

Briefing Retail sector

December 2016



Image: Longfor Times Paradise Walk Phase III, Daping

SUMMARY

City-wide shopping mall occupancy rates fell to 93.5% in Q3/2016, largely due to key tenants vacating projects.

- City-wide retail sales reached RMB467.63 billion in the first eight months of 2016 representing a year-on-year (YoY) growth of 13%.

- Two projects, The Longfor Times Paradise Walk Phase III and the Landmark Riverside Park (长嘉汇购物公园), opened in Q3/2016, adding a total retail GFA of 22,000 sq m to the market.

- City-wide prime shopping mall vacancy rates increased by 2.3 percentage points (ppts) quarter-on-quarter (QoQ) to 6.5%.

- City-wide prime shopping mall rents increased 0.4% QoQ in Q3/2016, to RMB23.7 per sq m per day.

- Negatively affected by the continued popularity of e-commerce, some retail projects have delayed their launch dates due to difficulties in attracting tenants. Xing Kong Mitsukoshi and Chongqing International Finance Square (IFS), which were scheduled to open in Q4/2016, have both delayed to 1H/2017.

“Due to added competition from e-commerce, shopping centres are expected to focus more on the location and quality of their experiential tenants, attempting to appeal more to consumers.”

Dave Law, Savills Research

➔ **Market overview**

Retail sales totalled RMB467.63 billion from January to August 2016, an increase of 13% YoY. Communication equipment sales showed the highest growth rate of 38.7% QoQ, and achieved RMB7.24 billion in sales. This rapid increase in sales highlights strong consumer demand in this category.

Vacancy rates

Vacancy rates increased across the board, with city-wide prime shopping mall vacancy rates increasing 2.3 ppts QoQ to 6.5%. Vacancy rates in prime retail areas increased 0.7% QoQ to 5.7%, and non-prime retail areas saw vacancy rates rise 4.2% QoQ to 7.4%.

The increase in vacancy rates can be attributed to two key closures which took place in August – Paradise Walk BHG Supermarket in Guanyinqiao, and the 30,000-sq m Parkson Grand in MixC in the Yangjiaping district.

Prime area retail rents increased 0.5% QoQ to RMB26.2 per sq m per day, while non-prime area retail rents increased 0.2% QoQ to RMB19.1 per sq m per day.

In an attempt to attract consumers, it has become a new favourite of landlords to integrate experiential formats into shopping centres, such as virtual reality experience pavilions and indoor entertainment and sports arenas.

Retailer information

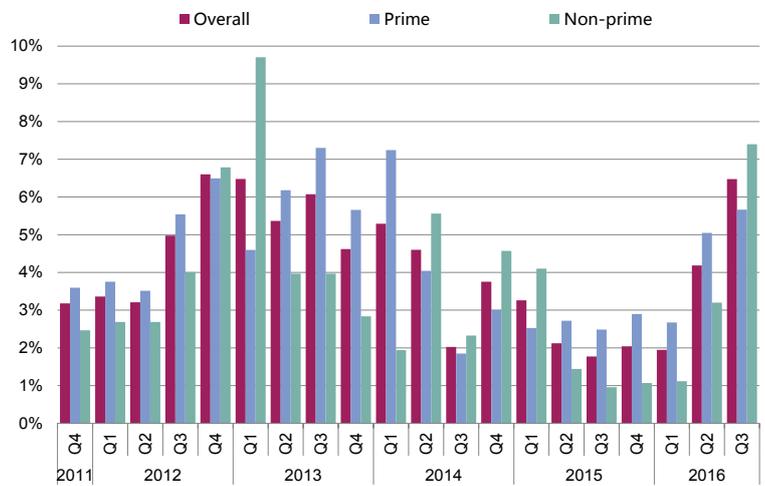
The first Madame Tussauds in south-western China opened in Landmark Riverside Park, Nanbin Road on 10 September

Madame Tussauds Chongqing opened in Landmark Riverside Park on 10 September, with a number of international wax celebrities such as Benedict Cumberbatch, Cristiano Ronaldo and Angelina Jolie.

Madame Tussauds is committed to providing entertainment for the whole family by providing exciting audio-visual effects and interesting interactive experiences.

