Briefing
Office and retail

March 2016

Image: Mosaic Plaza, Renmin Road

SUMMARY

Financial companies continued to show the greatest appetite for space throughout 2H/2015. However, newly-launched financial companies continued to display instability and as a result occupancy rates in the market remained volatile.

- No new supply entered the market during the second half of 2015, capping off a quiet year with only one new project handed over, the China Resources Building on Hong Kong Middle Road. As a result, total Grade A office stock remained unchanged at 1.53 million sq m.

- While there was lack of supply, falling demand saw vacancy rates increase mildly, up 2.1 percentage points (ppts) year-on-year (YoY) to 19.9%.

- City-wide rents decreased 0.3% half-on-half (HoH) to an average of RMB102.1 per sq m per month in 2H/2015, down 0.5% YoY.

- Two new retail projects – one shopping centre and one department store – held their grand openings in 2H/2015, adding a total retail GFA of 163,000 sq m to the market.

- City-wide shopping mall vacancy rates increased 5.6 ppts to 27.8% in the second half of 2015, up 6.5 ppts YoY. Shopping mall first-floor rents decreased 3.8% HoH to RMB407.5 per sq m per month.

"Weak demand is expected to see the retail market face difficulties in absorbing future supply. Consequently, city-wide occupancy rates are expected to continue to decline."
Jack Xiong, Savills Research & Consultancy

Economic overview

Qingdao's GDP grew at a real rate of 8.1% YoY to RMB930 billion in 2015. Fixed-asset investments (FAI) totaled RMB655.5 billion, up 14.2% YoY, while real estate investment increased 0.4% YoY to RMB112.2 billion over the same period. Retail sales grew 10.5% YoY to RMB371.3 billion and the consumer price index (CPI) grew 1.2% YoY.

Grade A office market

Supply, net take-up and vacancy rate

No new supply entered the market in the second half of 2015, capping off a quiet year with only one new project handed over – the China Resources Building on Hong Kong Middle Road. As a result, total Grade A office stock remained unchanged at 1.53 million sq m.

Despite no new supply entering the market, the decline in net take-up was largely attributed to the slowing economy, which sharply curbed leasing transaction levels in the market during the period. Low occupancy levels in the new supply put pressure on city-wide vacancy rates, up 2.1 ppts YoY to 19.9%. Financial companies continued to show the greatest demand appetite throughout the period.

Rents

City-wide Grade A office rents were largely stable at an average of RMB102.1 per sq m per month, down only 0.5 % YoY.

Submarket rents and vacancy rates

- Hong Kong Middle Road

The Hong Kong Middle Road area continued to command the highest rents in the city. Offering a mature business environment, developed infrastructure and higher-quality projects, the area will continue to hold a premium above other areas. Rents during the period remained relatively stable, falling only 1% HoH to RMB117.3 per sq m per month.

- Largely due to the negative performance of the China Resources Building, the vacancy rate in the Hong Kong Middle Road area was pushed up 4.5 ppts YoY to 15.3% by the end of the period; however, it still remained the lowest vacancy rate in Qingdao.

- Haier Road

As the majority of projects in the Haier Road area are generally of lower quality and offer comparatively outdated facilities, rents held stable at an average of RMB80.5 per sq m per month.

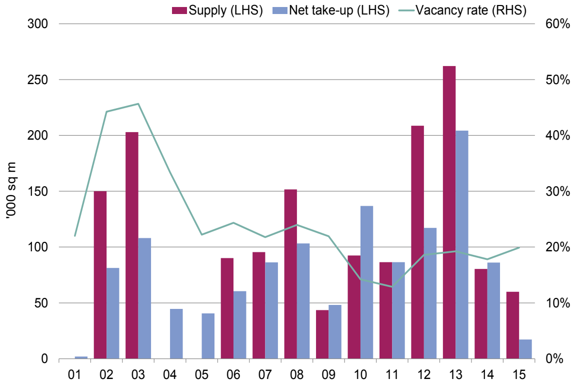
While occupancy rates of the most recently-launched projects in the area are improving, vacancy rates decreased to 21.1%, down only 0.3 of a ppt HoH.

