

Briefing Retail sector

November 2017



Image: Golden Eagle G-city, Hexi

SUMMARY

The E-park launch opened up mid- to high-end retail scene in South Railway Station area. Citywide vacancy rates slightly increased with rents slightly decreased.

- One new supply launched in Q3/2017, increasing mid- to high-end total retail stock to approximately 2.81 million sq m.

- City-wide shopping mall vacancy rates rose 1.4 percentage points (ppts) quarter-on-quarter (QoQ) to 7.6% in Q3/2017.

- First-floor average rents of mid- to high-end malls decreased 4.5% QoQ to RMB14.7 per sq m per day, down 3.3% year-on-year (YoY).

- Two new projects are scheduled to enter the market in Q4/2017, contributing a total retail space of 338,000 sq m.

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“Prime retail area will see stabilisation in vacancy rate and rent in foreseeable future. Meanwhile brand new format of shopping malls are expected to offer a different shopping experience to consumers in non-prime retail areas. New projects mainly locate in Hexi area which will expand the radiation loop.”

James Macdonald, Savills Rsearch

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→ Economic overview

City-wide retail sales maintained steady growth in Q3/2017, exceeding RMB409 billion by the end of September 2017, up 10.5% YoY. Over the same period, fixed-asset investment (FAI) grew 15.4% YoY to RMB457 billion. Additionally, the city's urban residents' disposable income per capita grew 9.2% YoY.

Supply and stock

A new shopping mall, E-park (雨花客厅), opened its doors in Q3/2017. Situated in the Nanjing South Railway area, the 80,000 sq m mall increased city-wide retail stock to 2.81 million sq m, and shopping malls proportion versus department store to 76.7%.

Demands

Demand in Q3/2017 was primarily driven by F&B and experiential retailers, 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 activities included the following:

- Sam's Club (山姆会员店) and Thai Odyssey (泰合玺) opened their first store in E-park, leasing 15,000 sq m and 383 sq m respectively.

- Yoho (有货) opened its first China store in IST (艾尚天地), leasing 3,005 sq m spanning two floors. Also, Yoho leased 2,000 sq m on B1 of IST which will open next year.

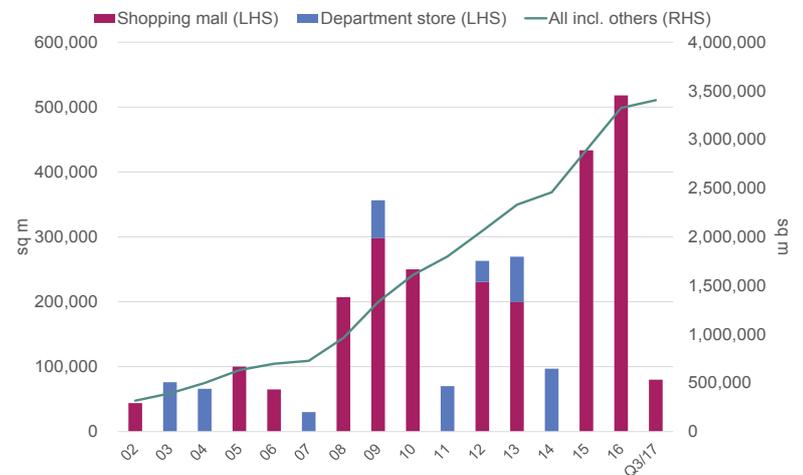
- ICICLE (之禾) – a local designer brand – opened its first flagship store in China, leasing 850 sq m in Deji Plaza.

Vacancy Rates and Rents

City-wide prime shopping mall vacancy rates decreased 1.4 ppts to 7.6% in Q3/2017. Prime-area vacancy rates increased 1.4 ppts QoQ to 4.3%, while non-prime area vacancy rates increased 1.3 ppts QoQ to 9.1%.

