

Briefing Retail sector

January 2016



Image: Paradise Walk Longfor, Wukuaishi Road, Jinniu District

SUMMARY

In Q4/2015, Intime City, Longfor Jinnan Paradise Walk and Joy City entered the market, with a total of 530,000 sq m of new supply. Five prime shopping malls were completed in 2015, totalling 655,000 sq m of new supply.

- By the end of November 2015, Chengdu overall retail sales reached RMB447.49 billion, up 10.6% year-on-year (YoY).

- Three new shopping malls, Intime City, Longfor Jinnan Paradise Walk and Joy City were launched in Q4/2015, adding 530,000 sq m of prime retail supply to the market and pushing overall retail market stock up to 4.23 million sq m.

- City-wide prime shopping mall vacancy rates decreased 1.5 percentage points (ppts) quarter-on-quarter (QoQ) to 8.5%, down 1.1 ppts YoY

- First-floor prime shopping mall rents increased 0.4% to RMB17.4 per sq m per day, up 1.4% YoY.

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“Yanshikou’s existing high-end shopping malls will receive greater operational pressure and challenges due to the cautious expanding of luxury brands and competition from the Chunxi Road area as well as the Yintai Centre in99 which is expected to enter the market in 2016.” Dave Law, Savills Research & Consultancy

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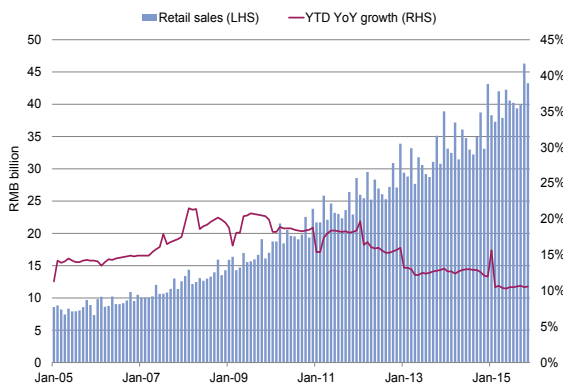
➔ **Economic overview**

Stimulated by National Day, the end of November 2015 saw overall retail sales reach RMB447.5 billion, up 10.6% YoY and growing steadily. The per-capita disposable income of city dwellers rose 8.3% YoY, to RMB25,219, while the consumer price index increased 1.3% YoY, following the same trend as the first three quarters of the year. In general, the overall economy remained stable.

Supply

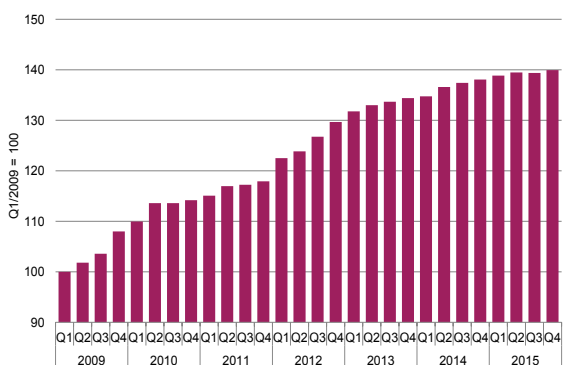
In Q4/2015, the market received Intime City, Longfor Jinnan Paradise Walk and Joy City – a total of 530,000 sq m of new supply, accounting for 80% of the total supply for the whole year.

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



Source: Chengdu Bureau of Statistics, Savills Research & Consultancy

GRAPH 2 **Retail rent index, Q1/2009–Q4/2015**



Source: Savills Research & Consultancy

Intime City

Intime City was launched in October 2015. It is the first mixed-use project by the Yintai Group in Chengdu. Intime City is located in the Dayuan area, adjacent to two major roads (Tianfu Avenue and Yizhou Avenue), and next to Metro Line 1.

The total gross floor area (GFA) is approximately 400,000 sq m, including a shopping mall, pedestrian walk, office building and the Alibaba western-China headquarters. The GFA of the shopping mall is 120,000 sq m, with anchor stores including Bravo supermarket, Zara and the Aurora International Cinema.

Longfor Jinnan Paradise Walk

Longfor Jinnan Paradise Walk was launched in October 2015 and is the fourth Paradise Walk series Longfor has opened in Chengdu. The project is located in the Shuangnan area which prior to this launch was lacking in large prime shopping malls. The project enjoys convenient public transportation with more than 13 bus routes surrounding it.

Longfor Jinnan Paradise Walk includes commodity housing, SOHO, hotel, a commercial street and shopping centre. The shopping centre has 150,000 sq m GFA and the commercial street 80,000 sq m, with anchor stores such as Bravo supermarket, SPAO, Uniqlo and CGV Cinema.

Joy City

Joy City was launched in December 2015. It is the seventh Joy City developed by COFCO; other locations include Beijing, Shanghai, Tianjin, Shenyang and Yantai. This Joy City was also the first mixed-use project COFCO has built in south-western China.

Joy City includes a shopping centre, commercial street and an office

building with 400,000 sq m GFA. The retail area has approximately 330,000 sq m. The shopping mall has 260,000 sq m with three underground floors and floors three to five are above ground. The shopping centre was designed with an outdoor plaza, rooftop plaza and terrace. The anchor stores are Muji, Uniqlo, H&M, Zara and Sephora.

Rent

Shopping mall first-floor rents increased 0.4% QoQ in Q4/2015 to RMB17.4 per sq m per day. In prime retail areas, rents increased slightly by 0.1% QoQ to RMB37.6 per sq m per day, and non-prime retail area rents increased 0.5% QoQ to an average of RMB12.4 per sq m per day.

