

# Briefing Office and retail sectors

March 2015



Image: China Overseas Plaza A1, Huanggu district

## SUMMARY

An influx of Grade A office supply has placed upward pressure on city-wide vacancy rates. Bargaining power in rental negotiations shifted to tenants, resulting in average rents falling in 2H/2014.

- Three projects were handed over in 2H/2014, adding 127,800 sq m to the market. By the end of 2H/2014, Shenyang's Grade A office market stock reached 891,000 sq m.

- The entrance of multiple new projects placed upward pressure on city-wide vacancy rates in 2H/2014, up 12 percentage points (ppts) half-on-half (HoH) to 29.7%.

- Slowing demand in the local market saw net take-up in the Grade A office market reach a total 50,000 sq m in 2014.

- Grade A office rents reached RMB137.9 per sq m per month

(including property management fees), down 0.7% HoH.

- No new retail projects were launched into the market in 2H/2014, resulting in Shenyang's mid to high-end retail market remaining at 5.73 million sq m.

- Saturation of the retail market, coupled with fierce competition, saw prime shopping centre first-floor rents stabilise at RMB370.5 per sq m per month, representing a year-on-year (YoY) growth of 2.4%.

- As no new retail projects were completed, the mid- to high-end retail market was able to absorb stock,

resulting in city-wide vacancy rates declining in 2H/2014, down by 0.2 of a ppt to 16.8% HoH.

.....  
 "A saturated retail market coupled with weak performance has seen landlords remain in fierce competition, as a result rents have continued to remain largely stable."  
 .....

Joan Wang, Savills Research

➔ **Economic overview**

Shenyang's GDP amounted to RMB552.0 billion by the end of Q3/2014, with a growth rate of 6.8%, lower than the national figure of 7.4%. Apart from GDP, the growth rate of Shenyang's other major macroeconomic indicators all appeared to either slow or even

witness negative growth. Fixed-asset investment (FAI) registered RMB620.41 billion, with a growth rate of 6.4% YoY, down 7.1 ppts YoY. Real estate investment (REI) dropped 0.6% YoY to RMB180.16 billion. Actual foreign direct investment registered RMB38 million, reflecting a 6.0% drop in the growth rate YoY.

TABLE 1 **Macroeconomic indicators, Jan-Sep 2014**

Indicators	Units	Value	YoY growth (%)
GDP	RMB billion	552.0	6.8
Foreign direct investment (FDI)	US\$ million	0.38	-6.0
FAI	RMB billion	620.41	6.4
REI	RMB billion	180.16	-0.6
Retail sales	RMB billion	257.94	12.3
Disposable income per capita (urban)	RMB	244.32	10.6
Consumer product index (CPI)	PY = 100	102.3	-

Source: Shenyang Statistics Bureau, Savills Research

TABLE 2 **Grade A office market key indicators, 2H/2014**

	Stock (sq m)	Vacancy rate (%)	Take-up (sq m)	Supply (sq m)	Rent (RMB per sq m per month)
1H/2014	891,000	29.7	49,700	127,800	137.9
HoH change (%/ppts)	20.3	12.0	105.9	293	-0.7
YoY change (%/ppts)	25.8	9.9	110.6	197	1.4

Source: Savills Research

TABLE 3 **Selected office leasing transactions, 2H/2014**

Company	Project	Location	GFA (sq m)	New lease/renewal
Haiyin Wealth	CR Building	Wulihe	456	New lease
PWC	Enterprise Square A	Wulihe	210	New lease

Source: Savills Research

**Office market**

**Market commentary**

In 2H/2014, three new office buildings, Global Financial Centre in North Station area, Enterprise Square A in Wulihe area and China Overseas Plaza A1 in Huanggu district, were handed over to the market adding 127,800 sq m to the leasing market. By the end of 2014, Shenyang's Grade A office stock reached 891,000 sq m. The national economic slowdown has suppressed demand from tenants leading to increased bargaining power. As a result, downward pressure has been placed on city-wide Grade A office rents.

**Supply, take-up and vacancy rate**

**Supply**  
Three new projects, Enterprise Square A, China Overseas Plaza A1 and Global Financial Center, entered the market in 2H/2014, contributing 127,800 sq m to the Grade A office market.