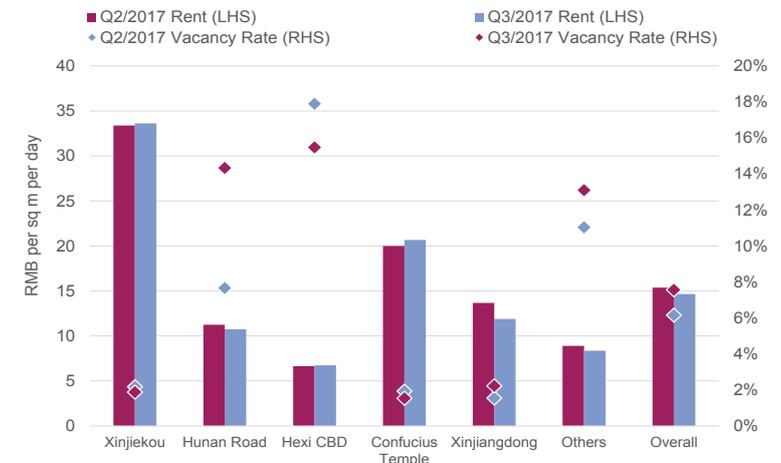
Over the same period, shopping mall first-floor rents saw a minor decrease

GRAPH 1 Prime Retail Supply and Stock, 2001-Q3/2017



Source: Savills Research

GRAPH 2 Sub-Market Rents and Vacancy Rates, Q2/2017 vs Q3/2017



Source: Savills Research

of 4.5% QoQ to RMB14.7 per sq m per day. In prime retail areas, rents remained stable at an average of RMB24.5 per sq m per day. Meanwhile in non-prime retail areas, rents increased by 4.8% QoQ to an average of RMB10.5 per sq m per day.

Xinjiekou

Xinjiekou leads Nanjing's retail in terms of shopping facility, commodity diversity, service provided and price range. Vacancy rates fell by 0.3 of a ppt QoQ to 1.9%. These positions combined

with limited future supply, helped the area to maintain the city's highest first-floor average rents at RMB33.6 per sq m per day.

Hunan Road

The Hunan Road area has seen vacancy rates significantly increasing 6.6 ppts QoQ from 7.7% to 14.3%, predominantly due to the adjustment of tenant mix in Jinmao Plaza as former retailers performed poorly. First-floor average rents have witnessed a decrease of 4.4% QoQ to RMB10.8 per sq m per day during the quarter.

Confucius Temple

The Confucius Temple retail district is characterised by significant footfall and huge volume of shopping malls. Unlike the diversified retail market in Xinjiekou, malls in this area target visitors and local residents with a taste for international fast-fashion and popular F&B brands. Benefitting from a mature retail and tourism environment, the area recorded relatively high rents, remaining at RMB20.7 per sq m per day in Q3/2017. The vacancy rates remained flat, decreased by 0.4 of a ppt QoQ to 1.5%.

Xinjiangdong

Xinjiangdong, as the first phase of Hexi development planning, has developed into a relatively mature residential area. However, existing projects here are dispersed and have adopted a conservative rental strategy in order to remain attractive to quality brands. Combined with a relatively immature retail atmosphere, the Xinjiangdong area has remained stable with

comparatively low rents and high occupancy rates. First-floor average rents are RMB11.9 per sq m per day, decreased 13.1% QoQ. Vacancy rates were as low as 2.2%.

Hexi CBD

The Hexi CBD area has become a mature residential area over the years. However currently there is only one mid- to high-end shopping mall, the KIC Mall. Hexi CBD area rents remained stable, at relatively low rents and high vacancy rates, which are RMB 6.8 per sq m per day and 15.5%.

A large volume of new supply, built by high profile developers, is scheduled to be launched in the next two years. These new retail projects are expected to upgrade the quality of the local retail environment by attracting well-known brands and offering diversified retail formats. The new supplies may increase average vacancy rates of Hexi area in short term.

Market outlook

Two new projects, Injoy (新城吾悦广场) with 68,000 sq m on Hunan Road and Golden Eagle G-city (金鹰世界) with 270,000 sq m in Hexi, are scheduled to launch in Q4/2017, adding approximately 338,000 sq m, increasing Nanjing retail stock to 3.07 million sq m. These two malls are positioned as mid- to high-end, targeting families and white-collar consumers.

Given that a considerable volume of supply is expected to enter the market in Q4/2017, 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.

Please contact us for further information

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