

Briefing Office and retail sector

August 2016

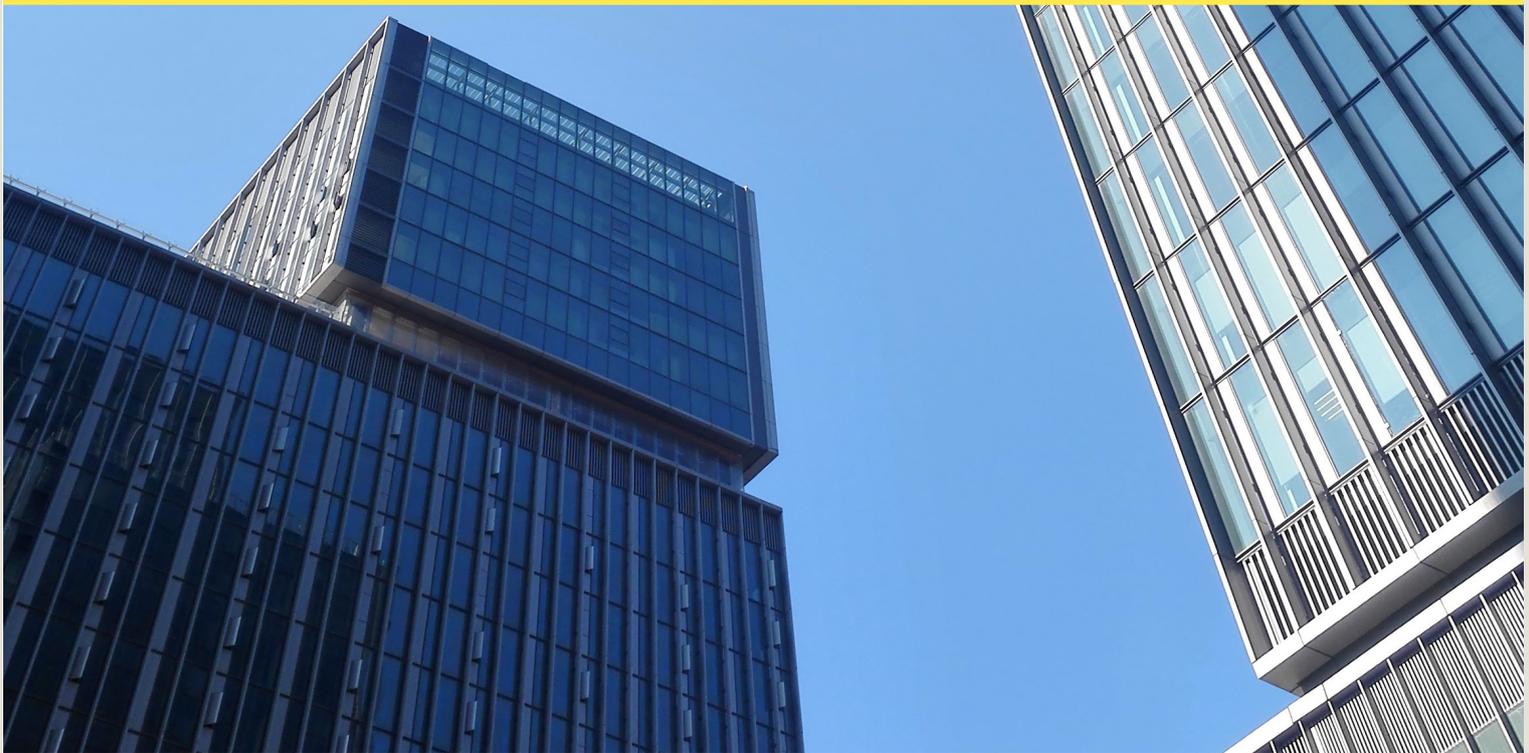


Image: Xizi International Center

SUMMARY

Both the office and retail markets saw an increase in rents and a decrease in vacancy rates in 1H/2016.

- Three new office buildings were handed over in 1H/2016, adding 174,500 sq m to the market.

