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LASALLE®

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# Emerging City Winners Profiles: China Nanjing



Nanjing, capital of Jiangsu Province, is one of the great ancient capitals of China with its city walls being the longest surviving structure of its type in the world.

The city now has significantly strengthened its industrial position through consolidating its key industries, namely automobiles, electronics, petrochemicals, steel, and power. The solid automotive industry has also attracted investment from companies such as BASF and Ford.

The city's skilled labour base, supported by 38 universities and 640 research institutions, is becoming a major draw for corporates and investors.

We believe that with its improving economic base and growing reputation for skilled labour, substantial talent pool and an improving living environment, Nanjing's importance as a key secondary city in China should not be underestimated.



## CITY SUMMARY

Nanjing, one of the great ancient capitals of China, is steeped in 2,500 years of history with its city walls being the longest surviving structure of its type in the world. As capital of Jiangsu Province, Nanjing is located 270 km north-west of Shanghai, and ranks as the second largest commercial centre in east China. Supported by 38 universities and 640 research institutions, the city's skilled labour base is becoming a major draw for corporates and investors.

Through the middle of the last century the Communist Party of China (CPC) worked hard to develop Nanjing into an industrial centre with the establishment of chemicals and steel factories in particular. The contemporary economy of Nanjing reflects its past, with automobiles, electronics, petrochemicals, steel, and power being its "Five Pillar Industries". The city has significantly strengthened its industrial position attracting investment from companies such as BASF and Ford.

While still building up its brand on the wider regional stage, Nanjing's history as the capital of the KMT<sup>1</sup> government has encouraged it to build good visibility and excellent relations with the island over time. Not surprisingly, Nanjing is now home to some 50,000 Taiwanese people who have made Nanjing their home.

Nanjing remains an influential city and, with its improving economic base and growing reputation for skilled labour, substantial talent pool and improving living environment, we believe it will continue to attract the attention of global companies and international investors. Nanjing's importance as a driver of growth in China should not be underestimated.

## DEMOGRAPHICS

As a regional economic centre Nanjing has also become a hub for immigrants with some 1.76 million of its 5.96 million resident population originating from elsewhere in Greater China. The immigrant population has in fact been increasing by 0.3 million every year<sup>2</sup> since 2000, and is likely to hit 2 million by the end of 2006. If this growth rate is maintained then Nanjing will become a "mega city" within 15 years. The population density within the old city centre<sup>3</sup> is likely to reach 30,000/km<sup>2</sup> which would make Nanjing the most densely populated city in China. To ease the

## ECONOMIC DASHBOARD

Size	Population (million 2005)	6
	GDP (USD billion 2005)	30.2
	Employment (million 2005)	na
Growth	Population (% pa 2000–2005)	1.6
	GDP (% pa 2000–2005)	18.7
Infrastructure	Air Passengers ('000 2005)	5,386
	Freight Traffic (million tons 2005)	182
Openness	FDI (USD billion 2005)	1.4
	Exports (USD billion 2005)	1.42
Wealth	GDP/Capita (USD 2005)	5,115
	Disposable Income /Capita (USD 2005)	1,875
Education and Labour	Higher Education Institutions (2005)	38
	Total Enrolments ('000s 2005)	504
	Unemployment (% 2005)	3.35
	Average Wage Rates (USD 2005)	3,668
Business	Business Environment (Score)	B
Lifestyle	Quality of Life (Rank)	14*

\* Please refer to Definition of Terms

<sup>1</sup> Kuomintang, is a centre-right political party in the Republic of China on Taiwan. Also known as The Nationalist Party of China

<sup>2</sup> Compared to the growth number of its permanent population of 0.1 million per year.

<sup>3</sup> Old City Centre refers to area within the Ming Dynasty Rampart.

potential problems associated with density and congestion the Nanjing Municipal government has planned to gradually move residents out of the old city centre and to reduce the density to 25,000/km<sup>2</sup>.

The source of immigrants to Nanjing reveals not only its historic attractiveness to the Taiwanese but also its international draw, with some 8,000 people from Japan, Korea, Europe and America enjoying Nanjing's increasingly international profile.

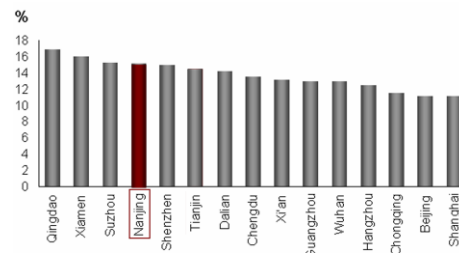
## ECONOMIC BACKGROUND

Nanjing's strategic location as one of the most important cities along the Yangtze River explains its importance to the government as a natural focus for its ambitions to lead the world in industrial development. Most of the key SOEs such as Panda, Nanjing Automobile Group, Nanjing Iron & Steel Union group, NARI group and Nanjing Chemical Industrial Group, were set up in the early 1950s, and still dominate Nanjing's economy. They have not only offered rich joint venture opportunities for foreign investors but have also helped to cultivate specific technical expertise. Some 640 research institutions were set up to support Nanjing's core industries covering areas such as petrochemicals, steel, hi-tech and military works. The presence of such institutions is an important attraction to foreign companies setting up R&D centres in Nanjing.

