

Briefing Office sector

February 2018



Image: Fubon Financial Centre, Taijiang District

SUMMARY

Grade A office take-up surpassed supply for the first time in the last five years, with the vacancy rate decreasing significantly in 2017.

- Five new projects, located in the Taijiang and Mawei districts, were launched in 2017, adding 233,000 sq m to the Fuzhou office market¹.

- City-wide net take-up reached 235,000 sq m in 2017, down 17.3% year-on-year (YoY).

- City-wide vacancy rates stood at 26.4%, down 4.6 percentage points (ppts) YoY.

¹ Projects for self-use were excluded

- The average Grade A office rent was RMB91.1 per sq m per month, the Grade A rental index decreased 1.4% YoY.

- Strata-title transaction prices reached RMB25,926 per sq m in 2H/2017, with an average yield of 3.8%.

- Four new projects are expected to enter the market in 1H/2018, adding 362,000 sq m of new stock to the market.

“The Fuzhou office market is developing according to government policy. Significant supply is released every other year, which allows demand to catch-up.” Robert Ritacca, Savills Research

➔ **Market summary**

The Fuzhou office market continues to be influenced by government policies and macroeconomic plans with supply generally increasing every other year, according to government policy. For example, the Free Trade Zone was established in 2013, which was met by peak supply in 2014. In 2015, the government established the Fuzhou New District, followed by peak supply in 2016. Demand is generally able to catch-up to supply after a longer-term timescale, which has led to oversupply and the rental indices decreasing from 2014 to 1H/2017.

Supply is mainly located in emerging office sub-markets: Financial Street (金融街) and the Minjiang North area. Financial Street is becoming a primary cluster for Fuzhou's emerging financial industry, and several companies' headquarter buildings are launching in the area. The net effects will be upgraded facilities and increased area demand.

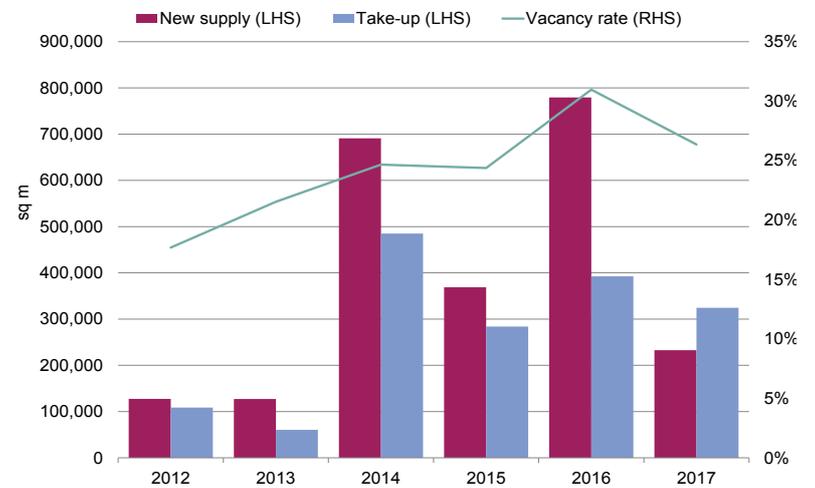
Minjiang North is the other Fuzhou emerging sub-market. It is slated to become a comprehensive business area, including a science and technology museum, library, and a radio and television building. Minjiang North's future development capabilities are promising.

Furthermore, the Gangshan district government plans to establish and develop the Jiangnan CBD on the south end of Minjiang. The new CBD, Minjiang North and Financial Street will encompass a new, comprehensive Fuzhou CBD, which places high expectations upon the Fuzhou Grade A office market.

Supply and Demand

Five new projects were handed over in 2017. The China Construction Bank (CCB) building (wholly occupied by the developer), China Merchants Bank (CMB) and Haixia Bank of Fujian (HBF) building are all located on the Financial Street, while Sandi Union Centre is located in Minjiang North and the Haixia Financial Building is located in Mawei Free Trade Zone. Unlike the CCB building, CMB and HBF buildings

GRAPH 1 **Grade A Office Supply, Take-up and Vacancy Rates, 2012 – 2017**



Source: Savills Research

GRAPH 2 **Vacancy Rates, 2H/2017**



Source: Savills Research

both have some areas for leasing. The Sandi Union Centre has a total GFA of 179,000, with floors five to 38 designated for office use.

New supply reached 233,000 sq m in 2017, pushing the total stock up 7.8% to 3.22 million sq m. The Fuzhou office market witnessed relatively lower supply and take-up volume in 2017, down 70.1% and 17.3% YoY respectively. However, the market also saw an up-take surpassing supply for the first time in 5 years, leading to a decrease in vacancy rates, down 4.6 ppts to 26.4%.

Vacancy

City-wide average vacancy rates decreased 4.6 ppts, to 26.4% through the second half of 2017. Wusi Road registered the lowest average vacancy rate of all sub-markets, approximately 18.8%. Wusi Road is the most mature office sub-market in Fuzhou, with 1.1 million sq m high-end office stock, accounting for 32.9% of the market share. Wuyi Road is an extension of the Wusi Road market, and is not as mature as Wusi Road. Thus, its vacancy rates are relatively higher (20.5%), but still lower than city average. As a newly established

business area, Mawei experiences much weaker relative demand versus other sub-markets; stock is limited and vacancy rates are relatively higher. However, excluding Wusi Road, vacancy rates were lower in every sub-market in 2017, with Minjiang North witnessing the largest decrease.

