



Rental demand slows in first quarter

The financial industry’s active leasing demand was offset by co-working’s slowed expansion.

- Oceanwide Fortune Center launched onto the Grade A office market in Q1/2019, adding about 58,000 sq m of new office space and bringing Grade A office stock to a total of 1.85 million sq m.
- The financial industry was the most active in the leasing market in Q1/2019, accounting for about 39% of new transactions. Policy changes released by the national government have brought new vitality to the financial sector.
- The first WeWork in Wuhan opened in the Oceanwide Fortune Centre. However, the third-party office operators haven’t continued their 2018 trend of large-scale expansion
- Compared with the same period last year, demand was weak for grade A office space across the whole city, with a net absorption of about 13,000 sq m, down 75% year-on-year (YoY). Vacancy rates rose 1.4 percentage points (ppts) quarter-on-quarter (QoQ) to 34.9%.
- Affected by the drop in demand, some owners offered more favourable business conditions, resulting in a decrease in real rents. By the end of Q1/2019, the average rent in the

Wuhan Grade A office market was RMB118.3 per sq m per month, down 1.7% QoQ.

- A total of 860,000 sq m of Grade A office space is scheduled to launch in 2019, about 2.2 times that of 2018. The large amount of new supply will put vacancy rates under pressure.

“Feeling pressure from aging hardware and emerging new projects, the traditional business district tried to stand out from the competition through value-added services.”

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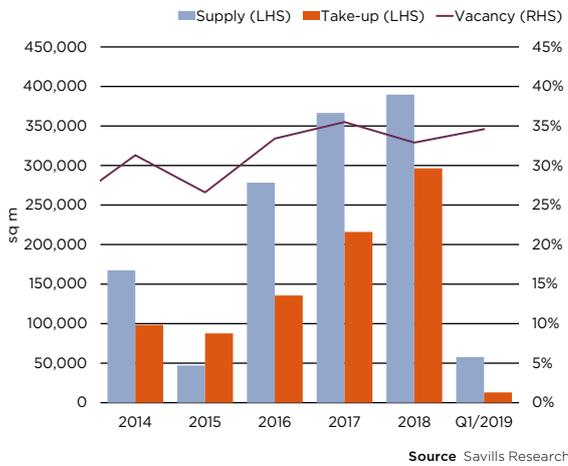
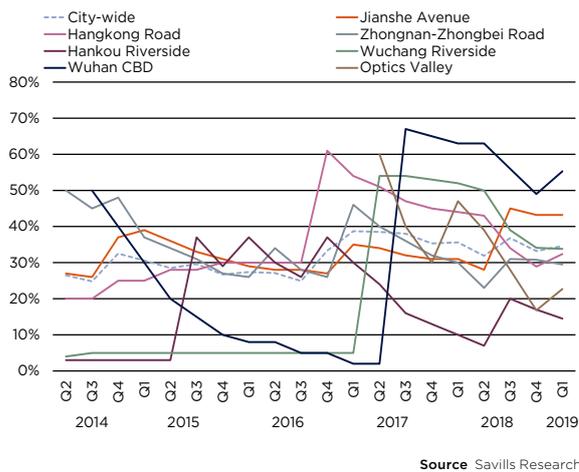
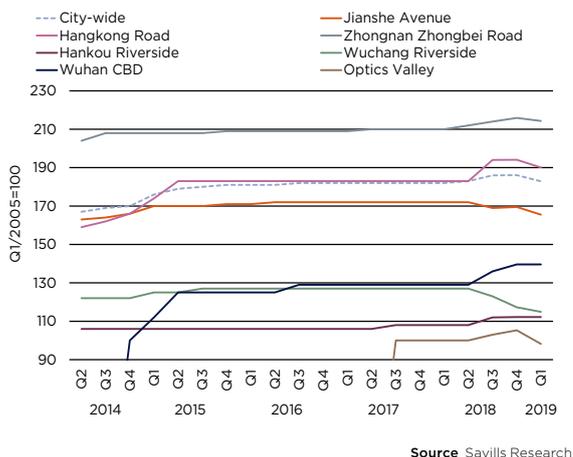
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GRAPH 1: Grade A Office Core Market Supply, Take-up And Vacancy, 2014 to Q1/2019**GRAPH 2: Submarket Vacancy Rates, Q2/2014 To Q1/2019****GRAPH 3: Submarket Rental Indices , Q2/2014 To Q1/2019****MARKET OVERVIEW**

For the year 2018, Wuhan's GDP reached a total of RMB14,84.73 billion: up by 8.0% YoY, 1.4 ppts higher than that of the whole country, and 0.2 ppts higher than that of the whole province. The value of the tertiary or service industry equalled RMB810.75 billion, up by 10.1% YoY. The ratio of the three industries (primary, secondary, tertiary) was 2.4:43:54.6.

