

# Briefing Office and retail

August 2018



Image: Labor Park, Qingniwa Area, Zhongshan District

## SUMMARY

A lack of new supply saw rents and occupancy rates in both the Grade A office and mid- to high-end shopping mall markets remain stable.

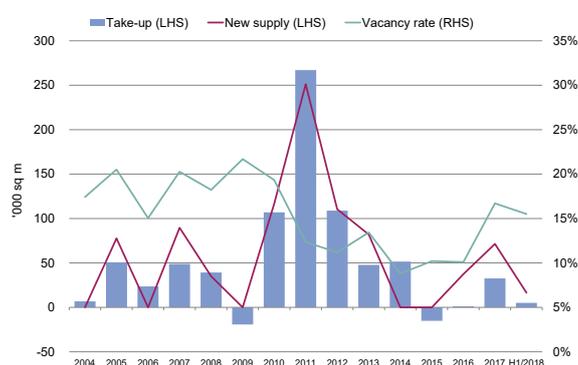
- Eton Tower (19F-29F) was partially handed over in the Grade A office market in 1H/2018. As a result, overall stock increased to 1.25 million sq m.
- Limited new supply coupled with fair leasing demand saw the city-wide vacancy rate fall by 1.2 percentage points (ppts) half-year-on-half-year (HoH) to 15.5% in 1H/2018.
- Grade A office rents fell 1.6% HoH and 1.6% year-on-year (YoY) to an average of RMB104.2 per sq m per month by the end of 1H/2018.
- No new retail projects were launched in 1H/2018. As a result, overall stock remained at 3.32 million sq m.
- The city-wide retail vacancy rate held stable at 12.1% in 1H/2018.
- Average mid- to high-end shopping mall first-floor rents increased by 0.6% HoH to RMB409 per sq m per month, although were down by 0.8% YoY.

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 “Following a series of delays in project delivery, the city’s Grade A office sector has accrued a bottleneck of supply which is expected to flood the market over the next two to three years.” Jack Xiong, Savills Research & Consultancy  
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### → Economic overview

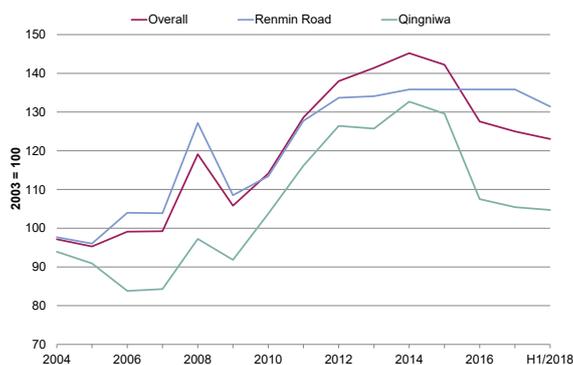
Dalian's GDP grew by 6.5% YoY to RMB352.1 billion in 1H/2018. Fixed-asset investment (FAI) totalled RMB89.8 billion during the same period, up by 19.6% YoY. Urban disposable income per capita and retail sales grew by 7% YoY and 10.4% YoY, respectively.

GRAPH 1  
**Supply, take-up and vacancy rates, 2004 – 1H/2018**



Source: Savills Research

GRAPH 2  
**Grade A office rental index, 2004 – 1H/2018**



Source: Savills Research

### Office market

#### Supply, take-up and vacancy rates

Eton Tower was partially handed over in 1H/2018, contributing a total GFA of 16,500 sq m to the city's Grade A office market. A delay in receiving fire control certification saw the project only partly opened. Upon full opening the project should offer a total of 90,000 sq m GFA. City-wide Grade A office stock increased to 1.25 million sq m by the end of 1H/2018. Xinghai Square and Qingniwa areas continued to reign as the largest submarkets, accounting for 38% and 27% of total stock, respectively.

Despite limited new supply entering the market in 1H/2018, a generally weak economic environment saw poor appetite from investors and companies, thus landlords were forced to reduce rents to both retain and attract tenants. Rental discounts saw the city-wide vacancy rate fall 1.2 pts HoH to 15.5%, although up by

3.4 pts YoY. The majority of demand continued to stem from insurance companies, which accounted for approximately 20% of all recorded transactions in 1H/2018.

#### Grade A office rents

The prolonged economic downturn continues to lead to weak leasing demand in the market, and consequently landlords have begun to reduce asking rents as they look to fill vacant space in their projects. As a result, Grade A office average effective rents fell to RMB104.2 per sq m per month by the end of 1H/2018, down 2.3% YoY.

