

Briefing Retail sector

March 2017

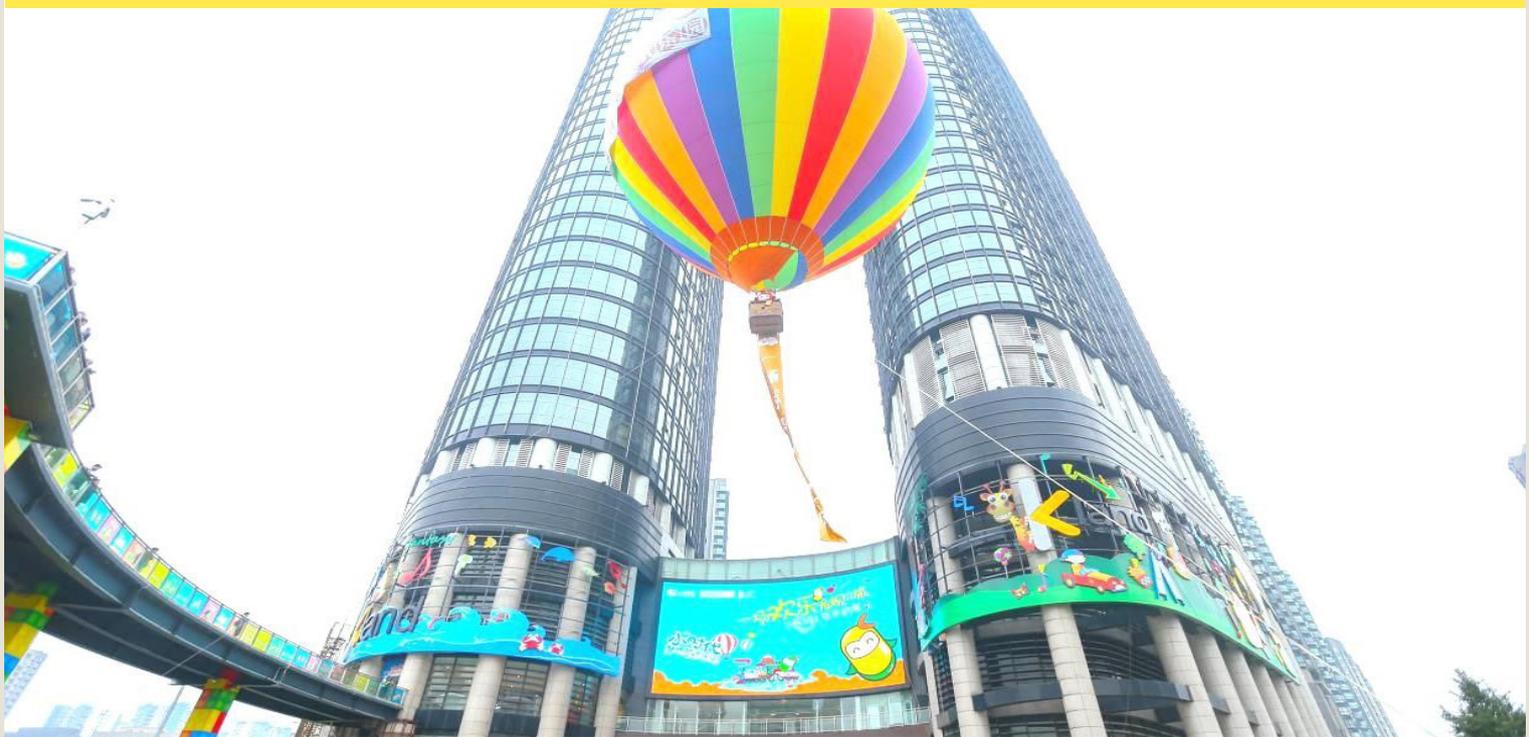


Image: K-Land Shopping Mall, Yuanjiangang

SUMMARY

Rising city-wide vacancy rates saw rents decline for the fourth consecutive quarter in 2016.

- Overall retail sales in the city reached RMB727,135 billion in 2016, up 13.2% year-on-year (YoY).

- Five new retail projects were launched in Q4/2016, including DongYuan 1891 Phase 2, Aegean Sea Shopping Mall, PuTai Square, HuaYuJingXiu Square and K-Land Shopping Mall. This saw city-wide retail GFA increase by 415,000 sq m to total 5,208,311 sq m.

