

Briefing Retail sector

August 2016



Image: Li Dan Retail Street, Yangjiaping area

SUMMARY

City-wide shopping mall occupancy rates increased to 96.8% in Q2/2016, largely as a result of the brand adjustment strategies being undertaken by several existing malls.

- Overall retail sales rose to RMB350.85 billion in 1H/2016, up 13% year-on-year (YoY).
- No new retail projects were launched onto the market in Q2/2016, leaving market stock unchanged at 4.6 million sq m.
- City-wide prime shopping mall vacancy rates increased by 2.2 percentage points (ppts) quarter-on-quarter (QoQ) to 4.2%.
- City-wide prime shopping mall rents fell 0.5% in Q2/2016, to RMB23.7 per sq m per day.
- Longfor Times Paradise Walk Phase III in the Daping area, positioned as an entertainment shopping mall, is expected to be launched onto the market in Q3/2016, adding a total retail GFA of 103,900 sq m.

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 “1H/2016 saw the closure of the Li Dan Department Store in Yangjiaping, the Novo Department Store in Guanyinqiao, and the Parkson Department Store in Daping. This will open the market for more new brands and shopping centres to replace the department stores.” Dave Law, Savills Research

➔ **Market overview**

Retail sales totalled RMB350.85 billion in Q2/2016, up 12.9% YoY. Wholesale and retail sales reached RMB300.60 billion in Q2/2016, up 12.6% YoY, while F&B and accommodation sales totalled RMB49.87 billion, up 14.3% YoY.

Vacancy rates

City-wide prime shopping mall vacancy rates rose 2.2 ppts QoQ to 4.2%. Vacancy rates increased in prime retail areas¹ and were up 2.4% QoQ to 5.0%. The increase in vacancy rates is mainly due to most projects in the Jiefangbei CBD, such as Metropolitan Lental Plaza and ASE shopping mall, continuing to adjust tenant mixes and offer discounted rents, which caused an increase in vacancy rates.

Non-prime retail areas² saw vacancy rates up 2.1% in Q2/2016. Projects such as The MixC in Yangjiaping underwent tenant adjustments and removed badly performing tenants, resulting in a slight increase in vacancy rates.

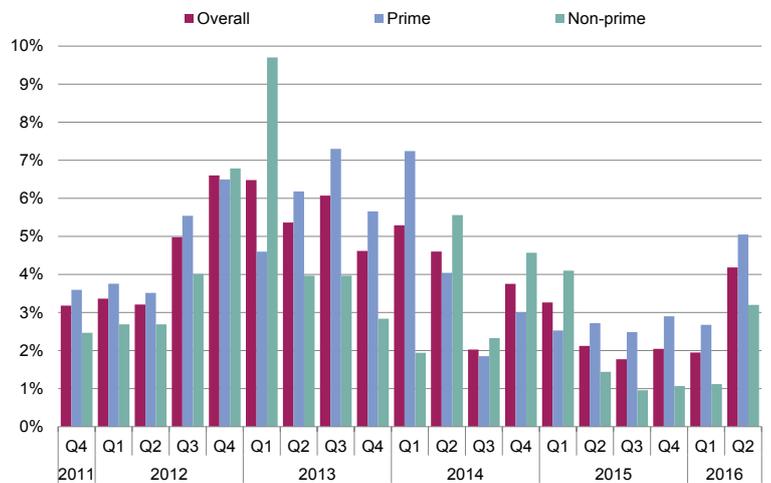
Prime shopping mall rents fell 0.5% QoQ to an average of RMB23.7 per sq m per day. Primary retail area rents decreased 0.5% QoQ to RMB26.1 per sq m per day, while secondary retail area rents increased 0.5% QoQ to RMB19.2 per sq m per day. F&B stores continued to make up the largest proportion of space within shopping malls, with developers attempting to maintain footfall.

Retailer information

The new concept store of Nenlū Tea opened at Guotai Plaza, Jiefangbei
On 1 June, the new concept store of NenlūTea had its soft opening at Guotai Plaza in Jiefangbei. The store provides not only a variety of tea drinks, desserts and breakfasts but also sells original products.

