

Chengdu Retail



The suburban retail market surrounding traditional urban areas heats up

CITY OVERVIEW

The Chengdu government released its 14th Five-Year Plan earlier this year, proposing to develop the city as a domestic and international dual circulation hub. Chengdu Tianfu International Airport started operations at the end of June 2021, and Chengdu has become the third city with two international airports in mainland China. It is expected that Chengdu's competitiveness and regional influence would be further enhanced, favorable for attracting high-quality resources from home and abroad.

Chengdu's GDP reached RMB1,443.9 billion in Q3/2021, an increase of 10% year-

on-year (YoY). The growth value of the tertiary industry reached RMB942.4 billion, increasing by 10% YoY. In addition, the total citywide investment in fixed assets increased by 11.4% YoY. Chengdu's consumption market accelerated its recovery, with total retail sales of consumer goods reaching RMB669.2 billion during the first three quarters of 2021, increasing by 17.6% YoY. Moreover, the market continues to improve its consumption structure, seeing a high growth rate in retail sales of intelligent, energy-saving and environmental-friendly commodities, like smart household appliances and new energy vehicles.

RETAIL MARKET OVERVIEW

Three new shopping malls entered Chengdu's retail market within traditional urban areas¹ during the first three quarters of 2021, with a total GFA of 306,000 sq m, pushing Chengdu's total shopping mall stock to 6.76 million sq m. In Q1/2021, MKL Life Aesthetics Centre located in Tianfu New Area entered the market, featuring an organic combination of home stores within a traditional shopping mall, adding a greater variety of retail property types in Chengdu and offering consumers diverse shopping experiences. In Q2/2021, Chengdu Incity launched on Jianshe Road. The mall enlarged the retail property stock of the traditional commercial submarket, Jianshe Road, and also promoted the upgrading of the submarket. Yuntai Tianfu Hoot, located in Tianfu Square, entered the Chengdu retail market in Q3/2021. The project was previously the Far Eastern Department Store and was transformed into a shopping mall two years ago and became the first new shopping mall in the city's prime retail area² in the past four years. Tianfu Hoot has brought new brands to the city through its young consumer positioning and unique leasing strategy, further facilitating the prime retail area's renewal.

Apart from traditional shopping malls, novel retail properties like Jiaozi Financial Avenue Retail Boxes and Regular, an underground retail space beneath Dayuan Central Park, added new life to Chengdu's retail market as they opened in Q3/2021. In the future, more novel retail properties are expected to launch in Chengdu. While traditional shopping malls will continue to fill in the region's commercial gap and further meet surrounding areas' consumption needs, new retail property types are expected to strengthen the competitiveness of Chengdu's retail market, helping attract more brands and enriching citizens' lives and shopping environment.

Chengdu's retail market has performed well this year, and the citywide shopping malls' average vacancy rate continued to fall, decreasing 2.4 percentage points (ppts) YoY to 7.5% in Q3/2021. Meanwhile, Chengdu's retail leasing demand remained active, and the citywide shopping mall first-floor average rent rose slightly YoY to RMB424.3 per sq m per month.

In terms of demand, sectors like leisure

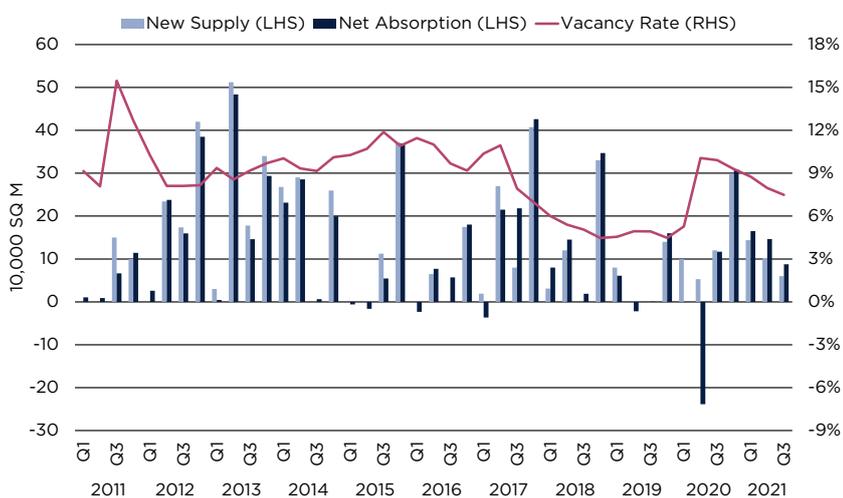
1 Traditional urban areas include five districts: Jinjiang, Qingyang, Chenghua, Wuhou, and Jinniu Districts.
2 Chunxi Road - Yanshikou submarket

