The suburban retail market heats up

Chengdu’s retail leasing demand stayed active during the quarter.

- Retail sales of consumer goods in Chengdu reached RMB375.8 billion from January 2021 to May 2021, up 25.6% year-on-year (YoY).

- One new shopping mall, Chengdu Incity, entered the market in Q2/2021, with a total GFA of 102,000 sq m, pushing Chengdu’s total shopping mall stock to 6.70 million sq m.

- The citywide average vacancy rate of shopping malls fell by 0.8 of a percentage point (ppt) quarter-on-quarter (QoQ) to 8.0% in Q2/2021.

- Landmark retail projects across the city saw a steady sales increase, and overall tenant quality of projects within Chunxi Road and Financial City submarkets kept improving. These two factors pushed up the citywide first-floor shopping mall average rent to RMB425.8 per sq m per month in Q2/2021.

- The average first-floor shopping mall rent in the city’s prime retail area* increased by 0.8% QoQ to RMB933.9 per sq m per month. Non-prime areas’ average shopping mall first-floor rent rose slightly to RMB346.1 per sq m per month in Q2/2021.

- Many renewal projects are expected to enter the prime retail area in the next one or two years. The popularity of retail streets near Chunxi Road was evident during the quarter, which is likely to support the consolidation of the prime retail area’s competitiveness and sustainable development.

“In Q2/2021, Chengdu retail demand continued to recover, and shopping malls’ average vacancy rate has fallen since 2H/2020. Several new projects are expected to enter the markets surrounding traditional urban areas in 2H/2021, which will help mature the suburban retail market.”

SOPHY PAN, SAVILLS RESEARCH
**Retail**

**GRAPH 1: Chengdu Shopping Mall Supply, 2016 to 1H/2021**

**SUPPLY**
In Q2/2021, Chengdu Incity, located in Jianshe Road, entered the Chengdu retail market, with a total GFA of 102,000 sq m, pushing Chengdu’s total shopping mall stock to 6.7 million sq m. The new supply volume increased significantly compared with that of Q2/2020. The new project enlarged the retail property stock of the traditional commercial submarket, Jianshe Road, and also promotes the renewal of the submarket, offering consumers more diverse purchasing choices and shopping experiences in the region.

**VACANCY RATES**
The citywide shopping mall average vacancy rate fell in Q2/2021, decreasing 0.8 of a ppt QoQ to 8.0%. Landmark projects in the city’s prime retail area started large-scale tenant upgrades in Q2/2021, and the overall tenant quality of projects in Chunxi Road was enhanced. The prime retail area’s average shopping mall vacancy rate dropped by 0.4 of a ppt QoQ to 8.0%.

Shopping malls in the City South, City East and Financial City submarkets adjusted tenants frequently in Q2/2021, and their vacancy drops were bigger than other submarkets across the city, driving the average shopping mall vacancy rate of non-prime areas to decrease by 0.8 of a ppt QoQ to 8.0%.

**RENTS**
In Q2/2021, landmark shopping malls operated well, seeing a steady gain in sales. Overall tenant quality of projects in Chunxi Road and Financial City submarket kept improving, driving the citywide shopping mall first-floor average rent to increase by 0.2% QoQ to RMB425.8 per sq m per month. The rental index of the prime retail market increased by 0.8% QoQ to RMB833.9 per sq m per month. The average shopping mall first-floor rent of non-prime areas rose slightly to RMB346.1 per sq m per month in Q2/2021.

**TENANT NEWS**
Owing to the strong regional influence and attractiveness of Chengdu’s retail market and high-quality projects, many famous brands from home and abroad entered the market in Q2/2021. Debut retail brands were mainly street fashion brands. For instance, popular fashion brand collective store Knowin opened at Attrium (Phase Two), and North American sneaker collective brand Solestage launched its first Southwestern store at Sino-Ocean Taikoo Li. Additionally, Italian top perfume brand Acqua di Parma launched its first Chengdu boutique at MixC (Phase Two). As for debuting F&B brands in Chengdu’s shopping malls during the quarter, ChikaLicious, a New York dessert brand, opened its first Southwestern China store at Sino-Ocean Taikoo Li, and La Famille, a cake brand from Hong Kong, launched its first city store at 1P5.

**MARKET OUTLOOK**
It’s expected that about 400,000 sq m shopping malls will enter Chengdu retail market in 2H/2021, though the citywide average vacancy rate is not expected to display considerable fluctuations due to the even distribution of new supply. Considering that the new supply volume of Chengdu’s retail market is expected to be stable in the next few years, the citywide shopping mall average vacancy rate is expected to continue to fall. In the next three years, about half of the new supply in traditional urban areas will be located in the Financial City, Dayuan, and City East submarkets. Since available land resources within Chengdu’s traditional urban areas are 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.

**TABLE 1: Chengdu Future Projects, 2H/2021**

<table>
<thead>
<tr>
<th>PROJECT NAME</th>
<th>RETAIL GFA (SQ M)</th>
<th>SUBMARKET</th>
<th>DEVELOPER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yuntai Tianfu Hoot</td>
<td>60,000</td>
<td>Chunxi Rd-Yanshikou</td>
<td>Yuntai</td>
</tr>
<tr>
<td>Poly Plaza</td>
<td>128,000</td>
<td>Dayuan</td>
<td>Poly Group</td>
</tr>
<tr>
<td>Xinyuan Plaza</td>
<td>180,000</td>
<td>Pidu District</td>
<td>Xinyuan Group</td>
</tr>
</tbody>
</table>

**GRAPH 2: Chengdu Retail Submarket Vacancy Rates, Q3/2016 to Q2/2021**

**GRAPH 3: Chengdu Retail Submarket Rental Index, Q3/2016 to Q2/2021**

*Note: Calculation of rental indices for all submarkets starts from Q1/2010 except for:

Source: Savills Research