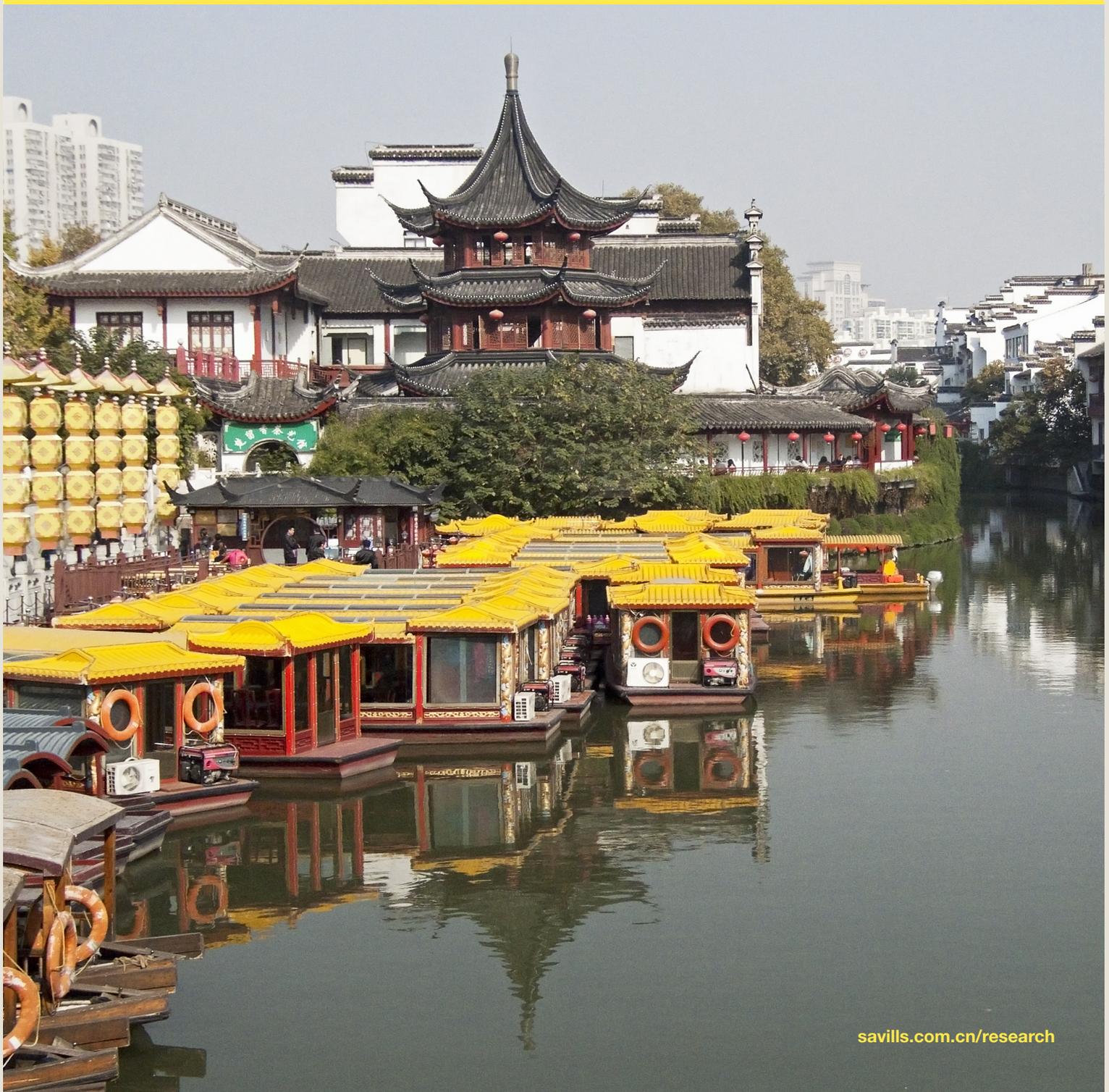


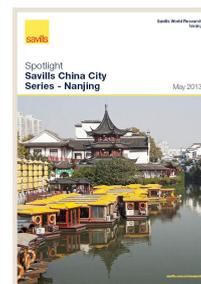
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Spotlight
**Savills China City
Series - Nanjing**

May 2013



Spotlight Savills China City Series - Nanjing



City introduction	5
Planning	8
Labour and education	9
International links	9
Quality of life	10
Grade A office market	11
Retail	12
Residential	14
Serviced apartment and hotels	16
Investment deals	17

Executive summary

Nanjing, also known as the southern capital, has a long history. In recent years, however, the city is better known as the provincial capital of Jiangsu. The city is synonymous with heavy industry but in fact over 50% of its GDP is now contributed by the tertiary industry. Supporting the manufacturing sector, Nanjing is a key transportation hub both for goods and people, acting as a gateway between the Yangtze River Delta and central/western China, as well as an important stop on the Beijing–Shanghai railway segment. Supporting the tertiary industry, the city has a number of leading educational institutions, helping to position Nanjing’s tertiary education system among other leading cities, such as Xi’an and Wuhan, in the top five in the country.

The commercial and high-end residential sectors are dominated by Xinjiekou, a name that is known throughout China. Xinjiekou straddles three districts, namely Gulou, Xuanwu and Baixia, and is the traditional heart of the city. Its younger pretender, Hexi central business district (CBD) is located in the west of the city in Hexi district. Although planning only started in 2002, Hexi CBD is already having a notable impact on the city’s property markets, with a handful of commercial mixed-use projects already completed but many more currently under construction and expected to be completed over the next three to five years. The scale, superior quality, and district master planning and infrastructure will give this submarket a key advantage over the overcrowded city centre.

The office market, with a history of 15 years, has a total stock of 780,000 sq m. However, this is expected to balloon over the next three years, with annual supply expected to average 300,000 per annum. Much of this new supply is located in Hexi CBD. While this will put pressure on both rents and occupancy rates, state-owned enterprises (SOEs) are expected to absorb much of the new supply, as several of the projects are being developed for self use by companies with ties to the state.

The retail market, as with many other cities, is still led by the traditional city core, Xinjiekou. Department stores dominate the region but there is also a heavy concentration of shopping malls

FIGURE 1
Location of Nanjing



Source: Savills Research

and street stores, in some ways similar to Shanghai’s Xujiahui. Shoppers tend to be locals or tourists from the north of Jiangsu or neighbouring Anhui province, attracted to the city by its relatively large retail stock (estimated at 1.8 million sq m) and wide range of low- to mid-end domestic and international brands. This is in contrast to the prime retail districts of Shanghai which have been given over to mid- to high-end and luxury brands.

The residential market holds its own, with average transaction volumes over the last five years averaging around 7 million sq m and prices over the last two years averaging RMB11,000 per sq m. Buyers tend to be locals or families from the north of Jiangsu and Anhui drawn to the city by its plentiful educational resources. The highest prices in the city are roughly RMB50,000 per sq m and can be found in the city core in close proximity to Xinjiekou, with Hexi CBD holding second place with the highest prices averaging around RMB26,000 per sq m. The residential market, while utilising the natural landscape offered by Zhongshan Scenic Area and the Xuanwu Lake in the east of

the city, has yet to fully utilise the underdeveloped river views in the north of the city.

The residential leasing market is dominated by the strata-title market. There is only one serviced apartment currently in operation, Fraser Suites Nanjing, with rents of approximately RMB150 per sq m per month. High-end strata-title rents go for about half of this at RMB75 per sq m per month. Growing business operations of multinational corporations (MNCs) should result in increased numbers of expatriates looking for quality accommodation, with a number of serviced operators keen to enter the market in order to be able to meet this demand.

The investment market remains small with only a handful of deals having been concluded over the last five years. This is partly due to the lack of available investment-grade developments on the market and the risk-averse nature of investors to second-tier commercial markets over the last two years, combined with the limited rental growth prospects for the office market.