#### Submarket vacancy rates and rents

##### Traditional business districts

Rents in the Renmin Road area remained stable at an average of RMB81.5 per sq m per month during 1H/2018. As the majority of office buildings located in this area are under strata-title management,

TABLE 1  
**Key economic indicators, Jan – Jun 2018**

Indicators	Units	Value	YoY growth rate (%)
GDP	RMB billion	352.1	6.5
FAI	RMB billion	89.8	19.6
Retail sales	RMB billion	182.2	10.4
Disposable income per capita (Urban)	RMB	21872	7
Consumer Price Index (CPI)	Previous year = 100	103.6	-

Source: Dalian Statistics Bureau, Savills Research

TABLE 2  
**Notable office leasing transactions, 1H/2018**

Company	Project	Location	Office GFA (sq m)	New lease/renewal
CreditEase	Eton Tower	Qingniwa Area	1,000	New lease
Hongcheng Capital	Nova Centre	Qingniwa Area	1,463	New lease
Boqi Capital	Wanda Centre	East Harbour	1,500	New lease

Source: Savills Research

→ they tend to be older and offer lower-quality facilities compared to many other projects in the city. Consequently, rents in this precinct are lower than in other submarkets. However, given its central location, the area remains a popular office destination among domestic companies with lower rental budgets. As a result, Renmin Road maintains the lowest vacancy rate in the city, at 6.3%.

The Qingniwa area is host to a number of prime office projects, such as the Senmao Building and Xiwang Tower, and continues to attract interest from multi-national companies. The weak performance of the newly-opened portion of Eton Tower saw the average vacancy rate in Qingniwa district increase by 1.4 ppts HoH to 15.1%. Rents in Qingniwa remained largely stable at an average of RMB112.1 per sq m per month in 1H/2018, down only slightly 0.7 of a ppt HoH.

**Emerging markets**

Xinghai Square rents remained stable at an average of RMB113.8 per sq m per month in 1H/2018. Growth was supported by demand from leading financial and trading companies, resulting in the vacancy rate falling 5 ppts to 21.8% in 1H/2018.

The East Harbour area witnessed a number of early lease terminations in key projects during the period, namely Wanda Centre and Shangfang Mansion, as the economic downturn caused more tenants to exit the market. As a result, the vacancy rate in the area grew by 2.7 ppts HoH to 18.8% during 1H/2018. Despite landlords slashing rents in the hope of attracting and retaining tenants, the area remained the most expensive in Dalian, averaging RMB125 per sq m per month.

**Office market outlook**

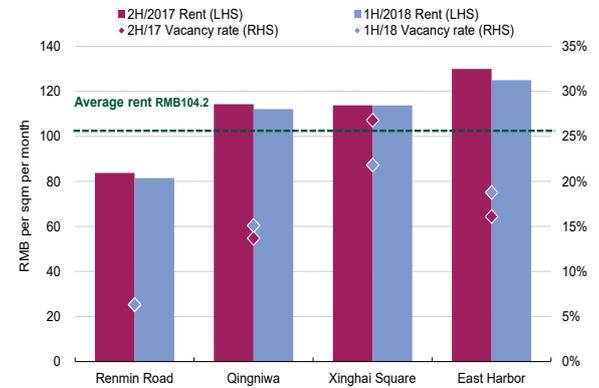
The Grade A office market is expected to receive new supply in 2H/2018 with two new projects – Central Avenue and Dingsen Tower – scheduled to be

handed over, contributing a combined leasable GFA of approximately 112,000 sq m. As all new supply will be concentrated in the prime areas of Renmin Road and Xi'an Road Commercial Zone, the market is expected to face difficulties absorbing the stock. As a result, both the city-wide occupancy rate and average rent are expected to face further downward pressure in the short- to mid-term.

Following a series of delays in project delivery, the city's office market has accrued a bottleneck of supply, which is expected to flood the market over the next three years. With demand already strained, the oversupply of new office space is forecast to raise vacancy rates. However, since landlords of new projects will be wary of their timing when it comes to entering the market, the result is likely to be more handover delays.

Xinghai Square and East Harbour are scheduled to receive the majority of new, high-quality supply, which should

GRAPH 3 **Grade A office submarket vacancy rates and rents, 2H/2017 vs 1H/2018**



Source: Savills Research

help them transition rapidly into mature business centres. However, the substantial level of new supply is expected to outstrip demand, causing landlords to extend rental discounts in order to attract and retain tenants. As a result, it is expected that the market will experience a continuous decline in rents until most vacant spaces are absorbed.

TABLE 3 **Future project focus**

Project name	Central Avenue	Dingsen Tower
Location	Xi'an Road	Renmin Road
Owner	Yongjia Group	Dingsen Group
Office GFA (sq m)	39,749	72,000
Floor plate (sq m)	2,000	2000
Asking rent	RMB 105 per sq m per month	TBD
Management fee	RMB 30 per sq m per month	TBD

Source: Savills Research



## Retail market

### Supply and stock

No new retail projects were launched onto the market in 1H/2018. As a result, total retail stock remained unchanged at 3.32 million sq m, of which shopping malls accounted for approximately 80%.

### Demand and vacancy rates

Looking to drive footfall to their projects, astute landlords focussed on introducing retailers that offer unique experiences for consumers. F&B retailers and experiential stores continued to expand in the city. Major leasing transactions during the period included:

- Global Village leased 4,000 sq m in Galleria in the Renmin Road area.

- Sushi Express launched a 300 sq m store in Pavilion in the Qingniwa area.

- Tabio leased approximately 150 sq m in Pavilion in the Qingniwa area.