However, the heavy reliance on SOEs in Nanjing has resulted in a slow pace of development in the service industry in recent years. According to the Nanjing Statistics Bureau, employment in heavy industry accounts for 66% of the workforce compared to only 34% in tertiary industries, with the finance sector accounting for only 0.2% of those working in the tertiary industry. This unbalanced employment structure, with a high share of lower paying jobs, has held back Nanjing's per capita income growth, particularly compared to other key cities in the Yangtze River Delta region.

To redress this imbalance, while continuing to support its backbone industries, Nanjing's government is now endeavouring to foster more value-add products such as software and logistics. We would describe Nanjing as a city overshadowed by Suzhou, but also as a city with a renewed ambition to use its rich history and culture, its educational advantage and its dedication to success in upgrading its service industry, to develop a brighter future for itself. Indeed GDP growth took off in 2005, recording 15.2% in that year.

## GDP Growth Rate (2005)



Source: Statistics Yearbook

## URBAN PLANNING & INFRASTRUCTURE

### Inter Regional Connectivity

To seize the growth opportunity and to consolidate inter urban cooperation with surrounding cities, Nanjing has been aggressively upgrading its inner city infrastructure and collaborating with its neighbours to establish the "One-Hour Economic Region".

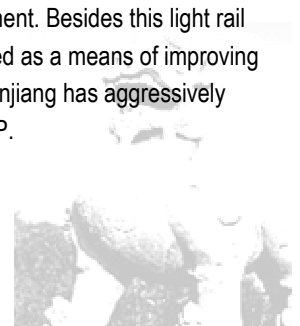
#### *The One-hour Economic Region*

This initiative is designed to exploit the strength of each city and to facilitate business and cultural cooperation. The planned area of the "One-hour Economic Region" is around 60,000 sq km, and covers eight cities of which three (Nanjing, Yangzhou and Zhenjiang) are in the Jiangsu Province and five are in the Anhui Province. Nanjing will be the core area within this region, and the rest of the cities will be connected by market activities rather than administrative boundaries. All eight cities stand to gain from the special region, with Nanjing further strengthening its position as a commercial centre and the others benefiting from "economic ripple" effects.

At the heart of this ambitious plan is the further improvement of connectivity between the cities by light rail and airport highways.

#### *Light-rail & Airport Highway*

Three light railways have been planned to connect Nanjing-Wuhu, Nanjing-Maanshan and Nanjing-Yangzhou. The Nanjing-Wuhu light rail alone, with a length of 32.2 km, will command a US\$0.3 billion investment. Besides this light rail plan, airport highways are proposed as a means of improving links to Nanjing Lukou airport. Zhenjiang has aggressively added this project into the 11<sup>th</sup> FYP.



### ***Nanjing – Hangzhou Expressway***

The 251 km expressway, with a US\$ 2.5 billion investment and completion scheduled for 2010, will cut the drive time between Nanjing and Hangzhou from six hours to one hour. The annual capacity for this expressway is estimated to be 50 million people. This expressway will attract more capital and goods flowing from Hangzhou, as well as investment from other cities in the Zhejiang Province.

### ***Nanjing-Shanghai Expressway***

A Shanghai-Nanjing high-speed railway is planned to further reduce the travel time between the two cities to half an hour. This expressway will effectively bring Nanjing closer to the action of Shanghai, thereby improving its attractiveness to foreign investors and strengthening its competitive position in the region.

### **Infrastructure Improvements**

In addition to the extensive infrastructure plans and commitment to better integrating itself into the region, Nanjing's government has also prepared a sound urban plan, including subway construction and new CBD development, within its 11th FYP.

#### ***Subway Construction***



The Nanjing government plans to build ten subways and four light-railways by 2050. The first of these mass transit lines, Metro Line 1 which runs from the north through Xinjiekou CBD to the New Olympic Gym, began operations in May

2005. Metro Line 2, running from the emerging CBD Hexi New District through the existing Xinjiekou CBD to the east, began construction in November 2005. The southern extension of the 20-km Metro Line 1 started in 2006 and runs to the University town in the southeast. Hence, the traffic system will divert some of the downtown population to other non-core city areas, leading to increased real estate activity in those regions.

#### ***Nanjing Port Expansion***

Nanjing Port, managed by NICC<sup>4</sup>, is regarded as the biggest inner-river port in China with its total container throughput reaching 610,000 TEUs in 2005. In order to secure Nanjing's position as an important logistics centre, a further US\$770

million will be invested to upgrade the total capacity to 4 million TEUs within ten years.