City overview

TABLE 1
Macro data, 2011

Indicator	Unit	Nanjing				China			
		Value	Nominal YoY (%)	5-year CAGR (%)	Real YoY (%)	Value	Nominal YoY (%)	5-year CAGR (%)	Real YoY (%)
GDP	RMB bil	615	22.7	13.4	12	47,288	17.8	12.2	9.3
Industrial output (above designated size)	RMB bil	1,035	24.3	12.3	-	84,427	20.9	15.8	-
Permanent population	Mil	8.1	1.3	1.8	1.3	1,347	0.5	0.4	0.5
Fixed-asset investment (FAI)	RMB bil	401	21.3	16.5	-	31,149	23.8	17.8	-
GDP per capita	RMB	75,785	16.8	10.8	-	35,181	17.2	11.8	-
Urban disposable income per capita	RMB	32,200	13.7	9.6	-	21,810	14.1	9.6	-
Urban consumption expenditure per capita	RMB	20,763	14.4	9.4	-	15,161	12.5	8.7	-
Retail sales	RMB bil	267	17.8	14.1	-	18,392	17.1	15.6	-
Foreign direct investment (FDI)	US\$ mil	3,566	26.6	12.7	-	116,011	9.7	9.2	-
Exports	US\$ bil	31	24	8.5	-	1,743	24.9	7.4	-
Higher educational institutions	-	53	-	-	-	2,409	2.2	4.8	-
Enrolments in higher education	Mil persons	0.7	-	3.2	-	23.1	3.4	4.1	-
Highway freight volume	Mil tons	198.2	12.1	9.3	-	28,201	15.2	11.5	-
Waterway freight volume	Mil tons	140.9	24.8	18.3	-	4,260	12.4	8.7	-
Railway freight volume	Mil tons	18.2	14.2	11.0	-	3,933	8.0	4.6	-
Air passengers	Mil	13.1	4.3	10.2	-	293	9.5	9.6	-

Source: Nanjing Statistics Bureau, Savills Research

City introduction

A commercial hub on the Yangtze River Delta

Located 270 km from Shanghai in the downstream area of the Yangtze River Delta, Nanjing is the capital of Jiangsu province and one of east China's main centres of industry.

Nanjing has long been recognised as an important political, cultural and economic centre. At present, it occupies the role of a major commercial hub on the Yangtze River Delta. According to the latest regional plans for the Yangtze River Delta, Nanjing has been identified as a gateway for promoting the development of central China, a national integrated transport hub and a centre of innovation and technology.

Its strategic location, largely privatised local economy and advantages in industrial production have given Nanjing a key role in regional de-

velopment and international expansion for MNCs. Over 250 leading domestic enterprises and MNCs have established plants or regional representative offices in Nanjing, allowing them to expand their business to cities throughout the Yangtze River Delta, north Jiangsu and Anhui province. By the end of 2010, companies from over 100 countries (or regions) had a presence and numerous Fortune 500 companies had made substantial investments in over 150 projects in Nanjing.

A national transport hub

Nanjing is an important railway hub, linking Shanghai with northern and western China. Two high-speed railway lines, the Shanghai–Beijing and Shanghai–Chengdu lines, pass through Nanjing. The city has devoted a significant effort towards intercity railway construction, with the Shanghai–Nanjing line having opened in 2010, the Nanjing–Hangzhou line

expected to open in mid-2013 and several more high-speed railways under planning within Jiangsu province.

Nanjing also has the second highest highway density in Jiangsu province and was the second city in the Yangtze River Delta to have a Metro network in operation. The development of this infrastructure is expected to help strengthen regional integration and accelerate the development of Nanjing's 'One-hour Urban Circle,' which consists of Zhenjiang, Yangzhou, Huai'an, Ma'anshan, Chuzhou and Wuhu.

Thriving private economy

Jiangsu has a booming private economy and the largest number of private enterprises of all of China's provinces. Nanjing's municipal government is keen to boost the development of private enterprises, especially small and medium enterprises (SMEs). Nanjing has introduced

TABLE 2
District information, 2010*

District	Area (sq km)	Permanent population	Density (persons per sq km)
City-wide	6,587	8,004,680	1,215
Urban	260	3,358,069	12,891
Gulou	25	826,074	33,512
Baixia	26	602,031	22,813
Qinhuai	23	405,891	17,865
Xiaguan	28	445,117	15,701
Xuanwu	75	651,957	8,640
Jianye	83	426,999	5,149
Suburban	4,473	3,807,559	851
Yuhuatai	132	391,285	2,956
Qixia	381	644,503	1,692
Pukou	910	710,298	780
Jiangning	1,578	1,145,628	726
Luhe	1,471	915,845	623
County	1,854	839,052	453
Gaochun	790	417,729	529
Lishui	1,064	421,323	396

Source: Nanjing Statistics Bureau, Savills Research
 * In January, 2013, Xiaguan and Gulou districts merged to become Gulou district; Baixia and Qinhuai districts merged to become Qinhuai district; and Gaochun and Lishui changed to administrative districts of Nanjing.

numerous government initiatives and taxation deduction policies aimed at encouraging private enterprises, as well as a 20% corporate income tax (as opposed to the 25% national rate) for SMEs. Following this, the number of its private enterprises surged to 142,000 in 2010, comprising about 14% of Jiangsu's total. These same private enterprises contributed 39.8% to Nanjing's GDP in 2011 and have proved to be an important part of the economy.

This environment has led to the creation of several famous national brands, including Nanjing Steel, Suning Appliance and Golden Eagle Group. Suning Appliance is one of the largest privately owned electrical appliance retailers in China. As of 31 December 2011, Suning had 1,684 retail stores in 256 cities throughout mainland China, and it also operates in Hong Kong and Japan.

Macro conditions

Economy

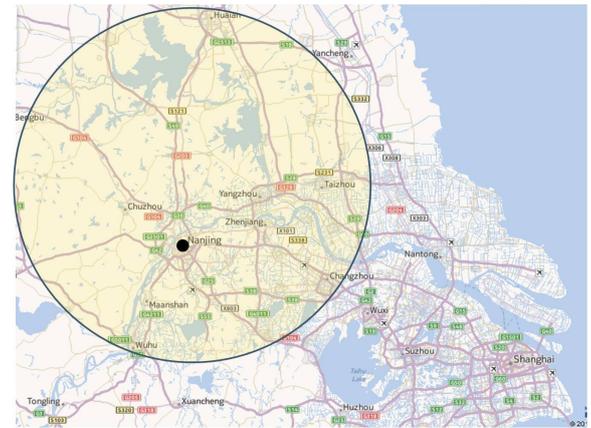
Nanjing is a regional hub in east China. The city has competitive advantages in the electronics and manufacturing industries, rail and highway networks, and ample human resources, not to mention its status as the capital of Jiangsu province.

Nanjing's economy has sustained double-digit real growth since 2000 and has a nominal five-year compound annual growth rate (CAGR) of 13.4% (real five-year CAGR: 12.9%). In 2011, its GDP recorded a 12.0% real growth, higher than national average of 9.2%, reaching RMB615 billion. Heavy industry accounts for approximately 83% of industrial production. At the same time as being focused on heavy industry, Nanjing, as with many cities in China, is gradually developing its service industry, with tertiary industry accounting for 52.7% of the city's GDP in 2011 up from 46.2% in 2000. The tertiary industry overtook the secondary industry in 2008 and became the main driving force for future, more sustainable, growth.

Nanjing is expected to focus on developing its service outsourcing industries, including advanced manufacturing and high-value-added industries. It is working to actively develop the emerging area of Hexi New Town, attracting major domestic enterprises and multinationals to set up regional research and development (R&D) headquarters.

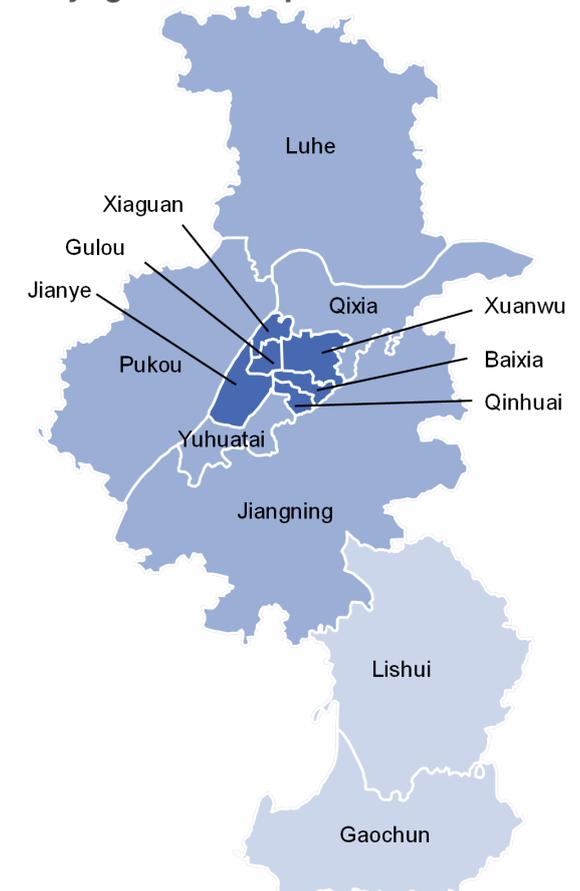
FAI reached RMB401 billion, up 21.3% in 2011. Among all investment

FIGURE 2
Nanjing's 'One-hour Urban Circle'



Source: Savills Research

FIGURE 3
Nanjing district map



Source: Savills Research

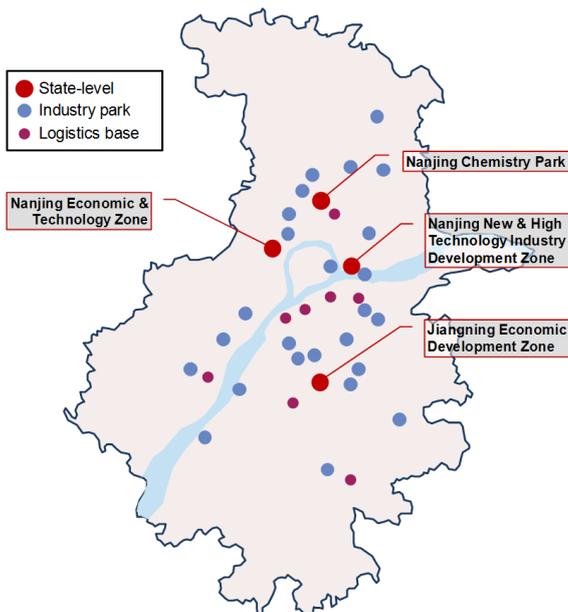
options, private investment made up almost half the total volume. Real estate investment saw an 18.8% increase, to RMB89.7 billion, mainly driven by soaring social housing construction.

