

Briefing Retail sector

November 2015



Image: Nanjing, Hexi New Town

SUMMARY

Despite the influx of shopping mall supply in Q3/2015, Nanjing's mid-to high-end retail market saw vacancy rates remain stable as a result of the robust demand, while rents increased 1.6%.

- Five mid- to high-end shopping malls were launched in Q3/2015, adding 353,500 sq m of retail space to the market and bringing total stock to over 2.4 million sq m.
- City-wide shopping mall vacancy rates rose 0.1 of a percentage point (ppt) quarter-on-quarter (QoQ) to 4.3% in Q3/2015.
- Mid- to high-end shopping mall first-floor rents rose 1.6% QoQ to RMB15.1 per sq m per day, up 12.2% year-on-year (YoY).
- No new supply is scheduled to enter the market in Q4/2015, leaving retail stock standing at 2.4 million sq m.

“New projects in mature residential areas, such as Xinjiangdong and East City-Maigaoqiao districts, are expected to continue to witness healthy absorption rates in the short term as overspill of demand in these areas is satisfied.” James Macdonald, Head of Research, China

➔ Mid-range to high-end retail market

Economic overview

Nanjing's retail sales reached RMB334.1 billion in the third quarter of 2015, up 9.9%, maintaining a steady growth. Over the same period, fixed-asset investment (FAI) grew 0.3% YoY to RMB410.7 billion, and urban residents' disposable incomes per capita grew 8.3% YoY.

Supply and stock

Five mid-end shopping malls were launched in the third quarter of 2015 – Jiangning G-city (江宁金鹰天地), KIC Mall (金奥国际中心广场), Jinmao Place (金茂汇), Wanguhui Life Plaza (万谷慧生活广场) and Qingjiang Suning Plaza (清江苏宁广场) – adding a total retail GFA of 353,500 sq m to the market. By the end of September, Nanjing retail stock reached over 2.4 million sq m, of which shopping malls accounted for approximately 72%.

Demand and occupancy rates

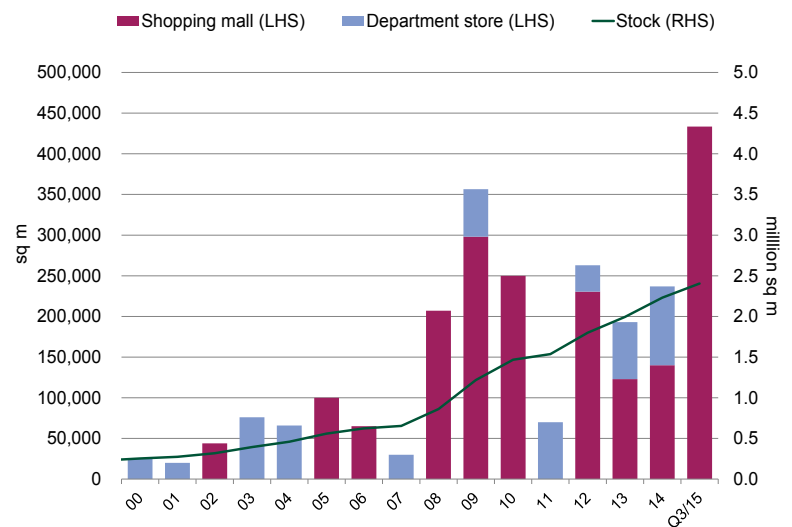
Demand in the past three months was primarily driven by F&B retailers, as well as cosmetics and lifestyle retailers. Landlords have a growing awareness about introducing lifestyle retailers to increase footfall into their projects. Major leasing transactions included the following:

- Tsui Wah, (翠华茶餐厅) a Cantonese restaurant brand, and H+, a lifestyle brand, committed their first stores in Nanjing in the newly completed Jinmao Place in Hunan Road area – 500 sq m and 700 sq m respectively. Additionally, UME, an international cinema brand, also opened a new store in this project.

