

# Briefing Office sector

November 2016



Image: Air China Science and Technology City, Nanjing

## SUMMARY

The absence of new supply and a less active leasing market last quarter resulted in a moderate decrease in vacancy rates, while rents increased slightly.

- No new projects were handed over in Q3/2016, leaving total stock standing at 849,000 sq m.
- Net take-up totalled 26,600 sq m in Q2/2016, a decrease of 30.2% year-on-year (YoY).

- City-wide vacancy rates decreased by 2.7 percentage points (ppts) quarter-on-quarter (QoQ) to 8.0%.
- Grade A office rents averaged RMB4.86 per sq m per day, up 0.7% QoQ.

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 “No new supply is expected in the last quarter of 2016. This, combined with fewer high-quality project launches in the near future, should stabilise absorption rates of recently launched buildings, helping to improve 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 Q3/2016, 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. However, total net take-up of Grade A office space increased by 28.1% QoQ to 26,600 sq m in Q3/2016. The majority of Grade A office demand in the previous quarter was driven by state-owned-enterprises (SOEs) in the finance, real estate and energy sectors.

Major leasing transactions in Q3/2016:

- Quark Finance (夸克金融) expanded by 700 sq m in Deji Plaza Office Building (德基广场写字楼) to approximately 1,700 sq m.

- Envision Energy (远景能源) expanded by approximately 1,700 sq m in Nanjing City Centre (南京中心) to 2,500 sq m.

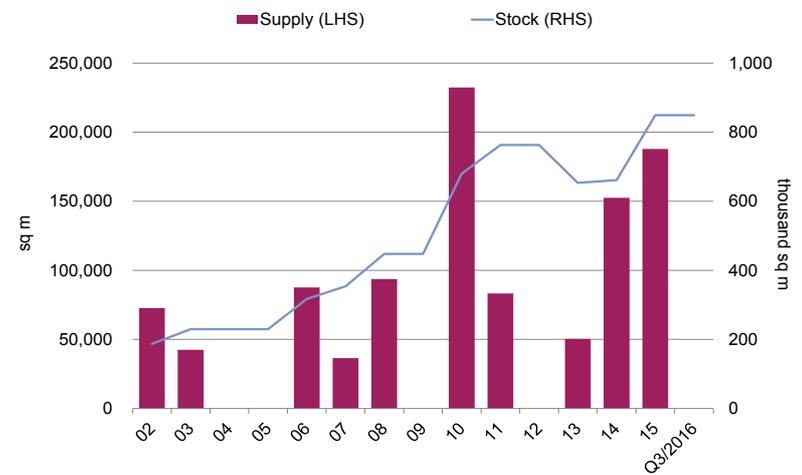
- China Securities Co., Ltd (中建投证券) committed to approximately 1,300 sq m in the Asia Pacific Tower (亚太商务楼).

- Radiance Real Estate (金辉地产) and Sinolink Securities (国金证券) committed to approximately 1,300 sq m and 700 sq m, respectively, in Sunny World Phase 1 (新地中心一期).

**Grade A office rents and vacancy rates**

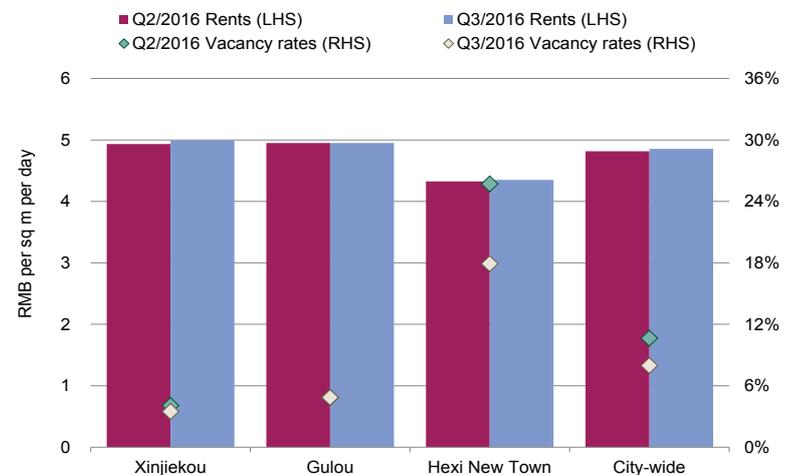
The continued absence of new supply in the Grade A office market last quarter caused city-wide vacancy rates to decrease by 2.7

GRAPH 1 **Grade A office supply and stock, 2002–Q3/2016**



Source: Savills Research

GRAPH 2 **Submarket rents and vacancy rates, Q2/2016 vs Q3/2016**



Source: Savills Research

ppts QoQ to 8.0%. In the same period, Grade A office average rents increased slightly, by 0.7% QoQ to RMB4.86 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 0.6 of a ppt QoQ to 3.5%, even though no new supply

entered the market in the last twelve months. Average rents stood at RMB4.99 per sq m per day by the end of September 2016, rising 1.0% QoQ.

In the Gulou business district, projects are predominantly occupied by SMEs and smaller MNCs, typically in the financial services sector. The area has received a number of new projects over the last five years; by comparison, new supply in the

next few years will be rather limited. In Q3/2016, average rents and vacancy rates in the area remained unchanged at RMB4.95 per sq m per day and 4.9%, respectively.

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 the launches of several buildings developed by high-profile developers, such as Sun Hung 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 17.9%, though it fell by 7.8 ppts QoQ due to the absence of new supply in the area.

**Office investment market**

En-bloc investment activity was limited in the third quarter of 2016. This was partially 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, compared to the robust first-hand commodity residential market, the office market in Nanjing is less active in both leasing and sales sectors, which discouraged investors. Moreover, 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 in the remainder of 2016, as the launch dates of Financial City

Phase 1 and Air China Science and Technology City are expected to be pushed back due to construction delays.

An absence of new supply in Q4/2016 will continue to help stabilise rents and absorption rates of the latest launched projects, with relatively high vacancy rates 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 submarket struggles to absorb the current oversupply. ■

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