

Briefing Office & Retail Sector

June 2018



Image: Guanggu New World, Optics Valley

SUMMARY

Annual office take-up could reach a record high in 2018 on the back of government support and strong growth in the financial and professional services sectors.

- One new Grade A office project, Guanggu New World Tower (光谷新世界中心), was launched onto the market in Q1/2018, adding 87,400 sq m of new office space. The Grade A office stock totalled 1.6 million sq m at the end of Q1/2018.
- Grade A office vacancy rates declined by 0.2 of a percentage point (ppt) quarter-on-quarter (QoQ) to 35.5% in Q1/2018.
- Grade A office rents fell by 0.7% in absolute term in Q1/2018, averaging RMB116 per sq m per month.

- No new retail projects were launched in the first quarter, leaving total retail stock at five million sq m.
- Overall shopping mall rents on first floor space increased 0.2% in Q1/2018 on an index basis to RMB496 per sq m per month.
- Overall vacancy rates in shopping malls declined by 0.1 of a ppt in Q1/2018 to 6.6%.

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 “With the second largest population in Central China, along with income growth exceeding the national average and new stock coming online, Wuhan and its retail market remain highly attractive to retailers expanding their China footprint.” James Macdonald, Savills Research

Office market

Supply, take-up and vacancy

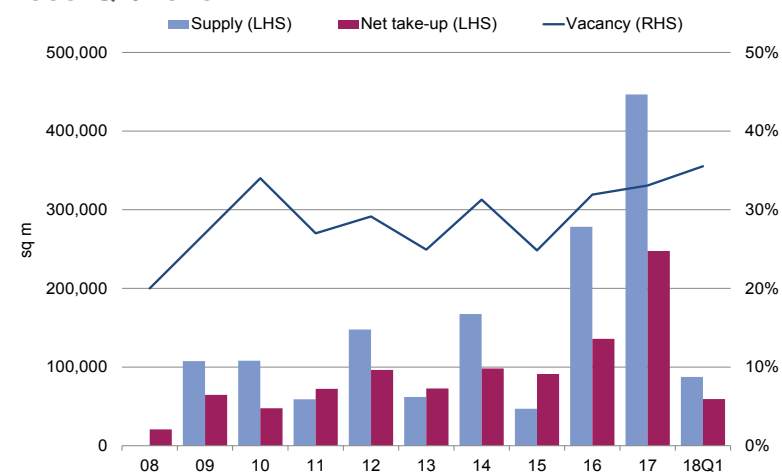
One new Grade A office project, Guanggu New World in the Optics Valley area, was launched onto the market in Q1/2018, adding 87,400 sq m of new office space. Consequently, the city's Grade A office stock increased to 1.6 million sq m by the end of Q1/2018.

Developed by New World China Land, Guanggu New World Tower is the office component of a mixed-use development, Guanggu New World, which also has a high-end shopping mall named K11, a New World Hotel and a residential component. Although the location is now a 35-minute walk from the nearest Optics Valley Metro Station (Line 2), the anticipated completion of Guanshan Avenue Metro Station (Line 11) in one to two years is expected to help commuters by shortening the walking time to five minutes. The office tower is for lease only.

Market absorption remained strong, totalling 59,400 sq m in Q1/2018, a relatively high level for the Wuhan market. This mostly came from the 36,700 sq m take-up in Optics Valley, where most of the leasing deals occurred in the new project.

Similar to other Chinese leading cities, financial and professional services companies remained key drivers of Grade A office demand,

GRAPH 1
Grade A office supply, take-up and vacancy rate, 2008-Q1/2018



Source: Savills Research

while TMT companies and co-working operators continued to increase their footprints in the city. H-Work, a domestic co-working operator, leased approximately 9,000 sq m at Bund Financial Centre (BFC) in Hankou Riverside in Q1/2018, while Guangdong Guangxin Telecom took 6,200 sq m at Yuexiu Fortune Centre in Qiaokou.

