

Briefing Retail sector

May 2017



Image: Inreach, Jiangbei New Area

SUMMARY

No supply, combined with stable demand, caused vacancy rates to decrease and rents to increase.

- No new supply launched in Q1/2017, keeping mid-range to high-end total retail stock standing at approximately 2.88 million sq m.
- City-wide shopping mall vacancy rates fell by 1.2 percentage points (ppts) quarter-on-quarter (QoQ) to 6.2% in Q1/2017.

- Mid-range to high-end shopping mall first-floor rents rose 0.7% QoQ to RMB15.4 per sq m per day, up 6.0% year-on-year (YoY).
- No new supply is scheduled to enter the market in Q2/2017.

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 “A growing number of retailers are shifting to regional retail areas, such as Xinjiangdong, Jiangbei New Area and East City districts, where they can attain better space and rents.” James Macdonald, Savills Rsearch

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

Economic overview

City-wide retail sales maintained steady growth in Q1/2017, exceeding RMB138 billion by the end of March 2017, up 10.8% YoY. Over the same period, fixed-asset investment (FAI) grew 10.3% YoY to RMB131 billion. Additionally, the city's urban residents' disposable income per capita grew 8.7% YoY.

Supply and stock

No new supply launched in the past quarter, leaving the Nanjing retail stock standing at nearly 2.88 million sq m, of which shopping malls accounted for approximately 77%.

Retailers

Cosmetics, bookstores, fashion and F&B retailers drove demand in the first quarter of 2017. Retailers are increasingly seeking store expansions in emerging retail areas, such as Xinjiangdong, Jiangbei New Area and East City districts, where they can obtain better spaces at more favourable rental terms. Major leasing transactions in the past quarter included the following:

- Queen Sophie (酥妃皇后), a Cantonese F&B brand, opened its first store in Nanjing in Hexi Wanda Plaza (河西万达广场), located in the Xinjiangdong area, taking up 55 sq m.

- YSL opened a new cosmetics store in Deji Plaza Ph 1, totaling approximately 50 sq m.

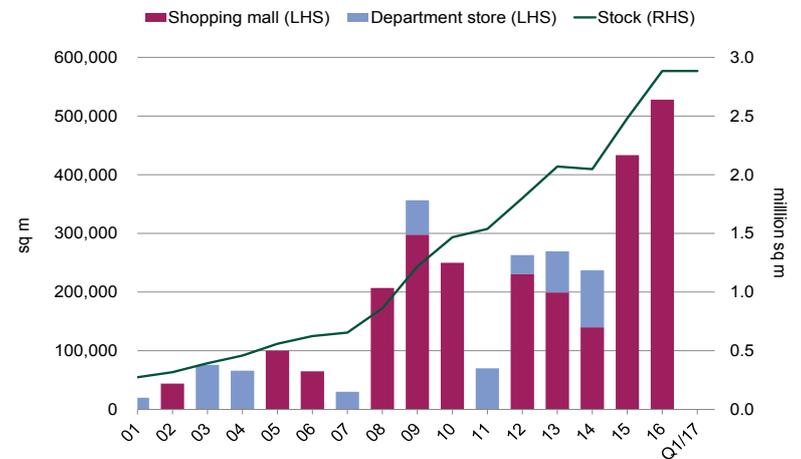
- Popular Bookmall (大众书局) opened its new store in China Merchants Garden City (招商花园城) in the East City area with a GFA of approximately 360 sq m.

- Boy London committed in Inreach (印象汇), located in the Jiangbei New Area, leasing approximately 150 sq m.

Rents and vacancy rates

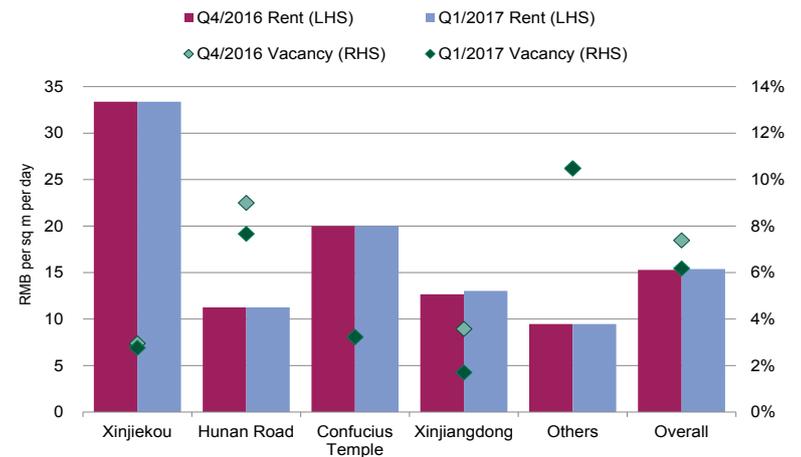
City-wide prime shopping mall vacancy rates decreased 1.2 ppts in Q1/2017, to 6.2%. Prime-area vacancy rates decreased 0.4 of a ppt QoQ to 4.2%, while non-prime area vacancy rates decreased 1.6 ppts QoQ to 6.9%.

GRAPH 1 **Retail supply and stock¹, 2001-Q1/2017**



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

GRAPH 2 **Submarket rents and vacancy rates, Q4/2016 vs Q1/2017**



Source: Savills Research

Over the same period, shopping mall first-floor rents saw a minor increase of 0.7% QoQ to RMB15.4 per sq m per day. In prime retail areas, rents remained stable at an average of RMB24.5 per sq m per day, while in non-prime retail areas, rents increased by 1.1% 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 city's four main retail districts, with mid-range to high-end retail GFA totalling approximately 690,000 sq m. This, combined with limited future

supply, saw the area maintain the city's highest average first-floor rental level, at RMB33.4 per sq m per day, while vacancy rates fell 0.2 of a ppt QoQ to 2.8%.

The Confucius Temple retail district continues to attract a large number of domestic visitors. Unlike the diversified retail market in Xinjiekou, malls in this area target young, white-collar consumers with a taste for international fashion and popular F&B brands. Benefitting from a mature retail environment, the area maintained relatively high stable rents at RMB20.0 per sq m per day

by the end of March 2017, while the vacancy rate remained at 3.2%.

The Hunan Road area saw vacancy rates decrease by 1.3 ppts QoQ from 9.0% to 7.7%, predominantly due to Jinmao Place undergoing a tenant adjustment. During the same period, average first-floor rents remained stable at RMB11.3 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 in this location have 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, with relatively low rents and high occupancy rates. Average first-floor rents increased by 2.6% QoQ to RMB13.0 per sq m per day, while vacancy rates stood at 1.7%.

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 launch 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

No new projects are scheduled to launch in the following quarter, leaving retail stock standing at approximately 2.88 million sq m. This, combined with stable market demand, is expected to improve absorption rates of the latest-launch projects in both prime and non-prime retail areas. City-wide occupancy rates and rents are expected to improve as a result. ■

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