Demographics

In 2011, the permanent population of Nanjing was about 8.1 million,

with roughly 80% of the population classified as living in urban areas. This comparatively high urbanisation rate has helped Nanjing focus on developing services that support the manufacturing industry, as well as construct a considerable amount of infrastructure. As with other large cities, limited land supply and larger populations raise significant issues in terms of adequate infrastructure and public facilities. At the moment Nanjing is going through a phase of suburbanisation as house prices continue to rise in the city centre, and as industries and their associated jobs relocate to more decentralised locations.

FIGURE 4 Industrial zones and logistics bases (excluding county level parks)



Source: Nanjing Planning Bureau, Savills Research

TABLE 3 Pillar industries performance, 2010

Rank	Industry	Industrial output (RMB billion)	Percentage
1	Petrochemical	261	30.6
2	Electronics and IT	145	17.1
3	Steel	69	8.2
4	Automobile	61	7.2
	Other	314	36.9
	Total industrial output	850	100

Source: Nanjing Planning Bureau, Savills Research

Tourism

Nanjing is also a popular tourist spot for both domestic and international visitors. The city received 71.8 million domestic visitors and 1.5 million overseas visitors (ranked 11th in China) in 2011, generating a total of RMB110.6 billion in tourism receipts.

Nanjing’s most famous sightseeing spots include Xuanwu Lake, Purple Mountain, the Ming City Wall and Sun Yat-sen’s Mausoleum.

Industry

Nanjing’s four pillar industries

Nanjing is a major centre of industry, overwhelmingly focused on heavy industrial production, with four pillar industries, namely electronics and IT, petrochemicals, automobiles and steel, accounting for over 60% of total industrial production.

Industrial zones

In order to take advantage of the effects of industrial clustering, Nanjing has established numerous industrial zones, technology parks and logistics bases throughout the city.

There are currently four state-level industrial zones:

- Nanjing New & High Technology Industry Development Zone (南京高新技术产业开发区)
- Nanjing Economic and Technological Development Zone (南京经济技术开发区)
- Nanjing Chemical Industry Park (南京化学工业园区)
- Jiangning Economic Development Zone (江宁经济技术开发区)

All these industrial zones are located in suburban districts and focus on industrial manufacturing. These development zones have successfully attracted international manufacturing companies to establish manufacturing and service outsourcing bases in Nanjing.

Accessibility

Railway

Nanjing is an important railway hub, linking Shanghai with northern and western China. The city will act as a node for two national railway lines, the Beijing–Shanghai (in operation) and Shanghai–Wuhan–Chengdu

high-speed railways (under construction). In addition to its position within the national high-speed railway network, Nanjing plans to build several intercity railways to further enhance integration in the region. The Nanjing–Hangzhou intercity high-speed railway is expected to be completed in 2013, while a rail link connecting eight cities in Jiangsu (Nanjing, Zhenjiang, Changzhou, Wuxi, Suzhou, Yangzhou, Taizhou and Nantong) is also under planning. These high-speed railways are expected to gradually replace older modes of intercity transportation, including slower trains and buses.

The city’s two major railway stations are Nanjing Railway Station (Xuanwu district) and the newer Nanjing South Railway Station (Yuhuatai district), which services mainly high-speed trains and is the largest railway station in China in terms of GFA.

Highway

Nanjing features one ring road, four national express highways and four bridge or tunnel crossings spanning the Yangtze River, giving the city the highest density of highways in Jiangsu. With over 230 km of highways and a highway coverage density of 3.4 km per hundred sq km, Nanjing is expected to complete 14 intercity highways by the end of 2020¹. Within each 100 sq km of the city’s area, there is roughly 110 km of local roads.

Port

Due to its location in the downstream Yangtze River area, Nanjing boasts the largest inland port in China, giving it a significant advantage in shipping and logistics. This uniquely situated inland port gives access to China’s vast interior, greatly enhancing its ability to service the crucial inland development currently underway.

Air

The fifth largest international freight airport in China, Nanjing’s Lukou International Airport, handled nearly 13 million passengers in 2010². The airport is serviced by 26 freight and passenger airlines (both regional and international), providing flights to Asia, Europe and the Americas. The distance from downtown to the air-

¹ Nanjing Planning Bureau.
² Source: Lukou International Airport.

port is roughly 36 km, and an express airport highway is currently being built. Lukou International Airport's second phase expansion is currently underway and is expected to finish in mid-2014.

Metro

As the second city in the Yangtze River Delta to put a Metro network into service, Nanjing has extended line 1 and added an additional line since the first phase of Metro line 1 was completed in 2005. Nanjing's Metro saw a 38% increase in annual passenger volume in 2011, to 343 million person times. According to the city's planning bureau, six new Metro lines are scheduled for completion by the end of 2015, including lines 3, 4 (Phase 1), 10, 11 (Phase 1), 12 and a supplementary line accessing the airport. By that time, Nanjing will have completed 250 km of Metro lines.

Planning

A regional hub

The Central Government's plan for the Yangtze River Delta region, articulated in 2011, takes advantage of Nanjing's strategic location and educational resources, leveraging them to develop a base for advanced manufacturing, modern service industries, shipping and logistics, and scientific and technological innovation.

City development focus

Over the next ten years, Nanjing's urban area is expected to expand southwards, elevating the importance of business districts such as Xinjiekou, Hexi CBD and Nanjing South Station to the level of sub-city centres. The Shanghai equivalents of these three districts would be the Xujiahui, Lujiazui and Hongqiao areas respectively.

Xinjiekou

Under the joint administration of Gulou, Xuanwu and Baixia districts, Xinjiekou features the highest footfall and retail rents in Jiangsu province. Connecting Metro lines 1 and 2, its daily footfall totals over 5 million on weekdays within the core area of 0.5 sq km, with leading retail and office projects clustered to the south. In the city's master plan, this traditional city centre will be expanded to 4.1 sq km and developed as a hub for commercial and business activities.

Hexi New Town

Located in Jianye district, Hexi New Town is an emerging business district supported by government incentives and policies, and featuring one of the city's primary residential communities. The municipal government's 12th Five-year Plan envisions the further development of residential, commercial, and recreational areas, while establishing a centre for regional headquarters.

Hexi CBD, in the centre of Hexi New Town, began planning and construction in 2002. With three planned phases and an expected total GFA of 8 million sq m, it is designed as a cluster for regional headquarters and financial institutions. The first phase was completed in 2011, with the second phase (including 14 projects) estimated to finish by 2015. The third phase is still under planning. Total investment for Hexi CBD is expected to reach RMB47 billion.

Nanjing South Railway Station

As China's high-speed railway system develops, Nanjing South Railway Station is becoming an important transport link in east China. It is projected that by 2030, Nanjing South Railway Station will serve over 58 million rail travellers. Considering the area's already mature residential stock, as well as the extensive number of projects planned and under development, it is projected that this area will eventually host a sizable residential community.

Suburban areas

On the back of well-planned technology parks and affordable housing, both residential and commercial demand has boomed in the suburban areas of Nanjing, including Jiangning, Pukou and Xianlin. These three areas are planned as sub-municipal commercial centres, addressing demand for increased living space and high-value quality of life.

