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HEAVY NEW SUPPLY TO KEEP RENTS UNDER PRESSURE

















East China Tier 2 Cities Office Market Update H2 2018

Summary & Recommendations

Due to a subdued economy, office rents in most East China Tier 2 cities were under pressure in H2 2018. However, backed by firm demand from the TMT sector, Hangzhou outperformed Suzhou, Nanjing and Wuhan with 0.5% HOH growth

Rental performance should diverge over 2020-23. Nanjing and Wuhan will likely go flat or decline under continued heavy supply, whereas Suzhou and Hangzhou should grow steadily.

We recommend Qianjiang New City in Hangzhou as the top pick for new tenants, since mature amenities, favourable rents and availability of quality space can be secured. We advise landlords to improve the brand mixes for their offices' retail podium so as to attract or retain tenants.

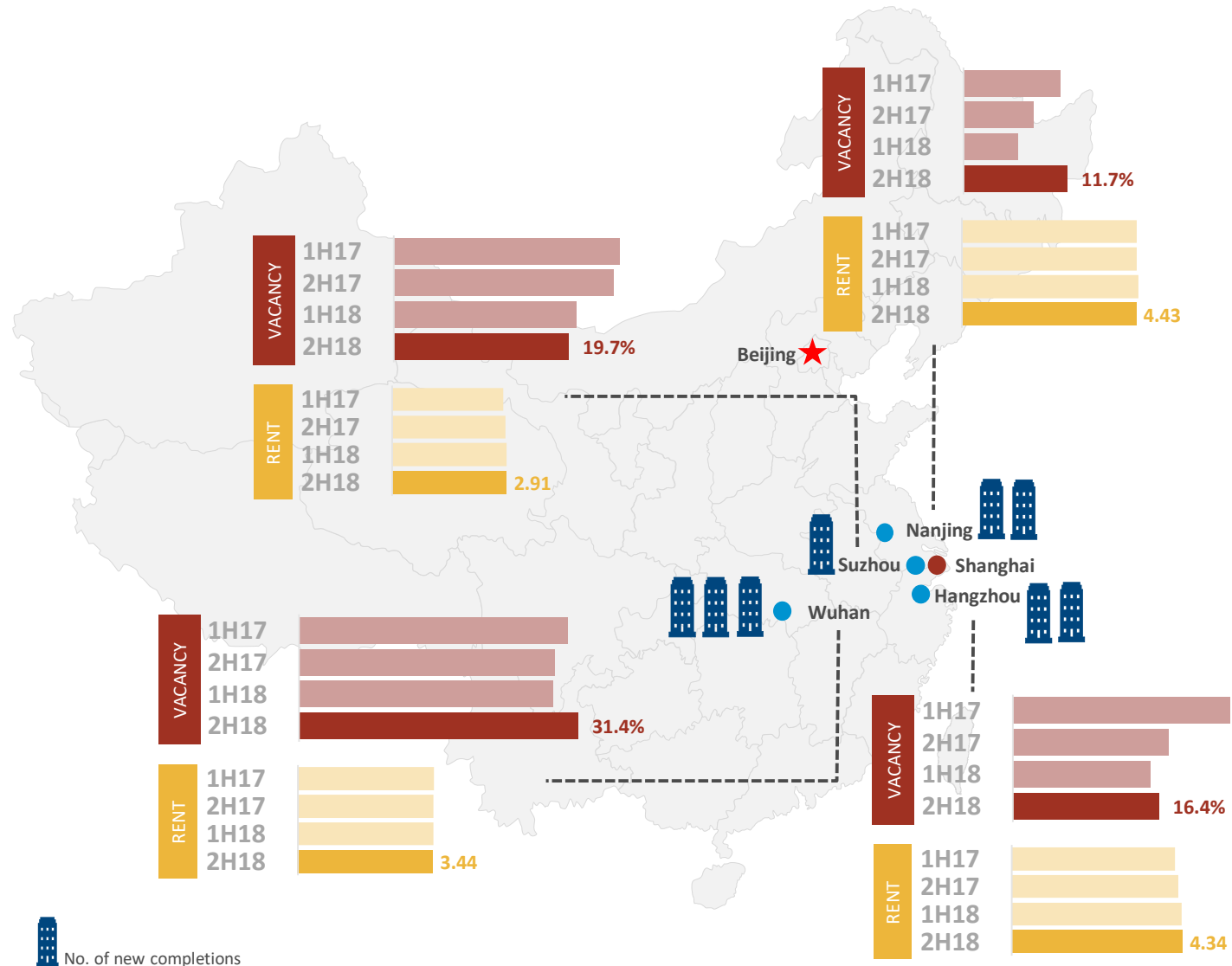
		H2 2018	Full Year 2019	2018-23 Annual Average
	Demand	 235,000 sq m	 623,000 sq m	 640,000 sq m
	Supply	 491,000 sq m	 1.0 million sq m	 920,000 sq m
	Rent	 HOH / End H2 -0.1% RMB3.77 (psm per day)	 YOY / End 2019 -0.4% RMB3.75 (psm per day)	 Annual Average Growth 2018-23 / End 2023 0.5% RMB3.80 (psm per day)
	Vacancy	 1.8 pps 20.7%	 1.9 pps 22.6%	 0.8 pps 24.5%