SUPPLY AND DEMAND

Oceanwide Fortune Center, located in Wuhan CBD, launched onto the Grade A office market in Q1/2019, adding about 58,000 sq m of new office space and bringing the Grade A office stock to 1.85 million sq m.

In terms of new leasing demand, the financial industry was the most active renter in this quarter, accounting for about 39% of new transactions. Policy changes released by the national government have brought new vitality to the financial sector.

The second-most active sector included business centres and co-working spaces, which accounted for 23% of transactions by area. WeWork, a co-working brand, opened in the Oceanwide Fortune Centre, making it the first WeWork in Wuhan. However, third-party office operators didn't continue the 2018 trend of large-scale expansion, and some brands actually suspended renovations. Although co-working operators often lease large areas, the ongoing rental uncertainty caused some landlords to wait and see how the sector develops.

RENTS AND VACANCY RATES

The first quarter was an off-season for leasing; compared with the same period last year, demand was weak for Grade A office space across the whole city, with a net absorption of about 13,000 sq m, down 75% YoY. Vacancy rates rose 1.4 ppts QoQ to 34.9%.

Affected by the drop in demand, some landlords offered more favourable business conditions, resulting in a decrease in real rents. By the end of Q1/2019, the average rent in the Wuhan Grade A office market was RMB118.3 per sq m per month, down 1.7% QoQ.

The proportion of old properties (roughly over five years) is over 50% in Jianshe Avenue and over 30% on Hangkong Road. The aging facilities combined with new projects launching in the surrounding areas have put pressure on these old buildings. Due to tenants' outward migration, the vacancy rate of Jianshe Avenue rose by 0.1 of a ppt to 43.2% in Q1/2019 while average rents fell 2.4% QoQ to RMB115.6 per sq m per month. The vacancy rate of Hangkong Road rose by 3.5 ppts to 32.4% QoQ, and average rent fell 2.1% QoQ to RMB111.5 per sq m per month. To enhance their competitiveness, some buildings in these areas have opened top-floor business clubs and provided airport and high-speed rail station connections for tenants.

After ten years of development, Hankou Riverside conveys a strong business atmosphere. The average rent was RMB134 per sq m per month—the highest average rent in the city—and the rental performance was stable. Vacant space in existing projects has been steadily declining; the vacancy rate dropped by 2.5 ppts QoQ to 14.5% in Q1/2019, which was still the lowest level in the city.

The vacancy rate in Optics Valley increased by 5.9 ppts to 22.7% QoQ due to the withdrawal of some technology companies in tight capital situations. The average rents fell to RMB98.2 per sq m per month. There is no new Grade A office supply Optics Valley in the short term, so the area's market performance should remain stable.

MARKET OUTLOOK

A total of 860,000 sq m of Grade A office space is scheduled to launch in 2019, about 2.2 times that of 2018. The large amount of new supply will put vacancy rates under pressure.

The 7th CISM World Summer Games, involving athletes from over 100 armed forces, will enhance the image of the city, improve Wuhan's international visibility, attract more enterprises and be conducive to the overall development of the city's office market. However, due to the suspension of all construction during the CISM World Games in October 2019, some future projects may be affected.

TABLE 1: Selection Of Leasing Transactions, Q1/2019

TENANT	PROJECT	BUSINESS AREA	GROSS FLOOR AREA (SQ M)
HYP-ARCH (Wuhan)	IIC	Hankou Riverside	1,400
China Life	Centre Mansion	Jianshe Avenue	4,000
Beijing Ruiyi Peiyou Education Company	Guanggu New World	Optics Valley	4,280
CINDA	Wuhan Poly Plaza	Zhongnan Zhongbei Road	3,600

Source: Savills Research