

Briefing Retail sector

November 2016



Image: Hamleys flagship store in Xinjiekou

SUMMARY

The launch of two projects in an emerging retail area saw increased vacancy rates and rents in non-prime areas.

- Two new projects were launched in Q3/2016, increasing mid-range to high-end total retail stock to approximately 2,746,500 sq m.
- City-wide shopping mall vacancy rates rose 2.8 percentage points (ppts) quarter-on-quarter (QoQ) to 6.3% in Q3/2016.
- Mid-range to high-end shopping mall first-floor rents rose 0.3% QoQ to RMB15.2 per sq m per day, up 5.8% year-on-year (YoY).
- Four new mid-range retail projects are scheduled to enter the market in Q4/2016, contributing a total retail space of 238,000 sq m.

“The ever-increasing popularity of e-commerce, and evolving consumer habits, has seen developers reducing the proportion of fashion stores in projects and introducing more experiential brands in an attempt to maintain footfall.” James Macdonald, Savills Research

➔ Mid-range to high-end retail market

Economic overview

Retail sales maintained steady growth in Q3/2016, totalling RMB370.4 billion, up 10.9% YoY. Over the same period, fixed-asset investment (FAI) grew 1.2% YoY to RMB396.4 billion, while urban residents' disposable income per capita grew 8.4% YoY.

Supply and stock

Two new shopping malls were launched in Q3/2016, adding approximately 290,000 sq m of total retail space to the market. Kingmo (景枫广场) and 21 Century Sunny Plaza (二十世纪太阳城), both situated in the Baijiahu area in the Jiangning district, are positioned as mid-scale regional retail projects targeting residents and white-collar workers in the surrounding area. This resulted in retail stock totalling 2,746,500 sq m, of which shopping malls accounted for approximately 76%.

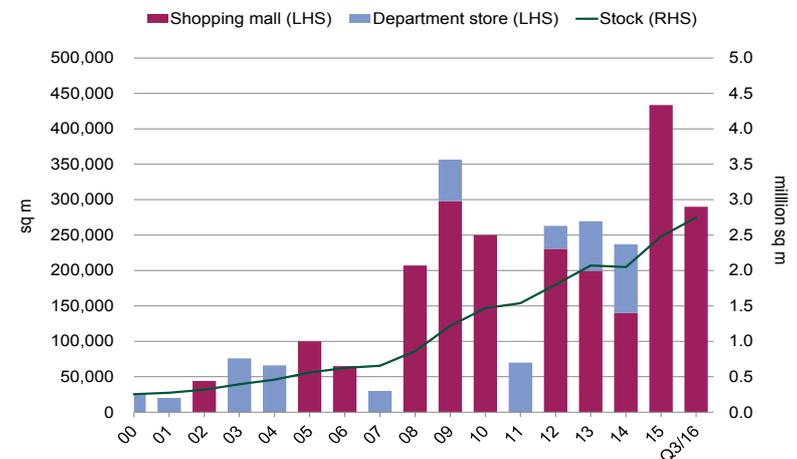
An additional three projects, originally supposed to launch this quarter, are expected to be pushed back to the end of 2016. Both Changfa Plaza (常发广场) in the North City area and Binrun International Square (缤润汇) in the Hexi CBD are being postponed to ensure the projects open with high occupancy rates, while Maoye Plaza (茂业天地) is postponed due to a delay in construction.

Retailers

Demand in the third quarter was driven primarily by F&B and experiential brands, and supplemented by fashion retailers. Landlords are willing to introduce more experiential brands, such as catering and entertainment, in an attempt to maintain footfall and support the overall retail environment. Major leasing transactions included the following:

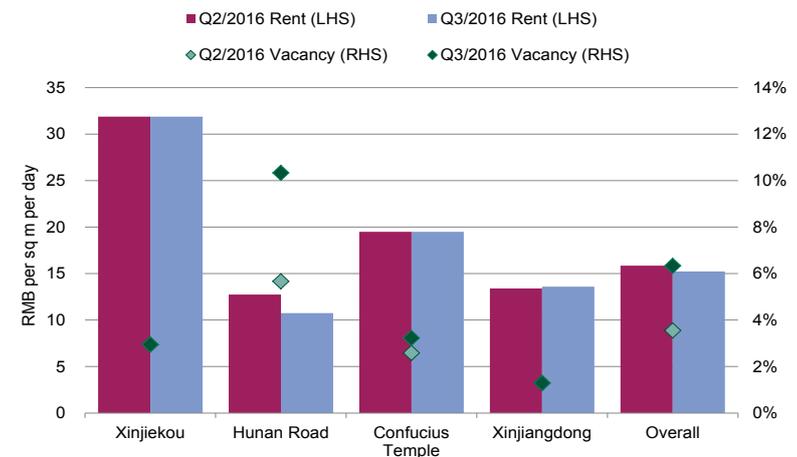
- Hamleys, a British toy brand and retailer, was purchased by Chinese footwear company C. Banner International Holdings (千百度) in 2015 and opened its first Chinese store in the city. This store spans four floors, approximately 6,670 sq m, in Nanjing's House of Fraser (南京东方弗莱德), which has been reconstructed from the original Orient Department Store (东方商城) and is expected to open in Q4/2016.

