Grade A office demand falls sharply

Citywide vacancy rates increased in Q2/2019 as the market welcomed one new project.

- Influenced by macroeconomic factors, growth slowed in Nanjing’s Grade A office market. Many tenants cancelled their plans for relocation or even reduced their leasing area.

- IFC in Hexi New City was handed over in Q2/2019, increasing the total Grade A office stock to 963,790 sq m.

- Citywide vacancy rates increased by 7.7 percentage points (ppts) quarter-on-quarter (QoQ) to 18.8%.

- Grade A office rents averaged RMB4.9 per sq m per day, down 2.0% QoQ.

- Educational and professional services companies were the key demand drivers for Grade A office space during Q2/2019.

- Vacancy levels in Xinjiekou increased to 12.5%, up 5.0 ppts QoQ, while rents decreased by 2.2% QoQ to RMB5.2 per sq m per day in Q2/2019.

- Vacancy levels in Gulou increased to 9.6%, up 4.0 ppts QoQ. Rents decreased by 2.1% QoQ to RMB4.7 per sq m per day in Q2/2019.

- Vacancy levels in Hexi New Town increased to 27.0% and rents decreased to RMB4.8 sq m per day in Q2/2019.

- Several buildings, such as GE-World, are scheduled to open in the next two years and their arrival will reshape the overall market.

“The launch of IFC enhanced the quality of the office market in Hexi New Town, and the area has attracted companies from Xinjiekou looking for more affordable office options.”

JAMES MACDONALD, SAVILLS RESEARCH
SUPPLY AND DEMAND

Only one project entered the market in Q2/2019—IFC, located in Hexi New Town, which added 53,819 sq m of supply. As a result, total citywide Grade A office stock increased to 963,790 sq m. Educational and professional services companies were the key drivers for Grade A office space during Q2/2019, while financial companies expanded at a slower pace.

Major leasing transactions in Q1/2019:
- KPMG leased 2,200 sq m in Deji Plaza Phase II (德基二期) in Xinjiekou.
- IDP Education leased 600 sq m in Nanjing IFC (南京国际金融中心).
- WTI leased 500 sq m in Asia Pacific Tower (亚太商务楼).
- Huafa Group leased 700 sq m in Sunnyworld Centre Phase I (新地中心一期).

VACANCY RATES AND RENTS

Citywide vacancy rates increased by 7.7 ppts QoQ to 18.8%, and the Grade A office average rent decreased by 2.0% QoQ to RMB4.9 per sq m per day.

Many P2P companies have been on the ropes due to the general slowdown in the economy, and this is especially true for companies in Xinjiekou. At the same time, many companies in other industries cancelled their relocation plans or even reduced their leasing area in current projects. Vacancy levels in Xinjiekou increased significantly to 12.5%, up 5.0 ppts QoQ. Rents decreased by 2.2% QoQ to RMB5.2 per sq m per day in Q2/2019.

No new projects have opened in the Gulou area in the past three years but, with the overall slowdown in the economy, vacancy levels increased by 4.0 ppts QoQ to 9.6%. Rents decreased by 2.1% QoQ to RMB4.7 per sq m per day in Q2/2019.

The launch of IFC marked an enhancement of the overall office market in Hexi New Town. Projects in the area currently offer a better working environment with lower rent compared to buildings in Xinjiekou. Hexi New Town’s attractiveness has improved significantly, and the area is satisfying the leasing demands of companies leaving Xinjiekou. Vacancy levels in Hexi New Town increased markedly by 13.9 ppts QoQ to 27.0% because of the launch of IFC, while rents decreased to RMB4.8 sq m per day in Q2/2019.

MARKET OUTLOOK

Many high-quality projects will launch in Hexi New Town in the future. With new projects opening in Hexi CBD, Nanjing is developing two solid areas for high-quality office real estate. GE-World is scheduled to enter the market in the second half of 2019, with a GFA of 240,000 sq m.

However, thanks to these new projects, the citywide average vacancy rate is expected to increase. And, with uncertainties in the national economy lingering, market demand is forecast to remain weak for the rest of the year.

TABLE 1: New Projects in 2H/2019

<table>
<thead>
<tr>
<th>PROJECT</th>
<th>GFA (SQ M)</th>
<th>BUSINESS DISTRICT</th>
<th>DEVELOPER</th>
</tr>
</thead>
<tbody>
<tr>
<td>GE-World</td>
<td>240,000</td>
<td>Hexi New Town</td>
<td>Golden Eagle</td>
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Source: Savills Research