

Briefing Office and retail sector

July 2017



Image: Qianjiang New City Area

SUMMARY

Qianjiang New City saw a noticeable increase in rents and occupancy rates in 1H/2017, however, the surge of new supply over the remainder of this year might change the direction of this sub-market.

- Three Grade A office projects entered the market in the first half of 2017, adding 219,000 sq m.

- City-wide Grade A office vacancy rates remained stable at 17.7% in 1H/2017, slightly up by 0.6 percentage points (pps) half-on-half (HoH).

- Grade A office rents increased 0.3% HoH to RMB5.0 per sq m per day.

- Three new retail projects were launched in 1H/2017, adding 280,000 sq m to the city's downtown retail market.

- Vacancy rates in shopping malls decreased 4.8 ppts HoH to 6.5%.

- City-wide first-floor shopping mall rents decreased 0.3% HoH to RMB17.6 per sq m per day, as a handful of projects witnessed a drop in rents as new projects compete for tenants.

“Raffles City, the first project developed by a major international developer in QJNC was handed over in Q2/2017.” James Macdonald, Savills Research

Office market

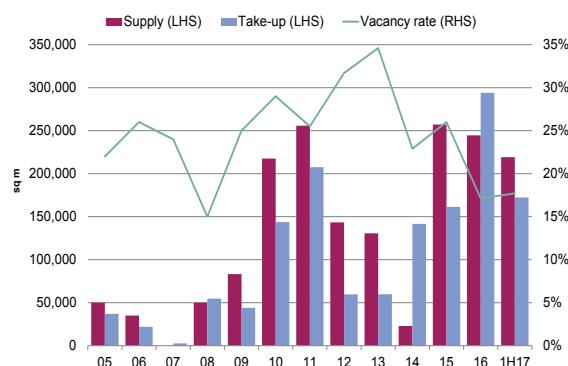
Market commentary

Hangzhou's real GDP in the first quarter grew by 8.1% in 2017, to RMB250.8 billion. Service industry output increased to RMB151.5 billion, accounting for 60.4% 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 172,000 sq m in 1H/2017, while the annual net take-up in 2016 was 294,000 sq m. The high net take-up in the first half of the year was because of the satisfactory leasing performance of the new projects as well as the increasing demand from QJNC.

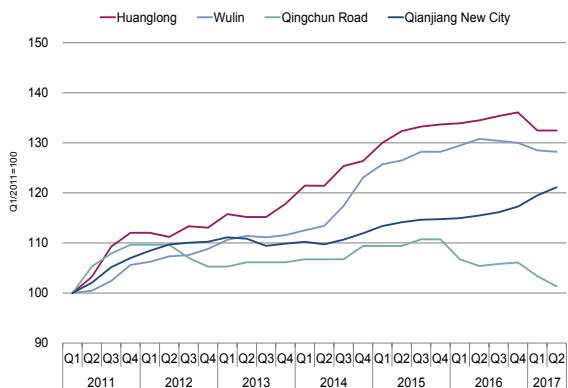
Average Grade A office rents stood at RMB5.0 per sq m per day, an increase of 1.5% year-on-year (YoY).

GRAPH 1 Grade A office supply, demand and vacancy rate, 2005–1H/2017



Source: Savills Research

GRAPH 2 Grade A office rents and vacancy rates, Q2/2017



Source: Savills Research

TABLE 1
Selected office leasing activities, 1H/2017

Tenant	Project	Location	GLA (sq m)
Zhejiang Silver Capital Management	Raffles City	QJNC	1,800
Rong Xin Group	Uncommon District Centre	QJNC	1,500
Thai Hot Group	Uncommon District Centre	QJNC	1,500
JJ World (Beijing) Nework Technology	Xizi International Centre	Qingchun	1,300
China Unionpay	Galaxy International	Wulin	800
LongFor	Uncommon District Centre	QJNC	750

Source: Savills Research

Prime areas saw a decrease in rent by 1.1% YoY while non-prime areas saw an increase by 2.9% YoY. Grade A office rents in the QJNC area continued to record a steady increase of 5.2% YoY.

