

Briefing Retail sector

October 2015



Image: Evergrande Huazhi Plaza The One, Tidu Road, Qingyang district

SUMMARY

Due to increasing pressure on the market, a number of projects are undergoing tenant mix adjustments, leading to a short-term increase in vacancy rates in Q3/2015.

- By the end of August 2015, Chengdu overall retail sales reached RMB317.9 billion, up 10.6% year-on-year (YoY).
- One new shopping mall – Evergrande Huazhi Plaza The One – was launched in Q3/2015, adding 80,000 sq m of prime retail supply to the market and pushing overall retail market stock up to 3.7 million sq m.

- City-wide prime shopping mall vacancy rates increased 1.4 ppts quarter-on-quarter (QoQ) to 8.5%, up 1.1 percentage points (ppts) YoY.
- First-floor prime shopping mall rents decreased 0.1% to an average of RMB17.7 per sq m per day, up 1.0% YoY.

“Due to increasing competition in the market, the introduction of experiential retail formats has become an important way to encourage word-of-mouth amongst consumers in order to increase footfall and competitive strength. In addition, physical stores of online platforms are becoming more popular.” Dave Law, Savills Research

➔ **Economic overview**

By the end of August, 2015, Chengdu's overall retail sales reached RMB317.9 billion, up 10.6% YoY, maintaining a steady growth. During the same period, the per-capita disposable income of city dwellers rose 8.0% YoY, to RMB17,229, while the consumer price index increased 1.3% YoY.

Supply

Evergrande Huazhi Plaza The One (恒大华置广场The One)

- Evergrande Huazhi Plaza The One, opened in Q3/2015, is one of the properties Evergrande purchased from Chinese Estate in Q3/2015. It is located in the Qingyang district, known for its advantageous location and convenient transportation links.

Evergrande Huazhi Plaza contains a shopping mall (The One), a Grade A office building, a high-end residential building and a five-star hotel (St. Regis) with total GFA of 430,000 sq m.

- The retail GFA of Evergrande Huazhi Plaza The One covers six floors (B1/F-5/F), with fashion, F&B and entertainment retailers. Starting from the fourth floor, the mall has a terrace design with many open spaces where restaurants can place tables outside. Due to this design feature, opening hours for F&B and entertainment retailers has been extended to midnight.

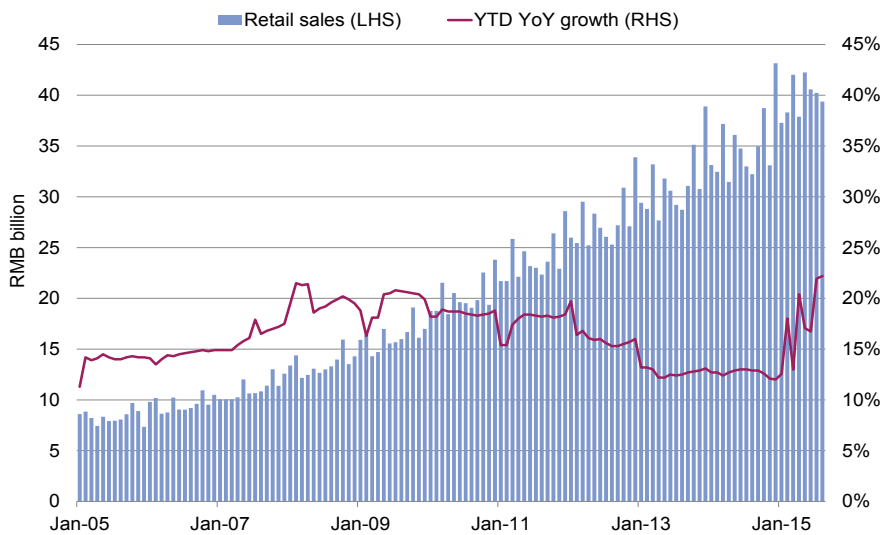
- The anchor tenants in Evergrande Huazhi Plaza The One include New Project Centre's (NPC) first flagship store in south-western China, the second Starbucks Reserve in Chengdu, Korean fashion store Sparko, and Place Cinema.

Rent

City-wide shopping mall first-floor rents decreased 0.1% QoQ to RMB17.7 per sq m per day in Q3/2015. In prime retail areas, rents remained flat QoQ at RMB37.5 per sq m per day, while non-prime retail area rents decreased 0.1% QoQ to an average of RMB12.2 per sq m per day.

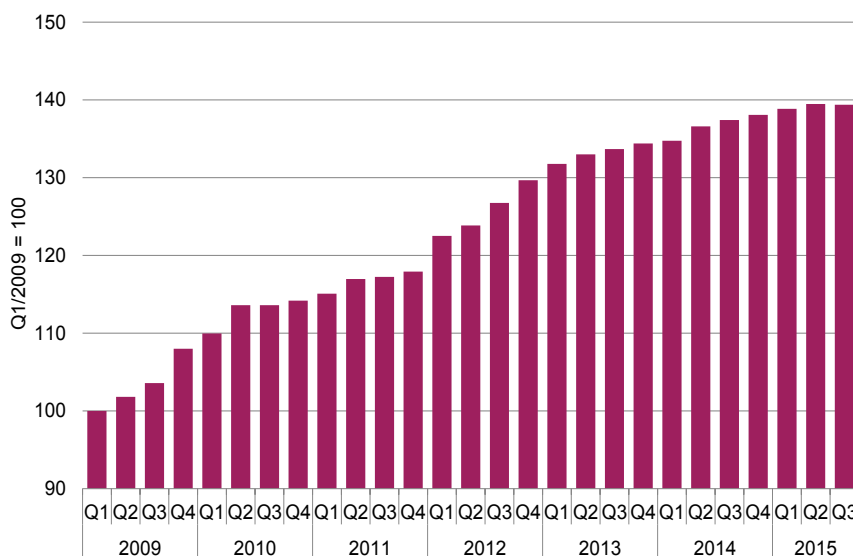
Overall rents slightly decreased in Q3/2015, however prime areas remained stable due to continued demand for their advantageous location from retailers. However, competition in non-prime areas continues to increase due to a number of newly-launched projects, placing a downward pressure on rents. In non-prime areas, properties with strong operational abilities are actively adjusting their tenant mix and introducing more F&B, child-related and entertainment retailers in

