

Office and Retail



North City retail gets uplifted

A large amount of new supply of shopping malls increase the competition in Hangzhou retail market.

- Three projects including Dikai City Star International Building A, Tian'an Insurance Finance Building and EAC British Tower entered the Grade A office market in 2H/2018, adding 207,000 sq m.
- The city-wide Grade A office vacancy rate was 19.5% in 2H/2018, up by 4.5 percentage points (ppt) year-on-year (YoY).
- Grade A office rents remained stable half-on-half (HoH) at RMB5.2 per sq m per day.
- Impacted by a slower real economy and the continuous crackdown on P2P companies, leasing demand for Grade A office space in Hangzhou was weak in 2018.
- Four new retail projects including Joy City Hangzhou, In77 E, K-Lab and Xixi Incity Plaza phase 2 were launched in 2H/2018, adding 341,000 sq m to the city's downtown retail market.
- City-wide vacancy rates fell 1.9 ppts HoH to 9.3% as newly-launched projects achieved high occupancy rates.
- Due to the large amount of supply in 2018, shopping malls faced significant competition to attract footprints. As a tech-savvy city, Hangzhou saw many brands utilizing and testing new technology to improve the customer experience.
- First-floor shopping mall rents remained stable at an average of RMB18.4 per sq m per day.

“Impacted by a slower economy and the continuing crackdown on P2P companies, Hangzhou's Grade A office market saw weaker demand in 2018; despite this, co-working operators continued to expand in the city.”

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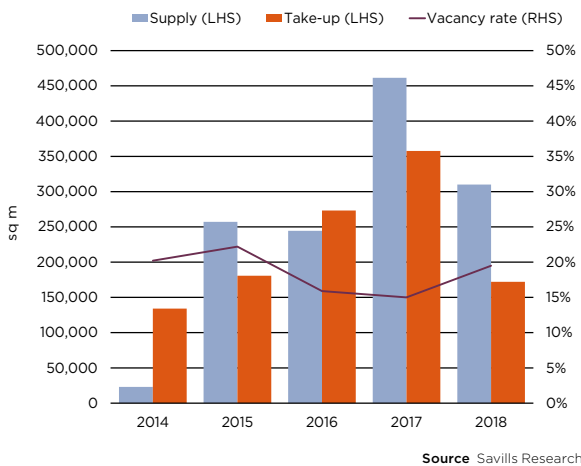
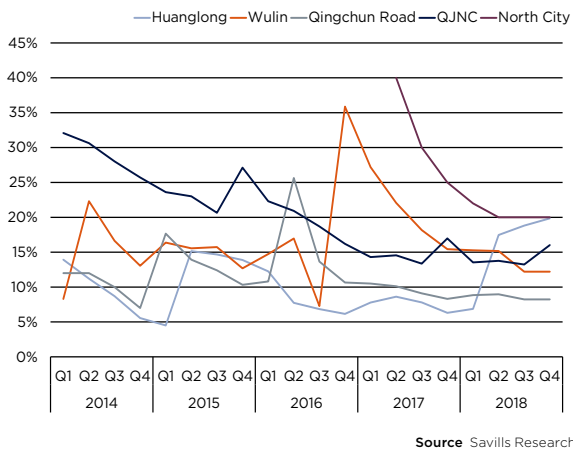
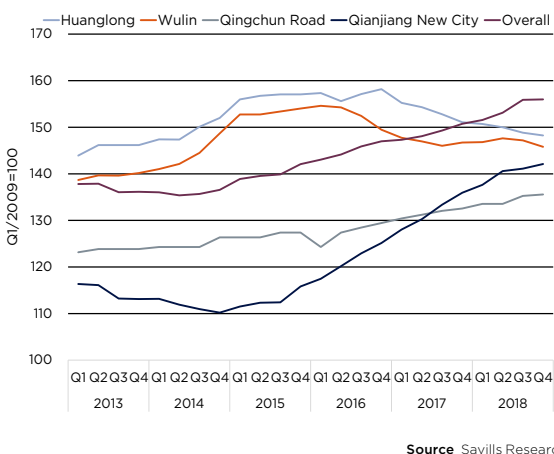
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GRAPH 1: Grade A Office Supply, Take-up And Vacancy, 2013 to 2018**GRAPH 2: Submarket Vacancy Rates, 2014 to 2018****GRAPH 3: Submarket Rental Index, 2013 to 2018****SUPPLY AND DEMAND**

