

Briefing Office sector

February 2015



Image: Shimao International Plaza

SUMMARY

Jinan's Grade A office market has witnessed a late start in terms of development, however 2014 marked a turning point with a rapid increase in stock – a trend expected to become more obvious in 2015.

■ Four new projects were added to Jinan's market in 2H/2014, adding 161,000 sq m. This was a supply peak which saw total stock expand to 636,000 sq m by the end of 2014.

■ Net take-up more than doubled compared with 1H/2014, to 65,000 sq m in 2H/2014. However, occupancy rates of newly-launched projects impacted city-wide vacancy rates, up 6.0 percentage points (ppts) half-on-half (HoH) to 41.5%.

■ Grade A office effective rents increased 2.4% compared with 1H/2014, to RMB91.2 per sq m per month, up 3.8% year-on-year (YoY).

■ Jinan's Grade A office market is expected to witness a substantial level of new supply in 2015, with eight projects scheduled for completion, offering a total GFA of nearly 820,000 sq m.

“The high level of new supply is expected to be difficult for Jinan's Grade A office market to absorb. As a result, vacancy rates are expected to remain high, while rents will continue to decline over the next three to five years.”

Joan Wang, Savills Research

→ Economic overview

Jinan's economy maintained high growth rates in Q3/2014, with GDP real growth reaching 8.7%, while China's GDP growth slowed to 7.4%. Fixed-asset investment totalled RMB203.2 billion in the first three quarters of 2014, up 16.6% YoY. Meanwhile, retail sales and urban residents' disposable incomes per capita continued to display a positive performance, up 12.6% and 8.9% YoY respectively.

Grade A Office Market Supply, net take-up and vacancy rate

Four new projects – China Overseas Plaza (中海广场), Shimao International Plaza Tower A (世茂国际广场A栋), Dong Yuan Building (东源大厦) and Mass Media Building (大众传媒大厦) – were added to the

leasing market in the second half of 2014. As a result, Jinan's Grade A office market witnessed a supply peak of 161,000 sq m, expanding total stock by 51% YoY to 636,000 sq m. Despite this, it is still smaller than other major Northern China second-tier cities such as Shenyang, Dalian, Qingdao and Xi'an.

China Overseas Plaza, located in the South Second Ring Road area, has a total leasable office GFA of 79,200 sq m and is the only Grade A office building to enter the market in this area to date. As one of few hold-to-lease projects in the Jinan market, along with its high quality facilities, China Overseas Plaza has proven attractive to trade companies, IT & high-tech companies and several financial companies, who all leased

space within the project. By the end of 2014, China Overseas Plaza achieved an occupancy rate of approximately 20%.

Mass Media Building, located in the Luoyuan Street area, was built for the Da Zhong News Group's headquarter. 22 floors within the project are occupied for self-use, with the remaining 12 floors sold to companies in related industries, such as the Changcheng Media Company and Dazhi School. The 12 floors contributed a total GFA of 20,400 sq m to the Grade A office market. Occupancy rates in the project reached almost 20% by 2H/2014.

Located in the same area, Shimao International Plaza A and Dong Yuan Building have an office GFA of 25,000 sq m and 36,000 sq m respectively. The demand from financial, IT and professional service sectors has seen the two projects achieve an occupancy rate of approximately 25% and 28% respectively. Projects including Greenland Center (绿地中心), Shandong High-Speed Square (山东高速广场) and Luneng Elite City (鲁能领秀城) were scheduled to be launched onto the market in 2H/2014. However, their completion dates have been postponed to 2015 due to construction delays.

In 2H/2014, net take-up increased 134% HoH, to 65,000 sq m from 28,000 sq m in 1H/2014. This was largely a result of pre-commitments in new supply, combined with the strong demand from the financial and IT sectors. Newly-launched projects generally witnessed low occupancy rates, resulting in city-wide vacancy rates increasing to 41.5%, up 6.0 ppts HoH.

Rents

Compared to other major second tier cities, Jinan's Grade A office market witnessed a late start. Historically, rents have been low. However, as the commercial environment within the city matures, Jinan's Grade A office effective rents have risen for six consecutive years, averaging an annual increase of 3.7%. The market has seen an increase in quality of new supply, leading to a

TABLE 1
Macroeconomic indicators, Jan-Sep 2014

Indicator	Units	Value	YoY growth rate(%)
Gross domestic product (GDP)	RMB billion	406.2	8.7
Fixed-asset investment	RMB billion	203.2	16.6
Real estate investment	RMB billion	68.8	24.7
Retail sales	RMB billion	212.7	12.6
Disposable income per capita (urban)	RMB	27,962	8.9
Consumer product index (CPI)	PY = 100	102.2	2.2