Global Financial Center, located in North Station area, was launched

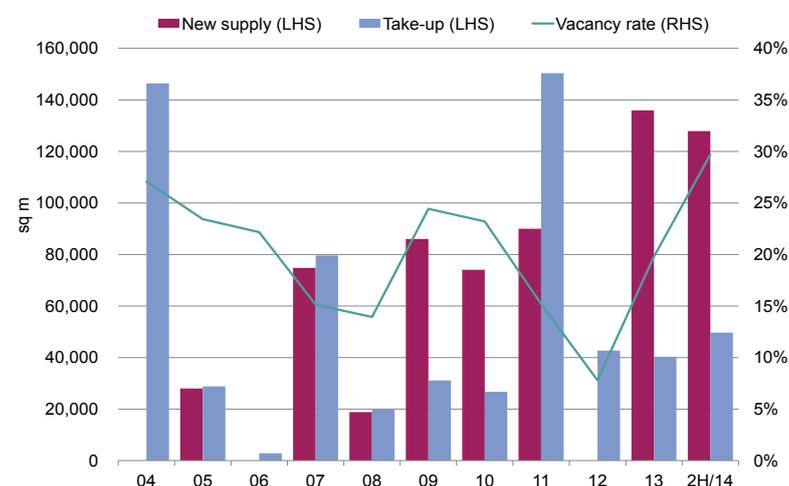
onto the market in 2H/2014. Developed by Shenzhen Baoneng Group, the project offers 57,400 sq m of Grade A office to the market.

Enterprise Square A, located in Wulihe area, was handed over at the beginning of 2H/2014 in July 2014. The project was developed by Kerry Properties, which also provides property management services for the project. A large portion of the office space was sold, and Kerry Properties kept some floor space for self-use. Representative tenants include PriceWaterhouse Coopers and Chow Tai Fook.

China Overseas Plaza A1, located in Huanggu District, was developed by China Overseas Land and Investment Ltd and offers a leasable area of 35,000 sq m. Despite being located in a non-prime business area, the project has still attracted many Fortune 500 companies. Foreign companies have showed interest, with YORK and KONE Corporation both taking up space.

**Take-up**  
Shenyang's net take-up reached 7,650 sq m in 2H/2014, resulting in annual net take-up for 2014 reaching 50,000 sq m, an increase of 9,300 sq m YoY. Financial, professional services and manufacturing companies were the demand drivers.

GRAPH 1 **Grade A office supply, take-up and vacancy rate, 2004-2H/2014**



Source: Savills Research

**Vacancy rate**

With the entrance of three new projects in 2H/2014, Shenyang's Grade A office market city-wide vacancy rates witnessed a 12 ppts rise HoH to 29.7%, up 9.9 ppts YoY.

**Grade A office rents**

While new supply in the leasing market has led to intensified competition, landlords appeared unperturbed with most maintaining similar asking prices as 1H/2014. Grade A office rents remained stable, reaching RMB137.9 per sq m per month (including property management fees) by the end of 2014, down 0.7% HoH, but up 1.9 ppts YoY.

**Submarket vacancy rates and rents**

**Wulihe**

Wulihe area continued to command the highest rents in Shenyang, with average rents appreciating 9.1% HoH to RMB157.1 per sq m per month (including property management fees), however down 0.2% YoY. This is primarily the result of a cluster of high-quality projects in the area, including China Resources Building, North Media Center and Northeast Media Culture Plaza. Wulihe areas vacancy rates increased 34.1 ppts HoH to 39.5%, largely due to the entrance of a new project, Enterprise Square in 2H/2014.

**North Station**

North Station area, generally recognised as Shenyang's traditional CBD, recorded the city's second highest office rents at RMB144.7 per sq m per month (including property management fees). Vacancy rates fell 2.8 ppts HoH to 11.7%, down 9.7 ppts YoY.

**Office market outlook**

As a number of projects decided to postpone their launch dates to 2015, Shenyang's Grade A office market is expected to witness its first supply peak in 2015. The market is expected to welcome around 1.0 million sq m of stock in 2015, increasing Grade A office stock to around 1.9 million sq m, most of which will be concentrated along the "Golden Corridor", a government-backed initiative aiming to develop an economic belt through the central axis of the city.

