

Briefing Retail sector

March 2015



Image: Tai Koo Li, Chengdu

SUMMARY

The opening of CapitaMall Tianfu and Tai Koo Li in Q4/2014 added approximately 240,000 sq m to the Chengdu retail market. In 2014, nine projects were launched, resulting in retail stock reaching 980,000 sq m.

- Chengdu's overall retail sales rose to RMB337.1 billion in the first 11 months of 2014, up 12.1% year-on-year (YoY).

- Two shopping malls, CapitaMall Tianfu (凯德广场 天府) and Tai Koo Li (远洋太古里), were handed over in Q4/2014, adding 240,000 sq m to the market.

- City-wide prime shopping mall vacancy rates increased 7.0 percentage points (ppts) quarter-on-quarter (QoQ) to 8.1%, up 0.3 of a ppt YoY.

- Prime shopping mall rents increased 0.5% to RMB17.2 per sq m per day in Q4/2014, up 2.8% YoY.

“Chengdu's retail market underwent significant changes as high-end projects entered the market one after another. However, after the rapid development, high-end brands' cautious attitude will impede the further development of high-quality projects.” Dave Law, Savills Research

➔ **Retail sales**

Boosted by the national holiday, retail sales totalled RMB337.1 billion in the first 11 months of 2014, up 12.1% YoY. This steady and positive trend is expected to continue as the coming Christmas, New Year's Day and Chinese New Year holiday typically helps support retail sales.

Supply

CapitaMall Tianfu (凯德广场 天府)

- Launched in December 2014, CapitaMall Tianfu is a mixed-use development of approximately 280,000 sq m, comprising office, retail and residential components. The shopping mall space is 140,000 sq m.

- CapitaMall Tianfu is the fifth retail project developed by CapitaLand in Chengdu and is located in an emerging and rapidly developing area – Xinnan commercial district. This project also benefits from close proximity to Chengdu South railway station.

- Spanning eight floors (B1/F to 7/F), this project comprises fashion, supermarket, cinema, F&B and entertainment venues. Its tenants include Yonghui Bravo boutique

supermarket, Century Star, Palace Cinema, Mirako Fitness and Yanjiyou.

Tai Koo Li (远洋太古里)

- Opened in December 2014, Tai Koo Li is a mixed-use development of approximately 250,000 sq m, comprising office, boutique hotel, serviced apartment and shopping mall components. The retail GFA of Tai Koo Li is 100,000 sq m.

- Tai Koo Li, adjacent to Chengdu IFS, is located in the prime area of Chunxi commercial district and benefits from the rich commercial atmosphere, ease of access to transport links and large footfall in the vicinity. Complementing each other, the combination of Tai Koo Li and Chengdu IFS has created a new standard for the city as a whole.

- Spanning three floors (B1/F to 2/F), this low-density shopping mall comprises fashion, supermarket, cinema, F&B and entertainment venues. Its tenants include Ole' boutique supermarket, Palace Cinema, Fangsuo, Hermès, Alexander McQueen, Jade Garden and KABB.

Rent

Shopping mall first-floor rents increased 0.5% in Q4/2014 to RMB17.2 per sq m per day. Prime retail area rents increased 0.1% QoQ, achieving an average of RMB38.6 per sq m per day, up 10% YoY. Meanwhile, non-prime retail area rents increased 0.5% QoQ to an average of RMB12.1 per sq m per day, up 0.1% YoY.

With a large amount of high-quality projects entering the market, rents in Chengdu's retail market are witnessing an upward trend. Projects in primary areas such as Tai Koo Li and Chengdu IFS are able to command higher rents due to their landmark status and influence over brands, leading to enhanced regional awareness, commercial atmosphere and footfall levels. As a result, more retailers are expected to expand into this area leading to an increase in rent levels.

In non-prime areas, a pattern of multi-regional developments has been shaped in Chengdu's retail market, such as Shihao Square, located in Dayuan commercial district, and CapitaMall Tianfu, located in Xinnan commercial district. A number of international brands were prompted to open stores in non-prime areas within these high-quality projects. This has not only upgraded the retail area, but also prompted the increase of rents in these areas.

Vacancy rates

City-wide prime shopping centre vacancy rates rose 0.7 of a ppt in Q4/2014 to 8.1% QoQ. Primary area vacancy rates increased 2 ppts to 5.3% QoQ, while non-prime area vacancy rates rose 0.7 ppt to 8.6% QoQ.

Although Tianfu railway station, located in a prime area, witnesses high levels of footfall daily, the mismatch between brand positioning and consumer base has caused an unsatisfactory performance. In Q4/2014, Novo withdrew from the Jinzhan shopping mall, causing the occupancy rate to fall to 90%.

Due to the cautious expansion plans of high-end brands in Chengdu, Tai Koo Li and IFS, both positioned as high-end, experienced pressure in attracting suitable tenants. As Tai Koo Li opened after IFS, it is expected that the project will take a longer period of time to reach a satisfactory occupancy rate.

Due to the inefficiency in the design of projects in non-primary areas, a number of projects are unable to remain competitive. Competition from areas such as Jianshe Road commercial district has also resulted in many F&B retailers in Chengdu 339 Fun Square, such as Foodrepublic and Jinlu, deciding to break their leases this quarter. This trend is expected to continue, leading to a further decrease in occupancy rates.