Landmark projects Tai Koo Li and the International Finance Centre both saw a good retail performance and a steadily increasing rental index caused by high rents which is due to their brands' attraction and influence. In the non-prime areas, some projects were actively adjusting their brand mix. By introducing entertainment brands, which take up more acreage, they ensured a lower vacancy rate and higher footfall figures. This combined with the outstanding performance of certain community-focused prime shopping malls, non-prime area rents picked up.

Vacancy rates

City-wide prime shopping centre vacancy rates decreased 1.5 of a ppt in Q4/2015 to 7.0% QoQ. Prime area vacancy rates decreased 0.6 of a ppt to 4.6% QoQ, and non-prime area vacancy rates decreased 2.7 of a ppt to 7.3% QoQ.

The prime retail market experienced two contrasting scenarios. Due to brand attractiveness and the landmark position of Tai Koo Li,

the Chunxi road area vacancy rate decreased. A number of new stores opened, including the second Apple store in Chengdu, a Nicolas Andreas Taralis Flagship store, KENZO, Youk Shim Won, and Any Shop Style, which impacted the decreasing rate.

However, affected by the brand's current strategy, Dior in Yanlord Landmark Shopping Mall decided against extending their lease and the store officially closed at the end of December. This caused an increase in Yanlord Landmark Shopping Mall's vacancy rates. As a result, vacancy rates in prime retail experienced a slight increase.

In the non-prime market, all three projects launched this quarter opened with occupancy rates higher than 90%. This was due to strong leasing abilities on the developers' part and the projects' positioning filling current gaps within the market. This resulted in a decrease in vacancy rates this quarter. In order to compete with projects in both prime and non-prime areas, some shopping malls introduced more entertainment and sports brands, which improved popularity amongst consumers and assisted in increasing footfall. For example, Longfor Paradise Walk introduced Taroko Sports, Fortune Center Fashion Plaza and Aux Plaza both introduced Billiards Pub, Capital Mall Tianfu and Yangguang Center introduced an archery pavilion, and Suning Plaza introduced a rooftop football club. Due to the large demand for sports brands and entertainment, this assisted in the decrease of vacancy rates in the non-prime area.

Market information

- In Q4/2015, KABB Bar and Grill, the sister brand of Blue Frog, opened in Tai Koo Li. With three locations in

Shanghai, this was the first restaurant KABB opened outside of the city.

- In Q4/2015, an Apple Store was opened in Tai Koo Li. This apple store was not only the second to open in Chengdu, but also the tenth store in mainland China.

- In October 2015, SPAO, the fast fashion brand under the ELAND Group, opened its first store in Longfor Jinnan Paradise Walk with 1,700 sq m of store area. Following this, their flagship store then opened on Chunxi Road and their third store at Joy City.

- In November 2015, COFCO's house brand, Joy House Cafe & Pub, was opened in the COFCO Chanson Joy Street. Joy House is the first catering brand of COFCO. It has integrated the COFCO whole industry chain including coffee, restaurant, bar, tea house, supermarket and other formats. COFCO is planning to continue to expand the Joy House brand.

- With Dior evaluating their stores' performances, they decided not to extend their lease and closed their store in the Yanlord Landmark Shopping Mall at the end of December.

Market outlook

In 2016, approximately 20 prime shopping malls are expected to enter the market. As a result, more than 1.97 million sq m is expected to be added to the market. The Chengdu prime retail market trend for 2016 shows the following characteristics:

- Due to the large amount of land supply and some projects' slow construction progress, financial pressure, and leasing progress,

2016 is expected to witness a concentrated amount of supply.

- However, the large supply will intensify the competition and projects with poor operation, positioning, and lack of desired characteristics will be at a disadvantage. New projects will also follow the multi-area retail development pattern.

- At the same time, in order to succeed, shopping malls will begin to proactively adjust their tenant mix and incorporate more innovative ideas. This will upgrade the Chengdu retail environment in terms of brands, formats, themes and operating methods.

- As the growth of luxury brands in the national market slows, brands are more cautious about expanding into the China market. In addition, as the Chengdu high-end market is becoming saturated with more brands entering the market, the expanding of luxury brands in Chengdu is expected to slow down.

- In future, due to the project positioning and the strong leasing ability of the Yintai Group, the launch of the Yintai Centre in99, in the southern part of Chengdu, is expected to form another high-end brand cluster. This, combined with the International Financial Centre and Tai Koo Li project in the city centre, will result in diversified, strong competition for other high-end shopping malls. Due to these developments, high-end shopping malls in the Yanshikou Area, such as Yanlord Landmark Shopping Mall, the Mansion Mode Lessin Chuanxin and the Tianyi Store, are expected to suffer, with increased operating challenges and competition in the high-end brand market. ■


Project focus

Yintai Centre in99

Yintai Centre in99 is located in Tianfu New City. This project consists of a high-rise building and a large shopping mall. It includes a Waldorf Astoria Hotel, Grade A office space, a shopping centre (in99), a high-end residence (Wan Yin Penthouse) and serviced apartments (Wan Yin Residence). The total GFA is approximately 720,000 sq m.

The shopping centre, designed by Callison and Benoy, is 190,000 sq m. It contains luxury brands, cosmetics, a supermarket, theme restaurants and a rooftop garden.

TABLE 1
Yintai Centre in99

	
Location	No. 1199, North Tianfu Avenue
Developer	Yintai Group
Retail GFA	190,000 sq m
Expected handover	Q3/2016

Source: Savills Research & Consultancy

Please contact us for further information

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