

Briefing Retail sector

January 2017



Image: Qingyang Wanda Plaza, No.1, Riyue Avenue, Qingyang District

SUMMARY

The launch of the Qingyang Wanda Plaza in Q4/2016 pushed up city-wide prime retail stock to 4.06 million sq m.

■ By the end of October 2016, the city's overall retail sales reached RMB460.69 billion, up 10.2% year-on-year (YoY).

■ City-wide prime shopping mall vacancy rates decreased 0.6 of a percentage point (ppt) quarter-on-

quarter (QoQ) to 5.8%, down 1.2 pts YoY.

■ First-floor prime shopping mall rents increased 0.1% to RMB18 per sq m per day, up 0.44% YoY.

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 "The closure of the Hualian department store in Q4/2016, and its subsequent relaunch as an outlet mall, was well received by consumers due to the family-oriented tenant mix combined with large discount offers. This format is expected to become a trend amongst developers looking to stand out against stiff competition."
 Dave Law, Savills Research & Consultancy

➔ **Economic overview**

Overall retail sales reached RMB460.69 billion by the end of October 2016, up 10.2% YoY, albeit with a slowing growth rate. F&B sales reached RMB56.9 billion, up 12.1% YoY, while the rest-of-retail sales reached RMB403.79 billion, up 9.9% YoY.

Supply

The Qingyang Wanda Plaza was handed over in Q4/2016, pushing up overall retail market stock to 4.06 million sq m.

Qingyang Wanda Plaza

Qingyang Wanda Plaza, built by the Wanda Group, was launched in December 2016, and consists of a shopping mall, shopping street, office building and apartment building, with a total GFA of 370,000 sq m. Located at the intersection of Riyue Avenue and Wuqing Road in the Guanghua retail area, the Plaza is near several

bus routes and in close proximity to the West Railway metro station (line 4). The shopping mall (170,000 sq m) has positioned itself as a one-stop shopping centre; anchor tenants include Chengdu's first Dolby cinema (Wanda Cinema), Suning, Uniqlo, and Yanjiyou Today's Reading.

Newcore City Mall

Originally the Hualian Department Store, the Newcore City Mall is a joint renovation project by the Chengdu Hualian Corporation and the E-land Group (a South Korean retail company). The mall, with a total GFA of 30,000 sq m, launched in October 2016, and is located on Jianshe Road, a non-prime retail area. Positioned as an outlet mall, other tenants include children's entertainment and F&B, however the high discount stores are the biggest draw card. International brands include UGG, Adidas and Nike, as well as brands under the E-land Group umbrella: E-Land, Teenie Weenie, Roem, Plory, Who.A.U, and Palladium. This is the second Newcore City Mall in China after Parkson Group and E-land Group built the first one together in Shanghai.

Beijing Hualian Yanshikou Store

The end of October 2016 saw the Beijing Hualian Yanshikou store, located in the prime Yanshikou area, close. In operation for over 15 years, rising operation costs and decreasing profits were the two main reasons cited for its closure.

Rents

In Q4/2016, first-floor shopping mall rents increased 0.1% QoQ, to RMB18 per sq m per day. In non-prime retail areas, several projects performed well, resulting in rents increasing 0.2% QoQ to RMB12.2 per sq m per day.

Due to a number of shopping malls in prime retail areas adopting a conservative rental strategy in order to retain attractiveness to brands, average rents remained stable at RMB37.6 per sq m per day. However, the Chunxi Road area is growing in popularity, both amongst consumers and brands, resulting in increased competition for the Yanshikou area, which has seen key projects begin to lower rents in an attempt to retain and attract tenants.

Vacancy rates

In Q4/2016, city-wide prime shopping centre vacancy rates decreased 0.6 of a ppt QoQ to 5.8%, and prime area vacancy rates decreased 0.4 of a ppt QoQ to 6.6%. The decrease in vacancy rates can be attributed to prime projects in prime retail areas, such as the International Finance Square and Taikoo Li, adjusting and upgrading their services and tenant mix in an attempt to encourage market demand and create a better experience for consumers. As a result, some brands have moved out; however, they have benefitted from large-sized brands moving in, such as the Yanjiyou flagship store in IFS and a Yangzhangou O2O store.

Non-prime area vacancy rates also decreased, by 0.6 of a ppt to 5.7% QoQ. This can be attributed to a number of large brands such as the Greenland Global Commodity Marketing Center G-Super, Yanjiyou-Jian, Decathlon, Chengdu Play House (Learn through Play) moving into non-prime retail areas, resulting in a continual decrease in vacancy rates.