Supply and demand

Three projects were handed over in the first half of 2017, one in prime areas and two in non-prime areas, adding 219,000 sq m of total Grade A office space. Jianyin Centre, located in the Wulin area, has a total office GFA of 40,000 sq m and is the renovation project of the former Construction Bank province headquarters. The 384,000 sq m Raffles City located in QJNC was developed by CapitaLand of Singapore and has a total office GFA of 59,200 sq m, of which 23,300 sq m is offered for sale and 35,900 sq m for lease. The Raffles City Hangzhou project also consists of retail, apartments and a hotel. Sino Ocean Canal Plaza is located in North City with a total office GFA of 120,000 sq m. It is a mixed-use project also comprised of a retail mall, hotel, and serviced apartments.

The city's financial, information and professional service sectors remain the key demand drivers of the Grade A leasing market. There was also a notable uptick in leasing activity among real estate and manufacturing companies in the first half year of 2017. On the other side, due to the nationwide crackdown on P2P and internet finance industry, the Hangzhou local government has

raised the criteria for non-traditional financial companies to register companies and open offices in Hangzhou. As a result, both the Wulin and Huanglong areas saw a slowdown in expansion from non-traditional finance companies.

Grade A office rents and vacancy rates

City-wide Grade A office rents remained stable in the first half year of 2017, up only by 0.3% HoH to an average of RMB5.0 per sq m per day. Non-prime markets saw rents increase 1.7% HoH on the back of a strong performance by QJNC. QJNC is starting to take shape and gain critical mass allowing landlords to apply rental increase as tenants move in. Meanwhile, landlords in traditional business areas were pressured to give rental discount to attract tenants, which drove the rent in prime markets down by 2.2% HoH.

The city-wide Grade A office market vacancy rate increased slightly by 0.6 ppts HoH to 17.7%.

Within each sub-market, the Wulin area saw its vacancy fall 14 ppts HoH from 36% to 22%, still the highest in the city. This fall was due to strong take-up in new projects such as Galaxy International that contributed to a significant jump in the area's vacancy levels after being handed over in Q4/2016.

Both Huanglong and Qinchun witnessed an increase in vacancy

rate by 3.7 ppts and 1.1 ppts HoH respectively mainly because some companies decided to relocate to QJNC. Additionally, the national crackdown on P2P and internet finance companies has hit Huanglong to a large extent.

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 1.0 ppts HoH to 15.9%. However, the continuing of new supply still caused the vacancy rate to be comparatively high.

Office market outlook

A number of Grade A office projects are forecast to launch in 2H/2017, adding a total office GFA of 334,500 sq m, of which 304,000 sq m will be in QJNC. Projects expected to launch include Wining Plaza Phase 2, GT Land Plaza and Hangzhou Ping An Financial Centre in QJNC as well as GDA Plaza in the Wulin area. The huge influx of office supply in QJNC will inflate the vacancy rate of the sub-market, possibly putting a halt to the rental growth for existing projects. Other sub-markets are still expected to lower their rents as they face competition from the emerging market.

Retail market

Market commentary

City-wide retail sales reached RMB125.3 billion in Q1/2017, up 9.4% YoY. The city is still benefiting from the post-G20 Summit effect by receiving 31 million visitors (up 13.4% YoY) in the first quarter of 2017. Tourism revenue reached RMB50.6 billion in Q1/2017, up 16.1% YoY.

Three retail projects were launched in downtown districts in the first half of 2017, adding a total retail GFA of 280,000 sq m. Among the three projects, GDA Plaza and Raffles City are located in prime areas while Binjiang Baolong Town (滨江宝龙城) is located in a non-prime area.

Supply and stock

GDA Plaza, located in the Wulin area, is a 12-storey shopping mall with a total retail GFA of 60,000 sq m. It took GDA Plaza about a year and half to expand and rebrand the project, transiting from a traditional department store to

modern shopping mall. With its advantageous location and strong brand recognition, the project has successfully attracted around 143 brands, around 20% of which, such as Brookstone and Global Duty Free Shops (GDFS), have made QJNC their first locations in Hangzhou or Zhejiang.

As part of the Raffles City Complex, the Raffles City retail portion was opened in April 2017 with a total retail GFA of 80,000 sq m. The shopping centre, positioning itself as fashionable and trendy, has attracted a number of fashion and designer brands as well as new lifestyle brands.

