

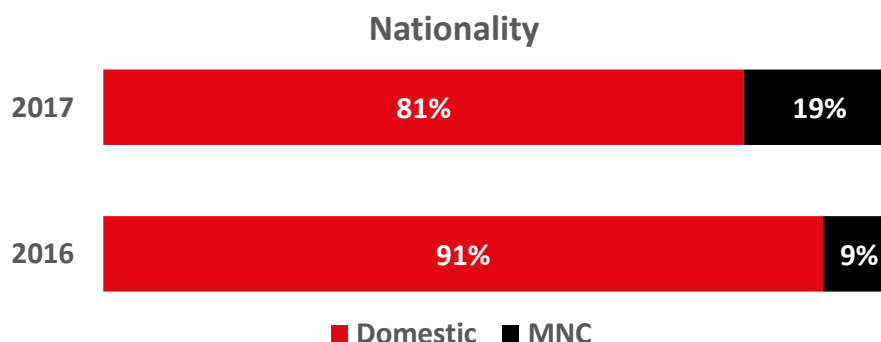
## Who was filling Tianjin's office space in 2017?

For the past three years, the residents in the downtown of Tianjin saw an average of one high-quality office building with 50,000 sqm GFA (Gross Floor Area) rising every three months. The supply wave of office buildings is reshaping the image of this important industry city in China. In 2015, "peer-to-peer lending" or P2P tenants aggressively expanded throughout the city. However, it was short lived as the city government put a brake on new P2P business registrations fearing longer term financial sector risks. The leasing demand slowed down in 2016 but became more diversified, drawing upon multiple sectors such as traditional financial institutions, professional service providers and real estate and related companies. This resulted in a healthier, more sustainable and long-term market. In 2017, the leasing market kept growing. In particular, Grade A leasing volume reached a new high for the past five years. Under the condition of landlords practicing a prudent attitude, who was filling the space in 2017?

### Domestic companies dominate the leasing market

In 2016, 1,106 foreign enterprises obtained approval to establish business across the city, an increase of 6.9% y-o-y. We forecast that the figure in 2017 will remain stable as in the previous year as the number of newly set up foreign enterprises as of 1H17 was 426. By comparison, domestic companies outpaced foreign firms. The growth rate of newly registered domestic private enterprises was 15.9% in 2016, 9 percentage points greater than the number of newly set up foreign companies. As the government continues to open more industries and sectors for domestic private capital to participate in, domestic firms will keep majority of the market in the upcoming years.

Chart 1: Breakdown of leasing transactions by nationality



Source: JLL Research

### Finance remains the most active, followed by the professional service and IT sector

Based on the preliminary calculation, Tianjin's overall GDP in 2017 was RMB 1.86 trillion, an increase of 3.6% y-o-y. The service (tertiary) industry saw the largest increase of 6.0% of three industry sectors to RMB 1.01 trillion, amounting to

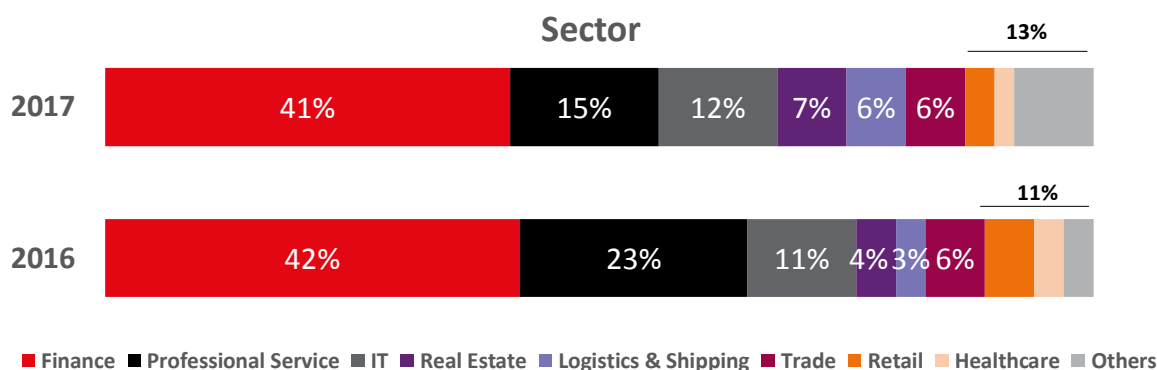
54.3% of overall GDP. Supported by the high proportion of the tertiary industry in three sectors, finance remains the most active in the market, followed by the professional service and IT sector.

