

Briefing Office sector

October 2015



Image: Baidu international building, Nanshan district

SUMMARY

As the Qianhai FTZ and Houhai headquarter base continue to be developed, a large amount of supply is expected in Nanshan. This is likely to lead to a maturing commercial atmosphere in the area.

- Three new projects, all located in the Nanshan district – CR DaChong Business Centre, Baidu International Building and Yihua Financial Technology Building – were launched in the third quarter of 2015, adding 196,000 sq m to the market.
- Net take-up reached 188,000 sq m in the third quarter, increasing 255.8% quarter-on-quarter (QoQ).
- Given the considerable amount of supply this quarter, city-wide vacancy rates fell 0.2 of a percentage point (ppt) to 7.7%.

- Rents increased 2.4% to an average of RMB225.3 per sq m per month, up 2.9% year-on-year (YoY).
- Strata-title transaction prices increased 1.2% QoQ to RMB51,368 per sq m, up 9.8% YoY.
- Due to strata-title rents increasing more than prices, gross average yields increased 10 basis points (bps) QoQ to 5.12%.
- Nine new projects are expected to be handed over in Q4/2015, adding around 660,000 sq m onto

the market, pushing stock up to 5.5 million sq m.

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 “As an influx of new supply is expected in the fourth quarter of 2015, downward pressure is expected to be placed on rents and occupancy rates in the short term.” Sam He, Savills Research

➔ Market summary

Three projects located in the Nanshan district – CR DaChong Business Centre, Baidu International Building and Yihua Financial Technology Building – were handed over in Q3/2015, adding 190,000 sq m to the market. The Nanshan district saw the largest take-up of all districts.

Vacancy rates fell across almost all districts this quarter, especially in the Baoan district, which was down 5.6ppt QoQ. The exception was the Luohu district, which saw a rise of 2.0 ppts. Lower rents and close proximity to the Qianhai FTZ and Houhai headquarter base has accelerated the speed of digestion in the Baoan district, leading to vacancy rates decreasing 5.6ppt QoQ. The Luohu district, a mature CBD with aging projects, is falling behind other districts, leading to the relocation of a number of tenants.

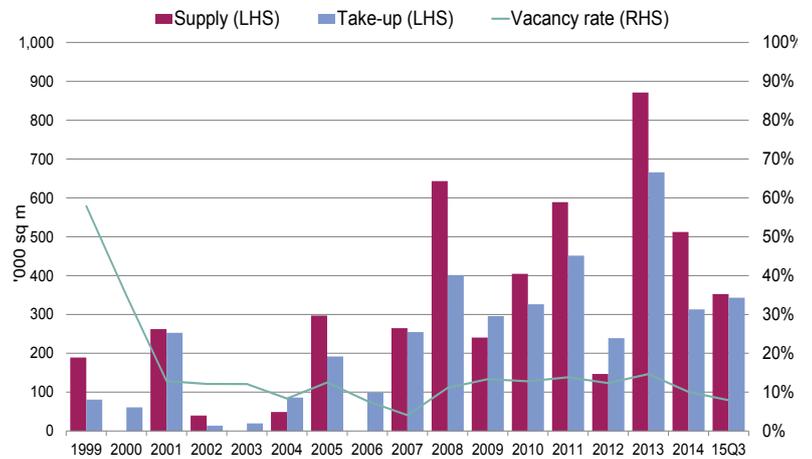
Nine projects are expected to be handed over to the market in Q4/2015, totalling 662,000 sq m, which is likely to increase the challenges for landlords to retain and attract quality tenants amid the heightened competition.

City-wide rents increased 2.4% in the third quarter to an average of RMB225.3 per sq m per month, up 2.9% YoY.