Thanks to strong demand, the overall Grade A office vacancy rate declined by 0.2 of a ppt in Q1/2018 to 35.5%, despite the entry of a new project. The Wuhan Central Business District (CBD) area has been recording the highest vacancy level (63% in Q1/2018 versus 2% in Q2/2017) among all business areas since Q3/2017 after the handover

of a new project, Oceanwide Wealth Centre, with 84,500 sq m of office GFA.

Rent¹

Grade A office rents fell by 0.7% in absolute terms in Q1/2018, to an average of RMB116 per sq m per month, down 1.3% year-on-year (YoY).

Starting from Q2/2012, when Wuhan Tiandi's first office building was taken into rental consideration, the city's secondary² office rents have been 15-20% higher than those

¹ Rent tracking starts after six months from the date of handover.

² Primary office areas include Jianshe Avenue and Zhongnan Zhongbei Road; while secondary office areas include Hangkong Road, Hankou Riverside and Optics Valley. Emerging office areas include Wuchang Riverside, Wuhan CBD, etc.

TABLE 1
Grade A office market performance, Q1/2018

	Supply (sq m)	Take-up (sq m)	Vacancy	Stock (sq m)
Primary	0	7,500	28.1%	657,200
Secondary	87,400	48,300	34.3%	644,900
Emerging	0	3,600	56.8%	265,800
Overall	87,400	59,400	35.5%	1,567,900

Source: Savills Research

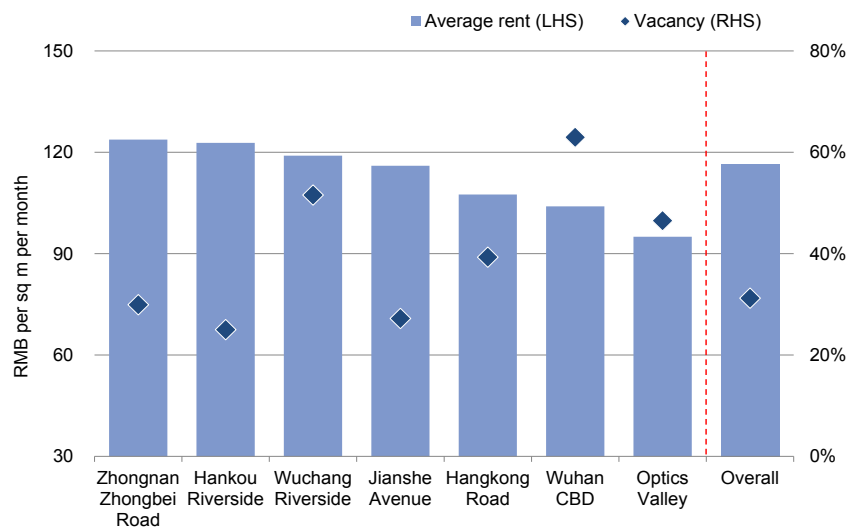
in the primary market. However the gap narrowed to 3-5% in the following two to three years due to the addition of new projects in secondary locations with below-average rents. In the last year or so, primary rents have been higher than secondary Primary market rents, averaging RMB119 per sq m per month in Q1/2018, while secondary and emerging market rents averaged RMB116 per sq m per month and RMB112 per sq m per month, respectively.

Benefitting from the high rents in the Greatwall Complex, Zhongnan Zhongbei Road replaced Hankou Riverside in Q4/2017 as the area with the city-wide highest Grade A office rents, averaged at RMB124 per sq m per month in Q1/2018.

Strata-title sales market

Growth of the strata-title office market was slow in Q1/2018; total area transacted was 101,300 sq m inside the Second Ring Road,

GRAPH 2 **Grade A office rent and vacancy by area, Q1/2018**



Source: Savills Research

averaged at RMB20,600 sq m in the first four months of 2018. Riverside projects, such as Greenland Centre in Wuchang Riverside, recorded higher transaction prices at over RMB25,000 per sq m.

