

Briefing Retail sector

October 2016



Image: Vary Mall, Kehua Road, Wuhou District

SUMMARY

In Q3/2016, the launch of Vary Mall pushed up city-wide prime retail stock to 3.88 million sq m.

■ By the end of July 2016, the city's overall retail sales reached RMB316.97 billion, up 10% year-on-year (YoY).

■ Vary Mall was handed over in Q3/2016, pushing up overall retail market stock to 3.88 million sq m.

■ City-wide prime shopping mall vacancy rates decreased 0.2 of a percentage point (ppt) quarter-on-quarter (QoQ) to 6.3%, down 1.9 pts YoY.

■ First-floor prime shopping mall rents decreased 0.2% to RMB17.9 per sq m per day, up 0.78% YoY.

“Culture and entertainment-focused events which have their own loyal fan base have the potential to become a new promotional tool and assist shopping centres in differentiating themselves from others.” Dave Law, Savills Research & Consultancy

➔ **Economic overview**

Overall retail sales reached RMB316.97 billion by the end of July 2016, up 10% YoY, albeit with a slowing growth rate. Catering sales reached RMB37.21 billion, up 11.7% YoY, while the rest-of-retail sales reached RMB27.98 billion, up 9.7% YoY.

Supply

Vary Mall was handed over in Q3/2016, pushing up overall retail market stock to 3.88 million sq m.

Vary Mall

In July 2016, Vary Mall, built by PowerChina Real Estate Group LTD and Wuhan Langold Real Estate, was launched. Vary Mall is located at the intersection of Kehua Road and Changrong Road, and is near South 2nd Ring Road. The Mall enjoys convenient public transportation, with several bus routes surrounding the 2nd Ring Road Bus Rapid Transit (BRT) bus station.

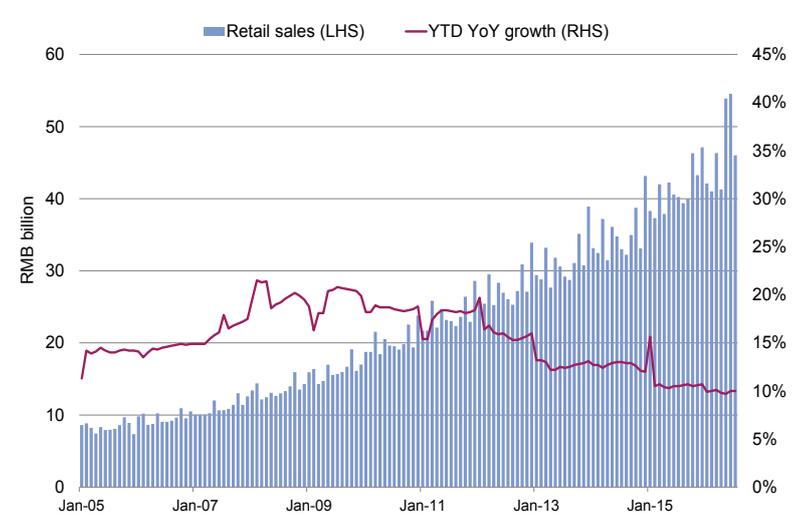
Vary Mall has four floors above ground and two below, with a total 65,000 sq m. The Mall is community-centred, targetting the households in the area, and is dominated by entertainment, catering and children's retail formats. Brands include CGV Cinema, Carrefour, and Good Kids Station.

Rents

Shopping mall first-floor rents decreased 0.2% QoQ in Q3/2016, to RMB17.9 per sq m per day. In prime retail areas, average rents decreased 0.1% QoQ to RMB37.6 per sq m per day, and non-prime retail area rents decreased 0.2% QoQ to RMB12.2 per sq m per day.