After P2P companies' rapid expansion and stagnation by regulation, traditional financial institutions including both domestic and MNC insurance companies, non-banking institutions and securities firms continued expanding operations, upgrading and expanding their office space to recently completed high-quality office towers. Insurance companies were particularly noticeable in 2017. Both property insurance companies and personal companies grew in Tianjin, making the total number reach 31 and 34, respectively. As of November 2017, the premium income of property insurance and personal insurance reached 12.9 billion and 39.8 billion, an increase of 10.4% and 7.2%, respectively. The premium income of Metlife, a New York-based insurance company that returned 2,000 sqm office space to its previous landlord and expanded to 5,000 sqm in Vantone Center, increased to 220 million, a 152.7% increase y-o-y. Another such example is Ping An property insurance, one of the big players in Tianjin's property insurance market. Ping An relocated and expanded its office space to 7,000 sqm in Yanlord Riverside Plaza with the continuous expansion of its business.

Thanks to the growth of retail sales in China and Tianjin's demonstration of financial innovation, Czech consumer finance provider Home Credit keeps expanding its business scale in China, leasing another 21,000 sqm space in Tianjin Lujiazui Financial Plaza A, which is a Grade A office property completed in the third quarter of 2017.

Professional service company's expansion showed a slowdown in 2017 compared to 2016, but it is still a key demand driver for the market. The demand drivers were not only the typical sub-industries such as accounting firms and law firms but also travel agencies and overseas study agencies. As of 2016, Tianjin residents made over 424,000 trips overseas, an increase of 17.7% y-o-y. We forecast that these sub-industries would play a more important role in the consumer upgrade stage. Meanwhile, the consumption structure upgrade also initiated the development of other sectors such as IT, real estate, logistics and healthcare. The city government's strategic "Internet Plus" initiative encouraged more capital invest in new technologies and start-ups in e-commerce, high-efficiency logistics, mobile payments, modern agriculture and multiple industry developments. As a result, sectors including IT, real estate and logistics & shipping are taking more share in the office leasing market.

Chart 2: Breakdown of leasing transactions by sector



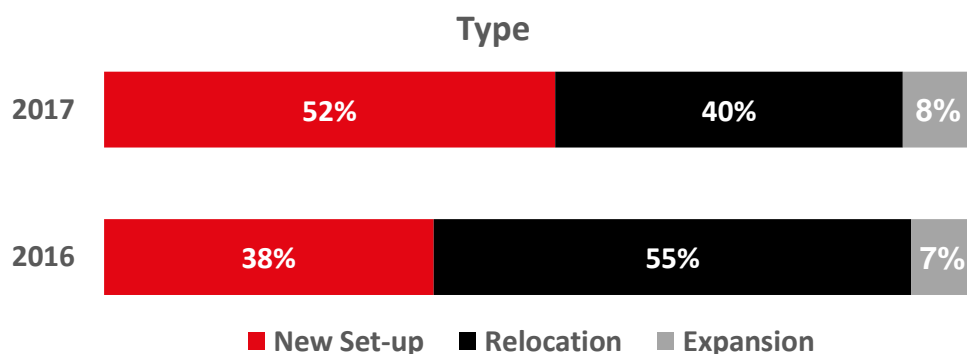
Source: JLL Research

## Relocation demand attracts continuous attention

New completion of office space often spurs tenants to upgrade. As a result of the annual supply (including both Grade A and Grade B properties) peaking at 580,000 sqm in 2016, the proportion of relocation demand reached 55% in 2016. While the supply volume was only one third of 2016, the leftover vacant space in recent year completed buildings also helped the proportion of relocation demand stood at 40% in 2017. From the tenants' perspective, new completions should have high-quality hardware equipment, provide better property services and are close to commercial facilities and public transportations to strengthen the enterprises' competition power as well as set a good corporate image and credibility to attract clients and talents. The rental gap between ordinary office buildings and high-quality new completions in Tianjin is much smaller than in Tier 1 cities such as Beijing and Shanghai. This also incites more companies to consider moving out from old properties to new completions. One such example was Winners Law Firm,

which relocated to Vantone Center, a Grade A building completed in 2016, from a Grade C building that is 10 minutes' walk away.

Chart 3: Breakdown of leasing transactions by type



Source: JLL Research

For the 2018 outlook, with the more moderated economic growth and improvement of economic structure, the leasing demand would still be driven by domestic companies from sectors mentioned above. New supplies will not only concentrate on traditional commercial areas, but on new emerging commercial areas. This will provide more options to those tenants outside the traditional commercial areas, and spur their upgrading demand. The proportion of relocation demand would grow due to another supply peak in 2018.



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