

Briefing Retail sector

February 2014



Image: Paradise Walk, Jiangbei district

SUMMARY

Landlords have been carrying out year-long tenant mix adjustments as they prepare for fiercer competition in the coming years, providing both retailers and consumers with more options.

- Retail sales in the first 11 months of 2013 reached RMB408.6 billion, up 13.7% year-on-year (YoY).
- Two shopping malls, Sunshineway Mall (商社汇) and Yingli International Plaza, were launched onto the market in Q4/2013, adding 170,000 sq m of retail space. Additionally, Ruifu Outlets was handed over to the market, adding 30,000 sq m.
- City-wide prime shopping mall vacancy rates fell by 1.5 percentage points (ppts) quarter-on-quarter (QoQ) to 4.6%, as a result of continued retailer expansions.
- Prime shopping mall rents increased by 0.3% QoQ, averaging RMB23.4 per sq m per day.
- Amid intensified competition, landlords adjusted tenant mixes, bringing in more successful and original brands. New entrants continued to seek locations in prime retail areas.
- Over 630,000 sq m of shopping mall space is scheduled to be launched onto the market in 2014. New supply has given retailers more options to choose from.

“Tenants are being given more flexible rental agreements when entering the Chongqing retail market, as landlords sacrifice rents for higher occupancy rates.”

Dave Law, Savills Research

➔ **Market overview**

Retail sales in the first 11 months of 2013 reached RMB408.6 billion, up 13.7% YoY. With Chinese New Year, retail sales and consumption are expected to continue to rise.

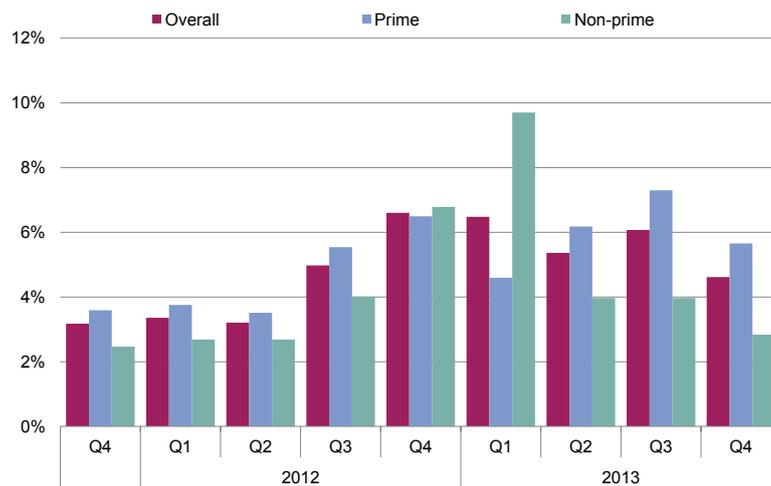
Existing project operators undertook a series of tenant adjustments in 2013 in preparation for increasing competition in the market. In the hopes of generating more substantial footfall, landlords have been actively initiating promotional campaigns.

Both prime and emerging retail areas received new supply in Q4/2013.

Jiefangbei CBD, a prime retail area, recorded the addition of one outlet mall, Ruifu Outlets (瑞富奥特莱斯) in December, adding 30,000 sq m of retail space. In emerging areas, Sunshineway Mall (商社汇) in Ba'nian district and Yingli International Plaza in Daping precinct of Yuzhong district were launched onto the market, adding 70,000 sq m and 100,000 sq m of retail space respectively.

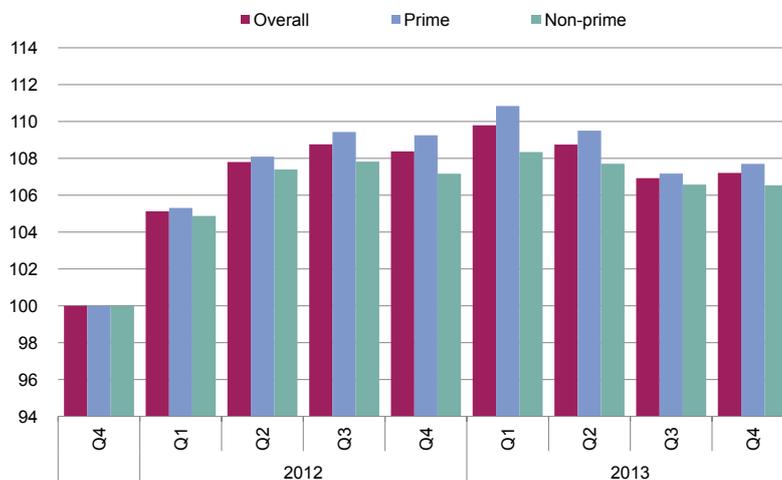
Due to delays in construction and fit-out, both Guotai Plaza and Chongqing WFC Mall have postponed their launches until early 2014.