### **Central Business Districts**

#### ***The Xinjiekou CBD***



As one of the three most famous "Commercial Streets" in China, Xinjiekou covers an area of about 1 million sq m and includes famous streets such as Hongwu Road Financial Street, Zhengzhong Pedestrian Street, Wangfu Food Street

and Changjiang Road Cultural Street. Xinjiekou is home to the most modern service firms in Nanjing ranging from financial institutions and law firms to global retailers. Xinjiekou can rightly be considered as the premier CBD in the city.

#### ***The Hexi New District***

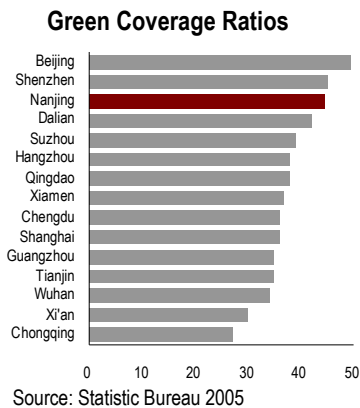
The Nanjing government has been attempting to utilise the 10th National Games of the PRC as an initial boost to the development of the Hexi New District into a sub-city centre of Nanjing in the next 10 years. Using the games as a centre piece to profile the city, the government has issued a series of preferential policies in a bid to attract global investors and international clients and to meet its ambition of becoming a premier service centre in the region. The Nanjing municipal government office is also planning to move to the Hexi New District to further stimulate its future development. To date, however, this strategy has not resulted in as much business activity as had been hoped for, nor have the Games themselves generated much excitement from the local residents. The vastly improving infrastructure nevertheless still holds up as a major potential catalyst of growth and dynamism.

### **BUSINESS ENVIRONMENT**

The city's major economic platform is based around the petrochemicals, automobile and steel industries for which it has been renowned for over half a century and which, due to intensive investment by the central government, can also boast an impressive supply chain operation. Strong local firms such as the Yangtze Petrochemical Group have offered rich joint venture opportunities for foreign investors. BASF's JV with YPC for example is the biggest in China. The strategy they have adopted mimics the Ludwigshafen operation in Germany where chemical facilities are clustered in key locations. BASF chose Nanjing as the optimal place outside Germany to repeat this very successful business model.

<sup>4</sup> NICC, set up in 1987, is the JV of Nanjing Port Group and ENCINAL TERMINALS from US. It is the first JV port firm in China.

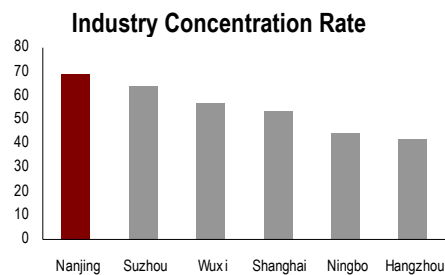
Bosch Siemens Hausgeräte is also located in Nanjing and its CEO has cited the city's living environment and impressive safety record as reasons for their choice. The improving environment and green advantages of the city (it ranks third in green coverage ratio among Chinese cities) is also a key determinant in their choice of Nanjing. The government is also committed to improving the city's quality of life.



**KEY INDUSTRIES/SECTORS**

Automobile, petrochemicals, steel and electronics have been the pillar industries in Nanjing. Their total output contributed 69% of industrial output last year with electronics accounting for 24%, petrochemical 28%, steel 11% and automobiles 7%.

The concentration rate of pillar industries<sup>5</sup> in Nanjing is the most intensive of the 6 major cities in Yangtze River Delta. The number has reached 69% in Nanjing, followed by Suzhou at 64% and Wuxi at 57%.



Source: Nanjing Statistics Bureau

The reliance on heavy industry has led to an unbalanced situation in terms of the economic structure in Nanjing, such that service industry and private enterprise development has been somewhat limited. As a comparison, according to Nanjing's Statistics Bureau, its 2005 foreign-invested industry output sits

<sup>5</sup> Concentration rate refers to the % of output of pillar industry to the city industrial output.

at 38% against that of Suzhou's at a much bolder 64%. In terms of private industry output, the comparable figures were 26% in Wuxi, 18% in Suzhou, and only 12% in Nanjing. Economic progress and improvement in per capital GDP levels will depend on Nanjing's progress along the economic value chain. To kick start this process the Nanjing municipal government is now concentrating on ways to develop the medical and new materials industries, as well as higher value tertiary industries such as logistics and the information service industry. The logistics industries in particular, which are central to the backbone of China's overall development, are targeted for a 20% y-o-y growth rate, and the financial insurance sector is aiming to contribute 10% of GDP by 2010.

**MAJOR EMPLOYERS**



**BASF-YPC:** BASF-YPC is the largest petrochemical JV in China in terms of its US\$2.9 billion investment and its 220 hectares coverage. As one of the six global BASF-YPC integrated sites, BASF-YPC is also the largest investment from

BASF in its 140 year's history. BASF-YPC began the construction of its facility in September 2001 and started operations in June 2005. It now has an annual production capacity of 1.7 million tons of high quality petrochemicals. BASF has decided to invest another US\$0.5 billion to expand the Nanjing projects, thereby further strengthening Nanjing's crucial role in BASF's Asia strategy.