Office market outlook

Although the current Grade A office market is quite balanced in terms of demand and supply, the looming overwhelming supply is expected to be a big challenge for the Wuhan market.

TABLE 2 **Grade A office market performance, Q1/2018**

Tenant EN	Tenant CN	Project	District	Business district	Leased area (sq m)
H-Work	品创商务中心	BFC	Jiang'an	Hankou Riverside	9,000
Guangxin Telecom	广信通信服务	Yuexiu Fortune Centre	Qiaokou	Hangkong Road	6,200
Zhang Xiao Men	掌小门	Guanggu New Development Tower	Hongshan	Optics Valley	4,000
Mobvoi	出门问问	Poly International Centre	Hongshan	Optics Valley	2,000
Cummins	康明斯	Poly International Centre	Hongshan	Optics Valley	2,000

Source: Savills Research

TABLE 3 **Selected first-hand, strata-title office sales transactions, Jan-Apr 2018**

Project	District	Business district	Transaction area (sq m)	Average transaction price (RMB per sq m)
Greenland Centre	Wuchang	Wuchang Riverside	11,405	25,900
Millennium Tower	Jiangnan	Hankou Riverside	8,024	23,900

Source: Savills Research

→ A total of 569,500 sq m of new office space is scheduled to launch from Jun-Dec 2018, though some projects are likely to postpone handover due to landlords' strategies. Notable future office supply in 2018 include Zall International Centre on the Jianshe Avenue, BFC in Hankou Riverside, and Desman International Centre on Zhongnan Zhongbei Road. Besides these projects, another 2.4 million sq m of office space is expected to launch onto the market in the next five years; 86% will be in Hankou and 14% in Wuchang. The upcoming oversupply situation will put landlords under pressure and thus limit space to increase rents.

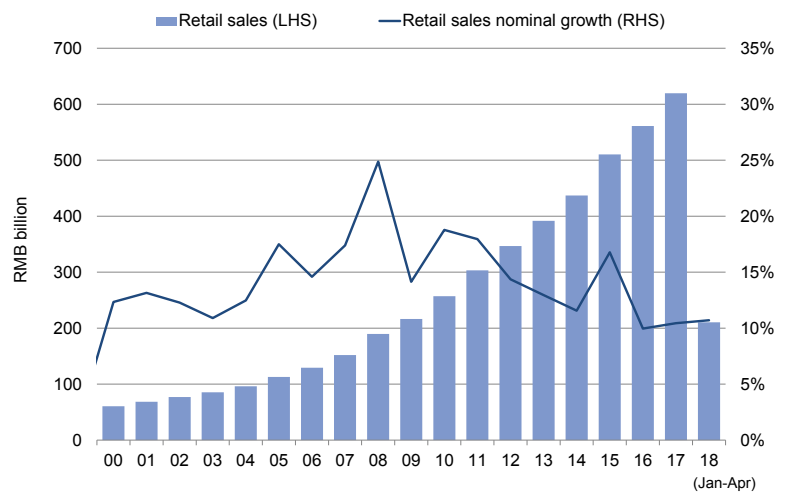
As the city's traditional financial street, the Jianshe Avenue area, where most large domestic banks, insurance and securities companies have a presence, will retain its status as an important business hub and continue to enjoy steady demand. However, the trend continues for upgrades and new demand to shift from primary to secondary areas, where many new high-quality projects have been handed over or are under construction. Optics Valley, particularly, is likely to attract more IT and electronic companies on the back of the booming TMT sector.

Wuhan's political and economic status, fast-improving urban infrastructure, together with government measures to attract and retain talent, will make the city an investor's darling and the preferred location for self-use headquarters in Central China and second-tier cities, thus contributing to office demand.

