The office market sees an absence of supply

The “Double Reduction” policy triggered an adjustment in the Grade A office leasing market.

- Tianjin’s Grade A office market saw an absence of supply in Q3/2021, leaving the total stock at 1.53 million sq m GFA by the end of Q3/2021.

- Net absorption recorded a negative figure of -11,897 sq m.

- Leasing demand of Grade A office was slow during Q3/2021. Affected by the policy, companies in the education sector were forced to withdraw from their tenancy agreements. However, the consulting sectors’ performance was exceptional, being the main demand driver during the quarter.

- The average vacancy rate edged up by 0.8 of a percentage point (ppt) quarter-on-quarter (QoQ) and down by 1.3 ppts year-on-year (YoY) to 35.3%.

- Grade A office average rent stayed stable, reaching RMB113.8 per sq m per month, with the rental index inching up by 0.4% QoQ though dropping 5.7% YoY.

- Most areas recorded positive net absorption except Nanjing Road, resulting from the numerous tenants terminating their leases. As an emerging area, New Badali Area saw stable take-up.

- Hopson Fortune Plaza Tower A in Haihe Riverside is scheduled to debut in Q4/2021, contributing a new supply of nearly 50,000 sq m GFA.

“Office building landlords in Tianjin have adjusted their tenant mixes based on new government regulations and the changing business landscape in the city.”

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 Q3/2021.

The net absorption recorded a negative figure of -11,897 sq m due to the crackdown on the education and tutoring sectors. Haihe Riverside recorded a net take-up of 3,336 sq m, attracting many tenants to relocate thanks to its complete supporting facilities and beautiful river view. The main transactions included Woai Wojia occupying over 2,000 sq m in Yanlord Riverside Plaza located in Haihei Riverside Area.

RENTS AND VACANCY RATES
Demand from the internet and high-end manufacturing sectors were released, even though the office market saw a decrease in supply levels as the “Double Reduction” policy took effect. The citywide vacancy rate of Grade A office edged up by 0.8 of a ppt QoQ but fell 1.3 ppts to 35.3%. The vacancy rate of Nanjing Road moved up by 4 ppts QoQ to 20.8% as education and tutoring sectors terminated their tenancy agreements. Haihei Riverside and New Badali saw a rising demand, moving their vacancy rate to 38.6% and 40.9%, both a dip of 0.7 of a ppt QoQ.

The average rent for the Grade A office market stood at RMB113.8 per sq m per month, with the rental index up 0.4% QoQ and down 5.7% YoY. Landlords of some projects in New Badali increased rentals due to good absorption. The rental level in this area rose to RMB102 per sq m per month, with the rental index lifting 9.7% QoQ though dropping 12.4% YoY. Rent in Nanjing Road remained stable at RMB123.8 per sq m per month, which was the highest level across the city. Haihe Riverside and Xiaobailou achieved rents of RMB113.2 per sq m per month and RMB116.7 per sq m per month, with the rental index shrinking 0.4% QoQ and 3% QoQ, respectively.

MARKET OUTLOOK
A new project, Hopson Fortune Plaza Tower A in Haihe Riverside, is expected to enter Tianjin’s Grade A office market in Q4/2021, which will bring a new supply of nearly 50,000 sq m GFA. The new supply may further push up citywide vacancy rates, and the lingering effect of the “Double Reduction” policy is likely to generate pressure on the absorption of office space and consequently trigger fiercer competition in the city. Therefore, seizing opportunities, looking for leasing demand from emerging sectors and adjusting rental strategy are all crucial to the development of the Grade A office market in Tianjin.

Recently, Tianjin’s government has issued a series of policies and measures related to tax preference and service optimisation to enhance the commercial environment. In the future, the progressive increase of market demand will help ease the high vacancy pressure, and the overall market is likely to develop at a steady pace.