Labour and education

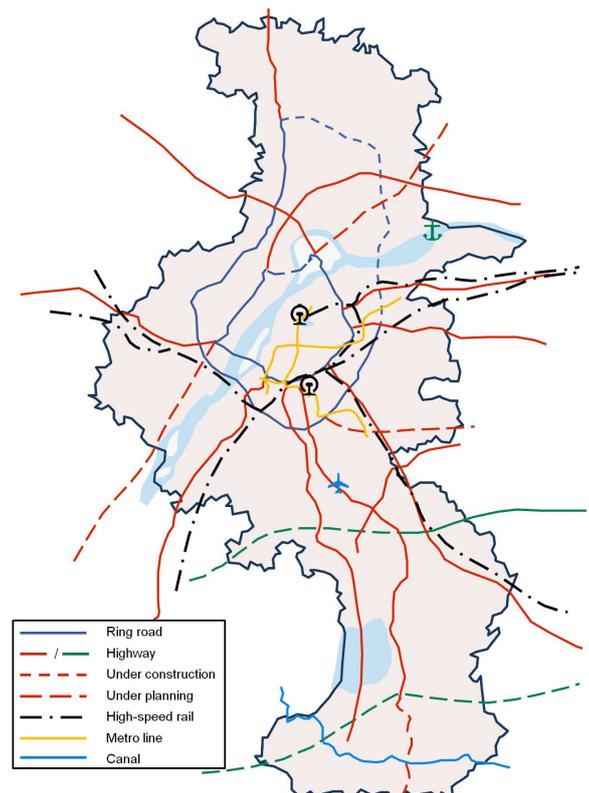
Nanjing's workforce totalled roughly 4.6 million people in 2010, with the primary and secondary industries employing 500,000 and 1.7 million people respectively. The number of employees in the service industry has witnessed significant growth in recent years, with an increase of 20% year-on-year (YoY), totalling 2.3 million and accounting for half of all

workers in Nanjing. The average annual salary of employees in Nanjing was RMB48,780³.

In 2010, R&D expenditures in Nanjing accounted for 3.1% of GDP, signifi-

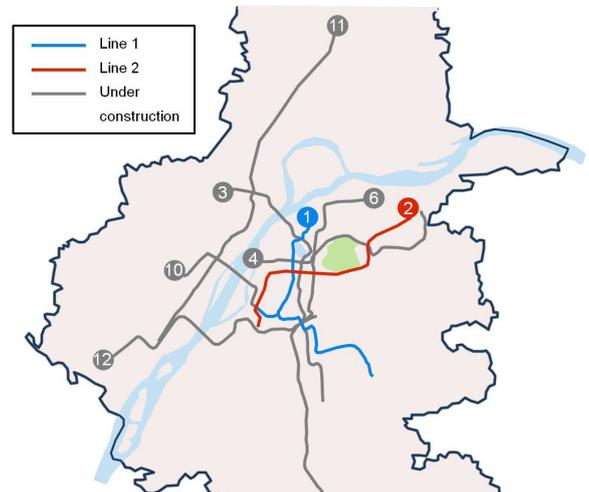
³ Nanjing Municipal Labour & Social Security Bureau.

FIGURE 5
Transportation network



Source: Nanjing Planning Bureau, Savills Research

FIGURE 6
Metro network, 2015E



Source: Nanjing Planning Bureau, Savills Research

cantly higher than the national average of 1.8%. The emphasis on R&D has been stimulated by the city's broad research base, consisting of over 200 engineering and technology research centres, and over 50 key laboratories (at both state and provincial levels⁴).

Ample supply of talent

Nanjing is one of the leading educational hubs in China, with over 50 higher educational institutions (including Nanjing University and Central South University) and roughly 500 private R&D centres⁵. Nearly 255,000 students were enrolled for higher education in 2011, accounting for nearly 9% of the city's population.

Policies for attracting and retaining personnel

In order to attract skilled employees and entrepreneurs to the city, Nanjing introduced a programme in 2011, intended to nurture and develop a culture of entrepreneurialism, leading to growth in Nanjing's private industry and increasing its capacity for innovation. The benefits of the programme include incentives such as financing or rental subsidies for qualified applicants.

International links⁶

Trade and international cooperation

Nanjing currently boasts over 2,000 enterprises involved in international trade with over 200 countries.

Despite subdued demand from Europe and the US, exports recorded a 24% growth in 2011, to US\$31 billion. Although Europe and the US remained the dominant export partners, exports to emerging areas, such as ASEAN, saw a surprising increase of 55% YoY, much higher than traditional export markets. Mechanical and electrical products generated export sales of US\$16.5 billion in 2011, accounting for 53% of total exports. At the same time, utilised FDI reached US\$3.6 billion in 2011, up 27% YoY.

Multinationals in Nanjing

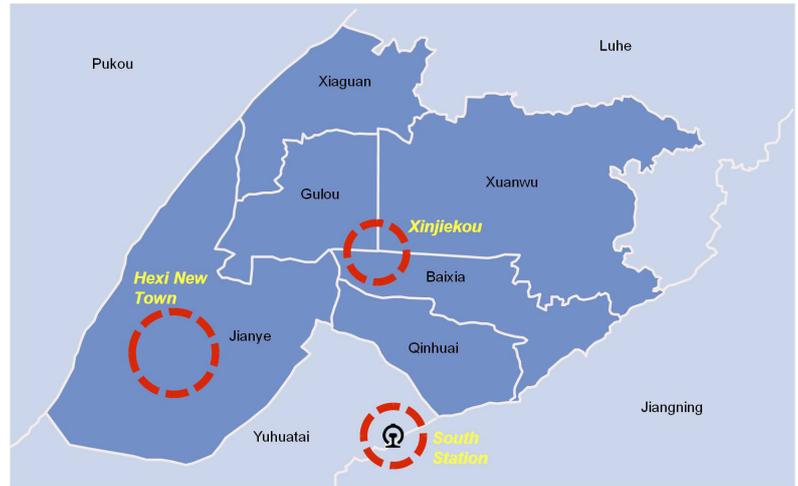
Since the time of China's 'reform and opening' in the 1980s, Nanjing

⁴ Statistical Communiqué of Nanjing on the 2010 National Economic and Social Development.

⁵ Nanjing Municipal Investment Promotion Commission.

⁶ Nanjing Municipal Investment Promotion Commission.

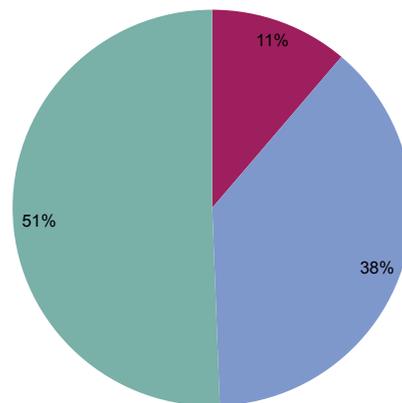
FIGURE 7
Areas of focus



Source: Nanjing Planning Bureau, Savills Research

FIGURE 8
Employment by industry, 2010

■ Primary industry ■ Secondary industry ■ Tertiary industry



Source: Nanjing Statistical Bureau

has managed to attract over 10,000 overseas-invested enterprises, including 50 multinational regional headquarters and R&D centres. Meanwhile, the four aforementioned pillar industries dominated overseas investment, accounting for over 50% of the total. By end of 2010, nearly 15,000 expatriates and compatriots were living or working in Nanjing, comprising 0.2% of Nanjing's permanent population.

Quality of life

Comfortable living conditions

Due to its historical position as the capital of China and the fact that the city is the capital of an extremely wealthy province, Nanjing is recognised throughout the nation as a beautiful city with a high standard of

living, combined with a small-town feel – unique for a burgeoning Chinese metropolis. Also distinguishing it from other metropolitan areas, Nanjing features a large amount of green space, with over 50 parks, the newly opened Xuanwu Lake and Purple Mountain, all free and open to the public. Public green area per capita was nearly 14 sq m, larger than the national average of 11 sq m.

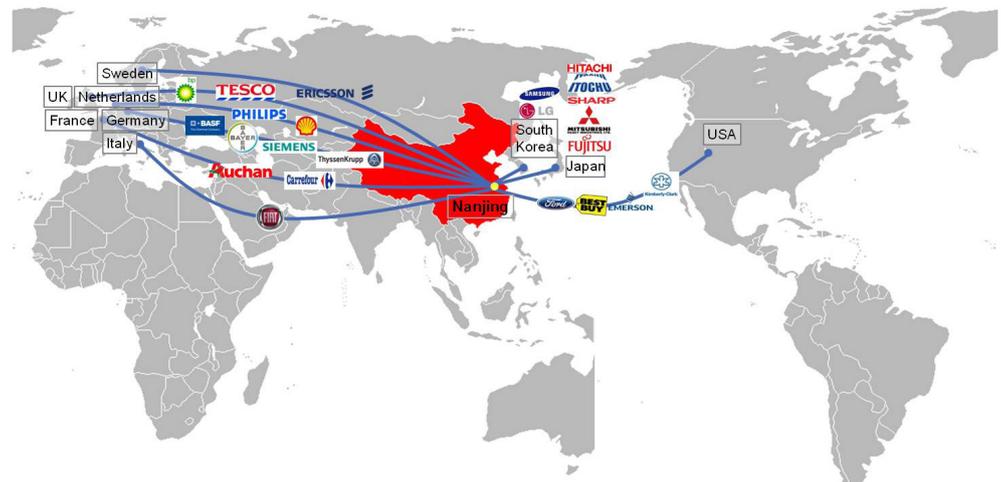
As the host city for the 2014 Youth Olympic Games, Nanjing boasts the best sports facilities in Jiangsu. Additionally, Nanjing currently has three golf clubs: Nanjing Harvard Golf Club, Gingko Lake Golf & Country Club and Nanjing Zhongshan Golf Resort.