- City-wide prime shopping mall vacancy rates increased by 4.1 percentage points (ppts) quarter-on-quarter (QoQ) to 10.6%

- City-wide prime shopping mall rents declined by 1.4% QoQ to RMB23.4 sq m per day.

.....
 “The increasing popularity of e-commerce has seen landlords look for new ways to increase footfall. This has seen the trend of themed shopping malls emerge, with more attention paid to tenant mix and shopping mall market positioning.” Dave Law, Savills Research

➔ **Market overview**

In 2016, the city's total retail sales reached RMB727.135 billion, up 13.2% YoY. Most noteworthy was the noticeable growth from the sale of communication equipment, up 26.7% YoY.

Vacancy rates

Vacancy rates increased across the board, with city-wide prime shopping malls reaching 10.6%, up 4.1 ppts QoQ. Prime retail area vacancy rates increased by 3.8 ppts QoQ to 9.5%, while non-prime retail areas increased by 4.4 ppts QoQ to 11.8%.

Increasing vacancy rates can be attributed to the number of brands exiting the market that are yet to be replenished. In addition, the JieFangBei area, whose vacancy rate increased by 8.4 ppts to 14.7% to be the highest among the prime retail areas, has become less attractive to consumers due to inadequate property management, crowded transportation and the emergence of new retail areas, such as Daping, Yubei and Jiangbeizui.

Rents

In Q4/2016, overall area rents decreased 1.4% QoQ to RMB23.4 per sq m per day. Rents in prime retail areas also decreased, by 1.5 ppts QoQ to RMB25.8 per sq m per day, while rents in non-prime retail areas decreased by 1.1 ppts QoQ to RMB19 per sq m per day.

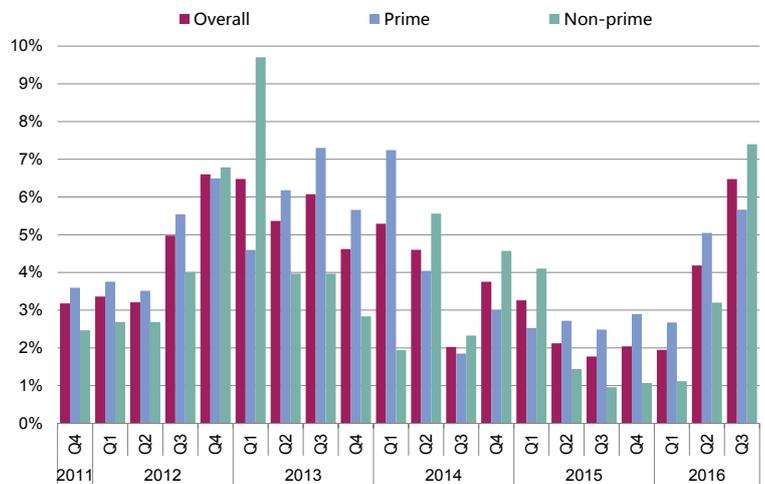
There are two main factors affecting rents. Firstly, in order to attract new tenants, shopping malls lowered rents; however, this still isn't working due to the online success brands are experiencing, leaving many to consider their brick-and-mortar stores unnecessary. The second reason is that the new tenants being introduced are largely experiential, such as a VR theme park or themed restaurants, where a larger space is occupied, but at a lower rent.

