Co-working trend seized Grade A office

The city’s overall vacancy rate declined due to good leasing performance in key projects

- Five new projects were handed over in H2/2018, adding approximately 300,000 sq m of total Grade A office space and bringing city-wide stock to 1.79 million sq m. The largest one was Centre Mansion, located in primary business district Jianshe Avenue.

- 86.1% of new supply was located in Hankou district and the rest was in Wuchang district.

- Several co-working operators rapidly expanded in primary business districts and became the main force for large-scale-leasing during H2/2018.

- Finance, real estate and TMT industries accounted for a large proportion of tenants.

- Due to good leasing performances in new projects, the city-wide net absorption area was 296,000 sq m, up 37.2% year-on-year (YoY) and a record high for Wuhan.

- The overall vacancy rate of Grade A office dropped to 32.9%, down 2.6 percentage points (ppts) YoY in Q4/2018.

- The Grade A office average rent was RMB121.1 per sq m per month during Q4/2018, up 2.0% YoY. The average rent of Hankou Riverside was RMB134.0 per sq m per month, up 4.3% YoY, which was the highest rate across all submarkets.

- Wuhan's Grade A office market will usher in a small supply peak in 2019, with an additional supply of about 900,000 sq m, mainly located in Hankou and Wuchang districts.

- The supply of Grade A office is expected to continue to increase, keeping the vacancy rate high in the next five years.

“A number of properties are expected to enter the Wuhan Grade A office market in 2019, which will intensify competition among projects.”

JAMES MACDONALD, SAVILLS RESEARCH
SUPPLY AND DEMAND

Five new projects were handed over in H2/2018, four of them located in Hankou and one located in Wuchang, adding approximately 300,000 sq m of total Grade A office space and bringing city-wide stock to 1,799 million sq m. Due to good leasing performances in the new projects, the city-wide net absorption was 296,000 sq m, up 37.2% YoY and a record high for Wuhan.

Co-working operators were still the main force for large-scale-leasing. For example, H·Work leased six floors at Oceanwide Wealth Centre. MCENTURY took six floors at CFD and four floors at Centre Mansion. In terms of overall demand, finance, real estate and TMT industries accounted for a large proportion of tenants.

RENTS AND VACANCY RATES

The Grade A office average rent was RMB121.1 per sq m per month during Q4/2018, up 2.0% YoY. Overall vacancy rates dropped by 2.6 ppts YoY to 32.9%.

Jianshe Avenue is known as the “financial street” in Wuhan and offers a mature commercial atmosphere. Its main tenants are from the financial industry. New supply was concentrated in this area in 2H/2018, and due to increased competition, average rents decreased by 1.5% YoY to RMB188.8 per sq m per month. Meanwhile, the vacancy rate increased to 44.2%, up 13.2 ppts YoY.

Zhongnan-Zhongbei Road is the primary business district of Wuchang. Average rents rose steadily to RMB128.0 per sq m per month, up 2.6% YoY. The vacancy rate decreased by 1.5% YoY to 29.3%.

The existing stock in Hangkong Road was gradually absorbed and average rents increased 6.2% YoY to RMB144.0 per sq m per month. The vacancy rate declined to 31.4%. New World Centre Phase III and Heartland 66 are expected to launch onto the market in H2/2019, which will intensify competition in this area.

The average rent of Hankou Riverside was RMB134.0 per sq m per month, up 4.3% YoY, which was the highest rate across all submarkets. The vacancy rate rose 4.3 ppts YoY to 17.0% as new projects were released in H2/2018.

Under the influence of the government’s investment policy, science and technology enterprises are aggregating in Optics Valley, and the market there is quite active. Average rents increased to RMB175.7 per sq m per month, up 5.3% YoY. The vacancy rate fell 13.2 ppts YoY to 16.8%. No new supply is expected in 2019, thus rents in Optics Valley are forecast to rise steadily.

Affected by the recent policy adjustment, average rents of Wuchang Riverside dropped by 7.6% YoY to RMB110.0 per sq m per month. Nevertheless, some projects performed well, contributing to a substantial decrease in the vacancy rate to 34.1%.

The existing stock in Wuhan CBD was further absorbed. The average rent was RMB112.5 per sq m per month, up 8.5% YoY, while the vacancy rate dropped to 37.9%.

MARKET OUTLOOK

Wuhan’s Grade A office market will usher in a small supply peak in 2019, with an additional supply of about 900,000 sq m, mainly located in Hankou and Wuchang. Future projects of note include: Oceanwide Fortune Centre, New World Centre Phase III and Heartland 66. The supply of Grade A office space is expected to continue to increase, keeping the vacancy rate high in the next five years.

Additionally, rents will face downward pressure due to the macroeconomic environment. Owners may reduce actual lease prices by extending rent-free periods to facilitate transactions.

### TABLE 1: Notable Leasing Transactions, 2H/2018

<table>
<thead>
<tr>
<th>TENANT</th>
<th>PROJECT</th>
<th>BUSINESS AREA</th>
<th>GROSS FLOOR AREA (SQ M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>H Work</td>
<td>Oceanwide Wealth Centre</td>
<td>Wuhan CBD</td>
<td>12,000</td>
</tr>
<tr>
<td>MCENTURY</td>
<td>CFD</td>
<td>Jianshe Avenue</td>
<td>9,200</td>
</tr>
<tr>
<td>MCENTURY</td>
<td>Centre Mansion</td>
<td>Jianshe Avenue</td>
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</tr>
<tr>
<td>Zhongliang Holding Group</td>
<td>Wuhan Poly Plaza</td>
<td>Zhongnan Zhongbei Road</td>
<td>1,600</td>
</tr>
</tbody>
</table>

Source: Savills Research