

Briefing Retail sector

February 2018



Image: Injoy Plaza in Hunan Road

SUMMARY

Active activities were seen in Nanjing during Q4/2017 with the opening of three new malls, all with high occupancy rates.

- Three new projects were launched in Q4/2017, increasing mid-range to high-end total retail stock to approximately 3.76 million sq m.
- City-wide shopping mall vacancy rates increased 0.8 percentage points (ppts) quarter-on-quarter (QoQ) to 8.4% in Q4/2017.
- Mid-range to high-end shopping mall first-floor rents decreased by 4% QoQ to RMB14.4 per sq m per day, down 5.9% year-on-year (YoY).
- Seven new mid-range retail projects are scheduled to enter the market in 2018, contributing a total combined retail space of 918,130 sq m.

“Seven new projects, all located in emerging areas, are expected to enter the market in 2018. These projects are expected to see healthy absorption rates, thereby creating a more vibrant and mature retail environment in Nanjing.” James Macdonald, Savills Research

➔ **Economic overview**

City-wide retail sales maintained steady growth in Q4/2017, exceeding RMB560 billion by the end of December 2017, up 10.2% YoY. Over the same period, fixed-asset investment (FAI) grew 12.3% YoY to RMB622 billion. Additionally, the city's urban residents' disposable income per capita grew 9.3% YoY.

Supply and Stock

The launch of three new shopping malls in Q4/2017 increased city-wide retail stock up to 3.76 million sq m, of which shopping malls accounted for approximately 75%. Golden Eagle G-City (金鹰世界), located in the Xinjiangdong area, with 270,000 sq m GFA, is positioned to target local residents in its surrounding area. The 160,000 sq m Golden Eagle Riverside City (金鹰湖滨天地), located in Xianlin, is targeting families. The 68,000 sq m GFA Injoy Plaza (新城吾悦广场) on Hunan Road, will cater for tourists and local residents.

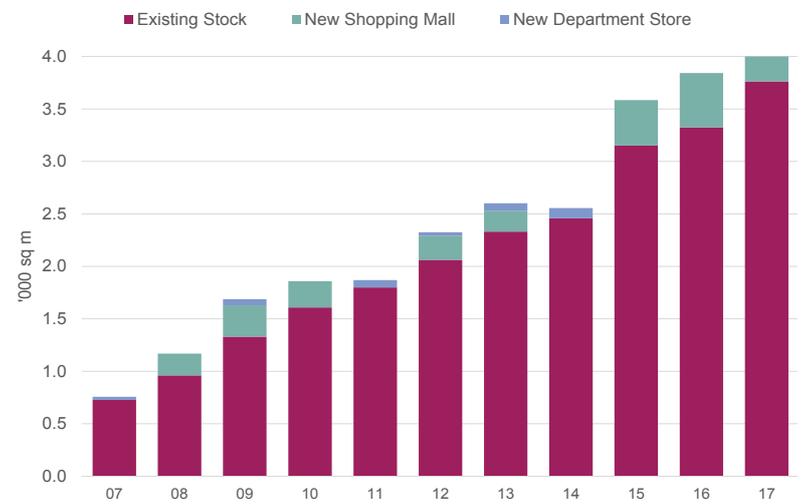
Retailers

Demand in Q4/2017 was mainly driven by children-related and experiential brands and lifestyle retailers, then supplemented by F&B and fashion retailers. Similar with trends seen in tier-one cities, landlords like to house luxury brands and experiential brands in order to draw the attention of high-end consumers and family consumers.

Major activities during the quarter are:

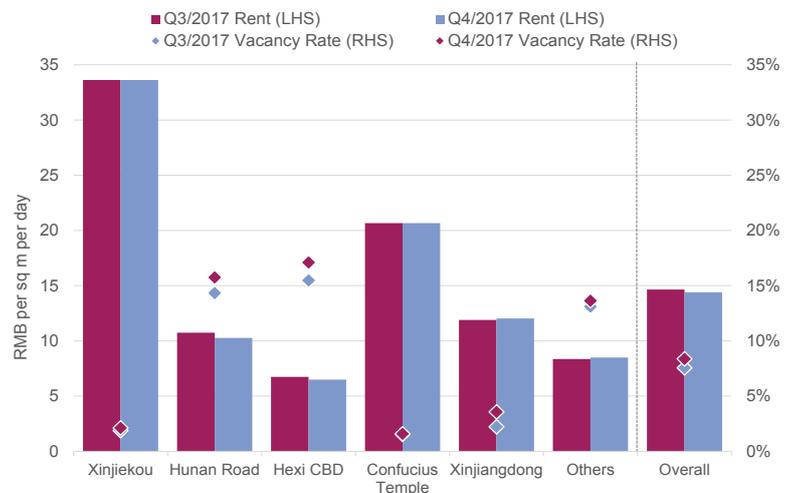
- Victoria's Secret (维多利亚的秘密) expanded its stores to 600 sq m in Deji Plaza (德基广场) due to its popularity with the young consumers.
- Beijing Xinwoda Aquarium (北京信沃达水族馆) leased 4,000 sq m in Sasseur Outlets (砂之船奥特莱斯). It is currently the largest aquarium in Nanjing.
- Muji expanded and renovated its store in Pengxin Aqua City (鹏欣水游