Bordering Xinjiekou area, 'Nanjing 1912' is an important F&B hub for Nanjing, comparable to Shanghai's Xintiandi. This area is known as the city's bar and nightlife district, and is often frequented by expatriates and fashion-conscious locals.

Nanjing is also home to 16 international-branded and local five-star hotels, and also features a Fraser-branded serviced apartment.

Several international primary and secondary schools are present in Nanjing, catering chiefly to overseas students, including the British School of Nanjing, Eton International School Nanjing, Nanjing International School and Nanjing Lighthouse International School.

FIGURE 9
Leading MNCs in Nanjing



Source: Savills Research

Real estate market

TABLE 4
Macro data

		Unit	2011	Q1-Q3/2012
Real estate	Five-star hotels (certified)	No.	-	16
	Investment	RMB bil	87.2	78
	New starts	mil sq m	20.8	11.5
	Under construction	mil sq m	56.4	57.4
	Completed area	mil sq m	11.7	4.5
	Sold area	mil sq m	7.7	6.6
	Consideration	RMB bil	71.5	68

Source: Nanjing Statistical Bureau, Savills Research

TABLE 5
Grade A office, Q3/2012

Indicator	Unit	Value	Median value
Stock	sq m	780,000	-
Age	years	1-15	6
Floorplate (typical)	sq m	1,000-2,500	2,000
Whole-floor efficiency rate	%	62-75	68
Anchor tenants	-	HSBC, Sharp, Industrial Bank	-
Achievable rent* (excluding management fee)	RMB per sq m per month	85-150	110
Strata-title achievable price	RMB per sq m	23,000-35,000	29,000
Gross reversionary yield on strata sales units	%	4.5-5.5	5

Source: Savills Research
* Mid-zone, 500-sq m unit lease effective rate (taking into account rent free and fit-out).

TABLE 6
Retail sector, Q3/2012

Indicator	Unit	Value	
		Department store	Shopping mall
Age	years	0-70	0-10
Size	sq m	7,000-75,000 (median: 25,000)	30,000-270,000 (median: 80,000)
Stock	sq m	475,000	1,200,000
Total retail stock	sq m	1,836,000	
Key landlords	-	Deji, Central Emporium, Golden Eagle	
Achievable rent^ (shopping mall)	RMB per sq m per month	220-800	

Source: Savills Research
^ First-floor, 150-sq m unit lease to a fashion tenant, on a new area basis.

TABLE 7
Residential, Q3/2012

Indicator	High-end	Value	
		High-end	Mass-market
Typical unit type	-	>3 bedroom	2 bedroom
Unit size	sq m	160+	90
Mean achievable price	RMB per sq m	28,000	10,000
Mean achievable rent*	RMB per sq m per month	75	30
Unsold inventory	units	48,000	
Mean achievable price	RMB per sq m	11,200	

Source: Savills Research
* Typical unit 12-month lease.

Grade A office market

Office market drivers

The service industry accounts for over 50% of Nanjing's GDP and half of all employees. It also dominates FDI, having surpassed the manufacturing industry since 2008. Software, logistics, insurance and banking attracted a majority of investments in the service industry. According to the Nanjing Municipal Investment Promotion Commission, the city was home to over 7,000 business service providers by the end of 2010, of which, 35 were banking institutions, 75 were insurance companies and 25 were international financial institutions.

Nanjing's Grade A office market is mainly driven by leading domestic and international service providers. By 2010, Nanjing was home to over 250 enterprise headquarters, including 90 multinational firms.

Market characteristics

Golden Eagle International Building, the first Grade A office in Nanjing, was handed over in 1998. By Q3/2012, the total Grade A office stock of amounted to 780,000 sq

m. It is a localised market, with all the Grade A offices having been developed by domestic developers and over 60% of Grade A offices occupied primarily by domestic enterprises.

Similar to other second-tier cities, Nanjing's Grade A office market is dominated by strata-sales properties. Lease-only projects account for only 35% of total Grade A stock and are primarily concentrated in Xinjiekou and Hexi CBD. The main tenants are leading domestic and international enterprises.

Median management fees are nearly RMB15 per sq m per month. The general quality of Grade A office buildings is relatively low, even for the top five office buildings. Whole-floor efficiency rates range from 60% to 72%, with an average of 68%. Less than half of all Grade A office buildings have raised flooring, ranging from 50 mm to 150 mm.

Prime area: Xinjiekou

Xinjiekou is recognised as the city's traditional CBD. Xinjiekou has one

of only two Metro interchanges that currently exist in the city providing it access to Metro lines 1 and 2. Shanghai's equivalent CBD might be Xujiahui, with comprehensive advantages in accessibility, retail facilities and project quality. More than half of all Grade A office space in the city is located in Xinjiekou, however, the quality of office buildings varies greatly. In recent years, the launch of several new Grade A office buildings has helped to upgrade the area's business standing. Xinjiekou currently records the highest rents and lowest vacancies in the city.

The leading project in the area is Nanjing City Centre (南京中心). Located in Baixia district, the project has an office GFA of 80,000 sq m and was handed over to the market in 2010.

As of Q3/2012, Xinjiekou had a total stock of 416,000 sq m with a further four office towers scheduled to be added to the market by 2015 adding another 130,000 sq m of Grade A office space. This area is favoured by SOEs and MNCs, specialising in

FIGURE 10
Grade A office location map, 2015E



Source: Savills Research

manufacturing, trade, finance and advisory industries. Asking rents are RMB100 to RMB140 per sq m per month.

Secondary area: Gulou – Hunan Road

Gulou – Hunan Road, to the north-east of Xinjiekou, is a traditional retail area, with its first Grade A office buildings launched onto the market in 2006.

Scattered amongst Gulou and Xuanwumen, a majority of Grade A office buildings have been developed by or received investment from leading domestic and international institutions, such as Greenland and Morgan Stanley. All Grade A office spaces are for strata-title sale, resulting in a localised tenant profile. The launch of high-quality supply over the last three years has pushed office rents up in the area, but vacancies remain high.

The area's leading project is Nanjing International Centre Phase 1 (南京国际广场一期). Connected to Metro line 1, the project has two towers, and an office GFA of 23,000 sq m (11/F to 22/F in the south tower). The second phase, which is expected to be completed in 2015, will include additional office space as well high-end residences, a five-star hotel and luxury shopping mall.

By Q3/2012, Gulou – Hunan Road had a total Grade A office stock of 142,000 sq m with a further 50,000 sq m expected to be added by 2015. Office space is mainly dominated by SMEs and MNCs in the manufacturing and finance industries. Asking rents are RMB95 to RMB135 per sq m per month.

Emerging area: Hexi CBD

Hexi CBD began its planning and development in 2002, with the aim of boosting Nanjing's "headquarter economy". There are three phases in the master plan. All the projects in the first phase, which comprise mainly office and residential, have been completed. The second phase focuses on the development of Grade A office buildings, with most of them scheduled to be added to the market between 2015 and 2017. The scale of the scheme, especially in comparison to what already exists, raises the very real possibility of over-supply in the short to mid term. Hexi

CBD is still quite undeveloped and it will take a long time for the area to mature, yet the future supply forecast for the next five years will double the city-wide stock, consequently leading to elevated vacancy rates.

The area's leading project is Xindi Centre (新地中心). This 59-storey building has an office GFA of 97,350 sq m and was added to the office market in 2010.

By Q3/2012, Hexi CBD had only 177,000 sq m of Grade A office stock. However, by the end of 2015 a further 12 office buildings are expected to be completed, adding over 1 million sq m of office space. Hexi CBD is mainly driven by regional headquarters of domestic enterprises, focusing on the finance and insurance, IT and media industries. Asking rents are about RMB80 to RMB140 per sq m per month.

Outlook

The improved quality of upcoming supply is expected to raise both the business environment and also attract better quality tenants. Lease-only buildings are likely to become more popular among SOEs and MNCs as the differentiation in terms of lease and property management becomes clearer.

At the same time, the municipal government has set sales restrictions on some new offices in Xinjiekou and Hexi CBD, prohibiting them from selling units strata title for ten years after purchase of the land plot. It is believed that this will help to raise the standard of property management and attract better quality tenants.