**FORD:** Ford's 4,000-hectares base in the Nanjing Jiangning Economic and Technical Development Zone is composed of a Ford factory, a Mazda engine factory and Ford's global R&D centre - the total investment has been over US\$ 1 billion. The 1,900 hectares Ford factory will achieve an annual capacity of 400,000 autos by April 2007 from an initial investment of US\$0.5 billion. The 1,400 hectares Mazda engine factory with a US\$0.25 billion investment will eventually boast the capacity of 750,000 engines per year. Thanks to Ford's enormous investment in Nanjing, several supplier companies have been attracted to Nanjing with the aim of seizing the opportunity to serve Ford's requirements. This important project by Ford has been a result of Nanjing's strong automotive industry history and will further cement Nanjing's role as China's "Auto City". It qualifies Nanjing as one of Ford's four global auto manufacturing bases.



**FIAT:** Nanjing Fiat, established in April 1999, covers 640,000 sq m in the Nanjing Jiangning Economic and Technical Development Zone and has a total investment of US\$0.4 billion.



**MOTOROLA:** As one of the three software centres in China, the Motorola Nanjing Software Centre was established in 1997 with an investment of US\$10 million. Currently the facility employs over 500 engineers. The Nanjing centre

focuses on providing software products and solutions to the global market.

**LG:** LG moved its mainland product line from Shenyang to Nanjing in 2003 and invested US\$300 million in several projects. LG Electronics (Nanjing) Plasma is the largest PDP (Plasma Display Panels) manufacturing centre in Asia and LG's only base outside Korea. Its production capacity is some 25,000 PDPs. Although the initial investment of LG Nanjing Plasma was only US\$ 8.7 million, an additional US\$ 69 million was used to expand its capacity to over 1 million PDPs by 2008.



**PANDA:** Established in 1936, Panda is known as the "the cradle of the China electronics industry". Following the opening up policies of the government, Panda took the opportunity to actively seek JV s with multinational giants such

as LG, Ericsson and Hitachi in order to give more impetus to its business operation and product innovation. Between 2000 and 2005 Panda thus enjoyed an impressive average growth rate of 21.7% in annual sales.

## MAJOR INVESTMENT DEALS

**Kumho Tyres:** Kumho Tyres ranks in the industry's top 10 worldwide. This company, having already invested US\$120 million in 1996 and US\$89 million in 2002, signed an agreement in July 2006 to invest a further US\$351 million in Nanjing. The annual production capacity will be raised from its current 1 million to 1.4 million in 2008, which will crown Nanjing the largest tyre production base in China.



**The Nanjing Automobile Company:** After fierce competition with Shanghai Automobile, the Nanjing Automobile Company successfully bought the UK auto giant "MG-Rover" for about £53 million, the addition of which makes it the fifth largest auto

company in China. The price tag included the acquisition of the

Rover factory and Powertrain Ltd (its engine factory), which equip Nanjing Automobile with advanced R&D technology and production equipment. The Nanjing Automobile company plans to open a new factory in Nanjing to reach an annual output of 200,000 cars, 250,000 engines and 100,000 gear-boxes.

## LABOUR AND EDUCATION

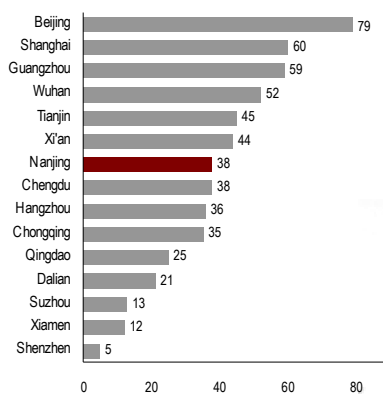
An abundant and high quality labour supply has been the most fundamental advantage for Nanjing in attracting foreign investors choosing their investment destination. Nanjing is one of the four primary education bases in China along with Beijing, Wuhan, and Xian. The 38 higher education institutions provide 440,000 graduates every year, and Nanjing University is amongst the top five universities in China. 70% of the universities in Nanjing have a good record in science with equally good reputations in electronic information, aviation, space navigation, materials, medicine and financial management.

To cater to the needs of the city's major commercial enterprises three college towns were built in Nanjing city - one in Jiangning Economic and Technical Development Zone, one in Nanjing Hi-tech Industrial Park and the other east of Nanjing-Xianlin Area.

Besides a large number of college students, Nanjing also possesses some national-level research institutions. There are more than 600 research institutions in the city with 500,000 engineers employed.

The universities and research institutions have contributed a high percentage of highly educated staff, which constitutes 22% of the total working labour force, ranking Nanjing fourth among the cities in the Yangtze River Delta and Pearl River Delta, after Guangzhou, Hangzhou and Shanghai.

