Demand falls short

The government redoubled its support for the tech sector as a driver of long-term growth, investment and job opportunities for the city.

- Two Grade A office projects were handed over to the market in 1H/2020, adding 164,300 sq m.
- Alibaba started construction work on its DAMO Academy (Academy for Discovery, Adventure, Momentum and Outlook) in March 2020.
- Four Grade A office projects are expected to hand over in 2H/2020, adding 340,000 sq m of new supply to the market.

“Landlords lowered their rent expectations due to the increasing fallout from COVID-19, extending more incentives to attract tenants. Meanwhile, tenants, especially small companies, downsized or postponed expansion plans due to tight cash flow.”

JAMES MACDONALD, SAVILLS RESEARCH
MARKET COMMENTARY
Hangzhou’s GDP grew by 6.8%, reaching RMB1.54 trillion with its tertiary industry growing 8.0%, accounting for 72.9% of its GDP. The city’s digital economy generated RMB879.5 billion in 2019, up by 15.1% YoY.

Several major projects with a focus on new economy industries and modern residential communities broke ground in 2020, including the Hangzhou-Hong Kong High-End Service Industry Demonstration Zone, Alibaba’s DAMO Academy and Shibanqiao Future Community (上城始版桥未来社区). The Hangzhou-Hong Kong Demonstration Zone is a key development zone spanning 9.5 sq km and featured seven key projects that were kicked off during the quarter, with a planned total investment of about RMB9.2 billion. Despite significant economic headwinds, Hangzhou still shows significant growth potential and a strong commitment to promoting its ‘intelligent city’ concept.

SUPPLY AND STOCK
Two Grade A office projects, Huanglong Vanke Centre Building E/F and Bing Lü Building (滨绿大厦) were handed over to the market in 1H/2020 with a combined GFA of 164,300 sq m.

Huanglong Vanke Centre Building E/F (56,000 sq m), located in Huanglong submarket, is in its third phase of the development with the last phase expected to launch in 2023. Huanglong Vanke Centre Building E/F deploys prop-tech solutions, including facial recognition software and advanced environmental control systems to provide tenants with increased convenience and comfort.

Bing Lü Building (滨绿大厦), located in Wulin, comprises two Grade A office buildings with a total GFA of 108,300 sq m. The two buildings are part of a larger development Wulin Yi Hao project (武林壹号), whose remaining GFA is allocated to residential properties.

Total Grade A office stock in Hangzhou totalled two million sq m by 1H/2020, Prime areas account for roughly 1.5 million sq m while QJNC still accounts for approximately one million sq m. A significant amount of new supply in the coming years will be located in non-prime areas such as Qianjiang Century City.

RENTS AND VACANCY RATES
Due to the fallout from COVID-19, many firms had to delay their expansion plans while others had to downsize. It was not all bad news, though, as TMT and pharmaceutical companies saw a pickup in business activity and their demand for office space grow.

The citywide Grade A office vacancy rate grew by 3.9 ppts YoY to 23.4% by 1H/2020. QJNC saw its vacancy rate rise by 9.0 ppts YoY as many MNCs and private domestic firms were impacted by lockdowns and the ongoing global economic upheaval. Future Sci-tech City, on the other hand, saw its vacancy rate fall 10 ppts YoY to 10.0% as tech and online firms continued to grow. Huanglong’s vacancy rate fell 2.2 ppts YoY as the Huanglong Vanke project secured new tenant commitments despite the overall weakness in traditional business areas such as Huanglong and Wulin.

Grade A office rents fell 8% YoY to RMB 4.9 per sq m per day as challenging economic conditions forced landlords to offer further rental discounts and more flexible lease terms. Wulin and Huanglong remain the most expensive markets with an average rent of RMB5.83 and RMB5.35 per sq m per day, respectively. Wulin and Huanglong remain the most expensive markets with an average rent of RMB5.83 and RMB5.35 per sq m per day, respectively. QJNC recorded a rental decrease of 11% YoY.

MARKET OUTLOOK
Four projects are expected to enter the market in 1H/2020, adding 340,000 sq m of supply. Only one project will be launched in a prime area—the China Life Building in QJNC.

The large supply scheduled for completion prior to the 2022 Asian Games will undoubtedly place significant pressure on the market given the current economic outlook. However, the city authorities commitment to support and push forward the development of the tech and service sectors should be a catalyst for renewed growth off a solid foundation.

| TABLE 1: Key Leasing Transactions, 1H/2020 |
| TENANT | PROJECT | SUBMARKET | GFA (SQ M) |
| ICBC-AXA | Sino Ocean Canal Plaza | Yunhe | 2,000 |
| Huaxia Life Insurance | Hangzhou Ping An Financial Centre | QJNC | 4,500 |
| Huayun Electricity | GT Land Plaza | QJNC | 8,000 |

Note: Calculation of rental indices for all submarkets start from Q1/2009 except for QJNC-Q3/2010, Yunhe-Q2/2017

Source: Savills Research

savills.com.cn/research