Three projects entered the Grade A office market in 2H/2018, adding 207,000 sq m.

Dikai City Star International Building A (迪凯城星国际) has a total office GFA of 70,000 sq m and is part of a 187,600 sq m mixed-use complex developed by Dikai Group (迪凯集团). The site also includes a 30,000 sq m Building B (sold to a buyer) and residential space. Currently, Building A is strata-title, the top ten floors of which are held by the developer for lease.

EAC British Tower has a total office GFA of 100,000 sq m and it is part of the EAC mixed-use complex. EAC is located in Future Sci-tech City, the submarket where Alibaba and many other technology companies are based.

Tian'an Insurance Finance Building was the only for-lease new supply to open in the Hangzhou Grade A office market in 2H/2018. The building is located in Yunhe business district and was developed by Tian'an Insurance Group (天安人寿保险公司) with a total office GFA of 37,000 sq m.

Impacted by a slower real economy and the continuous crackdown on P2P companies, leasing demand for Grade A office space in Hangzhou was weak in 2018. The information technology and professional services sectors remained the key demand drivers. At the same time, co-working operators kept expanding in Hangzhou. For example, following its first launch in Gonglian Plaza, WeWork is said to be opening three more locations: in Huanglong Vanke Centre, Tian Mu Li Business Park (天目里商务园区) and Mingzhu International Building 5 (明珠国际5号楼).

GRADE A OFFICE RENTS AND VACANCY RATES

City-wide Grade A office rents reached RMB5.2 per sq m per day, stable HoH but up by 2.1% YoY. Qianjing New City (QJNC) saw a strong performance with a 4.5% YoY growth rate; however, rental growth in QJNC seemed to be slowing down as the submarket becomes more mature and vacancy

rates in the city rise. Meanwhile, traditional business areas, such as Huanglong and Wulin, witnessed rental declines of 1.9%YoY and 0.6%YoY, respectively, as landlords of some older projects were pressured to give rental discounts to attract tenants.

The city-wide Grade A office market vacancy rate increased to 19.5%, up by 4.5 ppts YoY. The vacancy rate increase was due to the fact that newly-released projects in Q4/2018 had not secured satisfactory occupancy levels coupled with the overall weak leasing demand in 2018. Under the tight credit environment, the real economy has had a difficult year, which has affected Grade A office leasing. In addition, the government's crackdown on P2P companies has played a negative role.

For each submarket, the vacancy rate in Huanglong grew by 14 ppts YoY. The increase was caused by the relocation of some international companies from older projects in Huanglong to QJNC and the vacating of P2P companies. Also, even though newly-launched projects in Huanglong secured some whole-floor leasing deals, the buildings were still at a comparatively low occupancy rate. Though projects in Wulin have also been strict with tenant selection, the area saw a three ppts decrease in the vacancy rate YoY thanks to the strong leasing performances of projects launched in 2017. The vacancy rate in QJNC dropped one ppt YoY.

