

Briefing Office sector

July 2015



Image: Overview of Nanjing Road

SUMMARY

The Grade A office market witnessed double the leasing demand in Q2/2015 compared to the same period last year, resulting in a fall in rents.

- No new Grade A office projects were launched onto the leasing market in Q2/2015, leaving total stock at 614,000 sq m.
- The city centre Grade A office market witnessed strong demand in Q2/2015, with net take-up totalling 15,200 sq m, up 79% quarter-on-quarter (QoQ).
- City-wide vacancy rates fell 2.5 percentage points (ppts) QoQ to 24.0%, up 5.9 ppts year-on-year (YoY).
- Grade A office rents dropped 0.5% to an average of RMB141.9 per sq m per month, though this is up 0.8% 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.

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 “The approved FTZ could appeal to more multinational companies and investors. By establishing their presence in the Tianjin Binhai New Area, the increasing number of registered companies will promote demand for office space, leading to an appreciation in the value of commercial properties.” Jonathan Wang, Savills Project & Development Consultancy

Market commentary

No new Grade A office projects were launched onto the leasing market in Q2/2015, with total stock remaining at 614,000 sq m.

The city centre Grade A office market witnessed strong demand in Q2/2015, with net take-up totalling 15,200 sq m, up 79% QoQ. The national strategy to position Tianjin as an international port city and the northern economic centre has led to the rapid growth of the service sector in recent years, with financial and logistics being the leading industries. This has resulted in the majority of office leasing demands stemming from domestic companies associated with the financial, trading and logistics sectors. Restrained by sector characteristics, the typical lease size is between 200 and 300 sq m, however, demand for larger spaces is increasing, indicating companies are beginning to expand within the evolving industrial environment.

As no new supply was launched onto the market, and existing stock was able to be absorbed due to strong demand levels, city-wide vacancy rates fell 2.5 ppts QoQ to 24.0%, up 5.9 ppts YoY.

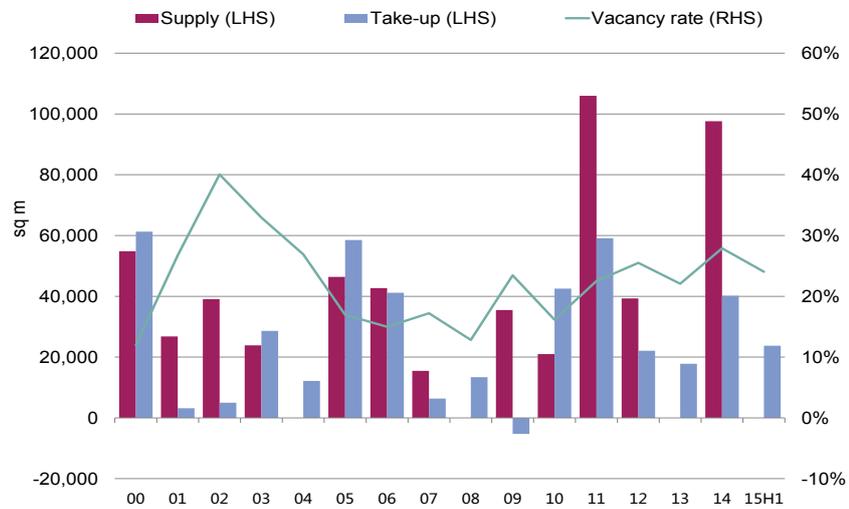
As most existing projects on Nanjing Road were launched before 2007, many are fully occupied. Metropolitan Tower, launched last year, witnessed around 90% of new deals within the area, leading to Nanjing Road vacancy rates falling 4.3 ppts QoQ to 36.4%. Haihe Riverside and Youyi Road areas witnessed stable demand in existing projects, with vacancy rates at 27.1% and 8.4%, down 1.8 and 2.8 ppts QoQ respectively. Additionally, Xiaobailou area vacancy rates dropped 0.5 of a ppt to 12%.

Rents

Grade A office achievable rents dropped 0.5% to an average of RMB 141.9 per sq m per month in Q2/2015, though this is up 0.8% YoY.

