

Retail



Government moves to boost sports sector

Chengdu's retail property market continued to adjust in Q3, with the overall vacancy rate remaining stable.

- Retail sales of consumer goods in Chengdu reached RMB483.72 billion, measured from January 2019 to August 2019, up 9.8% year-on-year (YoY).
- No new supply entered the market in Q3/2019, so Chengdu's total retail stock remained at 5.8 million sq m.
- Retail projects continued to undergo changing tenant mixes in Q3/2019. The citywide vacancy rate remained the same quarter-on-quarter (QoQ) at 4.9%.
- The vacancy rate of some projects in the city's prime retail area¹ continued to rise, driving the overall vacancy rate in this area up by 1.7 percentage points (ppts) QoQ to 8.6%. The vacancy rate of non-prime areas moved down by 0.2 of a ppt to 4.5%.
- Citywide average first-floor shopping mall rent increased by 0.2% QoQ to RMB436.2 per sq m per month in Q3/2019.

- Due to tenant adjustments in some shopping malls, the rental index in Chengdu's prime retail area decreased by 0.3% QoQ to RMB848.1 per sq m per month. The rental index of non-prime areas increased by 0.3% QoQ to RMB349.9 per sq m per month.

“During the first three quarters of 2019, Chengdu's retail market continued to adjust thanks to limited new supply. Due to some new large-volume projects coming to the market in Q4, it is expected that the average citywide vacancy rate will fall as demand is released.”

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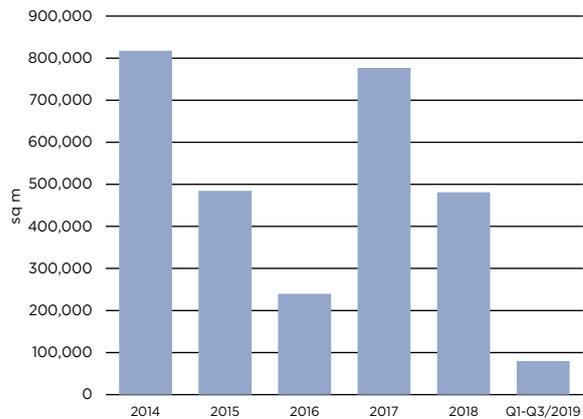
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CENTRAL MANAGEMENT

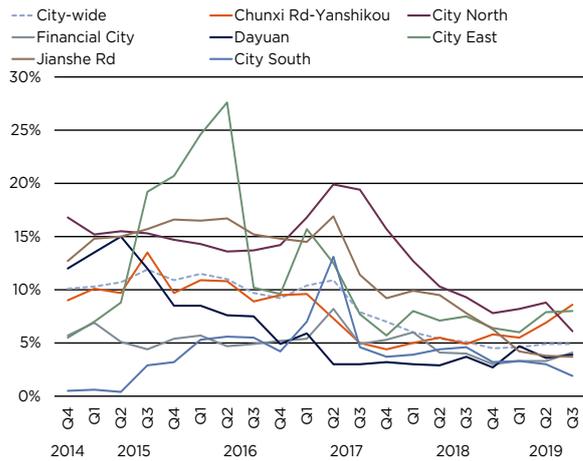
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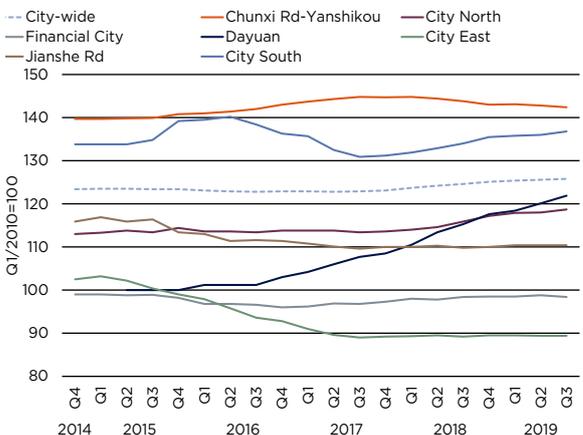
¹ Chunxi Road - Yanshikou submarket

