Economic growth
As one of the economic centres of northern China, Tianjin’s economy has been dominated by the manufacturing sector (secondary industry) for a long time. Steady economic growth has however provided a solid foundation for the recent development of tertiary industry, with its contribution to the economy exceeding 50% for the first time in 2015, signifying a key milestone in the city’s transformation from being a manufacturing-oriented economy to a services-oriented one. The tertiary sector continued to see its contribution to the economy grow in 2016 to 54%.

Nevertheless, compared to the economic make-up of the nation’s first tier cities, Tianjin’s tertiary sector still accounts for a relatively low percentage of the economy. The tertiary industry in these cities contributes 60% or more to the city’s economy, with Beijing’s tertiary sector recording the highest in the country at 80%. A slowdown in the manufacturing sector over the last two to three years, has accelerated the cities transformation into a services economy, with the local authorities looking to hasten the development of the tertiary sector to take up the slack generated by the slowdown in the secondary industry. They have done this by encouraging start-ups and providing incubator spaces, as well as trying to attract larger corporates to relocate operations from more costly economic centres like Beijing. Nevertheless the transition will take time to catch up to its larger neighbour, especially considering the considerable retraining that the workforce will need to undergo.

Office leasing market supply and take-up
Tianjin’s Grade A office market saw a substantial supply increase over the last two years. The launch of Financial Street Nankai Centre, COFCO Plaza and Sunwah IFC totalling 300,000 sq m of Grade A office space, marked the peak of new supply in 2015. Lujiazui Plaza entered the Grade A office market during 1H/2017, adding a further 94,000 sq m GFA and increased the city’s total stock to 1.2 million sq m.

Grade A offices in the urban core are mainly located along Nanjing Road and Youyi Road or clustered in the Xiaobailou and Haihe Riverside areas.

As the city’s most mature business district, Nanjing Road houses most of the city’s international Grade A offices, totalling 324,100 sq m of Grade A office space (equal to 27% of citywide stock). Xiaobailou area, which is located just to the south east of Nanjing Road, has fewer Grade A offices, totalling just 100,300 sq m (9% of citywide stock), though the area does include a number of Grade B developments.

Despite the high concentration of bank regional headquarters and financial institutions along Youyi Road, Grade A office stock of this area only accounts for 10% (118,200 sq m) of the citywide Grade A office stock. Haihe Riverside area, the city’s key emerging business district, is the largest Grade A office submarket, containing 403,000 sq m of new high quality office space (34% of citywide stock). Grade A offices, in decentralised areas, make up a further 20% (239,000 sq m) of the city’s total Grade A stock.

The citywide vacancy rates stood at 39.1% by the end of 1H/2017, having fallen slightly over the last six months as a result of strong take-up in new buildings as tenants of older buildings look to upgrade their premises.

Nevertheless vacancy rates remain high compared to first-tier cities as a result of the sluggish economy and competition from the Binhai New Area. Most transactions were concluded in Vantone Centre, Yanlord International Centre and Sunwah IFC with tenants mainly from finance, education, consulting services and real estate industries.

Office leasing market rents
Rents fell by 4.6% year-on-year (YoY), standing at an average of RMB134.9 per sq m per month by
the end of 1H/2017. Xiaobailou rents recorded strong growth in the first half of the year, rising to RMB132 per sq m per month by the end of 1H/2017. Rents in Nanjing Road area remained the highest in the city at RMB145 per sq m per month, while rents in Haihe Riverside area, Youyi Road and other decentralised areas remained flat at RMB129, RMB137 and RMB131 per sq m per month respectively.

**Strata-title office market**

The strata-title office market remains oversupplied with average annual supply over the last five years standing at 455,000 sq m, while transaction volumes averaged 260,000 sq m, resulting in 195,000 sq m per annum being added to the unsold inventory.

Strata-title office transaction prices averaged around RMB18,000 per sq m over 2011-2016. Despite oversupply and a struggling economy first hand strata title prices increased 12% YoY to RMB20,250 per sq m in 1H/2017. The could have resulted from the inclusion of better quality or more centrally located office buildings within the transaction make up, or have been a knock on effect from the recent pick up in the residential sales market.

**Huirong Building, Financial Street (Heping) Centre and Legendary Achievement recorded the most deals in 1H/2017, including: Industrial Bank Financial Leasing Co. Ltd.’s acquisition of a multi-floor space totalling 17,300 sq m in Huirong Building; Agricultural Bank of China’s purchase of 4,800 sq m in Legendary Achievement and Cihuaci Culture Communication Co. Ltd.’s acquisition of 2,200 sq m in Financial Street (Heping) Centre.**

**Market outlook**

The market is expected to welcome a number of high quality projects in the next 12 months, including Jingjin International Centre, Metropolis and Hopson International Building. The future addition of these higher-quality projects will continue to improve overall standard of office space available in the Tianjin market, though it will also place increased pressure on an already fragile market.

As the central government continues to support and encourage the integration of Beijing-Tianjin-Hebei region, continuous development of the modern high-end services industries in Tianjin should ultimately benefit the city’s office market. On the other hand, increased competition in the short-term will put downward pressure onto Tianjin’s city centre Grade A office market. Landlords may continue to lower rents in the coming years in the face of sustained competition from new supply, making it the tenant’s market in short term.

**TABLE 1**

<table>
<thead>
<tr>
<th>Tenant</th>
<th>Project</th>
<th>Location</th>
<th>Area (sq m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of Tianjin</td>
<td>Tianjin IFC</td>
<td>Youyi Road</td>
<td>4,600</td>
</tr>
<tr>
<td>Ernst &amp; Young</td>
<td>Metropolitan Tower</td>
<td>Nanjing Road</td>
<td>1,500</td>
</tr>
<tr>
<td>Minmetals Land Limited</td>
<td>Vantone Centre</td>
<td>Xiaobailou</td>
<td>850</td>
</tr>
<tr>
<td>CITIC Trust</td>
<td>Vantone Centre</td>
<td>Xiaobailou</td>
<td>650</td>
</tr>
<tr>
<td>Guoyue Financial Leasing</td>
<td>Tianjin WFC</td>
<td>Haihe Riverside</td>
<td>800</td>
</tr>
<tr>
<td>OCBC</td>
<td>Tianjin WFC</td>
<td>Haihe Riverside</td>
<td>700</td>
</tr>
<tr>
<td>Radiance Property Holding Limited</td>
<td>Yanlord Riverside Plaza</td>
<td>Haihe Riverside</td>
<td>600</td>
</tr>
<tr>
<td>Rongw Stock</td>
<td>Sunwah IFC</td>
<td>Haihe Riverside</td>
<td>500</td>
</tr>
</tbody>
</table>

Source: Savills Research & Development Consultancy

**GRAPH 4**

**Grade A office rental indices, Q4/2007–Q2/2017**

**GRAPH 5**

**Strata-title office supply, transaction volumes and average prices, 2010–Q2/2017**

Source: Savills Research & Development Consultancy