



Vacancy rates decline

Steadily recovering demand, coupled with an absence of new supply, dragged vacancy rates down by 1.2 ppts in 1H/2024.

- No new Grade A supply was handed over in 1H/2024, leaving the total stock at 2.7 mn sqm.
- Net absorption reached 24,100 sqm in Q2/2024, reflecting an improving business environment. Huanglong and Qianjiang New City contributed the largest net absorption in 1H/2024.
- Recovering demand combined with an absence of supply resulted in vacancy rates falling 0.9 ppt in Q2/2024 to 26.8% down 1.5 ppt YoY.
- Grade A office rents fell 1.5% in Q2/2024, to an average of RMB4.4 psm pday, with primary rents down just 0.7%, underpinned by relatively stable demand.
- Landlords should adjust their strategies to capitalize on opportunities in growth sectors, such as AI and intelligent computing, while mitigating risks associated with industries experiencing slowdowns.
- Hangzhou's event-driven economy, and the linkage of "performance, exhibitions, and travel", is expected to create economic benefits and contribute to increased office demand.

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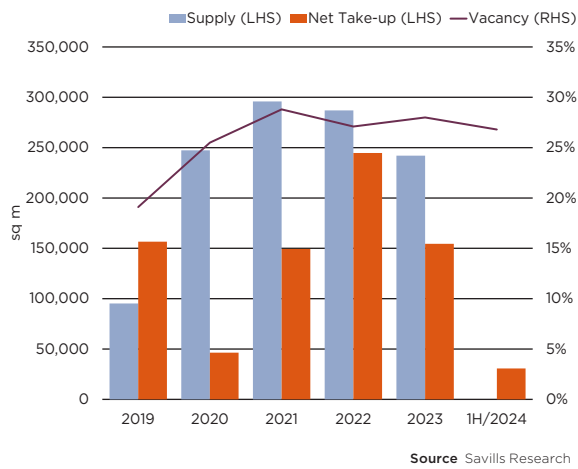
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GRAPH 1: Supply, Net Take-up And Vacancy Rates, 2019 to 1H/2024



MARKET COMMENTARY

Net take-up improved in Q2/2024, showing growth QoQ and YoY. Newer buildings offering preferential lease terms are attracting more relocations, with notable leasing transactions from large insurance services firms. The event industry economy is another area worth watching, bolstered by recent favourable policies that suggest promising industry prospects. In addition to boosting consumption, it is expected to drive growth in upstream and downstream industries and corporate office demand.

Given the increased options for tenants, landlords of existing projects must focus on amenities and services to differentiate themselves. Many simple steps can be taken by existing landlords that are not particularly capital intensive. These include proactive tenant engagement and greater responsiveness and understanding of client needs and wants. Meanwhile, new developments are focusing on creating appealing spaces.

SUPPLY AND STOCK

No new supply entered the market in Q2/2024, keeping the total stock steady at 2.66 million sqm. Wulin, Huanglong, and Qianjiang New City remain the primary markets, accounting for 63% of the total stock. Stable demand in these markets managed to offset negative absorption in the rest of the city over the past six months.

Net absorption reached 24,100 sqm in Q2/2024, reflecting significant QoQ and YoY improvements. Recently launched projects offer more negotiation space in lease terms compared to mature projects, with several large leases (5,000-10,000 sqm) concluded in 1H/2024.

Huanglong and Qianjiang New City contributed the largest net absorption in 1H/2024. Huanglong benefited from rental adjustments, while Qianjiang New City continues to grow rapidly, attracting numerous well-known financial and professional services companies with its comprehensive master plan, excellent accessibility, high-quality buildings, and better supporting amenities. Underpinned by stable demand, Qianjiang New City

experienced the smallest rental decline among the three primary markets (-0.9%) over the past three years, compared to -5.5% citywide, -10.4% in Huanglong, and -7.0% in Wulin.

