Office market accelerates absorption

The Grade A office market saw an absence of new projects, and the leasing demand witnessed a rebound.

- Tianjin’s Grade A office market saw a supply drought in Q2/2021, leaving the total stock at 1.53 million sq m GFA by the end of the quarter.

- Leasing demand witnessed a turnaround during Q2/2021, with finance and real estate sectors being the main demand drivers.

- The average vacancy rate edged down by 1.6 percentage points (ppts) quarter-on-quarter (QoQ) and year-on-year (YoY) to 34.5%, hitting a two-year record low.

- Net absorption recorded a positive figure of 23,486 sq m thanks to rising leasing demand and active transaction activities.

- Grade A office average rent remained under pressure and dropped to RMB113.6 per sq m per month, with the rental index falling 1.6% QoQ and 12.9% YoY.

- Most areas recorded positive net absorption except Nanjing Road due to many tenants terminating their leases. As an emerging area, New Badali Area achieved stable take-up.

- Hopson Fortune Plaza Tower A in Haihe Riverside is scheduled to debut in Q3/2021, contributing a new supply of nearly 50,000 sq m GFA.

“Tianjin’s office market continued to absorb existing vacant space as no new projects launched in Q2/2021. The vacancy rate hit a two-year low thanks to the rebounding of leasing demand. Tianjin’s Grade A office market is expected to see more leasing activities with the entry of new projects in the next quarter.”

VINCENT LI, SAVILLS RESEARCH
SUPPLY AND DEMAND

The Grade A office market saw no new projects launched, keeping the total stock at 1.53 million sq m GFA by the end of Q2/2021. Leasing transactions of the Grade A office saw a rebound in Q2/2021. With the release of demand from new leases, expansions and relocations, the net absorption recorded 23,486 sq m. Leasing activities in New Badali Area were active thanks to its complete supporting facilities and relatively low rents. New Badali Area attracted many tenants to relocate and recorded a net take-up of 9,428 sq m. The main transactions included CCCG Real Estate leasing another 2,000 sq m in China Overseas Fortune Centre. In addition, leasing demand from the finance sector also witnessed an increase, such as Tianjin Bank occupying 1,500 sq m in Regent International Building, Youyi Road Area and Taiping Insurance Group acquiring Shuangying Plaza in New Badali Area.

RENTS AND VACANCY RATES

The absence of new supply and good absorption of office space led to a drop-off in the average vacancy rate. The citywide vacancy rate of Grade A office fell 1.6 ppts QoQ and YoY to 16.8%, hitting a two-year record low. Rental levels in Tianjin’s submarkets were still under pressure. The average rent for the Grade A office market contracted to RMB113.6 per sq m per month, with the rental index down 1.6% QoQ and 12.9% YoY.

The vacancy rate of Nanjing Road saw an increase of 1.2 ppts QoQ to 16.8% as some technology companies and financial enterprises didn’t renew their leases. However, vacancy rates of other submarkets dropped thanks to active leasing demand. New Badali Area, with its well-developed supporting facilities and relatively low rents, outperformed the market, with its vacancy rate dropping 5.9 ppts QoQ and 31.9 ppts YoY to 41.6%. The vacancy rates of other decentralised areas dwindled 4.2 ppts QoQ and 6.4 ppts YoY to 33.1%. Haihe Riverside and Xiaobailou saw their vacancy rates hold steady at 39.3% and 51.3%, respectively.

The rental index of New Badali Area witnessed a pronounced decline of 14.4% QoQ and 17.1% YoY, which was attributed to rental reduction offered by most landlords. The rental level in this area slipped to RMB93 per sq m per month. Rent in Nanjing Road remained unchanged at RMB124.8 per sq m per month, which was the highest level across the city. Haihe Riverside and Xiaobailou achieved rents of RMB124 per sq m per month and RMB120 per sq m per month, with the rental index climbing 1.6% QoQ and 1.4% QoQ, respectively.

MARKET OUTLOOK

A new project, Hopson Fortune Plaza Tower A in Haihe Riverside, is expected to make its entry in Tianjin’s Grade A office market in Q3/2021, which will contribute a new supply of nearly 50,000 sq m GFA. The new supply will further push up citywide vacancy rates and consequently put pressure on landlords. Competition is expected to be fierce, and landlords are likely to adopt flexible leasing strategies to lower rental levels, which will benefit tenants.

However, driven by the initiatives in the Beijing-Tianjin-Hebei integration plan, Tianjin will build a development system based on manufacturing, shipping, technology and financial industries during the 14th Five-Year Plan period. Demand for office leasing is anticipated to see a gradual release, which will ease high vacancies, and the overall rent is expected to stabilise.

## TABLE 1: Grade A Office New Supply, Q3/2021

<table>
<thead>
<tr>
<th>PROJECT</th>
<th>SPACE (SQ M)</th>
<th>SUBMARKET</th>
<th>USAGE</th>
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</thead>
<tbody>
<tr>
<td>Hopson Fortune Plaza Tower A</td>
<td>49,700</td>
<td>Haihe Riverside</td>
<td>For Rent</td>
</tr>
</tbody>
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Source: Savills Research