Source: Colliers International

Note: The indicator within above sectors refer to the East China Tier 2 Cities of Nanjing – Suzhou – Hangzhou – Wuhan as a whole, not to any particular market in the region

USD1 to RMB6.86 as of end-2018. 1 sq m = 10.76 sq ft

Figure 1: East China Tier 2 Cities 2H 2018 Market Review



 No. of new completions
 * Unit of rent: RMB psm per day

Source: Colliers International

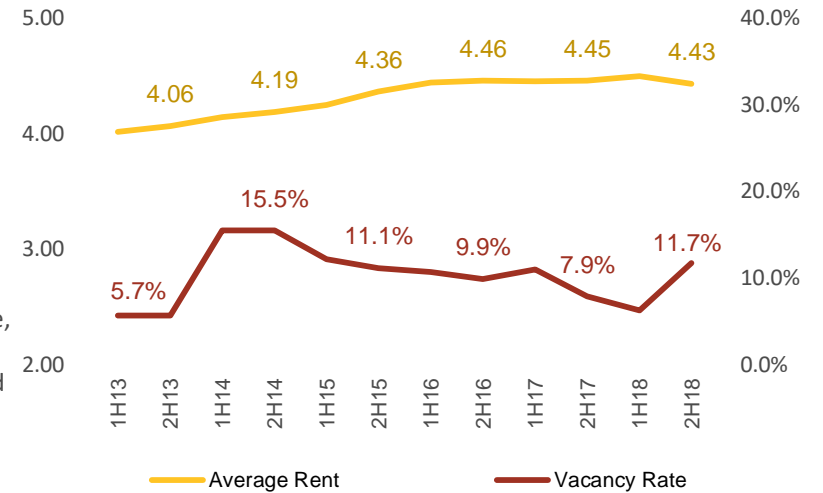
NANJING REVIEW AND OUTLOOK



In H2 2018, the slowing economy and the retreat of the P2P lending sector drove down office demand, and the competition by landlords to attract tenants tended to increase significantly in Nanjing’s office market. In addition, two new buildings, Suning Global International Center and Nanjing International Youth Cultural Centre, with a total GFA of 118,000 sq metres (1.27 million sq feet), were added to the Hexi submarket. As a result, overall vacancy rate was lifted by 5.5 pps to 11.7% and the city’s average rent declined by 0.6% yoy to RMB 4.43 (USD0.65) psm per day.

