

Briefing Retail sector

October 2018



Image: Wanxianghui, Danzishi

SUMMARY

City-wide rental indices have fallen quarter-on-quarter (QoQ) mainly due to intensifying competition and new projects opening in non-core areas.

- China Resources' first Wanxianghui project in Chongqing opened in the Danzishi area in Q3/2018, adding 62,000 sq m to Chongqing's retail market.
- The city's average vacancy rate rose by 0.2 of a percentage point (ppt) quarter-on-quarter (QoQ)

to 13.2%, rising for the fourth consecutive quarter.

- The city's average first-floor mall rent fell by 0.1% QoQ to RMB388.7 per sq m per month.

"The recently-opened Wanxianghui is the third new shopping mall in the Danzishi area in the last two years. Danzishi is emerging quickly as a new retail area with local retail projects mushrooming at a quicker rate compared to other areas of the city." Dahuang Chen, Savills Research

➔ **Economic overview**

The city's total retail sales of consumer goods reached RMB517.3 billion for the period January to August 2018, increasing 9.7% year-on-year (YoY).

Supply

Only one project, China Resources' Wanxianghui, opened its doors in Chongqing during Q3/2018. The addition of Wanxianghui increased the city's retail property market stock to 5.9 million sq m. The project aims to be a one-stop shopping mall for families in the immediate area.

Vacancy rates

Leasing demand was weak in the city during Q3/2018. Coupled with the closure of several retailers, Chongqing's citywide vacancy rate increased by 0.2 of a ppt QoQ to 13.2%, rising for the fourth consecutive quarter.

Rent

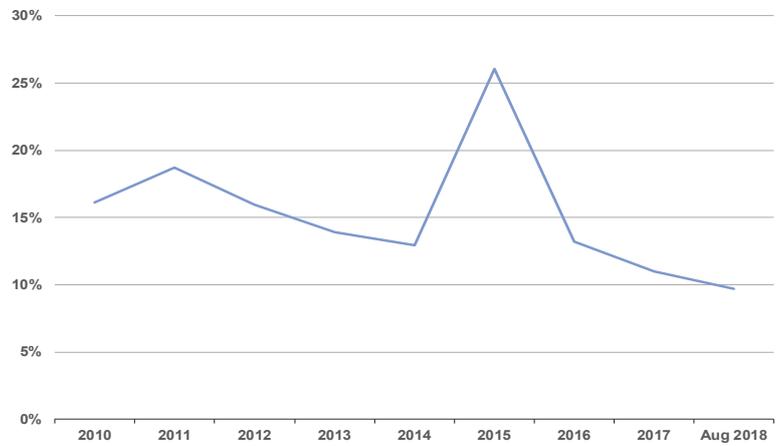
Due to weak market demand and a continuous increase in vacancy rates, the city-wide, mall first-floor retail rent fell by 0.1% QoQ to RMB388.7 per sq m per month.

Market information

A number of brands broke into the Chongqing market with their first stores during Q3/2018. These include Vivienne Tam in Sincere Starlight 68 as well as Marni, Heytea, The Alley and The Littles, a child-focused restaurant in Times Paradise Walk.

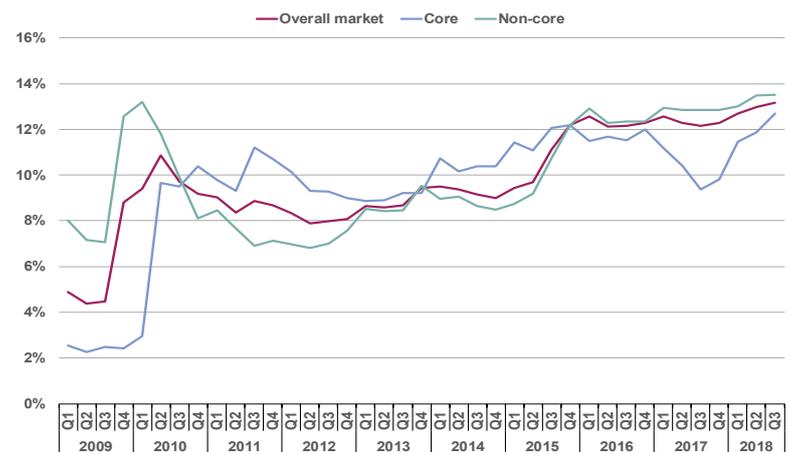
Retailers are increasingly focused on providing child-related products and services to meet consumer demand. The trend began in the fashion, education and leisure categories, and is now segmenting the F&B category. Examples include The Littles, which is Chongqing's first child-focused restaurant, and Liliput children café, in Concord, which is still under renovation.

GRAPH 1 **Retail sales YoY nominal growth, 2010 - Aug 2018**



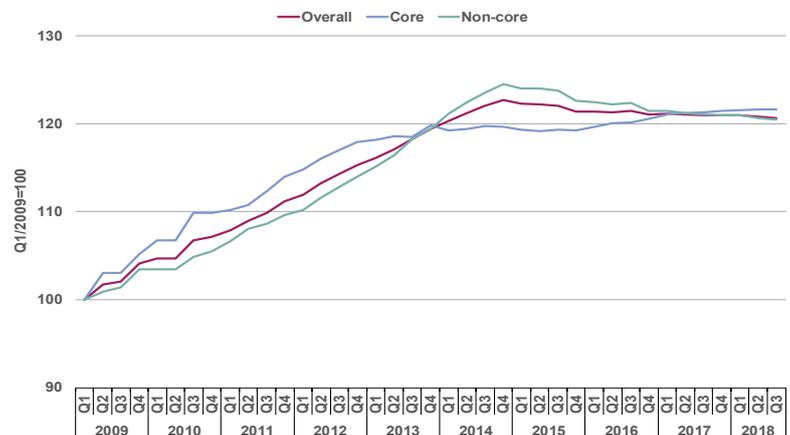
Source: Savills Research

GRAPH 2 **Average vacancy rate, Q1/2009-Q3/2018**



Source: Savills Research

GRAPH 3 **Retail rental index, Q1/2009-Q3/2018**



Source: Savills Research

Internet celebrity brands, which attract high footfall due to their popularity, are preferred by landlords as these retailers can afford higher rents. Several beverage brands that are hugely popular online have actively expanded during the quarter. One example is Heytea, which opened four stores in Q3/2018 alone – in MixC, Longfor Chongqing North Paradise Walk, Nanping Sincere Starlight Times Square and Time Paradise Walk. The Alley, another beverage brand that has recently soared in popularity, also entered the Chongqing retail market, with outlets located in MixC,

Times Paradise Walk and Shin Kong Place.

Underpinned by weak growth in automobile sales and the increasing popularity of new alternative-energy vehicles, some traditional automobile brands are now opening their sales outlets in shopping malls in order to reach consumers more easily. Examples during the quarter include Audi's new showroom in Starlight Plaza in Nanping; Changan Automobile also opened its first store, Che He Mei (车和美), in Times Paradise Walk.

Market outlook

More supply will debut by the end of 2018. It is estimated that around 500,000 sq m of retail space will open in Q4/2018, and over 90% of this space will be located in non-core retail areas. Meanwhile, in Jiefangbei, which is one of the city's core business areas, Wangfujing department store will close down by the end of the year. With part of Parkson department store in MixC and Fortune Centre currently undergoing renovation, these developments reflect the intense market competition facing department stores. ■

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