

Briefing Retail sector

March 2015



Image: Nanjing Xinjiekou

SUMMARY

Due to limited shopping mall supply in 2014, Nanjing's mid-range to high-end retail market saw vacancy rates fall, while rents increased by 12%.

- Four mid to high-end retail projects debuted in 2014, adding 236,900 sq m of retail space to the market and enlarging stock by 11.6% year-on-year (YoY).
- City-wide shopping mall vacancy rates fell by 2.0 percentage points (ppt) in 2014 to 7.7%.
- Mid-range to high-end shopping mall first-floor rents rose by 12.3% YoY to RMB13.7 per sq m per day.
- A number of fashion brands, including Pandora, Atestoni, American Eagle Outfitters, QDA and Time Zone, opened their first stores in Nanjing in 2014.
- Nine shopping malls and two department stores are scheduled to enter the Nanjing market in 2015, adding 734,750 sq m of new retail space.

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 “City-wide vacancy rates are expected to rise in 2015, as a large amount of new supply with the majority located in immature retail locations, is expected to enter the market.” James Macdonald, Head of Research, China

→ Mid-range to high-end retail market

Supply and stock

Nanjing had 2.27 million sq m of retail stock by the end of 2014, of which shopping malls accounted for approximately 66%. Despite a trend towards shopping mall supply in recent years, 2014 recorded only one new shopping mall, the 140,000 sq m Raydu Mall (同曦瑞都购物中心) in Jiangning district. Four retail projects were handed over in the city, amongst them there department stores all in Xinjiekou with a total of 97,000 sq m.

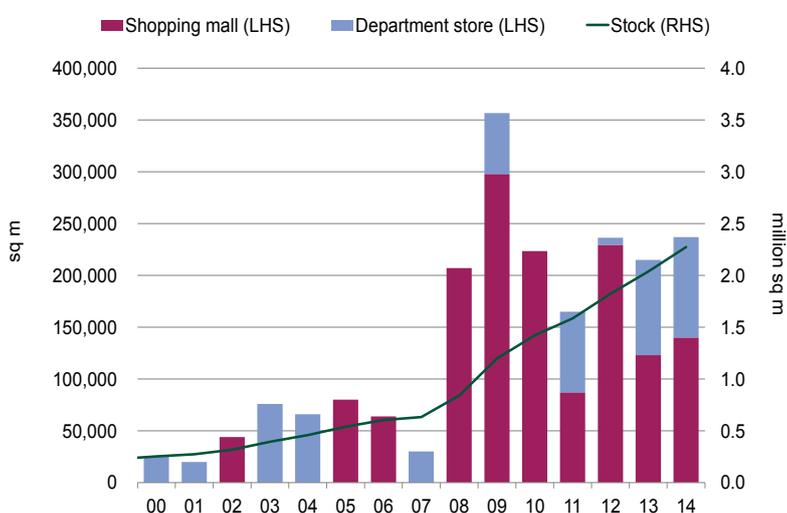
Uni Park (中海环宇城), a shopping mall in Hexi New Town scheduled for launch in Q4/2014, was postponed to Q2/2015.

Demand and occupancy rates

Demand was primarily driven by F&B and fashion retailers in 2014. Landlords were most eager to introduce F&B retailers that drive footfall through the centres and support the retail environment. Major leasing transactions included:

- Teenie Weenie committed to its first café in China in Golden Eagle International Building A (金鹰国际购物中心A座) in Xinjiekou area.

GRAPH 1 Retail supply and stock¹, 2000-2014



Source: Savills Research

¹ Excludes low and low to mid end retail stock

- Secret Recipe (食之秘), a Singaporean F&B brand, opened its first store in Nanjing in One City (新一城) in Qiaobei area. Following this, the brand launched another two stores in Golden Eagle International Building B (金鹰国际购物中心B座) in Xinjiekou and Nanjing Wonder City (虹悦城) in Zhonghuamen.

- Starbucks committed to a new store of 100 sq m in Raydu Mall in Jiangning district.

At the same time, fast fashion and luxury brands expressed an increased interest in the local market, due to a growing brand-

awareness among local consumers and sustained economic growth.

Main leasing transactions included:

- American Eagle Outfitters, QDA and Time Zone all opened their first stores in Nanjing in Amicizia (友谊广场) in Xinjiekou.

- Hazzys, Tommy Hilfiger, and Gant all opened new stores in Zifeng Mall (紫峰购物中心) in Hunan Road – Gulou area, following the project's mid to high-end repositioning. Each store was nearly 150 sq m.

- Pandora, an affordable luxury accessories retailer, signed its first

TABLE 1 Retail market indicators, 2014

	Stock (sq m)	Supply (sq m)	Vacancy rate (sq m)	Rents (RMB per sq m per day)
2014	2,273,983	236,985	7.7%	13.7
YoY change	+11.6%	+10.2%	-2.0 %	+12.3%

Source: Savills Research

store in Nanjing in Golden Eagle International Building B.

- Atestoni, a affordable luxury fashion retailer, launched its first store in Nanjing in Deji Plaza Ph 1 (德基广场一期) in Xinjiekou.

