

Briefing Retail sector

April 2016



Image: Apple Flagship Store, IST

SUMMARY

Despite weaker demand in Q1/2016, Nanjing's mid- to high-end retail market saw mild increases in both occupancy rates and rents due to no new supply in the first quarter.

- No new supply was launched in Q1/2016, leaving mid- to high-end total retail stock standing at approximately 2,481,000 sq m.
- City-wide shopping mall vacancy rates fell 0.3 of a percentage point (ppt) quarter-on-quarter (QoQ) to 3.6% in Q1/2016.
- Mid- to high-end shopping mall first-floor rents rose 1.4% QoQ to RMB15.6 per sq m per day, up 10.0% year-on-year (YoY).
- One new retail project is scheduled to enter the market in Q2/2016, bringing retail stock to 2,541,000 sq m.

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 "Potential tenants for projects planned by high profile developers in the Hexi CBD area are expected to delay entering the market, preferring to wait until it matures." James Macdonald, Savills Rsearch

→ Mid-range to high-end retail market

Economic overview

Retail sales maintained a steady growth in 2015, totalling RMB459.0 billion, up 10.2% YoY. Over the same period, fixed-asset investment (FAI) grew 0.4% YoY to RMB548.4 billion, while urban residents' disposable income per capita grew 8.3% YoY.

Supply and stock

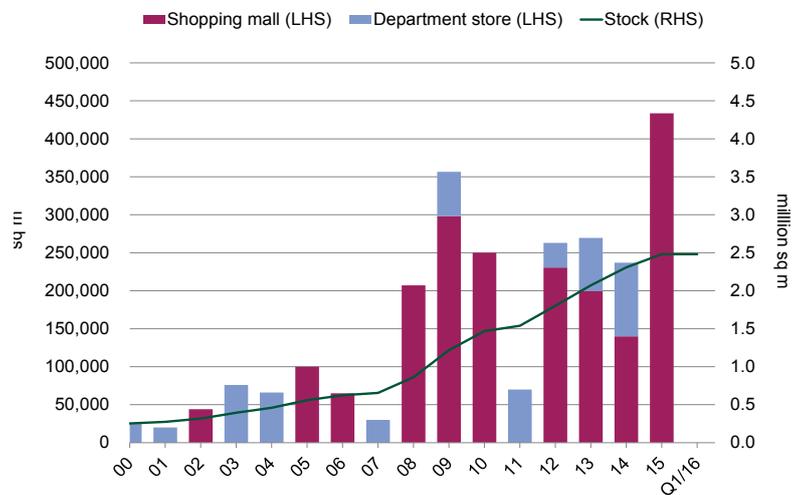
No new supply was launched in the first quarter of 2016, leaving retail stock standing at nearly 2,481,000 sq m, of which shopping malls accounted for approximately 72%.

Retailers

Demand in the last three months was driven primarily by fashion retailers and supplemented by child-related stores. Landlords have a growing awareness of child-related stores aimed at attracting families and supporting the overall retail environment, with five out of the six projects that opened last year allocating a considerable space to related tenants. Additionally, many landlords are eager to introducing new brands to attract consumers. Major leasing transactions included the following:

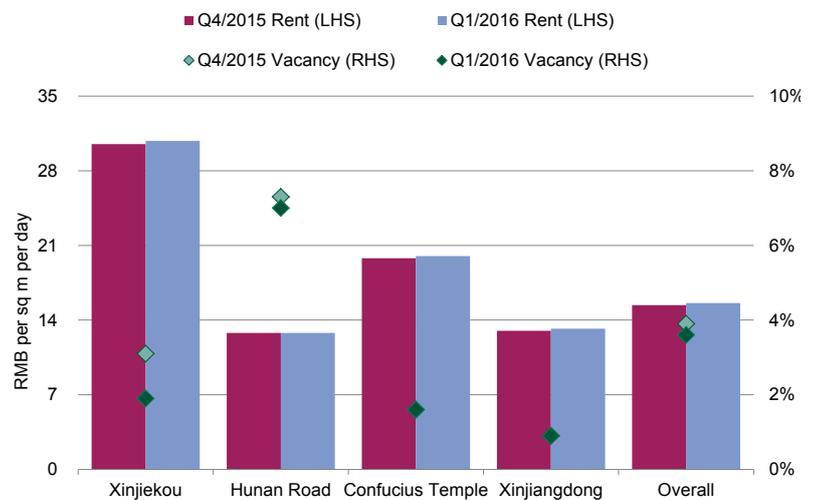
- Apple launched its Jiangsu flagship store in IST, occupying approximately 3,000 sq m spread over three floors.
- Village by GAROSU, a Korean fast-fashion store, opened its first store (2,000 sq m) in Nanjing in AMICIZIA.
- Brookstone, a men's only accessories brand, launched its first Nanjing store of approximately 800 sq m in Aqua City in the Confucius Temple area.
- Yuyuto (悠游堂), a children's retailer, expanded its store in Wonder City (虹悦城) in the Xinjiangdong area by 500 sq m to a total of approximately 1,100 sq m.

GRAPH 1
Retail supply and stock¹, 2000-Q1/2016



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

GRAPH 2
Submarket rents and vacancy rates, Q4/2015 vs Q1/2016



Source: Savills Research

• Zonethree, a women's fashion brand and part of the Time Zone Group, launched its first store in China in Wonder City (虹悦城) with approximately 150 sq m.

As a result of the slowing economic growth rate, a number of retailers, especially some F&B chain brands, have slowed their expansion rate in the city compared with that of the last two years. Net take-up in Q1/2016 totalled 3,260 sq m, close to half of that seen in Q4/2015.

Rents and vacancy rates

Despite relatively weaker market demand, city-wide shopping malls recorded vacancy rates falling 2.6 ppts YoY (0.3 of a ppt QoQ) to 3.6% due to no new supply launched this quarter. Over the same period, shopping mall first-floor rents have seen mild increases of 1.4% QoQ to RMB15.6 per sq m per day. 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 the city, 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 1.4% QoQ to RMB30.8 per sq m per day.

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 RMB20.0 per sq m per day by the end of March 2016. Despite the total amount of mid- to high-end retail space estimated at just 190,000 sq m, several projects hosting a total

retail space of more than 120,000 sq m are expected to launch within the next two years.

Although the Xinjiangdong area, in the northern part of Hexi New Town, has developed into a mature residential area, the limited supply and an immature retail environment has resulted in relatively low rents but high occupancy rates. Average first-floor rents are RMB13.2 per sq m per day, which is an increase of 1.4% QoQ. In the meantime, vacancy rates in this retail area settled as low as 0.9%.

In the Hexi CBD area, 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 to be launched over the next three years.

Market outlook

One new shopping mall, Binrun International plaza (滨润国际广场), is scheduled to enter the retail market

in Q2/2016, adding 60,000 sq m to the market. The new project will be launched in the Hexi CBD area.

Binrun International plaza, a regional mall, will target surrounding residents and business people working in the area. Many future retail projects developed by high profile developers, including Sun Hung Kai, Deji and Walsin, are expected to enter the Hexi CBD area over the next two to three years. In consideration of these developers' operating experience, and the retail environment which is set to mature with the completion of more projects, many relatively well-known brands are willing to wait for the later scheduled projects rather than entering the Hexi CBD area in the short term.

Given that all the other new projects expected to enter the market in the second half of 2016 are also distributed in the emerging areas, the prime retail areas will see both the occupancy rates and the rents trending upwards within the next three quarters. ■

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