GRAPH 1 **Retail Supply and Stock, 2007-2017**



Source: Savills Research

GRAPH 2 **Sub-market Rents and Vacancy Rates, Q3/2017 vs Q4/2017**



Source: Savills Research

城) to 1,309 sq m to cater for more customers.

- Yanjiyou (言几又), an internet-celebrity brand (网红品牌), opened its first Nanjing store with GFA of 490 sq m in Injoy Plaza (新城吾悦广场).

Vacancy Rates and Rents

City-wide shopping mall vacancy rates increased 0.8 ppts to 8.4% in Q4/2017. Prime-area vacancy rates increased 1.6 ppts QoQ to

5.9%; non-prime area vacancy rates increased 0.3 ppts QoQ to 9.4%. First-floor mall rents saw a minor increase of 4% QoQ to RMB15.4 per sq m per day during the quarter. In prime retail areas, rents decreased by 6.9% QoQ to an average of RMB22.8 per sq m per day. Meanwhile in non-prime retail areas, rents remained stable at an average of RMB10.2 per sq m per day.

Xinjiekou

Xinjiekou, as the most mature retail area of the four main districts, has

seen the highest demand and no new supply in recent years, with total mid-range to high-end retail GFA reaching nearly 690,000 sq m. Vacancy rates in the area remain the lowest city-wide at 2.1%, increasing slightly by 0.2 of a ppt QoQ. This, combined with limited future supply, saw the area achieve the highest average first-floor rents in the city, at RMB33.6 per sq m per day.

Hunan Road

With the new project entering into the market in Hunan Road, footfall slightly increased in this area. The adjustment of the tenant mix of Jinmao Plaza(金茂汇) due to the poor performance of some stores, led to the vacancy rate's slight increase of 1.4 ppts QoQ to 15.7%. Rent in this area slightly decreased to RMB10.3 per sq m per day.

Confucius Temple

The Confucius Temple area targets domestic visitors and young consumers with its diversified fast-fashion brands and reputation. Similar to the Xinjiekou area, future supply is limited in this area. Benefiting from a relatively

mature retail atmosphere and brand awareness, the vacancy rate in this area is recorded at 1.6%, up 0.1 ppt QoQ. Average first-floor mall rents in the area remained relatively high and stable at RMB20.7 per sq m per day.

Xinjiangdong

The Xinjiangdong area has seen a relatively quick development pace in the retail market compared to other districts. Retail projects in this area target residents and white-collar workers. Due to the opening of new projects, the vacancy rate slightly increased by 1.4 ppts QoQ to 3.6%. Average first-floor rents in the area remained relatively stable at RMB12 per sq m per day.

Hexi CBD

Currently there is only one mid-range to high-end shopping mall in the area, the KIC Mall. New projects developed by established developers are scheduled to enter the market within the next two years. This is anticipated to upgrade the quality of Hexi, the CBD's retail environment, and attract more well-known brands and diversified retail formats. The vacancy rate in

Q4/2017 increased 1.6 ppts QoQ to 17.1% due to poor performance of some retailers in the KIC Mall. Consequently, rents slightly decreased 4.4% QoQ to RMB6.5 per sq m per day.

Market Outlook

Seven new projects, located in emerging areas such as the Jiangbei area and east of the city, will add approximately 918,130 sq m to the retail market in 2018. Large-scale projects like Nanjing Wandamao (南京万达茂) in Xianlin area will add approximately 346,400 sq m to the retail market. The project is targeting consumers from nearby cities surrounding Nanjing.

As all new projects are located in emerging retail areas, it is expected that 2018 will be a year in which Nanjing will grow to have a matured retail environment similar to first-tier cities, in which shopping malls are clustered not only in traditional retail areas and attract consumers from the city, but also are located close to local residents to cater for their needs and wants. ■

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