

Briefing Retail sector

January 2016



Image: Nanjing, KIC Mall

SUMMARY

Nanjing's mid- to high-end retail market saw quarterly increases in both occupancy rates and rents due to ongoing demand and an absence of new supply in the last quarter.

- No new supply was launched in Q4/2015, leaving mid- to high-end total retail stock standing at approximately 2.5 million sq m.
- Mid- to high-end shopping mall first-floor rents rose 0.6% QoQ to RMB15.3 per sq m per day, up 8.2% year-on-year (YoY).
- City-wide shopping mall vacancy rates fell 0.4 of a percentage point (ppt) quarter-on-quarter (QoQ) to 3.9% in Q4/2015.
- Four new mid- to high-end retail projects are scheduled to enter the market in 2016, bringing retail stock to 2.8 million sq m, rising 12.4% YoY.

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 A slowing economic growth rate and the rapid increase of online sales are shaking up the physical retail markets, with a number of retailers slowing expansion plans."
 James Macdonald, Savills Research

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

Economic overview

Nanjing's retail sales reached RMB459.0 billion in the last quarter of 2015, up 10.2% YoY, while e-commerce sales recorded a high growth rate of 30%. Over the same period, GDP per capita grew 2.6% YoY to US\$18,000.

Supply and stock

No new supply was launched in the last quarter of 2015, leaving Nanjing retail stock standing at nearly 2.5 million sq m, of which shopping malls accounted for approximately 72%.

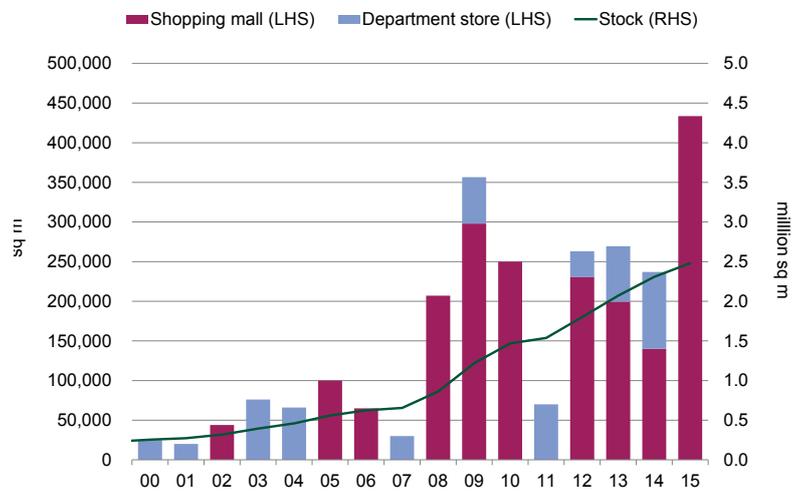
Demand and occupancy rates

Demand in the last three months continued to be driven primarily by F&B retailers and supplemented by fashion retailers and collection stores. Landlords have a growing awareness of collection stores which consist of different retailer types/brands aimed at attracting young, fashion-aware consumers. Major leasing transactions included the following:

- Paul Smith, a luxury fashion brand, and APM MONACO, an affordable luxury accessories brand, opened their first stores in Nanjing in Deji Plaza Phase 2 with 120 sq m and 50 sq m respectively. The Deji Group opened its first collection store, which targets mid- to high-end consumers, and brought in a number of new brands to Nanjing. The store is in Deji Plaza Phase 1 and occupies approximately 7,000 sq m of space spread over four floors.