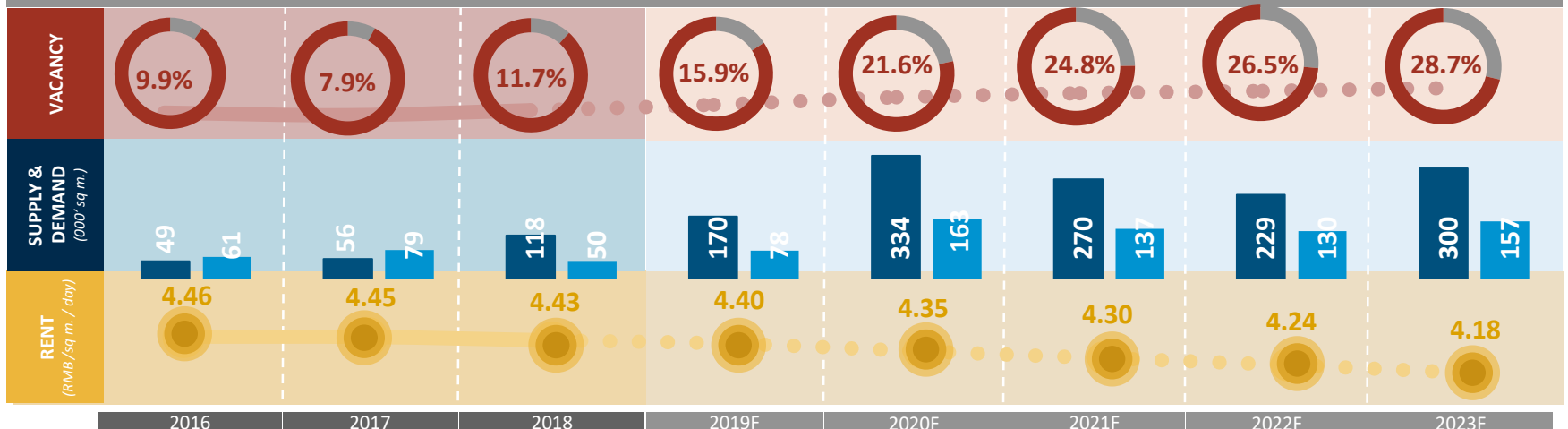
Looking forward, although demand should stay healthy over 2019 to 2023, an annual average of 260,000 sq metres (2.8 million sq feet) of new supply is likely to keep the vacancy climbing and thus push down average rents. We expect the rent to decline by 1.1% annually over 2019–2023.

Figure 2: Nanjing Office Vacancy Rate and Average Rent (2013 - 2018) (RMB per sq metre per day)