CapitaMall Tianfu, located in Xinnan commercial district, also saw the same problem with occupancy rates only achieving 70% upon opening. This is mainly due to the fact that adjacent project Galleria Plaza is relatively mature and has a suitable tenant mix. Xinnan commercial district is also an emerging district meaning retailers still hold a cautious attitude regarding it. As a result vacancy rates in non-prime areas increased slightly.

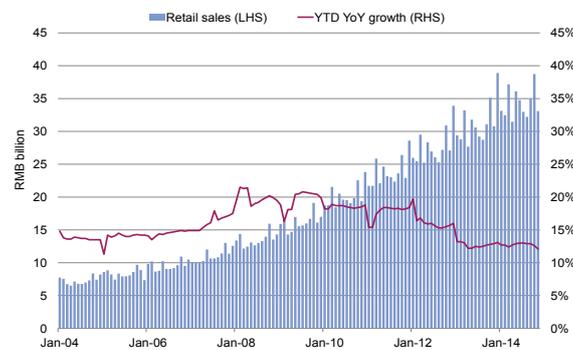
Market information

- Muji opened a 3,100 sq m global flagship store in Tai Koo Li in December 2014, their largest overseas store (with the exception of Japan), allowing "Café & Meal Muji" and their high grade furniture brand "IDEE" to be introduced to China.

- Fangsuo opened a 4,000 sq m store in Tai Koo Li in December 2014. This unique bookstore is the second in China and offers books, clothes and accessories and home lifestyle products.

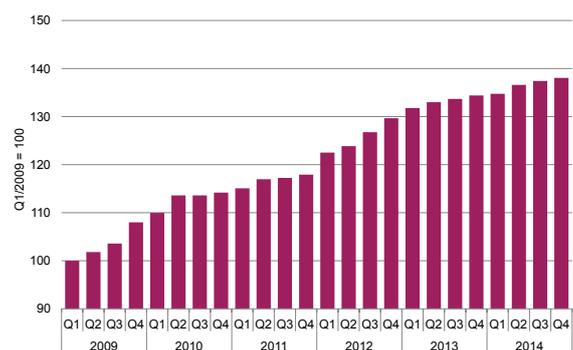
- Alexander McQueen opened its first store in south-west China in Tai Koo

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



Source: Chengdu Bureau of Statistics, Savills Research & Consultancy

GRAPH 2 **Retail rent index, Q1/2009–Q4/2014**



Source: Savills Research

Li in December 2014. This 180 sq m boutique store includes ready-to-wear fashion (men and women) and accessories.

- Yanjiyou will open a 3,000 sq m store, its first in south-west China, in CapitaMall Tianfu in March 2015. This art space will include an innovation fair, bookstore, coffee shop and art gallery.

Market outlook

In 2015, Chengdu is expected to receive 20 new retail developments, adding nearly 1.9 million sq m to the market. Looking forward, the development of Chengdu's retail market is expected to show the following characteristics:

- With the reduction of supply entering prime areas and gradually saturated consumption needs, more developers are aiming to develop non-prime areas. A surge in supply in southern Chengdu in 2015 is expected to diversify the distribution pattern of Chengdu's retail market

- Traditional department stores are expected to experience a much more competitive market with one-stop shopping becoming more prevalent. As a result, traditional department stores will have to make relevant adjustments, or be introduced as an anchor tenant within shopping malls in order to meet modern shopping demands. This will allow Chengdu's retail market to experience a comprehensive upgrade.

- During the expected supply surge, more unique and innovative projects are expected to spring up to adapt to this competitive market. As a result of this, Chengdu's retail market is anticipated to become more diversified and develop more multi-level characteristics.

- Since Chengdu IFS and Tai Koo Li entered the market, the high-end commercial market is gradually starting to become saturated in Chengdu. Thus, high-end brand expansion in Chengdu will become more and more cautious. This trend is expected to adversely effect on other planned high-end projects. ■

Project focus

Longfor Jinnan Paradise Walk (龙湖 金楠天街)

Longfor Jinnan Paradise Walk, Longfor's fourth retail project in Chengdu, is a mixed-use development of approximately 570,000 sq m, comprising retail, apartment, residential and hotel components. The retail GFA is 270,000 sq m, including a shopping mall (150,000 sq m) and a shopping street (120,000 sq m). This project is situated near Qingshuihe Bridge metro station (line 7) and has access to around

13 bus routes, offering convenient transportation options.

The position of Longfor Jinnan Paradise Walk is a quality of life centre for middle-class families, urban white collars, expatriates and business executives in west Chengdu. This shopping mall, covering seven floors (B1/F to 6F), has introduced some major tenants including Yonghui Bravo boutique supermarket, CGV Cinema, Uniqlo, Starbucks and Sisyphé bookstore.

TABLE 1

Longfor Jinnan Paradise Walk

Location	Junction between the Jinyang road and Jinji road north	
Developer	Longfor	
Retail GFA	Shopping mall: 150,000 sq m Shopping street: 120,000 sq m	
Expected handover	Q4/2015	

Source: Savills Research

Please contact us for further information

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