SUMMARY

Shopping malls are currently going through a transition period in an effort to cope with the increasing competition between different retail formats.

- The first five months of 2015 saw Chengdu’s overall retail sales reach RMB197.7 billion, up 10.3% year-on-year (YoY).
- One new shopping mall, The Atrium, was launched onto the market, adding 45,000 sq m of prime retail supply and pushing overall retail market stock up to 3.6 million sq m in Q2/2015.
- City-wide prime shopping mall vacancy rates decreased 0.4 of a percentage point (ppt) quarter-on-quarter (QoQ) to 7.1%, up 0.2% YoY.
- First-floor prime shopping mall rents increased 0.4% to an average of RMB18.1 per sq m per day, up 2.0% YoY.

“With the impact of e-commerce and the national economic downturn, the traditional retail market is facing a number of challenges. Experiential and leisure entertainment formats have become the new innovations amongst shopping malls to attract customers and promote consumption.”

Dave Law, Savills Research
Economic overview

Boosted by the Qingming and International Workers Holidays, Chengdu’s overall retail sales reached RMB197.7 billion in the first five months of 2015, up 10.3% YoY. This is significantly higher than the increased rate of GDP (7.0% in Q1/2015). Chengdu’s urban residents’ income maintained a steady growth in Q1/2015. The per-capita disposable income of city dwellers rose 8.7% YoY, to RMB9,025 while consumer price index increased 1.3% YoY and the price levels remained stable.

Supply

The Atrium

Several stores in The Atrium shopping mall opened in Q2/2015. The Atrium is the first commercial real estate project in Chengdu to be built by the Tishman Speyer group U.S. Located at the intersection of Dongda Street and Shamao Street, close to Tai Koo Li and Silver Square; it is in the Chunxi Road prime commercial area, with a superior position and convenient transportation.

With a total GFA of 170,000 sq m, the project consists of a shopping centre, Grade A office building (which has been sold and renamed Pingan Financial Center), apartments, and residential components.

The retail GFA of The Atrium is 45,000 sq m, covering four floors (B1/F-3/F) comprised of fashion, catering and entertainment stores, with anchor tenants including Gaudi and Koradior. Some tenants, such as Milan station and Cashmere Yung, have already opened.

Rent

Shopping mall first-floor rents increased 0.4% QoQ in Q2/2015 to RMB18.1 per sq m per day. In prime retail areas, rents remained flat QoQ at RMB37.5 per sq m per day, while non-prime retail area rents increased 0.6% QoQ to an average of RMB12.5 per sq m per day, up 2.5% YoY.

Overall rents remained flat in Q2/2015. In prime retail areas, high-end projects IFS and Tai Koo Li strengthened their presence in the market, while surrounding projects took a more conservative approach to rent strategies to retain and attract high–quality brand tenants, amid the increasing competition. As a result, rental increases were suppressed in the short term. Projects in non-prime areas, such as Raffles City and the Yangguang Center, went through a period of adjustment to proactively meet new demands from consumers. This trend is set to continue, in order to target a wider audience using formats such as F&B, lifestyle bookstores and fitness centres.

Vacancy rates

City-wide prime shopping centre vacancy rates reduced 0.4 of a ppt in Q2/2015 to 7.1% QoQ. Prime area vacancy rates increased 0.5 of a ppt to 5.7% QoQ, while non-prime area vacancy rates reduced 0.6 of a ppt to 7.3% QoQ.

The Atrium has struggled in terms of leasing, achieving relatively low occupancy rates even though it is located in a prime area. As The Atrium was launched onto the market after two other high-quality projects in the surrounding area – which attracted a large number of well-known international and domestic brands – the tenant pool is quite limited. As the project is relatively...
small in terms of GFA, it has not impacted the overall prime area vacancy rates, which increased slightly.

