FIERCE COMPETITION LED BY HEAVY SUPPLY

Xi Chen
Senior Analyst | Research | North China
+86 10 8518 1633
Xi.Chen@colliers.com

Summary & Recommendations

In H2 2018, despite stable demand, the launch of two new projects pulled down the average rent of Tianjin's prime office market and pushed up the overall vacancy rate to 34.9%. In 2019, new supply accounting for 33% of current stock is scheduled to enter the market, further intensifying competition.

> We expect landlords to be flexible in rental negotiations in the next two years. We encourage landlords of new buildings to kick off the leasing process by securing well-known tenants to enhance their projects' reputation and attractiveness.

> Tenants considering to upgrade to preferable properties with favourable rents should take this opportunity.

		H2 2018	Full Year 2019	2018–23 Annual Average
Demand	> The finance and professional services sectors will likely remain the main demand drivers. We expect more tenants in lower-quality buildings to upgrade their properties in the next five years.	50,220 sq m	202,000 sq m	135,000 sq m
Supply	> Due to the delay of several projects in 2018, in 2019, about 680,000 sq m of new supply is scheduled to enter the market, leading to a record-high supply peak. Future supply comes online moderately thereafter.	110,680 sq m	680,000 sq m	159,800 sq m

		HOH/ End H2	YOY/ End 2019	Annual Average Growth 2018–23/ End 2023
Rent	> The intensified competition should push average rents down by 2.0% annually through the end of 2020. From 2021, stable demand and limited future supply should support rental recovery.	-0.5% RMB94.9	-3.4% RMB91.6	0.1% RMB95.3
Vacancy	> By the end of 2019, the supply peak should push up the vacancy rate to 43.7%. Subsequently, positive take up should keep the vacancy declining towards 29.5% by the end of 2023.	1.1pp 34.9%	8.8pp 43.7%	-0.8pp 29.5%

Source: Colliers International
Note: USD1 to RMB6.86 as of H2 2018; 1 sq m = 10.76 sq ft
Rent = Net effective rent for an entire floor in the mid-zone of the building (PM fee and rent free period excluded)

LEASING MARKET

Two new projects launched

In H2 2018, China Overseas Plaza and Luneng International Centre entered Tianjin's Prime office market with a total GFA of 110,180 sq metres (1.2 million sq feet). Therefore, the city's total stock expanded to 2.1 million sq metres (22.3 million sq feet), an increase of 5.6% half-on-half (hoh). These two buildings are located in the emerging submarket. Based on these projects' high quality and proximity to the central area of the city, they have both drawn enough market interest to secure major tenants.

Heavy supply outweighed stable demand

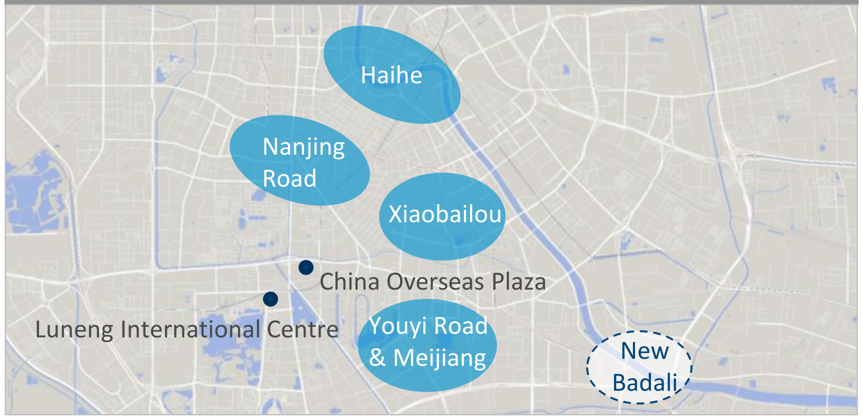
In H2 2018, Tianjin's demand for office space was slightly lower than that of H1, but the total net absorption in 2018 outperformed 2017 by 1.4% yoy. In spite of stable demand, with a total supply of around 470,000 sq metres (5.1 million sq feet) entering the market in the past two years, net absorption has been subdued as supply outpaces demand. Thus, by the end of H2 2018, the vacancy rate of Tianjin's prime office market was pushed further up to 34.9%, an increase of 1.1 percentage points hoh.

As a large proportion of demand was generated from tenants upgrading to high-quality properties with competitive rents, this also led to an increased vacancy in older buildings. By sector, finance and professional services remain the backbone providing stable demand, while the technology sector appeared to be more attracted by new projects in the emerging submarket.

Rents pulled down by intensified competition

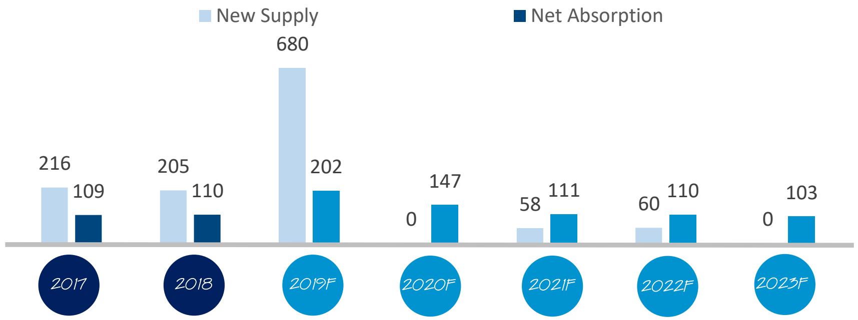
In H2 2018, the average rent of Tianjin's prime office market declined a slight 0.5% hoh to RMB94.9 (USD13.80) per sq metre per month. This was primarily because most landlords have become flexible in their negotiations, as they compete to secure tenants to fend off competition from new supply. Despite the high vacancy rate and continuing new supply, not all landlords are slashing rents. For certain newer buildings that entered the market with below-average rents and have achieved their vacancy targets, landlords are now planning to increase rents and develop a healthier tenant mix, although decelerated leasing progress has been seen.

