



First-store economy stimulates urban vitality

Chengdu retail market demand remained stable, with the overall vacancy rate rising slightly to 4.6%.

- Retail sales of consumer goods in Chengdu reached RMB117.7 billion, up 8.9% year-on-year (YoY) in the first two months of 2019.
- One new shopping mall, Ito Plaza, opened in Q1/2019, adding 80,000 sq m to Chengdu's retail stock. City-wide shopping mall stock now stands at 5.8 million sq m.
- Maoye Department Store in Wuhou district closed this quarter, showcasing the significant challenges faced by traditional department stores in Chengdu.
- Demand for retail space remained stable in Q1/2019, with a net absorption of 60,848 sq m. City-wide vacancy rates rose by 0.1 of a percentage point (ppt) to 4.6%.
- Due to tenant adjustments, the vacancy rate of non-prime retail areas¹ increased slightly by 0.1 of a percentage point (ppt) quarter-on-quarter (QoQ) to 4.4%. The overall vacancy rate in the city's prime area² fell by 0.3 of a ppt QoQ to 5.5%.
- In Q1/2019, city-wide average first-floor mall rents increased by 0.2% QoQ to RMB436.5 per sq m per month.
- Due to the frequent tenant adjustments in some shopping malls, the average first-floor rent in the prime area stayed flat at RMB848.3 per sq m per month. However, thanks to the growth in both rentals and sales in 2018, some projects in non-prime areas raised their rents in Q1/2019, pushing up the first-floor average rent in these areas by 0.2% QoQ to RMB348.3 per sq m per month.

¹ Non-prime retail areas include: City North, City South, Xinnan, Financial City, Dayuan, Jianshe Rd, City East, East Extension, Shuangnan, and Jinsha/Guanghua.

“Chengdu continues to transform itself into an international retail city and has made significant progress in the past year. Underpinned by growing consumption levels, city-wide leasing demand was active in Q1/2019.”

DAHUANG CHEN, SAVILLS RESEARCH

Savills team

Please contact us for further information

RESEARCH

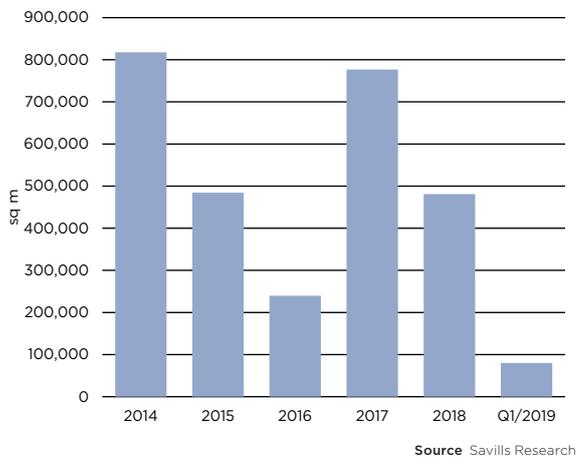
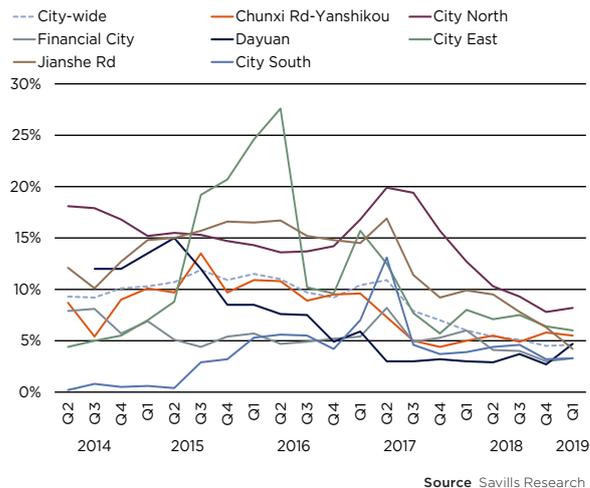
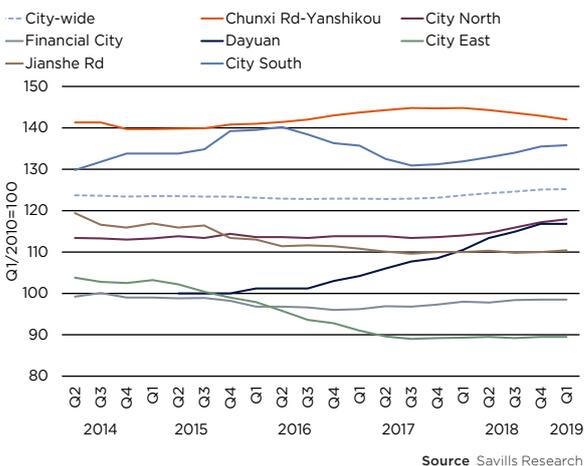
James Macdonald
Senior Director
China
+8621 6391 6688
james.macdonald@savills.com.cn

