Briefing
Office sector

October 2018

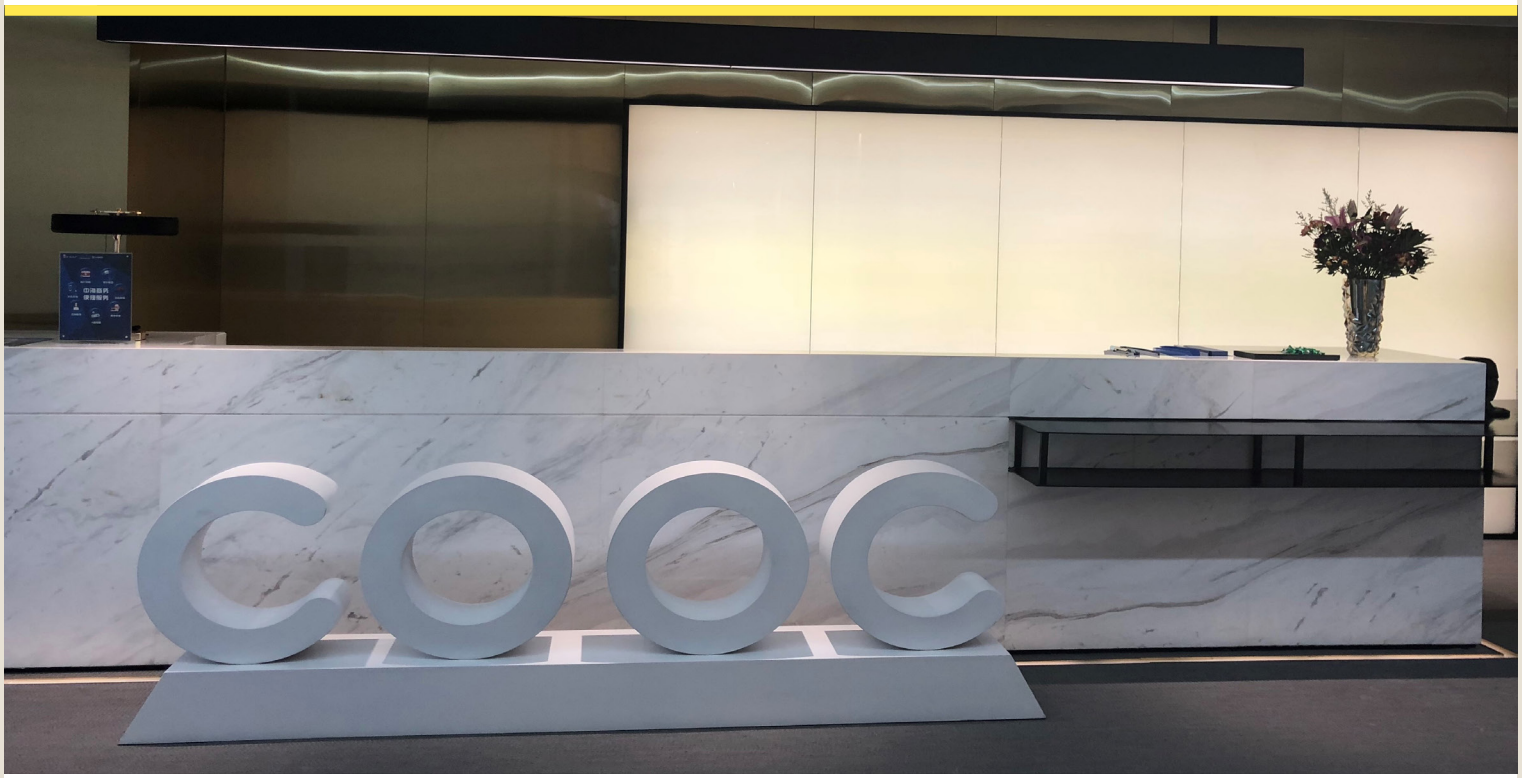


Image: China Overseas Plaza, Hexi District

SUMMARY

More new supply was launched onto the Grade A market, mostly in decentralised areas. The emergence of new business areas will improve the overall appeal of Tianjin.

