

Briefing Retail sector

July 2017

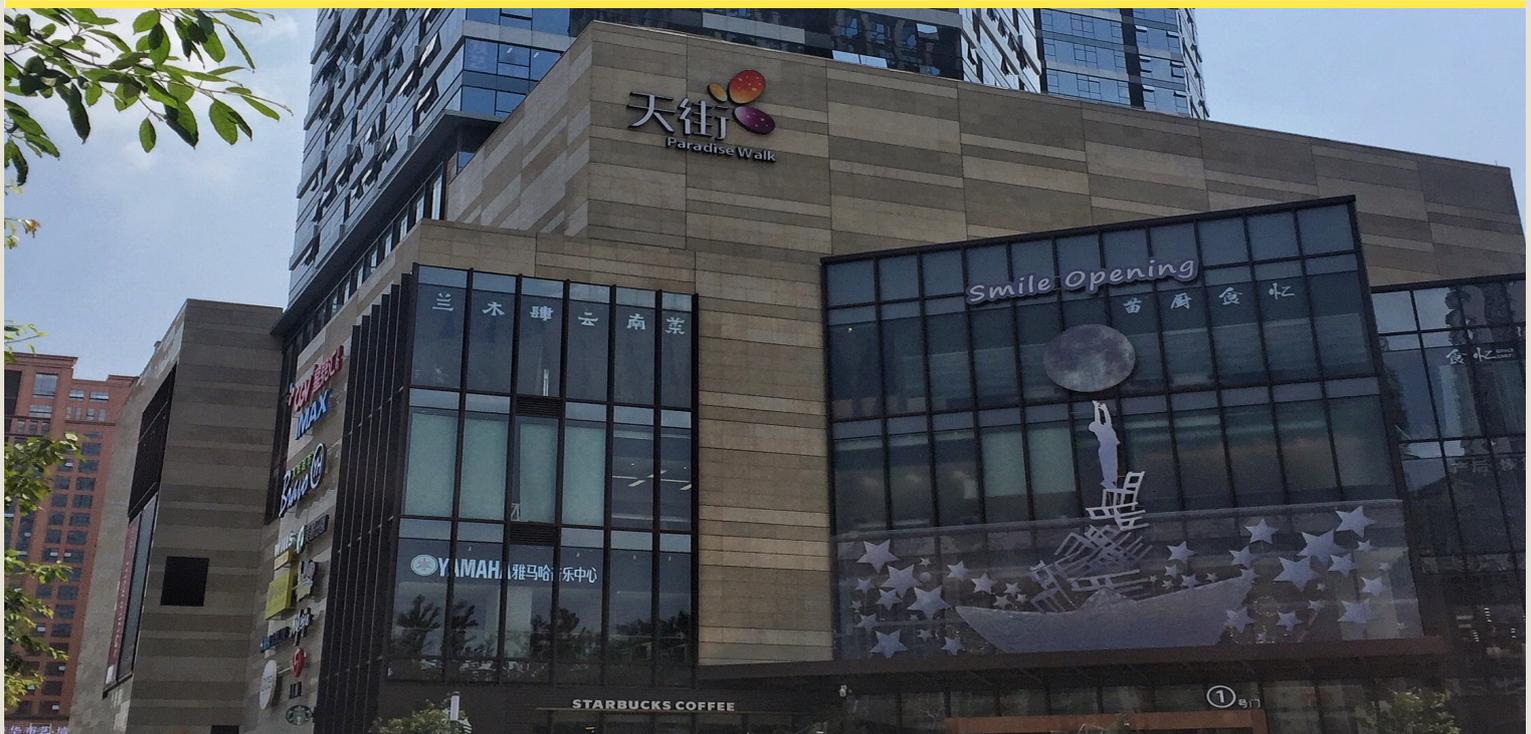


Image: Longfor Hometown Paradise Walk, Ranjiaba, Jiangbei District.

SUMMARY

Luxury brands expanded their coverage in the city, with new leases recorded in high-end shopping malls. Lifestyle retailers gained momentum, and added variety to the tenant mix of various malls.