### Number of Universities (2005)



Source: Ministry of Education, China & Government Statistic Report 2005

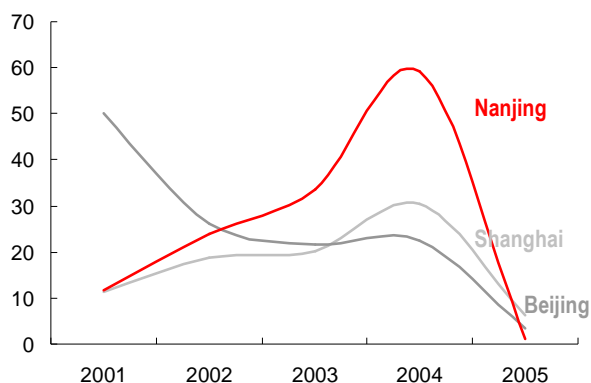
## REAL ESTATE DASHBOARD

<b>Market Size/Stock</b>	
Offices Grade A (000s sq m)	na
Number of Hotels (five star 2006)	9
<b>Market Activity</b>	
Office Construction Grade A (000s sq m)	na
Office Vacancy Grade A (%)	5-15
<b>Benchmark values</b>	
Offices Grade A – Rents (USD per sq m pa)	96-120
Retail – Rents (USD per sq m pa)	370-800
Industrial – Rents (USD per sq m pa)	18-24
Hotels – Room Rates (five star) (USD)	75-125
Residential Prices (USD per sq m)	1250-1500
Grade A Offices – Indicative Yields (%)	7-9

Source: Jones Lang LaSalle

## REAL ESTATE TRENDS

Real Estate Investment Growth Rate (%)



Source: Statistics Yearbook

## JONES LANG LASALLE'S VIEW

**Office Sector:** Xinjiekou, the core CBD in Nanjing, has 70% of the Grade-A office buildings in the city. Current Grade-A office buildings such as the World Trade Center and Zhidi Plaza have been the main office locations for MNCs in Nanjing. Jinlun International Plaza, still under construction, will add 40,000 sq m of space towards the end of 2008<sup>6</sup>. Demand is not strong enough for Grade-A office buildings as, given the proximity to Shanghai and Suzhou, most of the current MNCs have representative offices rather than full service offices in the city.

<sup>6</sup> It comprises a retail podium, hotel, service apartments and offices.

**Retail Sector:** The Xinjiekou area ranks in the top three commercial streets<sup>7</sup> in China (after Shanghai's Nanjing Pedestrian Road and Beijing's Wangfujing Road). The most outstanding phenomenon in the retail sector is that the market is dominated by local operators rather than the large foreign retailers frequently found in Shanghai and Beijing. The Golden Eagle Plaza was the highest end department store in Nanjing before the opening of the Deji shopping mall in 2006. In the hypermarket sector, local retailer Suguo has the strongest brand with its convenience stores expanding widely throughout the city.

**Residential Sector:** The residential market in Nanjing shows substantial promise. The average price per sq m in the city centre has reached US\$1,500 with continuing robust demand being derived from both local wealthy Nanjing residents and those from nearby cities in the Anhui Province and the northern Jiangsu Province. The villa market near Zijin Mountain is the favoured location of expatriates working in Nanjing.

## KEY PLAYERS

### Investors

**Residential:** Xixia Development<sup>8</sup>, Vanke, China Greentown, Sunco, Yanlord, China Overseas

**Offices:** China Merchant Group, China Greentown

**Industrial:** Prologis, Ascendas

**Hotels:** Accor, Hyatt, Marriott, Four Seasons, Starwood

**Retail:** China Greentown, Deji, Suning, Golden Eagle Group

### Occupiers

**Retail:** Wal-Mart, Carrefour, IKEA, B&Q, Metro, Suguo, Suning

**Service Firms:** Hang Seng Bank, Standard Chartered Bank, ABN AMRO, Deloitte

## KEY TRANSACTIONS

### Investors

**Merrill Lynch** invested US\$30 million in a high-end residential project named Tiptop. It was the first foreign fund investing in Nanjing's real estate market.

**Greentown** acquired 40% share of local top developer CNK Group, making it the biggest shareholder. The investment scope will be targeted at middle to high end projects in Jiangsu Province.

<sup>7</sup> In terms of retail sales

<sup>8</sup> One of the top 5 residential developers in Nanjing, has vast exposure in Yangtze River Delta cities. It is also one of the first property firms to get listed in China.

**Ascendas:** in September 2006 Ascendas bought the Creative International Centre, an integrated cluster of four new hi-tech office buildings and an adjacent amenity centre with a total GFA of 52,000 sq m and re-branded it as “Ascendas iHub”.

**Best Buy:** Best Buy, the world’s biggest consumer electronics retailer, acquired a 66% share of Nanjing Five Star Appliance with a total investment of US\$0.18 billion in 2005. Nanjing Five Star Appliance, headquartered in Nanjing, is the 4th largest home appliance retailer in China after Gome, Suning and Yolo.