Rents

The Fuzhou Grade A office rent index has a long-term downward trend. This is predominately due to the vast supply entering the market over the past four years. City-wide rents experienced a six-month rebound at the end of the year, reaching RMB91.1 per sq m per

m, but still 1.4% lower than the same time last year.

Financial Street saw the largest rebound in the second half of the year, with average rents reaching RMB90.0 per sq m per m, but only up 0.1% YoY. Wuyi Road's average rent was RMB87.5 per sq m per month, rebounding in 2H/2017, but still down 2.2% YoY. Due to aged facilities, Wusi Road rents continue to decline, down 3.4% YoY to RMB96.8 per sq m per m. Minjiang North maintained the highest average rent of RMB117.5 per sq m per m, predominantly due to higher quality projects. Mawei area is far from

the central districts, and still at an early development stage. Thus, rents will be lower than other business areas, averaging only RMB48.3 per sq m per m in 2H/2017.

Investment

City-wide average strata-title office prices reached RMB25,926 per sq m, index-adjusted prices were down 1.0% YoY. Minjiang North maintained highest city-wide prices at RMB30,750 per sq m, while Mawei registered the lowest prices at RMB20,000 per sq m. Most Financial Street projects are for self-use/corporate headquarters or leasing, thus Financial Street's average price is lower than that of Minjiang North. Although Minjiang North area demand is not comparable to Financial Street, the Fuzhou government city plans to construct a comprehensive business area with ample supportive facilities. Minjiang North is more suitable for high-quality available-for-sale projects.

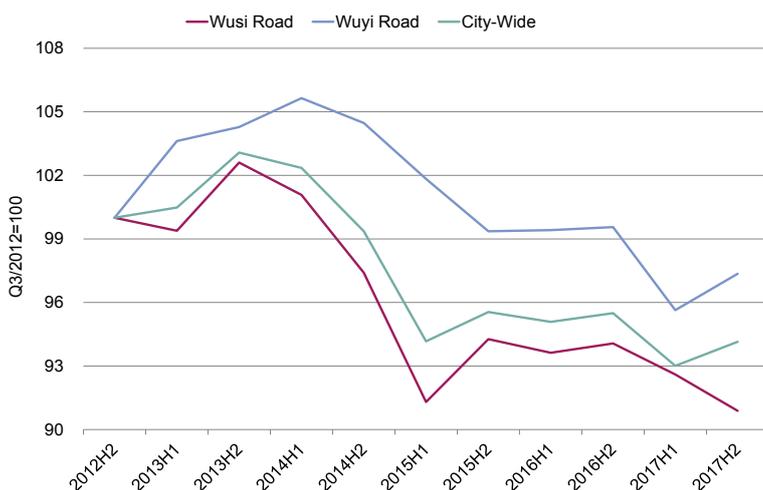
Market Outlook

Fuzhou Grade A office take-up performed well in 2017, as average vacancy rates decreased. However, Fuzhou is expected to receive much greater supply in 2018; ten projects are expected to launch, adding 920,000 sq m GFA to the current market, increasing stock by 28.6%, to 4.14 million sq m. The new projects will be located in Wusi Road, Financial Street, Minjiang North and Mawei. Financial Street and Mawei will both receive 35% of total supply.

The Fuzhou office market will continue to follow city-specific policies and city planning, especially with regard to Financial Street and Minjiang North. These emerging markets will continue to have higher project quality standards and better city planning than traditional business areas.

Financial Street will become a future cluster for Fuzhou's financial industry and Minjiang North will evolve into a comprehensive business zone. Along with the newly planned Jiangnan CBD, these three business areas on both sides of Min River will combine into an efficient central business district. The traditional business areas of

GRAPH 3 Grade A Office Rental Indices, 2H/2012 – 2H/2017



Source: Savills Research

GRAPH 4 Grade A Strata-title Office Price and Yields, 2H/2017



Source: Savills Research

Wusi Road and Wuyi Road, are still the major office areas but they are facing ageing problems in the form of inefficient transportation and out-dated facilities. Moreover, future supply in these traditional business areas is limited due to lack of land resources. Although some big state-owned enterprises and large companies will continue to occupy the traditional areas, modern services tenants will gradually be attracted to the emerging business areas.

Lastly, the newly-developed secondary business area, Mawei, has abundant land resources and the FTZ label. This designation, coupled with the 'One Belt One Road' initiative and Fuzhou's new district, means that Mawei will develop a unique office market proposition that provides more opportunities for trade, logistics and related industries. ■

Project Focus

Sandi Union Centre

Sandi Union Centre, developed by Sandi Holdings, is located in Minjiang North area, which is a comprehensive modern business area and important cluster for the modern service industry and the Cross-strait Financial Centre. The project has around 179,000 sq m total GFA, with 55-floors, four floors allocated to retail, and three sub-floors of underground parking. The fifth to 38th floor of the building is for office use, while the 39th to 55th floor is occupied by the Hilton Hotel Group.



Location	Taijiang district
Owner	Sandi Holdings
Handover Date	2H/2017
Total GFA	179,000 sq m
Standard Floor Area	2,200 sq m
Lease/Sales	Lease/Sales
Asking Rent	RMB130 per sq m per m
Asking Rent	RMB33,000-37,000 per sq m
Management Fee	RMB12.5-18 per sq m per m

Source: Sandi Union Centre

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