- Net take-up totalled 191,000 sq m in 1H/2016, with approximately 50% occurring in the Qianjiang New City.

- Grade A office rents increased 0.6% in 1H/2016 to an average of RMB5.1 per sq m per day, while

vacancy rates decreased 4.5 percentage points (ppts) to 20.5%.

- The city's urban retail market received no new supply in 1H/2016.

- Retail rents increased 2.4% in the first half of 2016 to RMB17.2 per sq m per day, while vacancy rates fell 2.7 ppt to 10.9%.

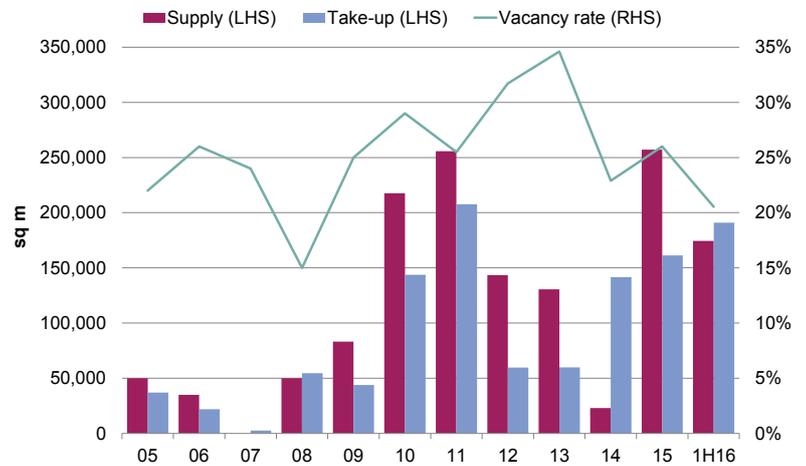
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 “On the back of strong economic growth, the city’s commercial market was one of the best performers among second tier cities.” James Macdonald,
 Savills Research

➔ Office market

Hangzhou continued its stellar economic performance in 2016, maintaining double digit GDP growth for the fifth consecutive quarter. The city's information economy, including the IT and e-commerce sectors, is the main driver of growth, recording 26.2% year-on-year (YoY) growth.

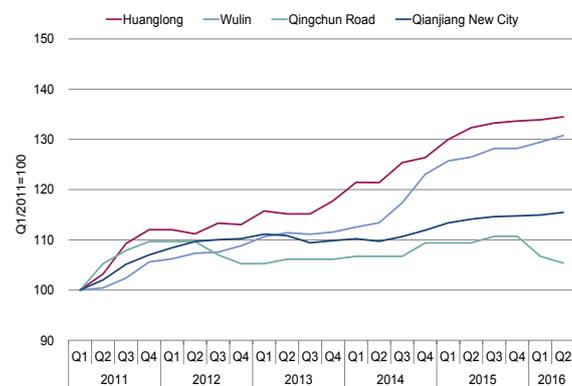
Despite the arrival of three new projects handed over in 1H/2016, the city's strong economic performance supported market absorption, with net take-up reaching 191,000 sq m, the highest half-year take-up level in the past two years. By end of June 2016, the vacancy rate of the city's Grade A office market decreased 4.5 ppts half-on-half (HoH) to 20.5%, 16.3 ppts lower than the historical peak in 1H/2013. The citywide

GRAPH 1
Grade A office supply, demand and vacancy rate, 2005–1H/2016



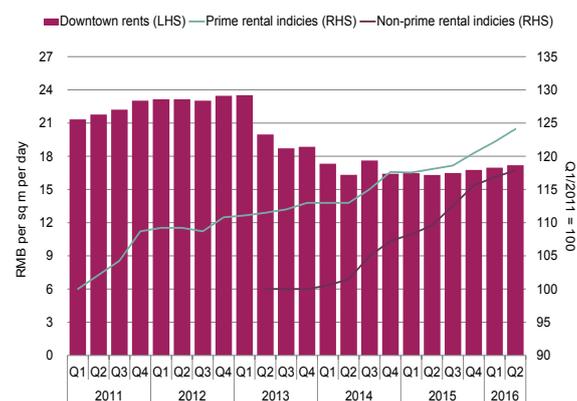
Source: Savills Research

GRAPH 2
Grade A office rents by area, Q1/2011–Q2/2016



Source: Savills Research

GRAPH 3
Downtown retail rents and indices, Q1/2011–Q2/2016



Source: Savills Research

vacancy rate has been in decline since the second half of 2014.

