

Briefing Office sector

May 2017



Image: Golden Eagle International Shopping Center Ph 3, Xinjiekou

SUMMARY

Despite relatively weak market demand in the first quarter, the absence of new supply helped improve market vacancy rates, while rents declined further.

- No new projects were handed over in Q1/2017, keeping total Grade A office stock at 868,000 sq m.

- Net take-up totalled 2,882 sq m in Q1/2017, decreasing 75.8% quarter-on-quarter (QoQ) and 87.9% year-on-year (YoY).

- City-wide vacancy rates decreased by 0.3 of a percentage point (ppt) QoQ to 7.4%, down 3.5 pts YoY.

- Grade A office rents averaged RMB4.86 per sq m per day, down 0.1% QoQ and up 0.9% YoY.

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“The government’s attempt to guide rents lower has increased office demand in the Hexi New Town. However, many potential tenants have postponed moving to the area, due to the lack of existing retail options and the delayed handover of several buildings developed by high-profile developers, causing rents to remain relatively low.” James Macdonald, Savills Research

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

Slowing economic growth has put pressure on a number of industries, especially small- and medium-sized enterprises (SMEs) in the manufacturing and trading sectors, forcing many such companies to downsize their spatial requirements. Consequently, the Grade A office market has seen demand weaken further over the past quarter, with net take-up decreasing 75.8% QoQ and 87.9% YoY to 2,882 sq m in Q1/2017. The services and technology sectors remained the key drivers of Grade A office demand during the period.

Major leasing transactions in Q1/2017:

- Tsingtao Brewery Group, Nanjing Huarun International Trading Co., and AETOS (SH) committed to approximately 800 sq m, 480 sq m and 270 sq m, respectively, in Sunny World Center Ph1.

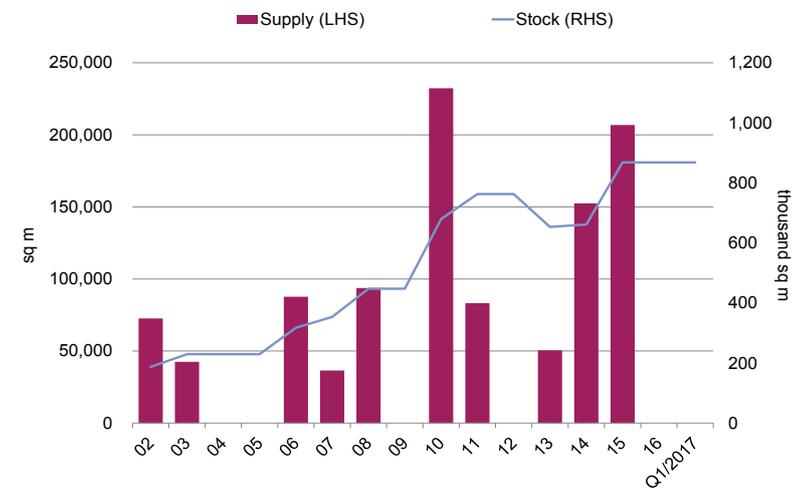
Grade A office rents and vacancy rates

The continued absence of new supply last quarter, combined with softening market demand, caused city-wide vacancy rates to decrease by 0.3 of a ppt QoQ to 7.4%. In the same period, Grade A office average rents decreased slightly by 0.1% 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 increase by 0.4 of a ppt QoQ to 4.5%. Average rents increased slightly, by 0.3% QoQ to RMB4.98 per sq m per day by the end of March.

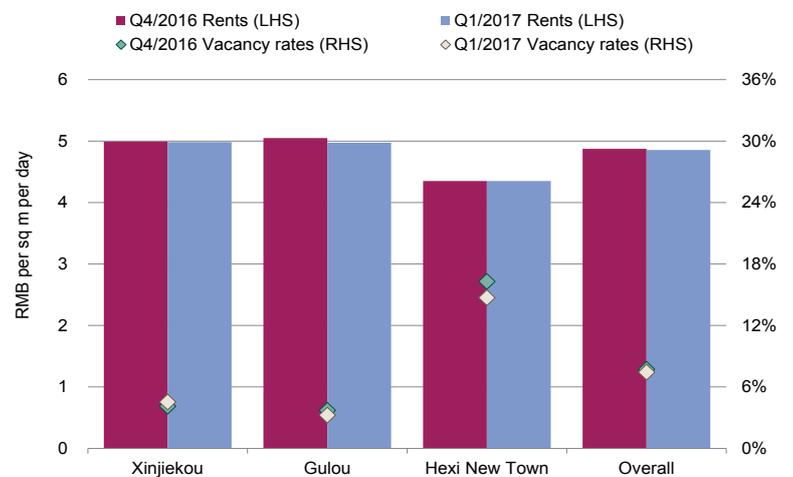
In the Gulou business district, projects are predominantly occupied by SMEs and smaller MNCs, typically

GRAPH 1 **Grade A office supply and stock, 2002–Q1/2017**



Source: Savills Research

GRAPH 2 **Submarket rents and vacancy rates, Q4/2016 vs Q1/2017**



Source: Savills Research

in the financial services sector. Having not received any supply in the past six years, vacancy levels in the Gulou area are relatively low compared to the city's other business areas, at just 3.3%, down 0.5 of a ppt QoQ. However, due to the weak Grade A office market demand and the competitiveness from other districts, many landlords lowered rental levels to retain and attract sought-after tenants. By the end of Q1/2017, average rents decreased

by 1.4% QoQ to RMB4.98 per sq m per day.

Hexi New Town is a master-planned, emerging area with a steadily maturing 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 remain more affordable than the city's two other 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 14.7%, though it fell by 10.8 ppts YoY and 1.6 ppts QoQ, due to the absence of new supply in the area over the past year.

Office investment market

Bank of Beijing purchased the 60,572-sq m Walsin Plaza Tower 3, which is expected to launch in 2018, for RMB1.05 billion in December 2016. Meanwhile, Fullshare Real Estate acquired the 100,605 sq m Wonder City Nanjing for an estimated RMB1.01 billion.

Nanjing has seen limited en-bloc investment activity. 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

One Grade A office project, Golden Eagle International Shopping Center Ph 3, located in the Xijiekou area, is scheduled to launch onto the market in the next quarter, adding an office GFA of 19,000 sq m to the market. Given the limited new prime-area supply expected in the next quarter, both market vacancy rates and rents are forecast to increase slightly. Contacts. ■

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