Savills World Research
China

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Asian Cities Report
Tianjin Office

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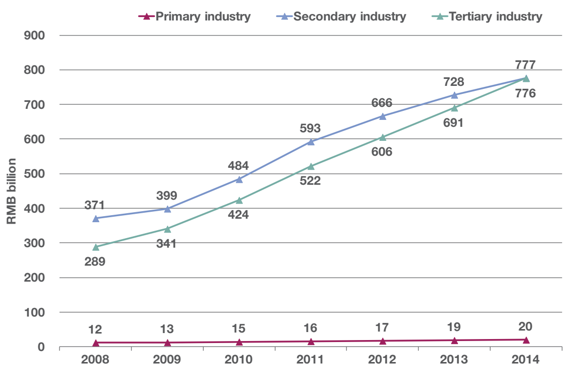
GRAPH 1

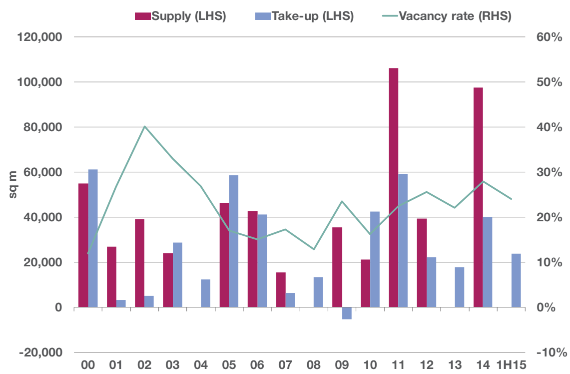
Primary, secondary and tertiary industries' GDP, 2008–2014



Source: Savills Research & Consultancy

GRAPH 2

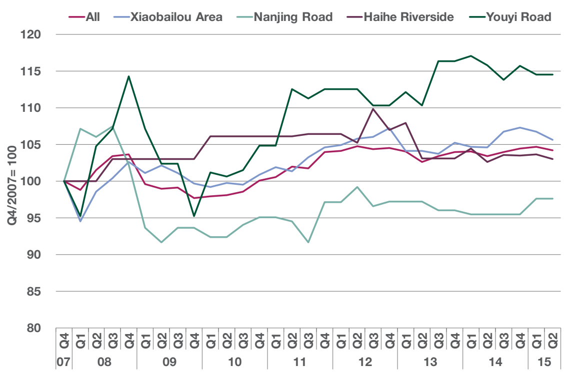
Grade A office supply, take-up and vacancy rates, 2000–1H/2015



Source: Savills Research & Consultancy

GRAPH 3

Grade A office rental indices, Q4/2007–Q2/2015



Source: Baidu

Economy

It cannot be denied that the Chinese economy is experiencing a change in gear from one that turned out to be a little high for the long-term economy, as evidenced by the slowing GDP growth in the first half of 2015. However, this slowing serves as a new state of play for the economy as it develops into a new normal.

As the Chinese saying goes "spring is hard to see in one's room when it is autumn all over the country"; no one can be spared if the whole country is witnessing an economic slowdown. Tianjin's GDP totalled RMB788.4 billion in 1H/2015, with growth slowing to single digits for the first time at 9.4%.

Tianjin's tertiary industry has seen a continuous growth, reaching RMB407.1 billion in 1H/2015. The tertiary industry (51.7%) for the first time surpassed the secondary industry (47.2%), becoming the biggest contributor to Tianjin's economy. Before 2014, the tertiary industry lagged behind the predominant secondary industry, a totally different picture from the first-tier cities in China which all saw their tertiary industries taking up a major portion of over 55%. However, it is worth noting that the tertiary industry in Tianjin has maintained double digit growth over the last few years, stimulating high demand for economic growth.

According to the positioning of the international port city of Tianjin by the Chinese government, more focus is to be placed on the development of modern logistics, commerce and trade, as well as finance and insurance, which will become the strongest drivers of demand for office space.

Supply and demand

Tianjin's city centre Grade A office market total stock reached 614,000 sq m by the end of 1H/2015, four times the figure in 2000. The supply figures indicated that Tianjin's office market has developed in a periodic manner, with a supply influx occurring in 2000, 2005 and 2011, all accompanied by high levels of take-up.

Average annual net take-up reached around 30,000 sq m over the last decade, indicating a slow but steady absorption of stock. However, the years following the world-wide 2008 financial crisis, especially 2009, took its toll on Tianjin's office market. The market witnessed a large number of contract terminations, leading to negative take-up levels.

The Tianjin office market is less international than first-tier cities, with the dominant demand driver being domestic companies related to logistics and trade, finance and investment, which is consistent with the national positioning plans. There has been an increase in demand for larger office space, indicating companies are beginning to expand within the evolving environment.

Vacancy rates and rents

Limited demand amid continuous supply has helped push city-wide vacancy rates up 7.1 percentage points over the last decade, leading to a sluggish rental increase. Over the same period, average rents climbed from RMB130 per sq m per month up to RMB140 per sq m per month. This indicates the non-volatile nature of Tianjin's office market, and the fact that the increase in rents is not driven by demand levels, but the improvement in quality of projects.