Robust demand for large office space has been seen primarily from cash-rich domestic financial institutions. China Development Bank (2010) and Guangdong Development Bank (2011) have each purchased one office building in Hexi CBD for self use. Continuing rapid growth in many domestic companies and a greater preference for better quality office space are expected to increase the importance of domestic tenants in the Grade A office market in the near future.

Over-supply is expected to become an issue over the next four years, as average annual supply is scheduled

to exceed 300,000 sq m, nearly tripling the current stock by 2016. The pressure on the market may, however, be mitigated by the fact that some of these projects, which have not started construction but are still at the planning stages, may have their launch dates postponed. Of the new supply that is currently scheduled to come online over the next three years, 84% will be located in Hexi CBD, creating a significant shift in terms of the city's business landscape.

Retail

Retail market performance

Nanjing's retail sales amounted to RMB267 billion in 2011, rising by 17.8% YoY. The retail market is the second largest in Jiangsu, trailing only Suzhou. However, retail sales per capita surpassed Suzhou in 2011.

Urban consumption expenditure per capita reached RMB20,763 per annum in 2011, up 14.4% YoY. As the emerging middle class increases in number, so has consumption, with expenditure for 15% of the permanent population exceeding RMB50,000 per annum.

Market characteristics

Nanjing's retail market benefits greatly from tourists visiting from surrounding areas, such as Ma'anshan, Huaian, Yangzhou and Zhenjiang. It is estimated that about 30% of Xinjiekou's consumption is contributed by visitors from these areas¹. Most shoppers from surrounding cities will tend to flock to traditional or tourist-oriented retail areas, such as Xinjiekou and Confucius Temple.

With continuously increasing retail sales and the introduction of a number of mid- and high-end international brands, consumer preferences are changing significantly. As the emerging middle class continues to grow, demand for mid- to high-end clothing, jewellery, fast-fashion and digital products has sprung up. Meanwhile, customers have become more sophisticated and distinctive, giving rise to a diversified and well-segmented retail market.

Many hypermarkets, including Wal-Mart (three stores), Carrefour

¹ Nanjing Municipal Commerce Bureau: http://www.njsmj.gov.cn/www/njcom/view_a390708309253.htm.

(four stores), Auchan (three stores) and IKEA (one store) have entered Nanjing’s market. The growth of high net worth individuals (HNWIs) has also generated demand for the LVMH and PPR groups, as well as encouraging fast-fashion brands by Inditex to open stores in the downtown area. Deji Plaza, the leading high-end mall in Nanjing, reported turnover of RMB2.2 billion and a 55% YoY growth in 2011.

Key players

Nanjing’s retail market is mainly dominated by local operators.

Golden Eagle Retail Group

Sixteen years after the opening of its first department store – Nanjing Golden Eagle International Shopping Centre (Xinjiekou) – Golden Eagle Retail Group has successfully opened 27 self-operated stores with a total GFA of over 1.13 million sq m and a total operating area of over 798,000 sq m. These stores span four provinces, namely Jiangsu, Anhui, Shaanxi and Yunnan, covering 16 cities. Golden Eagle Retail Group typically focuses on securing long-term leases and developing mega stores for one-stop shopping².

Golden Eagle Retail Group reportedly has three properties under construction in Nanjing: Golden Eagle International Shopping Centre Phase III in Xinjiekou, Golden Eagle G-city in Hexi and Golden Eagle G-city in

² Golden Eagle Retail Group official website.

TABLE 8 **Leading retail projects in Xinjiekou**

	Xinjiekou Central Emporium 新街口中央商场	Golden Eagle International Center 金鹰国际购物中心	Oriental Department Store 东方商城	Deji Plaza (Phases I and II) 德基广场 (一期和二期)
Launch year	1936	1996	2000	2006/2012
GFA (sq m)	63,000	25,000	25,000	65,000/85,000
Floors	B1/F–6/F	1/F–6/F	1/F–6/F	B1/F–7/F
Type	Department store	Department store	Department store	Shopping mall
Positioning	Mid-end	Mid- to high-end	Mid- to high-end	High-end

Source: Savills Research

Jiangning. Project sizes range from 180,000 sq m to 450,000 sq m.

Central Emporium Group

Central Emporium Group was established in 1936 and has since listed on the Shanghai A share and developed a diverse range of properties over a large geographical region. The group manages seven department stores, and three wholesale markets in Jiangsu, Anhui and Henan provinces³, with a total operating space of 400,000 sq m. In contrast to Golden Eagle Retail Group, Central Emporium chooses to cooperate with developers to expand their scope of operations. The major beneficiary of this cooperation is their main shareholder, Yunrun Group.

Central Emporium already manages two projects in Xinjiekou and Shanxi

³ Central Emporium website.

Road and plans to open two more department stores in Hexi CBD, with a total retail GFA of 150,000 sq m.

Retail areas

Nanjing’s retail market is segmented into four areas:

Prime areas: Xinjiekou

Secondary areas: Hunan Road; Confucius Temple

Emerging areas: Hexi New Town

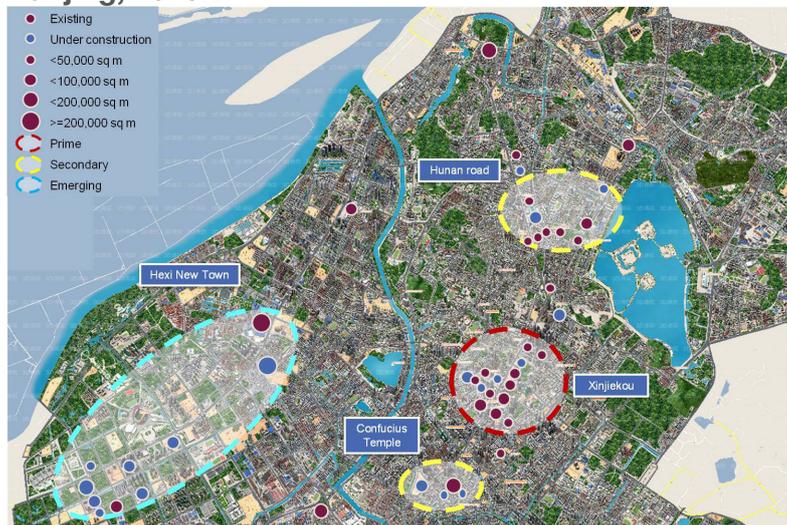
Xinjiekou

Similar to Wangfujing in Beijing and East Nanjing Road in Shanghai, Xinjiekou is a traditional retail area with a long history. Taking advantage of its reputation, convenient accessibility and diversified retail offerings, Xinjiekou attracts a huge number of shoppers from Nanjing, and north Jiangsu and Anhui provinces. Xinjiekou is reported to have recorded the highest daily footfalls in Jiangsu, 400,000 to 500,000 for weekdays and 600,000 to 1 million for weekends and holidays⁴. Deji Plaza, in the northeast of Xinjiekou, ranks first in terms of the concentration of luxury brands in Jiangsu. Hermes, Louis Vuitton, Versace, Prada and Chanel have all opened stores in Deji Plaza. The Louis Vuitton store, which was enlarged in mid-2012, now spans two floors in the first phase of Deji plaza, occupying 2,000 sq m.

By Q3/2012, Xinjiekou was home to 14 retail projects totalling 550,000 sq m of retail space, the largest concentration of retail space in the four main retail districts in Nanjing. First-floor

⁴ Nanjing Municipal Commerce Bureau: http://www.njsmj.gov.cn/www/njcom/view_a390708309253.htm.

FIGURE 11 **Map of department stores and shopping malls in Nanjing, 2015E**



Source: Savills Research

rents for fashion or accessories retailers range from RMB250 to RMB800 per sq m per month⁵. Over the next three years, 2013 to 2015, three department stores and one shopping mall are expected to be handed over, adding a further 250,000 sq m of retail space to the market.

Hunan Road

Hunan Road, connected to Shanxi Road and the Shiziqiao food street, primarily targets local consumers with the retail offerings reflecting this. There are, however, still a number of tourists to be found in the surrounding area visiting the famous scenic spots, Xuanwu Lake and Gulou. The footfall per day is estimated to be 150,000 for weekdays and 250,000 for weekends⁶. There is a large number of aged residential developments in the surrounding area which are scheduled for redevelopment.

Hunan Road's total retail stock included seven shopping malls and department stores in Q3/2012 amounting to 280,000 sq m of retail space. First-floor rents for fashion or accessories retailers in this area range from roughly RMB95 to RMB550 per sq m per month. One new project that is scheduled for completion in the next three years is Suning Tai Gu City, a mixed-use development with 60,000 sq m of retail space. This project is expected to bring more energy and dynamism to the area.

