

Briefing Retail sector

July 2016

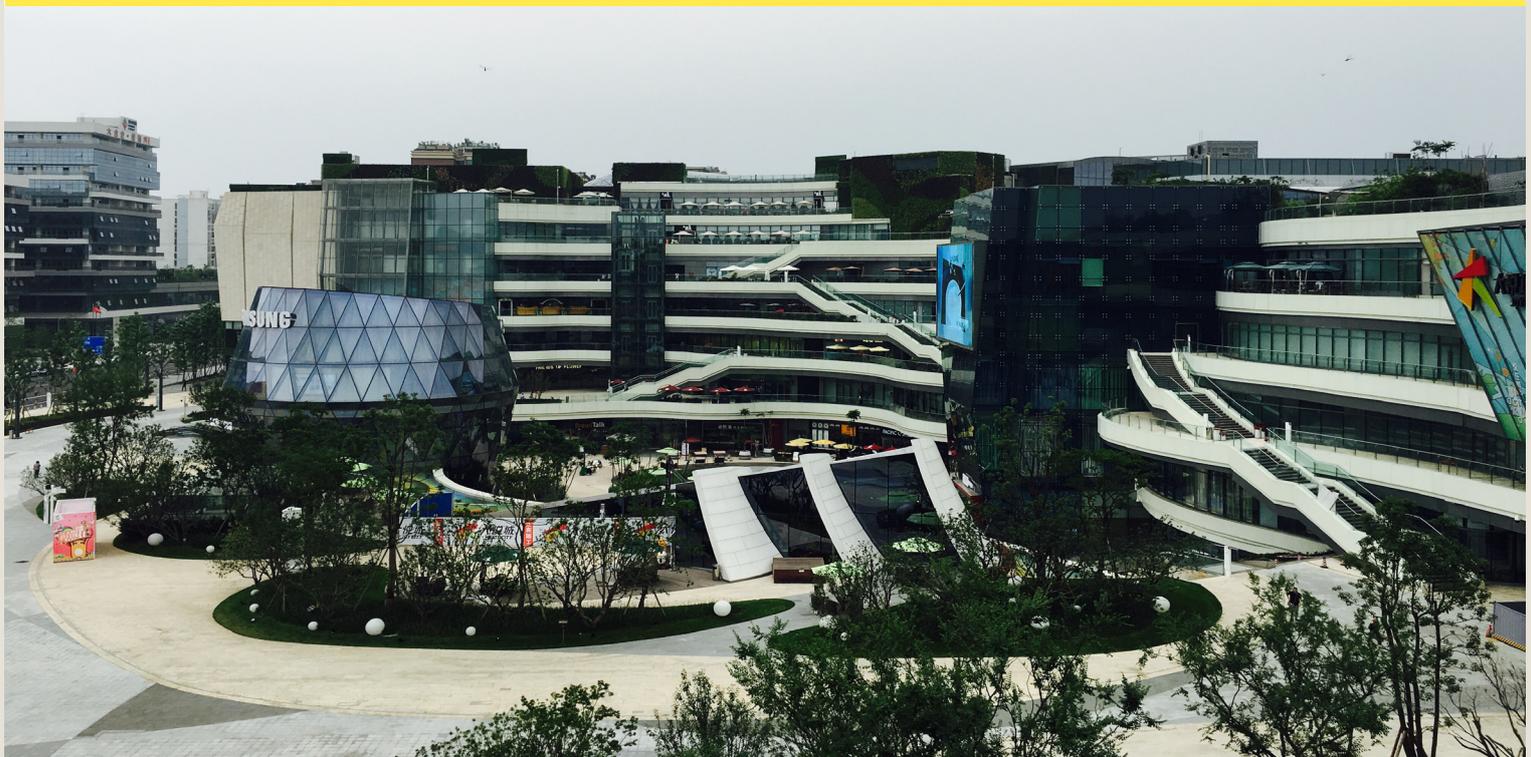


Image: Joy City, Wuhou District

SUMMARY

No new supply was launched in 1H/2016 and stock remained at 3.9 million sq m. Vacancy rates decreased due to increased uptake by new brands.

- The end of May saw overall retail sales reach RMB224.64 billion, up 9.8% year-on-year (YoY).
- Due to no new prime shopping malls being handed over in Q2/2016, overall retail market stock remained at 3.90 million sq m.
- City-wide prime shopping mall vacancy rates decreased 0.6 of a percentage point (ppt) quarter-on-quarter (QoQ) to 7.1%, down 0.6 of a ppt YoY.
- First-floor prime shopping mall rents increased 0.4% to RMB18 per sq m per day, up 1% YoY.

