Savills World Research Nanjing



Briefing Office sector

November 2015



SUMMARY

Image: Nanjing Hexi New Town

Although Nanjing's office market was less active this quarter, the arrival of the 500,000 sq m Nanjing Financial City Ph1 in H2/2016 has been widely anticipated, with a number of tenants already signed to move in when the project is handed over.

 No Grade A office projects were handed over in Q3/2015, leaving stock at 769,000 sq m.

• Net take-up totalled 34,500 sq m in Q3/2015, decreasing 24% quarter-on-quarter (QoQ), up 42.3% year-on-year (YoY).

City-wide vacancy rates
decreased 3.8 percentage points
(ppts) QoQ to 9.5%.

Grade A office rents fell 0.9%
QoQ to an average of RMB4.84 per sq m per day.

• Two Grade A office projects, totalling 173,450 sq m, are scheduled for completion in Q4/2015. "As the majority of new supply over the next quarter is expected to be concentrated in emerging areas, such as Hexi New Town, rents and occupancy rates in prime business districts are expected to remain relatively stable." James Macdonald, Head of Research, China

savills.com.cn/research 01

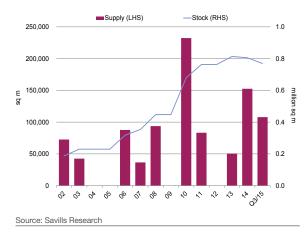
Grade A office market Supply and demand

No new projects were launched onto the market in Q3/2015, resulting in the total Grade A office stock standing at 769,000 sq m by the end of September 2015. Net take-up over the same period totalled 34,500 sq m, down 24.0% QoQ, but up 42.3% YoY. Financial services firms as well as the media and pharmaceutical sectors were the main demand drivers of the market.

Both Xinjiekou – the most mature business district in Nanjing, and Hexi New Town – a well planned emerging

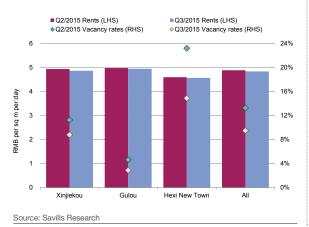
GRAPH 1

Grade A office supply and stock, 2002–Q3/2015



GRAPH 2

Submarket rents and vacancy rates, Q2/2015 vs Q3/2015



area, have witnessed relatively active office markets during the past three months, with the total net take-up from these two areas accounting for 94% of the total city-wide net take-up this quarter. Main leasing transactions in the third quarter of the year include the following:

- Soufun (捜房网) expanded approximately 1,000 sq m in AMICIZIA to 3,340 sq m.

- Deji Plaza Office Building has attracted a number of financial companies, such as Huayingkailai Assets (华赢凯来资产管理), Huizhong Wealth Management (汇中惠普财富管 理) and Everbright Securities (光大证券), leasing approximately 2,000 sq m, 650 sq m and 600 sq m respectively.

- Donghui Group (东汇集团) leased approximately 6,200 sq m in Sunny World Phase 2.

Grade A office rents and vacancy rates

Although Nanjing's Grade A office market saw relatively weak demand levels in Q3/2015, amid no new supply, city-wide vacancy rates fell 3.8 ppts QoQ to 9.5% as the market was able to absorb existing projects. Over the same period, Grade A office rents fell 0.9% QoQ to an average of RMB4.84 per sq m per day.

In Xinjiekou district, high-quality projects attracted a broad range of companies, including both SOEs and MNCs from the professional services, financial and trade sectors. As a result, new supply launched into this area in 1H/2015 was quickly absorbed, causing vacancy rates to decrease 2.5 ppts QoQ to 8.8%. At the same time, average rents in Xinjiekou district stood at RMB4.87 per sq m per day by the end of September, down 1.2% QoQ. In Gulou business district, projects are typically occupied by SMEs and smaller MNCs, typically from a manufacturing background, though there are also a few 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 Q3/2015, Gulou area rents increased 0.2% QoQ, recording the highest average rents in the city at RMB4.95 per sq m. The area also witnessed low vacancy rates of 2.9%.

By the end of September, Hexi New Town had only received three Grade A office projects, resulting in an immature business environment and low rents. More companies are considering relocating or expanding into this newly-planned city centre, as several municipal administrative functions have already relocated to this area and rents are significantly lower than the other two business districts. However, as Sunny World Ph2 - with an office GFA accounting for 63% of the total new supply in the city during the past three quarters - was launched in this area during the first half of 2015, Hexi New Town continued to record the highest vacancy rates in the city at 14.9% in Q3/2015. This is down 8.3 ppts QoQ.

Office investment market

Nanjing has seen limited en-bloc investment transaction activity during the past nine months 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 selfuse.

Office market outlook

Two Grade A office projects are scheduled to be handed over to the market in the last quarter of 2015, adding a total office GFA of 173,450 sq m and enlarging city-wide stock to nearly one million sq m – a significant growth of 22.6% QoQ. Grade A office supply in Q4/2015 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 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) with space for sale or lease.

Given the significant volume of new supply targeted for completion in last quarter of 2015, vacancy rates are expected to rise. As the majority of new supply will be concentrated in Hexi New Town, prime business areas are predicted to remain relatively stable in terms of rents and occupancy rates. The 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 completion of highquality projects and the improved infrastructure alongside relatively lower rents, this emerging area, Hexi New Town, is expected to attract growing attention from high-profile tenants.

Please contact us for further information

Savills Research



James Macdonald Director, China +8621 6391 6688 james.macdonald@savills.com.cn Savills Agency



Albert Lau Head & Managing Director, China +8621 6391 6688 albert.lau@savills.com.cn



Jeremy Sun General Manager, Nanjing +8625 5772 0911 jeremy.sun@savills.com.cn

Project Development Consultancy



Kitty Tan Director, China +8621 6391 6688 kitty.tan@savills.com.cn

Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 600 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.