

Briefing Office sector

April 2015



Image: Overview of Xiaobailou Area

SUMMARY

The majority of new Grade A office supply is scheduled to complete base-build construction prior to the 2017 National Games, with most supply concentrated in the Haihe Riverside area.

- No new Grade A office projects were launched onto the leasing market in Q1/2015, with total stock remaining at 614,000 sq m.
- Demand in the city centre Grade A office market focused on the absorption of existing stock, with net take-up totalling 8,500 sq m, down 20% quarter-on-quarter (QoQ) and 36% year-on-year (YoY).
- City-wide vacancy rates fell 1.4 percentage points (ppts) QoQ to 26.5%, up 7.0 ppts YoY.
- Grade A office rents rose 0.2% QoQ to an average of RMB142.6 per sq m per month, up 0.6% YoY.
- Five high-end office projects are expected to be launched onto the market in 2015, increasing Grade A office total stock by 322,000 sq m.

“The high-quality projects expected to launch in 2015 will improve the overall quality of the local office market. However, as a result, city-wide occupancy rates are likely to witness an increase in the short term, resulting in a lack of momentum in rental increases.”

Jonathan Wang, Savills Research

Market commentary

No new Grade A office projects were launched onto the leasing market in Q1/2015, with total stock remaining at 614,000 sq m.

However, an office development recently launched onto the market, Tianjin International Trade Centre built above Xiaobailou station (metro line 1) in Xiaobailou CBD, began allowing tenants to move in during this quarter. As the first new project seen in this area since 2006, the favourable location prompted a number of occupiers to relocate from the surrounding Grade A projects. Net take-up in the city centre Grade A office market totalled 8,500 sq m in Q1/2015, down 20% QoQ and 36% YoY. The majority of deals witnessed were between 200 and 300 sq m, slightly larger than previous typical sizes, indicating a shift in the market. Domestic companies remain the main drivers of leasing demand this quarter, with the majority stemming from financial, trading and logistics sectors.

As no new supply was witnessed and moderate demand absorbed existing stock, city-wide vacancy rates dropped to 26.5%, down 1.4 pts QoQ up 7.0 pts YoY.

Nanjing Road vacancy rates fell 1.8 pts QoQ to 40.7%, with most transactions occurring in Metropolitan Tower. Due to several larger-sized transactions in Haihe Riverside area, vacancy rates dropped 2.0 pts QoQ to 28.9%.

Additionally, Youyi Road area vacancy rates remained at 11%, unchanged from last quarter. Despite competition from the newly launched Tianjin International Trade Centre, Xiaobailou area witnessed stable transactions in existing projects, with vacancy rates at 12.6%, down 0.8 pts QoQ.

Rents

Grade A office achievable rents maintained steady growth this quarter, averaging RMB142.6 per sq m per month in Tianjin city centre, up 0.2% QoQ and 0.6% YoY.

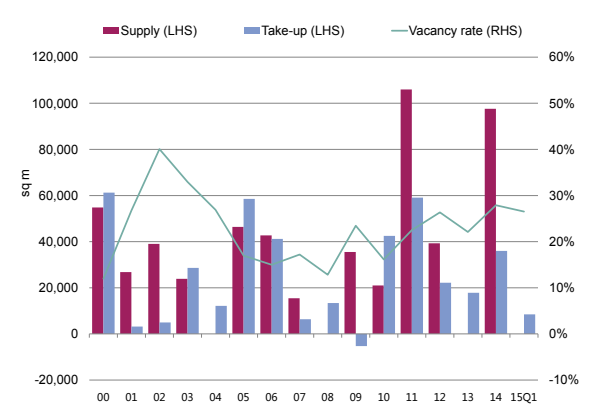
Due to a mature business environment and convenient transportation networks, Nanjing Road rents remained the highest among all business districts at RMB167.3 per sq m per month, up 2.2% QoQ. Xiaobailou and Youyi Road rents averaged RMB129.6 per sq m per month and RMB133.8 per sq m per month, down 0.5% and 1.0% QoQ respectively. Haihe Riverside achievable rents remained unchanged QoQ at RMB139.9 per sq m per month.