RENTS AND VACANCY RATES

With no new supply, the market was able to focus on absorbing existing stock. The citywide office vacancy rate fell 1.2 ppts in the first half of the year to 26.8%.

Grade A office rents fell 1.5% QoQ to an average of RMB4.4 psm pday, down 4.3% YoY. Deeper discounts and increased rent-free periods are being offered by landlords, but as all landlords adopt such strategies, differences between projects are reflected in the level of operation, particularly in landlord services. Aside from quick responses to daily client requests, landlords should also consider and meet the needs of multiple tenants, including improved space utilization, community activities, and adoption of new technologies. One project located in a prime location has successfully applied these principles, maintaining an occupancy rate higher than 95% and rents 30-40% above the submarket average over the last three years, despite being more than 10 years old.

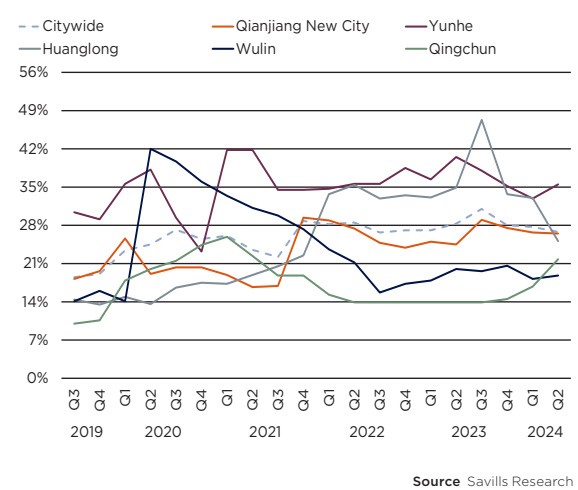
MARKET OUTLOOK

Only one project, the 26,000 sqm New World China Front Tower, is scheduled for completion in 2H/2024. Landlords should seize this opportunity to improve occupancy rates before the arrival of new competition exceeding 500,000 sqm in 2025.

Most new leases are essentially relocations focused on cost savings, with expansion demand limited in size and scope compared to 2-3 years ago. Even when tenants upgrade to Grade A office spaces, the net impact on the broader market is neutral, as companies vacate the equivalent space in the Grade B stock.

Landlords need to be strategic in targeting tenants from growth industries, such as new economy sectors and those with local advantages and government support. Notably, Hangzhou's event-driven economy, and the linkage of "performance, exhibitions, and travel," is expected to create economic benefits and contribute to increased office demand.

GRAPH 2: Grade A Office Vacancy Rates, Q3/2019 to Q2/2024



GRAPH 3: Grade A Office Rental Indices, Q3/2019 to Q2/2024

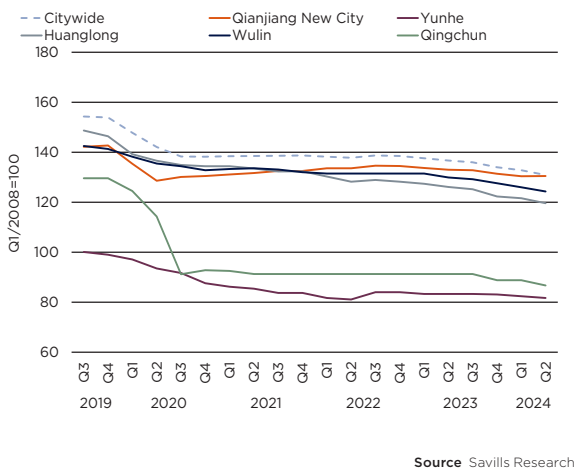


TABLE 1: Notable Leasing Transactions, 1H/2024

TENANT	INDUSTRY	PROJECT	SUBMARKET	GFA (SQM)
SZ Bank	Finance	Wangchao Centre	Qianjiang Century City	3,300
Ganyuan Food	Retail & Trade	GT Land Plaza	Qianjiang New City	3,000
Luneng	Real Estate	Raffles City	Qianjiang New City	1,000

Source: Savills Research