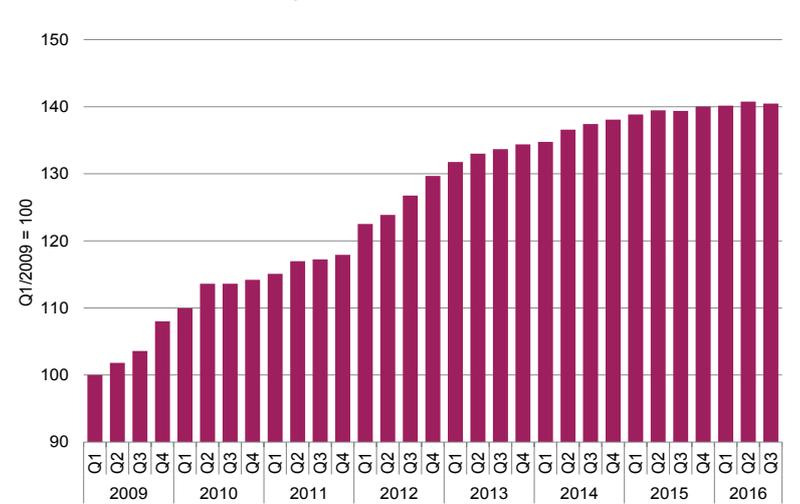
In this quarter, rents in prime retail areas showed a slight decrease. This can be attributed to some shopping malls in prime retail areas adopting a conservative rental strategy in order to maintain attractiveness to brands they deem suitable. In addition, a few shopping malls have provided larger rent incentives in an attempt to improve occupancy rates.

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



Source: Chengdu Bureau of Statistics, Savills Research

GRAPH 2 **Retail rent index, Q1/2009-Q3/2016**



Source: Savills Research

In non-prime areas, several projects are undergoing a tenant and rent strategy adjustment; as a result, rents experienced a decrease.

Vacancy rates

City-wide prime shopping centre vacancy rates decreased 0.3 of a ppt in Q3/2016, to 6.3%. Prime area vacancy rates remained at 6.1%, and non-prime area vacancy rates decreased 0.3 of a ppt to 6.3% QoQ.

Prime retail areas are consistently attracting international brands such as Marc O'Polo, Ports 1961 and Alice

+ Olivia by Stacey Bendet. However, occupancy rates are not improving, predominantly due to a number of projects going through a brand adjustment period as many leases have expired.

Vacancy rates have dropped in non-prime retail areas due to some projects introducing brands which require a larger floor space. For example, Chengdu 339 introduced Yonghui Superstores and Evergrande Plaza introduced Hengyi International Fencing Center and the High-T, a visual arts experiential park,

all tenants with large floor space requirements. In addition, it is worth noting that the vacant space in MixC previously occupied by the Central Department Store and NOVO has been filled. This quarter has seen MixC introduce Nike Kicks Lounge and will see the opening of Victoria's Secret in the future.

Market information

- In July 2016, Tai Koo Li introduced the second Line Café & Store in China, after the Shanghai store. Line is a popular Korean chat app. The retail space is a physical manifestation of the brand, and functions as both a cafe and retail store. Line also has stores in Korea, Taiwan and Japan.

- In August 2016, Alice + Olivia by Stacey Bendet opened in Chengdu International Financial Square with a retail space of approximately 80 sq m. This is not only its tenth independent store in Asia after Shanghai, Macau, Hong Kong,

Taipei, Singapore and Tokyo, but also its second independent store in mainland China.

- In September 2016, Juice, a high fashion store created by well-known fashion designer Edison Chen, opened in Tai Koo Li. Juice mainly stocks CLOT products, a brand also established by Edison Chen. In addition, the store also stocks other high-fashion brands.

- In September 2016, O bag opened its first store in mainland China in Tai Koo Li. O bag was created by Emanuele Magenta in 2009. The store stocks bags, watches, eyewear and other accessories. So far, O bag has opened stores in more than 100 countries around the world, and in Asia stores have been opened in Japan, Korean, and Taiwan.

- In September 2016, accessible luxury Singaporean brand Pedro opened its first store in Chengdu in Raffles City. Pedro was established in

2006 and stocks shoes, bags, belts, and other leather accessories.

Market outlook

In Q4/2016, six new shopping malls are expected to launch, all located in non-prime areas, with a combined space of over 500,000 sq m. Four of these new projects are located outside the 3rd Ring Road. This is expected to further build on the multi-district and multi-business area development pattern in the city.

With competition increasing and consumers' demands constantly changing, the city's prime retail projects will need to find new ways to stand out from their competition. Other than the popular experiential retail brands, holding popular culture and entertainment events, which have their own loyal following, might prove to be the next successful approach. ■

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