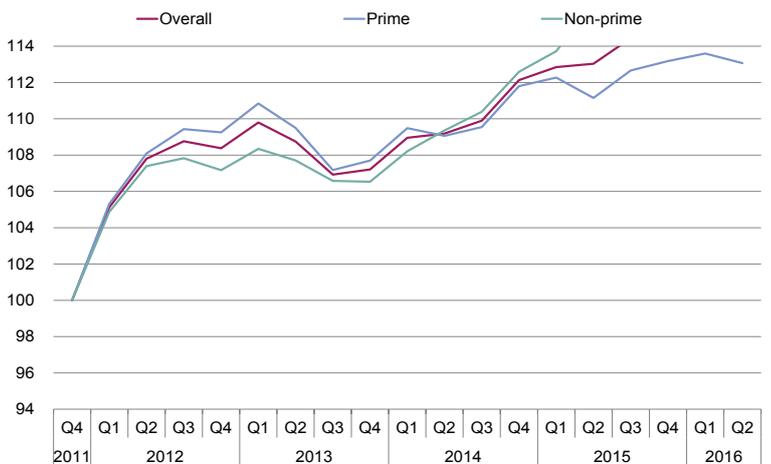
¹ Jiefangbei CBD and Guanyinqiao.
² Non-prime retail areas: Shapingba, Yangjiaping and Nan'ping.

CHART 1
Vacancy rates by area, Q4/2011–Q2/2016



Source: Savills Research

CHART 2
Retail rental indices, Q4/2011–Q2/2016



Source: Savills Research

Mi Home opened at Chongqing Times Paradise Walk, Daping

On 5 May, Mi Home opened at Chongqing Times Paradise Walk with a store covering an area of 320 sq m. Its turnover on the first day reached RMB1.3 million, topping opening day sales records of the company..

Wills Gym Flagship Store will open at U-town Paradise Walk, Shapingba

Wills Gym Flagship Store will open at the U-town Paradise Walk, Shapingba in September, and will occupy 1,500 sq m. The new gym

is divided into multiple sections, including a single function area, aerobics area, exercise room and spa, and it provides more than 130 classes such as fitness, dance and yoga.

UME opened at Dongyuan 1891 Center, Nanbin Road

On 2 June, UME International Cinema had its groundbreaking ceremony, and it is expected to open at the Dongyuan 1891 Center at the end of the year. As one of the anchor stores, it is positioned as the largest riverside cinema in the

city and is home to 15 themed halls, supermarkets and coffee rooms.

Project news

Chongqing Li Dan Department Store transformed into Li Dan Retail Street at the end of May

Li Dan Department Store opened in 1997; as one of the first department stores in Yangjiaping, it was the landmark in the popular retail area. At the end of April this year, Li Dan Department Store closed the second and third floors and began searching for retail investors. The supermarket was repositioned as an electrical appliance store, leaving the department store to close its doors.

Nanping Wanda Plaza finished tenant adjustment by introducing more than one hundred fashion brands.

After the close of the Wanda Department Store in the Nanping Wanda Plaza, the Centre renovated the interior and adjusted its tenant mix, introducing more than 100 fashion brands including BOY LONDON, WCLOSET, MIKIBANA and DIZZIT. A book store and imported groceries supermarket is expected to open soon.

TABLE 1 **Selected future supply**

Project name	Location	Expected completion	Retail GFA (sq m)
Longfor Times Paradise Walk Phase III	Daping	Q3/2016	103,900
Shin Kong Mitsukoshi Department Store	Jiazhou	Q4/2016	250,000
Aegean Shopping Mall	Zhaomushan	Q4/2016	120,000
IFS	Jiangbeizui CBD	Q4/2016	110,000
Concord International Centre	Guanyinqiao	Q4/2016	33,000

Source: Savills Research

Market outlook

A combination of long-term lease expirations and negative performance saw a large number of department stores closing or repositioning themselves in 1H/2016. This shows that traditional department stores are no longer able to meet the needs of consumers, leaving space in the market for new brands to enter shopping malls and replace. In addition, the newly-opened shopping malls predominantly introduce a diverse selection of anchor stores as opposed to department stores.

However, the Shin Kong Mitsukoshi Department Store, a high-end department store from Taiwan, is expected to enter the city's retail market in 2H/2016, and will introduce F&B and lifestyle brands.

Tenants such as F&B stores, entertainment stores and other lifestyle brands are expected to continue expanding over the next few months. New brands will continue to be introduced, helping to upgrade the overall retail market. ■

Please contact us for further information

Research



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

Project Development & Consultancy



Dave Law
 Director
 +8628 8665 7375
 dave.law@savills.com.cn

Agency



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

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