Retail market

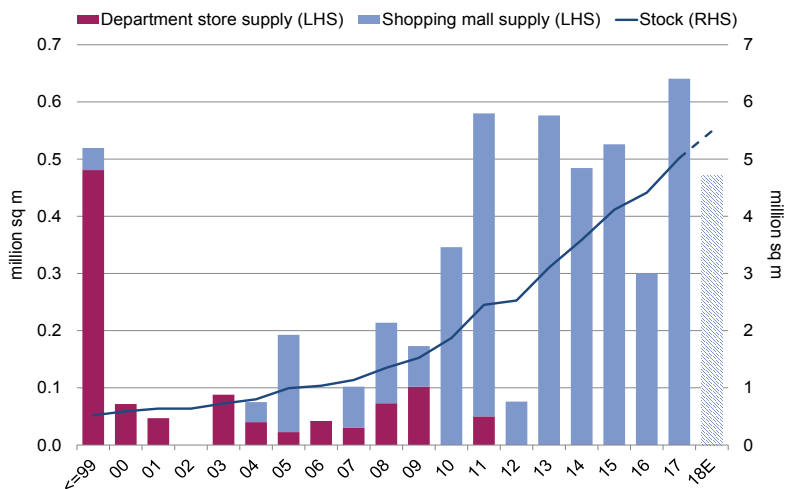
The city's retail sales continued to gain momentum at the beginning of 2018, with revenues totalling RMB210.3 billion in the first four months of 2018, up 10.7% YoY. Wuhan's permanent population of 10.9 million people, which is 18.5% of the Hubei province population, contributes 37% of overall province

GRAPH 3
Wuhan retail sales, 2000-Apr 2018



Source: Wuhan Statistics Bureau; Savills Research

GRAPH 4
Retail supply and stock, 2000-2018E



Source: Savills Research

retail sales. Urban disposable income per capita reached RMB43,400 in 2017, up 9.2% YoY, and grew at a faster pace than the country average of 8.3%.

Supply and stock

No new retail projects opened in Q1/2018, after four new malls with a total retail GFA of 364,000 sq m were launched in Q4/2017. Thus, the city's total retail stock remained at 5.0 million sq m by the end of Q1/2018. No new department stores have

been launched in the last six years. Shopping malls account for 80% of total retail space.

The launch of Guanggu K11 in Q4/2017 introduced a number of experiential cultural and creative brands, including Augusmith (全爱工匠), Zowoo (作物) and Urban Farming (都市农庄).

Rents and vacancy rates

The first quarter was relatively quiet as many retailers waited for new

projects to launch. Overall first-floor rents increased by 0.2% in Q1/2018 on an index basis to RMB496 per sq m per month. Rents in prime areas³ averaged RMB733 per sq m per month, while non-prime rents averaged RMB457 per sq m per month.

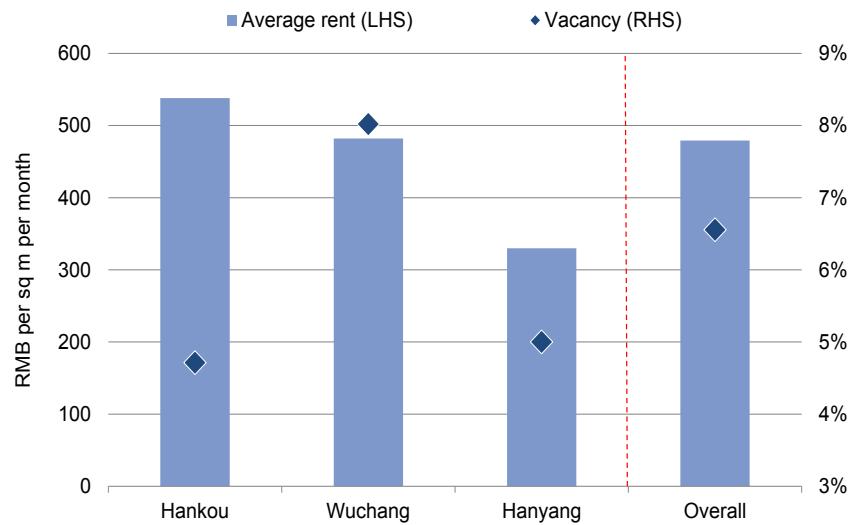
As one of the busiest retail areas in the city, Wuhan Square recorded the highest first-floor rents among all retail areas, reaching RMB825 sq m per month in Q1/2018. There was approximately 765,600 sq m of retail space by the end of Q1/2018, covering various retail formats (department stores, shopping malls and pedestrian streets) and mainly targeting mid- to high-end consumers. Local giant developer, Wushang Group, accounts for the largest share of retail stock, owning two department stores and the city's largest luxury shopping mall, Wuhan International Plaza.

