

Briefing Retail sector

May 2018



Image: Dream Plaza in Xianlin

SUMMARY

The launch of a new project in Nanjing with high occupancy rates signifies the confidence of retailers to establish and expand in this tier-two city.

- One new project was launched in Q1/2018, increasing total mid-end to high-end retail stock to approximately 3.82 million sq m.

- The city-wide shopping mall vacancy rate decreased 0.4 of a percentage point (ppts) quarter-on-quarter (QoQ) to 8% in Q4/2017.

- Mid-end to high-end shopping mall first-floor rents increased by 0.5% QoQ to RMB14.2 per sq m per day

- Six new mid-end retail projects are scheduled to enter the market in the remainder of the year, contributing a total combined retail space of 918,130 sq m.

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 “Prime retail areas will continue to see flat growth in vacancy rates and rents. New projects in Hexi CBD will drive the diversification of retail formats and tenant mix in Nanjing.”

 James Macdonald, Savills Rsearch

➔ **Economic overview**

City-wide retail sales maintained steady growth in Q1/2018, exceeding RMB145 billion by the end of March 2018, up 5.1% YoY. Over the same period, fixed-asset investment (FAI) decreased 2.1% YoY to RMB120.8 billion. Additionally, the city's urban residents' disposable income per capita decreased 1.4% YoY.

Supply and stock

Dream Plaza (九霄梦天地), located in the Xianlin area, launched in Q1/2018. The 56,000 sq m mall is positioned to target local residents in the surrounding neighbourhoods.

The debut of this new shopping mall increased citywide retail stock to 3.82 million sq m, of which shopping mall stock accounted for approximately 76%.

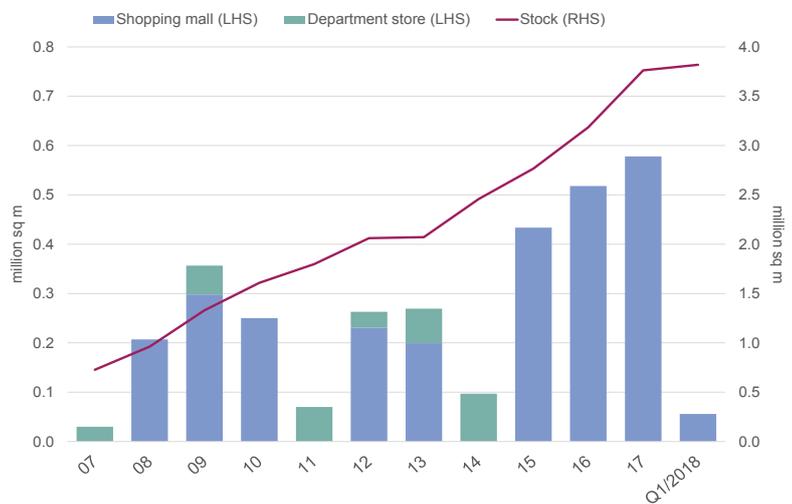
Retailers

Demand in Q1/2018 was mainly driven by child-related and lifestyle retailers, and supplemented by F&B and fashion outlets. Similar to trends seen in tier-one cities, landlords in Nanjing prefer to house luxury brands and leisure facilities, such as a skateboarding park, in order to attract high purchasing power consumers and family-oriented consumers.

Major activity during the quarter included:

