

# Office



## Emerging CBDs lead demand resurgence

The epidemic had a limited impact on the completion of new supply in 2020, as the annual new supply hit the highest level since 2017.

- Fuzhou's GDP increased 5.1% year-on-year (YoY) to RMB1,002 billion in 2020, with the growth rate expanding 4.0 percentage points (ppts) relative to 1H/2020.
- Three new projects entered the market during 2H/2020, bringing about a combined leasable office GFA of 80,000 sq m to the market. Together with the new completions in 1H/2020, the annual new supply totalled 215,938 sq m in 2020.
- The citywide Grade A office stock expanded 15.1% YoY to approximately 1.6 million sq m in 2020, with Minjiang North and Financial Street collectively accounting for 65.7% of the total.
- The net take-up in 2H/2020 more than tripled to 87,068 sq m relative to 1H/2020. However, the annual net take-up declined 6.5% YoY in 2020, a result of the impact of COVID-19, especially during 1H/2020.
- By the end of 2020, the citywide average vacancy rate fell to 23.7%, down 1.7 ppts half-on-half (HoH) but up 3.6 ppts YoY.
- The citywide average rent decreased by 2.0% HoH and 5.1% YoY on a rental index basis to RMB101.1 per sq m per month in 2H/2020.

- New office supply in 2021 should be small, and only one project with a GFA of 26,761 sq m is expected to enter the market.

“The rise of emerging CBDs has gradually changed the overall competitive landscape and market dynamics, while traditional CBDs, relying heavily on their existing stock and asking relatively higher rentals, saw an erosion of their market share.”

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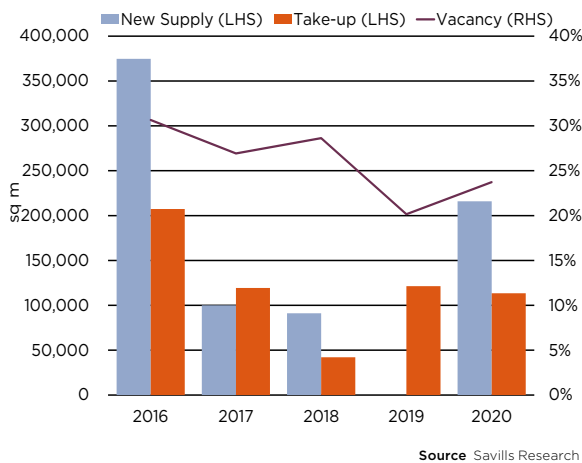
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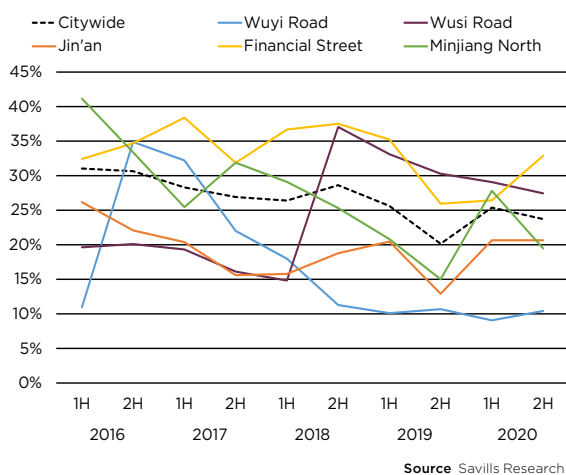
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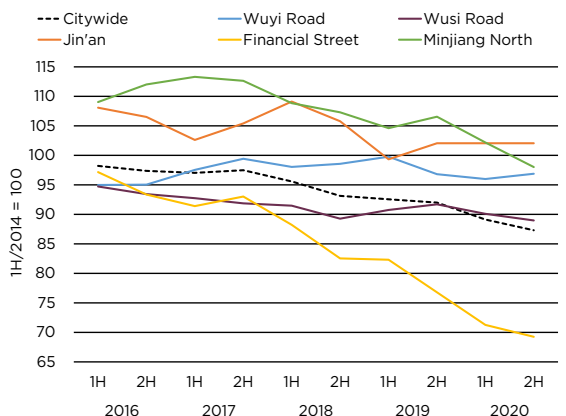
**GRAPH 1: Fuzhou Grade A Office Market New Supply, Net Take-up And Vacancy Rate, 2016 to 2020**