- Total retail sales of consumer goods in Chongqing reached RMB324.54 billion in 1H/2017, up 12% year-on-year (YoY).
- One project, Longfor Hometown Paradise Walk, debuted in Q2/2017, pushing the total stock in the Chongqing prime retail market up to 5.2 million sq m.
- The overall vacancy rate of Chongqing's prime retail market remained unchanged from Q1/2017
- to Q2/2017, but increased by 5.8 percentage points (ppts) YoY due to the opening of new retail malls in 2H/2016.
- The first-floor average rent of Chongqing's shopping malls decreased by 0.6% quarter-on-quarter (QoQ) to RMB23.1 per sq m per day.

“As a response to the increasing competition from expected new projects, Chongqing IFS and Chongqing Shin Kong Place, prime shopping malls actively engaged in bringing in new brands to maintain and improve footfall and sales performance.”
Dahuang Chen, Savills Research

➔ **Economic overview**

Chongqing’s consumer goods retail sales reached RMB391.4 billion, up 11.7% YoY in 1H/2017, 1.2 ppts lower than the same period last year. F&B reached RMB55.6 billion, up 13.7% YoY, while the retail sector achieved RMB335.9 billion, up 11.1% YoY.

Supply

One project, Longfor Hometown Paradise Walk, opened in Q2/2017, pushing the total stock in Chongqing’s prime retail market up to 5.2 million sq m.

Longfor Hometown Paradise Walk

Longfor Hometown Paradise Walk was developed by Longfor, one of the leading retail developers in Chongqing. This shopping mall is the fifth “Paradise Walk” shopping centre in Chongqing and is the first community shopping mall of its kind. It is located in Ranjiaba, in the Jiangbei District, a mature residential area which has experienced a lack of good retail provision in the past.

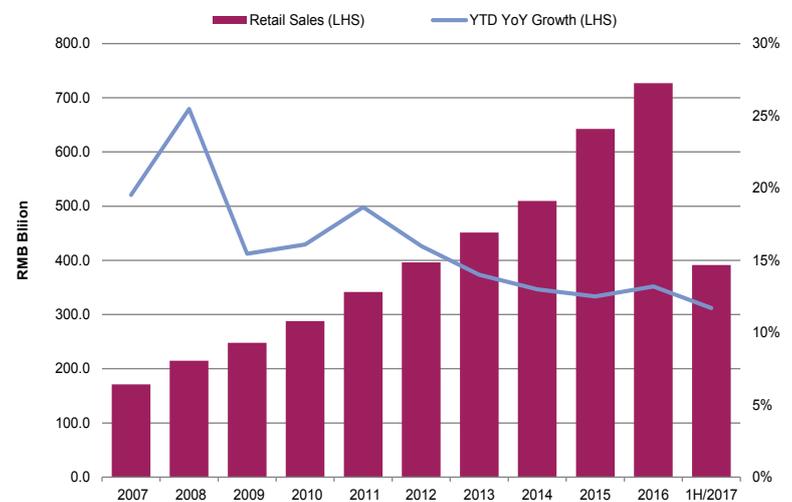
With total GFA of 93,300 sq m, the project offers a wide range of retailers, including fashion, beauty, supermarket, F&B, cinema and lifestyle stores. The tenant-and-brand mix was customised to match the demands and needs of the surrounding community. Main tenants include CGV Cinema, Yonghui Bravo Supermarket (the middle-high end version of Yonghui supermarket), Will’s Gym, and Taiwan’s Dazzling Cafe (the first branch in Chongqing).

Rents

First-floor average rents for Chongqing’s shopping malls decreased by 0.6% QoQ to RMB23.1 per sq m per day in Q2/2017. Prime retail areas saw average rents decrease by 0.6% to RMB25.5 per sq m per day, while non-prime retail areas recorded a 0.6% decline QoQ to RMB18.8 per sq m per day.