GRAPH 1 **Retail sales, Jan 2005–August 2015**



Source: Chengdu Bureau of Statistics, Savills Research & Consultancy

GRAPH 2 **Retail rent index, Q1/2009–Q3/2015**



Source: Chengdu Bureau of Statistics, Savills Research & Consultancy

the hopes of increasing footfall and a buzz around the project. A number of other projects are using lower rents as an incentive, hoping to retain and attract tenants.

Vacancy rates

City-wide prime shopping centre vacancy rates increased 1.4 ppts QoQ to 8.5% in Q3/2015. Prime area vacancy rates decreased 0.5 of a ppt QoQ to 5.2%, while non-prime area vacancy rates increased 1.7 ppts QoQ to 9.0%.

Mid- to high-end brands remain concentrated in prime areas, especially in the Chunxi area. In Q3/2015, Taikoo Li introduced the fifth independent Sisley store in China, the first Youk Shim Won in south-western China and the second Tesla store in Chengdu. International Financial Square introduced the Bonpoint Boutique store and the first APM Monaco in south-western China.

Competition in non-prime areas continues to increase, resulting in developers shifting focus on ways to retain and attract retailers. In Q3/2015, Central department store in MixC officially closed its doors due to poor performance levels. In addition, due to a strategic adjustment nationwide, Wanda closed its Dagexing KTV(大歌星KTV) in both Wanda Plaza Jinniu Store and Jinhua Store. The closure of both of these retailers – who are both large space occupiers – was one of the main reasons for the decrease in occupancy rates in Q3/2015.

Under increasing market competition, a number of projects had higher vacancy rates as a result of poor operation performance, incorrect project positioning and/or inefficient project design. After the departure of Uniqlo from Chengdu 339 in

Q2/2015, BLT, Dicos and DKNY Jeans also closed this quarter, leading to the continued increase in vacant space within the project – now at over 20%. The market also witnessed the continued decrease of occupancy rates in the Forte Business Center due to poor performance and lack of footfall in the area. However, there are also a number of projects actively adjusting their tenant mix in order to attract more brands. GTC Galleria Plaza opened the first nation-wide Sichuan-themed Huangjihuang restaurant, accounting for about 270 sq m. Paradise Walk Longfor introduced the first one-stop, child-related shopping area, covering over 10,000 sq m – Paradise Walk Longfor Children's Place (天街少年宫). The Paradise Walk Longfor Children's Place includes education establishments such as training institutions for art and music focusing on children aged from three to 18 years old.

Market information

- In August, 2015, Central Department Store in MixC officially closed its doors, representing the official departure of Central not only from the Chengdu market but also the China market.

- Resulting from Wanda's nation-wide strategic adjustment, the Dagexing KTV in both Wanda Plaza Jinhua and Wanda Plaza Jinniu were closed.

- Tesla opened its second store in Chengdu in Taikoo Li – located in the Chunxi area, the most well-known prime retail area in the city – in order to provide an experience to their clients and educate the city about electric vehicles.

- In September, International Financial Square welcomed Bonpoint Boutique store, containing the

full series of their 2015 autumn and winter collections. In addition to men's wear, children's wear and accessories, this retailer also introduces lines for new-born babies, young mothers, Y'en A Marre (YAM) collections for young girls, skin care and perfumes.

- Also in September, By Et Tol, the first Lotto Department Store directly operated in China, was opened in Global Century Plaza. The store introduces a collection of brands from all around the world from more than 30 different designers – including brands such as Equipment, MSGM, Play Nomore, and Vega Zaishi Wang.

Market outlook

Three prime shopping malls – Joy City, Longfor Jinnan Walk, and Intime City – are expected to enter the market in Q4/2015, adding 530,000 sq m. The new supply is expected to increase competition within the market, resulting in greater challenges for projects lacking unique characteristics and innovative operation strategies.

As a traditionally rich area, Shuangnan will welcome two prime projects – Joy City and Longfor Jinnan Walk. The Shuangnan area is one of the first residential areas to mature in Chengdu and has a high population density. This area also has high consumption power. Until Q3/2015, this area lacked large prime shopping malls; however, the new supply is expected to fulfil this demand. The projects are anticipated to introduce a number of well-known retailers and formats, helping to upgrade the overall retail atmosphere of the area. ■

Project focus

Perennial International Health and Medical Hub

Perennial International Health and Medical Hub is located at Chengdu East Railway Station in the Chenghua district. The project is positioned as the first mixed-use project in the Sichuan province including advanced medical services and retailers. With a total GFA of 280,000 sq m, the project will introduce a large-scale hospital with international health care services such as Chinese medical physiotherapy, maternity care, gym and an organic supermarket, aiming to fulfil consumers' diversified demands for modern health care.

TABLE 1

Perennial International Health and Medical Hub

	
Location	Jinxiu Road, Chenghua district, Chengdu (Beside Chengdu East Railway Station)
Developer	Perennial Real Estate Holdings Limited
Retail GFA	280,000 sq m
Expected handover	Q4/2016

Source: Savills Research

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