In non-prime areas, a number of shopping malls have made further efforts to lease leisure and entertainment formats in order to differentiate themselves to attract customers. For example, the Yangguang Center vacancy rate has decreased due to the opening of Tomato Art School and the Wanku children photography studio. The flagship Mirako Fitness, covering an area of 5,000 sq m, will open in Raffles City, while another new branch will be opened in the Tonghui Shopping Centre in the near future. The first store of Yanjiyou Art Space in western China opened in CapitaMall Tianfu, accounting for about 3,000 sq m. Since leisure and entertainment formats typically occupy larger areas, increasing tenants in those formats have made great contributions to the decline of vacancy rates in non-prime areas. However, not all projects will witness the same outcome. Vacancy rates of several projects significantly increased, mainly due to poor design and operational issues. Since the opening of Chengdu 339, the tenant operating performance has not been ideal. After the closure of Food Republic and JiuLiu restaurant, Uniqlo, which was located on B1/F, has moved to the first floor, achieving a better display surface and more convenient entrance for customers. MustGuette, the restaurant with British elements, opened a second store in MixC, after their first in Chengdu in Tai Koo Li.

**Market outlook**

With the continuing impact of increasing retail supply and the competition from online businesses, traditional department stores in Chengdu are now facing growing market pressure. This has led to a number of projects closing: Rainbow department store in Top Spring Square recently closed, while Central department store in MixC announced it would close next quarter, looking to diversify its portfolio.

Looking forward, the competition between “one-stop” shopping malls and department stores will continue in the long-term. If they fail to adjust tenant mix according to customers’ increasing diversified demands, the survival of traditional department stores will be more difficult. The transformation of department stores through tenant adjustment to meet these demands has become necessary for survival.

Core retail areas are expected to receive an influx of supply. Some projects that are expected to be handed over this year are anticipated to postpone their launch dates, due to unsatisfactory pre-leasing rates or project strategy changes. For instance, Perennial Mall was expected to open in December 2015 but pushed their opening date to 2H/2016 in order to reposition itself as an international health care centre.

---

**TABLE 1**

<table>
<thead>
<tr>
<th>Project</th>
<th>Area</th>
<th>GFA (sq m)</th>
<th>Original plan</th>
<th>Current plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southern Center</td>
<td>South Railway Station</td>
<td>48,479</td>
<td>2015Q2</td>
<td>2016</td>
</tr>
<tr>
<td>ShangFengGang Times Square</td>
<td>Wuhou district</td>
<td>75,000</td>
<td>2015Q2</td>
<td>Q1/2016</td>
</tr>
<tr>
<td>Perennial Mall</td>
<td>Chenghua district</td>
<td>280,000</td>
<td>2015Q4</td>
<td>Q4/2016</td>
</tr>
<tr>
<td>GaoSheng Finance Center</td>
<td>Hi-Tech Zone</td>
<td>50,000</td>
<td>2015Q4</td>
<td>2016</td>
</tr>
<tr>
<td>Yintai Centre</td>
<td>Hi-Tech Zone</td>
<td>190,000</td>
<td>2015Q4</td>
<td>2016</td>
</tr>
</tbody>
</table>

Source: Savills Research
Project focus

InTime City Chengdu

InTime City Chengdu is located in the centre of Tianfu New City, at the junction of Yizhou Road and Tianfu No.4 Avenue. Although it is not located close to the city centre of Chengdu, this project is near the emerging Dayuan and Huangyang districts and also close to the financial back-office centre and Tianfu Software Park. InTime City is a mixed-use development project of more than 400,000 sq m, including a shopping mall, a high street named Yuefang, offices and the western China headquarters of Alibaba.

The retail GFA of the project is 170,000 sq m, consisting of a shopping mall and high street. The self-owned and operated shopping mall will be handed over in September 2015. It is planned to create a ‘one-stop’ experiential shopping centre, with the anchor and experiential amenities accounting for 50% of the total GFA. Based on the abundant commercial tenant resources accumulated by the Intime group, alongside InTime’s strong brand image, the leasing performance of this project is relatively good under the current market circumstances. A number of brands have already signed contracts, such as Zara, Yonghui supermarket and Watsons.

TABLE 2

<table>
<thead>
<tr>
<th>Location</th>
<th>No.1999 Yizhou Road, Hi-tech Zone, Chengdu</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developer</td>
<td>Yintai Retail Group</td>
</tr>
<tr>
<td>Retail GFA</td>
<td>Shopping mall: 120,000 sq m High street: 50,000 sq m</td>
</tr>
<tr>
<td>Expected handover</td>
<td>Q4/2015</td>
</tr>
</tbody>
</table>

Source: Savills Research