

Briefing Retail sector

August 2015



Image: Nanjing Xinjiekou

SUMMARY

Due to limited shopping mall supply in 1H/2015, Nanjing's mid- to high-end retail market saw vacancy rates fall, while rents increased 5.9%.

- Only one mid-end shopping mall, Uni Park, was launched in the first half of 2015, adding 80,000 sq m of retail space to the market and bringing total stock to over two million sq m.
- City-wide shopping mall vacancy rates fell 4.1 percentage points (ppts) half-on-half (HoH) to 4.2% in 1H/2015.
- Mid- to high-end shopping mall first-floor rents rose 5.9% HoH to RMB17 per sq m per day, up 10.5% year-on-year (YoY).
- Five shopping malls are scheduled to enter the market in 2H/2015, adding 353,500 sq m of new retail space.

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 “City-wide vacancy rates are expected to rise in 2H/2015 as a large amount of new supply is expected to enter the market, with the majority located in immature retail locations.” James Macdonald, Head of Research, China

➔ **Mid-range to high-end retail market**

Market commentary

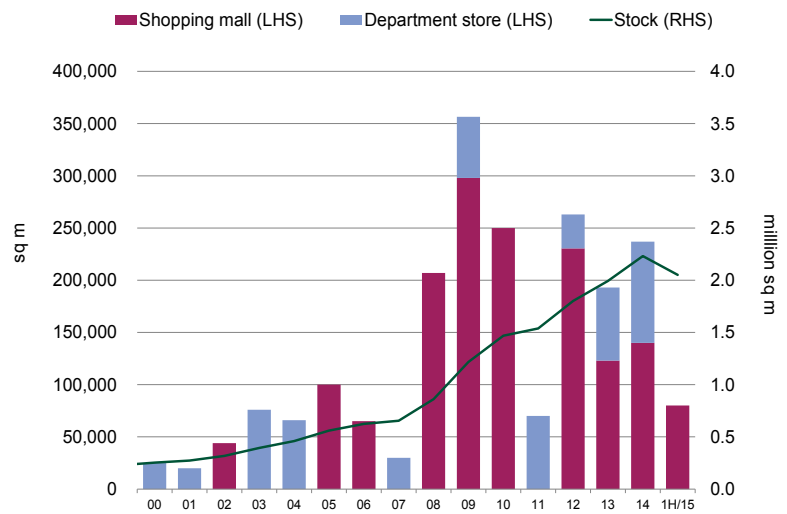
Nanjing’s retail sales reached RMB222.5 billion in the first half of 2015, up 9.6%, while E-commerce sales recorded a high growth rate of 74.7%. Over the same period, fixed-asset investment (FAI) grew 0.3% YoY to RMB282 billion, and urban residents’ disposable incomes per capita grew 8.0% YoY.

Slowing retail sales and fast-pace growth of online sales are shaking up the physical retail markets – department stores in particular. In order to suppress the competition, more operators have been going through a period of tenant adjustment.

Supply and stock

Only one shopping mall was launched onto the market in the first half of 2015, Uni Park (中海环宇城), adding a retail GFA of 80,000 sq m to the market. By the end of June, Nanjing retail stock reached over two million sq m, of which shopping

GRAPH 1 **Retail supply and stock¹, 2000-1H/2015**



Source: Savills Research
¹ Excludes low and low to mid end retail stock

malls accounted for approximately 67%.

Demand and occupancy rates

Demand continued to be primarily driven by F&B and fashion retailers in 1H/2015, but was supplemented by supermarkets. Landlords were most eager to introduce F&B retailers that drive footfall and support the overall retail environment. At the same time, due to a growing brand-awareness

amongst local consumers and sustained economic growth, fast fashion and luxury brands expressed increased interest in the local market. Major leasing transactions included:

- Both The Me (麦汀), a western restaurant brand, and Da Lat (大叻), a Vietnamese cuisine brand, committed to their first stores in Nanjing in IST (艾尚天地) in the Xinjiekou area with

TABLE 1 **Retail supply, 2H/2015E**

Project	Chinese name	Location	Retail type	Rents (RMB per sq m per day)
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
Wanguhui Life Plaza	万谷慧生活广场	East City	Shopping Mall	54,000
Qingjiang Suning Plaza	清江苏宁广场	Xinjiangdong	Shopping Mall	50,000
KIC Mall	金奥国际中心商场	Hexi CBD	Shopping Mall	43,500

Source: Savills Research

approximately 280 sq m and 300 sq m, respectively.

- Metoocate (蜜桃餐厅) opened its first restaurant in Shopping Fun (水平方) in Confucius Temple area, covering approximately 300 sq m.

- Zoo Coffee opened a new store of approximately 500 sq m in EUTE City Nanjing (楚翘城), a community-type retail property in South Railway Station area.