Source: Jinan Statistics Bureau, Savills Research

TABLE 2
Grade A office market key indicators, 2H/2014

	Stock (sq m)	Supply (sq m)	Net take-up (sq m)	Vacancy rate (%)	Rent (RMB per sq m per month)
H2/2014	636,000	161,000	65,000	41.5	91.2
QoQ change (%/ppts)	34	193	134	6	2.4
YoY change (% ppts)	51	-	517	7.8	3.8

Source: Savills Research

TABLE 3
Selected office leasing transactions, 2H/2014

Company	Project	Location	GFA (sq m)	New lease/renewal
Hema App	Yulan Square	Olympic Area	1,800	New lease
Nanjing Dongda Intelligent System	Yulan Square	Olympic Area	400	New lease
ASUS service center	Huaqiang Plaza	Luoyuan Street	1,000	New lease
East Credit Wealth Management	Dongyuan Building	Luoyuan Street	800	New lease
Toshiba Elevator	Huaqiang Plaza	Luoyuan Street	400	New lease
Heng Chang Wealth Management	Shandong Shanghai Plaza	Luoyuan Street	300	Expansion

Source: Savills Research

→ growing interest from the financial, professional services and IT sectors with higher affordability. This has resulted in an upward trend on average city-wide rents.

As a result, Grade A office effective rents increased 2.4% HoH to RMB91.2 per sq m per month, up 3.8% YoY.

Submarket rents and vacancy rates

Luoyuan Street:

As the most mature commercial district in Jinan, Luoyuan Street enjoys the highest rents and occupancy rates in the city. In 2H/2014, Grade A office achievable rents rose 1.9% HoH to RMB96.1 per sq m per month, up 2.5% YoY.

Due to three new projects with low occupancy rates launching into the area in 2H/2014, vacancy rates increased from 17.6% to 33.9% by the end of 2014, up 16.3 ppts HoH.

A landmark project of Jinan, the 300 m tall Green Land Center (绿地中心), is scheduled to be handed over in early 2015.

Olympic area:

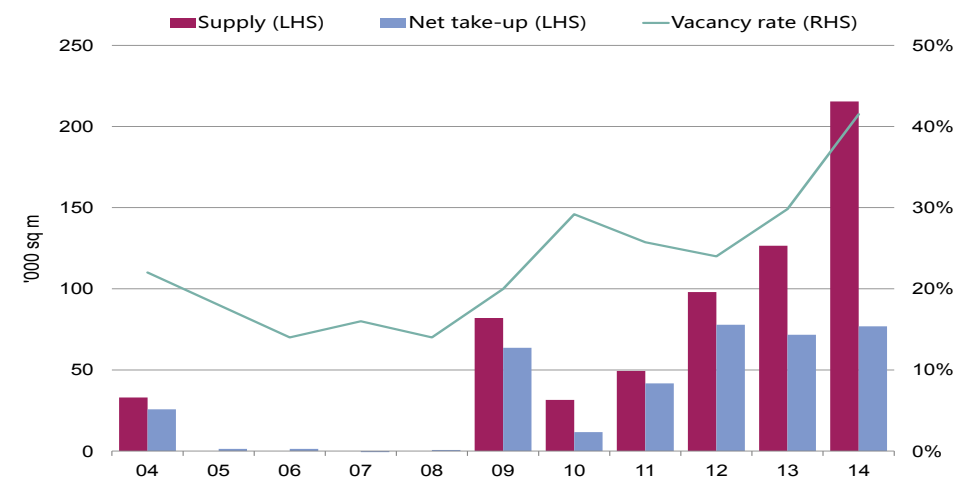
No new supply, combined with rising demand in the Olympic area in 2H/2014, saw rents increase 2.8% HoH to RMB86.3 per sq m per month. Vacancy rates have decreased significantly, down 7.9 ppts to 39.7%.

Scarcity of available land and the lack of future supply in the Luoyuan Street area has created an increased interest in the Olympic area. This area is expected to receive a substantial level of new supply over the next three years, pushing it to become the largest submarket in Jinan.

South Second Ring Road:

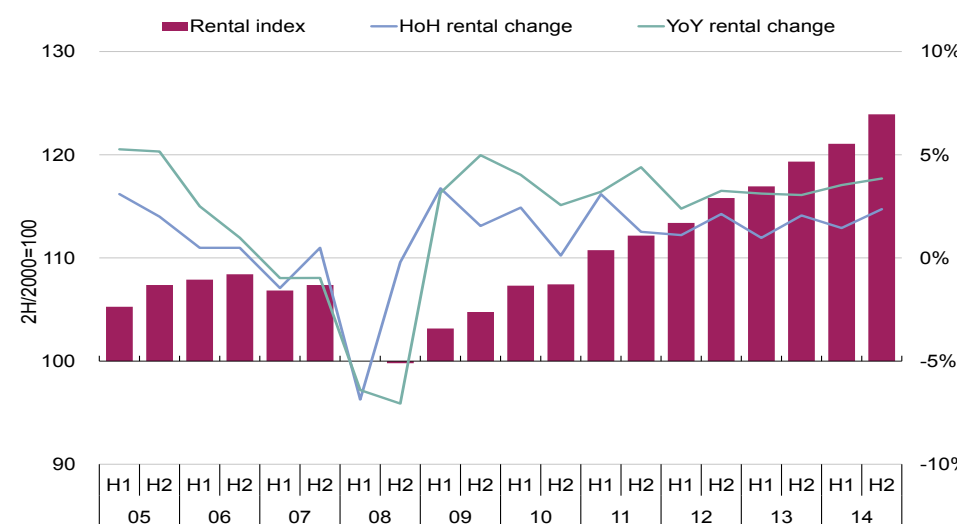
The completion of China Overseas Plaza in 2H/2014 saw the South Second Ring Road area receive its first Grade A office project, contributing a total GFA of 79,200 sq m to the market. As a traditionally residential area, projects in the South Second Ring Road area are generally more dispersed. With future projects being backed by well-known developers,

GRAPH 1 **Grade A office supply, net take-up and vacancy rate, 2004–2014**



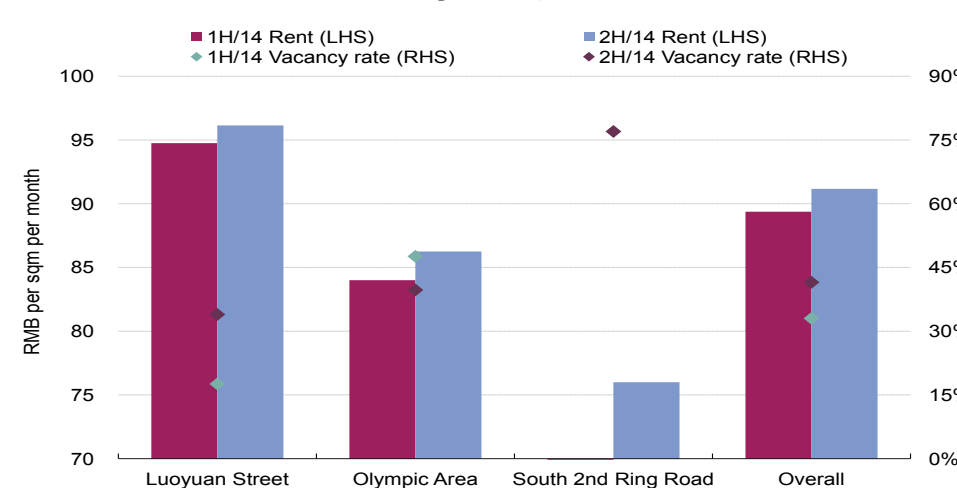
Source: Savills Research

GRAPH 2 **Grade A office rents and rental change, 1H/2005–2H/2014**



Source: Savills Research

GRAPH 3 **Submarket rents and vacancy rates, 1H/2014 vs 2H/2014**



Source: Savills Research

such as Luneng and China Overseas, they are expected to be of a higher quality.

By the end of 2014, the vacancy rate of this project was 77%, and rents achieved approximately RMB76.0 per sq m per month.

Market outlook

Eight projects are scheduled to launch onto the market in 2015, adding a total Grade A office space

of 816,000 sq m. All four business districts (Luoyuan Street, Olympic area, South Second Ring Road and West Jinan Railway Station), are expected to receive new projects. The completion of the projects will see overall stock increase by 128% to 1.45 million sq m.

The influx of new supply will be difficult for the market to digest in a short period of time. This is expected to see landlords witness fierce

competition to compete for tenants, resulting in the market forecasted to witness both declines in city-wide occupancy rates and overall rents over the next three to five years. ■

TABLE 4
Future supply, 2015

Project (EN)	Project (CN)	Completion	Submarket	Office GFA (sq m)
Golden Square A, C	黄金时代广场A、C栋	Q1	Olympic Area	80,000
Greenland Center	绿地中心	Q1	Luoyuan Street	126,000
Shandong High-Speed Square	山东高速广场	Q1	West Jinan Railway Station	84,800
Luneng Elite City	鲁能领秀城	Q1	South 2nd Ring Road	46,939
Shimao international Plaza B	世茂国际广场B座	Q1	Luoyuan Street	25,000
Golden Square E, F, G	黄金时代广场E, F, G座	Q3	Olympic Area	71,800
Huachuang Celebration Center	华创观礼中心	Q2	Olympic Area	52,000
Samtak Plaza	祥泰广场	Q4	South 2nd Ring Road	64,800
Hanyu Gold Valley A2, A3	汉峪金谷A2,A3	Q4	Olympic Area	240,000
Shimao International Plaza	世茂国际广场C栋	Q4	Luoyuan Street	25,000

Source: Savills Research

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