Leasing demand remains weak
Quarterly net absorption hits a record low.

- There was no new supply in the market in Q2/2020. Due to COVID-19, projects that originally planned to launch in 1H/2020 were postponed, keeping stock at 1.9 million sq m.
- By the end of Q2/2020, work resumption rate reached 90%, but market enquiries had not recovered to pre-epidemic levels.
- Information technology, consumer services and education, and business services were the top three demand drivers, accounting for 17.6%, 16.7% and 15.9%.
- The withdrawal areas of real estate and traditional finance accounted for 16.1% and 15.5% respectively, ranking the top two in all withdrawal industries.
- The secondary leasing market has been hit hard by the epidemic, and several third-party space operator terminated their leasing agreements or reduced their leasing areas.
- The decline in leasing demand and the increase in withdrawals caused negative net absorption, reaching -13,000 sq m citywide in Q3/2020, which was a record low for a single quarter in the past fifteen years. The overall vacancy rate rose 0.7 of a percentage point (ppt) quarter-on-quarter (QoQ) to 34.3%.
- Landlords reduced the rent to improve the occupancy rate. Citywide average rent dropped to RMB108.8 per sq m per month while the rental index declined 5.1% QoQ.

“The epidemic has come under control in Wuhan, and the operation of Grade A office market has gradually normalised. But, leasing demand remained weak after the epidemic. Industries related to online service and information technology led the recovery in demand, while overall market activity is not expected to rebound during 2020.”

JAMES MACDONALD, SAVILLS RESEARCH
SUPPLY AND DEMAND

There was no new supply in the market in Q2/2020. Due to the COVID-19 outbreak, all projects that were originally planned to launch in 1H/2020 were postponed, keeping stock at 1.9 million sq m.

By the end of Q2/2020, work resumption rate reached 90%, but market enquiries have not recovered to pre-epidemic levels. Many landlords said that enquiries were less than 50% of the same period last year.

Regarding leasing demand, information technology, consumer service and education, and business services drove leasing market, accounting for 17.6%, 16.7% and 15.9%, respectively, of new leases. Traditional education and entertainment sectors were severely affected by the epidemic, while the online education, games and instant video sectors developed beneficially. Several information technology companies expanded during 1H/2020. The leasing demand of consumer service and education companies has increased, and the majority came from education and training companies expanding their leases. The epidemic accelerated the integration of online and offline resources for the education industry, which contributed to stable growth in office leasing demand from that sector. The demand of business services has also risen steadily, with more than 60% of demand coming from law firms.

Due to the epidemic, some tenants terminated their leases in advance, which has proven to be a new normal in Wuhan’s office market. The change in the office market has also ushered in a new withdrawal boom. The reshuffle of real estate and traditional financial industries were particularly obvious. The withdrawal areas of these two industries accounted for 16.1% and 15.5%, respectively, ranking the top two among all withdrawal industries. Startup technology companies also witnessed a withdrawal boom, with the information technology industry accounting for 12.8% of the withdrawal area, ranking the third.

The secondary leasing market was hit hard after the epidemic, and several third-party space operators terminated their leases early or reduced leasing areas. The turnover rate of existing space significantly decreased since the epidemic outbreak happened.

RENTS AND VACANCY RATES

The decline in leasing demand and the increase in withdrawals caused the net absorption to fall -13,000 sq m citywide in Q2/2020, which was a record low for a single quarter in the past fifteen years. The overall vacancy rate rose 0.7 of a ppt QoQ to 34.3%. Faced with the limited leasing demand, some landlords reduced their rent to improve the occupancy rate. More than half of the landlords have introduced rent reduction or rent exemption policies. Some landlords will extend the rent-free period to enhance customer loyalty if tenants renew leasing contracts within the year. By the end of Q2/2020, citywide average rent dropped to RMB108.8 per sq m per month while the rental index declined 5.1% QoQ. Rents are expected to fall continuously during the year. The annual decline in 2020 is expected to reach a record high.

MARKET OUTLOOK

Looking forward to 2H/2020, several high-quality projects including Xi ATELIER and SHANGRI-LA CENTRE are expected to launch in the market, and the epidemic is expected to continue to affect leasing demand. With the increasing downward pressure of the economy, it is expected that the demand for new leasing will not rebound significantly in 2020. However, online services, information technology and healthcare industries will take advantage of this opportunity to promote the further growth of their leasing demand.

The tenant side is expected to be the big beneficiaries of the market. Some landlords tried to fill vacant space with low rents, but the continuous rent reduction cannot gain an advantage in the long-term and creates a price war of falling rents. Instead, improving management capabilities and supporting services will enable landlords to gain the initiative in the market.

### TABLE 1: Selection Of Leasing Transactions, 1H/2020

<table>
<thead>
<tr>
<th>TENANT</th>
<th>INDUSTRY</th>
<th>PROJECT</th>
<th>BUSINESS AREA</th>
<th>GROSS FLOOR AREA (SQ M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yuanfudao</td>
<td>Online Education</td>
<td>New World Optical Valley T1</td>
<td>Optics Valley</td>
<td>4,300</td>
</tr>
<tr>
<td>Poly Voly</td>
<td>Information Technology</td>
<td>Poly International Centre</td>
<td>Optics Valley</td>
<td>1,400</td>
</tr>
<tr>
<td>DDON</td>
<td>Real Estate</td>
<td>Zheshang Tower</td>
<td>Jianshe Avenue</td>
<td>1,600</td>
</tr>
</tbody>
</table>

### Note

Source: Savills Research