GRAPH 1: Total Retail Sales of Consumer Goods in Chengdu, 2010 to Q3/2021



Source Chengdu Bureau of Statistics, Savills Research

GRAPH 2: Supply, Take-up and Vacancy Rates, 2011 to Q3/2021

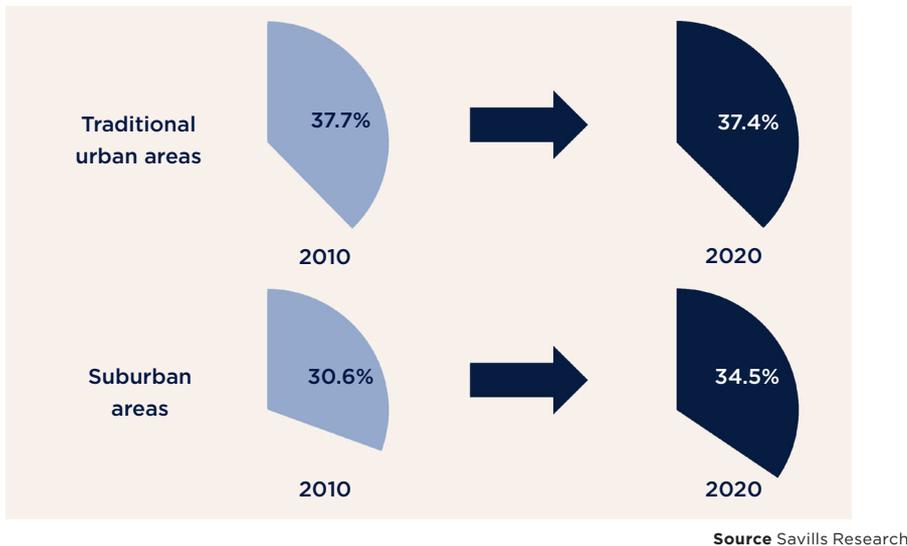


Source Savills Research

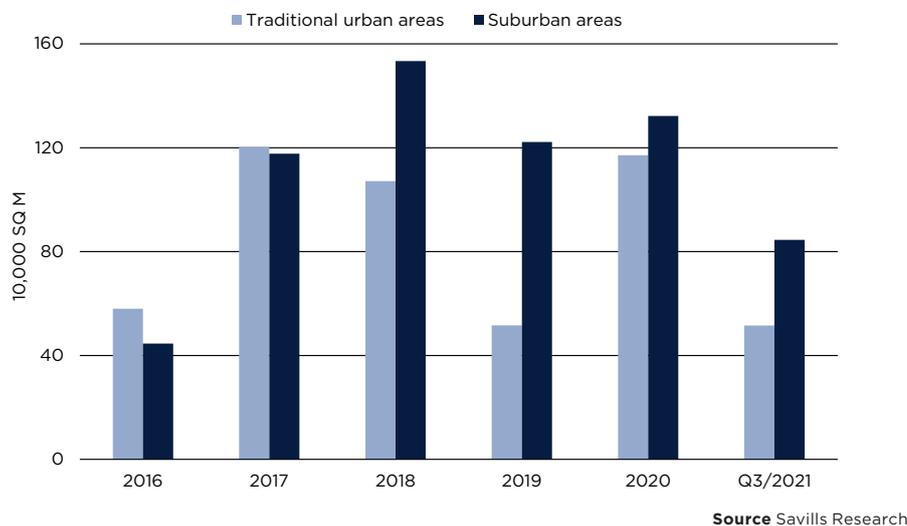
and entertainment, automobiles and bars, as well as select shops or designer brands in the fashion sector, have displayed active leasing demands this year. Owing to the strong regional influence and attractiveness of Chengdu's retail market and high-quality projects, many famous brands from home and abroad debuted in Chengdu's retail market in 2021. Debut retail brands were mainly street fashion, sports fashion and toy brands. Coffee and dessert brands constituted most of the debuting F&B brands in Chengdu's shopping malls this year.

