Leasing Demand Softens
Net absorption plummeted amidst headwinds of the COVID-19.

- Fuzhou's economic growth decelerated in 1H/2020, with the local GDP falling by 3.8% year-on-year (YoY) in Q1/2020, but economic activities increased in Q2/2020.
- ICC, located in Minjiang North, was handed over to the market during 1H/2020, adding 114,938 sq m of office GFA to the market and pushing the citywide total stock up to 1.5 million sq m.
- Volumes of property enquiries and site visits decreased as outdoor activities were restricted during the outbreak of COVID-19. However, these increased in Q2/2020, following the resumption of work and production from March.
- Leasing competition between traditional CBDs and emerging CBDs became fiercer as many tenants chose to relocate to Minjiang North and Financial Street for cost-saving and better-quality office premises.
- Net absorption plummeted by 60.8% YoY to 16,927 sq m, and the vacancy rate structurally increased to 25.0%.
- The citywide average rent declined by 3.1% half-on-half (HoH) on an index basis to RMB107.2 per sq m per month.
- A total of approximately 54,000 sq m new supply are scheduled for completion in 2H/2020, and the new completions should expedite the development of emerging CBDs and continue to attract relocation demand from the traditional ones in the near future.

“The Fuzhou market saw an increasing number of tenants relocating from traditional CBDs to emerging CBDs for cost-saving and better-quality office premises.”

CARLBY XIE, SAVILLS RESEARCH
SUPPLY
As most construction processes were extended due to the impact of the COVID-19 pandemic, only one project (ICC) was handed over to the market during 1H/2020, adding 114,938 sq m of office space to the market and pushing the total stock up 8% HoH to 1.5 million sq m by the end of 1H/2020. Minjiang North, Financial Street and Wusi Road continued to be the largest three submarkets in terms of market size, accounting for 41.6%, 21.8%, and 19.3% of the total, respectively.

DEMAND
Volumes of property enquiries and site visits decreased as outdoor activities were restricted during the outbreak of COVID-19. Following the resumption of work and production from March, the market witnessed an increasing volume of office leasing enquiries and transactions for relocation and consolidation. The growing economic uncertainties, resulted from the pandemic, caused most enterprises to be more cautious and conservative towards their operations and expenditures in 2020. Many of them tended to look for new leases with lower rents or reduced office areas for cost-saving. As a result, the growth of leasing demand decelerated during 1H/2020, with net absorption plummeting by 60.8% YoY to 16,927 sq m, and the vacancy rate spiked to 45%, 35%, and 25% for Wusi Road and Wuyi Road, and Minjiang North, respectively.

It was worth noting that the impact of the pandemic intensified the leasing competition between the traditional CBDs (Wusi Road and Wuyi Road) and the emerging CBDs (Minjiang North and Financial Street) during 1H/2020. The market saw an increasing number of tenants choosing to relocate from Wusi Road and Wuyi Road to Minjiang North and Financial Street, for lower rents and better-quality office premises. This led to active market digestion in Minjiang North and Financial Street. For example, One Bank leased an office space of approximately 2,950 sq m at International Financial Centre, while King Dragon Life and Sunac leased 1,400 sq m and 500 sq m in ICC, respectively.

RENTS
As a collective impact of the oversupply situation and the increasing uncertainties brought by the COVID-19 pandemic, landlords’ sentiment continued to weaken during 1H/2020. Many landlords, especially individual investors, were willing to offer more flexibility during contract negotiations, including offering longer rent-free periods, rental concessions and other measures to attract tenants and accelerate project digestion. As a result, the citywide average rent declined by 3.1% HoH on an index basis, to RMB107.2 per sq m per month.

MARKET OUTLOOK
A total of approximately 54,000 sq m of new supply is scheduled for completion in 2H/2020, all of which is located in the Financial Street and Minjiang North submarkets. The new completions should expedite the development of the two emerging CBDs and continue to attract relocation demand sourcing from the traditional CBDs in the near future. Overall, demand for office leasing should remain soft in 2H/2020 as many tenants are expected to remain conservative towards their capital expenditures and prefer to renew leases or reduce leasing areas for cost-saving purposes. This will be the most prevalent in the international trading, education and offline retail sectors. Leasing demand from finance, real estate and professional services sectors is also expected to remain active in the rest of the year.

**TABLE 1: Notable Leasing Transactions, 1H/2020**

<table>
<thead>
<tr>
<th>TENANT NAME</th>
<th>INDUSTRY</th>
<th>PROJECT</th>
<th>SUBMARKET</th>
<th>LEASING AREA (SQ M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>One Bank</td>
<td>Finance</td>
<td>International Finance Centre</td>
<td>Minjiang North</td>
<td>2,950</td>
</tr>
<tr>
<td>King Dragon Life</td>
<td>Finance</td>
<td>ICC</td>
<td>Minjiang North</td>
<td>1,400</td>
</tr>
<tr>
<td>Sunac</td>
<td>Real estate</td>
<td>ICC</td>
<td>Minjiang North</td>
<td>500</td>
</tr>
</tbody>
</table>

**Note**: Calculation of rental indices for all submarkets starts from 1H/2014 except for: Jin’an – 2H/2014; Minjiang North – 2H/2014