

Briefing Office sector

January 2016



Image: Sunwah IFC, Heping district

SUMMARY

An influx of multiple new office projects has prompted an increase in leasing demand in the Tianjin market.

■ Two new Grade A office projects were launched in Q4/2015, namely the Sunwah IFC and the Maoye Building, adding 28,000 sq m and 86,856 sq m respectively to the current leasing market. The Financial Street Nankai Centre launched Building A of the three-office building project onto the leasing market, resulting in a total leasable GFA of 81,000 sq m. This saw the total supply for 2015 increase to 259,483 sq m.

■ The new supply prompted an increase in leasing demand, with net take-up totalling 53,687 sq m in Q4/2015, up 164.2% quarter-

on-quarter (QoQ). This shows an increase in the total annual net take-up up from 40,144 sq m in 2014 to 97,726 sq m in 2015.

■ Due to the new supply, the city-wide vacancy rate increased 10 percentage points (ppts) QoQ to 38.1%, up 10.2 ppts year-on-year (YoY).

■ Grade A office rents increased 0.4% QoQ to an average of RMB142.1 per sq m per month, similar to levels seen in 2014.

■ Five high-end office projects are expected to launch onto the market

in 2016, increasing Grade A office total stock by nearly 316,000 sq m.

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 “Tianjin’s core commercial districts are expected to witness rapid growth due to the introduction of policies favouring of BJ-TJ-Hebei Integration, as well as financial reform and innovation.” Jonathan Wang, Savills Project & Development Consultancy

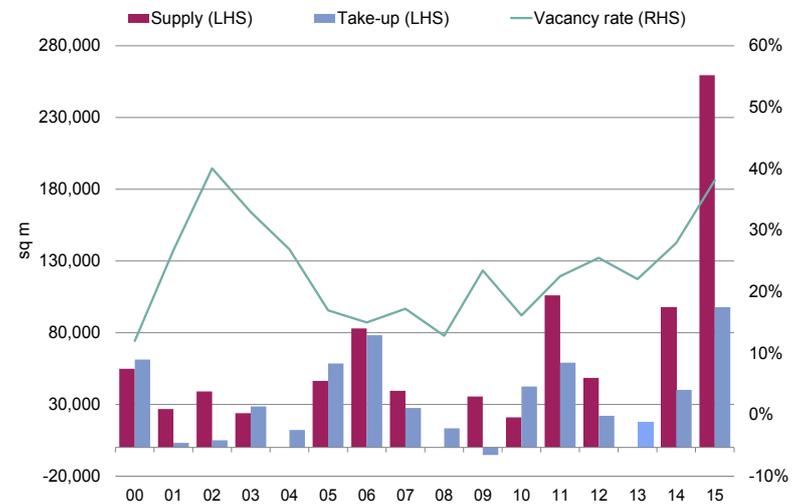
Market commentary

Sunwah IFC and Maoye Building, located alongside the Haihe River, were launched in Q4/2015, adding 28,000 sq m and 86,856 sq m respectively onto the leasing market. Meanwhile, Financial Street Nankai Centre launched its Building A of the three-office building project onto the leasing market, resulting in a total leasable GFA of 81,000 sq m. This saw the total supply for 2015 increase to 259,483 sq m, almost three times more than the prior year. Currently, the city centre Grade A office stock stands at 873,786 sq m.

The new supply prompted an increase in leasing demand, with net take-up totalling 53,687 sq m in Q4/2015, up 164.2% QoQ, mostly seen in Metropolitan Tower, COFCO Plaza and Financial Street Nankai Centre. This shows an increase in the total annual net take-up up from 40,144 sq m in 2014 to 97,726 sq m in 2015, the highest recorded annual net take-up to date. In 2015, most leasing demand came from the logistics, trade and financial services sectors.

Guided by policy, the innovative financial industry has grown rapidly, along with growth in the number of small financial companies, such as asset management and micro-credit companies. However, landlords are increasingly reluctant to accept tenants from this market due to a perception of inferior quality and inconsistency, which gives property managers cause for concern. Landlords have now introduced more thorough credential checks in order to prevent possible disputes in future.

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



Source: Savills Project & Development Consultancy

Due to new supply, the city-wide vacancy rate increased 10 ppts QoQ to 38.1% in Q4/2015, up 10.2 ppts YoY.

During the last quarter, Haihe Riverside received another two projects, resulting in vacancy rate increasing significantly by 25.2 ppts QoQ to 51%, exceeding the Nanjing Road area and ranking highest among the four prime commercial districts. With more projects to be launched within this area, the vacancy rate is expected to hit another high. Due to active transactions in Metropolitan Tower, the Nanjing Road vacancy rate fell 2.5 ppts QoQ to 27.3%. As vacant spaces were leased with moderate demand in the Youyi Road area, the vacancy rate fell 0.4 ppts QoQ to 7.6%. However, the

Xiaobailou area vacancy rate increased 0.4 ppts QoQ to 11.6%.

COFCO Plaza in the Nankai district, which was launched in the third quarter of 2015, has maintained a fast leasing rate, with a number of tenants relocating there from existing Grade B buildings in the area. This project benefits predominantly from being the first Grade A office project in the Nankai district, currently still an emerging area for this market. In addition, the project has been integrated into the most popular retail project in Tianjin, Joy City. Financial Street Nankai Centre has witnessed a large increase in occupancy since the launch of its pre-release phase, which also contributed to the overall decrease in the vacancy rate.

