

Office



Major projects boost prime area's vitality

Tianjin's Grade A office market welcomed a new project, while rental and vacancy rates both recorded a slight dip.

- Hopson Fortune Plaza located in Haihe Riverside was launched onto the Grade A office market during Q2/2019, pushing total stock to 1.596 million sq m GFA.
- Leasing demand remained stable this quarter with science and technology, logistics and professional services institutions accounting for the majority of leasing deals.
- The overall vacancy rate decreased by 0.2 of a percentage point (ppt) quarter-on-quarter (QoQ) to 37.2%, though it was still up by 9.1 ppts year-on-year (YoY).
- The average rent of Grade A office space declined by 1.5% QoQ to RMB136 per sq m per month.
- The vacancy rate in the Nanjing Rd area slipped marginally by 0.7 of a ppt QoQ and 6.9 ppts YoY to 26.9%. The overall average rent was unchanged from Q1/2019, though up 8.6% YoY, to RMB159.3 per sq m per month, remaining the top area in the city.
- Due to a newly-launched project, the vacancy rate of Haihe Riverside climbed by 4.2 ppts to 25.5%, and the average rent dropped by 4.6% YoY and 7.0% YoY to RMB133 per sq m per month.
- In New Badali, the vacancy rate recorded an increase, and rent rose by 3.2% QoQ to RMB114.6 per sq m per month.
- Several office buildings, mostly located in Haihe Riverside and New Badali, are scheduled to open in Q3/2019, bringing to the market new supply of 330,000 sq m GFA.

"New developments located in Haihe Riverside and New Badali are becoming the main source of new supply. Tianjin's Grade A office market is steadily becoming more decentralised."

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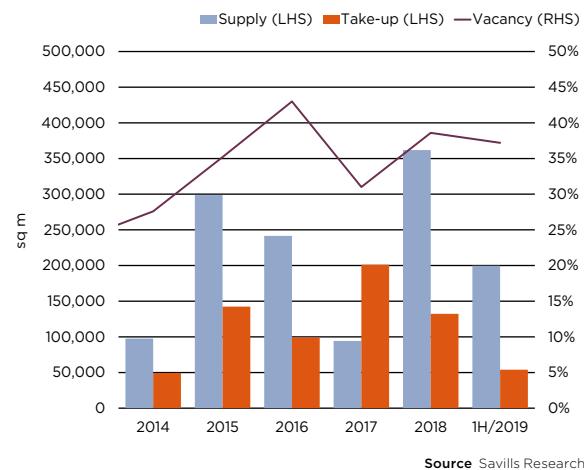
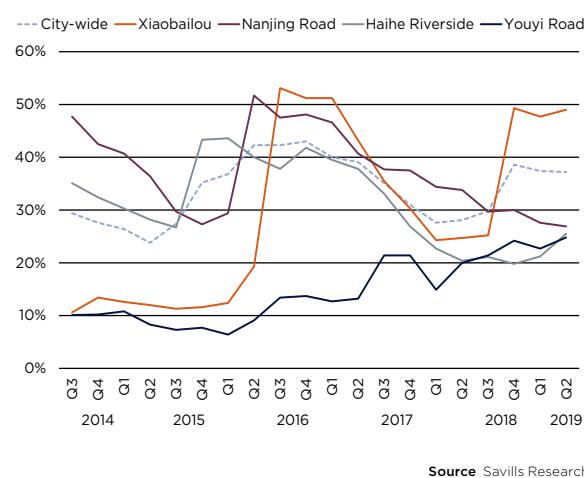
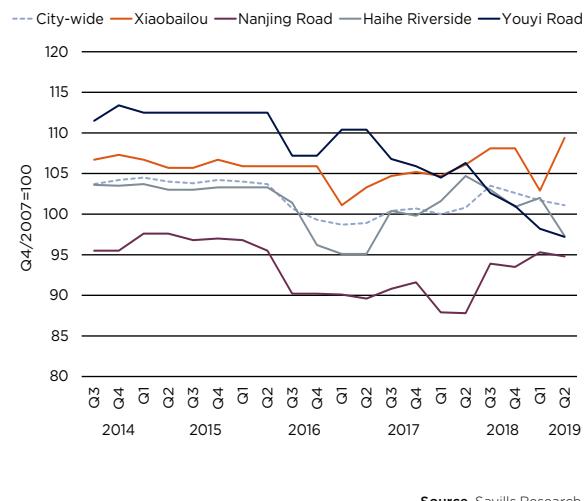
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GRAPH 1: Supply, Take-up and Vacancy Rates, 2014 to 1H/2019

