

Briefing Office sector

August 2015



Image: Nanjing Hexi New Town

SUMMARY

Despite net take-up increasing 81.5% half-on-half in 1H/2015 due to robust demand, rents only increased 1.8% while occupancy rates decreased 1.1 ppts.

- Two Grade A office projects were handed over in 1H/2015, adding a total office GFA of 107,850 sq m to the market and bringing stock to 769,170 sq m.
- Net take-up totalled 85,100 sq m in 1H/2015, increasing 81.5% half-on-half (HoH).
- City-wide vacancy rates increased 1.1 percentage points (ppts) HoH to 13.3%.

- Grade A office rents rose to an average of RMB4.89 per sq m per day, up 1.8% HoH.
- Two Grade A office projects, totalling 173,450 sq m of space, are scheduled for completion in 2H/2015.

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“As the majority of new supply over the next six months is expected to be concentrated in emerging areas, such as Hexi New Town, rents and occupancy rates in prime business areas are expected to remain relatively stable or only slightly increase.” James Macdonald, Head of Research, China

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→ Grade A office market

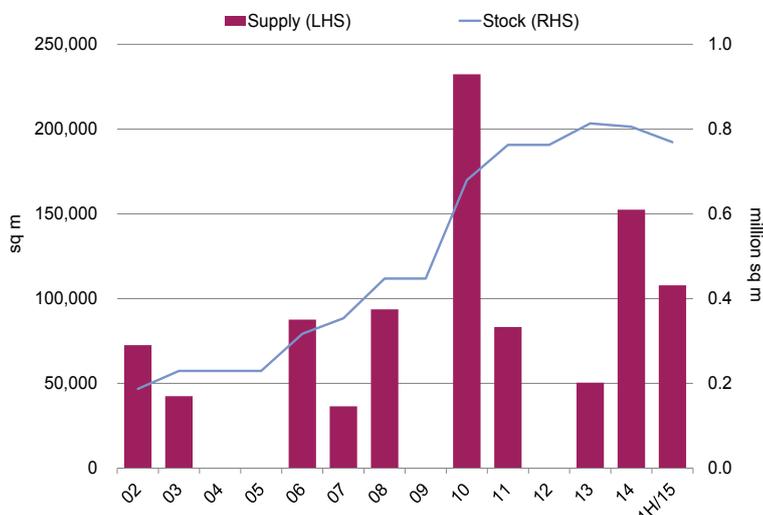
Supply and demand

Two Grade A office projects, Deji Plaza Office Building (德基广场写字楼) and Sunny World Ph 2 (新地中心二期), launched in 1H/2015, adding a total office GFA of 107,850 sq m onto the market and resulting in the total Grade A office stock reaching over 750,000 sq m by the end of June 2015. Net take-up over the same period totalled 85,100 sq m, up 81.5% HoH with strong demand being driven by professional services firms as well as the finance and insurance sectors.

Xinjiekou, the most mature business district in Nanjing, remained the most active area in 1H/2015, with the total volume of net take-up increasing 74% HoH to 50,500 sq m. Main leasing transactions in the first half of the year include:

- Zhonghai Microbank leased approximately 1,000 sq m in AMICIZIA.
- Regus leased 1,200 sq m in Siya Fortune Centre (斯亚财富中心).

GRAPH 1
Grade A office supply and stock, 2002–1H/2015



Source: Savills Research

- Deji Plaza Office Building has attracted Guoying Assets and Nuoyuan Capital, with both occupying whole floors. By the end of June 2015, occupied space within the project reached close to 15%, however, total committed space is much higher.