In the third quarter, rents in the Baoan and Nanshan districts saw

GRAPH 1

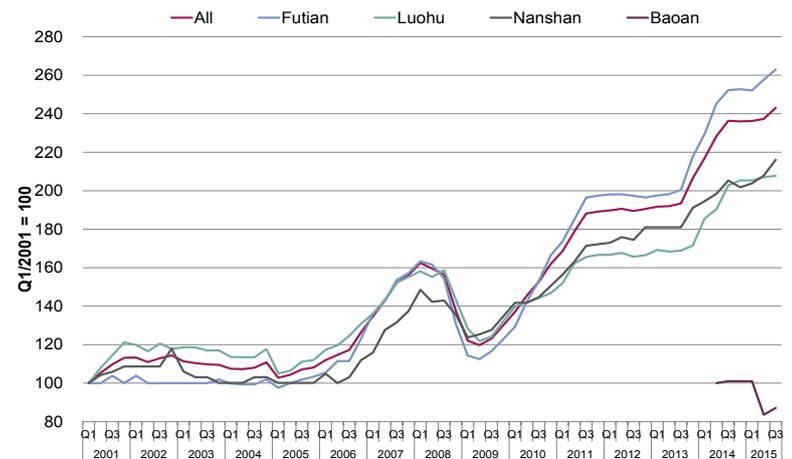
Grade A office supply, take-up and vacancy rates, 1999–Q3/2015



Source: Savills Research

GRAPH 2

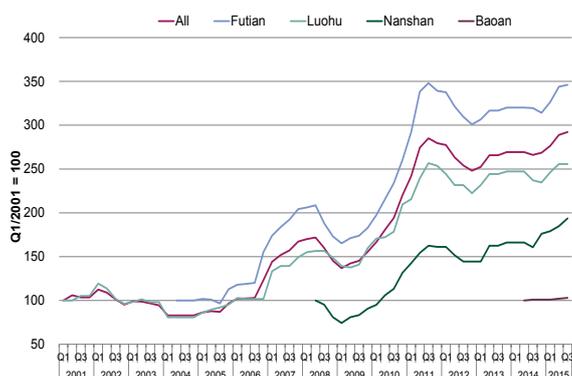
Grade A office rental indices, Q1/2001–Q3/2015



Source: Savills Research

GRAPH 3

Grade A strata-title office price indices, Q1/2001–Q3/2015



Source: Savills Research

the largest increase, up 4.3% and 4.0% respectively, while rents in the Futian and Luohu districts increased 2.0% and 0.4% respectively. As the Baoan and Nanshan districts are both in close proximity to the Qianhai FTZ and Houhai headquarter base, demand is strengthening in the area, leading to higher bargaining power held by landlords, thus allowing them to increase rents and prices quite quickly.

City-wide average prices increased 1.2% QoQ, reaching an average of RMB51,368 per sq m. City-wide average prices in all districts remained stable with the exception of the Nanshan district. Prices in

the Nanshan district rose 4.8% to average RMB52,200 per sq m – the second highest in the city after the Futian district at RMB53,850. A considerable amount of supply entered the market, the majority of which was of high quality; strong demand kept rents and prices from falling in the area. Due to the rapid development of the Nanshan district, the area is anticipating high levels of demand for the influx of supply expected, which will lead to an increase in overall rents and prices in the area. Without favourable privileges in other districts, prices seem stable but an increase in city-wide also can be seen.

Gross strata-title yields increased 10 bps QoQ to 5.12%. Luohu district average yield is 6.0%, ranking highest of all districts.

Market outlook

A large amount of new supply is expected to enter the market in Q4/2015, resulting in a downward pressure on rents and prices.

A large amount of supply is expected to launch during the next quarter, increasing Grade A office stock to 5.54 million sq m. City-wide vacancy rates are expected to increase slightly in the fourth quarter, while average rents and prices are expected to decrease.

Rents and prices in the Nanshan district have continued to increase as the Qianhai FTZ area began to mature in April 2015. The Nanshan district is now competing with the Futian district to become the next business district by providing the same proportion of quality supply. As the Qianhai FTZ and Houhai headquarter base develop, the Nanshan district is expected to surpass the Futian district's CBD status, becoming the highest-ranked in terms of rents and prices.. ■

Project Information

DaChong Business Centre

The DaChong Business Centre, located in the Nanshan district, was developed by CRC. The project was launched in August 2015, adding nearly 90,733 sq m onto the market. The project is for lease only, with starting asking rents at RMB120 per sq m per month. The office space within the tower covers floors 4 to 33 (nominal). Typical floorplate is 1,700 sq m. The property management fee is expected to be RMB7 per sq m per month.

TABLE 1 **Dachong Business Centre**

Location	Nanshan district	
Owner	CRC.	
Handover date	Q3/2015	
GFA	90,730 sq m	
No. of storeys	4-33F	
Typical floor plate	1,700 sq m	
Ceiling height	3.8 m	
Starting asking rent	RMB120 per sq m per month	
Management fee	RMB7 per sq m per month	

Source: Savills China Research

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