

# Briefing Office and retail sector

March 2017



Image: Kerry Center

## SUMMARY

While the G20 Summit invigorated the Hangzhou economy, abundant new supply continues to hamper the commercial property market.

- Galaxy International entered the market in the second half of 2016, adding 70,000 sq m.
- City-wide Grade A office vacancy rates fell 3.4 percentage points (ppts) half-on-half (HoH) to 17.1% in 2H/2016, primarily due to the strong performance of non-prime areas.
- Grade A office rents increased 1.8% year-on-year (YoY) to RMB5.0 per sq m per day.
- Three new retail projects were launched in 2H/2016, adding 219,000 sq m to the city's downtown retail market.
- Vacancy rates in shopping malls decreased 0.9 of a ppt YoY to 10.8%.
- City-wide first-floor shopping mall rents increased 5.9% YoY to RMB18.2 per sq m per day, largely driven by strong demand for, and good business performance of, non-prime projects.

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 "Supply is expected to peak in Qianjiang New City (QJNC) in the next three years, creating huge pressure for the leasing market, although it will help further develop the city's office market." James Macdonald, Savills Research  
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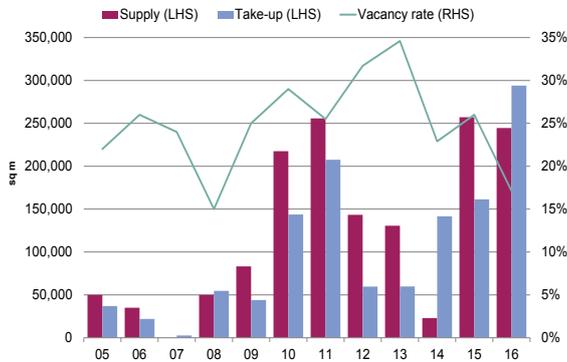
➔ **Office market**

**Market commentary**

Hangzhou's GDP grew by 9.5% in 2016, to RMB1,105 billion. Service industry output increased to RMB676.8 billion, accounting for 80% of the city's GDP. The municipal government remains committed to developing Hangzhou into a regional finance and wealth management centre.

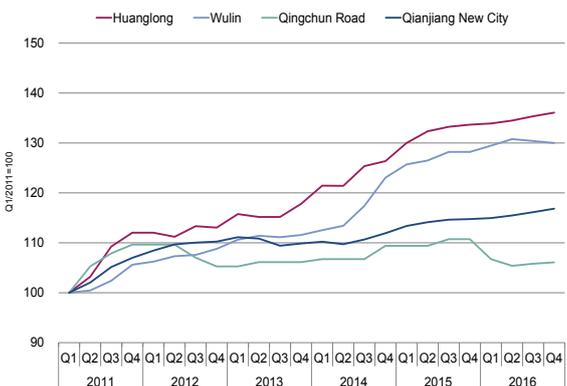
Net take-up totalled 103,000 sq m in 2H/2016, bringing annual net take-up to 294,000 sq m, the highest in recent years. The holding of the G20 Summit brought attention to Hangzhou, improving the local economy and generating new demand. The professional services and financial industries, and internet companies, drove the majority of demand.

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



Source: Savills Research

GRAPH 2 **Grade A office rents and vacancy rates, Q4/2016**



Source: Savills Research

TABLE 1 **Selected office leasing activities, 2H/2016**

Tenant	Project	Location	GLA (sq m)
CZ Bank	Kerry Center	Lakeside	3,000
Non-disclosed real estate company	Huafeng International Business Plaza	QJNC	1,800
Samsung Life Insurance	UDC	QJNC	730
Ping'an Group	Canhigh Center Office	Wulin	260

Source: Savills Research

Average Grade A office rents stood at RMB5.0 per sq m per day, an increase of 1.8% YoY. Both prime and non-prime areas saw an increase in rent by 2.44% and 1.45% YoY, respectively. Grade A office rents in the QJNC area continued to record a steady increase of 2.71% YoY.

**Supply and demand**

Galaxy International was the only project handed over in the second half of 2016, adding 70,000 sq m of Grade A office space. The project is located in the Wulin area, in the vicinity of Wulin Square. The project is comprised of four 23-storey Grade A office buildings. Currently, the first phase of leasing only includes buildings A and B.