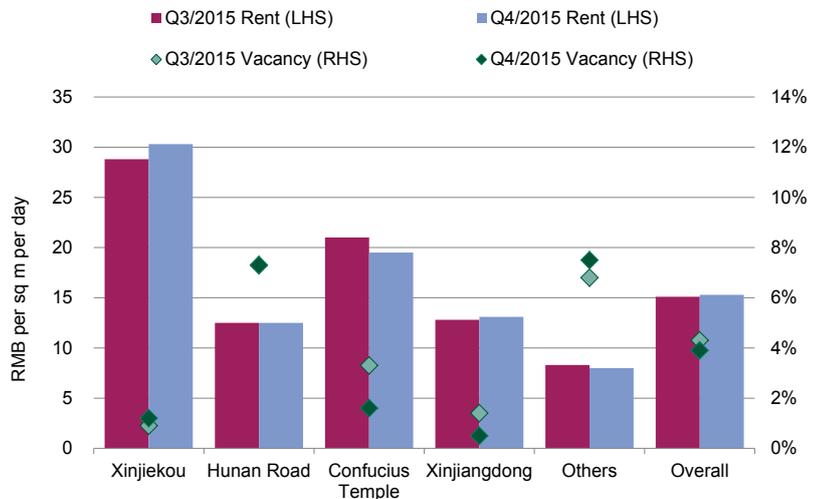
- Just Cavalli, an affordable luxury fashion brand, launched its a new store of approximately 300 sq m in KIC Mall (金奥国际中心广场) in the Hexi CBD.

GRAPH 1 **Retail supply and stock¹, 2000-Q4/2015**



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

GRAPH 2 **Submarket rents and vacancy rates, Q3/2015 vs Q4/2015**



Source: Savills Research

- Both Costa and Burger King opened stores in the newly-completed Media Square (荔枝广场), a community-focused retail property in the Hunan Road area.

- Starbucks committed to a new store in Amicizia in Xinjiekou.

Despite the influx of supply launched in the past twelve months, especially in the first nine months of 2015, city-wide shopping malls

recorded vacancy rates falling 4.4 of a ppt YoY (0.4

of a ppt QoQ) to 3.9% by the end of December 2015, predominantly due to ongoing demand. Net take-up in 2015 totalled 257,000 sq m, nearly double that of 2014.

Rents

Shopping mall rents continued to record growth in the last quarter, with first-floor rents rising 0.6%

QoQ to RMB15.3 per sq m per day, up 8.2% YoY. This was due to ongoing demand combined with no new supply launched in the last three months. Currently, more retail projects are entering non-prime and decentralised areas and competing for both retailers and customers. However, prime areas remain the first choice for retailers entering the city's market, resulting in these areas achieving the highest rents in the city.

The Xinjiekou area has the largest concentration of retail space of the four main retail districts in Nanjing, with total mid- to high-end retail GFA reaching nearly 690,000 sq m. This, combined with limited future supply means average first-floor rents in this area were the highest in the city, rising 4.7% QoQ to RMB30.3 per sq m per day by the end of December 2015.

The Confucius Temple retail district attracts a large number of domestic

visitors. Unlike the diversified retail market in Xinjiekou, malls in this area target young and white-collar consumers with international fast-fashion and popular F&B brands. Benefitting from the mature retail environment, the area recorded relatively high rents, reaching RMB19.5 per sq m per day by the end of December 2015, despite the total amount of mid- to high-end retail space estimated at just 190,000 sq m,

Although the Xinjiangdong area, in the northern part of Hexi New Town, has developed into a mature residential area, the limited supply and immature retail environment has resulted in relatively low rents. Average first-floor rents are RMB13.1 per sq m per day, which is an increase of 2.6 ppts QoQ by the end of December 2015.

In the 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 only has one mid- to high-end shopping mall, the KIC Mall. However, a large volume of supply is expected over the next three years.

Market outlook

There are four new mid- to high-end projects scheduled to enter the retail market in 2016, bringing total stock to approximately 2.8 million sq m, up 12.4% YoY. The new projects will be launched in a number of emerging retail areas.

Despite the huge volume of supply scheduled to enter the market in the next two to three years, annual supply is not expected to fluctuate YoY, due to landlords potentially postponing their projects to avoid the risk of oversupplying the market. The majority of retailers are planning to slow their expansion pace in Nanjing. ■

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