

Briefing Retail sector

November 2018



Image: Yanziji Garden City

SUMMARY

No new projects entered the market in Q3/2018, stabilising city-wide vacancy rates and rents.

■ No new projects were launched in Q3/2018, thus mid- to high-end retail stock remains at approximately 4.22 million sq m.

■ The city-wide shopping mall vacancy rate decreased by 0.7 of a percentage point (ppt) quarter-on-quarter (QoQ) to 6.2 % in Q3/2018.

■ Mid-to high-end shopping mall average first-floor rent increased by 0.84% QoQ to RMB14.0 per sq m per day, down 4.45% year-on-year (YoY).

■ One new mid-end retail project is scheduled to enter the market in Q4/2018, contributing retail space of 100,000 sq m.

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“The city-wide first floor average rent is experiencing a slight decline mainly due to lower rents offered by landlords in emerging retail areas. New shopping malls mushrooming in emerging areas will change Nanjing’s retail property landscape and improve the city’s vitality.”

James Macdonald, Savills Research

→ Economic overview

City-wide retail sales maintained steady growth in Q3/2018, exceeding RMB426 billion by the end of September 2018, up 8.9% YoY. Over the same period, fixed-asset investment (FAI) grew 9.2% YoY to RMB408 billion. Additionally, disposable income per capita in Nanjing grew by 8.9% YoY.

Supply and stock

The launch of two new shopping malls in Q2/2018 increased city-wide retail stock to 4.22 million sq m, of which shopping malls accounted for approximately 71%. No new supply entered the market in Q3/2018, thus total stock remained at 4.22 million sq m.

No new supply launched in prime areas due to limited vacant land and high land prices. The new shopping malls that did open this year and those opening in the remainder of 2018 and in 2019 are mainly concentrated in emerging retail areas. This scenario marks a change in the retail property market in Nanjing. The city centre and its immediate surrounding area used to supply the bulk of mid- to high-end shopping malls, but now new mid- to high-end shopping malls can increasingly be found in emerging retail areas closer to residences.

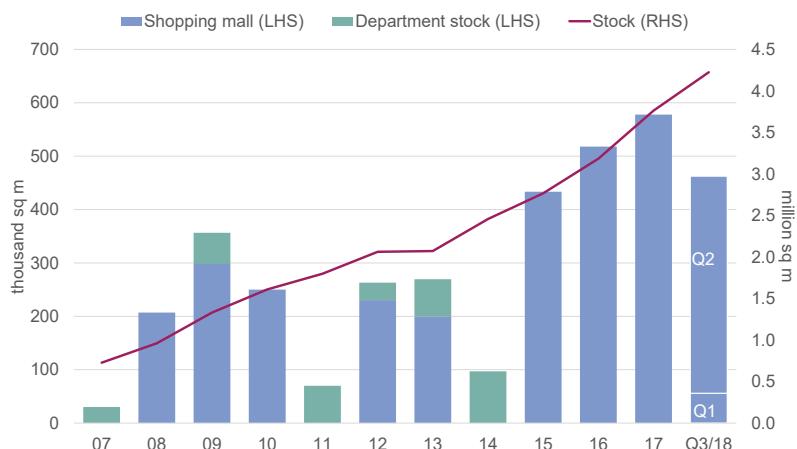
Retailers

Demand in Q3/2018 was driven mainly by fashion brands and luxury retailers. With the opening of Champion's first store in Nanjing, more fashion brands are beginning to see opportunities in this tier-two city. Brands with a focus on 'new retail' and successful shops from tier-one cities were also favoured by landlords.

Major leasing activities during the quarter were:

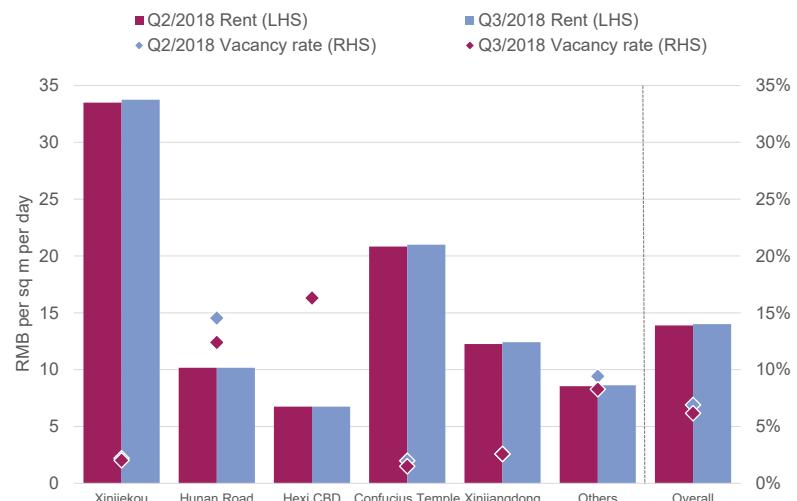
- Superdry leased 250 sq m on the first floor in Wonder City (虹悦城), establishing its first store in Nanjing.
- Hema Fresh (盒马鲜生) opened its third store in 21st Sunny Plaza.
- Delvaux, a luxury leather brand from Belgium, leased a 300 sq m space in Deji Plaza (德基广场).

GRAPH 1
Retail supply and stock, 2007- Q3/2018



Source: Savills Research

GRAPH 2
Sub-market rents and vacancy rates, Q2/2018 vs Q3/2018



Source: Savills Research

Vacancy rates and rents

City-wide shopping mall vacancy rates decreased by 0.7 of a ppt to 6.2% in Q3/2018. Vacancy rates in prime areas decreased 0.9 of a ppt to 4.8%. In non-prime areas, the vacancy rate decreased 0.7 of a ppt QoQ to 6.6%.

Average first-floor mall rents saw a minor increase of 0.84% QoQ to RMB14.0 per sq m per day in Q3/2018. In prime retail areas, rents increased slightly by 0.49% to RMB22.8 per sq m per day.

Meanwhile in non-prime retail areas, rents increased 1.18% to RMB10.2 per sq m per day.

Xinjiekou

The Xinjiekou area, as the most mature retail area out of the city's four main districts, is preferred by brands establishing their first stores in the Nanjing market. The vacancy rate in this area remains the lowest city-wide at 2.0%. Average first floor rents in the area were the highest citywide, at RMB33.8 per sq m per day, up 0.75% QoQ.

Hunan Road

The restructuring and adjustment of tenant mixes in existing projects along with the ongoing construction of new projects continues to severely affect traffic, accessibility and convenience for shoppers in this area. However, the vacancy rate in the area improved by 2.1 ppts QoQ to 12.4%. Rent in this area remained stable at RMB10.2 per sq m per day.

Confucius Temple

Due to the neighbourhood's popularity, the low vacancy rate in the Confucius Temple area continued, down by 0.5 of a ppt QoQ to 1.5%. Average first-floor rents in the area increased slightly to RMB21.0 per sq m per day mainly due to a recent rental increase at Penxin Aqua City (鹏欣水游城).

Xinjiangdong

Retail projects in this area target both local residents and white-collar workers from the surrounding area. The vacancy rate in this area remained stable at 2.6%. Due to limited demand, average first-floor rents in the area saw a minor increase of 1.36% QoQ to RMB12.4 per sq m per day.

Hexi CBD

The vacancy rate and average first floor rent both remained stable, at 16.3% and RMB6.8 per sq m per day, in Q3/2018. 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

Only one new project, Yanziji Garden City, is expected to enter the market in Q4/2018, adding a GFA of 100,000 sq m, which might attract more new retailers to the Nanjing market. The launch of this project marks the arrival of Yanziji (燕子矶) as a viable retail market. The area already has a few retail projects in its supply pipeline.

With the increase in retail space in emerging retail areas, Nanjing's residents are beginning to see more variety on offer and can now enjoy shopping trips in their neighbourhoods. Limited future supply in the core retail areas of the city might restrict the expansion plans of retailers. ■

Please contact us for further information**Research****James Macdonald**

Senior Director
China
+8621 6391 6688
james.macdonald@savills.com.cn

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Central Management**Siu Wing Chu**

Managing Director
Central China
+8621 6391 6688
siuwing.chu@savills.com.cn

Agency**Jeremy Sun**

General Manager
Nanjing
+8625 5772 0911
jeremy.sun@savills.com.cn