Current weak economic conditions are expected to see demand from tenants remain soft. This weaker demand, combined with the influx of new supply is forecasted to put downward pressure on rents of existing projects in particular, as well as overall city-wide rents.

**Retail market**

**Market commentary**

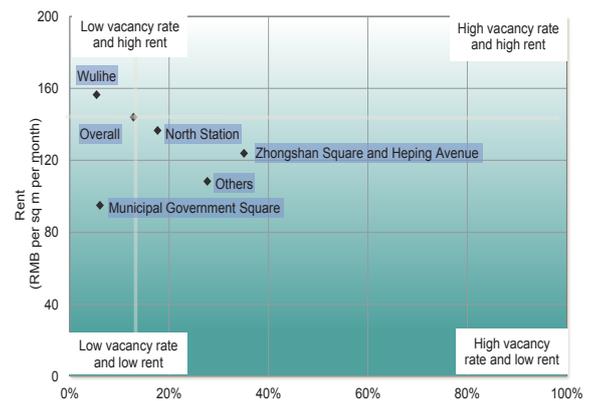
Shenyang's retail sales totalled RMB257.9 billion in the first three

GRAPH 2 **Grade A office rental index, 2005–2H/2014**



Source: Savills Research

GRAPH 3 **Grade A office submarket vacancy rates and rents, 1H/2014 vs 2H/2014**



Source: Savills Research

TABLE 4 **Future office supply, 2015**

Projects (EN)	Projects (CN)	Business district	Leasable GFA (sq m)
Zhongtie Mansion	中铁大厦	Wulihe Area	40,000
Maoye City	茂业中心	North Station Area	100,000
Sunnyworld Centre	新地中心	Wulihe Area	100,000
Fortune Plaza Tower A	财富中心 A塔	Wulihe Area	100,000
Forum 66 I	市府恒隆广场一期	Zhongshan Square & Heping Ave. Area	190,000
Orchard Summer Place	夏宫城市广场	Municipal Government Square Area	60,000
North Yorker Plaza	北约克置地广场	Municipal Government Square Area	100,000
Tongfang Plaza	同方广场	Municipal Government Square Area	117,000
Rich Gate Phase II	华府天地 二期	Wulihe Area	200,000

Source: Savills Research

→ quarters of 2014, up 12.3% YoY. While still positive, the sales growth rate had narrowed from that of last year, reflecting a slowing consumption appetite in the Shenyang market. As a result, Shenyang's mid- to high-end retail market did not show much activity in the second half of 2014. With no new projects completed, the market remained largely stable.

**Supply and stock**

As no new supply was handed over to the market, Shenyang's mid- to high-end retail market stock remained unchanged in 2H/2014, recording a total GFA of 5.73 million sq m.

**Demand and vacancy rates**

*Demand*  
Competition between landlords appeared to intensify in 2H/2014 amid a slowing economy and weak performance of the retail market. Some brands exercised caution with expansion plans, while others even closed their doors. This was particularly evident in the luxury and fast fashion sectors, such as Dior choosing to close its store in the Shenyang Charter Shopping Centre. On the other hand, F&B and children-related retailers continued to show strength in the market. This was largely attributed to landlords offering rental incentives to these

retail categories as they are known to attract higher footfall into projects.

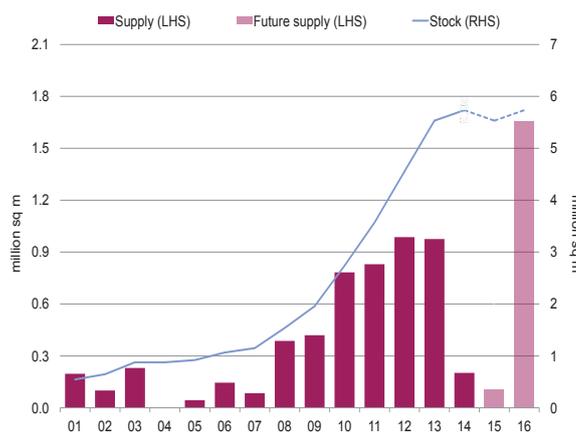
*Vacancy rate*

The departure of multiple anchor stores in shopping malls pushed city-wide vacancy rates up. Looking to increase occupancy rates, landlords have been flexible and introduced new types of tenants. By the end of 2H/2014, city-wide vacancy rates reached 16.8%, down 0.2 of a ppt HoH but up 5.8 ppts YoY.

