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Savills World Research
Nanjing

Briefing
Office sector

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Image: Nanjing Hexi CBD

SUMMARY

Grade A office supply tripled in 2014 as three projects were handed over to the market. Despite this, rents moderately increased by 3.7% as demand remained stable.

- Three Grade A office projects were handed over to the market in 2014, adding a total office GFA of 152,500 sq m and bringing stock to 805,600 sq m.
- Net take-up totalled 123,600 sq m in 2014, increasing 9.2% year on year (YoY).
- City-wide vacancy rates merely increased 0.1 of a percentage point (ppt) YoY to 11.3%
- Grade A office rents rose to an average of RMB4.71 per sq m per day, up 3.73% YoY.
- Four Grade A office projects and 644,000 sq m of space are scheduled for completion in 2015.

"As the majority of new supply over the next twelve months is expected to be concentrated in emerging areas, such as Hexi CBD, rents and occupancy rates in prime business areas are expected remain relatively stable." James Macdonald, Head of Research, China

Grade A office market

Market commentary

Nanjing's economy expanded by 10.1% in real terms in 2014, reaching RMB882.1 billion. Over the same period fixed-asset investment (FAI) grew by 3.7% YoY to RMB546 billion, urban residents' disposable incomes per capita grew by 8.8% YoY and retail sales grew by 13% YoY.

Supply and demand

Three Grade A office projects, Asia Pacific Tower (亚太商务楼), Kingtown International Center (金奥国际中心) and AMICIZIA (友谊大厦), were launched onto the market in 2014, adding a total office GFA of 152,500 sq m. Total Grade A office stock reached 805,600 sq m by the end of 2014, up 23.3% YoY.

Xinjiekou, the most mature business district in Nanjing, remained the most active area in 2014., with demand focusing on the 63,000 sq m Asia Pacific Tower, the second office project developed by Jinling Hotel Group following Jinling World Trade Centre (南京世界贸易中心). Benefiting from the project's advantageous location, high-quality facilities and excellent commercial facilities, Asia Pacific Tower has attracted a number of well known companies including Microsoft and Deloitte who both occupy whole floors, and China Resource Land who leases nearly 3,000 sq m. Taking advantage of the higher-quality and newer facilities of the project, many companies are relocating to this building from the older projects in the surrounding area. By the end of 2014, the project is believed to have recorded an occupancy rate of close to 70%.

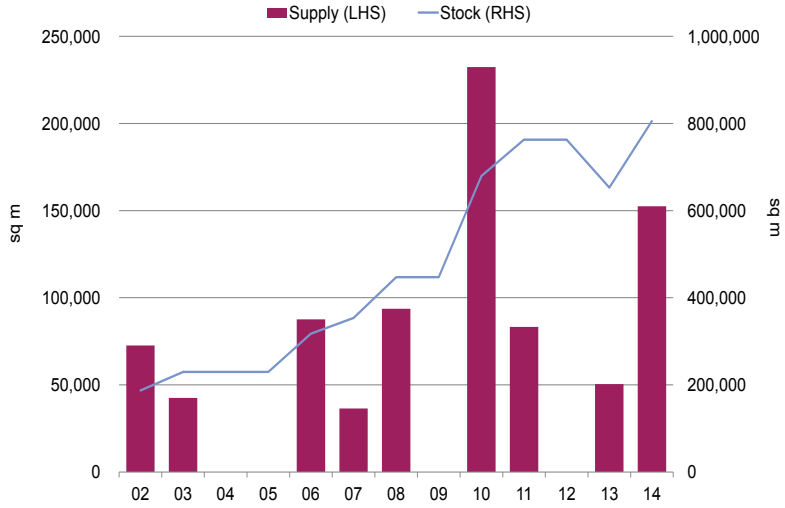
AMICIZIA, also located in Xinjiekou district close to Asia Pacific Tower, attracted both domestic and overseas companies. However, due to the fierce competition in Xinjiekou, the occupancy rate has not yet reached the levels seen in the surrounding stabilised projects.