Tianjin Prime office market



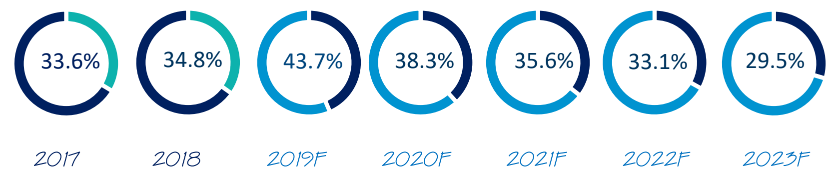
Source: Colliers International

New supply & net absorption, 2017-2023F (1,000 sq metre)



Source: Colliers International

Vacancy rate, 2017-2023F (percentage)



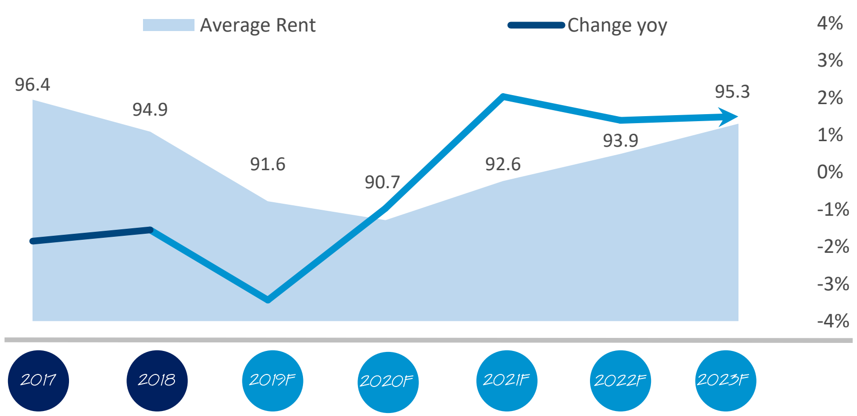
Source: Colliers International

Major leasing transactions, H2 2018

Property	Tenant	Industry	Area (sq metre)
Tianjin World Financial Centre	TJFIS Asset	Finance	2,500
China Overseas Plaza	BOC Insurance	Finance	2,000
Sunwah Tower	The People's Bank of China	Finance	1,800
Maoye Plaza	Junhui Law Firm	Professional Services	2,000
Financial Street (Nankai) Centre	Zhonglun W&D Law Firm	Professional Services	1,800
Tianjin World Financial Centre	DOCVIT Law Firm	Professional Services	1,100
Yanlord Land International Center	Wangcheng Technology	Technology	1,200
Vantone Centre	Meiriyouxuan	Technology	1,000
China Overseas Plaza	Daifuku	Manufacturing	1,500

Source: Colliers International

Average rent & change yoy, 2017-2023F (RMB psm per month)



Source: Colliers International

INVESTMENT MARKET

No en-bloc transactions recorded

Due to the currently high vacancy and the upcoming supply peak, institutional investors and end users have been cautious about investing in office properties in Tianjin, meaning that no en-bloc transactions were recorded in H2 2018.

OUTLOOK

New Badali planned to debut with supply peak

In light of the delay of several projects in 2018, a total of 680,000 sq metres (7.3 million sq feet) of new supply is scheduled to enter the market in 2019 – mostly in the Haihe submarket and the New Badali area in the emerging submarket. Thus, by the end of 2019, the city's vacancy rate should increase to a record-high of 43.7%. Considering the demand from companies looking to upgrade their offices that we expect to be stimulated by the large volume of high-quality new projects, as well as the limited future supply after 2019, the vacancy rate should fall towards 29.5% by the end of 2023. We also expect rents to decrease 2.0% annually through 2020. The rebalancing of the rental market should underpin the rental recovery from 2021 onwards.

Notably, over half of the new projects completed in 2019 are planned to be located in the New Badali area, a traditionally residential area with limited commercial development. We believe tenants will be relatively conservative in relocating to this area, especially in the first year after buildings appear. However, the high-quality buildings and competitive rents, along with the area's increasing maturity should translate to higher rents and occupancy for New Badali. Given its proximity to the Youyi Road and Meijing submarket, which has seen limited new supply since 2011, Youyi Road and Meijiang's existing tenants would likely shift their attention to the New Badali area.

With a scheduled supply peak, and in order to retain existing tenants, Colliers recommends landlords of older buildings to upgrade their facilities and services, or offer attractive discounts. Landlords of new projects should secure reputable tenants early to enhance their projects' attractiveness. We also encourage tenants to take advantage of this opportunity, and upgrade to preferable properties or locations with favourable rents.

Primary Author:

Xi Chen
Senior Analyst | Research | North China
+86 10 8518 1633
Xi.Chen@colliers.com

For further information, please contact:

Tammy Tang
Managing Director | China
+86 21 6141 3688
Tammy.Tang@colliers.com

Andrew Haskins
Executive Director | Research | Asia
+852 2822 0511
Andrew.Haskins@colliers.com

Dave Chiou
Senior Director | Research | China
+86 21 6141 3590
Dave.Chiou@colliers.com

Emily Cao
Head| Research | North China
+86 10 8518 1633 ext. 601
Emily.Cao@colliers.com