- Shibei CBD

This area is forecasted to see growing supply in the coming years. The new projects, combined with the current high level of existing stock, have seen

GRAPH 1

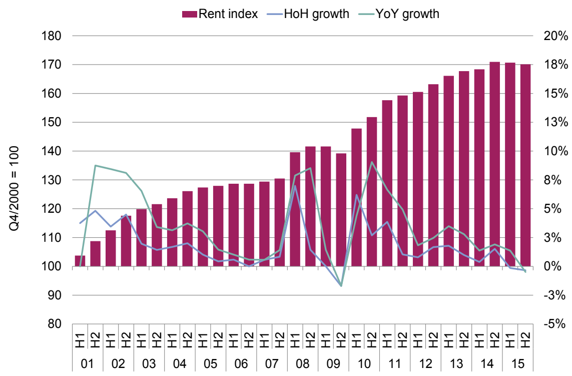
Grade A office supply, net take-up and vacancy rate, 2001 – 2015



Source: Savills Research& Consultancy

GRAPH 2

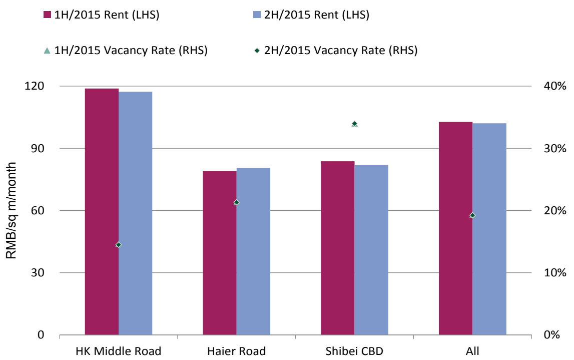
Grade A office rents and rental growth, 1H/2001– 2H/2015



Source: Savills Research& Consultancy

GRAPH 3

Submarket rents and vacancy rates, 1H/2015 vs 2H/2015



Source: Savills Research& Consultancy

TABLE 1

Macroeconomic indicators, December 2015

Indicators	Unit	Value	YoY growth (%)
GDP	RMB billion	930.0	8.1
Fixed-asset investment	RMB billion	655.5	14.2
Real estate investment	RMB billion	112.2	0.4
Retail sales	RMB billion	371.3	10.5
CPI	PY = 100	101.5	1.2

Source: Qingdao Statistics Bureau, Savills Research& Consultancy landlords under pressure to offer rental incentives to retain and attract quality tenants. As a result, the Shibei CBD rents decreased 2% HoH to RMB82 per month per sq m, down 2.7% YoY.

The Shibei CBD area, an emerging business district, saw no new supply in 2015. Vacancy rates remained high at 35.9% in the second half of the year, up 2.0 ppts HoH to 35.9%, mainly due to the large supply of recent years, as well as some projects continuing to be affected by ongoing road repairs.

Market outlook

New Grade A office supply in 2016 will be distributed throughout all of Qingdao's office markets. Hong Kong Middle Road, Haier Road and the Shibei CBD are all scheduled to receive supply totalling 900,000 sq m.

The influx of new supply scheduled to launch onto the market in 2016 is expected to encounter challenges in being absorbed. The large level of new supply, combined with the instability of financial companies, is likely to see vacancy rates increase mildly in the short- to mid-term. The higher vacancy rates are expected to place landlords under pressure, which will likely result in rental discounts being offered as they compete for tenants.

Mid-to high-end retail market

Supply and stock

Two new projects – Mosaic Plaza (悦荟广场) and Mykal II (麦凯乐新都购物广场) – entered the retail market in 2H/2015, contributing an additional retail GFA of 163,000 sq m to the market and bringing the year's total supply to 625,000 sq m. As a result of the new supply, Qingdao's mid- to high-end retail stock expanded to over 3.2 million sq m by the end of 2H/2015.

Mosaic Plaza (悦荟广场) entered the market in July 2015. Located adjacent to the Sifang Liqun Mall on Renmin Road, the project is the product of a heavy renovation and upgrade of the previous Lifespace Mall owned by Tesco. Following the upgrade, the project is now positioned as a mid-end shopping centre and has contributed approximately 73,000 sq m of retail GFA to the market.