Kingtown International Center (KIC), located in Hexi New Town, is a 52,500 sq m Grade A office project with space for sale or lease. It is the second high-end office project in this area following the completion of first phase of Sunnyworld Centre. The project's unique commercial facilities (such as Fairmont Hotel and the KIC shopping mall) and mature infrastructure, has managed to attract a number of MNCs and domestic financial institutions to establish regional headquarters within the project. By the end of 2014, KIC had achieved close to full occupancy.

The Nanjing Grade A office market received 152,500 sq m of new supply in 2014, up from 50,000 sq m in 2013, bringing total stock to 805,600 sq m. Net take-up over the same period totalled 123,600 sq m, up 9.2% YoY.

GRAPH 1

Grade A office supply and stock, 2002–2014



Source: Savills Research

Grade A office rents and vacancy rates

Despite robust demand, the volume of new supply released onto the market resulted in the citywide vacancy rate increasing by 0.1 ppt YoY to 11.3%. Over the same period Grade A office rents increased 3.73% to an average of RMB4.71 per sq m per day.

TABLE 1

Grade A office key indicators, 2014

	Stock (sq m)	Supply (sq m)	Net-take up (sq m)	Vacancy rate (%)	Achievable average rent (per sq m per day)
2014	805,600	152,500	123,685	11.3%	4.71
YoY change	+23%	+200%	+9.2%	+0.1%	+3.73%

Source: Savills Research

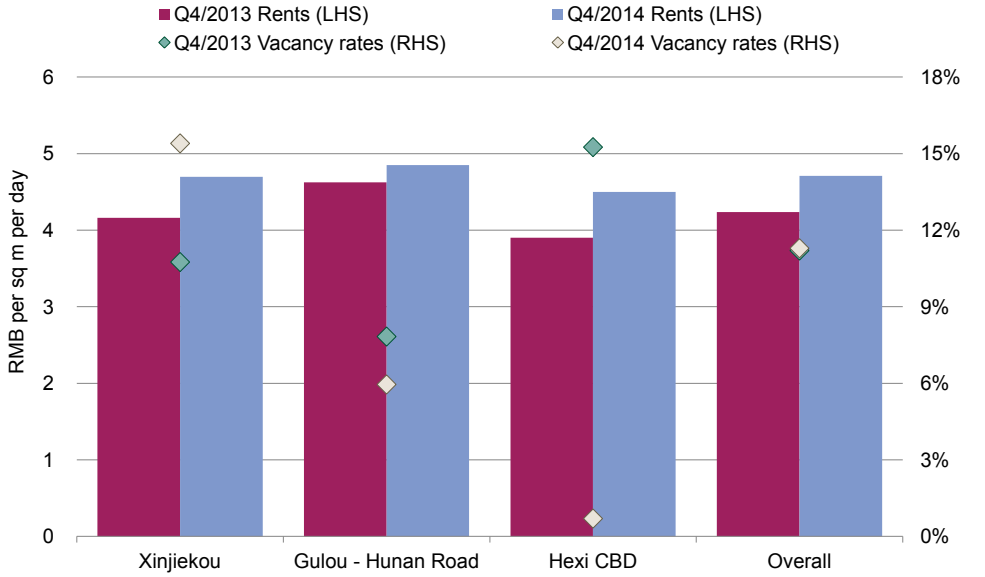
Xinjiekou district, benefiting from a large amount of Grade A office space as well as ample retail support, alongside a mature infrastructure, attracts a broad range of companies including both SOEs and MNCs from the professional services, financial and trade sectors. The average rents in Xinjiekou stood at RMB4.70 per sq m per day by the end of 2014, up 3.87% YoY. As a result of the high rents, a number of tenants are relocating from this area to emerging areas such as Hexi CBD. In 2014, new supply in this area accounted for 66% of the total for the city. As a result, vacancy rates increased by 4.65 ppts YoY to 15.4%, slightly higher than the city-wide average.