The city's financial and information sectors remain the key demand drivers of the Grade A leasing market. There was also a notable uptick in leasing activity among real estate companies in 2016.

**Grade A office rents and vacancy rates**

City-wide Grade A office rents recorded a moderate increase of 1.81% YoY to an average of RMB5.0 per sq m per day. Both the prime and non-prime markets saw an increase of 2.44% and 1.45% YoY, respectively. As the newly-launched project is located in a remote area of the Wulin submarket, the rental price for the project is 33% lower than the area's average rent. This caused the average rent of the Wulin area to decrease by 0.59% HoH. Given the positive impact of the G20 Summit,

the rent in QJNC increased by 1.81% HoH to RMB3.74 per sq m per day.

The city-wide Grade A office market vacancy rate decreased by 3.4 ppts HoH to 17.1%. The vacancy rate in prime areas increased by 8.2 ppts HoH to 21.6%, while it decreased by 6.8 ppts, to 15.6%, in non-prime areas. Vacancy rate movements resulted from significant changes in the performance of different submarkets. The vacancy rate in the Wulin area increased to 35.9%, to become the highest among all submarkets, due to new supply and weak take-up as tenants increasingly sought established projects in more central locations.

With improved accessibility, a maturing business environment and comparatively low rents, QJNC continued to attract companies looking to relocate, causing the vacancy rate of the area to decrease by 4.5 ppts HoH to 17%. Strong take-up in new projects such as MixC Tower A and Tower B, which contributed to a significant jump in the area's vacancy levels after being handed over in Q4/2016, also helped to improve the submarket's performance.

**Office market outlook**

A number of Grade A office projects are forecast to launch in 2017, adding a total office GFA of 623,700 sq m. Projects expected to launch include Huanglong International Center 2 in the Huanglong Area, and Winning Plaza 2, GT Land Plaza, Hangzhou Ping An Finance Center

and Raffles Square in QJNC. As annual take-up has never exceeded 294,000 sq m, next year's supply peak will have a significant impact on a market which has an existing stock of 1.5 million sq m. It is expected that some landlords will push back handover dates in order to mitigate the downward market pressure resulting from the supply influx.

## Retail market

### Market commentary

City-wide retail sales reached RMB518 billion in 2016, up 10% YoY. The city witnessed a tourism boom in response to the G20 Summit, receiving 140 million visitors (up 13.5%). Tourism revenue in 2016 reached RMB 257 billion, up 16.9%.

Three retail projects launched in downtown districts in 2016, adding a total retail GFA of 219,000 sq m, more than double the amount in 2015. All three projects entered the market in the second half of 2016, with only Kerry Centre located in a prime business area.

### Supply and stock

Kerry Centre, located in the Lakeside Area, is a five-storey shopping mall with a total retail GFA of 79,000 sq m. Due to its advantageous location and strong brand recognition, the project successfully attracted a number of international brands, some of which opened their first stores in the city, including Jade Garden Restaurant and Under Armour.

501 International Plaza opened in October 2016, with a total retail GFA of 60,000 sq m. Located in the Qinchun Area, the project has positioned itself as "light-fashion" and incorporates several elements, including shopping, education, sport and health. The three Xizi International Towers and serviced apartment buildings located nearby provide foot traffic to this project, helping to attract many international affordable luxury brands, including Tommy, GEOX and Lacoste.

Lixing 1157 held its soft launch in August 2016. The four-storey shopping mall, located in the South

City Area of the Shangcheng District, was converted from an old Hangzhou Cigarette Company factory and has a total GFA of 80,000 sq m. Several restaurants, including Loopy, and Paulaner, as well as the Poly International Theatre, the first 6-D cinema in the city, will be opened in the coming months. The popular Angel Bookstore is also expected to finish renovation work and open in early 2017.