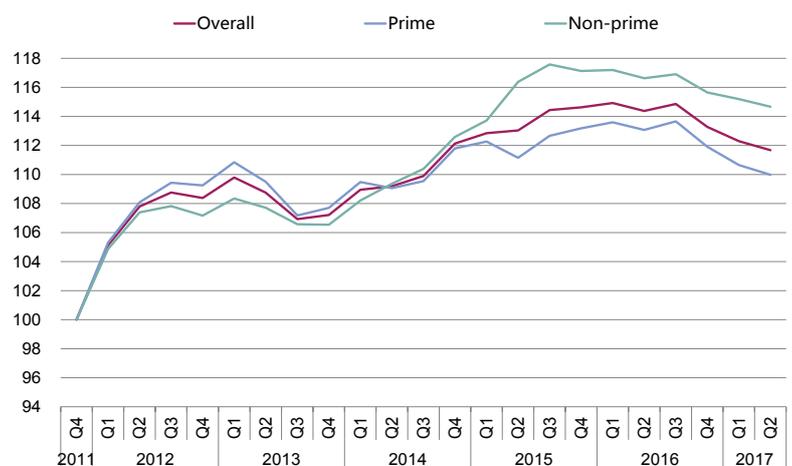
Due to intense market competition, large shopping malls constantly adjusted the brand-and-tenant mix, and also continued to lower their

CHART 1 **Retail sales trend 2007–1H/2017**



Source: Savills Research

CHART 2 **Retail rent index, Q1/2012–Q2/2017**



Source: Savills Research

rent prices, in the hope of attracting more brands. This resulted in a reduction of rents city-wide.

Vacancy rates

The overall vacancy rate in Chongqing’s prime retail market remained unchanged QoQ at 10%, but was up by 5.8 ppts YoY to 9.0% in Q2/2017. Prime area vacancy rates decreased by 1.5 ppts QoQ to 8.3%, due to the successful introduction of new tenants and brand-and-tenant adjustments carried out by renowned shopping centres. Non-prime area vacancy

rates increased by 1.8 ppts QoQ to 13.8%, due to intense competition created by the surging supply of new projects in recent years.

Chongqing’s ability to attract retailers to establish and expand in the city may not be as good as one may expect. Despite ranking fifth in terms of economy index in Savills’ 20 China Retail Cities report, the city comes up as only the tenth in terms of retail index. Retailers are being extremely cautious when making the decision to serve the customers in Chongqing. A situation

commonly seen in the city is that a retailer may have committed to leasing space in a shopping mall but decided not to open for business in the end, contributing to fluctuations in vacancy rates. However, positive signs were seen in Q2/2017, as several luxury brands accelerated their expansions in Chongqing, including new leases for two Salvatore Ferragamo stores in Starlight 68 Plaza and Chongqing MixC, the opening of Bottega Veneta's second store in Chongqing in Times Square, a new lease for Balenciaga (its first store) in Chongqing MixC, a new lease for Prada (their second store in Chongqing) in Chongqing MixC, and finally a new lease for MiuMiu's second store in Chongqing, in Chongqing MixC.

Given that two high-end shopping centres, Chongqing IFS and Chongqing Shin Kong Place, are expected to open in 2H/2017, the existing prime shopping centres were actively adjusting and bringing in new brands to prepare for future competition. For example, Longfor Beicheng Paradise Walk, one of the shopping malls with the highest

average rents in town, made significant changes to its B1 floor by hosting 27 new brands' first stores in Chongqing.

As the younger generations gradually become the major force driving demand in the retail market, shopping malls are beginning to introduce more lifestyle retailers to meet customers' increasingly diversified demands. The introduction of this retail category is also effective in increasing the occupancy rates, as the retailers often take up large spaces. There were many new openings of large lifestyle stores in the city, including Space Plus Club, Yanjiyou bookstore and Lifesea Discovery Centre in Q2/2017.

Market information

- ABC Cooking Studio, a cooking school from Japan which mainly offer baking classes, opened in Longfor Beicheng Paradise Store. This is their first store in Chongqing.

- MixC saw the opening of Space Plus Club, a high-end nightclub brand from Chengdu .

- Times Square saw the opening of Chongqing's first Yanjiyou, a Chengdu-based book store.

- Dazzling Cafe opened in Longfor Home Town Paradise Walk, which is the first one in Chongqing.

Market outlook

The market is expected to see another five shopping malls completed in 2H/2017, with total space of over half a million sq m. Two of these projects, Shinkong Place (SKP) and International Financial Square (IFS), have both been attracting a lot of attention and are expected to profoundly influence Chongqing's retail market.

SKP and IFS are expected to bring a number of new brands to Chongqing and introduce luxury brands to the north of the city. However, fierce competition brought by the opening of new projects will encourage landlords and operators to innovate and implement new strategies, such as introducing co-working spaces, to differentiate themselves. ■

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