Source: Colliers International

Figure 3: Nanjing Office Market Outlook



Source: Colliers International

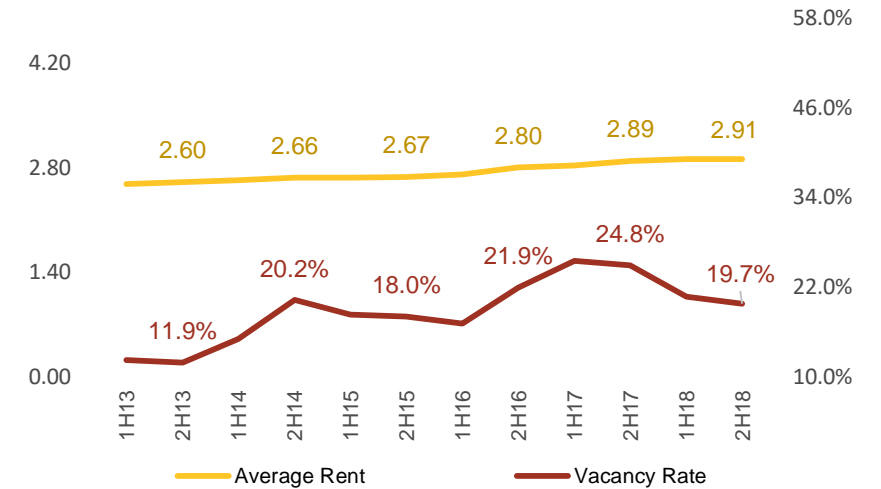
SUZHOU REVIEW AND OUTLOOK



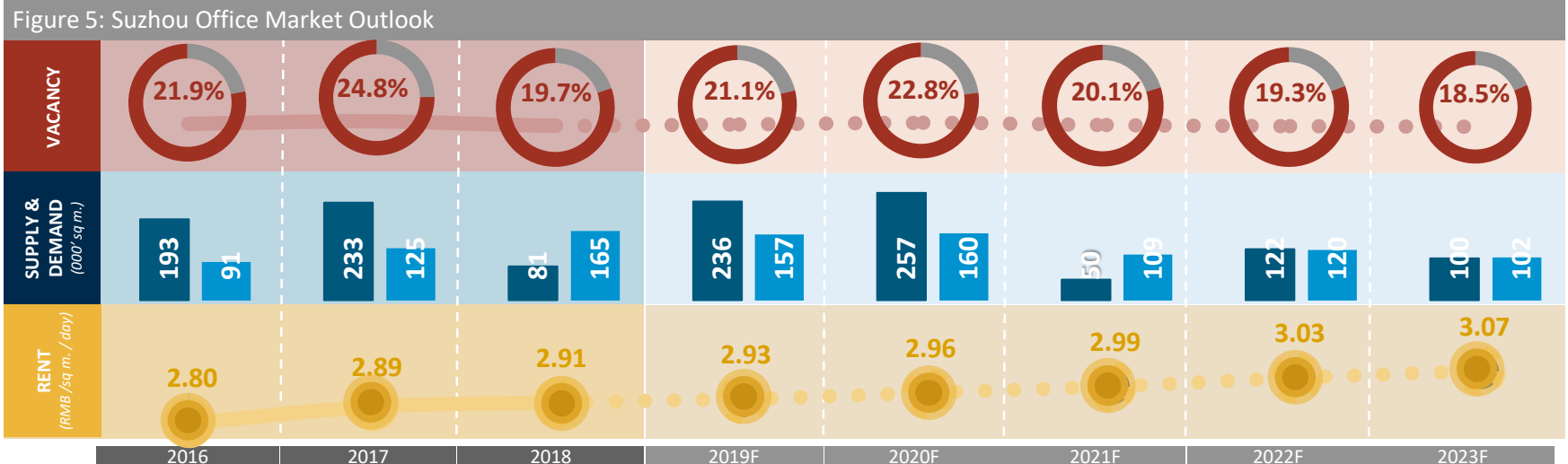
Demand from flexible workspace operators in Suzhou remained firm during H2 2018, driving the average rent up 0.8% yoy to RMB2.91 (USD0.42) psm per day. Only Suzhou Center Tower B, with a GFA of 48,000 sq metres (516,670 sq feet), was completed in H2 2018. According to Suzhou Industrial Park Administrative Committee, one en-bloc transaction was recorded during H2 2018. Shanghai Bank's acquisition of 16,200 sq metres (174,375 sq feet) of office space at Suzhou Trirun Fortune Plaza for an undisclosed transaction amount.

Despite the supply influx of 493,000 sq metres (5.31 million sq feet) over 2019-2020, demand from the high-end manufacturing and trading sectors should remain healthy, keeping the leasing market active. The city's average rent should therefore stay buoyant with an average annual growth rate of 1.1% over 2019-2023.

Figure 4: Suzhou Office Vacancy Rate and Average Rent (2013 - 2018) (RMB per sq metre per day)