### Rents and vacancy rates

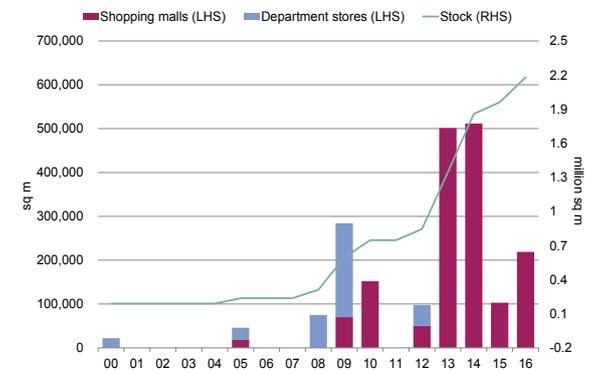
City-wide first-floor rents increased by 5.9% YoY to RMB18.2 per sq m per day, driven by strong demand for non-prime projects. Rents in prime areas recorded a slight growth of 0.6% HoH to RMB27.2 per sq m per day in the fourth quarter. Kerry Centre, with its strong brand recognition and prime location, achieved a rent that is the highest in the city, which contributed to the growth of rents in prime areas.

Non-prime rents grew strongly by 5.8% HoH to RMB13.2 per sq m per day, while suburban rents increased by 1.3% HoH to RMB13.1 per sq m per day. The G20 Summit helped to bring a large influx of tourists to the Xixi National Wetland Park. Landlords anticipating the increase of foot traffic in the area had the confidence to raise rents.

The average vacancy rate of shopping malls decreased by 0.9 of a ppt YoY to 10.8%. However, if new supply is excluded, city-wide vacancy rates decreased by 5.8 ppts YoY. QJNC saw a decrease of 5 ppts HoH due to new demand generated by the G20 Summit. Nonetheless, with a large volume of supply entering the submarket in the second half of the year, the vacancy rate remained relatively high at 20%.

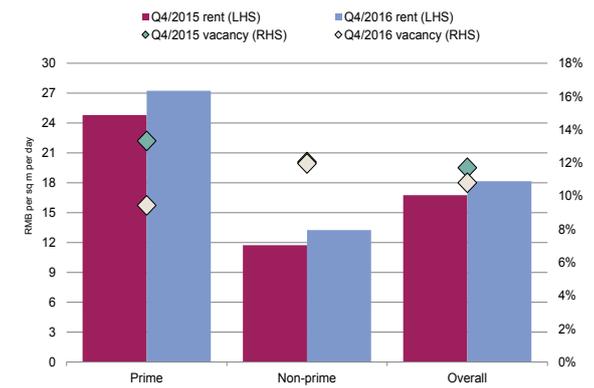
The North City saw a drop in vacancy levels by 8.7 ppts HoH to 4.3%, as a few recently-opened projects improved their occupancy levels in 2H/2016. The Qinchun Area recorded the highest vacancy rate among all submarkets at 30.9%, because of the handover of 501 International Plaza at the end of 2016.

GRAPH 3 Downtown retail supply and stock, 2000–2016



Source: Savills Research

GRAPH 4 Retail rents and vacancy rates, Q4/2015 vs Q4/2016



Source: Savills Research

### Retail market outlook

Seven new shopping centres are expected to launch in 2017, adding a total GFA of 581,000 sq m. QJNC will receive two projects, Raffles City and GDA Plaza, with an aggregate GFA of 130,000 sq m. This is expected to push the vacancy rate of the submarket up. Non-prime submarkets are expected to account for the majority of the new supply, at approximately 310,000 sq m. With current stock at 2.2 million sq m, and supply per annum for the last two years at 161,000 sq m, supply levels in 2017 are expected to drive the city's vacancy rate up. ■

TABLE 1  
**Upcoming downtown retail projects, 2017E**

Project (EN)	Project (CN)	Retail GFA (sq m)	Area	Retail type
Grand Central Place	乐堤港/远洋运河广场	111,000	North City	Shopping mall
Xixi Yintai	西溪银泰城	100,000	West City	Shopping mall
Xin Tian Di	杭州新天地购物中心	100,000	North City	Shopping mall
G.T.LAND PLAZA	高德置地广场	100,000	QJNC	Shopping mall
Raffles City	杭州来福士购物中心	80,000	QJNC	Shopping mall
GDA Plaza	杭州国大城市广场	60,000	Wulin	Shopping mall
Hubin Yintai 3	湖滨银泰三期	30,000	Lakeside	Shopping mall

Source: Savills Research

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