

Briefing Retail sector

December 2014



Image: Times Paradise Walk (Phase I)

SUMMARY

Chengdu's retail market is going through substantial change. As more supply enters the market, the differences in scale and positioning of projects become more apparent.

- Chengdu's overall retail sales reached RMB270.29 billion in the first eight months of 2014, up 12.9% year-on-year (YoY).

- Three shopping malls, Hicity, Times Paradise Walk and Forte Business Center, were handed over in Q3/2014, adding approximately 175,000 sq m to the market.

- City-wide, prime shopping mall vacancy rates increased 0.5 of a percentage point (ppt) quarter-on-quarter (QoQ) to 7.4%, down 0.4% YoY.

- Prime shopping mall rents increased 0.6% to RMB16.1 per sq m per day in Q3/2014, up 2.8% YoY.

“Certain projects are seeing limited tenant mixes amidst growing competition from unique concept projects. Offering different services, such as exhibitions and promotions, may help to differentiate projects from their competition.” Dave Law, Savills Research

➔ **Economic overview**

Boosted by strong consumer demand, Chengdu's overall retail sales maintained a strong growth rate to reach RMB270.29 billion in the first eight months of 2014, up 12.9% YoY. By the end of Q2, Chengdu's urban residents' disposable income per capita had increased 9.7% YoY (without taking inflation into consideration). This is faster than nation-wide economic growth. Sichuan's consumer confidence index decreased 0.2 of a ppt to 107.4 in Q2/2014, down 1.4% YoY. This index has maintained steady growth since Q4/2013, and demonstrates that consumers in Sichuan show an optimistic attitude towards the current macroeconomic trends.

Supply Hicity

- Hicity opened in August 2014, adding approximately 23,000 sq m of retail space to the market. This project is the first purely children's-themed shopping mall in Chengdu, consisting of a shopping centre and a 3,000 sq m food street.

- Hicity spans three floors, with a tenant mix comprising children's fashion, entertainment, F&B, maternity products and children's education brands, as well as a supermarket. The anchor tenant is E-buy home life supermarket, which occupies 2000 sq m. Other major tenants include Goodbaby, Snoopy and Disney.

Times Paradise Walk (Phase I)

- Opened in September 2014, Times Paradise Walk (Phase I) is a mixed-use development of approximately 1,800,000 sq m, comprising retail, hotel and residential components. The retail GFA of Times Paradise Walk (Phase I) is 80,000 sq m.

- The first one-stop shopping centre in the Hi-Tech industrial development zone (West Park), this shopping mall spans five floors (B1/F to 4/F), and boasts fashion brands, a supermarket, F&B outlets, entertainment and services (including banks and hair salons) and a cinema. Major tenants include SFC Cinema, Yonghui supermarket, Voice of dream KTV, a Nike factory store and an Adidas outlet.

Forte Business Center

- Debuted in September 2014, Forte Business Center is a mixed-use development of approximately 230,000 sq m, comprising retail, residential, boutique hotel and office components. The retail GFA of Forte Business Center is 72,000 sq m.

- Spanning four floors (1F to 4F), Forte Business Center houses fashion brands, a supermarket, F&B outlets, a fitness centre, children's playground and a cinema. Major tenants include Lotte Mart supermarket, Poly Theatre, Adiwer Fitness Club and Samsung

Rent

Shopping mall first-floor rents increased 0.6% in Q3/2014 to RMB16.1 per sq m per day. Prime retail area rents increased 0.3% QoQ, reaching an average of RMB36.3 per sq m per day, up 10.9% YoY; non-prime retail area rents increased 0.7% QoQ to an average of RMB11.9 per sq m per day, up 0.7% YoY.

Chengdu's retail market has witnessed a significant period of adjustment due to brand expansion plans. Strong performance and prominent strategic positioning of the

Chengdu retail market has attracted new brands, such as Victoria's Secret, Alexander McQueen and Stella McCartney. In addition, brands that have already achieved strong performance in Chengdu, such as Burberry and Estee Lauder, chose to further expand and are planning to open more new stores in Chengdu. As a result, rental growth in Chengdu's retail market has maintained a steady increase, which is likely to continue with the opening of Tai Koo Li and Yintai centre.

Vacancy rates

City-wide prime shopping centre vacancy rates rose 0.5 of a ppt in Q3/2014 to 7.4% QoQ. Primary area vacancy rates fell 2.1 ppts to 3.3% QoQ, while non-prime area vacancy rates rose 0.8 of a ppt to 7.9% QoQ.

Due to the launch of Hicity, Times Paradise Walk (Phase I) and Forte Business Center, all located in non-prime areas, city-wide vacancy rates increased this quarter. Although these projects are satisfying demand for the current gap that is seen these areas, retailers are remaining cautious about expanding into emerging markets, making it hard for these projects to achieve high occupancy rates.

