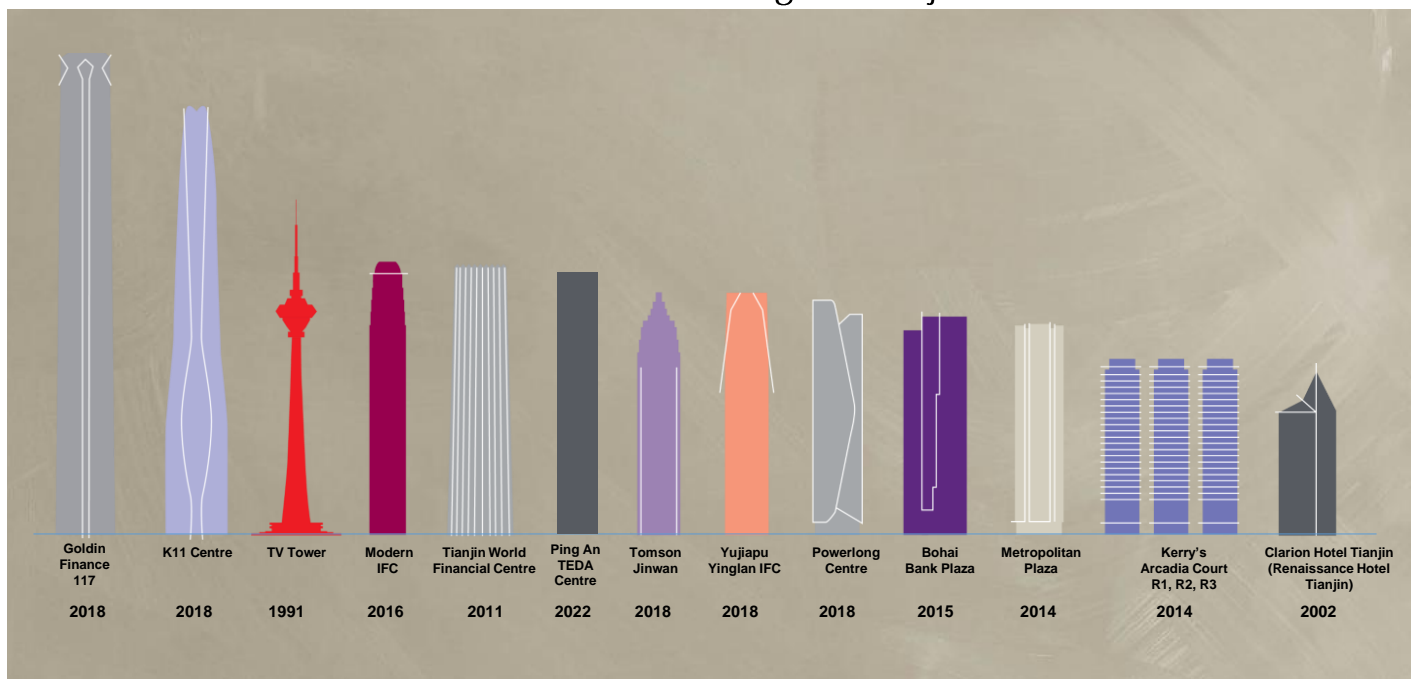


Seeing beyond the façade, how new office towers are changing Tianjin

Plenty has been said and written recently about the new wave of office buildings being constructed in Tianjin because they make the city look and feel more modern. We contend that beyond just the exterior façade, the quality of these new buildings is approaching international standards and this has implications for the various parties including the owners and user of this space. However, we also want to highlight that the construction of these new buildings is bringing about a shift in Tianjin city itself. As a result of these new buildings, the city is becoming denser which makes all types of real estate in the city more expensive and more valuable. And as we explore below, this trend will itself eventually lead to yet more changes, a cycle that has no obvious end.