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

CENTRAL MANAGEMENT

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

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GRAPH 1: Chengdu Shopping Mall Supply, 2014 to Q1/2019**GRAPH 2: Chengdu Retail Submarket Vacancy Rates, Q2/2014 to Q1/2019****GRAPH 3: Chengdu Retail Submarket Rent Index, Q2/2014 to Q1/2019****SUPPLY**

Ito Plaza, located in East Extension submarket, launched in Q1/2019 and added 80,000 sq m to city-wide retail stock. The new project is optimised for brands to be owned and developed by the mall itself and has facilities to support brand innovation in a unique strategy to align the interests of the shopping mall and the brands housed there. Additionally, by putting intelligent robots in front of some stores to help consumers identify and locate products, Ito Plaza is innovating Chengdu's retail environment and helping push forward the field of data intelligence.

VACANCY RATES

Leasing demand for retail space remained stable in Q1/2019, with a net absorption of 60,848 sq m. Several projects adjusted their tenant mixes during Q1/2019, causing city-wide vacancy rates to increase by 0.1 of a ppt QoQ to 4.6%.

Some projects in the prime area, like Yanlord Landmark and Silver Square, filled their previously vacant units, resulting in the average vacancy rate to fall by 0.3 of a ppt QoQ to 5.5%. The average vacancy rate in non-prime retail areas increased by 0.1 of a ppt QoQ to 4.4%.

RENTS

Thanks to stable operations and increased sales last year, landmark projects in the prime area of Chengdu, like IFS and Sino-Ocean Taikoo Li, raised their rents in Q1/2019. However, other projects such as COSMO, The Atrium and The One, adjusted their leases causing the average first-floor rent in the prime area to remain flat. The first-floor average rent in non-prime areas increased by 0.2% QoQ. Underpinned by the overall positive market sentiment and active leasing demand, the city-wide average first-floor shopping mall rent rose by 0.2% QoQ to RMB436.5 per sq m per month.

TENANT NEWS

The Chengdu government announced the "First-store Economy" Plan in 2019, aimed

at fully supporting the introduction of first stores in the city for representative brands. As a result, the market continued to welcome several international brands to Chengdu in Q1/2019. German automotive brand Mercedes-Benz opened its first experience store in Chengdu—the third in mainland China—in Sino-Ocean Taikoo Li. Supported by significant capital, internet-celebrity brands also expanded into the Chengdu market. For instance, Lelecha (乐乐茶) came 'online' in Q1/2019, setting up in IFS and Joy City, while the first shopping mall store of fitness brand Super Monkey launched in Yanlord Landmark. Due to the open and diverse business environment and consumer preferences in Chengdu, the city attracted many niche and original brands. Among them, F&B brands such as Japanese specialty coffee makers %Arabica and ice cream brand Emack & Bolio's opened their first southwest China stores in Sino-Ocean Taikoo Li. As an important leasing-demand driver in the general retail sector, home & lifestyle brands have also been active during the quarter; independent furniture brand Fnji (梵几) launched its first southwest store in Sino-Ocean Taikoo Li.

MARKET OUTLOOK

Chengdu will see around 400,000 sq m of new supply added to the retail market in the rest of 2019. The new supply may cause the overall vacancy rate to rise. However, underpinned by a relatively positive outlook for future retail consumption, leasing demand in Chengdu is expected to remain active, which could offset the impact of the new supply. Shopping malls will continue to increase their intelligent shopping experiences and further explore operational models based on commercial digitalisation. With the slowdown in economic growth persisting, many brands are showing a more prudent attitude towards market expansion and adjusting their strategies for the near future. However, Chengdu is still expected to see more innovative brands, composite brands and New Retail brands emerging in the market.

TABLE 1: Selective New Projects In 2019

| PROJECT NAME | RETAIL GFA (SQ M) | SUBMARKET | DEVELOPER |
|--------------------------|-------------------|---------------------|---------------------|
| Star Plaza | 110,000 | Chunxi Rd-Yanshikou | Zhejiang Zhongqiang |
| Paradise Walk (Binjiang) | 140,000 | Jianshe Rd | Longfor Group |

Source: Savills Research