Grade A office market diversifies in Q1/2019

Rental growth ended the quarter on a muted note with no new projects launched on to the Grade A office market.

- No new projects launched onto the Grade A office market in Q1/2019, keeping citywide stock at 1.54 million sq m GFA across the city.

- Leasing demand for Grade A office stock remained stable. Financial, insurance, science and tech, and logistics institutions accounted for the main proportion of total leasing deals.

- The overall vacancy rate declined 1.0 percentage point (ppt) to 37.6% quarter-on-quarter (QoQ), though it was still up by 10.0 ppts year-on-year (YoY).

- The average rent of Grade A office declined by 1.1% QoQ to RMB137.6 per sq m per month.

- Tenancy on Nanjing Rd outperformed this quarter with the vacancy rate falling to 27.6% QoQ, down 6.8 ppts YoY. Average rents in the area were the highest in the city, up 9.4% YoY to RMB155.1 per sq m per month.

- Three new projects located in the New Badali area launched onto the market in Q4/2018, which pushed the vacancy rate higher. Average rents slipped by 2.7% QoQ to RMB111 per sq m per month.

- The market is expected to see four office buildings launch in Q2/2019. Located in both the Haihe Riverside and New Badali areas, the buildings will add a total of 386,000 sq m GFA to the Grade A office market.

“The economy in Tianjin witnessed a rally in Q1/2019, but emerging areas face challenges given that corporations still prefer traditional districts.”

VINCENT LI, SAVILLS RESEARCH & CONSULTANCY
SUPPLY AND DEMAND
No new projects launched onto the Grade A office market in Q1/2019. Due to the extended construction along the Haihe River, office space in the Haihe Riverside area accounted for the largest proportion of existing supply, followed by the Nanjing Rd area. Additionally, New Badali—Tianjin’s emerging business area—has a surplus of space compared to the traditional area of Youyi Rd. Total Grade A office stock stood at 1.54 million sq m GFA by the end of Q1/2019.

Leasing demand for Grade A office experienced a muted slip during Q1, with occupancy space down 57.6% QoQ to 15,369 sq m. Demand was driven mainly by financial, insurance, science and tech, and logistics; deals included Samsung taking up 1,500 sq m in MIFC; AIA leasing 1,500 sq m in Metropolitan Tower; and a financial firm occupying 900 sq m in Sunwah IFC.

RENTS AND VACANCY RATE
The vacancy rate in the Grade A office market in Q1/2019 declined by 1 ppt to 37.6% QoQ, though this was up by 10 ppts YoY. Rents had a 1.1% slip QoQ, but a 0.8% upick YoY to RMB137.6 per sq m per month. The vacancy rate in Haihe Riverside edged up by 1.4 ppts to 21.2% due to a handful of tenants relocating, though this is still one of the lowest vacancy rates across the city. Rents climbed by 1.1% to RMB139.4 per sq m per month. The launch of three high-end projects this year will push up the market in Q1/2019. Due to the extended construction along the Haihe River, office space in the Haihe Riverside area, however, reached a high point of 47.7% owing to new supply introduced in Q4/2018.

Average rents for Youyi Rd and Xiaobailou stood at RMB155.35 and RMB121.7 per sq m per month, respectively. These two traditional areas, however, showed a downward trend both in vacancy rates and rents—the vacancy rate dipped by 1.5 ppts QoQ with rents down 3.2% QoQ in Youyi Rd while Xiaobailou’s vacancy rate fell 1.5 ppts QoQ and rents slipped 4.8% QoQ.

Decentralised areas continued to outperform, with the vacancy rate down by 1.7 ppts QoQ to 39.5%, and average rents dipping marginally to RMB143.6 per sq m per month.

New projects launched in the New Badali area caused a spike in vacancy rates in Q1/2019. Traditionally a residential area, New Badali is still facing challenges to its office market even though rail transit connectivity to this area has improved and the business environment continues to grow.

MARKET OUTLOOK
The Grade A office market will welcome four brand-new projects this year—MCC International Plaza located in New Badali area, and Metropolis, Hopson Fortune Plaza and Jingjin International Centre all located in Haihe Riverside—which will bring a new supply of 386,000 sq m GFA to the Grade A office market.

In the wake of the Tianjin government expanding infrastructure investment and improving the city’s business environment, companies have incentives to expand. Therefore, it is expected that the office market will witness rising transaction volumes.

### TABLE 1: Grade A Office New Supply, 1H/2019

<table>
<thead>
<tr>
<th>PROJECT</th>
<th>SPACE (SQ M)</th>
<th>SUBMARKET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poly Metropolis</td>
<td>150,000</td>
<td>Haihe Riverside</td>
</tr>
<tr>
<td>Hopson Fortune Plaza</td>
<td>49,700</td>
<td>Haihe Riverside</td>
</tr>
<tr>
<td>Jingjin International Centre</td>
<td>140,000</td>
<td>Haihe Riverside</td>
</tr>
<tr>
<td>MCC International Plaza</td>
<td>46,240</td>
<td>New Badali</td>
</tr>
</tbody>
</table>

Source: Savills Research