Source: Colliers International



Source: Colliers International

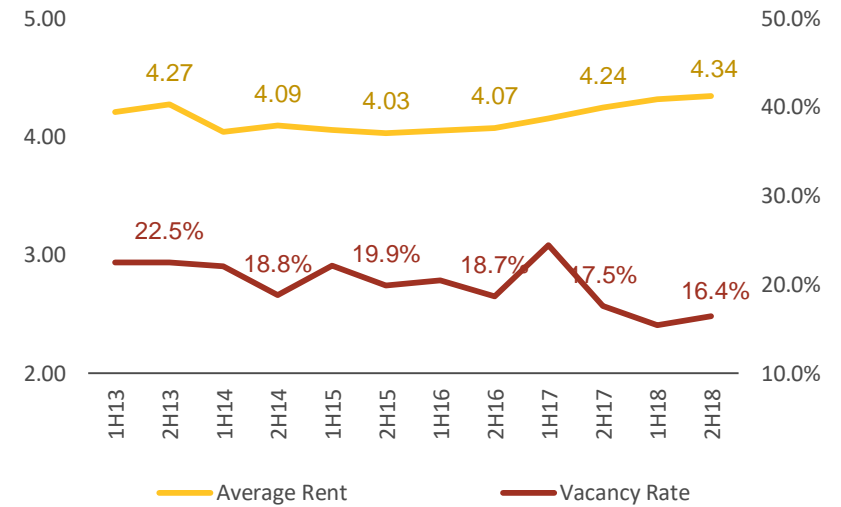
HANGZHOU REVIEW AND OUTLOOK



In H2 2018, despite financial tightening measures and the P2P lending sector's retreat from prime offices, demand from the TMT sector, including e-commerce, stayed firm. The city's average rent rose by 2.3% yoy to RMB4.34 (USD0.63) psm per day. The two new completions of Huanglong Vanke Center II and GT Land, with a total of 143,000 sq metres GFA (1.54 million sq feet), pushed up the city's vacancy rate slightly by 1.0 pps hoh to 16.4%.

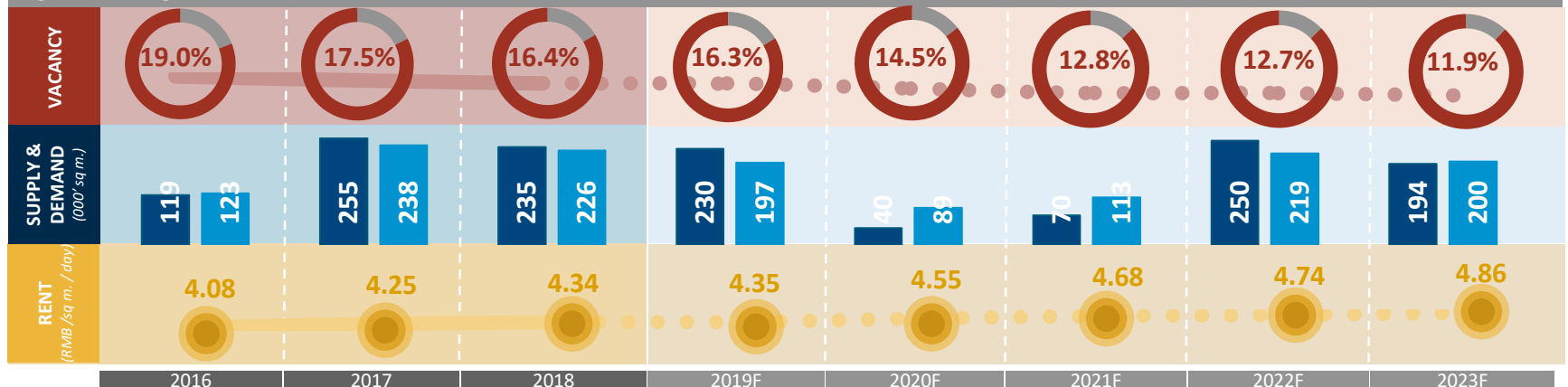
We expect demand from the TMT sector will stay healthy over 2019-2023, and will probably be constrained by limited supply during 2020-2021. Although the market will likely receive a new supply wave of over 344,000 sq metres (3.60 million sq feet) within 2022-2023, driven by sustained demand, the vacancy rate should still decline steadily over 2019-2023, and the average rent should continue to rise by 2.3% annually over the same period.

Figure 6: Hangzhou Office Vacancy Rate and Average Rent (2013-2018) (RMB per sq metre per day)