GRAPH 1 Retail supply and stock¹, 2000-Q3/2016



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

GRAPH 2 Submarket rents and vacancy rates, Q2/2016 vs Q3/2016



Source: Savills Research

- Brookstone also opened a new store in House of Fraser with a GFA of approximately 800 sq m.

- Line Friends Café and Store opened its first store in Nanjing, the second store in China, with approximately 800 sq m in Catherine Park (环亚凯瑟琳广场), located in the Hunan Road area.

- Abercrombie & Fitch, an American fast-fashion brand, launched its first store in the city in Deji Plaza Phase 2, with approximately 500 sq m of space.

- Nitori, a Japanese furniture and home accessories retailer, launched

its first store in the city in 21 Century Sunny Plaza, occupying approximately 2,500 sq m of space spread over two floors.

- A magic theme park will also be opening in 21 Century Sunny Plaza, occupying over 20,000 sq m of space.

Rents and vacancy rates

City-wide prime shopping mall vacancy rates increased 2.8 ppts in Q3/2016, to 6.3%. Prime-area vacancy rates increased 1.2 ppts QoQ to 4.9%, while non-prime area vacancy rates increased 3.5 ppts QoQ to 6.9%.

Over the same period, shopping mall first-floor rents have seen a mild increase of 0.3% QoQ to RMB15.2 per sq m per day. In prime retail areas, rents decreased 3.8% QoQ to an average of RMB23.5 per sq m per day, and in non-prime retail area rents increased 3.1% QoQ to an average of RMB10.5 per sq m per day.

The Xinjiekou area has the largest concentration of retail space out of the four main retail districts in the city, with total mid-range 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, standing at RMB31.9 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, white-collar consumers with international fast-fashion and popular F&B brands. Benefitting from a mature retail environment, the area recorded relatively high rents, remaining at RMB19.5 per sq m per day by the end of June 2016. The vacancy rates recorded a mild increase of 0.6 of a ppt QoQ to 3.2%,

The Hunan Road area has seen vacancy rates increasing 4.6 ppts QoQ from 5.7% to 10.3%, predominantly due to Jinmao Place undergoing a tenant adjustment. During the same period, average first-floor rents have witnessed significant decreases of 14.3% QoQ to RMB10.8 per sq m per day.

The Xinjiangdong area, in the northern part of Hexi New Town, has developed into a mature residential area. However, as a non-prime area, most projects here adopted a conservative rental strategy in order to remain attractive to quality brands. Combined with strong demand from residents, the Xinjiangdong area has remained stable at relatively low rents and high occupancy rates. Average first-floor rents are RMB13.6 per sq m per day, an increase of 1.3% QoQ. Vacancy rates in this retail area are as low as 1.3%.

In the Hexi CBD area, the retail market remains in its infancy as there is currently only one mid-range to high-end shopping mall, the KIC Mall. However, a large volume of supply developed by high profile developers is scheduled to be launched over the next three years, which is anticipated to upgrade the quality of the retail environment and attract more well-known brands and diversified retail formats to this area.

Market outlook

Four new mid-range shopping malls are scheduled to launch in Q4/2016, adding approximately 238,000 sq m to the retail market. Three of these new projects, each distributed in the non-prime areas of the Hexi CBD, Xinjiangdong and North City, are positioned as regional retail projects, targeting surrounding residents and workers. The fourth shopping mall to launch, Maoye plaza (茂业天地), is located in a prime retail area – Confucius Temple – and is targeting young consumers and domestic tourists.

In addition to this, Nanjing's House of Fraser (南京东方弗莱德), a British department store brand acquired by the Sanpower Group (三胞集团), has been reconstructed from the original 25,000 sq m-Orient Department Store (东方商城) in the Xinjiekou area and is scheduled to launch in December 2016.

Given that a considerable volume of supply is expected to enter the market in Q4/2016, both prime and non-prime retail areas are expected to see vacancy rates trending upwards with rents under increasing pressure, due to intense competition amongst retailers. ■

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