Gulou - Hunan Road business district, just to the north of Xinjiekou, is smaller business districts with the projects scattered over a larger geographical area. Projects are typically occupied by SMEs and smaller MNCs typically from a manufacturing background though there are also some financial firms. Although a number of projects were completed in past five years, upcoming supply over the next few years will be limited. In 2014, Hunan Road area rents increased by 4.67% YoY, recording the highest average rents in the city at RMB4.85 per sq m. The area also witnessed relatively low vacancy rates at 5.95%.

Hexi CBD only had two Grade A office projects by the end of 2014, resulting in an immature business environment and low rents. As several municipal administrative functions relocate to this area and rents are significantly below the other two business districts, more and more companies are considering relocating or expanding to this newly planned city centre. As a result, Hexi CBD achieved the lowest vacancy rate by the end of 2014, falling 14.6 ppts YoY to 0.7%.

GRAPH 2

Submarket rents and vacancy rates, Q4/2013 vs Q4/2014



Source: Savills Research

Office investment market

Nanjing, similar to many second-tier cities, has seen limited en-bloc investment transaction activity. This is partly due to the lack of investable grade stock with much of the office market being stratified or of lower quality. In addition, many international investors feel the market is not liquid or deep enough and that the market size and pace of development makes Nanjing prone to supply shocks which may coincide with investment exits.

Despite encountering similar situations as many second tier cities in terms of the city's stage of development, a clear master plan, stable economy and good infrastructure have encouraged some investors to take the plunge.

TABLE 2

Selected office leasing transactions, 2014

Company	Project	Area	Office GFA (sq m)
China Resource Land	Asia Pacific Tower	Xinjiekou	2,960
Soufun	AMICIZIA	Xinjiekou	2,340
Microsoft	Asia Pacific Tower	Xinjiekou	1,970
Deloitte	Asia Pacific Tower	Xinjiekou	1,970

Source: Savills Research

SanPower Group acquired Nanjing International Financial Centre for a total consideration of RMB2.48 billion from ARA Asset Management in February 2014. The project, with total GFA of 109,000 sq m, contains a Grade A office building (72,600 sq m), retail space (27,500 sq m) and 292 parking spaces.

In these types of markets the dominant buyers tend to be domestic purchasers acquiring for self use or investors looking at longer term holds and favourable terms while only investing in the market's best assets.

Office market outlook

Four Grade A office projects are scheduled to be handed over to the market in 2015, bringing a total office GFA of 644,000 sq m and enlarging city-wide stock to 1.45 million sq m with a dramatic growth of 80% YoY.

Grade A office supply in 2015 is expected to be concentrated in Xinjiekou and Hexi CBD areas, with Hexi CBD estimated to account for 89.1% of supply.

Three of the projects are to be placed onto the strata title market: The 30,000 sq m North Changjiang Road No.9 (长江路9号) in Xinjiekou, and the 67,850 sq m second phase of Sunnyworld Centre (新地中心二期) and the first phase of 506,000 sq m Nanjing Financial City (南京金融城一期) in Hexi CBD. The first phase of Nanjing Financial City, consists of ten office buildings and accounts for more than three quarters of supply in 2015. It has already sold 70% of total space to institutions for self use.

The 40,000 sq m second phase of Deji Plaza, located in Xinjiekou, gained much attention during its construction. Due to the developer's reputation, convenient transportation and the high-quality commercial facilities (Deji Plaza shopping mall), the project is expected to achieve the highest rents in the city when it enters the market in 2015.

Given the significant volumes of new supply targeted for completion in 2015, vacancy rates are expected to rise despite robust demand, especially from companies looking to purchase office space. Landlords, facing higher vacancy rates, will start competing more fiercely than they have in the past, encouraging rental discounts and preferential terms to tenants.

As the majority of new supply will be concentrated in Hexi CBD, prime business areas are predicted to relatively stable in terms of rents and occupancy rates. At the same time, the more limited future supply in prime areas in the future and improving environment in emerging locations like Hexi CBD, will lead to demand shifting towards emerging submarkets. With favourable business environment following the successive completions of high-quality projects and the improved infrastructure alongside relatively lower rents, this emerging area is expected to attract growing attention from high-profile tenants.

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