Except for a few retail brands like Victoria's Secret, Decathlon and COS, entertainment, F&B and childrens' retail formats still are the principal adjustment direction of prime projects in the non-prime retail areas. For example, Capital Tianfu Square introduced children's education and training brands such as The Little Gym, Play House, Goldenyulin, and Anniekids, while Joy City introduced catering brands KangHoDong BaekJeong, Peter's, and FOOO.

Market information

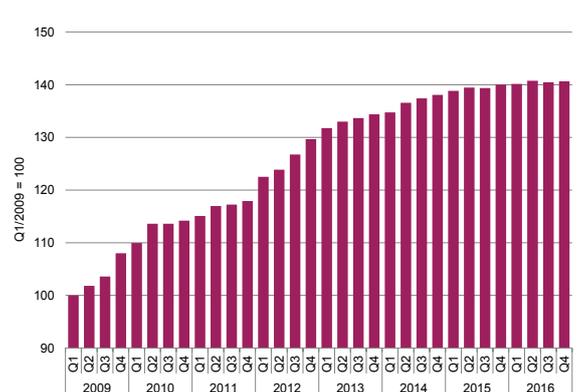
- In October 2016, Tai Koo Li introduced the first Sulwhasoo flagship store in China, a skincare brand by the Korea Amore Pacific Group. This store is also the first S concept experience store in China. The store design concept is in keeping with the flagship store in Seoul and includes a Brand Zone, Luxury Quarter, Gift Service area and Spa area, and provides Sulwhasoo Spa and Korean-style gift packaging services. As an S concept experience store, it also offers special services such as skin care classes and product experience for online Tmall consumers.

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



Source: Chengdu Bureau of Statistics, Savills Research & Consultancy

GRAPH 2 **Retail rent index, Q1/2009-Q4/2016**



Source: Savills Research & Consultancy

- In November 2016, the first Greenland Global Commodity Marketing Center G-Super opened in Chengdu at Raffles City. Its operating area covers about 6,000 sq m, with 4,000 sq m dedicated to a supermarket and the remaining space occupied by fashion brands. In December 2016, the second G-Super was launched at Evergrande Plaza, taking up about 3,300 sq m.

- In November 2016, COS, a high-end brand under the H&M umbrella, opened in MixC. It is their second store in the city, after the first COS opened in IFS in 2014. COS offers high-end, reinvented classics and wardrobe essentials for both women and men.

- In December 2016, the Yanjiyou flagship store opened at Chengdu International Finance Square, with a total of 4,400 sq m. Expanding on their traditional business model, which is a cafe, accessories and bookstore, other brands such as a photo studio, hair salon and supermarket were also introduced.

- In December 2016, the first counter of Jo Malone London, an English fragrance brand, opened at the Chengdu Wangfujing Zongfu

Store. Jo Malone London is part of the Estée Lauder Group, and is positioned as high-end skin care and perfume brand.

- In December 2016, a 4,000 sq m Decathlon store opened in MixC. This is the fifth Decathlon store in the city after stores in Tianfu, Xihua, Pixian and Guanghua. It is also the first time that Decathlon has opened a store in a Chengdu shopping mall. The French sports brand entered the China market in 2003, and stocks a variety of sports goods and brands.

Market outlook

In 2017, 22 new shopping malls with a combined space of over 1,700,000 sq m will be completed and ready to enter the market; however, each project's actual launch date is dependent on leasing progress. The city's future retail business development is expected to show the following trends:

The outlet format is one which has been warmly welcomed by consumers in the past, due to the "brand plus discount" operating pattern. It is expected to become another trend amongst landlords of underperforming retail projects. In 2016, the Hualian Department Store

was closed and transformed into an outlet format which attracted over 400,000 consumers on opening day. The recently closed Beijing Hualian Yanshikou department store is also expected to be converted into an outlet mall. In addition, Chengdu 339 rented out its vacant space to some brands to be used as a discount store. The outlet format is expected to become another breakthrough for retail projects, particularly in prime locations struggling amid fierce competition.

In 2015, the local government released their strategy "to Build an International Influential Shopping Paradise Action Plan" and in 2016, this strategy was put into action. The Chengdu government and industrial and enterprise associations worked closely with retail projects in the city to assist in increasing awareness for the projects by holding events such as shopping festivals, working to improve the shopping environment, improving consumers' shopping experience, and developing an online service platform. In the future, as incentivised by the government strategy, the city's retail market is expected to welcome new development opportunities. ■

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