

# Briefing Office sector

April 2016



Image: Nanjing, Financial City Phase 1

## SUMMARY

Although there was no new supply in the first quarter, vacancy rates fell by only 2.4 percentage points as market demand remained relatively weak.

- No new projects were handed over in Q1/2016, leaving total stock standing at 849,000 sq m.
- Net take-up totalled 23,800 sq m in Q1/2016, decreasing 30.1% quarter-on-quarter (QoQ).
- City-wide vacancy rates decreased 2.4 percentage points (ppts) QoQ to 10.9%.
- Grade A office rents rose 0.6% QoQ to an average of RMB4.83 per sq m per day.

“With limited new supply in the previous two quarters, the handovers of Financial City Phase 1 and Air China Science and Technology City in the next 12-15 months are highly anticipated. With approximately 500,000 sq m and 300,000 sq m of space, respectively, a number of tenants have already signed leasing agreements.” James Macdonald, Savills Research

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

No new projects entered the market in Q1/2016, leaving the total Grade A office stock standing at 849,000 sq m. Slowing economic growth has put pressure on a number of enterprises, especially SMEs (small-medium-sized enterprises) in the financial services and trading sectors, forcing many such companies to downsize or even declare bankruptcy. As a result, there was less activity in the Grade A office market in Q1/2016, with total net take-up down 30.1% QoQ at 24,800 sq m. Grade A office demand in the previous quarter was driven by state-owned-enterprises (SOEs) in the construction, media and IT sectors.

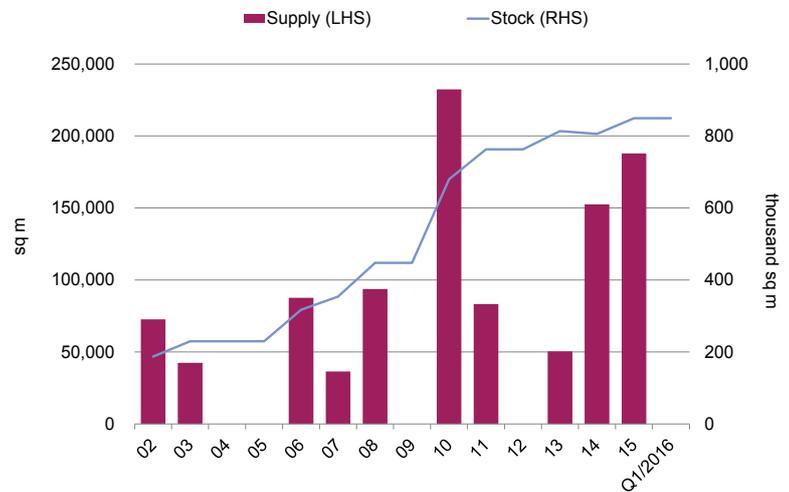
Main leasing transactions in Q1 included the following:

- Bank of Guangzhou (广州银行) committed to approximately 340 sq m in Zhi Di Square (置地广场).
- Joint Visa Application Centre (欧盟申根联合签证中心) leased a whole floor of nearly 3,000 sq m in the Sunny World Phase 2.
- Dongyuan Real Estate (东原地产) and Huite Group (汇特集团), a media company, committed to leases of 1,000 sq m and 1,800 sq m, respectively, in the Bewinner International Centre.

