

Briefing Office sector

January 2016



Image: Nanjing Hexi New Town

SUMMARY

In Q4/2015 80,000 sq m of new supply launched onto the market, increasing total stock by 10.4% quarter-on-quarter and resulting in city-wide vacancy rates rising 3.8% in the last quarter.

- One Grade A office project was handed over in Q4/2015, bringing total stock to 849,000 sq m.
- Net take-up totalled 34,350 sq m in Q4/2015, decreasing 9.8% quarter-on-quarter (QoQ), up 42.7% year-on-year (YoY).
- City-wide vacancy rates increased 3.8 percentage points (ppts) QoQ to 13.3%.
- Grade A office rents rose 1.2% QoQ to an average of RMB4.81 per sq m per day.
- Three Grade A office projects, totalling 495,000 sq m, are scheduled for completion in 2016.

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 “A huge volume of new supply is scheduled to be launched into emerging areas, such as the Hexi New Town and Xi’anmen area. Nanjing’s Grade A office market is expected to see a distinct increase in vacancy rates next year due to new projects taking longer to absorb the influx of supply.” James Macdonald, Savills Research

➔ **Grade A office market**
Supply and demand

Only one new project launched onto the market in the last quarter of 2015. This new supply of 80,000 sq m resulted in total Grade A office stock reaching 849,000 sq m by the end of December 2015. Nanjing has seen less activity in the office market in Q4/2015, with total net take-up totalling 34,350 sq m, down 9.8% QoQ, but up 42.7% YoY. Financial services, media and IT sectors were the main demand drivers of the market.

The majority of transactions in 2015 were concentrated in the Xinjiekou and Hexi New Town areas, with their total net take-up accounting for over 95% of the total city-wide net take-up this quarter. Main leasing transactions in the last quarter of the year included the following:

- Ping An Securities (平安证券) committed to approximately 1,000 sq m in the Asia Pacific Tower.

- China Merchants Property Development (招商局地产) leased a whole floor of 1,400sq m in the Nanjing IFC.

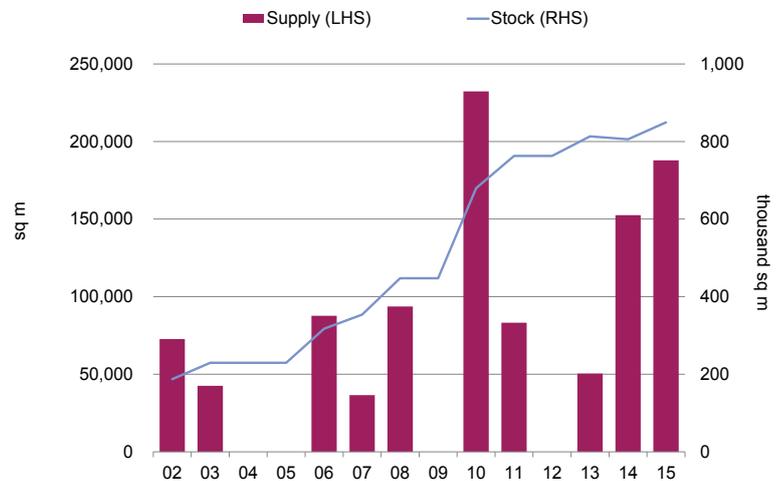
- Hengchang Wealth Management (恒昌财富管理) expanded by 360 sq m in the Nanjing City Centre to approximately 900 sq m in total.

- Both Sina Le Ju (新浪乐居) and Text Retrieval System (TRS, 拓尔斯信息技术), committed to office space in the newly completed Bewinner International Centre (北纬国际中心) at approximately 1,700 sq m and 450 sq m, respectively.