OFFICE MARKET OUTLOOK

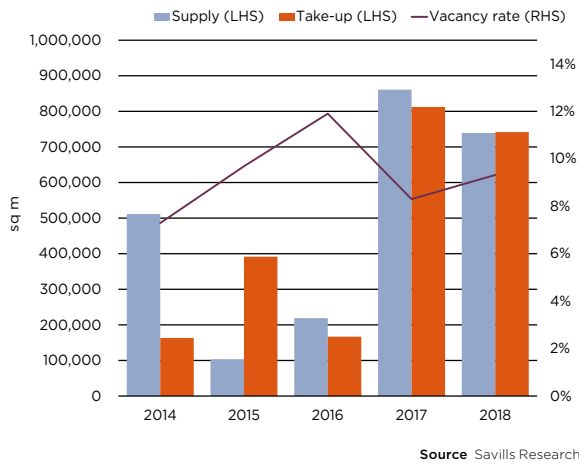
Eight Grade A office projects are expected to launch in 2019, adding a total office GFA of 625,000 sq m. Key projects include China Life Building, World Shibao International Centre West Tower (世包国际中心西塔), Huanglong Vanke Centre Building C and D, and Joy City Tower 1. Though some of the future supply might be delayed, 2019 is still expected to see significant new supply in the Grade A office market. As there are no signs of strong economic growth in the near future, market demand is forecasted to remain weak, causing rents to maintain a downward trend.

TABLE 1: 2019 Key Grade A Office Future Supply

PROJECT NAME	GFA (SQ M)	AREA	USAGE
China Life Tower (中国人寿大厦)	190,000	QJNC	Lease
GDA Plaza (国大城市广场)	30,000	Wulin	Lease
Zhejiang World Trade Headquarter building (浙江国贸总部大楼)	58,000	QJNC	Self-use
World Shibao International Centre West Tower (世包国际中心西塔)	62,000	QJNC	Sale
Huanglong Vanke Center Tower C/D(黄龙万科中心C/D栋)	100,000	Huanglong	Lease

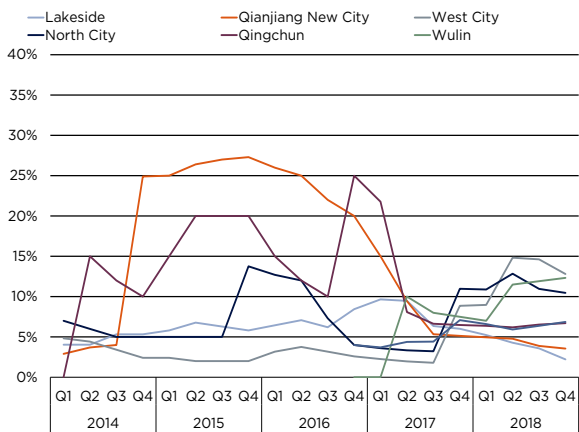
Source: Savills Research

GRAPH 4: Downtown Retail Supply, Take-up, Vacancy 2014 to 2018



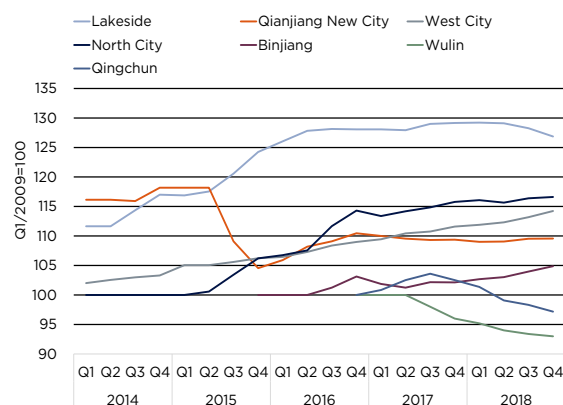
Source Savills Research

GRAPH 5: Submarket Vacancy Rates 2014 to 2018



Source Savills Research

GRAPH 6: Submarket Rental Index 2014 to 2018



Source Savills Research

SUPPLY AND DEMAND

Four retail projects were launched in 2H/2018 in downtown Hangzhou, adding a total retail GFA of 341,000 sq m.

