

Briefing Retail sector

November 2017



Image: Xingyue Plaza, No. 33 Longtan Road, Chenghua District

SUMMARY

International brands continued their expansion in Southwest China, opening their first or second stores in Chengdu during Q3/2017.

- Consumer goods retail sales in Chengdu reached RMB363 billion, up 11.5% year-on-year (YoY) for the first seven months of 2017.

- Xingyue Plaza opened in Q3/2017 with a total retail area of 80,000 sq m, pushing the total market stock up by 1.6% QoQ to 5.06 million sq m.

- Demand for retail space was strong in Q3/2017 with a total of 219,531 sq m of net absorption, up 1.0% quarter-on-quarter (QoQ). City-wide vacancy rates fell by 2.9 percentage points (ppts) to 8.1%.

- First-floor shopping mall rents increased slightly by 0.1% to an average of RMB419 per sq m per month.

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 “The Chunxi-Yanshikou submarket continued to be regarded by international retailers as a key entry location into Chengdu, supporting the growth of average rents.”
 Dahuang Chen, Savills Research

➔ **Economic overview**

Retail sales of consumer goods in the first six months of the year totalled RMB311.2 billion, up 11.4% YoY. The fastest rate of growth was recorded in Jianyang City, where year-to-date (YTD) retail sales grew 14.7% YoY.

The catering sector totalled RMB37.5 billion, up 12.7% YoY, while wholesale and retail totalled RMB273.7 billion, up 11.2% YoY. The consumer price index increased 2.3% in Q2/2017, compared with the same period last year.

Supply

Only one project, Xingyue Plaza, opened its doors in Q3/2017, pushing up the total stock of Chengdu's retail property market by 1.6% QoQ to 5.06 million sq m. Xingyue Plaza is located in the Chenghua District. This new shopping mall filled the vacuum of retail market in the Longtansi area. Before the opening of Xingyue Plaza, the area was densely populated but lacked retail amenities serving the local community. With a total GFA of 80,000 sq m, the project focuses on fashion and F&B. Major tenants include Yonghui Superstores, 5 Star cn, Dadi Cinema, Miracle Fitness, Only, Burger King and Renmin Kitchen.

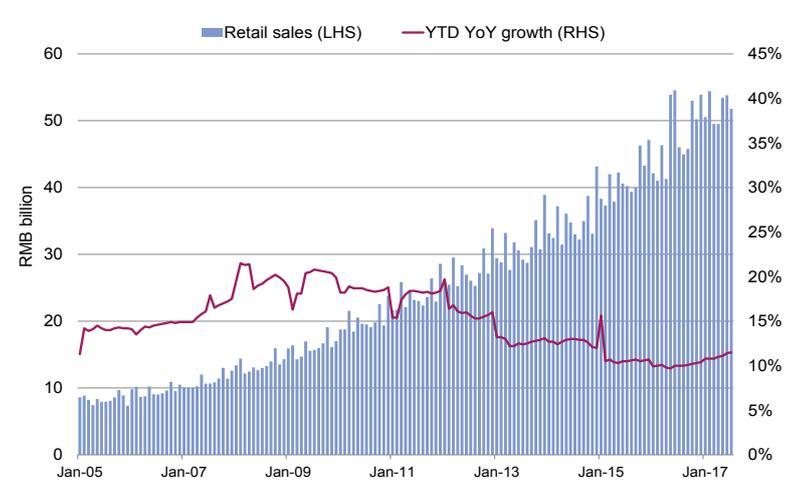
Vacancy rates

Demand was strong in Q3/2017, with total net absorption up by 1.0% QoQ. As a result, the overall vacancy rate decreased by 2.9 ppts in Q3/2017 to 8.1%. Prime retail area vacancy rates fell by 2.2 ppts QoQ to 5.0% due to continuous strong demand from international brands; non-prime retail area vacancy rates also fell by 3.0 ppts, as several shopping malls completed tenant mix adjustment. Shopping malls which recently opened in Q3/2017 also has near full occupancy rates.

