



Landlords adapt leasing strategies

Furnished offices, whether fully or partially, alleviate initial capital expenses and expedite the process of moving.

- One new Grade A office project was launched in Q3/2023, adding 96,000 sqm to the market and bringing citywide Grade A office stock to 2.6 mn sqm.
- Due to the limited pre-leasing activity in the new projects, the citywide Grade A office vacancy rate increased by 0.7 ppts QoQ to 29.0%. Grade A office rents fell 0.5% QoQ to an average of RMB4.6 psm pday.
- The hosting of the Asian Games in September/October and the related disruptions temporarily reduced lease enquiries and site inspection activities, particularly in Qianjiang Century City and Qianjiang New City.
- Leasing demand was primarily generated by professional services, financial, fast-moving consumer goods and the fashion industry tenants. More corporates were looking to take advantage of the soft market to upgrade their premises.
- Xihu Centre (新湖中心) is expected to be launched in Q4/2023, adding 24,000 sqm to the market.

“The market remains challenging, though it is a good sign that corporates are upgrading premises, showing their commitment to the city and confidence in future prospects.”

JAMES MACDONALD, SAVILLS RESEARCH

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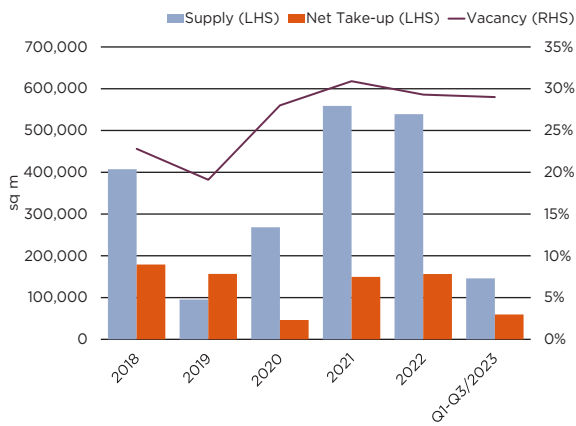
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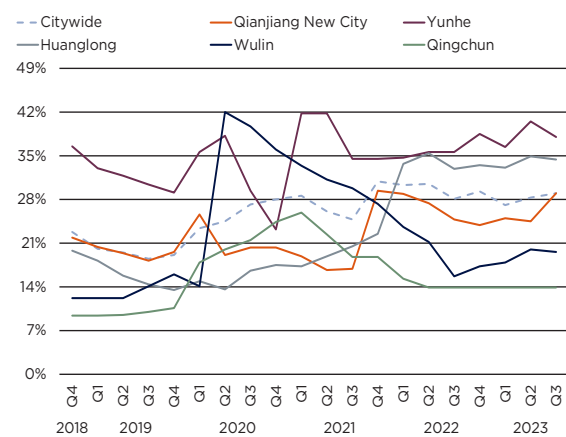
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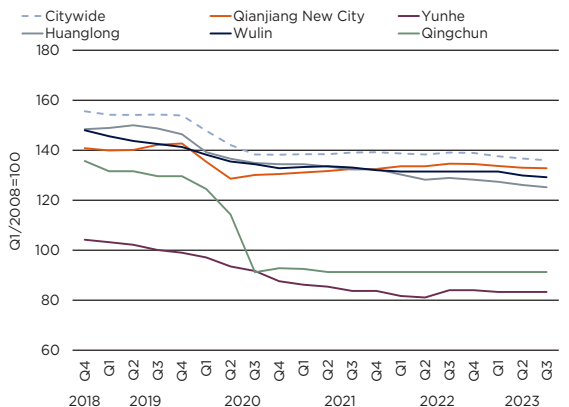
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GRAPH 1: Supply, Net Take-up And Vacancy Rates, 2018 to Q3/2023

Source Savills Research

GRAPH 2: Grade A Office Vacancy Rates, Q4/2018 to Q3/2023

Source Savills Research

GRAPH 3: Grade A Office Rental Indices, Q4/2018 to Q3/2023

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

Source Savills Research

MARKET COMMENTARY

Hangzhou's GDP totalled RMB1,443.8 billion in the first three quarters of 2023, up 5.8% YoY while the secondary industry and the tertiary industry increased 1.1% and 7.8% YoY respectively. Meanwhile, the digital economy in H1/2023 grew 9.0% YoY, accounting for 27.7% of GDP.

