

Briefing Retail sector

July 2014



Image: ImixPark, Guanyinqiao

SUMMARY

A fall in vacancy rates alongside three consecutive quarters of rental increases reflects the vitality of the local retail market.

- City Square (CITY城市广场) was launched onto the market in Q2/2014, adding about 60,000 sq m of retail supply.
- City-wide prime shopping mall vacancy rates fell 0.7 of a percentage point (ppt) quarter-on-quarter (QoQ) to 4.6%.

- Prime shopping mall rents remained unchanged at an average of RMB23.8 per sq m per day.
- In the second half of the year, over 740,000 sq m of new retail space is expected to be launched onto the market, generating fierce competition between landlords for the limited pool of retail tenants.

“As more brands are likely to enter the market in the coming quarters, developers, retailers and customers will be faced with more options than they have ever had.”

Dave Law, Savills Research

➔ **Market overview**

Chongqing retail sales totalled RMB205.7 billion in the first five months of 2014, up 1.3% year-on-year (YoY). The pace of retail consumption increased in the second quarter as economic growth has improved consumer confidence.

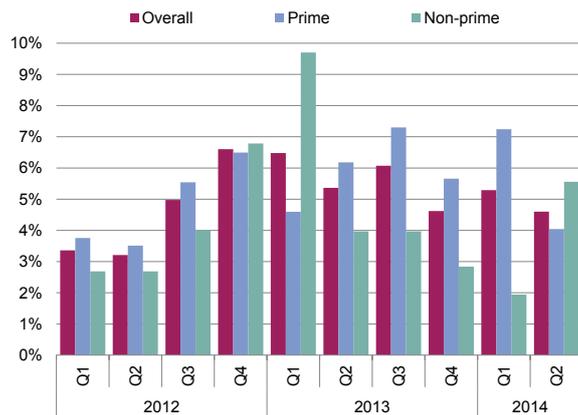
A number of developers delayed the launch of their retail projects originally scheduled for the first half of this year. These projects will be added to a selection of eagerly anticipated projects, such as Stage

TABLE 1
Selected future supply

Project name	Location	Expected completion	Retail GFA (sq m)
WFC Mall	Jiefangbei CBD	Q3/2014	37,400
Stage Mall (盈嘉中心)	Guanyinqiao	Q3/2014	26,000
Mixc	Yangjiaping	Q3/2014	350,000
Guotai Plaza	Jiefangbei CBD	Q4/2014	50,000

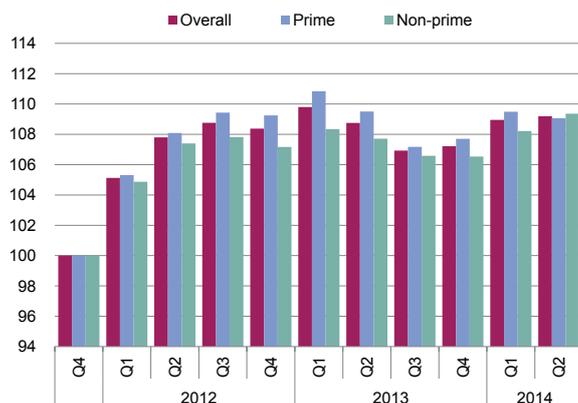
Source: Savills Research

CHART 1
Vacancy rates by area, Q1/2012–Q2/2014



Source: Savills Research

CHART 2
Retail rental indices, Q4/2011–Q2/2014



Source: Savills Research

Mall in Guanyinqiao and WFC in Jiefangbei CBD, which are expected to be launched onto the market during the remainder of the year.

Vacancy rates

City-wide retail vacancy rates fell by 0.7 of a ppt in Q2/2014 to 4.6%, leading to a decrease in leasable space. In prime retail precincts¹, vacancy rates fell 3.2 ppts QoQ to 4.0%. This can be attributed to the performance of projects which have completed positioning or tenant adjustments, such as Yingli IFC in Jiefangbei CBD.

Non-prime retail precincts² saw vacancy rates increase by 3.7 ppts QoQ to 5.6%. New supply, for example City Square in Nan'ping, has resulted in downward pressure on occupancy rates.

Shopping mall first-floor rents remained unchanged at an average of RMB23.8 per sq m per day in Q2/2014. Primary retail area rents have been trending downward, falling 2.1% QoQ to RMB27.3 per sq m per day, while secondary retail area rents rose 1.1% QoQ to RMB18.9 per sq m per day.

A rental decrease occurred in primary areas where certain projects applied flexible fixed rent strategies to attract more fashionable retailers. However, limited leasable retail space and lack

1 Prime retail precincts: Jiefangbei CBD and Guanyinqiao.
2 Non-prime retail precincts: Shapingba, Yangjiaping and Nan'ping.

of new quality supply in secondary areas have supported rental appreciation.

Retailer information

H&M launches southwest China's biggest flagship store – IFC, Jiefangbei CBD

H&M, an international fast-fashion brand, opened its biggest flagship store in southwest China. The store, located in Yingli International Financial Centre, occupies 2,700 sq m over three floors with half-floor display zone for H&M household items.

Bvlgari jewellery launches its first store in Chongqing – Chongqing Time Square

Bvlgari jewellery opened its first store in Chongqing, located on the ground floor of Chongqing Time Square. Prior to this, the Bvlgari brand had opened a store in Starlight Plaza situated in Guanyinqiao precinct, featuring luxury bags and accessories.

Gome launches its first outlet store – IMix Park, Guanyinqiao

Gome opened its super flagship store in IMix Park, Guanyinqiao, occupying 5,000 sq m.

Suning opens the first virtual operation store – Yangjiaping precinct

On 25 April, Suning opened a super store in Yangjiaping with a 20-sq m virtual expo zone to enhance consumer experience.

YUYUTO launches Chongqing's first flagship store – Huanghua New Era

YUYUTO, a children's playground brand, opened its flagship store in Chongqing, taking up 980 sq m in Huanghua New Era, Shapingba district.

Project news

26 luxury brands gathered in Chongqing WFC

Chongqing WFC, developed by Chongqing Huaxun Real Estate Development Limited Company, consists of a 37,400-sq m luxury shopping mall and 123,200 sq m of Grade A office space. The high-end shopping centre is bringing together luxury brands including Prada, Miumiu and Givenchy.

City Square in Nanping precinct officially opened on 28 May

City Square, presenting a "slow life, fast fashion, youth park" theme, officially opened on 28 May. Anchor

tenants such as Hengdian Movie Theatre, Heiland Home, Meiweimeike have taken up space to generate foot flow.

Far Eastern department stores cosmetics section renovation is complete

Far Eastern department stores has recently completed its renovation of its cosmetics sections introducing around six new cosmetics brands in the hopes of increasing annual turnover by 25% to 30%. Until recently, there were 28 cosmetics brands in its Jiefangbei store and 27 cosmetics brands in its Jiangbei store. New brands, including Armani, Lamer, HR and Sulwhasoo were the introduced for the first time in Chongqing.

Market outlook

In the second half of 2014, Chongqing is expected to receive seven new projects, adding more

than 740,000 sq m of retail space to the market. Nearly all the new retail space in the second half of 2014 is located in prime retail areas such as Jiefangbei CBD and Guanyinqiao.

This indicates that the centralised retail market in Chongqing is expected to expand in the coming years. In decentralised areas such as Yangjiaping, the 350,000-sq m MixC will be launched onto the market in Q3/2014, upgrading the retail ambience in the area.

City-wide shopping mall occupancy rates have continued to climb.

Increases in both occupancy rates and rents have cemented developer and retailer confidence in Chongqing's retail market. ■

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