Mykal II (麦凯乐新都购物广场) is the third department store project in the Mykal series in Qingdao, with the other two located on Hong Kong Middle Road in the Shinan district, and Changjiang Middle Road in the Huangdao district. The project launched onto the market in November 2015, contributing retail GFA of 90,000 sq m to the

TABLE 3

Future project focus

	White Gold Plaza 白金广场
	
Location	Haier Road
Owner	Qingdao Yajian Dingshang
Office GFA (sq m)	55,000
Floor plate (sq m)	1,200
PM company	JLL
Asking rent	105
Management fee	8.9

Source: Savills Research& Consultancy

TABLE 4

Future supply, 1H/2016

Project	Completion	Submarket	Office GFA (sq m)
Ginza Centre （银座中心）	Q1	Hong Kong Middle Road	40,000
Yongxin International Centre （永新国际广场）	Q1	Haier Road	45,000
White Gold Plaza （白金广场）	Q1	Haier Road	55,000
Fortune Zone （青房财富地带）	Q2	Shibei CBD	79,500
Minjian Building （民建大厦）	Q2	Shibei CBD	79,500
Kaijing Building （凯景大厦）	Q2	Shibei CBD	28,000

Source: Savills Research & Consultancy

TABLE 2

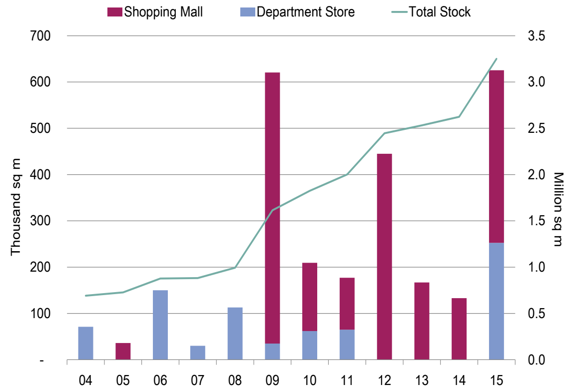
Selected office leasing transactions, 2H/2015

Company	Project	Location	Office GFA (sq m)	New lease/renewal
Shandong Iron &Steel Group	HNA IMC Centre	Hong Kong Middle Road	2,000	New lease
Qingdao Power Media	Excellence Centre	Shibei CBD	1,200	New lease
Creditcrest Wealth	China Resources Building	Hong Kong Middle Road	1,000	New lease
Qizheng Lawyers	China Resources Building	Hong Kong Middle Road	969	New lease

Source: Savills Research& Consultancy

GRAPH 4

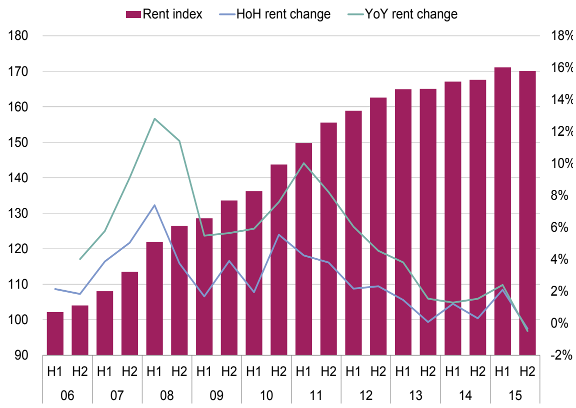
Mid- to high-end retail supply and stock, 2004–2015



Source: Savills Research& Consultancy

GRAPH 5

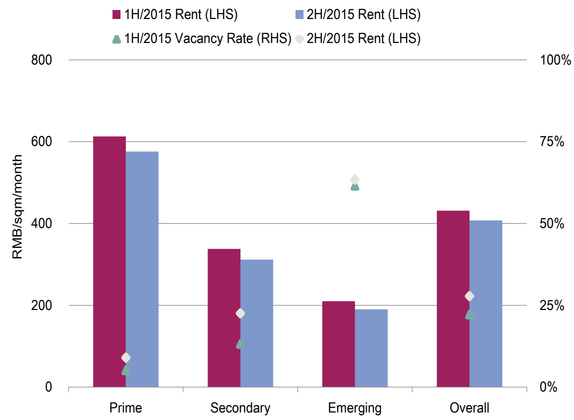
Shopping mall first-floor rental index, 1H/2006–2H/2015