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“A new retail format has emerged where online to offline (O2O) brands open bricks and mortar stores, adding to the already competitive retail environment. Innovative business formats, a diverse range of products and upgrading consumers’ shopping experiences will help these O2O stores stand out amongst the competition.”

Dave Law, Savills Research & Consultancy

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→ **Economic overview**

The end of May 2016 saw overall retail sales reach RMB224.64 billion, up 9.8% YoY, a slower growth rate than seen previously. F&B sales reached RMB25.62 billion, up 11.2% YoY, while other retail reached RMB199.0 billion, up 9.6% YoY.

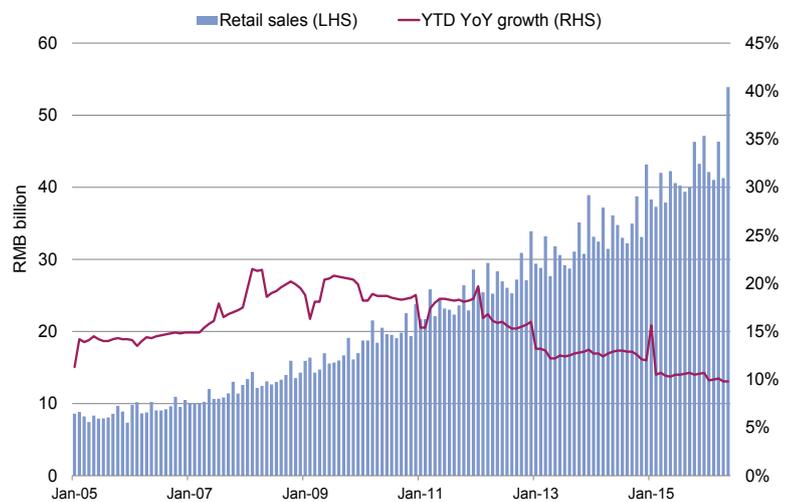
Supply

Due to no new prime shopping malls being handed over in Q2/2016, overall retail market stock remained at 3.90 million sq m.

Chengdu Hualian Building

In June 2016, one of the oldest local department store brands, Chengdu Hualian Building, closed its store located on Jianshe Road. This store first opened in May 1994, but in recent years, the opening of new shopping centres which provide an improved shopping experience and more retail variety (such as SM Plaza and MixC), as well as the explosion of E-commerce, meant it experienced a large loss in consumers. Faced

GRAPH 1 **Retail sales, Jan 2005-May 2016**



Source: Chengdu Bureau of Statistics, Savills Research

with an increase in operating losses, Datong Gas, the parent company of Chengdu Hualian Building, now plans to rent out the space.

Rents

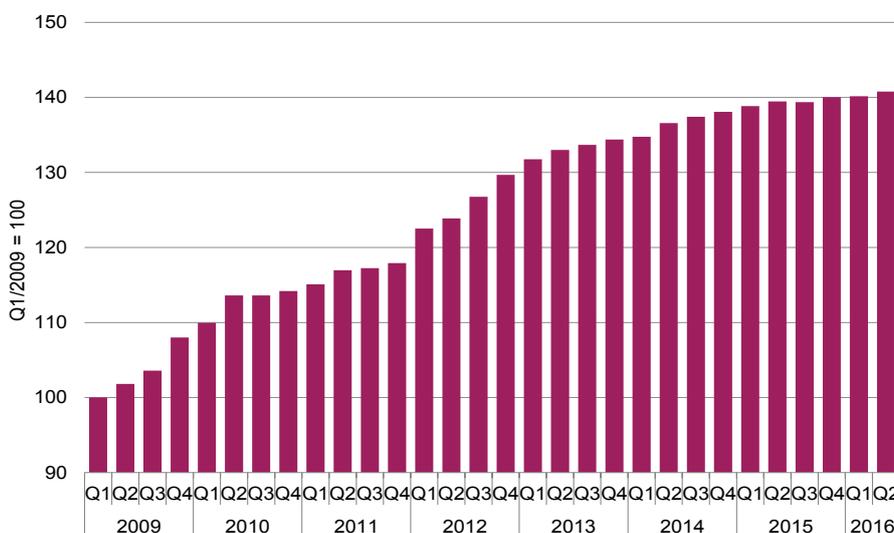
In Q2/2016, shopping mall first-floor rents increased 0.4% QoQ to RMB18 per sq m per day. In prime retail

areas, rents increased 0.4% QoQ to an average of RMB37.3 per sq m per day, and non-prime retail area rents remained stable at RMB12.2 per sq m per day

This quarter, rents in prime retail areas showed an increase. Most prime shopping malls in the Chunxi Road area, such as Tai Koo Li and Silver Square, performed well and met the target consumers' changing demands by actively adjusting tenants. Hence, rents in the Chunxi Road area increased steadily and led to rental increases in the prime retail area.