- One new Grade A office project, Luneng International Centre, was launched in Q3/2018, adding 59,000 sq m GFA to the leasing market and pushing total stock to 1.30 million sq m.

- Leasing demand remained stable during Q3/2018. Traditional financial institutions accounted for the main proportion of leasing deals, followed by consultancy and e-commerce enterprises.

- Due to new supply levels, city-centre vacancy rates climbed by 1.7 percentage points (ppts) quarter-on-quarter (QoQ) to 29.8%, down 5.3 ppts year-on-year (YoY). The Grade A office average rent increased 2.7% QoQ to RMB142.3 per sq m per month, up 3.8% YoY.

- The Grade A office market will welcome a boost of new supply in Q4/2018. The New Badali area is expected to absorb at least three new projects with a total GFA of 200,000 sq m. Additionally, China Life Financial Centre - with 80,000 sq m GFA located in the Xiaobailou area - is expected to launch in Q4/2018 as well.

"Despite leasing demand remaining stable, the high quality of new supply pushed average rents higher in Q3/2018 even as supply volumes caused vacancy to rise." Jack Xiong, Savills Research & Consultancy

Market commentary

One new Grade A office project, Luneng International Centre, was launched in Q3/2018, adding 59,000 sq m GFA onto the leasing market and pushing total stock to 1.30 million sq m.

Despite stable leasing demand continuing in Q3/2018, the volume of tenancy surrenders was higher, contributing to a decline of the city-wide net take-up by 66% QoQ to 14,183 sq m. Financial institutions accounted for the main proportion of leasing deals during the quarter, including Bank of Tianjin leasing 1,485 sq m in Tianjin IFC; and PKU Founder Life taking up 2,000 sq m in MIFC.

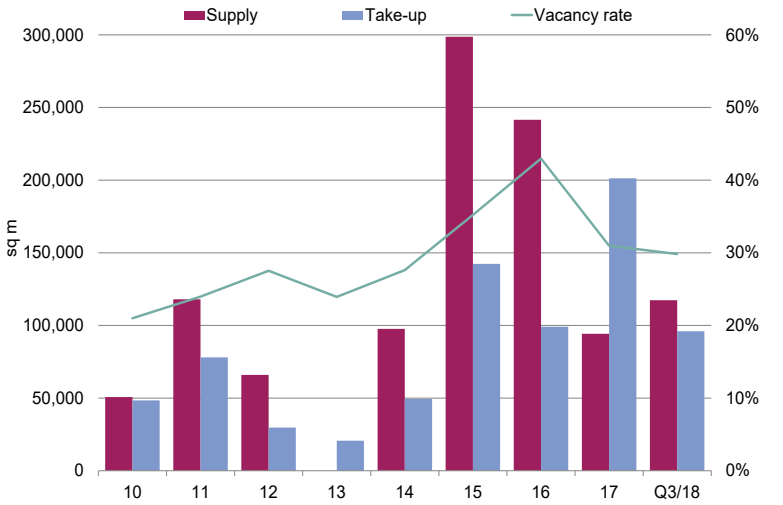
Consultancy and e-commerce firms also contributed to leasing demand. Notable deals include Docvit Law Firm leasing 1,200 sq m in WFC; ShopNC taking up 1,200 sq m in Yanlord Riverside Plaza; and 365uxuan (每日优选), an e-commerce company, leasing 1,000 sq m in Vantone Centre.

With more projects debuting this year versus last, the level of supply is increasing again after a massive drop in 2017. The city-wide vacancy rate has begun to edge up again, rising 1.7 ppts QoQ to 29.8%, although down by 5.3 ppts YoY, after declining for eight consecutive quarters.

Among all business areas, only the Nanjing Road area saw vacancy rates continue to decrease to a level similar to three years ago, before the historic highs caused by large volumes of new supply. Attributed to strong leasing performances in MIFC and Metropolitan Tower, the average vacancy rate on Nanjing Road decreased by 4.1 ppts QoQ to 29.7%.