**Grade A office rents and vacancy rates**

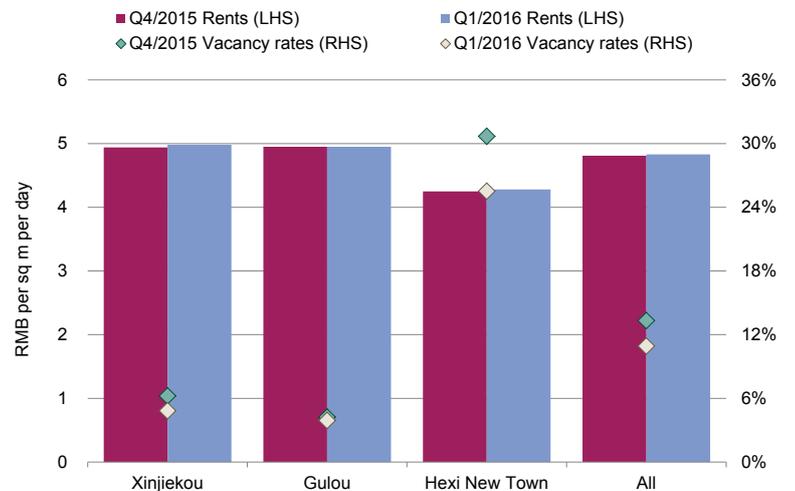
The absence of new supply, coupled with relatively weak demand levels in the Grade A office market last quarter, caused city-wide vacancy rates to fall by only 2.4 ppts QoQ to 10.9%. In the same period, Grade A office rents increased 0.6% QoQ to an average of RMB4.83 per sq m per day.

GRAPH 1  
**Grade A office supply and stock, 2002–Q1/2016**



Source: Savills Research

GRAPH 2  
**Submarket rents and vacancy rates, Q4/2015 vs Q1/2016**



Source: Savills Research

An abundance of retail options and developed infrastructure in the Xinjiekou district has helped attract a broad range of companies, including both SOEs and MNCs from the professional services, financial and trade sectors. The unavailability of land plots and addition of no new supply in the last nine months have caused vacancy rates to decrease 1.4 ppts QoQ to 4.8%. Additionally, average rents were at RMB4.98 per

sq m per day by the end of March 2016, up 0.8% QoQ.

In the Gulou business district, projects are predominantly occupied by SMEs and smaller MNCs, typically from a manufacturing background; there are also a few financial firms. Although a number of projects were completed over the last five years, upcoming supply in the next few years will be limited. In Q1/2016,

rents in the Gulou area were a relatively high RMB4.95 per sq m, an effect of the area's low vacancy rate of 3.9%.

Hexi New Town is a well-planned emerging area with a steadily growing business environment. Several municipal administrative offices have already relocated to this area, and are expected to be followed by more companies looking at the area for relocation or expansion options, as rents in the area are significantly lower than in the other two business districts. However, the decrease of demand for Grade A office space because of the economic slowdown, combined with an excess of new supply from Q4/2015, has resulted in Hexi New Town recording the highest vacancy rates in the city, 25.5%.

### Office investment market

En-bloc investment transaction activity was limited in the first

quarter of 2016. This was partly due to the lack of investable grade stock, as the majority of the office market is stratified or composed of lower-quality projects. In addition, the market size and pace of development has left the market more prone to supply shocks, which discouraged investors. Furthermore, many domestic companies chose to acquire and develop land for self-use, decreasing the number of investment opportunities.

### Office market outlook

No supply is scheduled to enter the market next quarter, though the handovers of three new projects are expected in late 2016. The most notable projects in the pipeline are Financial City Phase 1, located in the Hexi New Town area, and Air China Science and Technology City, located in the Xi'anmen area. Each project is expected to bring over 300,000 sq m of office space to the market, with a part of each being absorbed by the

buildings' buyers or developers for self-use. However, the launch dates could be pushed back to 2017 due to current construction delays. While the city's office market has been less active in the previous two quarters, the arrival of the two new projects is highly anticipated and a number of tenants have already signed deals to move in upon completion.

Meanwhile, there is no indication that absorption rates of projects launched in the Hexi New Town area in the past 12 months will increase. As a result, vacancy rates are expected to remain at the highest level in the city over the next three months, especially with the influx of future supply. As the majority of the future projects are concentrated in the emerging areas, the prime business areas are scheduled to see occupancy rates increase slightly over the next quarter, and rents should remain relatively flat. ■

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