GRAPH 1: Chengdu Shopping Mall Supply, 2014 to Q3/2019

Source Savills Research

GRAPH 2: Chengdu Retail Submarket Vacancy Rates, Q4/2014 to Q3/2019

Source Savills Research

GRAPH 3: Chengdu Retail Submarket Rental Index, Q4/2014 to Q3/2019

Note Calculation of rental indices for all submarkets starts from Q1/2010 except for:
Financial City - Q1/2013; Dayuan - Q1/2015; City East - Q1/2013

Source Savills Research

SUPPLY

No new supply entered the retail market keeping Chengdu's retail stock at 5.8 million sq m in Q3/2019.

VACANCY RATES

The retail market underwent numerous tenant changes in Q3/2019, with net absorption seeing a slight increase. The citywide vacancy rate remained the same as the previous quarter at 4.9%.

The vacancy rate of the city's prime retail area rose by 1.7 ppts QoQ to 8.6%, and the vacancy rate of the non-prime area fell by 0.2 of a ppt QoQ to 4.5%.

RENTS NEWS

Affected by tenant withdrawals in certain projects, the prime area rental index decreased by 0.3% QoQ, while that of the non-prime area continued to rise, increasing by 0.3% QoQ. Thanks to an overall optimistic market sentiment, active leasing demand pushed the average first-floor mall rent up slightly—0.2% QoQ to RMB436.2 per sq m per month.

TENANT NEWS

In Q3/2019, the majority of brands debuting at Chengdu shopping malls came from the fashion accessory sector and F&B sector. Harry Winston, a global jewellery brand, and Golden Goose, a famous shoe brand, both opened their first direct-sale stores in Southwest China at Sino-Ocean Taikoo Li Chengdu. La Maison Valmont, a luxury Swiss skincare brand, launched its first store in mainland China at IFS; Scotts, a fish and chips brand from England, opened its first store at Sino-Ocean Taikoo Li Chengdu; and the popular Hong Kong cafe brand Elephant Grounds also opened its first store in Southwest China at Sino-Ocean Taikoo Li Chengdu.

Thanks to their ability to raise capital, many popular beverage brands continued their expansion into Chengdu during this quarter. For example, Hey Tea opened stores

in Raffles Plaza, Nine Square shopping mall and Jinhua Wanda Plaza while Nesno launched a new store at Intime City. Additionally, the market witnessed the rapid expansion of various coffee brands in Q3/2019—ranging from well-known chain brands to New Retail brands, including a rising coffee brand from Shanghai, Manner Coffee, which opened new stores at IFS and Yanlord Landmark.

MARKET OUTLOOK

About 220,000 sq m of new supply is expected to debut in Chengdu's retail market by the end of 2019. Paradise Walk (Binjiang), located in the Jianshe Rd. submarket, has garnered significant pre-launch attention. The project is expected to greatly enhance the retail quality in this submarket, while also intensifying competition among projects in the area. The city's consumption power and constant leasing demands will keep overall market rents rising steadily. From a demand perspective, the strategy for many brands is transforming from exclusively pursuing growth to concentrating on several key factors: improving service quality and the experimental experience of their physical stores, enhancing product quality, and combining their online and offline markets. The Chengdu government has recently announced plans to develop Chengdu into a world-renowned sports event city. In order to seize the opportunities that come with hosting large international events, the government has begun encouraging the local sports and fitness sectors as well as sectors involving interactive experiences, thereby enlarging and strengthening the consumer pool for sports and fitness experiences and goods. In the near future, this strategy will likely increase the number of creative enterprises in the sports and fitness sectors in Chengdu's retail market, providing an important economic engine for the city's retail growth.

TABLE 1: Chengdu Future Projects, Q4/2019

PROJECT NAME	RETAIL GFA (SQ M)	SUBMARKET	DEVELOPER
Paradise Walk (Binjiang)	140,000	Jianshe Rd	Longfor Group
Chengdu Hong Tang	80,000	Dayuan	Fantasia Holdings Group Co., Ltd.

Source Savills Research