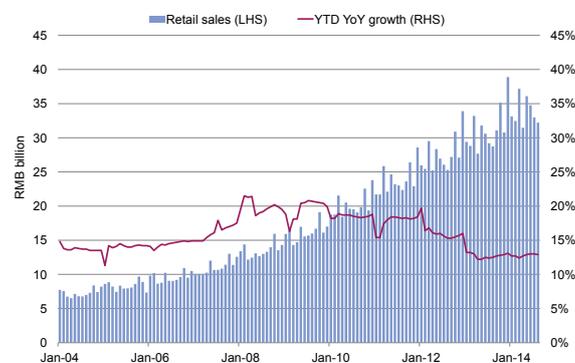
Due to the on-going or completion of tenant mix adjustments in some projects, prime area vacancy rates have continued to increase. Fortune Center made adjustments to their tenant mix and introduced some international brands, such as Miss Sixty, Guess and Lee, which led to vacancy rates falling 10%. Yanlord Landmark, a traditional high-end shopping mall in the Yanshikou commercial district, began a new round of repositioning, launching quality retailers such as Nantang restaurant and No. 19 Charity Shop. As a result, vacancy rates of Yanlord Landmark saw a smaller decline QoQ. Vacancy rates are expected to continue to fall as Yanlord Landmark introduces more lifestyle and F&B retailers.

Market information

- Abercrombie & Fitch opened its second store in China in Chengdu IFS this August. Its offshoot, Hollister, will open its first store in south-west China in Tai Koo Li late next quarter.

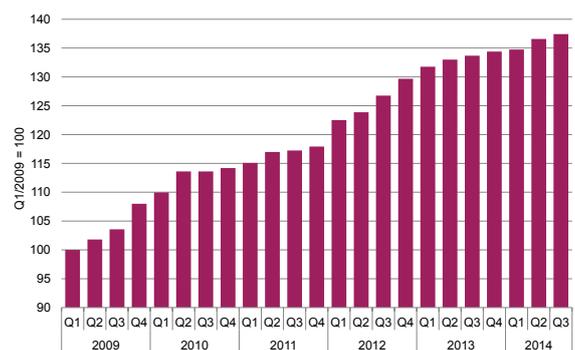
- Tan Yu, known as a grilled fish restaurant with a literary and artistic

GRAPH 1 Retail sales, Jan 2004–Aug 2014



Source: Chengdu Bureau of Statistics, Savills Research

GRAPH 2 Retail rent index, Q1/2009–Q3/2014



Source: Savills Research

atmosphere, opened its first store in Chengdu Raffles City in August 2014. Its second location launched in Shuijinjie in September.

- Page One launched its first store in south-west China in Chengdu IFS in August. This well-known bookstore chain sells a large number of English books, magazines, creative gifts and postcards.

- No.19 charity shop, the first charity shop in China, opened in Yanlord Landmark. This shop aims to help the development of poor rural areas through the donation of all its sales revenue (ex. Costs) of its charity goods.

Market outlook

Chengdu's retail market is undergoing significant changes. While prime areas become saturated with new supply, a number of developers are expected to expand their operations to non-prime areas. This is expected to change the distribution pattern in Chengdu's retail market and may lead to emerging areas becoming more mature. As competition intensifies, developers may choose to offer diverse services, such as exhibitions and promotions, in order to set themselves apart from the competition. In a bid to diversify themselves from the intense competition, projects are choosing to

introduce unique concepts. This can be seen in The Doraemon Exhibition in Chengdu IFS, where more than 20,000 consumers a day helped to boost sales revenues for the projects.

With a number of quality projects entering the Chengdu retail market, such as Tai Koo Li, Palm Springs International Center, Joy City and CapitaMall Tianfu, the pattern of distribution is expected to change. These projects are aiming to introduce diversified retailers and unique concepts, while the market pushes to establish varied retail types and structures, leading to intensified competition in terms of both branding and tenant mix. ■

Project focus

CapitaMall Tianfu

Located at the junction of the South 3rd Ring Road and Tianfu Avenue, CapitaMall Tianfu is a 276,000 sq m mixed used development consisting of office, residential and retail space. The total retail GFA is 140,000 sq m.

CapitaMall Tianfu is a one-stop shopping centre, including fashion, supermarket, F&B, entertainment, services, and a cinema. The major tenants include Yonghui Bravo boutique supermarket, Palace cinema, Century Star, Green Tea restaurant and Mirako Fitness.

TABLE 1 **CapitaMall Tianfu**

Location	Junction of the South 3rd Ring	
Developer	Capitamalls Asia	
Retail GFA	140,000 sq m	
Expected handover	Q4/2014	

Source: Savills Research

Please contact us for further information

Savills Research



James Macdonald
 Director, China
 +8621 6391 6688
 james.macdonald@savills.com.cn

Savills Project Development & Consultancy



Dave Law
 Senior Associate Director
 +8628 8658 7120
 dave.law@savills.com.cn



Eric Wo
 Deputy Managing Director
 +8628 8672 1810
 eric.wo@savills.com.cn



Backy Fung
 Director
 +8628 8658 7841
 backy.fung@savills.com.cn

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