Hexi New Town, an integral part of the city's master plan, is an area designated for headquarters

buildings. Up to now, the area has attracted a number of regional headquarters of financial and insurance firms as well as IT and media companies. Benefiting from the growing business atmosphere and mature infrastructure, net take-up in Hexi New Town in 1H/2015 was more than double the amount in 2H/2014. Major transactions in 1H/2015 include Shengshi Huihai Investment Management and

TABLE 2
Selected office leasing transactions, 1H/2015

Company	Project	Area	Office GFA (sq m)
Guoying Assets	Deji Plaza Office Building	Xinjiekou	2,000
Nuoyuan Capital	Deji Plaza Office Building	Xinjiekou	2,000
Regus	Siya Fortune Centre	Xinjiekou	1,200
Zhonghai Microbank	AMICIZIA	Xinjiekou	1,000
Shengshi Huihai Investment Management	Sunny World Ph 1	Hexi New Town	900
Biomobie Corporation	Sunny World Ph 1	Hexi New Town	900
Sanofi	Asia Pacific Tower	Xinjiekou	900

Source: Savills Research

Biomobie Corporation both leasing 900 sq m in Sunny World Ph 1.

Grade A office rents and vacancy rates

Despite robust demand levels, the large volume of new supply released onto the market resulted in city-wide vacancy rates increasing 1.1 ppts HoH to 13.3%. Over the same period, Grade A office rents increased 1.8% to an average of RMB4.89 per sq m per day.

Owing to the mature business environment, as well as ample retail support and mature infrastructure, high-quality projects in Xinjiekou district attracted a broad range of companies, including both SOEs and MNCs from the professional services, financial and trade sectors. As a result, new supply in this area was absorbed quickly, causing vacancy rates to decrease 2.8 ppts HoH to 11.3%. At the same time, average rents in Xinjiekou district stood at RMB4.94 per sq m per day by the end of June, up 1.2% HoH.

Gulou business district, just to the north of Xinjiekou, is a smaller business district with 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 during the past five years, upcoming supply over the next few years will be limited. In 1H/2015, Gulou area rents increased 2.9% HoH, recording the highest average rents in the city at RMB4.98 per sq m

GRAPH 2
Submarket rents and vacancy rates, 2H/2014 vs 1H/2015



Source: Savills Research

per day. The area also witnessed relatively low vacancy rates, at 4.7%.

By the end of June, Hexi New Town had only received three Grade A office projects, resulting in an immature business environment and low rents. As several municipal administrative functions relocated 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. However, due to the completion of Sunny World Ph 2, with an office GFA accounting for 63% of the total new supply in the city in 1H/2015, Hexi New Town recorded the highest vacancy rates by the end of Q2/2015, up 12.7 ppts HoH to 23.2%.

Office investment market

Nanjing has seen limited en-bloc investment transaction activity during the first half of 2015. This is partly due to the lack of investable grade stock, with the majority of the office market being stratified or of lower quality. In addition, the market size and pace of development means Nanjing is more prone to supply shocks, which may coincide with investment exits. Also, many domestic companies preferred to acquire and develop land for themselves.

The strata title market, however, was more active. In Q1/2015, 12 floors (28,600 sq m) in Kingtown International Centre (金奥国际中心) were sold to Huaxia Bank for a total consideration of RMB750 million.

Office market outlook

Two Grade A office projects are scheduled to be handed over to the market in the second half of 2015, adding a total office GFA of 173,450 sq m and enlarging city-wide stock to nearly one million sq m, with a significant growth of 17% YoY.

Grade A office supply in 2H/2015 is expected to be concentrated in Xinjiekou area and Hexi New Town, with Hexi New Town estimated to account for 89% of supply.

North Changjiang Road No.9 (长江路9号), located in Xinjiekou, is a 19,000 sq m Grade A office project

scheduled to be put up for sale.

The 154,450 sq m Suning Ruicheng E07 (苏宁睿城E07), located in Hexi New Town, consists of two buildings (E07-1 & E07-2 towers) with space for sale or lease - Regus has signed to lease 1,000 sq m in E07-2 Tower when the building is handed over.

Given the significant volume of new supply targeted for completion in 2H/2015, vacancy rates are expected to rise despite robust demand, especially from companies looking to purchase office space.

As the majority of new supply will be concentrated in Hexi New Town, prime business areas are

predicted to remain relatively stable or witness a slight increase in terms of rents and occupancy rates. The more limited future supply in prime areas and improving environment in emerging locations such as Hexi New Town will lead to demand shifting towards emerging submarkets. With a 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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