- Greenland Group opened its first Nanjing G-super, an imported goods supermarket brand, in Nanjing in Zifeng Mall (紫峰购物中心) in Hunan Road area, with an area of nearly 800 sq m. They also opened the first DIG in Nanjing in EUTE City, covering an area of 1,400 sq m.

- Trussardi, Armani Collezioni and Exception all opened new stores in Raydu Mall (同曦瑞都广场) in Shengtai Road-Jiangning area. Fast-fashion brand Urban Revivo also launched its first store in Nanjing in the project.

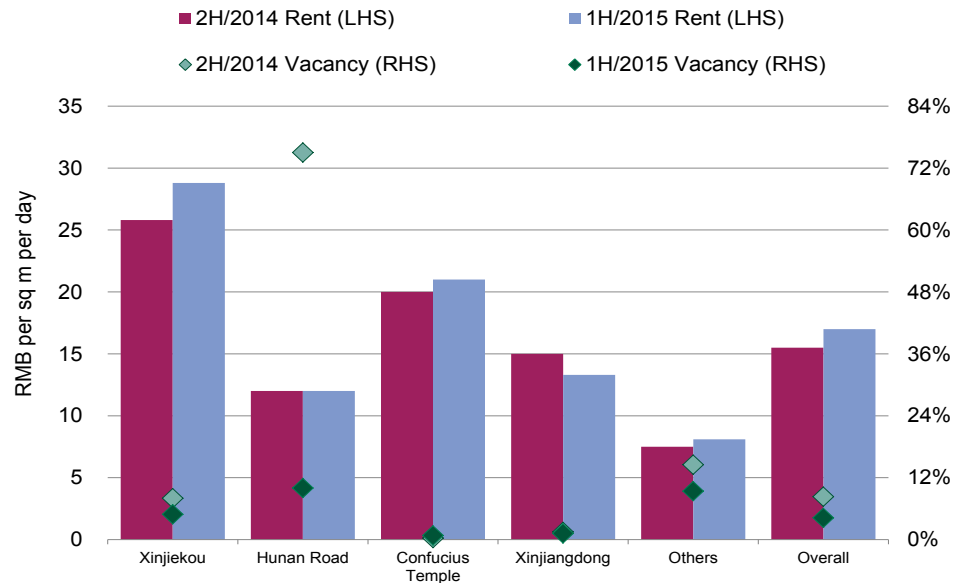
- New Look, a fast-fashion brand, opened its first store in Nanjing in Shopping Fun. Following this, the brand launched another two stores in One City (新一城) in Jiangbei and the newly completed Uni Park (中海环宇城) in Xinjiangdong area.

- H&M, Gap and Uniqlo all opened new stores in Uni Park, each with an area of between 1,000-1,800 sq m.

- Y-3, an affordable luxury fashion

GRAPH 2

Submarket rents and vacancy rates, 2H/2014 vs 1H/2015



Source: Savills Research

retailer, launched its first store in Nanjing in Deji Plaza Ph2 (德基广场二期) in Xinjiekou area.

City-wide shopping malls recorded vacancy rates of 4.2% by the end of June 2015, down 4.1 ppts HoH. Xinjiangdong area, the northern part of Hexi New Town, recorded vacancy rates as low as 1.2% in 1H/2015, as a result of limited supply and strong demand from retailers targeting consumers in this mature residential area.

Rents

Shopping mall rents recorded robust growth in 1H/2015, with first-floor rents increasing 5.9% HoH to RMB17 per sq m per day, up 10.5% YoY. 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 area is reported to have some of the highest daily footfalls of anywhere in Jiangsu Province, and the largest concentration of retail space of the four main retail districts in Nanjing, with a total mid- to high-end retail GFA of 689,700 sq m. As a result, average first-floor rents in this area commanded the highest in the city, reaching RMB28.8 per sq m per day by the end of June 2015.

Hexi New Town, a key part of the city's future master plan, has been experiencing rapid development over the last few years. Although Xinjiangdong area in Hexi New Town has been developed into a mature residential area, the limited supply

and the immature retail environment resulted in relatively low rents in this area, with average first-floor rents at just RMB13.3 per sq m per day by the end of June 2015. However, in Hexi CBD, the retail market remains in its infancy as the majority of consumption is focused on F&B rather than apparel and digital products accessories. As a result, this area currently has no mid- to

high-end shopping malls, though there will be a large volume of supply during the next three years.

Market outlook

Five shopping malls, totalling 353,500 sq m, are scheduled to enter Nanjing's retail market in the second half of 2015, enlarging overall stock by 17.2%.

City-wide vacancy rates are expected to rise moderately in 2H/2015 as a result of the influx of supply scheduled for launch; close to 73% of the supply will be located in non-prime and decentralised areas. Rents are expected to grow slowly as most landlords are expected to moderate expectations given the increasingly competitive environment. ■

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