Source: Savills Research& Consultancy

GRAPH 6

Submarket rents and occupancy rates, 1H/2015vs 2H/2015



Comments: Prime: Hong Kong Middle Road; Taidong
Secondary: CBD; Renmin Road; Licun
Emerging: Laoshan; Chengyang

Source: Savills Research & Consultancy

market. Mykal II has filled a gap in the market as the first large-scale retail project opened in the newly-formed residential area, New Urban Centre.

Demand and occupancy rates

Given the slowing retail environment, weak demand has seen city-wide shopping mall vacancy rates increase 5.6 ppts to 27.8% in 2H/2015, an increase of 6.5 ppts YoY. Looking to boost the performance of their projects, landlords have begun to show a stronger interest in introducing F&B and children's retailers, both known for their ability to drive higher footfall.

Rents

Due to oversupply, projects in the market have come under increased pressure due to landlords' relatively weaker bargaining power with tenants. As a result, overall rental growth in the market in 2H/2015 was constrained, decreasing 2.3% YoY to RMB407.5 per sq m per month.

Shopping malls in prime areas saw a vacancy rate of 9.0% and average rents of RMB575.8 sq m, still the lowest vacancy rate and highest average rents city-wide.

Market outlook

Three new shopping malls and one department store are expected to debut in 1H/2016, adding a total retail GFA of 503,000 sq m to the mid- to high-end retail market. Of the new projects, three are scheduled to be located in non-prime retail areas, which will lead to the further decentralisation of the market. The large influx of new supply is expected to face challenges in being absorbed by the market. As a result, city-wide occupancy rates are expected to continue to decline.

Given the fast development of e-commerce and overseas purchasing, landlords have shown a stronger interest in introducing F&B and children's retailers, known for their ability to attract higher footfall.

TABLE 5

New retail supply, 2H/2015

	Mosaic Plaza (悦荟广场)	Mykal II (麦凯乐新都购物广场)
		
Location	Renmin Road	New Urban Centre
Opening date	Q3/2015	Q4/2015
Retail GFA (sq m)	73,000	90,000
Retail type	Shopping mall	Department Store
Floor	B2 - 5F	B1 - 6F
Tenant mix	Fashion, F&B, entertainment, children's, lifestyle retailers.	Fashion, Cinema, F&B, lifestyle retailers
Major tenants	Aeon Molly Fantasy, Jinyi Cinema, MJ Style	FILA, Starbucks, Adidas, Chow Tai Fook,

Source: Savills Research & Consultancy

TABLE 6

Selected retail leasing transactions, 2H/2015

Tenant	Trade	Project	Location
Clarks	Fashion	Licang Wanda Plaza	Licun
Wuxin Ramen	F&B	Tsingtao Centre	Hong Kong Middle Road
Love Beauty	Health/Beauty	CBD Wanda Plaza	CBD
Pizza Hut	F&B	Mosaic Plaza	Renmin Road
Vero Moda	Fashion	Mosaic Plaza	Renmin Road

Source: Savills Research & Consultancy

TABLE 7

Future retail project focus

	Lion Mall 金狮广场
	
Location	Laoshan
Retail GFA (sq m)	229,000
Retail type	Shopping mall
Opening date	Q1/2016

Source: Savills Research & Consultancy

Please contact us for further information

Savills Research

James Macdonald
Director, China
+8621 6391 6688
james.macdonald@savills.com.cn

Savills Northern China

Anthony McQuade
Senior National Director,
Head of Agency
+8610 5925 2002
anthony.mcquade@savills.com.cn

Savills Research & Consultancy

Jack Xiong
Director
+8610 5925 2042
jack.xiong@savills.com.cn