Despite competition from the growing e-commerce sector and ongoing tenant adjustment strategies in some projects, the city-wide vacancy rate remain stable at 12.1% during 1H/2018.

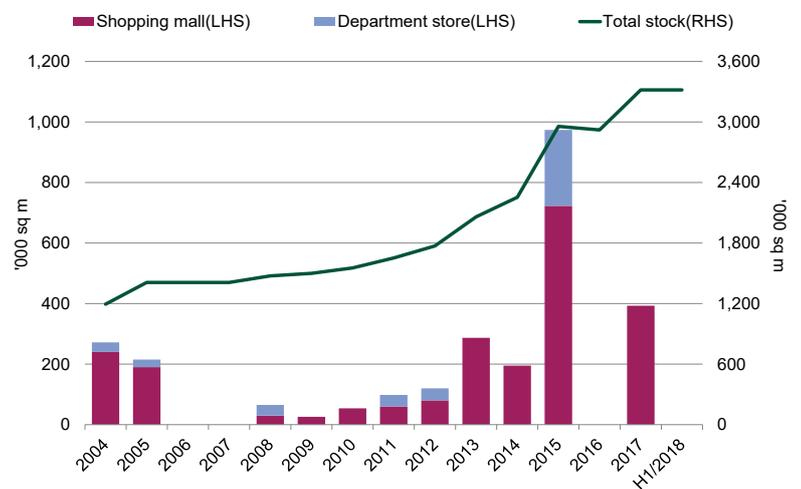
Xinghai Bay, one of the oldest prime retail locations, maintained the lowest vacancy rate at just 6% in 1H/2018.

The Qingniwa area, a mature business district, is host to a number of prime shopping malls and department stores, such as New-Mart, Mykal, Parkland and Pavilion. However, the ongoing tenant adjustment strategies in Victory Plaza and Parkland have seen the average vacancy rate in the area rise by 1.1 ppts HoH and 3.1 ppts YoY to 17.7% by the end of 1H/2018.

The Renmin Road area is also home to several well-known mid- to high-end shopping malls, such as Friendship Shopping Centre, Times Square and Galleria. The poor

GRAPH 4

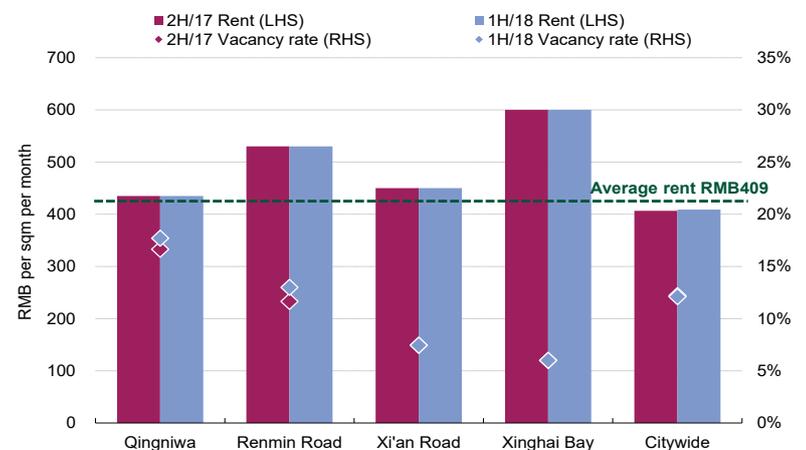
### Mid- to high-end retail supply and stock, 2004 – 1H/2018



Source: Savills Research

GRAPH 5

### Submarket rents and vacancy rates, 2H/2017 vs 1H/2018



Source: Savills Research

TABLE 5

### Selected retail leasing transactions, 1H/2018

Tenant	Trade	Project	Location	GFA (sq m)
Starbucks Coffee	F&B	New Mart	Qingniwa	500
Star Gym	Lifestyle	Parkland	Qingniwa	2,000
Holland	F&B	Galleria	East Harbour	200

Source: Savills Research

performance of New World, however, saw the average vacancy rate in the precinct increase by 1.4 ppts HoH during 1H/2018, up by 4.9 ppts YoY.

Xi'an Road, billed as the second largest commercial centre in Dalian, is host to a number of prime shopping mall projects, most notably Roosevelt Plaza and Fujia Plaza. The strong performance of the recently opened Central Avenue helped the average vacancy rate in the area to remain stable at 7.5% in 1H/2018.

**Rents**

Recently launched projects Central Avenue and Ganjingzi Wanda Plaza, which debuted in 2H/2017, continue to offer comparatively cheaper rents as they look to fill up their vacant retail space. Consequently, the mid-

to high-end shopping mall first-floor average rent remained stable at RMB409 per sq m per month during 1H/2018

**Retail market outlook**

With no new supply scheduled to enter Dalian's retail market in the remainder of 2018, total stock will remain unchanged at approximately 3.3 million sq m. The lack of supply is expected to see the city-wide vacancy rate further decline in 2H/2018. Established landlords in traditional retail areas are expected to increase rents as there is no shortage of demand in those areas. However, newer developments in non-prime locations will have to offer rental incentives in order to attract tenants. As a result, overall city-wide rental growth is expected to remain flat. ■

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