**Occupiers**

**Cisco Systems:** CS leased 144 sq m in the World Trade Tower in August 2006.

**OFFICES**

- Grade-A offices cluster in Xinjiekou and Hunan Road Area
- Demand from international companies is relatively weak and is mainly for back office or representative office space.
- The CBD in Hexi New City will take time to mature

The office market in Nanjing has been dominated by low-quality and poorly managed buildings, in which local firms are the major tenants. Most of the local standard Grade-A offices are clustered in the Xinjiekou and Hunan Road areas, the most prestigious commercial area in Nanjing.



The World Trade Centre, for example, hosts most of the MNCs in Nanjing city. However, the building in terms of floor space and ceiling height is not of an international standard. The Golden Eagle International Plaza, another local standard Grade-A office building, the retail podium in which is considered to be the

most prestigious in Nanjing, has attracted Deloitte as a tenant. Rents have reached US\$12 to \$15/sq m/month. The International Finance Centre, developed by the China Merchants Group, opposite the Golden Eagle International Plaza, comes closest to International Grade A standard. The retail podium Oriental Shopping Center is another high-end retail place in Nanjing. One of the twin office towers was purchased by Sohu International Group<sup>9</sup> en-bloc in 2005.

Nanjing’s office market is aspiring to attract international HQs but in reality it is still domestically driven and continues to suffer

<sup>9</sup> Sohu International Group is one of the biggest silk trading companies in China.

something of an identity crisis between the service sector dominance of Shanghai and the manufacturing ambitions of Suzhou. The limited demand for Grade-A offices in the short term will keep rents stable unless and until large local firms expand or the market is exposed more to the service industry, both of which are possibilities in the next five years.

While Nanjing’s traditional office market will be challenged in achieving its ambition, the Hexi New City CBD, built as a catalyst for Nanjing’s development, faces even greater difficulties. Given the massive office supply (including Grade A and B) with total space reaching 2.4 million sq m at the end of 2005, coupled with weak demand and an immature commercial atmosphere, we believe is likely to take 5-10 years to mature into the dynamic market that it seeks to be. The operation of Subway line 1 and the government’s continuous support is needed to push this market forward over the coming years.

**INDUSTRIAL**

- Four state-level development zones in the city
- Strong performance in the petrochemical and automotive industries
- Successfully integrated academic networks

There are four state-level development zones in Nanjing. The Nanjing Hi-tech Zone targets the software development sector; the Jiangning Economic Development Zone focuses on the auto industry; the Nanjing Chemistry Industry Park features the petrochemical and chemical sectors and the Nanjing Economic and Technological Development Zone specializes in flat panel display products.

The Nanjing Hi-tech Zone has developed excellent relations with the 13 colleges in its vicinity; it has followed the “Silicon Valley” model where the industry zone is developed around education centres. A typical example is the Software College co-developed by Nanjing University and the Hi-tech Zone. The success of this operational model and the availability of high quality engineers give substantial advantages to the HTZ in further strengthening its software industry.

The Jiangning Economic Development Zone enjoys a premier position in the automotive manufacturing industry with the presence of Ford and Fiat underpinning its development. These car manufacturing giants have not only brought in huge investment, but also attracted a large number of up stream and down stream suppliers to substantially enhance the zone’s auto industry supply chain activities. Global logistics investors are active in Jiangning - in September 2006 for example, Ascendas

bought the Creative International Centre, an integrated cluster of four new hi-tech office buildings with an adjacent amenity centre (GFA of 52,000 sq m). It has now been re-branded as the "Ascendas iHub".

The other state-level development zones are the Nanjing Chemistry Industry Park, focusing on petrochemical and fine chemistry centred around the BASF-YPC operation, and the Nanjing Economic and Technological Development Zone with the anchor tenant being LG's Asia PDP manufacturing base.

## RESIDENTIAL

- The price of high-end residential apartments remains strong due to the limited number of prestige projects combined with active demand from nearby cities
- Villas and serviced apartments are popular among expatriates working in Nanjing

Nanjing's mass residential market has fluctuated - while 2004 saw an extremely dynamic period with fierce competition in land auctions, by 2005 supply exceeded demand by 1.5:1 due to the massive construction in the Hexi New City due to Nanjing's involvement in the 10<sup>th</sup> National Games. The cooling off measures released in 2005 have pushed some developers to delay construction. Around 14 million sq m of new supply came on stream in 2006. Considering the annual demand of 6 million sq m, we estimate that there will be limited price growth potential in the next 2-3 years.



However, the pricing structure in the high-end market is solid with prices in the Xinjiekou and Gubei areas (Gulou District) reaching US\$1,875/sq m and US\$1,500/sq m respectively. Jinlun International and Jinling Dagongguan are the most successful cases and attract rich people from nearby cities and

even from the Zhejiang Province.

The leasing market for villas and serviced apartments is sustained mainly by expatriates working for BASF and Siemens. Regent Park in the Zhongshan Scenic Resort, for example, has seen rents reaching US\$4,500/month, a level almost comparable to projects in Shanghai's Gubei District. Currently, the best villa areas in the city are around Zijin Mountain with its scenic surroundings and rich history.

Hexi District, as the new government supported sub-city centre, has been the most eye-catching district in the past several years.

