

Briefing Retail sector

August 2018



Image: Wanda Mall in Xianlin

SUMMARY

New projects are dominated by child-related tenants with a high proportion of them being children's theme parks. Projects in non-prime areas are seeing opportunities in family-oriented consumers.

- Two new projects were launched in Q2/2018, increasing mid-end to high-end retail stock to approximately 4.22 million sq m.
- City-wide shopping mall vacancy rate decreased 1.1 percentage points (ppts) quarter-on-quarter (QoQ) to 6.9% in Q2/2018.
- Mid-end to high-end shopping mall average first-floor rents decreased by 2.3% QoQ to RMB13.9 per sq m per day, down 9.7% year-on-year (YoY).
- Four new mid-end retail projects are scheduled to enter the market in the remainder of 2018, contributing a total combined retail space of 391,730 sq m.

“Relatively lower rents in new projects in non-prime areas have pulled down the city-wide average rent. Due to limited developable land in prime areas, the future supply of sites with large GFA will be located in non-prime areas. Meanwhile, tenant mix will be more diversified to suit the requirements of local residents.” James Macdonald, Savills Rsearch

➔ **Economic overview**

City-wide retail sales maintained steady growth in Q2/2018, exceeding RMB285 billion by the end of June 2018, up 9.4% YoY. Over the same period, fixed-asset investment (FAI) grew 9.4% YoY to RMB 269 billion. Additionally, disposable income per capita in Nanjing grew 9.1% YoY.

Supply and stock

The launch of two new shopping malls in Q2/2018 increased citywide retail stock to 4.22 million sq m, of which shopping malls accounted for approximately 69%. R-Sun (弘阳广场二期), located in the Pukou area with 60,000 sq m GFA, is positioned to target family-oriented consumers and surrounding area residents. Wanda Mall, located in Xianlin area, added 346,400 sq m GFA to the retail market.

Retailers

Demand in Q2/2018 was mainly driven by child-related brands, such as the children's theme parks in the two new projects launched. F&B and fashion outlets were also highly in demand. Landlords have shown a preference for child-related tenants as they can draw continuous footfall from families and diversify tenant mix.

Major leasing activities during the quarter were:

- Champion leased 180 sq m in Deji Plaza (德基广场), establishing its first store in Nanjing.
- ELFSACK (妖精的口袋), a locally famous e-commerce brand focusing on ladies fashion, leased 320 sq m in Pengxin Aqua City.

Vacancy rates and rents

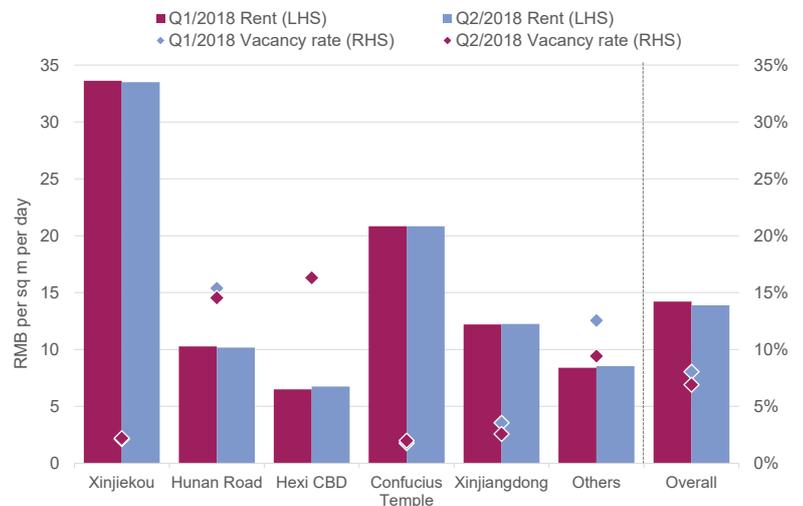
City-wide shopping mall vacancy rates decreased 1.1 ppts to 6.9% in Q2/2018. Vacancy rates in prime

GRAPH 1 **Retail supply and stock, 2007- Q2/2018**



Source: Savills Research

GRAPH 2 **Sub-market rents and vacancy rates, Q1/2018 vs Q2/2018**



Source: Savills Research

areas decreased 0.2 ppts to 5.7%. In non-prime areas, the vacancy rate decreased 1.6 ppts QoQ to 7.3%. Average first-floor mall rents saw a minor decrease of 2.33% QoQ to RMB13.9 per sq m per day in Q2/2018. In prime retail areas, rents decreased slightly by 0.4% to RMB22.7 per sq m per day. Meanwhile in non-prime retail areas, rents remained stable at RMB10.1 per sq m per day.

Xinjiekou

The Xinjiekou area, as the most mature retail area out of the city's four main districts, enjoys the highest demand. The vacancy rate in this area remains the lowest across Nanjing at 2.2%. Average first floor rents in the area were the highest citywide, at RMB33.5 per sq m per day.

Hunan Road

Limited new supply in the next two years and the concentration of relatively low quality and older department stores in this area provides little stimulation. The vacancy rate decreased slightly by 0.9 ppts QoQ to 14.5%. Rent in this area also decreased slightly to RMB10.2 per sq m per day.

Confucius Temple

Due to ongoing tenant adjustments in Pengxin Aqua City on B1 floor, the vacancy rate increased slightly by 0.2 ppts QoQ to 1.8%, up 4.17 ppts YoY. Average first-floor rents in the area remained stable at RMB20.8 per sq m per day.

Xinjiangdong

Retail projects in this area target both local residents and white-collar

workers from the surrounding area. Active leasing in existing projects like G-world (金鹰世界) and Uni-park (中海寰宇城) decreased the vacancy rate to 2.6%, down 1 ppt QoQ. As the area offers a mature retail environment and limited space for leasing, average first-floor rents in the area saw a slight increase of 0.41% QoQ to an average of RMB12.3 per sq m per day.

Hexi CBD

The vacancy rate in Q2/2018 increased 0.1 ppts QoQ to 16.3%, mainly due to the poor performance of KIC Mall (金奥国际购物广场). Rents increased by 3.85% QoQ to RMB6.8 per sq m per day.

The One Mall (华采天地), which is anticipated to enter the market in Q4/2018, is expected to satisfy

the requirements of the working population in this area as the mall has shown a good pre-leasing performance.

Market outlook

No new project is expected to enter the market in Q3/2018, giving time for the city to absorb existing stock and stabilize rents. Four new shopping malls are expected to enter the market in Q4/2018, offering a more diverse shopping experience to consumers in non-prime retail areas. ■

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