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**Savills World Research**
Nanjing

# Briefing
# **Office sector**

July 2017

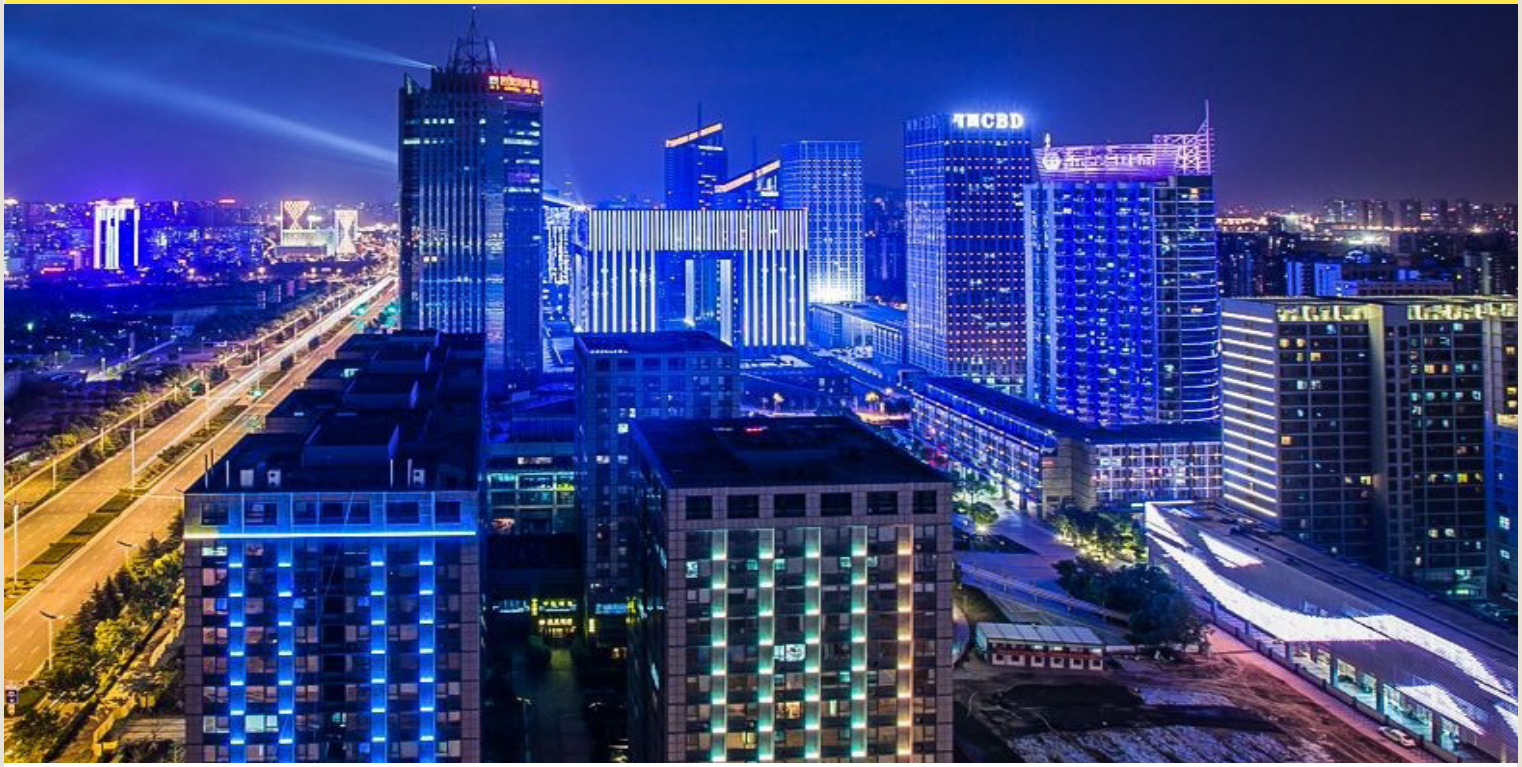



Image: Hexi CBD, Hexi New Town

## SUMMARY

New supply launched onto the market, combined with relatively weak demand, has reduced occupancy rates and average rents in Q2/2017.

- One new project was handed over in Q2/2017, bringing total Grade A office stock to 924,000 sq m.
- Net take-up totalled 15,686 sq m in Q2/2017, increasing by 17.8% quarter-on-quarter (QoQ) but decreasing by 24.5% year-on-year (YoY).
- City-wide vacancy rates increased by 0.2 of a percentage point (ppt) QoQ to 8.0%, down by 3.9 ppts YoY.
- Grade A office rents averaged RMB4.89 per sq m per day, down by 1.7% QoQ and by 1.0% YoY.

"Given no new supply is expected in the remainder of 2017, occupancy rates are expected to increase steadily, while rents are forecasted to remain flat." James Macdonald, Savills Research

## Grade A office market

### Supply and demand

One Grade A office building, Golden Eagle International Shopping Center Ph 3, launched in the Xinjiekou area in Q2/2017. This opening increased total stock to 924,000 sq m. The pharmaceutical, F&B, finance and technology sectors drove demand for Grade A office space in the second quarter. Net take-up totalled 15,686 sq m, increasing by 17.8% QoQ but decreasing by 24.5% YoY.

Major leasing transactions in Q2/2017:

- Novartis (诺华医药), and another fund firm which is a subsidiary of Caitong Securities (财通证券旗下某基金公司), committed to 300 sq m and 500 sq m, respectively, in Golden Eagle International Shopping Center Ph 3.