- Victoria's Secret launched its first cosmetic store of approximately 110 sq m in Deji Plaza Ph1 (德基广场一期), while cosmetics brands Fresh and CPB committed to their first stores in Nanjing in Deji Plaza Ph2 – 160 sq m and 160 sq m respectively.

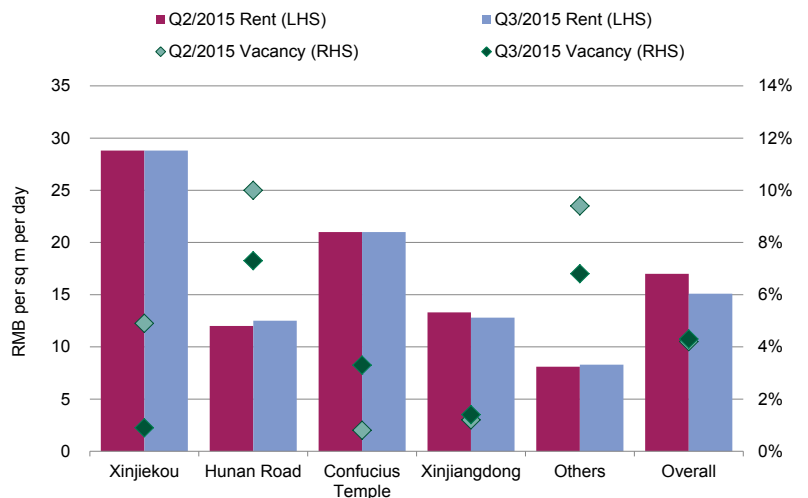
- YSL, a luxury cosmetics brand, opened its first store in Nanjing

GRAPH 1
Retail supply and stock¹, 2000-Q3/2015



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

GRAPH 2
Submarket rents and vacancy rates, Q2/2015 vs Q3/2015



Source: Savills Research

in Central Emporium (中央商场) in Xinjiekou area. Following this, the brand launched another 80 sq m store in Golden Eagle International Building A.

Despite the influx of supply launched in the past three months, city-wide shopping malls recorded vacancy rates rising only 0.1 of a ppt QoQ to 4.3% by the end of September 2015 due to robust demand. Net take-up in Q3/2015 tripled that of Q2/2015. Although there was a new mid-end shopping mall – Qingjiang Suning Plaza entered Xinjiangdong area,

recording low vacancy rates of 1.4% in Q3/2015, as a result of limited supply and strong demand from retailers targeting consumers in this mature residential area.

Rents

Owing to the robust demand and the ensuing quick absorption of the market, shopping mall rents recorded growth in Q3/2015, with first-floor rents rising 1.6% QoQ to RMB15.1 per sq m per day, up 12.2% 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 footfall of anywhere in Jiangsu Province, with the largest concentration of retail space of the four main retail districts in Nanjing – total mid- to high-end retail GFA has reached nearly 690,000 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 September 2015.

Although Xinjiangdong area, the northern part of Hexi New Town, has developed into a mature residential area, the limited supply and immature retail environment resulted in relatively low rents in this area, with average first-floor rents at just RMB12.8 per sq m per day by the

end of September 2015. In Hexi CBD, the retail market remains in its infancy as the majority of consumption is focused on F&B rather than fashion and accessories. As a result, this area currently has only one mid- to high-end shopping mall, KIC Mall, though a large volume of supply is expected during the next three years.

Market outlook

There is no new supply scheduled to enter Nanjing's retail market in the last quarter of 2015, leaving total stock at approximately 2.4 million sq m. As a result, city-wide vacancy rates are expected to fall in Q4/2015, while rents are expected to increase.

Despite the huge volume of supply scheduled to enter the market in the following two to three years, annual supply is not expected to fluctuate YoY, as most landlords might postpone their projects

to avoid the risk of potential oversupply. Meanwhile, the new projects anticipated to be launched in a number of emerging retail areas that have been developed into mature residential areas, such as Xinjiangdong and East City-Maigaoqiao districts, are expected to see shorter periods of absorption in the short term. ■

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