**GRAPH 2: Vacancy Rate By Submarket, 1H/2016 to 2H/2020**



**GRAPH 3: Rental Index By Submarket, 1H/2016 to 2H/2020**



## SUPPLY

In 2H/2020, three new projects entered Fuzhou's Grade A office market, Fubon Headquarters Building, Rural Commercial Bank Headquarters Building and Fumin Times Square, with a combined leasable office GFA of 80,000 sq m. Together with the new completions in 1H/2020, the annual new supply totalled 215,938 sq m in 2020—the highest level since 2017. All the new completions are located in emerging CBDs, with one in Minjiang North and the others in Financial Street. In response to Fuzhou's urban development plan with the east and the south being its main expansion directions, Financial Street and Minjiang North, as two prominent emerging CBDs, showed a growing proportion of the market supply.

Due to the new addition, the total stock expanded by 15.1% YoY to approximately 1.6 million sq m by the end of 2020, with Minjiang North and Financial Street collectively accounting for 65.7% of the total.

## DEMAND

The Fuzhou office leasing demand picked up notably in 2H/2020 as the pent-up demand resulted from the sluggish market performance in 1H/2020 gradually released. The citywide net take-up, therefore, reached 87,068 sq m in 2H/2020, which more than tripled that in 1H/2020 and even saw a YoY increase of 11.3%. However, the total net take-up still declined 6.5% YoY over 2020. Echoing this, the citywide average vacancy rate fell by 1.7 pts HoH but rose by 3.6 pts YoY to 23.7% by the end of 2020.

Minjiang North and Financial Street, as emerging CBDs, led the resurgence of the citywide leasing demand during 2020, evidenced by their net take-up of 69,009 sq m and 44,442 sq m, respectively, whereas other submarkets were under 10,000 sq m. The rise of emerging CBDs with relatively cost-effective site options for office tenants gradually changed the overall competitive landscape and market dynamics, while traditional CBDs, relying heavily on their existing stock and asking relatively higher rentals, saw an erosion of their market share.

Leasing demand from the real estate sector stood out during the year, and this was particularly noticeable in 2H/2020 when many large-sized transactions were closed. For example, Longfor leased an office space of approximately 4,900 sq m at ICC. Vage Design took up 2,400 sq m at Fusheng Qianlong Plaza, and China Jinmao signed up for a lease of around 2,200 sq m at Guozi Building.

## RENTS

Being flexible in rental concessions was the key for Minjiang North and Financial Street submarkets in beefing up occupancy, with rental levels in the areas declining by 4.1% and 2.8% HoH on a rental index basis, respectively by the end of 2020. Noticeably, Minjiang North marked an 8.0% YoY decline, the largest in history. Comparably, rental changes in traditional CBDs fluctuated less, up 0.1% HoH and down 1.3% YoY as a whole.

Given that the aggregate market size of emerging CBDs was nearly three times of traditional CBDs, coupled with the notable rental decreases in most emerging CBDs, the citywide average rent decreased by 2.0% HoH and 5.1% YoY on a rental index basis to RMB101.1 per sq m per month in 2H/2020 as a result.

## MARKET OUTLOOK

Looking at 2021, new supply of Fuzhou's Grade A office property market should be small—only one project with an office GFA of 26,761 sq m is expected to enter the market, implying less resistance for a market recovery in 2021. With limited new projects before and after 2020, those projects completed in 2020 should continue to be noteworthy from the tenants' perspective. The citywide vacancy rate is likely to stabilise as long as COVID-19 remains contained and the economic environment sees less external disruption. Additionally, the rental decrease across the city is forecasted to narrow though landlords in emerging CBDs would continue with flexible rental concessions to attract new tenants.

**TABLE 1: Selected Leasing Transactions, 2H/2020**

TENANT	INDUSTRY	PROPERTY	SUBMARKET	LEASING AREA (APPROX. SQ M)
Longfor	Real estate	ICC	Minjiang North	4,900
Vage Design	Real estate	Fusheng Qianlong Plaza	Minjiang North	2,400
China Jinmao	Real estate	Guozi Building	Financial Street	2,200
Junhe Group	Conglomerate	Fubon Headquarters Building	Financial Street	1,460
Midea	Retail & Trade	Shenglong Huijin Center	Financial Street	500

Source: Savills Research