*Department stores*

A saturated retail market, weak economy and strong competition from shopping malls saw traditional

GRAPH 4 Mid- to high-end retail supply and stock, 2011–2H/2014



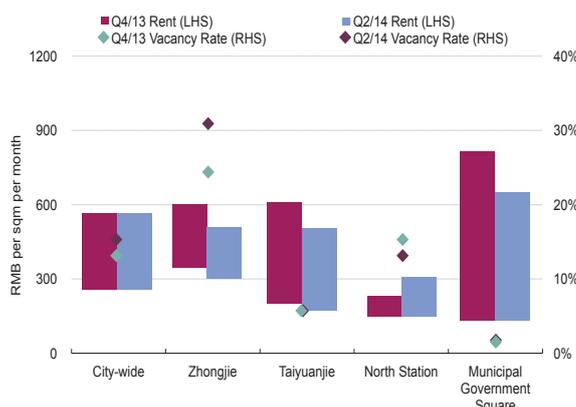
Source: Savills Research

TABLE 5 Mid- to high-end retail market key indicators, 2H/2014

	Stock (million sq m)	Vacancy rate (%)	Supply (sq m)	Rental range(RMB per sq m per month)
2H/2014	5.73	16.8	-	250-580
HoH change (%/ppts)	-	-0.2	-	1.8
YoY change (%/ppts)	3.7	5.7	-	3.4

Source: Savills Research

GRAPH 5 Rental ranges and vacancy rates for major retail areas, 1H/2014 vs 2H/2014



Source: Savills Research

TABLE 6 Selected retail leasing transactions, 2H/2014

Tenant	Trade	Project	Location	NLA (sq m)
NLA	F&B	华府新天地	North Station	700
(sq m)	F&B	大悦城	Zhongjie	400
Green Tea	F&B	万达广场	Taiyuanjie	400

Source: Savills Research

TABLE 7 Future retail projects, 2015

Project	Retail area	Retail type	Retail GFA (sq m)
Happy Family Mall (兴隆大家庭)	Taiyuanjie	Department store	105,000

Source: Savills Research

department stores experience weak performance in 2H/2014. Looking to readjust and improve performance, department stores have begun increasing the number of brands offered in the hope of attracting higher footfall. Landlords have also undergone renovations to improve the quality of the shopping environment to attract customers.

**Rent**

*Rent*

A saturated retail market, fierce competition between the landlords and brand homogeneity have placed a restriction on the rental growth of Shenyang's mid- to high-end shopping malls. By the end of 2H/2014, Shenyang's prime shopping centre first-floor rents registered RMB370.5 per sq m per month, up 1.6% HoH.

*Vacancy rate*

Despite vacancy rates rising in Taiyuanjie, North Station and Municipal Government Square, the strong performance seen in Zhongjie area appeared to offset their performance, leading to city-wide occupancy rates remaining stable. Shenyang's city-wide vacancy rates reached 16.8% by the end of 2014, down by 0.2 of a ppt HoH, but up 5.7% YoY.

**Retail market outlook**

Only one project, Happy Family Mall (兴隆大家庭), is expected to be handed over to the market in 2015, which will contribute a total GFA of 100,000 sq m. However, in the next two years more than 1.6 million sq m of supply is expected to be launched onto the market, enlarging total stock by nearly 30%. The over-supply

situation in Shenyang's mid- to high-end retail market is forecasted to last for the long term, expectedly resulting in downward pressure on occupancy rates and rents in shopping malls in future.

The influx of supply is also expected to create leasing difficulties for landlords. In the hope of attracting higher footfall into their projects, landlords are expected to focus on F&B, entertainment and children-related brands in the future. ■

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