- General Mills (通用磨坊) and AVIC Trust Co. Ltd (中航信托) committed to 550 sq m and 450 sq m, respectively, in Air China Science and Technology City Building 1 (中航科技城1号楼).

- Phicomm (上海斐讯数据通信技术) expanded by 690 sq m in Jinmao Place Ph1 (金茂广场一期), to 1,000 sq m.

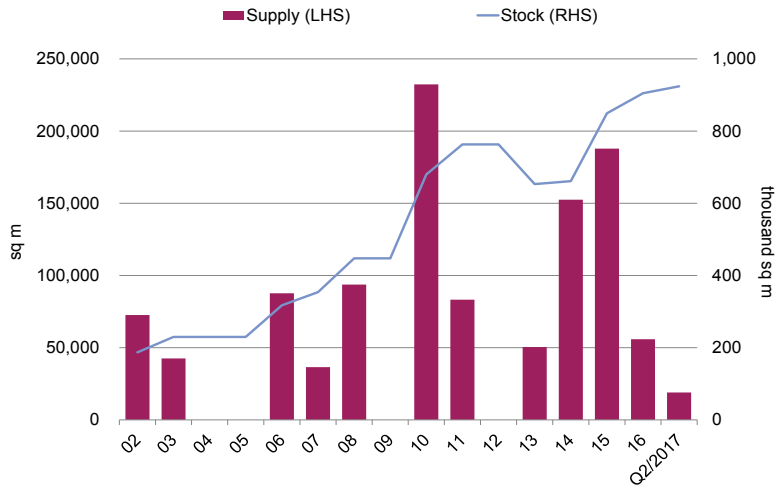
### Rents and vacancy rates

City-wide vacancy rates saw a minimal increase of 0.2 of a ppt QoQ to 8.0%. Grade A office average rents decreased by 1.7% QoQ to RMB4.89 per sq m per day.

A number of SMEs in the financial services and trading sectors, which could afford relatively high rents in the past, were forced to downsize or even closed down permanently. This factor, together with new supply launched in the Xinjiekou area, increased vacancy rates by 3.2 ppts QoQ to 9.8%. Average rents decreased by 2.2% QoQ to RMB5.18 per sq m per day by the end of June.

GRAPH 1

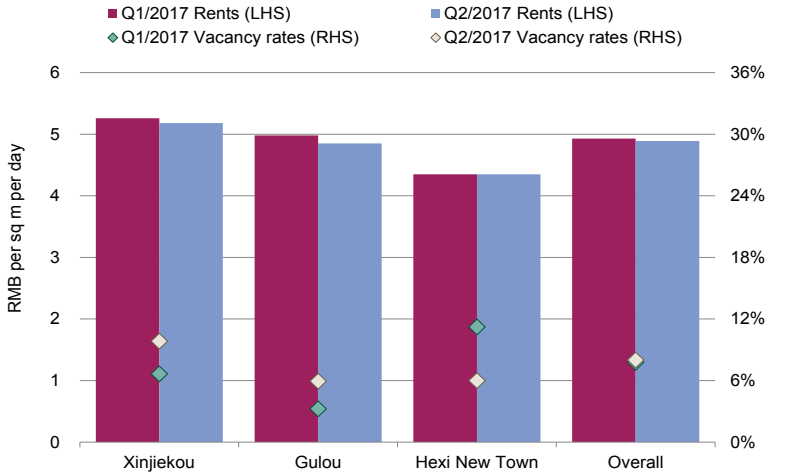
**Grade A office supply and stock, 2002–Q2/2017**




Source: Savills Research

GRAPH 2

**Submarket rents and vacancy rates, Q1/2017 vs Q2/2017**




Source: Savills Research

In the Gulou business district, projects are predominantly occupied by SMEs and smaller MNCs, typically from the financial services sector. As there has been no new supply in the past six years, the vacancy level is lower compared with other business areas, at 5.9%, up 2.7 ppts QoQ. However, due to city-wide weak demand and competition from other districts, landlords lowered rental levels to retain existing tenants and to attract new tenants. Average rents decreased by 2.6% QoQ to RMB4.85 per sq m per day in Q2/2017.

Hexi New Town is an emerging area with a master plan and a steadily growing business environment. Several municipal administrative offices have already relocated to this area. This trend will be followed by more companies looking for relocations or expansions as rents are more affordable in this area compared to other districts. Due to

the absence of new Grade A office supply over the past year, vacancy rates in Hexi New Town have decreased significantly, by 5.2 ppts QoQ to 6.0%.

## Office investment market

Nanjing, like most of the other second-tier cities, has seen limited en-bloc investment activity. This is partly due to the lack of investment-grade stock, as the office market remains largely strata-title or comprised of lower-quality projects. In addition, the office leasing and sales market, which is less active when compared to the robust first-hand commodity residential market, has discouraged investors. Moreover, many domestic companies have chosen to acquire and develop land for self-use, reducing investment opportunities.

## Office market outlook

No supply is scheduled to enter the market in 2H/2017, leaving total office stock standing at 924,000 sq m. This will help to stabilise rents and increase absorption rates of existing buildings, as vacancy rates are currently relatively high city-wide. Thus, it is expected that occupancy rates will increase while rents remain relatively stable.

# Please contact us for further information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