Grade A office demand remains subdued

Citywide vacancy rate persisted at historically high level while rents held steady.

- No projects launched in Q3/2019 and the total Grade A office stock remained at 963,790 sq m. GE World is scheduled to launch onto the market in Hexi New Town in Q4/2019, with a GFA of 83,000 sq m.

- Citywide vacancy rates decreased by 2.1 percentage points (ppt) quarter-on-quarter (QoQ) to an average of 16.6%.

- Grade A office rents averaged RMB4.9 per sq m per day, up 0.1% QoQ.

- Financial, real estate and professional services companies were the key demand drivers for Grade A office space during Q3/2019.

- Many educational companies were looking for new premises due to the new fire-safety policy issued by the Nanjing government.

- Vacancy levels in Xinjiekou decreased to 12.1%, down 0.4 of a ppt QoQ, while rents increased by 0.3% QoQ to RMB5.2 per sq m per day in Q3/2019.

- Vacancy levels in Gulou increased to 10.1%, up 0.5 of a ppt QoQ. Rents remained stable at RMB4.7 per sq m per day in Q3/2019.

- Vacancy levels in Hexi New Town decreased to 24.3%, down 2.8 ppt QoQ and rents increased by 0.3% to RMB4.8 sq m per day in Q3/2019. Potential tenants for the area stayed on the sidelines, waiting for GE World to enter the market in Q4/2019.

“GE World is scheduled to launch onto the market in Q4/2019, potentially helping Hexi New Town to pull more companies from Xinjiekou.”

JAMES MACDONALD, SAVILLS RESEARCH
SUPPLY AND DEMAND

No new projects were launched in Q3/2019 and the total Grade A office stock remained at 963,790 sq m. Financial, real estate and professional services companies were the key drivers for Grade A office space during Q3/2019. Many educational companies were looking for new premises due to the new fire-safety policy, which requires the floor area of education companies occupying greater than 400 sq m to choose lower floors in buildings and be equipped with dedicated, independent fire escapes.

Major leasing transactions in Q3/2019:
- China Construction Eighth Engineering Division Corp. leased 1,800 sq m in Sunnyworld Centre in Hexi New Town.
- CFITC leased 400 sq m in IFC in Hexi New Town.
- Western Securities leased 500 sq m in Asia Pacific Tower.
- China 19th Metallurgical Corp. leased 422 sq m in Nanjing Youth Olympic Petronas Twin Towers.

VACANCY RATES AND RENTS

Citywide vacancy rates decreased by 2.1 ppts QoQ to 16.6%, and the Grade A office average rent increased by 0.1% QoQ to RMB4.9 per sq m per day.

Overall, Xinjiekou market remained stable; the area did not see many changes in tenant mix, even if many educational companies were looking for new premises due to the new fire-safety policy. Vacancy levels in Xinjiekou decreased 0.4 of a ppt QoQ to 12.1%. Rents remained stable at RMB5.2 per sq m per day in Q3/2019.

No new projects have opened in the Gulou area in the past eight years, but with its superior location, projects in the area still benefit from strong demand. Vacancy levels increased by 0.5 of a ppt QoQ to 10.1%. Rents remained stable at RMB4.7 per sq m per day in Q3/2019.

GE World is scheduled to launch onto the market in Hexi New Town in Q4/2019, so potential tenants for the area have stayed on the sidelines until the new launch. The new supply should increase the vacancy rate in Hexi New Town and rents might dip in the short term. Vacancy levels in Hexi New Town decreased by 2.8 ppts QoQ to 24.3%, while rents increased by 0.3% QoQ to RMB4.8 sq m per day in Q3/2019.

MARKET OUTLOOK

With GE World and WTC opening in Hexi New Town in the near future, the area will likely become a new business centre and greatly improve the status of Xinjiekou. On the other hand, projects in emerging areas will continue to attract companies and enhance the competitiveness of Nanjing’s office market. Developers are expected to launch some preferential policies to deal with the increased competitiveness amongst projects in the city.