Selected tall buildings in Tianjin

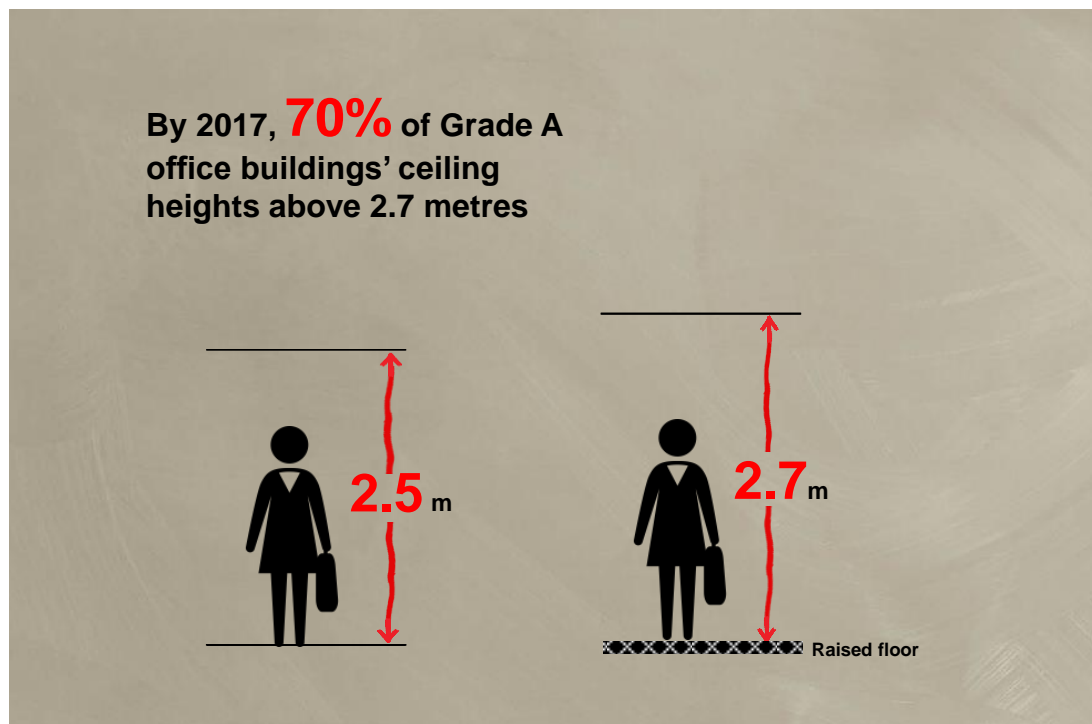


Source: JLL Research

Quality standards

As we mentioned above, the buildings are bigger and shinier, but what has changed on the inside? During the past decade, many of the new office buildings completed in Tianjin have higher internal ceiling heights, have raised floors, larger and faster elevators and have restricted access by adding security gates in their lobbies. We have found that 70% of Grade A office buildings in this market now have clear ceiling heights of 2.7 – 3.0 metres, compared with around 2.45

– 2.6 previously. These higher ceilings make the space feel less crowded and allows natural light from the windows to reach further back into the office space. Raised floors, refer to the addition of a false floor which provides flexibility for the easy installation of data and electric cables. This is often important for banks and technology firms or any company that relies on a data connected workforce. Before 2007, only a limited number of buildings had raised floors but nowadays 90% of Grade A buildings come to the market with them. In addition, the adoption of security gates in the lobby has become a standard for a majority of buildings across the market. When you walk into many of these new buildings, you can sense the lobby has become wider and cleaner with more natural light and a ceiling height of up to five floors. In addition, passenger lifts today have an increased capacity and their numbers have risen, which shortens the waiting time and is more comfortable and private for tenants compared to ten years ago. Larger typical floor plates with high/middle/low zones provide tenants with more space to expand as and when operational needs require.



Source: JLL Research

Finally, effective property management has become a key area for top quality buildings. For the tenants, this means fast response times if there is a comfort or safety issues, for the landlord good property management can help maintain the quality of the building longer term and keep it full of tenants, resulting in a more valuable asset. Nowadays, landlords of poorly managed buildings are finding it hard to retain tenants.

While all these factors have a positive impact, we also witness landlords thinking about how to equip their buildings to reduce indoor air pollution levels. A Harvard study showed that employees productivity is double or triple in good air versus bad air. We expect tenants looking at upgrading to consider a building with good indoor air quality to have an edge over a building with bad indoor air quality, although many landlords are only starting to address this issue in Tianjin.

Stakeholders

As these new buildings are completed, the impacts for various stakeholders will become more clear. It is helpful to think about who has a stake in these new buildings. The developer has made a large and multiyear investment to acquire the land and construct the building. They will eventually be looking for a solid return on their investment through rents, the higher the better, but first they need to find tenants. Tenants, who are companies renting the space, will be willing to move their companies to these new towers because of a value proposition. Either the building address provides them with prestige, the space is more efficient to use, or staff see a benefit for working in a company with modern and well lit office space. And last, but certainly not least, the government districts that allocated and zoned the land for commercial use, will benefit through taxes, if these buildings are occupied by tenants. Companies

traditionally pay a part of their income tax to the district where they are located, so savvy district leaders support the construction of commercial buildings in their jurisdictions.

Implications for the city

Take a look at the XinBadaLi development along Heiniucheng Road in Hexi district and it is clear how in a short period of time, a new development can increase the density of the city. Areas that previously supported low rise residential developments for a few thousand people are now home to office towers, hotels and retail malls that will provide employment to tens of thousands of additional workers. Luckily these developments also have thousands of apartment units, but undoubtedly many of the workers will be commuting in from other areas putting pressure on the infrastructure. Mass transit will be added, but the end result will be an area that is substantially denser, more expensive and crowded than it was before.

The cycle continues

What will be the impact of these new office buildings on older office buildings? In the same way that newer, larger apartment buildings have replaced smaller lower-rise apartments, the same process will happen with office buildings. As these larger office towers come into the market, others will become obsolete. Additionally, since the recent supply boom has temporarily pushed rents down for all buildings, we expect to see office tenants upgrading to new buildings which presently will cost little more than the space they currently occupy in lower grade buildings. This will leave older, poorly maintained buildings in less demand. The owners will be forced to invest money to upgrade them or knock them down and redevelop the site altogether. And what will be the end result? The pace of construction in Tianjin will slow, but the trend is clear, over time, low rise developments and poorly managed assets are destined to see their value decline if they aren't well maintained. And this means, that what is on the inside of the building in terms of quality of design, construction and service will be even more important than what we see from the outside.



Chelsea Cai
Head of Research
Tianjin, JLL
+22 8319 2233
Chelsea.cai@ap.jll.com



Michael Hart
Managing Director
Tianjin, JLL
+22 8319 2233
Michael.hart@ap.jll.com