



Office market faces increasing challenges

Escalating competition led to differentiated submarket performance.

- In Q2/2024, no new projects entered the Grade A office market in Tianjin. The total stock stood at 1.72 million sqm by the end of this quarter.
- Grade A office market recorded negative absorption in Q2/2024, with significant tenant adjustments in non-prime submarkets.
- Leasing demand from technology and education companies was the major drivers in the quarter.
- Overall Grade A office market vacancy rate grew 0.5 percentage points (ppts) quarter-on-quarter (QoQ) to 34.5%, down 0.4 ppts year-on-year (YoY).
- Citywide rents fell to an average of RMB103.8 psm pmth, down 4.3% QoQ and 3.7% YoY.
- In H2/2024, the Tianjin Grade A office market will see launches of several new projects, which will provide more options but lead to an increase in market vacancies.

“In Q2/2024, benchmark office buildings in the Tianjin Grade A office market had significantly better performance than the overall market thanks to adjusted leasing strategies. Meanwhile, the overall office vacancy rate increased and is expected to continue the upward trend with the abundant supply, weighing on the rents.”

VINCENT LI, SAVILLS RESEARCH

Savills team

Please contact us for further information

RESEARCH

James Macdonald
 Senior Director
 China
 +8621 6391 6688
 james.macdonald@savills.com.cn

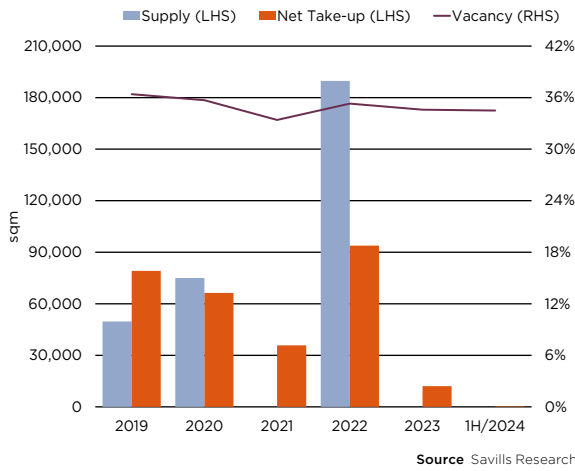
Vincent Li
 Director
 Northern China
 +8610 5925 2042
 vincentx.li@savills.com.cn

CENTRAL MANAGEMENT

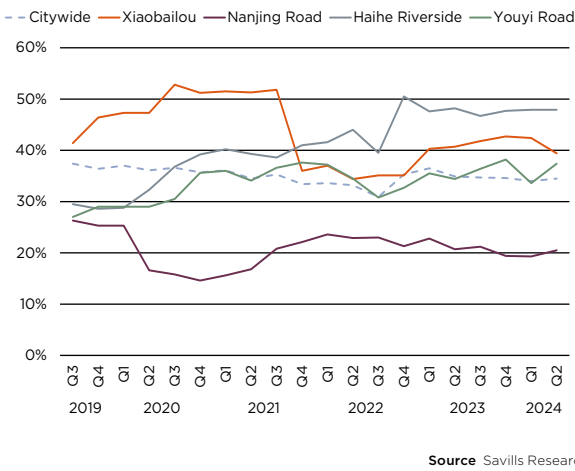
Andy Chee
 General Manager
 Tianjin
 +8622 5830 8886
 andy.chee@savills.com.cn

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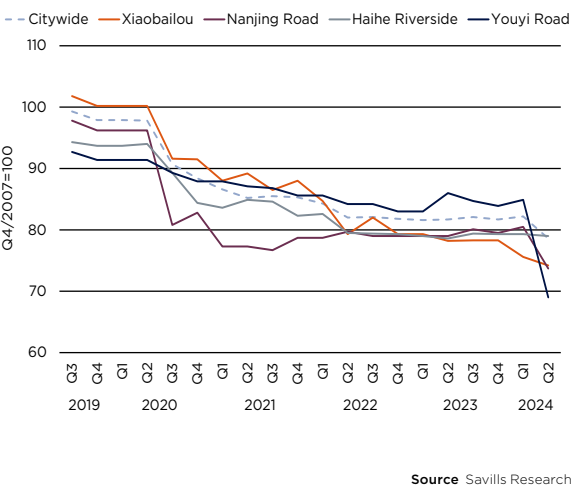
GRAPH 1: Supply, Take-up And Vacancy Rates, 2019 To 1H/2024



GRAPH 2: Grade A Office Vacancy Rates, Q3/2019 To Q2/2024



GRAPH 3: Grade A Office Rental Indices, Q3/2019 To Q2/2024



SUPPLY AND DEMAND

In Q2/2024, no new projects entered the Grade A office market in Tianjin. The total stock stood at 1.72 million sqm by the end of this quarter.

The net absorption of the overall Tian office market was -8,900 sqm in this quarter. The New Badali and Xiaobailou areas performed well in Q2 and were the only two submarkets with positive net absorptions, recording 5,000 sqm and 4,800 sqm, respectively. It is also noteworthy that some tenants migrated from non-prime submarkets to prime locations due to the attractive rental adjustments and favourable leasing terms in prime areas.

The Tianjin office market was primarily driven by leasing demand from technology and education companies in Q2/2024. Education companies leased over 4,000 sqm, while the technology companies took up over 4,500 sqm. Key leasing transactions included a technology company leasing over 1,500 sqm of office space in China Overseas Plaza, multiple education companies expanding over 2,000 sqm in Metropolitan Plaza and a retail brand leasing over 1,000 sqm in Yanlord Riverside Plaza.

RENTS AND VACANCY RATES

The citywide Grade A office vacancy rate grew 0.5 ppts QoQ to 34.5%, down 0.4 ppts

YoY. New Badali area and Xiaobailou area, the only two submarkets with decreased vacancy rates, saw active leasing demand, with vacancy rates down 3.1 and 3.0 ppts respectively. Other areas experienced varying increases in vacancy rates, while the Youyi Road area saw an increase of 3.8 ppts QoQ to 37.4%.

Increased supply from the previous quarter intensified competition, leading to lower rents this quarter. Tianjin Grade A office market recorded an average rent of RMB103.8 psm pmth in Q2/2024, down 4.3% QoQ and 3.7% YoY respectively. The rent in Nanjing Road area had a significant decrease, down 8.6% QoQ. Landlords stressed from the increasing vacant space continued to offer rent discounts to attract tenants and stabilize the leasing performance.

MARKET OUTLOOK

The Tianjin office market will see a total supply of 200,000 sqm from H2/2024 to 2026, with projects including Tianjin China Overseas Financial Plaza, COSCO Plaza Phase II in the Haihe Riverside area and Rongbang Building in the Youyi Road area. With the growing scale, submarkets will display varied development characteristics amidst intensifying competition. Owners/operators will have to improve service quality, adjust leasing strategies and offer more incentives to gain advantage to ensure projects' sustainable development.

TABLE 1: Grade A Office New Supply, 2024

PROJECT	SPACE (SQ M)	SUBMARKET	USAGE
COSCO PLAZA Phase II	109,000	Haihe Riverside	Leasing
China Overseas Financial Plaza	60,000	Haihe Riverside	Leasing & Sale
Rongbang Building	23,000	Youyi Road	Leasing

Source Savills Research