Binjiang Baolong Town (滨江宝龙城) is located in the Binjiang area and has a total GFA of 140,000 sq m. This is the fourth project that the Baolong Group has launched in Hangzhou after projects in Xiaasha, Xiaoshan and Fuyang. Binjiang Baolong Town (滨江宝龙城) has secured many familiar retail brands including GAP, Zara, UNIQLO and Sephora.

Rents and vacancy rates

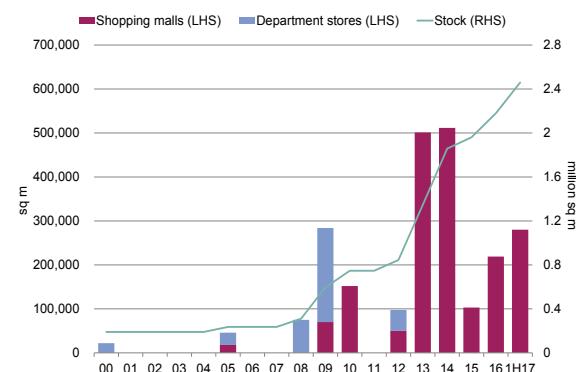
City-wide first-floor rents fell by 0.3% HoH to RMB17.6 per sq m per day, but remained up 3.1% YoY. Rents in prime areas recorded a slight decrease of 0.5% HoH to RMB27.0 per sq m per day in the first half-year. Non-prime and suburban rents also dropped slightly by 0.2% and 0.3% HoH to RMB12.8 per sq m per day and RMB13.0 per sq m per day respectively. The three newly launched projects added some competition to the market, causing a slight decrease in rents for some existing projects.

The average vacancy rate of shopping malls decreased by 4.8 of a ppt HoH to 6.5%. Qingchun area saw a decrease of 23 ppts HoH due to strong take-up in new projects such as Lixing 1157, launched in the end of 2016.

QJNC also had a drop of 11 ppts HoH partially because the new project of Raffles City recorded high pre-commitment rate. In addition, MixC Mall in QJNC underwent a series of brand-upgrading and expansion, such as MUJI's expansion from 600 sq m to 1,000 sq m as well as adding MUJI to Go and MUJI kids' lines. These efforts enabled MixC Mall to increase its occupancy rate.

GRAPH 3

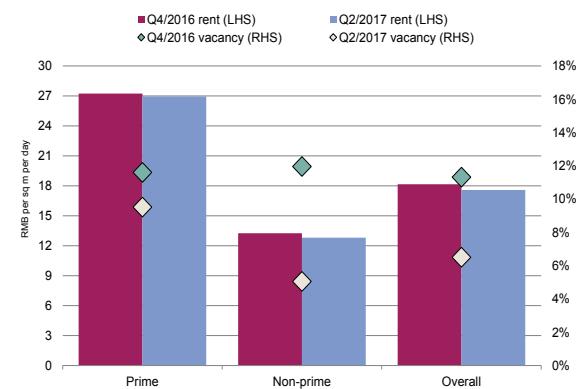
Downtown retail supply and stock, 2000–1H/2017



Source: Savills Research

GRAPH 4

Retail rents and vacancy rates, Q4/2016 vs Q2/2017



Source: Savills Research

Retail market outlook

Seven new shopping centres are expected to launch in the second half of 2017, adding a total GFA of 831,000 sq m. Non-prime sub-markets are expected to account for the majority of the new supply, at approximately 701,000 sq m. While a significant proportion of new supply might be delayed, the 2017 supply (with 280,000 sq m in 1H) still will be a significant increase over the 161,000 sq m per year seen over the last two years and is a significant expansion of the 2.46 million sq m stock. A direct consequence of this is likely to be an increase in vacancy rates as landlords fail to attract adequate demand for tenants. ■

TABLE 1

Upcoming downtown retail projects, 2H/2017E

Project (EN)	Project (CN)	Retail GFA (sq m)	Area	Retail type
Longfor Binjiang Street	龙湖滨江天街	240,000	Binjiang	Shopping mall
City Mall Ph2	西田商业城二期	150,000	North City	Shopping mall
Grand Central Place	乐堤港/远洋运河广场	111,000	North City	Shopping mall
G.T.LAND PLAZA	高德置地广场	100,000	QJNC	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
Hubin Yintai Ph3	湖滨银泰三期	30,000	Lakeside	Shopping mall

Source: Savills Research

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