Overall vacancy rates in shopping malls declined by 0.1 of a ppt in Q1/2018 to 6.6%. The prime market vacancy rate remained stable at 4.6%, while the non-prime market vacancy rate decreased to 7.4%.

Following the online-to-offline trend, "new retail" is also impacting Wuhan. Fresh Hema (盒马鲜生) entered Wuhan and opened its first store in E-Like (former Sone Park), taking up 4,100 sq m of retail space. In addition, F&B retailers continued to expand. AD-Ben (公元铭美食广场), a Wuhan-based food court brand established in 2013, opened 1,900

³ Prime retail areas include Jiangnan Road and Wuhan Square, while non-prime retail areas include Hankou Riverside, Xudong, Zhongnan Zhongbei Road, Optics Valley, Wangjiawan, etc.

GRAPH 5
Retail rent and vacancy, Q1/2018



Source: Savills Research

sq m of new space in Hutchison-Whampoa's M+ Mall, and is expected to expand to more cities.

Retail market outlook

Six new shopping malls are scheduled to launch in the remainder of 2018, offering a total retail GFA of 471,500 sq m. Notable projects on the horizon include Greenland City in Wuchang Riverside, Desman International Centre on Zhongnan Zhongbei Road, and Wuhan ICC near Wuhan Square.

Furthermore, the market is expected to receive another 3.1 million sq m of new retail space in the next five years. The city's retail blueprint will be more competitive and diversified with the entry of bigger players such as Hang Lung, Gemdale, Sino Ocean, Huafa, CR Land and COFCO. Under these circumstances, landlords of existing projects must come up with

differentiated strategies and new attractions to increase footfalls and retain tenants.

Wuhan is currently undergoing one of the largest infrastructure construction periods in its history, ranging from the development of new metro lines and an airport to bridges and highways. Negative side-effects such as congestion and pollution are likely to continue in the short term, but in the long run a better environment will emerge, benefiting emerging retail areas and stimulating economic growth.

With the advantage of a dynamic economy, its central location on the Yangtze River - complete with a facilitated transportation network - and a cluster of competitive higher education centres, Wuhan is anticipated to earn a spot on the map by becoming China's New York City. ■

TABLE 4

Recent new store openings

Tenant	Category	Project	Retail area	Floor	Area (sq m)
Fresh Hema	Supermarket	E-Like	Si Men Kou	B1	4,100
Three Squirrels	Supermarket	Wuhan Int'l Plaza	Wuhan Square	1F	800
JiXian Gongfang	Supermarket	Hanshang 21st Mall	Wangjiawan	1F	160 (est.)
Mi Home Store	Electronic	Wanda Plaza	Han Street	1F	1,500
Augusmith	Leisure	K11	Optics Valley	3F	1,000
AD-Ben	F&B	M+	Jiangnan Road	5F	1,900
HuTaoLi	F&B	Wushang Zhongyuan Mall	Jian Er	1F	450 (est.)
YunHaiYao	F&B	Wuhan Int'l Plaza	Wuhan Square	8F	400
S Galaxy Tokyo	Fashion	Wuhan Int'l Plaza	Wuhan Square	4F	1,000
UME	Entertainment	Wuhan Incity	Heping Avenue	3F	3,000

Source: Savills Research

Please contact us for further information**Research**

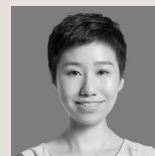
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