Retail sales remained active in the first quarter of 2019, driven by consumption during the Chinese New Year holiday. The VAT rate reduction, which came into effect in April 2019, will likely boost consumption further. We expect demand from shoppers to remain on an upward trend in 2019-2023.

In order to cope with the heavy increase in supply in 2019, we recommend retailers avoid positioning their business towards homogenized development, focusing on format innovations and personalized experiences instead.

We recommend retail brands with plans to expand in China’s southwestern market focus on 2019’s new supply as the non-core areas should offer a wide variety of retail formats.

### Summary & Recommendations

- The market share of F&B continues to grow, as highlighted by the rapid expansion of light food and snacks. Street fashion brands remained active as demand remains strong. We expect both sectors to continue growing in 2019.

- We project new supply of 2.6 million sq m in 2019-2023, of which 46% is planned in non-core areas. New supply in 2019 accounts for 23% of new supply through 2023.

- In 2019, heavy new supply in non-core areas will likely drag down average rents. However, due to continued demand, from 2020 to 2023, we expect rents to rebound and grow at an annual growth rate of 0.2%.

- The vacancy rate will likely rise slightly in 2019 due to the heavy new supply. We predict the vacancy rate will gradually decrease between 2020 and 2023, as supply also declines.

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**Source:** Colliers International

Note: USD1 to RMB6.72 as of end-Q1. 1 sq m = 10.76 sq ft
Chinese new year drives retail sales

According the Chengdu Retail Operation Analysis Report, released by the city’s retail association, total consumer goods retail sales in 2018 grew 10.0% YOY, which is one percentage point higher than the national average, ranking Chengdu second among all Tier 2 cities. Driven by the Chinese New Year holidays, Chengdu’s retail sales remained active in Q1 2019. In the first two months of this year, Chengdu’s total retail sales grew 8.8% YOY, indicating consumers’ strong demand for retail goods.

Light F&B, clothing and fashion are still the most active tenant segments

F&B and fashion apparel are the most important sources of retail demand in Chengdu, together accounting for 58.3% of new rental and opened stores in Q1 2019. As the city of fashion and leisure¹, Chengdu is one of the cities where major fashion brands lay emphasis. In Q1 2019, Tai Koo Li, a retail-led mixed-use development in Chengdu, successfully attracted international brands like Acne Studios of Sweden and American brand Off-White as their first stop in expanding into southwest China.

As one of the categories with the strongest ability to attract customers, in recent years F&B has been expanding rapidly, and its presence in shopping centres has increased. Facing a faster-paced and higher-stress workplace nowadays, consumers are paying more attention to healthy diets and lighter foods. Coffee, new-style tea drinks and other casual dining are also becoming popular. For example, the first gift shop of naixuecha (a tea shop integrating the city’s unique culture, technology and entertainment into the retail experience) settled in IFS mall, and Wagas, a western healthy light food restaurant expanded in UFUN shopping mall this quarter. We expect the trend of light F&B shops opening in shopping malls to continue.

The rapidly growing retail sales provide a solid foundation for the development of the retail leasing market. The stable rental demand drove vacancy down to a historical low of 6.1% in Q1 2019, or a 1.3 pps YOY drop.

¹ 2018 China Urban Fashion Index, China Fashion City Summit Forum.
Average rents rose slightly

In Q1 2019, landlords continued to optimize their tenant mix. Some landlords in the Chun-Yan submarket are giving rental discounts to attract new well-known brands. However, in Chengdu’s prime retail areas, landlords remain confident as they continue to push rents higher. In Q1 2019, the average rent on the ground floor of shopping centres in Chengdu edged up 0.4% QoQ to RMB421.5 per sq metre per month (USD62.8).

INVESTMENT MARKET

Q1 2019, saw one investment transaction in Chengdu. Suning acquired all 37 Wanda Department Stores, including Jinniu Wanda in Chengdu. Suning has been aggressively targeting the online to offline market, and the acquisition should provide its consumers with a richer digital and experiential shopping experience.

OUTLOOK

Transit-oriented development heating up

In 2018, Chengdu held a workshop on comprehensive transit-oriented development (TOD), and planned the first batch of 13 TOD stations. A good example is Longhu’s project named XiChen Paradise Walk with its introduction of the TOD planning in Q4 2018 which is the first complex project in Chengdu that connects multiple resources such as parks, subways and shopping malls. We expect TOD projects to become mainstream in the next few years, as the comprehensive layout and design better suits Chengdu’s future city planning.

Increasing retail stock in Chengdu

The total stock in the core business districts is 4.1 million sq metres (44.3 million sq feet), which accounts for 69% of the total stock in Chengdu. With increasing consumer demand, prime retail malls in the core business districts such as IFS and Tai Koo Li, should continue to attract more consumers thanks to their better tenant mix and high-quality shopping environment. Older retail malls may see weakening demand with limited offerings to attract customers. Landlords of older retail malls should consider renovations, of which Colliers expects to see more over the next few years.
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