain whether the Chengdu market can absorb these brand-new retail concepts in such a short time. ■

Rent

Shopping mall first-floor rents increased 0.3% in Q1/2014 to RMB16.5 per sq m per day. Prime retail area rents increased 0.1% QoQ to an average of RMB27.0 per sq m per day, down 1.3% YoY, while non-prime retail area rents rose 0.3%, reaching an average of RMB13.1 per sq m per day, up 3% YoY.

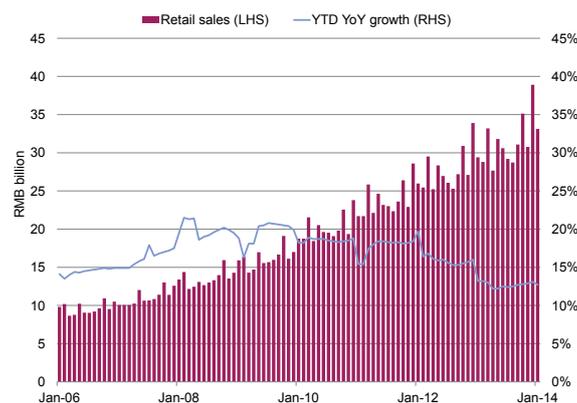
In the prime retail sector, the rental level of IFS is significantly higher than average. Demand for existing projects is stable, allowing average rents to be slightly higher in this primary retail market. Sino-Ocean Taikoo Li Chengdu, Atrium and Chengdu International Business Center will launch onto the market this year, and are expected to push up retail brand-mix levels, as well as average rents.

Vacancy rates

City-wide prime shopping centre vacancy rates fell 1.5 ppts in Q1/2014 to 6.3% QoQ. Primary area vacancy rates fell 5.0 ppts to 7.4% QoQ, while non-prime area vacancy rates fell 1.4 ppts to 6.1% QoQ.

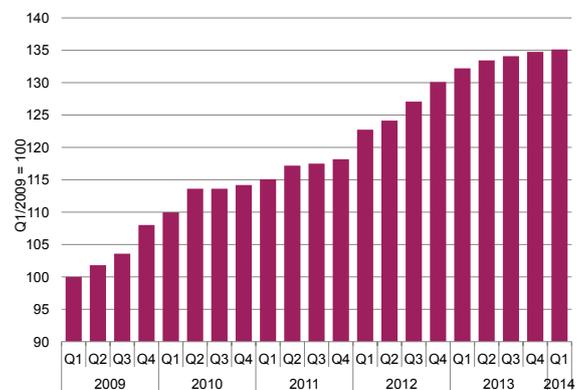
In prime areas, since IFS opened in January 2014, occupancy rates have exceeded 95%. Jingzhan Shopping Centre, located in Tianfu Square Station, opened at the end of 2013 and recorded low occupancy rates. However, after three months of operations, it was gradually

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



Source: Chengdu Bureau of Statistics, Savills Research & Consultancy

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



Source: Savills Research

Project focus

Chinese Estate Plaza The One (华置广场 The One)

Chinese Estate Plaza is a mixed-use development of approximately 430,000 sq m, consisting of hotels, office and retail components. The shopping mall total GFA is 70,000 sq m.

The project will bring in The One, which is the tallest shopping mall in Hong Kong with a youthful, fashionable and stylish theme.

TABLE 1 **Chinese Estate Plaza The One (华置广场 The One)**

Location	Taisheng Road	
Developer	Evergo Holdings (China) Co, Limited	
Retail GFA	70,000 sq m	
Expected handover	Q2/2014	

Source: Savills Research

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