Retailer information

Pull-in enters south-west China

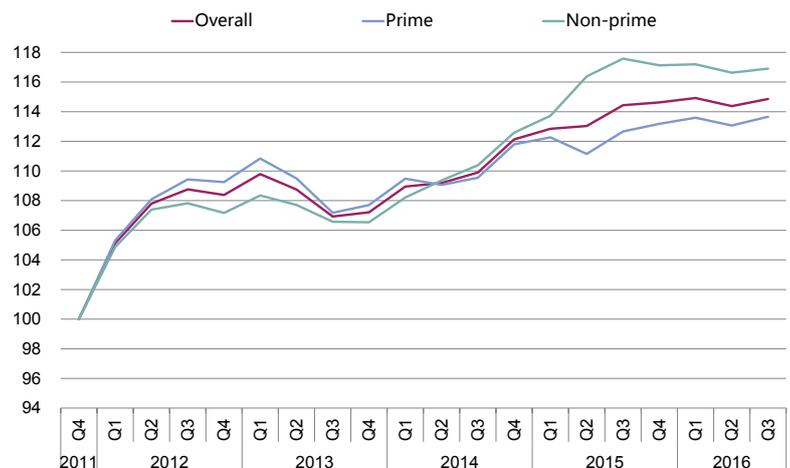
Pull-in, a French underwear brand

CHART 1
Vacancy rates by area, Q4/2011-Q4/2016



Source: Savills Research

CHART 2
Retail rental indices, Q4/2011-Q4/2016



Source: Savills Research

under the MRH Sparotica Group umbrella, opened their first store in the city in MixC Yangjiaping on 1 October 2016. This is their second store in China after the Jiuguang Department Store in Shanghai.

Salomon opens first store in Chongqing

Well-known sports brand Salomon opened their first store in the city C Block, Longfor Times Paradise Walk, Daping on 15 October 2016. Salomon produces products for various sports, including trail running, hiking, climbing, adventure

racing, skiing, and snowboarding in over 40 countries on five continents.

Hermès opens first store in the city

Hermès, a French luxury goods brand, opened their first store in the city, in MixC, Yangjiaping on 3 November 2016. Occupying 420 sq m and designed by Paris RDAI architectural firm, this is their 23rd store in China.

Project news

Aegean Sea Shopping Mall

The Aegean Sea Shopping Mall

opened on 22 October 2016. Situated on Jinkai Street, in the Yubei district, the mall is a joint venture between Hongxing Business and the Lifan Group. At 120,000 sq m, it aims to be a one-stop shopping mall for the area. Major tenants include ZARA, UNIQLO, CK Jeans, Miss Sixty and Pony Club, with others being KTV, a cinema, supermarket, restaurants and entertainment.

K-Land Shopping Mall

K-Land Shopping Mall, located in Yuanjiagang, opened on 5 November 2016. A joint venture between Insite China and the SIUD Group Limited, the mall is 100,000 sq m and major tenants include Decathlon, MINI Squash and Hemiao Theater.

DongYuan 1891 Phase 2

DongYuan 1891 launched Phase 2 on 16 December 2016. Located on Nanbinlu Street in the Nanan district, the 80,000-sq m mall includes major tenants Jindian Bookshop, UME Film, Yuan Gallery and Music Box. Phase 2 of the project also features a 1,100-sq m viewing platform, nearly 2000 parking spaces and 100 branded stores.

Putai Square

Putai Square, situated in the city's free trade zone, launched on 24 December 2016. A joint venture between the P&T Group from Hong Kong and the Greenland Group, the mall has 750,000 sq m of retail space which will be dedicated to shopping and entertainment.

HuaYuJinXiu Square

HuaYuJinXiu Square, located on Xinchenghuafu Street in Jiulongpo, opened on 30 December 2016. Built by the HuaYu Group, the 40,000-sq m project is positioned as a comprehensive shopping centre, including a supermarket, cinema and restaurants.

Market Outlook

Affected by the success of e-commerce, the city's brick-and-mortar retail market has suffered, with occupancy rates falling to 10.6%. City-wide average rents have declined from RMB23.8 per sq m in Q1/2016 to RMB23.4 per sq m in Q4/2016.

This period also saw the closure of some department stores, namely two Parkson Department Stores (DaPing in March and MixC in

August). Most shopping malls were eager to introduce new tenants in an attempt to attract footfall. For example, the recently opened D Block in Longfor Times Paradise Walk introduced Kart Club and Daluge Bowling, while the newly-launched Aegean Sea Shopping Mall introduced Skating Board and the Flying-experience Museum.

In an attempt to stand out amongst fierce competition and create a unique shopping experience for consumers, shopping malls in the city are turning to themed decor and tenant positioning. For example, DongYuan 1891 Phase 2 combines art, nature and business, while PuTai Square integrates shopping with creativity and play. This emerging trend is expected to be seen in projects set to launch in 2017.

Average city-wide rents and occupancy rates are expected to see a slight decrease during 1H/2017, due to an increase in experiential tenants paying lower rents and the continued popularity of e-commerce. ■

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

Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 700 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.