Strata-title market

No new projects were launched onto the strata-title office market in Q1/2015.

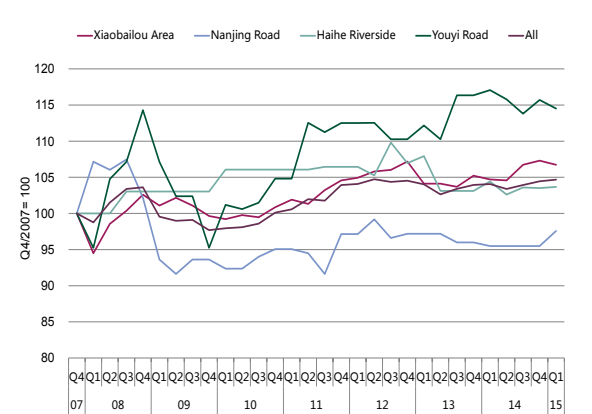
According to transaction statistics, the city centre strata-title office market maintained a stable performance in Q1/2015, with the majority of demand for smaller-sized offices between 50 and 200 sq m. The proportion of smaller-sized

GRAPH 1 Supply, take-up and vacancy rates, 2000–Q1/2015



Source: Savills Project & Development Consultancy

GRAPH 2 Grade A office rental indices, Q4/2007–Q1/2015



Source: Savills Project & Development Consultancy

office space contribution to overall transactions has risen over the last few years, however, the loosening of Housing Purchase Restrictions (HPRs) and sluggish rental increases may place a downward pressure on demand for strata-title office space in the future.

The first quarter saw decreased transaction volumes of larger office space, however a multiple floor deal in World Financial (Nankai) Centre was concluded with Zhongtian Group for a total consideration of RMB260 million, at an average price of RMB18,500 per sq m. Typical buyers of such properties are mostly self-users this quarter, who wish to maintain asset values against rental increase.

TABLE 1 Selected Grade A office leasing transactions, Q1/2015

Tenant	Project	Location	Area (sq m)
Shanghai ShenTong DaDa Wealth Co. Ltd.	Metropolitan Tower	Nanjing Road	2,400
National Construction Group	TWFC	Haihe Riverside	1,470
COHL Investment Developing Holdings Ltd.	TWFC	Haihe Riverside	370
Hanwa Steel Co. Ltd.	ICTC	Xiaobailou	160

Source: Savills Project & Development Consultancy

TABLE 2 **Key strata-title office projects by launch date**

	Project	Location	Office GFA (sq m)	Office GFA for sale (sq m)	Asking price (RMB per sq m)
First-hand					
1	TWFC	Haihe	205,000	14,027	32,000
2	R&F Centre	Hexi	70,000	70,000	21,000
3	Golden Valley	Haihe	54,500	54,500	29,500
4	Metropolis	Heping	61,700	61,700	25,000
5	Borland International Plaza	Nankai	35,000	35,000	18,000
6	The Esplanade	Haihe	18,000	18,000	20,000
7	World Financial (Nankai) Centre	Nankai	154,200	154,200	22,000
8	Songjiang Landmark	Nankai	54,300	54,300	22,000
Second-hand					
9	Global Centre	Nankai	48,000	48,000	18,000
10	Tianjin Emperor Place	Heping	42,000	42,000	22,000
11	City Centre	Heping	35,690	35,690	20,000

Source: Savills Project & Development Consultancy

Market outlook

Five high-end office projects are expected to be launched onto the market in 2015, including Vantone Centre (54,000 sq m), COFCO Plaza (63,930 sq m) and Tai'an 5 (57,840 sq m), increasing Grade A office total stock by 322,000 sq m. Evaluating the current construction progress,

most projects are estimated to be launched in the second half of the year.

Due to the delayed construction of a number of projects, Tianjin city centre Grade A office market is expected to face increased competition from the supply influx. As a result, it is likely

MAP 1 **Key strata-title office projects**



Source: Savills Project & Development Consultancy

that landlords will decrease rents in order to retain tenants, leading to a downward pressure on rental increases and an increase in city-wide occupancy rates in the short term. On the other hand, the higher quality of the projects is expected to improve the overall quality of local office market. ■

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