Current vacancy levels in the city are below the national average for second tier cities (around 31%). The city absorbed an aggregated 317,400 sq m of new space between 2014 and 2015, the greatest among its peer cities during the same period.

Three new projects – Kerry Centre, Huafeng International Business Plaza and Xizi International – added 174,500 sq m to the market in 1H/2016.

Companies from Zhejiang province accounted for 71% of the newly occupied space, while international companies accounted for only 6%. Zhejiang Chemicals Import & Export Corporation and Xizi UHC took over 10,000 sq m of space each in Xizi International.

Financial companies leased approximately one third of the occupied space in the three new buildings. Shanghai Bank took 10,000 sq m in Huafeng International Business Plaza, Sumitomo Mitsui Bank took two floors in the Kerry Centre, while Overseas Chinese Fund took 5,000 sq m in Xizi International.

Qingchun Road was the only area to record a decrease in both

occupancy rates and average rent. Although bordering the two prime CBDs, Wulin and Qianjiang New City, the sub-market is composed mostly of Grade B office buildings and lacks enough high-quality, large units to attract larger occupiers. The influx of 177,100 sq m of Grade A supply since 2015 has improved the situation but the market is still struggling to absorb the new space.

Retail market

In the first half of 2016, the city recorded retail sales of RMB241.4 billion, up 10.5% YoY and 3.5 ppts higher than the growth rate in same period of 2015. By retail sales volume, the city is now ranked third in the Yangtze River Delta area, after Shanghai and Nanjing.

Average retail rents increased 2.4% in 1H/2016 to RMB17.2 per sq m per day. Prime areas recorded an above average growth rate of 3.0%, while complex projects in non-prime areas grew by a more moderate 2.0%.

Significant footfall generated by residents, university students and tourists visiting the Xixi Wetland Park helped West City record another strong performance, with rents increasing by 7.8% in the first half of the year. The Wetland Park saw increased footfall of 160,000 during the 2016 Spring Festival alone,

making it the third most popular tourist destination in the city after the West Lake and Zhijiang. Retailers such as Pandora and Boy London are targeting leading projects in the area, having recently opened stores in Intime City and Xixi In-City Plaza, respectively.

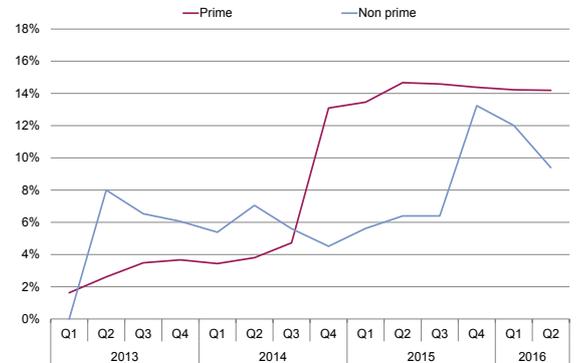
Vacancy rates in the downtown area decreased by an average of 2.7 ppts since December 2015, to 10.9%. Both prime and non-prime areas saw lower rates compared with six months ago. West City once again maintains the city's lowest vacancy rate during the past 12 months and stood at 3.4% by end of June 2016.

The area is expected to maintain its competitiveness due to well balanced future supply and an increase in tourist attractions.

Existing international brands have ceased further expansion plans in prime areas of the city. A few exceptions to this are Numero Ventuno and Issey Miyake which opened in Hangzhou Tower.

The downtown area saw no new supply during 1H/2016, but is expected to receive 395,000 sq m in the second half of the year, with 65% of this new supply concentrated in the city's prime locations. ■

GRAPH 3 **Downtown retail rents and indices, Q1/2011–Q2/2016**



Source: Savills Research

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