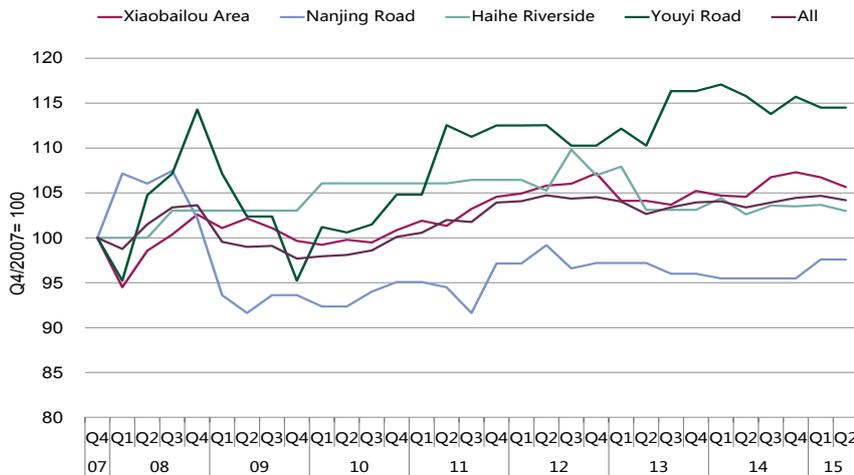
As the newest project launched in the Nanjing Road area, Metropolitan Tower has attracted a number of sought-after tenants due to its higher quality and the mature business environment in the area. The project has pushed up average rents to

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



Source: Savills Project & Development Consultancy

GRAPH 2 Grade A office rental indices, Q4/2007–Q2/2015



Source: Savills Project & Development Consultancy

TABLE 1 Selected Grade A office leasing transactions, Q2/2015

Tenant	Project	Location	Area (sq m)
Shenzhen Qianhai Jinrui long Internet Financial Services Co. Ltd.	Metropolitan Tower	Nanjing Road	2,200
KPMG	TWFC	Haihe Riverside	700
Zhongsheng Assets Management Co. Ltd.	City Tower	Youyi Road	510
Minsheng Wealth Management Co. Ltd.	Metropolitan Tower	Nanjing Road	500

Source: Savills Project & Development Consultancy

RMB 167.3 per sq m per month, the highest city-wide. Due to competition from International Trade Centre, a number of landlords in the Xiaobailou area have lowered the rents to retain and attract clients, resulting in area rents falling 1.0% to RMB 128.4 per sq m per month. Haihe Riverside rents averaged RMB 138.9 per sq m per month, down 0.7%QoQ. Youyi Road achievable rents remained unchanged QoQ at RMB 133.8 per sq m per month.

Strata-title market

No new projects were launched onto the city centre strata-title office market in Q2/2015. Transaction volume stood at 46,500 sq m, up 85% QoQ, with an average price of RMB 22,000 per sq m. The majority of deals witnessed were smaller-sized offices between 50 and 150 sq

m. Enterprises in their early stages tend to lease properties, while those who are considering expansion plans tend to be more willing to purchase properties for the purpose of asset value appreciation.

Market outlook

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MAP 1

Key strata-title office projects



Source: Savills Project & Development Consultancy

TABLE 2

Key strata-title office projects by launch date

	Project	Launch date	Location	Office GFA (sq m)	Office GFA for sale (sq m)	Average price (RMB per sq m)	Sales rate (%)
First-hand							
1	R&F Centre	Nov.2010	Hexi	70,000	70,000	17,400	69
2	Golden Valley	Dec.2010	Haihe	66,000	33,000	25,000	42
3	Metropolis	Dec.2011	Heping	62,000	62,000	21,500	85
4	Borland International Plaza	Nov.2012	Nankai	32,000	32,000	17,000	28
5	The Esplanade	Dec.2012	Haihe	18,000	18,000	17,000	77
6	World Financial (Nankai) Centre	Jun.2013	Nankai	157,000	157,000	23,000	26
7	Songjiang Landmark	Nov.2014	Nankai	54,300	54,300	-	0
Second-hand							
8	City Centre	Oct.2005	Heping	35,700	35,690	20,000	N/A
9	Global Centre	Sep.2007	Nankai	48,000	48,000	18,000	N/A
10	Tianjin Emperor Place	Dec.2007	Heping	42,000	42,000	20,000	N/A

Source: Savills Project & Development Consultancy

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