Confucius Temple

The Confucius Temple retail district attracts a large number of domestic visitors. Unlike the diversified retail

⁵ Rents are for fashion or accessories retailers on the first floor, on a net area basis.
⁶ Local newspaper.

market in Xinjiekou, malls in this area target young and white-collar customers with international fast-fashion and popular F&B brands. It saw an average daily footfall of 150,000 for weekdays and over 200,000 for weekends⁷. Mall architecture here creates an active and attractive shopping environment by making use of water features and open spaces.

By Q3/2012, only one existing shopping mall of 167,000 sq m was handed over in the area. First-floor rents in this area are estimated to range from RMB4 to RMB20 per sq m per day. Small- to mid-sized shopping malls and department stores are expected to be added to the market from 2013 to 2015.

Hexi New Town

Hexi New Town is an emerging area with a history of around 15 years. In the city's master plan, it is designated a "headquarters economy", and there are plans to develop its leisure facilities and residential communities. Following years of construction, the area has developed into a mid- to high-end residential community with a large number of well-educated and HNWI relocating to the area. Nevertheless, consumption is still focused on F&B, rather than clothing and digital products. With a lack of demand from general retailers, the volume of new supply entering the market is a key concern.

By Q3/2012, the total retail stock reached 372,000 sq m. First-floor rents vary greatly depending on locations and project but typically range from RMB1.5 to RMB8.0 per sq m per day. A significant volume

⁷ Local newspaper.

of new supply of about 1 million sq m will be handed over from 2015 to 2017, representing over 50% of the total space to be added to Nanjing's market during this period.

Outlook

Thanks to a substantial relocation towards decentralised and suburban areas, demand for one-stop shopping centres in these areas is projected to surge in the next few years. In response to this trend, a considerable supply of large-scale shopping malls is expected to be handed over from 2014 to 2015. Community malls, which are directly connected to Metro lines, are projected to become the focus for investment and development.

Because of its key economic position and strong consumption ability, Nanjing is one of main cities for international retail brands' China portfolios.

In addition to local operators, some domestic and international enterprises have purchased land to expand their business in Nanjing. New entries include COLI, Sunny World, Maoye, SHK and Tesco, with projects located in secondary and emerging areas, Confucius Temple and Hexi New Town.

Similar to other second-tier cities, over-supply is becoming a major issue, especially in emerging markets. Hexi New Town typifies this, with a huge supply of about 1 million sq m, bringing substantial supply pressure to the retail market.

Residential

Basic facts

Nanjing's residential market has a total stock of over 150 million sq m, less than one-third of Shanghai's residential space. It is dominated by sales, rather than investment for lease, as the latter is estimated to account for less than 20% of total residential transactions. By the end of 2010, residential space per capita in Nanjing was 33 sq m, slightly above the nationwide level. Composed of 2.77 members, each household owns 1.2 units of residential properties on average, which is believed to also be higher than the national average. Thus, one household typically owns 91.4 sq m of residential space, and the average size per unit is 76.2 sq m. However,

TABLE 9 **Leading projects in secondary and emerging areas**

	Hunan Road		Confucius Temple	Hexi New Town
	Yaohan 南京八佰伴	Nanjing International Center 南京国际广场	Aqua City 鹏欣·水游城	Wanda Plaza 建邺万达广场
Launch year	2009	2011	2008	2009
GFA (sq m)	25,000	87,000	167,000	275,000
Floors	1/F-4/F	1/F-8/F	B2/F-5/F	1/F-4/F
Type	Department store	Shopping mall	Shopping mall	Shopping mall
Positioning	Mid-end	Mid- to high-end	Young and mid-end	Mid-end

Source: Savills Research

a majority of those owning multiple properties do so for self use and/or wealth preservation, rather than speculation on capital value appreciation.

Besides commodity housing, social housing supply is strongly encouraged by the local government. In 2011, the total GFA of social housing under construction was 15.4 million sq m, accounting for approximately 10% of total residential stock.

Market performance

In order to prevent a price surge and to ensure affordability to home buyers, Nanjing’s residential market, like other key cities of China, has experienced mortgage and developer financing restrictions since 2010. From the beginning of 2011, home purchase restrictions (HPRs), which limit the capability to purchase multiple residential properties, have been implemented in Nanjing and have remained in place since.

The market reacted accordingly, with depressed transaction volumes and accumulating unsold stock. Not until Q2/2012 did transaction activity recover, as the government began to adopt differentiated mortgage and tax policies, as well as encouraging mass-residential supply, in order to support end-use demand. While the average transaction price climbed 144% from Q1/2007 and Q4/2010, it notably edged down by 3% in the 21 months during which HPRs were in place.

In Q3/2012, the market saw average monthly transaction volumes of close to 1 million sq m and prices stabilising around RMB11,000 per sq m. While the government is concerned about whether the current scenario is sustainable or not, the trend of slowing residential investment growth and the decreasing numbers of new starts, if unchanged, may lead to supply shortages in the mid-term, thereby pushing prices up once again.

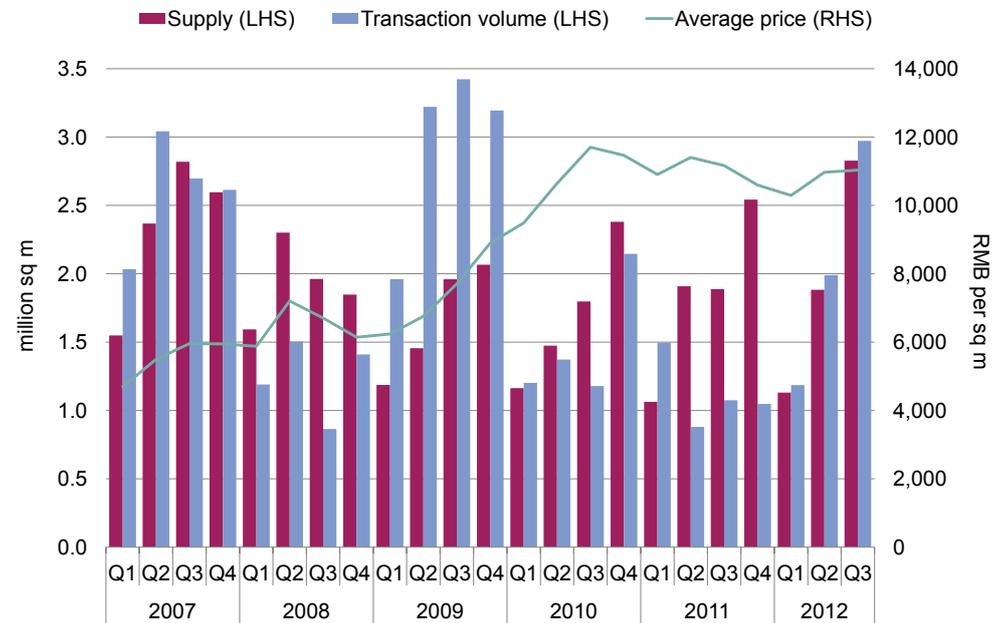
Market segmentation

Nanjing’s residential market is generally divided into eight areas.

City Centre

The City Centre is the most expensive destination in Nanjing, resulting from a combined set of factors:

FIGURE 12 Nanjing’s first-hand commodity residential market, Q1/2007–Q3/2012



Source: Nanjing Real Estate Transaction Centre, Savills Research

- 1) The traditional geographical, cultural and residential centre of Nanjing;
- 2) Within a ten-minute walk of Xinjiekou and Nanjing 1912 (a famous F&B hub);
- 3) Mature residential and entertainment facilities; and
- 4) Substantial educational resources.

However, as new residential-use land supply in this area is extremely limited, new projects are normally developed into luxury high-rise apartments, with prices from RMB20,000 to RMB50,000 per sq m. Meanwhile, some old-style lane houses and garden houses have been renovated in the area around Beijing Road (W), the northwest part of City Centre. However, transactions of this kind have been comparatively few, due to a lack of sellable original properties (in consideration of historical preservation), owners reluctant to sell and very high unit prices of over RMB50,000 per sq m.

East City

East City is another sought-after area of Nanjing, due to its proximity to Zhongshan Scenic Area and the Xuanwu Lake. While little new supply

has been produced in East City as a result of historical and environment preservation, residential projects are typically spacious detached villas, fully utilising the natural environment and attracting high-end buyers. Prices in this area range from RMB13,500 to RMB28,000 per sq m.

North City

North City, which used to be regarded as a less developed area, has begun seeing more high-end residential projects, as the local government endeavours to upgrade this area. These projects are normally low-rise apartments located on the banks of the Yangtze River with unit sizes exceeding 200 sq m. Transaction prices can reach RMB27,000 per sq m. Larger supply and transaction volumes have been registered in Hexi, Jiangning and Jiangbei areas in the past two years. Hexi area benefits from the development of its new CBD, attracting more top domestic residential developers or even international players, including China Overseas and Yanlord. While single projects are often comparatively large in terms of total GFA, and are typically developed in several phases, property types tend to be more varied, satisfying different appetites. Jiangbei and Jiangning, as suburban areas, are far from the City Centre,

and both areas continue to feature a degree of manufacturing and factory activity. Price-sensitive, end-use buyers tend to look for properties here.