City-wide shopping-malls recorded vacancy rates of 7.7% by the end of 2014, down 2.0 ppts YoY. Hexi New Town recorded vacancy rates as low as 2.6% in Q4/2014 as a result of limited supply and strong demand from retailers targeting consumers from the mature residential area in the northern part of Hexi New Town.

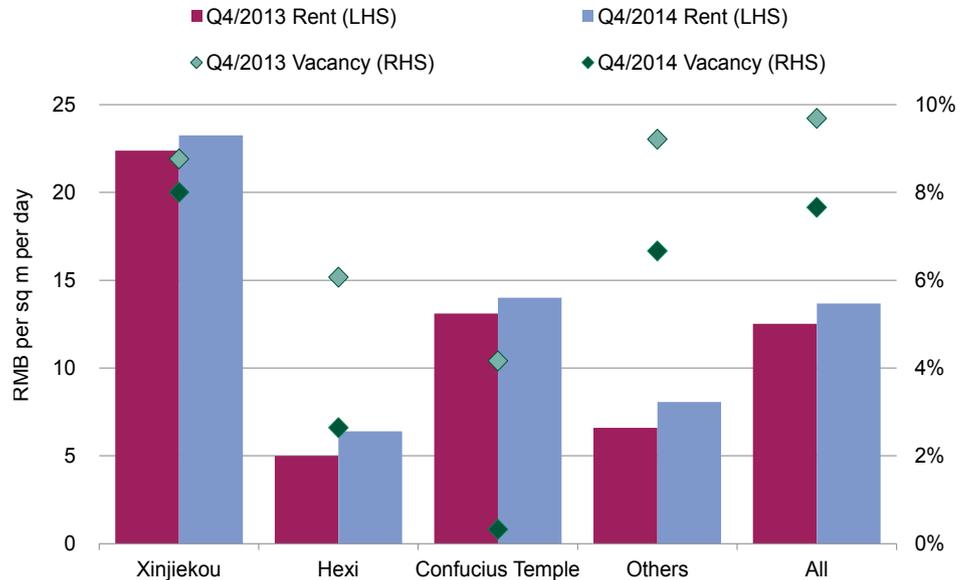
Rents

Shopping mall rents recorded robust growth in 2014, with first-floor rents increasing 12.3% YoY to RMB13.7 per sq m per day. While there are more retail projects entering non-prime and decentralised areas competing for both retailers and customers, prime areas remain the first choice for retailers entering the city’s market, allowing these areas to achieve the highest rents in the city.

Xinjiekou is reported to have some of the highest daily footfalls of anywhere in Jiangsu Province and certainly has the largest concentration of retail space in the four main retail districts in Nanjing with total retail GFA of 806,400 sq m. As a result, average first-floor rents in this area commanded

GRAPH 2

Submarket rents and vacancy rates, Q4/2013 vs Q4/2014



Source: Savills Research

the highest in the city, reaching RMB23.3 per sq m per day by the end of 2014.

Hexi CBD, a key part of the city’s future master plan, has been experiencing rapid development over the last few years. However, the retail market remains in its infancy as the majority of consumption is focused on F&B, rather than apparel and accessories of digital products. Consequently, average first-floor rents in this area are relatively low, at just RMB6.4 per sq m per day by Q4/2014.

Market outlook

Nanjing’s retail market is expected to witness a supply peak in 2015, with nine shopping malls and two department stores scheduled to

enter the market. A total retail space of 734,750 sq m is estimated to be launched onto the market, which will enlarge the overall stock by 28.5%.

City-wide vacancy rates are expected to rise moderately in 2015 as a result of the influx of supply expected and the fact that close to 75% of the supply will be located in non prime and decentralised areas. Rents are expected to grow only slowly, as most landlords are expected to moderate expectations given the increasingly competitive environment. ■

TABLE 2
Retail supply, 2015E

Project	Chinese name	Location	Retail type	Retail GFA (sq m)
Jiangning Golden Eagle	江宁金鹰天地	Baijiahu	Shopping Mall	130,000
Jinmao Place (former NIC Shopping Mall)	金茂汇 (原NIC购物中心)	Hunan Road	Shopping Mall	96,000
Uni Park	中海环宇城	Longjiang	Shopping Mall	80,000
Tesco Mall	中山乐都汇购物中心	Confucius Temple	Shopping Mall	80,000
Sunshine Department Store	南京新地阳光百货 (新地中心二期)	Hexi	Department Store	65,300
Media Square	幸福传媒广场 (江苏电视台)	Hunan Road	Shopping Mall	60,000
Binrui International Square	缤润国际广场	Hexi	Shopping Mall	60,000
Qingjiang Suning Plaza	清江苏宁广场	Longjiang	Shopping Mall	50,000
KIC Mall	金奥国际中心商场	Hexi	Shopping Mall	43,400
Maoye Department Store	茂业百货	Confucius Temple	Department Store	40,000
New City Square Ph2	新城市广场二期	Sanpailou	Shopping Mall	30,000

Source: Savills Research

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