CHART 1

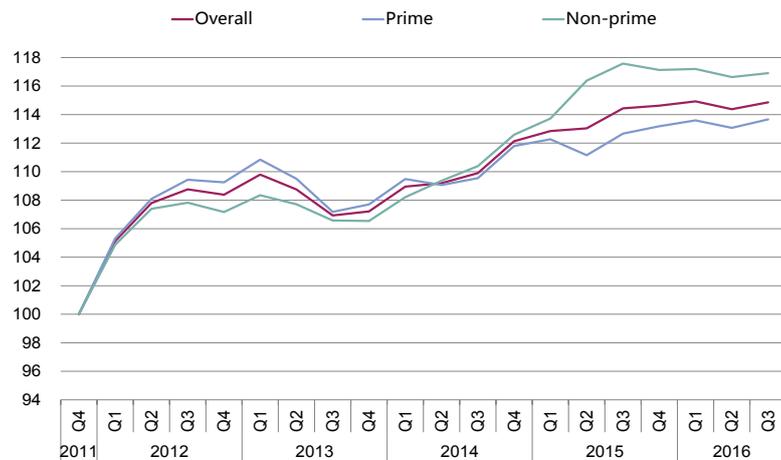
Vacancy rates by area, Q4/2011–Q3/2016



Source: Savills Research

CHART 2

Retail rental indices, Q4/2011–Q3/2016



Source: Savills Research

BHG Supermarket in Longfor Paradise Walk, Daping officially closed at the end of August
BHG Supermarket, located in the basement of Longfor Paradise Walk, officially closed at the end of August, removing it from the Chongqing market entirely. The space will not be taken up by a different supermarket.

Parkson Grand in MixC, Yangjiaping closed at the end of August
Parkson Grand in MixC closed at the end of August. As a key tenant, Parkson Grand took up

approximately 30,000 sq m of space. However, due to diminished consumer demand, the group decided to suspend business.

Project news

Landmark Riverside Park opened on 10 September

Comprising of a shopping mall, Danzishi Old Street and Danzishi park, the Landmark Riverside Park covers an area of 120,000 sq m. Anchor tenants include Madame Tussauds and Sea Life Aquarium, while other tenants include H&M, Nike, Asics, Innisfree, Hotwind,

H:Connect, Calvin Klein Underwear, New Look, Biolving, HiSuper and Mannings.

Sunshine Mall relaunched as outlet mall at the end of August

Sunshine Mall, previously owned by the Chongqing Department Store, has been revamped and relaunched as an outlet mall. The outlet format sees fashion brands selling discount merchandise direct to consumers.

Wangfujing Outlets store model

In 2015, Wangfujing Jiefangbei converted to a brand discount store and changed its name to "Wangfujing Outlets". It has now been reported that it is part of the group's adjustment strategy, which is looking to target a different group of consumers and hopes to provide an improved platform to provide new and improved services for consumers.

Shin Kong Place delays opening to Q1/2017

Now opening in Q1/2017, Shin Kong Place is an eight-storey department

store whose basement level connects to Jiazhou Road metro station (line 3). Totalling 250,000 sq m, Sin Kong Place features well-known luxury brands, a City of Sky ice rink as well as the Weiyang Opera.

Market outlook

The continuing popularity of online shopping among consumers has seen traditional retail, particularly department stores, gradually lose their long-standing monopoly of the retail market. Since the beginning of 2016, many department stores have repositioned themselves or closed, emphasising the tremendous pressure brick and mortar stores are under.

The major problems faced by shopping malls today are increasing footfall and maintaining popularity. Longfor Times Paradise Walk Phase III in Daping, which opened in July, is a good example of a shopping mall attracting consumers through the use of experiential formats such as the Shining Space Go-karting

Club, Tanoko Bowling Club and the Perky Youth Art Centre. City-wide shopping malls are doing upgrades and adjusting tenants, such as the Metropolitan Plaza introducing Legoland, in an attempt to attract higher footfall.

In the future, more shopping malls are expected to actively explore the consumption patterns of families and young adults. This will see the introduction of high-quality, child-friendly activity centres and high-tech games in an attempt to attract higher footfall and stand out from the competition. As this particular format needs a large amount of space, vacancy rates are expected to decrease. ■

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