GRAPH 2: Grade A Office Vacancy Rates, Q3/2014 to Q2/2019

GRAPH 3: Grade A Office Rental Indices, Q3/2014 to Q2/2019

SUPPLY AND DEMAND

During Q2/2019, Hopson Fortune Plaza, located in Haihe Riverside, launched onto the Grade A office market with outperforming leasing activities. The complex increased Haihe Riverside's share of existing stock to the largest proportion in the city, followed by the Nanjing Rd area. Total stock throughout Tianjin reached 1.596 million sq m by the end of Q2/2019.

Given the outperformance of the new project's leasing deals, overall net take-up of office space swelled by 96.2% QoQ to 35,059 sq m, though it was still down 16.1% from the same quarter last year. Take-up was mostly concentrated in Haihe Riverside and New Badali. Youyi Rd and Xiaobaolou both witnessed negative absorption. Leasing demand was driven mainly by science and technology, logistics and professional services institutions, and included Yike Medical Tech leasing 830 sq m in Hopson Fortune Plaza and a logistics company taking up 1,000 sq m in Sunwah IFC.

RENTS AND VACANCY RATE

The city-wide vacancy rate slipped by 0.2 of a ppt QoQ, but this was up 9.1 ppts YoY to 37.2%. Due to abundant stock on offer, landlords reduced rents to garner tenants' interest. Consequently, rents dipped by 1.5% QoQ, but this was up 1.1% YoY to RMB136 per sq m per month.

Thanks to the newly-launched project in Haihe Riverside, the area's vacancy rate rose by 4.2 ppts to 25.5%, though it was still the lowest rate across the city. Meanwhile, the new complex intensified competition among all areas in Tianjin. For example, average rents in Haihe Riverside dropped by 4.6% to RMB133 per sq m per month, which was attributed to the new project's price

promotion and subsequent rental reviews in existing developments. Two high-end projects are on the horizon in this area, and it is expected that the vacancy rate and rents will grow next quarter.

The vacancy rate for the Nanjing Rd area dipped marginally by 0.7 of a ppt QoQ and 6.9 ppts YoY to 26.9%. The overall average rent remained unchanged from last quarter, up by 8.6% YoY to RMB159.3 per sq m per month, remaining the highest in the city.

Xiaobaolou and Youyi Rd, the traditional areas in Tianjin, both recorded negative take-up volume this quarter due to tenant relocations. The vacancy rate decreased by 1.3 ppts and 2.0 ppts to 49% and 24.8%, respectively. Rents in Xiaobaolou picked up by 6.2% QoQ to RMB143.7 per sq m per month, and Youyi Rd slipped on a mild note by 0.8% QoQ to RMB120.7 per sq m per month.

New projects launched in New Badali caused a spike in vacancy rates in Q2/2019. Nevertheless, the high quality of the facilities and services at the new projects should lead to robust leasing activity.

MARKET OUTLOOK

The Grade A office market will welcome three brand-new projects in Q3/2019: MCC International Plaza in New Badali, and Metropolis and Jingjin International Centre in Haihe Riverside, which will bring 330,000 sq m GFA of new supply to the market.

In the wake of the Tianjin government expanding infrastructure investment, the office market is likely to see rising transaction volumes. However, the rental market—especially in emerging areas—will experience some headwinds due to an abundance of new supply, which suggests office rents will face downward pressure.

TABLE 1: Grade A Office New Supply, 2H/2019

PROJECT	SPACE (SQ M)	SUBMARKET
Metropolis	150,000	Haihe Riverside
Jingjin International Center	140,000	Haihe Riverside
MCC International Plaza	46,240	New Badali

Source: Savills Research