Several new projects are expected to enter the markets surrounding the traditional urban areas in the near future, which will help mature the suburban retail market.

GRAPH 3: Percentage of Permanent Residents in City-wide Total Population, 2010 vs 2020



GRAPH 4: Commercial Land Transaction Volume, 2016 to Q3/2021



SUBURBAN RETAIL MARKET

In 2021, two new shopping malls, located in suburban areas³ surrounding traditional urban areas, opened and saw good sales, passenger flow and media popularity, which brought investors confidence in the suburban retail market. With more high-quality retail projects entering the suburban retail market in the near future, the market is expected to grow quickly and mature.

The Seventh National Census stated that Chengdu's suburban area population surpassed its urban area population and increased by nearly 50% from the last national census, reaching 8,694,489, while the urban area population only achieved a 34% increase from 2010 to 2020. With more residents moving away from the city centre, and the urban area is running out of land, the city's suburban area has naturally become an attractive investment region. In the past five years, both residential land and commercial land transaction volumes in Chengdu's suburban areas have been far larger than urban areas, with the highest being a five-times difference.

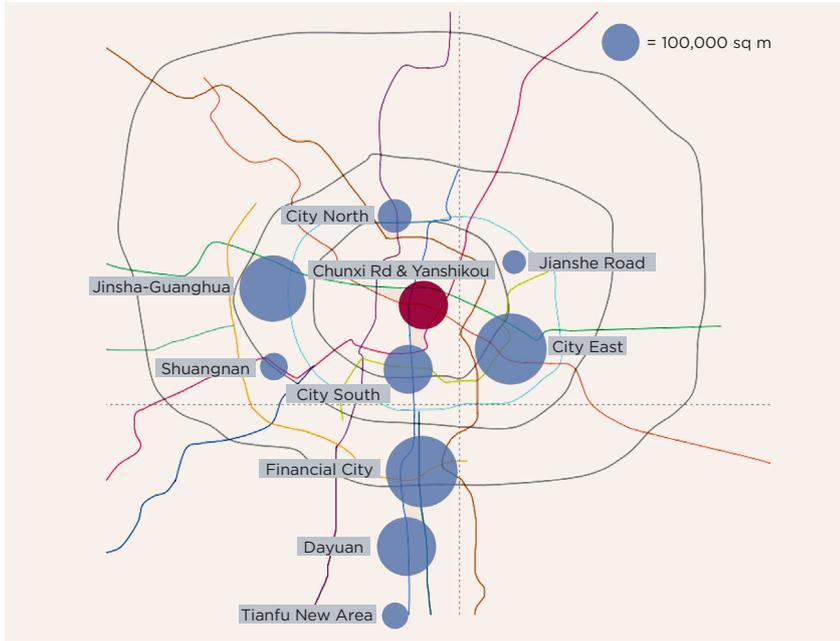
Furthermore, Chengdu has set up two new areas—Tianfu New Area and Eastern New Area—in the past ten years in suburban areas as the city's key investment districts. In Q3/2021, the investment in Tianfu New Area and Eastern New Area increased by 15.5% and 14.5%, respectively, becoming two important growth engines for Chengdu's economic development. It is expected that the two new areas could bring a greater level of development to Chengdu's suburban region.

MARKET OUTLOOK

It's expected that about 300,000 sq m shopping malls will enter Chengdu's retail market in Q4/2021. Considering that leasing demand in Chengdu's retail market is likely

³ Suburban areas include: Longquanyi, Qingbaijiang, Xindu, Wenjiang, Shuangliu, and Pidu Districts.

MAP 1: Chengdu Retail Submarket Future Supply, Q4/2021 to 2024



Source Savills Research

to remain stable, the citywide shopping mall average vacancy rate is expected to continue to fall.

In the next three years, about 40% of the new supply in traditional urban areas will be located in the Financial City and City East submarkets. Since available land within Chengdu's traditional urban areas is becoming more scarce, existing retail projects' renewal and upgrade would be the focus of the market in these areas. With industry development and population growth in the markets surrounding traditional urban areas, more high-quality and diverse retail projects are expected to open in these areas.



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