Grade A office rents and vacancy rates

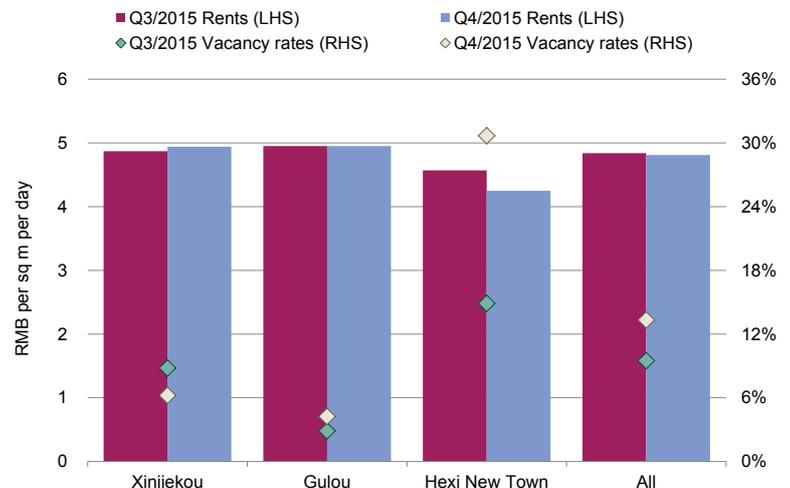
The new project launched onto the market in late December 2015, with a significantly large GFA of 80,000 sq

GRAPH 1
Grade A office supply and stock, 2002–Q4/2015



Source: Savills Research

GRAPH 2
Submarket rents and vacancy rates, Q3/2015 vs Q4/2015



Source: Savills Research

m. This together with the relatively weak demand levels of Nanjing’s Grade A office market in the last quarter, caused city-wide vacancy rates to increase by 3.8 ppts QoQ to 13.3%. Over the same period, Grade A office rents increased 1.2% QoQ to an average of RMB4.81 per sq m per day.

In the 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, the limited new supply launched into this area in the first half of 2015 was quickly absorbed, causing vacancy rates to decrease 2.6 ppts QoQ to 6.2%. In addition, average rents were at RMB4.94 per sq m per day by the end of December 2015, up 1.8% QoQ.

In the Gulou business district, projects are predominantly occupied

by SMEs and smaller MNCs, typically from a manufacturing background; however there are also a few financial firms. Although a number of projects were completed over the last five years, upcoming supply over the next few years will be limited. In Q4/2015, rents in the Gulou area recorded the highest average city-wide at RMB4.95 per sq m. The area also witnessed low vacancy rates of 4.2%.

The Hexi New Town area, a well-planned emerging area, saw a growing business environment. 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 in the other two business districts. However, due to the completion of the Bewinner International Centre, whose office GFA contributes nearly 43% of the city-wide total new supply in 2015, Hexi New Town recorded the highest vacancy rates by the end of December, up 15.8 ppts QoQ to 30.7%.

Office investment market

Nanjing has seen limited en-bloc investment transaction activity during the last quarter 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. Additionally, many domestic companies chose to acquire and develop land for self-use.

Office market outlook

Three Grade A office projects are scheduled to launch onto the market in 2016, adding a total office GFA of 495,000 sq m and enlarging city-wide stock to over 1.3 million sq m – a significant growth of 58.3% YoY. Grade A office supply in 2016 is expected to be concentrated in the Hexi New Town and Xi'anmen areas. The most notable project is the Air China Science and Technology City, located in the Xi'anmen area,

consisting of 10 buildings with a total area of 360,000 sq m for lease.

Given the huge volume of new supply targeted for completion in 2016, vacancy rates are expected to continue to rise. As the majority of new supply will be concentrated in emerging areas, such as the Xi'anmen and Hexi New Town areas, both rents and occupancy rates in prime business areas are expected to increase. The limited future supply in prime areas and the improving environment in emerging locations, especially in the Hexi New Town area, will lead to demand shifting towards emerging submarkets. With a favourable business environment following the successive completion of high-quality projects and the improved infrastructure combined with relatively lower rents, the Hexi New Town area is expected to attract growing attention from high-profile tenants. ■

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