Rental movement has remained flat, with the absence of ups and downs despite external economic fluctuations.

With the highest concentration of multi-national companies, Nanjing Road felt the hit from the 2008 financial crisis and consequently rents contracted 13% between 2008 and 2010.

The handover of Tianjin's landmark project, World Financial Centre, marked a great increase in confidence in the market; however it also faced great operational risks due to its large scale. In response to this, 50% of the project was placed onto the strata-title sales market and rents were gradually lowered throughout the leasing stages in order to secure occupancy rates. The increased competition from the expected new supply over the next few years will place a strain on the market.

Free Trade Zone (FTZ) policy

Tianjin Free Trade Zone (TJFTZ) saw a fast growth in newly-registered enterprises since April when the FTZ was officially listed. Of the newly-registered companies in Binhai New Area during the first half of 2015, 70% were concentrated in the three zones within the FTZ, with commerce and trade, finance, and IT ranking highest of the sectors of registered companies.

As foreign investors are more cautious about decisions and expansion plans, they are slower in responding than domestic investors. During the initial stages of the Zone, the number of foreign-invested entities has increased to more than two hundred, with registered capital surpassing a third of total amount, indicating a great confidence of foreign investors in Tianjin's market.

The FTZ hopes to boost the service sector, planned as a key driver of future economic growth, which is expected to result in an increased demand for office space and an appreciation in the value of commercial properties.

Market outlook

China's economy has found itself at a turning point, with growth slowing down and its currency continuing to depreciate. There have been concerns that funds, especially those from overseas, might be withdrawn from the property market. However, the government is expected to introduce further rescue measures to stabilise the market. As a result, it is uncertain which direction the real estate market will follow in the mid-term.

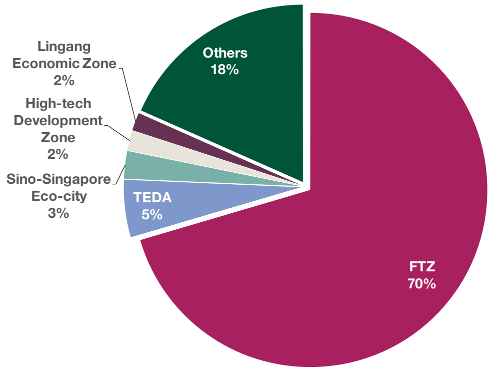
Another key determinant of the short-term future of the office market is supply. The remainder of 2015 is expected to see the addition of 378,000 sq m of Grade A office space in the city centre, equivalent to 62% of current stock. Most of the new supply will be located along the Haihe Riverside, with the majority developed by renowned domestic and overseas developers with the expectation of international construction standards.

Future supply and limited demand levels are expected to expose developers to greater operational risks, convincing them to allocate a certain amount of each project to the sales market. Due to the higher construction costs of the new developments, prices of these projects are likely to increase 2% to 3% over the next few years.

Although previously seen take-up levels have been relatively low and an influx of supply is expected, future take-up levels are expected to see an annual increase, which is mainly due to the favourable policies of the FTZ and the Beijing-Tianjin-Hebei integration. This is expected to increase demand for larger office space and large-scale investment in the FTZ areas - and even throughout Tianjin. The office market and investment market are to become more active as the measures are put in place.

GRAPH 4

Number of newly registered enterprises in Binhai New Area, 1H/2015



Source: Savills Research & Consultancy

TABLE 1

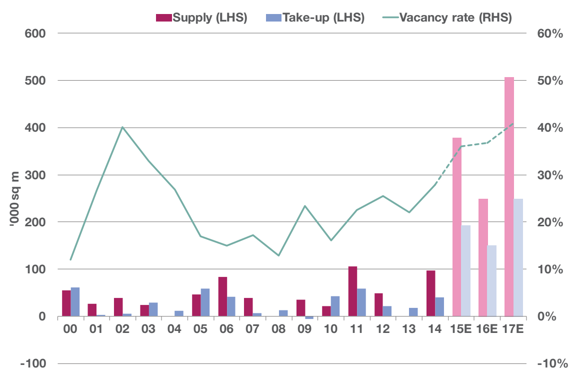
Key strata-title office projects, 1H/2015

Project	Launch date	Location	Office GFA	Average price (RMB per sq m)	Sales rate (%)
R&F Centre	2010	Hexi	70,000	17,400	69
Golden Valley	2010	Haihe	33,000*	25,000	42
Metropolis	2011	Heping	62,000	21,500	85
Borland International Plaza	2012	Nankai	32,000	17,000	28
The Esplanade	2012	Haihe	18,000	17,000	77
World Financial (Nankai Centre)	2013	Nankai	157,000	23,000	26

Source: Savills Research & Consultancy
* Total office GFA including leasable space totals 66,000 sq m

GRAPH 5

Market forecast, 2000–2017E



Source: Savills Research & Consultancy

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