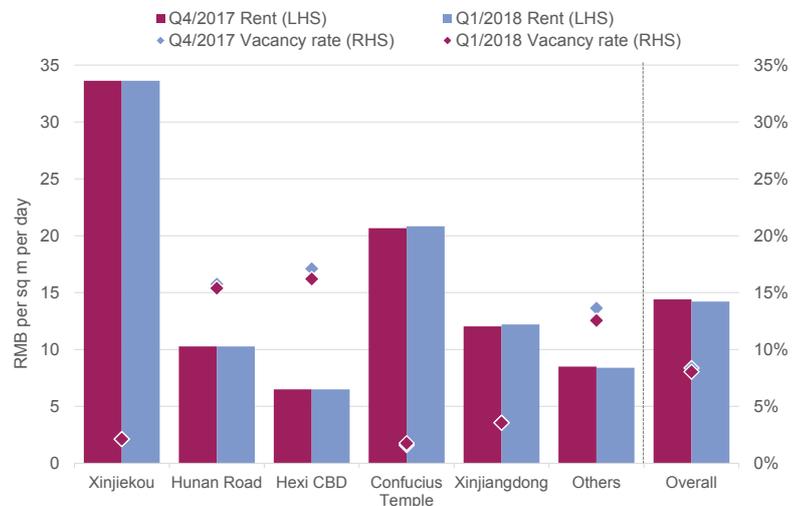
- Muji (无印良品) leased 3,460 sq m in House of Fraser (东方福莱德). This is the brand's largest flagship store in Asia outside of Japan.
- Super Species (超级物种) leased 3,500 sq m in Central Emporium in the Hexi area.
- Christian Louboutin committed to its first Nanjing store with a 200 sq m space in Deji Plaza.
- Jurlique opened its first Nanjing flagship store in G-World (金鹰世界) in a 500 sq m space.

GRAPH 1 **Retail supply and stock, 2007-Q1/2018**



Source: Savills Research

GRAPH 2 **Sub-market rents and vacancy rates, Q4/2017 vs Q1/2018**



Source: Savills Research

Vacancy rates and rents

City-wide shopping mall vacancy rates decreased 0.4 of a ppt to 8% in Q1/2018. Prime-area vacancy rates remained stable at 5.9%. Non-prime area vacancy rates decreased 0.5 of a ppt QoQ to 8.9%.

First-floor mall rents saw a minor increase of 0.5% QoQ to RMB14.2 per sq m per day during the quarter.

In prime retail areas, rents increased by 0.2% of a ppt to an average of RMB22.8 per sq m per day. Meanwhile, in non-prime retail areas, rents saw an increase of 0.9% QoQ to an average of RMB10.2 per sq m per day.

Xinjiekou

Xinjiekou, as the most mature retail area out of four main districts, enjoyed the highest consumer

demand with total mid-end to high-end retail GFA reaching nearly 690,000 sq m. The vacancy rate in the area remains the lowest citywide at 2.1%. Average first floor rents in the area were the highest citywide, at RMB33.6 per sq m per day.

The recently-announced land deal in which Hong Kong Land (HKL) plans an over-30,000 sq m shopping mall in the area will ease some supply pressure in the near future after the lack of supply for the past three years.

Hunan Road

The prospect of limited new supply in the next two years and the well-received launch of Injoy City (新城吾悦光场) in Q4/2017 has decreased the area's vacancy rate by 0.3 of a ppt QoQ to 15.4%. Rent in this area remained stable at an average RMB10.3 per sq m per day.

Confucius Temple

Due to the repositioning of the B1 floor in Pengxin Aqua City (鹏欣水游城) – adding more bars and pubs to increase night time consumers - the area's vacancy rate increased slightly by 0.2% QoQ to 1.8%, but still down 1.4% ppts YoY. Average first-floor rents in the area remained stable at RMB20.8 per sq m per day.

Xinjiangdong

The Xinjiangdong area has developed at a relatively quick pace compared to other districts. Retail projects in this area target both local residents and the working population from the surrounding area.

The vacancy rate in Q1/2018 remained stable at 3.6%. As the area has matured and vacant space become less available, average first-floor rents have increased 1.6% QoQ to an average of RMB12.2 per sq m per day.

Hexi CBD

The vacancy rate in Q1/2018 decreased slightly by 0.9 of a ppt QoQ to 16.2%. Rents remained stable at an average of RMB6.5 per sq m per day.

The One Mall (华采天地) is anticipated to enter the market in Q4/2018. The mall is expected to increase the supply and quality of the area's retail offerings, and diversify the tenant mix in the Hexi CBD.

Market outlook

The 60,000 sq m R Sun (弘阳广场), in Jiangbei area, is expected to enter the market in Q1/2018. This is a mid to high-end mall targeting families. Most of the year's supply will debut in 2H/2018, and the new projects are concentrated in non-prime retail areas, offering a different shopping experience to the surrounding catchment. ■

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