Yanlord, Vanke and China Overseas all have large residential projects in the area. Prices have been somewhat volatile rising to US\$770/sq m in 2006. However, we do not see much growth potential for this area as the lack of surrounding amenities continues to challenge the progress of this market.

## RETAIL

- Domestic retail brands dominate the market
- Xinjiekou is the most prestigious retail area



Xinjiekou, Hunan Road and Confucius Temple are the three main retail areas in Nanjing, with Xinjiekou being the most prestigious retail cluster. Most of the middle-to-high end shopping malls and department stores are located in Xinjiekou. Moreover, it is one of the top 10 commercial streets in China with its total retail sales reaching US\$2.3

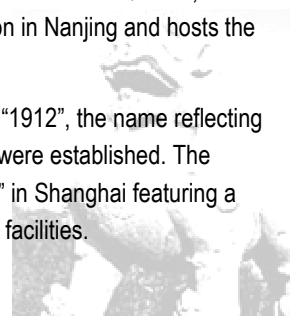
billion in 2006. The Golden Eagle International department store, the Oriental department store and Deji shopping mall form the "Golden Triangle" in the Xinjiekou area, and the clustering of middle end department stores and restaurants in the pedestrian zone typically attracts 1 million shoppers on each weekend shopping day. It is noted that 60% of these shoppers are from the surrounding cities, largely those within a one hour's travel time, which lack such a wide choice of retailing.

According to a survey by the Nanjing Statistics Bureau, non-local Nanjing residents spend US\$380/capita in department stores, 51% more than local residents. It is also noted that in some department stores, shoppers from nearby cities contribute around 60% of total retail sales, a trend which is likely to continue as Nanjing further strengthens its key position in the "One-hour Economic Region".

Total retail sales of Xinjiekou are likely to reach US\$3.8 billion by 2010, contributing 36% of the city's total retail sales. Ground floor rents in Xinjiekou are reaching US\$1-2.2/sq m/day.

"Confucius Temple", on the banks of the River Qinhuai, is the more traditional and historic location in Nanjing and hosts the majority of the best restaurants

The newly emerging retail place is "1912", the name reflecting the year in which the Guomintang were established. The environment is similar to "Xintiandi" in Shanghai featuring a number of pubs and entertainment facilities.





Hypermarkets in Nanjing have been mostly a domestic brands story. Suning for example, a local Nanjing home appliance retailer which was set up 16 years ago, has been among the top three retailers in China alongside GOME and Bailian.

It has a presence in 90 cities with 300 stores. Suguo is one of the biggest retailers in Nanjing holding a 50% market share in the supermarket sector. It has successfully penetrated many of the city's residential areas with convenience stores with good brand awareness and loyalty amongst Nanjing's population who, according to local residents' feedback, believe shopping in Suguo is more convenient than in Carrefour or Wal-Mart. Local brand domination of the market has sometimes constrained international players' willingness to enter the city but we are confident that Nanjing's future as a developing regional hub will improve its appeal to international retailers especially as the planned connections to nearby cities bring 2.7 million people within one hour travelling time of Nanjing.

## **HOTELS**

- The five-star hotel market is booming due to the active MICE activity
- Budget hotels saw aggressive expansion in the city

The Nanjing hotel market has seen a prosperous past thanks to Nanjing's role as a tourist and exhibition city and to the increased demand from foreign investors who use hotel rooms as apartments or representative offices.



Currently, there are nine five-star hotels in Nanjing with average occupancy rates of 68%, with the Jinlin Hotel, located in Xinjiekou, experiencing occupancy rates of over 90%. Tourism has grown by 15% in the last 3 years. With Nanjing's enhanced city image as a famous and historic city, tourism is likely to

continue to grow with turnover from tourism estimated to reach US\$12.8 billion in the next 5 years (triple its current level). Estimates suggest it will receive some 1.75 million foreign tourists and 77 million domestic tourists. Also, according to the China National Tourism Administration, the average time spent by foreign tourists in Nanjing has reached 4.15 days, ranking it first in terms of volume in the Jiangsu Province in 2005.

The positive outlook has attracted Accor to the city. This global hotel giant opened two Sofitels in Nanjing in May 2006, the first time that Accor has committed to two five-star hotels in one city in China. The Hyatt, Marriott, Four Seasons and St. Regis have also all planned to enter the Nanjing market. There will be another 19 five-star hotels added to the current stock in the next five years. Westin Hotels (of the Starwood Group) also chose Nanjing as a location for one of only three hotels in mainland China alongside Shanghai and Beijing.

Budget hotels have also witnessed fast development in Nanjing since 2005 with Motel 168, Home Inns and Jinjiang Inns starting operations there. Home Inns, for example, has opened eight hotels in Nanjing since October 2005 and another eight are planned to open by 2008.