CHART 1 **Vacancy rates by area, Q4/2011–Q4/2013**



Source: Savills Research

CHART 2 **Retail rental indices, Q4/2011–Q4/2013**



Source: Savills Research

Vacancy rates

City-wide retail vacancy rates fell by 1.5 ppts in Q4/2013 to 4.6% as retailers continued to expand in this dynamic retail market.

Prime retail precinct¹ vacancy rates fell by 1.6 ppts QoQ to 5.7% as the recent round of tenant adjustments came to an end, while non-prime retail precinct² vacancy rates fell to 2.8%. Many projects, such as Paradise Walk (West) and CapitaMall Jiulongpo, were almost fully occupied.

Shopping mall rents increased by 0.1% in Q4/2013 to RMB23.4 per sq m per day. Rents in prime retail precincts saw an increase of 0.5% QoQ to RMB26.8 per sq m per day, while non-prime retail precincts remained unchanged at RMB18.5 per sq m per day.

Retailer information

NOVO department store closes – Chongqing International Trade Centre, Jiefangbei CBD

Novo department store closed its biggest store in Chongqing in Q4/2013. The store, located in the International Trade Centre, occupied 40,000 sq m over seven floors. Despite having a prime location in the Jiefangbei CBD area, NOVO failed to generate adequate sales. The project's closing once again highlights concerns about the sustainability of department stores' current operation models.

Metro opens second store – New North Zone

German cash-and-carry brand, Metro, opened its second store in Chongqing in the fourth quarter and has leased 5,000 sq m in New North Zone.

7-Eleven convenience store debuts in Chongqing – Jiefangbei and Shapingba retail precincts

7-Eleven, the world's largest convenience store chain, opened two stores in Chongqing in Q4/2013. The stores, located in Jiefangbei and

¹ Prime retail precincts: Jiefangbei CBD and Guanyinqiao.

² Non-prime retail precincts: Shapingba, Yangjiaping and Nan'ping.

Shapingba retail precincts, occupy 100 sq m each. After rivals Lawson's recorded lacklustre sales, 7-Eleven decided to launch with more focus on local delicacies, ie, Sichuan bentos.

Lotte Mart opens second store in Chongqing – Yingli International Plaza, Daping precinct

Lotte Mart opened their second store in Chongqing in the recently launched Yingli International Plaza. The project occupies an area of 15,000 sq m and will offer specialty Korean food and cosmetics.

Project news

Ruifu Outlets, Jiefangbei precinct

Located at the former location of Yintai Department Store, Ruifu Outlets is a renovated project that was launched onto the market in December. Situated in the Jiefangbei CBD and not in the suburbs like most outlets, the project is aiming to appeal to both locals and tourists.

Stage Mall, Guanyinqiao precinct
Stage Mall, the retail component of Rongheng Times Square, is projected to open in 2014. The project is the first building in a new cluster named "Sun Valley". With over 30,000 sq m of retail space, Stage Mall is expected to redefine consumers' impressions of traditional shopping malls as it sports a Broadway theme. In order to stand out in the fiercely competitive Guanyinqiao retail district and stimulate footfall, the mall has named every retail floor after different Broadway shows, such as Cats, Moulin Rouge and The Wizard of Oz. A 200-sq m urban farm is also expected to be incorporated into the project.

Market outlook

Over 630,000 sq m of shopping mall space is expected to debut in 2014, including Chongqing WFC mall (Jiefangbei) and the first phase of MixC (Yangjiaping). More international brands are expected to

be introduced to the market in 2014, including high-end fashion brands such as Prada, Givenchy and Miu Miu, as well as fast-fashion brands Forever 21 and Hollister.

Landlords in prime markets such as Jiefangbei and Guanyinqiao are likely to retain their bargaining power, with retailers keen to enhance their presence. Rents in these aforementioned areas are expected to grow and vacancy rates should remain stable. Newly opened or under-performing projects in emerging areas, however, will have to offer a more flexible rental strategy or occupancy rates and footfall will suffer.

As increasing numbers of international brands and overseas developers establish their presence in the market, it is believed that Chongqing's retail market will experience robust growth in the near future. ■

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