In non-prime areas, most projects adopted a conservative rental strategy in order to remain attractive to quality brands. Projects have also begun to put more effort into attracting brands which are more likely to take over larger spaces and are seen to generate higher footfall but have limits on rental affordability (e.g.: catering, education

GRAPH 2 **Retail rent index, 2009-Q2/2016**



Source: Savills Research

and entertainment brands). As a result, rents in non-prime areas have remained stable.

Vacancy rates

City-wide prime shopping centre vacancy rates decreased 0.6 of a ppt in Q2/2016 to 7.1%. Prime-area vacancy rates decreased 1.2 ppts to 6.1% QoQ, and non-prime area vacancy rates decreased 0.4 of a ppt to 7.3% QoQ.

Chengdu overall prime shopping mall vacancy rates decreased due to prime retail projects such as Tai Koo Li, Yanlord Landmark Shopping Mall and MixC attracting more brands by adjusting brand-mix. In addition, no new supply entered the market.

Consistently attracting new and popular brands are Tai Koo Li and the International Financial Center in the prime retail area of Chunxi Road. Yanlord Landmark Shopping Mall in the Yanshikou Area is going through another round of tenant adjustment. Although the closing of the Burberry store impacted occupancy rates, these were quickly subsidised by the entering of sports brand Studio Quickstyle X Sinostage, catering (Guangjiu) and an O2O store Ailin Gallery.

Market information

■ Fresh, a skin care brand in the LVMH Group, opened a store in MixC. This is the first boutique store Fresh has opened in north-western China.

■ SiSYPHE opened a store in GTC Galleria Plaza. It is the eighth store the brand has opened in the city after Longfor Paradis Walk,

MixC, Chicony, Longfor Beicheng Paradis Walk, Evergrande Plaza, Longfor Jinnan Paradise Walk, and CapitalMall Jinniu. The GTC Galleria Plaza store is also the eighth store SiSYPHE has opened in six months.

■ The first 678 Korean BBQ in mid-western China opened in the Chengdu International Financial Center. 678 Korean BBQ is a chain store that was started in 2003 by popular Korean talk show host Kang Ho Dong. Since its conception, stores have been opened in Beijing, Guangzhou, Shanghai and Hangzhou.

■ Nike has opened its largest Nike Running flagship store in south-western China in Tai Koo Li. The store has two floors, with the first predominantly men's wear and the second women's wear. The store not only offers a wide range of products but also hosts events for running enthusiasts.

■ Roger & Gallet, the well-known French perfume and body care brand, opened its first flagship store in the city. This is also Roger & Gallet's third store in China.

■ Vera Wang has opened its first store in the city in the International Financial Square. This is the third Vera Wang store in China after Beijing and Shanghai.

■ This quarter saw the Yanlord Landmark Shopping Mall undertake an adjustment of its tenant mix. With the closing of the Burberry store, the mall went on to introduce a number of other brands including Ailin Gallery (O2O store), Gangjiu Restaurant,

Noodle King, Changle Massage and Studio Quickstyle X Sinostage a dance studio.

Market outlook

The market is expected to welcome 10 shopping malls in 2H/2016, contributing a total of 900,000 sq m to the market. All these projects are located in non-prime areas such as Financial City, Shuangnan, and Guanghua. This influx of supply is expected to further enhance the multi-district and multi-business area development pattern.

The launch of high-end shopping centre Yintime Centre In99 is expected to upgrade the quality of the retail environment in the Financial City area. This launch is also expected to lead to more high-end international brands entering non-prime retail areas in the city.

The launch of Wanda Qingyang Plaza will fill the current gap in the market and bring more brands and retail formats to the Guanghua area. Currently, the Guanghua area is home to a few prime retail projects, such as Perennial Mall. However, these projects are unable to meet the diverse needs of consumers as the area has seen both economic and industrial growth which has led to an increase in people moving into the area, pushing up population density. ■

Project focus

Future Center

Future Center is located at the intersection of the 1st Ring Road and Shudu Avenue – two arterial roads in the city. The project is in close proximity to the Chengdu West Railway Station, Yushuang Railway Station (line 4) and Niuwangmiao Station (line 2) as well as multiple bus stops.

Future Center has a total of 80,000 sq m GFA which includes a shopping centre, Loft and the first store by the Orange Hotel. The shopping centre (32,000 sq m) integrates technology into its design which is seen across all elements. Currently, the project is home to brands such as the CAGO pub flagship store

TABLE 1
Future Center

	
Location	No.26 2nd Dongfeng Road
Developer	More Future
Retail area (sq m)	32,000
Expected handover	Q4/2016

Source: Savills Research

Please contact us for further information

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