The Hangzhou government released plans to accelerate the development of the high-quality manufacturing industry through a series of measures to support key industries, including intelligent and transportation equipment, renewable energy, and natural disaster prevention technology industries.

SUPPLY AND STOCK

One new Grade A office project was launched in Q3/2023, adding 96,000 sqm to the market and bringing citywide Grade A office stock to 2.6 mn sqm, with the breakdown of primary, secondary, and tertiary areas being 1.6 million sqm, 410,000 sqm and 550,000 sqm, respectively. Meanwhile, a new Grade A business park project was handed over to the market in Q3/2023, adding a total GFA of 300,000 sqm.

Cainiao Intelligent Park is located in the core of Future Sci-tech City, adjacent to Jinxing Station (Line 5) and Fengxin Road Station (Line 16). Cainiao Intelligent Park consists of a 200,000 sqm office space for self-use launched in Q1/2023 and a 300,000 sqm office space for lease handed over to the market in Q3/2023. Cainiao Intelligent Park provides tenants with a range of services from partner companies helping them connect marketing, sales and logistics platforms, supply chain and financing services. Tenants can also access beneficial policies from the Yuhang District government including financial support, R&D subsidies, and talent attraction support.

Taiping Financial Tower, located in the Qianjiang New City submarket, comprises four buildings with a total GFA of 96,000 sqm. The project is close to Citizen Center Station (市民中心站) (Line 4 & 7). Taiping Financial Tower is within walking distance of landmark shopping malls and public

service resources including Hangzhou International Conference Center.

RENTS AND VACANCY RATES

The hosting of the Asian Games in September/October and the related disruptions temporarily reduced lease enquiries and site inspection activities, particularly in Qianjiang Century City and Qianjiang New City. Leasing demand was primarily generated by professional services, financial, fast-moving consumer goods and fashion industry tenants. More corporates were looking to take advantage of the soft market to upgrade their premises. The citywide Grade A office vacancy rate increased by 0.7 ppts QoQ to 29.0%.

Leading projects that were able to maintain stable occupancy rates and retain tenants kept rents largely unchanged. Meanwhile, other landlords, especially owners of older developments were faced with increasing competition from new developments and are offering more flexible lease terms to attract occupiers. An increasing number of companies seek to minimize initial capital expenditures when acquiring new office spaces. Landlords are now incorporating comprehensive or partial interior fit-outs into lease arrangements, shifting the emphasis from rental discounts.

Grade A office rents fell 0.5% QoQ to an average of RMB4.6 psm pday. Primary, secondary, and tertiary submarkets saw rents fall by 0.4%, 0.6% and 0.8% QoQ, respectively. Rents in Wulin and Huanglong remained the highest among the submarkets, standing at RMB5.5 and RMB4.9 psm pday respectively.

MARKET OUTLOOK

Xinhu Centre (新湖中心) is expected to be launched in Q4/2023, adding 24,000 sqm to the market.

The holding of the Asian Games and the accompanying infrastructure upgrade have improved the city's domestic and international standing. As economic conditions stabilize, Hangzhou's business environment and the ongoing support of key industries will create new demand and opportunities for the Hangzhou office market.

TABLE 1: Recent Key Leasing Transactions

TENANT	PROJECT	SUBMARKET	GFA (SQ M)
ZTE New Tech	Taiping Financial Tower	Qianjiang New City	4,000
Zhejiang Research Institute of Chemical Industry	Taiping Financial Tower	Qianjiang New City	4,000
Walden International	Huarun Tower	Qianjiang New City	600

Source Savills Research