Joy City Hangzhou, with a total retail GFA of 155,000 sq m, was launched in Q4/2018. Located in North City, the mall is part of a mixed-use complex comprising Grade A offices, which are expected to be launched in 2019, and residential apartments. With eight floors above ground and three floors underground, Hangzhou Joy City is making headlines by incorporating some eye-catching indoor activities such as indoor skydiving, Future Zoo, B5 E-sports centre, Seekers VR centre and indoor skiing.

Located in Lakeside, In77 E, with a total retail GFA of 26,000 sq m, was launched in December. In77 E is the last phase of the 210,000 sq m Hubin Intime project. In77 E positions itself as a retail mall that showcases Jiangnan and Hangzhou culture by introducing a number of local brands.

K-Lab is located in Huanglong with a total retail GFA of around 80,000 sq m. It is part of the 400,000 sq m Huanglong Vanke Centre Complex that also comprises nine office buildings and a conference centre. Vanke Knowledge Mall has introduced a number of fashionable and trendy brands aiming to serve white-collar workers in the area.

Xixi Incity Plaza Phase 2 is located in West City with a total retail GFA of 80,000 sq m. Xixi Incity Plaza Phase 1 opened in 2013 with a total retail GFA of 170,000 sq m. Targeting the young and fashionable, Xixi Incity Plaza has attracted many trendy brands including Adidas SWC, NIKE KL store as well as many “Wanghong (网红)” restaurants including Lucky Piggy and Heytea.

RENTS AND VACANCY RATES

Due to the large amount of supply in 2018, shopping malls faced significant competition to attract footprints. Newly-opened shopping malls were making big efforts

to differentiate themselves from other malls by working on interior design and attracting famous brands. As a tech-savvy city, Hangzhou saw many brands utilizing and testing new technology to improve the customer experience.

City-wide first-floor rents remained stable HoH at RMB18.4 per sq m per day. Landlords of good-quality malls have been flexible about rents in order to secure well-known brands. Average rents in prime and non-prime areas stood at RMB27.4 per sq m and RMB14.4 per sq m, respectively. Thanks to rental growth in projects launched in late 2017 and early 2018, West City witnessed the biggest HoH rental growth among all submarkets at 1.7% with RMB17.4 per sq m per day. Lakeside and QJNC still have the highest average rents at RMB28.2 per sq m and RMB26.0 per sq m, respectively.

Strong leasing performances at projects launched in the second half of 2018 contributed to a decrease of 1.9 ppts HoH, to 9.3% HoH, in the city’s overall vacancy rate. Lakeside saw a decrease in vacancy of 2.1 ppts HoH on the back of a strong leasing performance in In77 E. Hangzhou’s retail market saw retailers bring more creativity to retail shopping and add experiential elements to stores. For example, NIO launched its NIO House in July which, unlike a traditional car showroom, offers space for people to hang out and spend time in. In addition, Hamleys Toy brand opened its flagship store in Gonglian (工联).

OFFICE MARKET OUTLOOK

The market is expected to welcome around one million sq m of new supply in 2019, some of which might be delayed. Key projects include G.T. Land Plaza (高德置地广场), Ping’an Financial Centre Yuefang (平安金融中心悦坊), Longfor Xixi Walkway (龙湖西溪天街) and Central Chezhan Plaza (中央车站广场). The large amount of new supply is expected to bring in more competition, thus pushing up vacancy rates.

TABLE 2: 2019 Key Grade A Office Future Supply

PROJECT NAME	GFA (SQ M)	AREA
Xixi Haigang City (西溪海港城)	68,600	West City
Central Chezhan Plaza (中央车站广场)	80,000	North City
G.T. Land Plaza (高德置地广场)	100,000	QJNC
Longfor Xixi Walkway (龙湖西溪天街)	130,000	West City
Ping’an Financial Centre Yuefang (平安金融中心悦坊)	20,000	QJNC
Yuhang Wanda Plaza (余杭万达广场)	96,500	Future sci-tech city
Jinsha Incity Plaza (杭州金沙印象城)	160,000	Xiasha

Source Savills Research