TABLE 1

Selected Grade A office leasing transactions, Q4/2015

Tenant	Project	Location	Area (sq m)
Citic Bank	Metropolitan Tower	Nanjing Road	1,500
Superchain Logistics Development Co., Ltd.	Metropolitan Tower	Nanjing Road	1,100
Minmetals Condo Construction Co., Ltd.	Ping'an Building	Xiaobailou	878
BlueSky Environmental Protection & Technology Co., Ltd.	City Tower	Youyi Road	600

Source: Savills Project & Development Consultancy

Rents

Grade A office rents increased 0.4% QoQ to an average of RMB142.1 per sq m per month, similar to levels seen in 2014.

Rents in the Nanjing Road area increased 0.2% QoQ to RMB166.2 per sq m per month, the highest rate of all the areas. Due to the new, high-quality projects launched this quarter Haihe Riverside rents saw an increase of 0.3 ppts to RMB143.3 per sq m. Youyi Road rents remained unchanged from last quarter at RMB133.8 per sq m per month. The Xiaobailou area saw some projects adjusting rents, which resulted in average rents increasing 1.0 ppt QoQ to RMB129.6 per sq m per month. The “Other” area, consisting of non-prime emerging areas, saw rents average RMB127.8 per sq m per month.

Strata-title market

In Q4/2015, the city-centre Grade A office sales market received new supply of 89,000 sq m, dominated by the Rongqiao Guandi in the Nankai district and Ocean International Centre in the Hedong district.

In the fourth quarter, city-centre Grade A office transactions increased 119% QoQ to 38,900 sq m, with the majority of deals seen in the R&F Centre and the Financial Street Nankai Centre. By the end of 2015, total transactions stood at 128,200 sq m, with transaction volumes of

RMB2.38 billion. Smaller-sized offices between 50 and 150 sq m remained most popular, with the average price at approximately RMB16,000 per sq m, up 1.3% QoQ.

Market outlook

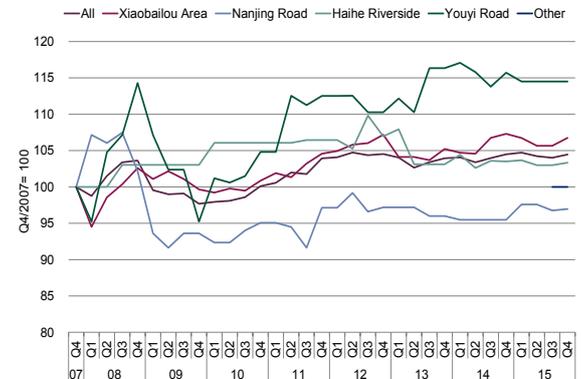
Five projects are expected to be launched onto the leasing market in 2016, which will increase Grade A office total stock by nearly 316,000 sq m. However, as certain space in the Bohai Building has been allocated for self-use, and the proportions of lease/sale in some projects are still not definitive, the leasable office GFA is estimated at around 300,000 sq m, equivalent to 34% of the existing stock. This supply is expected to push up overall vacancy rates to 41%.

Competition from future supply is likely to increase uncertainty about future projects, in terms of both their launch dates and the operation format of lease or sale.

Due to the advancement of multiple favourable policies, including the BJ-TJ-Hebei integration and financial reform and renovation, Tianjin will focus on taking over the advanced manufacturing and modern service industries such as financial leasing and e-commerce. This is expected to increase the leasing rate of current vacant spaces, while optimising the industrial structure. ■

GRAPH 2

Grade A office rental indices, Q4/2007–Q4/2015



Source: Savills Project & Development Consultancy

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	18,200	82
2	Metropolis	Dec 2011	Heping	206,900	206,900	18,800	26
3	Borland International Plaza	Nov 2012	Nankai	32,000	32,000	16,000	28
4	The Esplanade	Dec 2012	Haihe	18,000	18,000	17,000	77
5	Financial Street (Nankai) Centre	Jun 2013	Nankai	157,000	157,000	19,000	37
6	Songjiang Landmark	Nov 2014	Nankai	54,300	54,300	-	-
7	Financial Street (Heping) Centre	Jun 2015	Heping	89,800	89,800	21,000	3
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	17,000	N/A
10	Tianjin Emperor Place	Dec 2007	Heping	42,000	42,000	20,000	N/A

Source: Savills Project & Development Consultancy

TABLE3

Future Supply in 2016

Project	Launch Date	Area	Operation Format	Office GFA (sq m)
Vantone Centre	2016 Q2	Xiaobailou CBD	Lease	54,000
Yanlord Riverside Plaza	2016 Q4	Haihe Riverside	Lease + Sale	44,257
Hopson Int'l Building B	2016 Q4	Haihe Riverside	Lease	49,700
Tai'an 5	2016 Q4	Xiaobailou CBD	TBC	57,841
Bohai Building	2016 Q4	Haihe Riverside	Lease + Self-use	110,000

Source: Savills Project & Development Consultancy

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