## **CLOSING THOUGHTS**

Nanjing, regarded as one of the 10 safest cities in China, has industrial strength and a technically proficient labour pool that has enabled it to emerge as one of the most popular cities for foreign investment in the petrochemicals and automotive industries. However, the service industry in Nanjing has not seen any substantive growth due the city's limited exposure to international players. Consequently the demand for Grade A offices is limited. The city's industrial heritage and current attractiveness stands it in good stead for growth in middle level retail and locally appropriate office developments.

To maintain sustainable development, Nanjing needs to balance its industry structure by improving its service industry as well as keeping its strong heavy manufacturing base. The Nanjing government also needs to increase its own efficiency. According to a World Bank survey, it takes 88 days for a firm to interact with the government in Nanjing, compared to only 60 days in Shanghai and 68 days in Chengdu. Nanjing also needs to increase the effectiveness of its city marketing as an international location, especially for R & D activities.

According to the 11<sup>th</sup> 5 year plan, Nanjing's municipal government has committed to develop the city into one of the Yangtze River's major logistics hubs<sup>10</sup>, alongside its presence as an advanced manufacturing base and an important centre for education. We are confident that Nanjing's success at attracting major investment, particularly for R&D, will grow and that this city will succeed in positioning itself as a key secondary city.

<sup>10</sup> See China Logistics, The Geography of Opportunity, Jones Lang LaSalle, 2007

## DEFINITION OF TERMS

### ECONOMIC DASHBOARD

**Population:** Population refers to the total population as at 31 December.

There are two definitions of population:

Registered population – those officially registered with the police.

Permanent residence population – those who actually reside permanently in a location, usually longer than one-half year.

Nanjing's population refers to permanent residence population.

**GDP:** Refers to the gross domestic (i.e. regional) product of a location.

**Employment:** Refers to the number of persons engaged in labour and receiving remuneration payment or earning business income, including fully employed staff and workers in state-owned, collective-owned or other kinds of economic sectors and otherwise employed persons.

**Population Growth:** Refers to the compound annual growth rate over the five-year period 2000–2005

**GDP Growth:** Refers to the annual GDP growth rate over the five-year period from 2000 to 2005.

**FDI:** Foreign direct investment refers to investments made inside China by foreign enterprises and economic organisations or individuals (including overseas Chinese, compatriots in Hong Kong, Macau and Chinese enterprises registered abroad).

**GDP/Capita:** Refers to total gross domestic product divided by the registered population.

**Disposable income:** Refers to the actual income at the disposal of a household that can be used for final consumption, other non-compulsory expenditure and savings, which is part of the urban households' income that can be disposed by the urban households themselves.

**High education institutions:** Refers to the number of higher education institutions providing higher education courses and training for senior professionals. They include full-time universities, colleges, high professional schools, high professional vocational schools and others. High education institutions are set up according to the central government evaluation and approval procedures.

**Unemployment rate:** The registered urban unemployment rate refers to the ratio of the number of the registered unemployed to the sum of the number of persons employed and registered unemployment in a location.

**Average wage rates:** Average wage rate refers to average wage of fully employed staff and workers. It is calculated as follows:

Average wage of fully employed staff and workers = total wages of fully employed staff and workers/average number of fully employed staff and workers.

**Business Environment:** Jones Lang LaSalle's grading, measured by an assessment of a location's macroeconomic environment, its policy towards private enterprise and foreign investment, and its labour market and tax regimes. A location's business environment is graded from A (highest) to C (lowest), with Shanghai providing the benchmark.

**Quality of Life:** Jones Lang LaSalle's grading, refers to the quality of health, culture and environment in each city. A city is ranked among 15 cities (Shanghai, Beijing, Guangzhou, Shenzhen, Chongqing, Chengdu, Tianjin, Wuhan, Xi'an, Qingdao, Hangzhou, Suzhou, Nanjing, Dalian and Xiamen).

### REAL ESTATE DASHBOARD

**Offices Grade A Stock:** Refers to the total completed Grade A office space (occupied and vacant). Grade A reflects an above average property in the market, with quality criteria being at the upper end of the scale.

**Retail stock:** Represents the total modern retail stock.

**Number of hotels:** Refers to the number of five-star hotels.

**Office construction Grade A:** Refers to the total amount of Grade A office space in properties where construction has commenced, and completion is expected in 2007 or 2008.

**Office vacancy Grade A:** Refers to Grade A office floor space (as a % of total Grade A stock) in existing properties that are physically vacant, ready for occupation in the next three months and being actively marketed.

**Benchmark rents:** Refer to the typical open-market rents (within a range) that could be expected for a unit of the highest quality and specification in the best location expressed in US Dollar per square metre per year.

**Grade A office rents:** Includes management fees.

**Retail rents:** Refers to rent of ground floor of department stores or shopping malls.

**Industrial rents:** Refer to rents of pre-built industrial facilities.

**Residential prices:** Refer to typical prices (within a range) for high-end residential projects in US Dollar per square metre.

**Grade A offices – indicative yields:** Refer to the best (i.e. lowest) yield estimated to be achievable for a notional office property of the highest quality and specification. Indicative yields represent Jones Lang LaSalle's 'market view', based on a combination of market evidence where available and a survey of expert opinion.





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