Rents

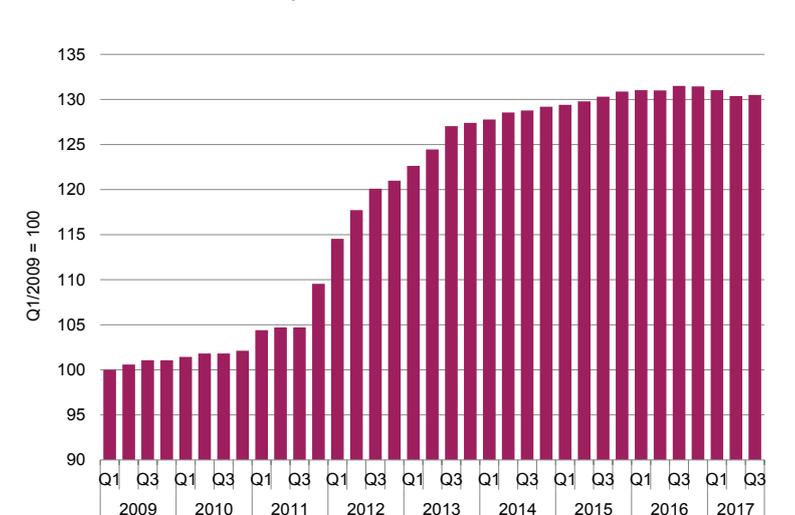
First-floor average rents in prime area increased by 1.0% QoQ, supported by strong demand from international

GRAPH 1 **Retail sales, Jan 2005-Jul 2017**



Source: Chengdu Bureau of Statistics, Savills Research

GRAPH 2 **Retail rental index, Q1/2009-Q3/2017**



Source: Savills Research

brands. First-floor average rents in non-prime area slightly declined by 0.2% QoQ as rents in new shopping malls located in emerging submarkets are lower than the citywide average.

As international retailers regard the city's prime area as a key entry location into Chengdu, most operators are likely to increase rent going forward. Faced with intensifying competition and shifting consumer demands, landlords in non-prime areas have adjusted brands and tenant mix to remain

competitive. They were also forced to offer more rental incentives to attract popular brands. This trend is likely to continue in the short term.

Tenant news

Chengdu, especially high-end malls such as Chengdu IFS, Sino-Ocean Taikoo Li Chengdu, MixC and Yintai Centre in99, continued to attract a number of international brands in Q3/2017.

Fashion

Fred, Luxury Rebel, Delvaux, Chiara Ferragni, Thom Browne, Ecko

Unltd. and MAIS expanded into Chengdu with the opening of stores in Sino-Ocean Taikoo Li Chengdu; Young Versace leased in Yintai in99; Runello Cucinelli and Shiatzy Chen leased in Chengdu IFS; Lululemon and Hay leased their second stores in Chengdu at MixC; Versace and Bottega Veneta signed new leases in Yanlord Landmark.

F&B

Green Tea leased space in Jinniu Wanda Plaza; Spice Bazaar leased its second store in Chengdu at MixC; Wagas leased space in Raffles City; and Paris Baguette opened a store in Shihao Mall.

Lifestyle

Nine Square completed their tenant mix adjustment and introduced a number of lifestyle tenants, including Winshare Books (approximately 10,000 sq m) and In Yoga. Other notable new leases include Painting Flower in Chengdu IFS and Sinostage in Yintai in99.

Market outlook

Chengdu's retail market will see another four malls launched in Q4/2017, with total space of approximately 388,000 sq m. All projects are located in non-prime areas and will boost the development of multi-retail areas in Chengdu.

As competition grows with ever changing consumer demands, the city's retail projects will need to find new ways to stand out from their competition. Other than hosting popular experiential retail brands, organising popular culture and entertainment events which already have a wide fan base, encouraging high loyalty may be the next targeted approach. ■

Please contact us for further information

Research



James Macdonald
Director
+8621 6391 6688
james.macdonald@savills.com.cn



Dahuang Chen
Associate Director
+8623 6370 3388
dahuang.chen@savills.com.cn



Eric Wo
Managing Director
+8628 8658 7828
eric.wo@savills.com.cn

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