GRAPH 1

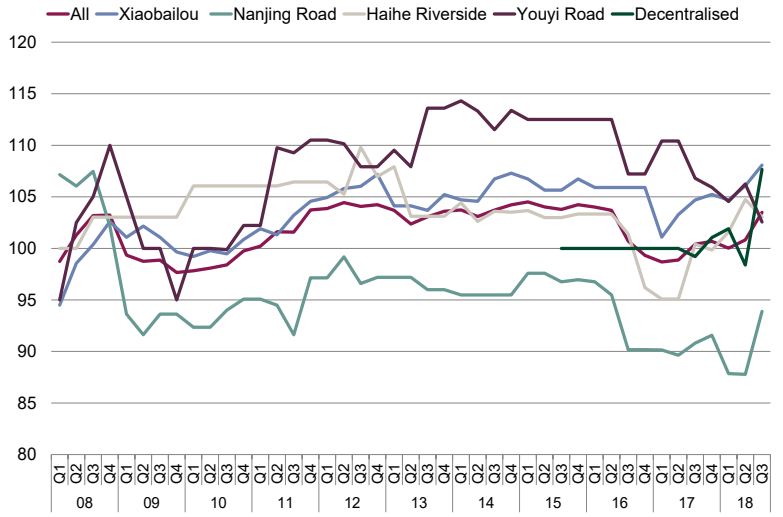
Supply, take-up and vacancy rates, 2010–Q3/2018



Source: Savills Research & Consultancy

GRAPH 2

Grade A office rental indices, Q1/2008–Q3/2018



Source: Savills Research & Consultancy

TABLE 1

Major Grade A office leasing transactions, Q3/2018

Tenant	Project	Location	Area (sq m)
365uxuan	Vantone Centre	Xiaobailou	1,000
PKU Founder Life	MIFC	Nanjing Road	2,000
Docvit Law Firm	WFC	Haihe Riverside	1,200
Bank of Tianjin	Tianjin IFC	Youyi Road	1,500

Source: Savills Research & Consultancy

All other business areas have experienced an upward trend in Q3 vacancy rates, largely due to tenant relocations. In the absence of any significant deals, the average vacancy rate in Xiaobailou in Q3/2018 increased by 0.5 of a ppt QoQ to 25.2%.

With several tenancy surrenders that didn't spur new tenant deals in Haihe Riverside and the Youyi Road area, vacancy rates in both areas increased slightly to 21.1% and 21.4%, respectively.

Despite active leasing transactions, the vacancy rate in the decentralised area increased 7.6 ppts QoQ to 44% due to new supply.

Rents

The average rent for Grade A office space experienced a polarising trend in Q3/2018. Rents in new projects have pushed up overall rents by 2.7% QoQ to an average of RMB142.3 per sq m per month, up 3.8% YoY.

Rents in Nanjing Road recorded strong growth in Q3/2018 due to rent adjustments in projects with strong leasing performances. The average rent increased by 7% QoQ to RMB151.7 per sq m per month, making the business area once again the city's most expensive for rent. In Haihe Riverside, average rent decreased by 1.6% QoQ to RMB141.4 per sq m per month. Rents in Xiaobailou edged up 1.9% QoQ to RMB138.9 per sq m per month while Youyi Road dropped 3.5% QoQ to an average of RMB127.8 per sq m per month. Decentralised areas benefitted from an upward trend, mainly due to the high quality of new supply. As landlords asked for higher rents, the average rent in Q3/2018 rose to RMB144.8 per sq m per month.

Market outlook

The Grade A office market will welcome a boost of new supply in Q4/2018. The New Badali area is expected to absorb at least three new projects including China Overseas Plaza, China Overseas Fortune Centre and Shuangying Plaza, with a total GFA of 200,000 sq m. Additionally, China Life Financial Centre will launch onto the Xiaobailou area, with a commercial space of around 80,000 sq m.

The bulk of new supply will be concentrated mostly in the New Badali area. While these high-quality projects are expected to improve the overall standard of office buildings in the area, the abundant amount of new leasable space might force landlords to decrease asking rents to improve occupancy rates.

Please contact us for further information

Research

James Macdonald
Senior Director
China
+8621 6391 6688
james.macdonald@savills.com.cn

Agency

Andy Chee
Senior Director
Tianjin
+8622 5830 8886
andy.chee@savills.com.cn

Project & Development Consultancy

Jack Xiong
Director
Northern China
+8610 5925 2042
jack.xiong@savills.com.cn