

# Briefing Office sector

August 2016



Image: Nanjing IFC

## SUMMARY

The absence of new supply and a less active leasing market left vacancy rates and rents relatively unchanged in the past quarter.

- No new projects were handed over in Q2/2016, leaving total stock standing at 849,000 sq m.
- Net take-up totalled 2,768 sq m in Q2/2016, a decrease of 88.4% quarter-on-quarter (QoQ).
- City-wide vacancy rates remained unchanged at 10.6%.
- Grade A office rents remained stable at an average of RMB4.82 per sq m per day.

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 “No new supply is expected in the second half of 2016, further stabilising vacancy rates and rental levels throughout the city.” James Macdonald, Savills Research  
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➔ **Grade A office market**  
Supply and demand

No new projects entered the market in Q2/2016, leaving the total Grade A office stock standing at 849,000 sq m. Slowing economic growth has put pressure on a number of industries, especially SMEs (small-medium-sized enterprises) in the financial services and trading sectors, forcing many such companies to downsize their spatial requirements or exit the market entirely. As a result, total net take-up of Grade A office space continued to decrease, recording just 2,768 sq m in Q2, down 88.4% QoQ. The majority of Grade A office demand in the previous quarter was driven by state-owned-enterprises (SOEs) in the construction, real estate and energy sectors.

Main leasing transactions in Q2 included the following:

- China Huadian Corporation (中国华电) expanded by 1,000 sq m in Sunny World Phase 1 to approximately 3,600 sq m.

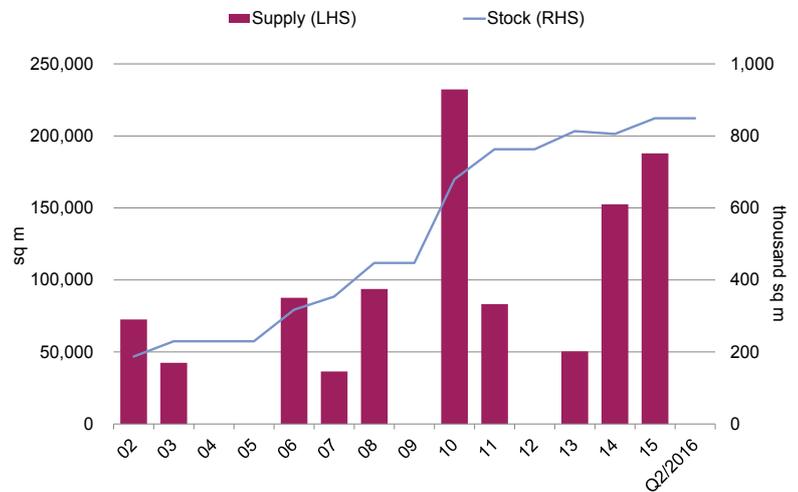
- Zhongjian Zhonghuan Engineering (中建中环工程有限公司), a wholly-owned subsidiary of the China State Construction Engineering Corporation, moved out of No. 1 Plaza (珠江壹号大厦) and leased a whole floor of nearly 2,100 sq m in the Suning Ruicheng (苏宁睿城) in Hexi New Town.

- Gezhouba Real Estate (葛洲坝) committed to 600 sq m in the Bewinner International Centre.

**Grade A office rents and vacancy rates**

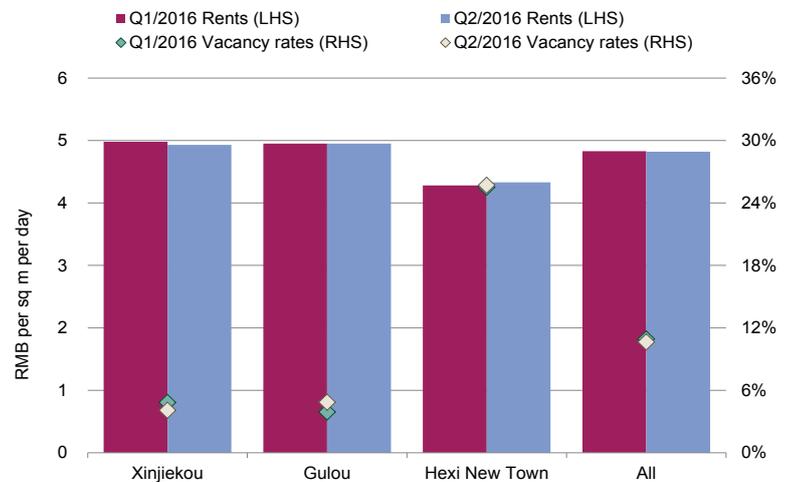
The absence of new supply, coupled with relatively weak demand levels in the Grade A office market last quarter, caused city-wide vacancy rates to remain stable at 10.6%. In the same period, Grade A office rents

GRAPH 1  
**Grade A office supply and stock, 2002–Q2/2016**



Source: Savills Research

GRAPH 2  
**Submarket rents and vacancy rates, Q1/2016 vs Q2/2016**



Source: Savills Research

saw almost no change, averaging RMB4.82 per sq m per day.

A number of SMEs in the financial services and trading sectors, which could traditionally afford relatively high rents, were forced to downsize or even exit the market. This caused vacancy rates in the Xinjiekou area to decrease by only 0.8 of a percentage point (ppt) QoQ to 4.1%, although no new supply entered the market in the last twelve months. Average rents

stood at RMB4.93 per sq m per day by the end of June 2016, falling 0.6% QoQ.

In the Gulou business district, projects are predominantly occupied by SMEs and smaller MNCs, typically in the financial services sector. A number of projects were handed over in the last five years; by comparison, new supply in the next few years will be rather limited. In Q2/2016, the Gulou area maintained the highest

rents in Nanjing at RMB4.95 per sq m. Vacancy rates increased slightly, by 0.9 of a ppt QoQ to 4.9%, due to the contraction of some financial firms.

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 for relocations or expansions as rents in the area are significantly lower than in the other two business districts. However, many potential tenants have delayed moving to the area due to the lack of existing retail options and a desire to wait for several buildings developed by high-profile developers to launch, such as Sun Hong Kai's project, which is scheduled to be handed

over in 2018. As a result, Hexi New Town continued to record the highest vacancy rate in the city, at 25.7%.

### Office investment market

Fullshare Real Estate (丰盛集团) announced plans to acquire an aggregated GFA of 100,605-sq m in Nanjing Wonder City (虹悦城) and Deying Mansion (德盈大厦) for an estimated RMB1.45 billion in April 2016.

Like many second-tier cities, Nanjing has seen limited en-bloc investment activity. In these markets, the main buyers tend to be domestic purchasers acquiring for self-use, or investors looking at prime assets with longer-term holds and favourable terms.

### Office market outlook

No supply is scheduled to enter the market in the remainder of 2016, as the launch dates of Financial City Phase 1 and Air China Science and Technology City slated for 2016 are expected to be pushed back due to current construction delays.

An absence of new supply in 2H/2016 will continue to help stabilise vacancy rates and rents across the city. However, vacancy rates in Hexi New Town are expected to remain the highest in the city for the foreseeable future, as the sub-market struggles to absorb the current oversupply. ■

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