Source: Colliers International

Figure 7: Hangzhou Office Market Outlook



Source: Colliers International

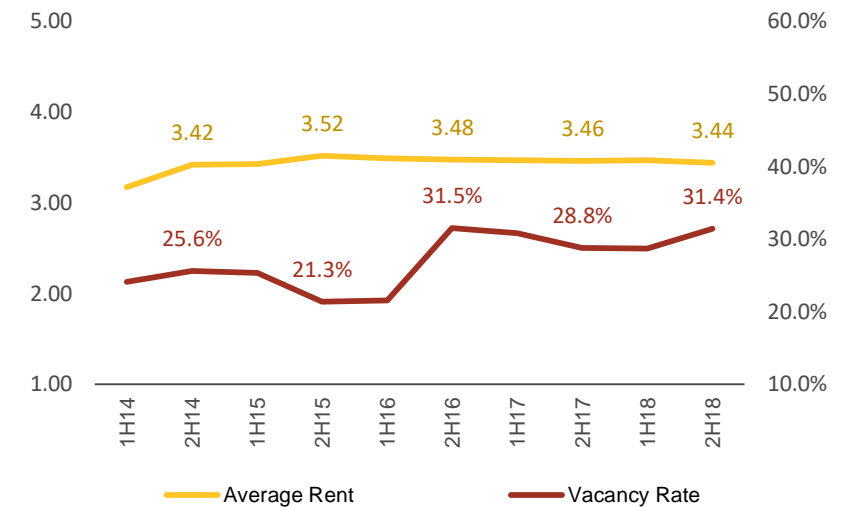
WUHAN REVIEW AND OUTLOOK



The large scale of the P2P lending sector’s retreat had a significant impact on Wuhan office demand during H2 2018, causing the city’s net take-up to decline by over 60% hoh. In addition, 181,000 sq metres (1.95 million sq feet) of new supply was added to the market. As a result, the vacancy rate climbed by 2.8 pps to 31.4%. Some landlords were pressured into giving incentives to attract tenants, and the city’s average rent therefore dropped by 0.6% yoy to RMB3.44 (USD0.50) psm per day.

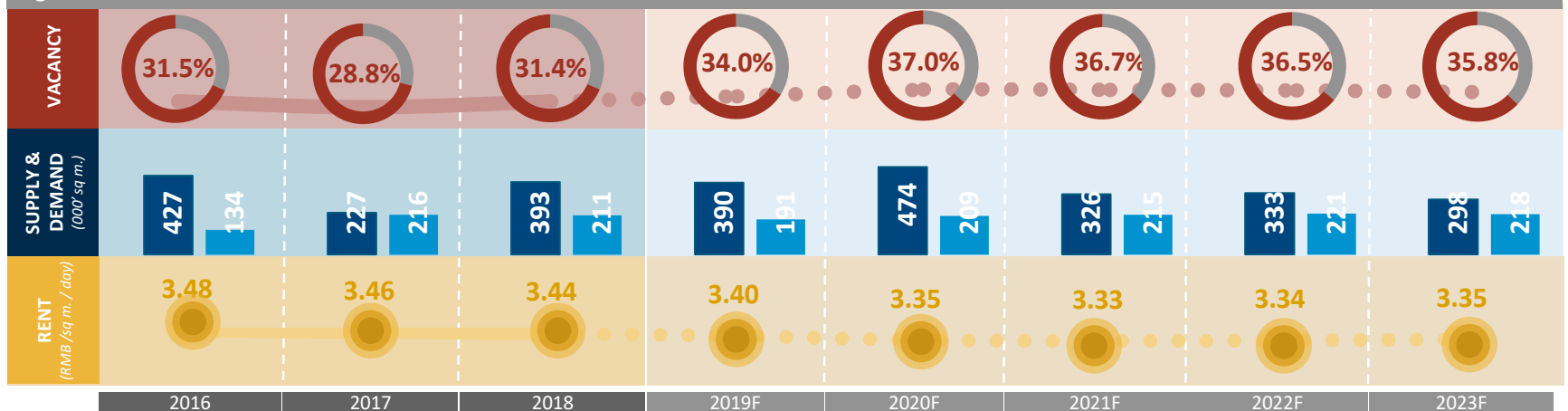
Although demand from tech and high-end manufacturing will likely stay healthy, an annual average of 364,000 sq metres (3.92 million sq feet) of new supply is scheduled to be completed over 2019-2023. We foresee the city’s vacancy rate hovering at around 35%, while rent should decline by 0.5% annually over the same time frame.

Figure 8: Wuhan Office Vacancy Rate and Average Rent (2014 - 2018) (RMB per sq metre per day)



Source: Colliers International

Figure 9: Wuhan Office Market Outlook



Source: Colliers International

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