Serviced apartment and hotels

Serviced apartments

Nanjing’s municipal government has introduced a unique land use right – “serviced apartment” – applied only in Nanjing. These 65 sites with this land use right are regarded as being for residential purposes, and are therefore subject to HPRs. As it is deemed ‘non-normal’ residential stock, buyers are not able to benefit from tax deductions and mortgage discounts. However, serviced-apartment-zoned land has not been released since 1 January 2011 (with exceptions for mixed-use land). For consistency, serviced apartments mentioned below will refer to properties providing centralised leasing and hotel services rather than self-use purposes.

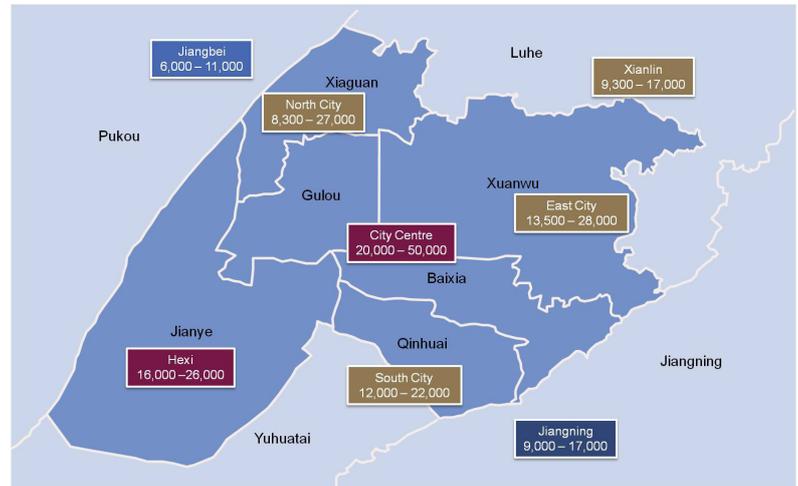
Nanjing’s leasing market is mainly dominated by individual owners. High-end strata-title leasing properties are clustered in the downtown area – primarily Xinjiekou – taking full advantage of the convenient accessibility, diversified retail facilities and ample educational resources. For high-end individual properties, average monthly rents are RMB80 per sq m per month.

Branded serviced-apartment performance

Nanjing has only one branded serviced apartment – Fraser – at present. Located in Hexi CBD, Fraser Suites Nanjing was launched in 2007, comprising two towers, one owned by individuals and another owned by Yanlord. The project offers five room types, ranging from one to three bedrooms. The smallest unit size is 130 sq m and the largest is 295 sq m. Tenants are diversified, including domestic business visitors and expatriates. Average rents are roughly RMB150 per sq m per month, with nearly 80% of rooms currently occupied.

Due to the increasing number of high net worth business travellers, demand for branded serviced apartments is expected to see an upward trend. Meanwhile, additional serviced-apartment operators are

FIGURE 13
Nanjing’s first-hand commodity residential price by district (RMB per sq m), 2012



Source: Savills Research

rumoured to be entering Nanjing in the near future. According to its annual report, Shangri-la will add 40 serviced-apartment units in 2013 near Xuanwu Lake.

High-end hotel market

By Q2/2012, Nanjing had 16 certified five-star hotels, over 50% of which are operated by domestic hospitality companies⁸. In terms of average nightly rates and occupancy, Nanjing’s hotel performance is equal to the national average but remains the best in Jiangsu province. In 2011, average nightly rates were RMB600 per room per night, with an average occupancy of 70%.

Compared with international-branded hotels, local operators in Nanjing reported better operating performances, both in terms of both turnover and gross profit. This is mainly attributed to the good relationships they enjoy with the local government and domestic enterprises, as well as their understanding of the local market and effective cost controls. In particular, Nanjing is home to one of the nation’s most famous domestic hospitality operators – Jinling Hotel Group.

The first international-branded hotel in Nanjing was the Sheraton Nanjing Kingsley Hotel in Xinjiekou area. By

⁸ Q2/2012 national star-rate hotel statistical communiqué.

Q3/2012, 11 international-branded hotels had been launched, operated by famous hospitality groups including Starwood, InterContinental, Accor and Hilton. Additionally, Shangri-la and Fairmont are scheduled to enter Nanjing’s hotel market in 2013.

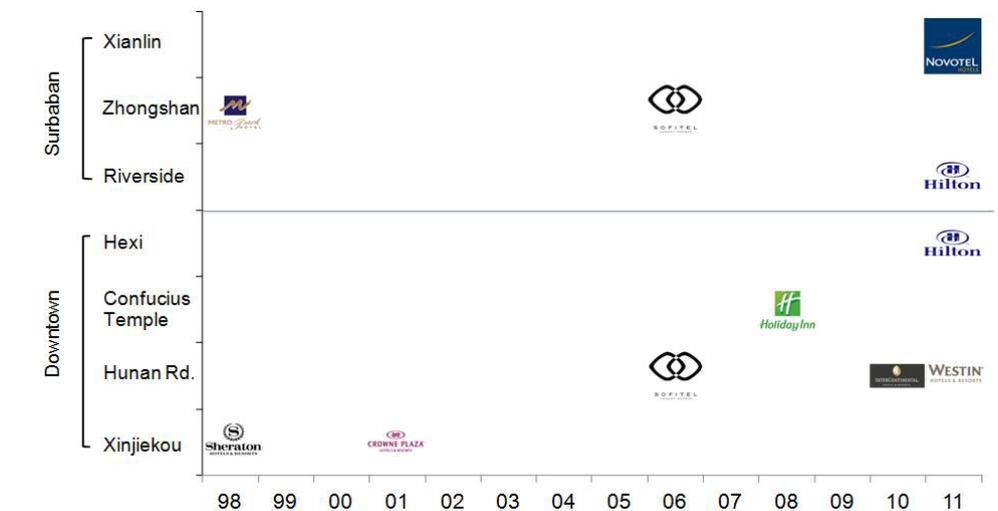
The MICE (meetings, incentives, conventions and exhibitions) market is a major driver for the luxury hotel trade. By the end of 2011, over 50% the high-end hotels in Nanjing, both domestic and international, were concentrated downtown in the Xinjiekou and Hunan Road areas, while other branded hotels are located in suburban areas, featuring mountain views or hot springs. With the change in accommodation preferences, hotels equipped with leisure facilities and natural resources are becoming more popular for both individual and business travellers. Consequently, this is changing the structure of Nanjing’s hotel market. Tangshan and Hexi New Town are the main areas benefiting from this trend. Meanwhile, some Southeast Asian boutique operators, providing high-quality services and higher price points, are looking to Tangshan in order to expand in Nanjing. They are committed to offering intimate environments and a unique living experience.

Investment deals

In general, institutional investment activity is relatively subdued. Office buildings and mixed-use projects in established and emerging CBDs accounted for the majority of total investment deals.

Xinjiekou, Gulou – Hunan Road area and Hexi CBD saw the most transactions. In 2005 and 2009, when a real estate slowdown occurred, some unfinished sites were transacted for unexpectedly low prices. In the Gulou – Hunan Road area, cash-rich SMEs in manufacturing industries prefer to buy whole or half floors for self use. Meanwhile, Hexi CBD has attracted leading domestic banks to make en-bloc deals. ■

FIGURE 14 International-branded hotels in Nanjing, 2011



Source: Savills Research

TABLE 10

Selected investment deals

Type	Date	Property (EN&CN)	Area	GFA (sq m)	Price (RMB mil)	Unit price (RMB per sq m)	Seller	Buyer	Comments
Office	2008	Nanjing IFC 南京国际金融中心	Xinjiekou	117,983	1,604	13,597	China Merchants Property Development	ARA Asset	Completed building
Office	2010	Walsin Centro(#9 in plot C1) 华新城	Hexi	30,000	675	22,500	Walsin Lihwa	China Development Bank	Pre-sale Self use
Office	2011	Walsin Centro(#10 in plot C1) 华新城	Hexi	27,067	661	24,408	Walsin Lihwa	Guangdong Development Bank	Pre-sale Self use
Office	2011	Dafa Industrial Financial Centre 大发·兴业金融中心	Xinjiekou	6,400	196	30,613	Dafa Group	Domestic company	Self use
Office	2011	Zifeng Tower 紫峰大厦	Gulou	2,600	97	37,174	Greenland Group	Jiangsu Gaoli Group	-

Source: RCA, Savills Research

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