

Briefing Office sector

March 2016



Image: W Square, Siming district

SUMMARY

In 2016, the development of the Xiamen Grade A office market will still be concentrated on Xiamen Island. The mainland market will gradually tap into its potential with the growth in construction and the urbanisation of the city.

- Two new projects, the Thai-Hercynian Centre in the Haicang district and the World Overseas Chinese International Conference Center (WOCICC) in the Siming district, launched onto the market in 2015, adding a total of 385,475 sq m.

- Net take-up of the Xiamen Grade A office market reached 393,507 sq m in 2015.

- Due to the considerable amount of supply, city-wide vacancy rates fell 2.3 of a percentage point (ppt) to 26.8%, down 3.6% year-on-year (YoY).

- Rents increased 0.6% to an average of RMB93.6 per sq m per month, up 0.1% YoY.

- Strata-title transaction prices increased 0.8% quarter-on-quarter (QoQ) to RMB23,139 per sq m, up 0.8% YoY.

- Eleven projects are expected to be launched onto the market in 2016, pushing the total stock up by 37% to 4.83 million sq m. City-wide vacancy rates are expected to go up due to the large amount of new supply.

“An influx of new supply is expected in 2016, and the office stock of Xiamen will be pushed up to a relatively high level. Vacancy rates are expected to increase while rents will remain stable in the short term.” James Macdonald, Head of Research, China.

➔ **Market summary**

Two new projects were handed over in 2015. WOCICC, located in the Siming district, opened with the vacancy rate at around 5%. Meanwhile, the Thai-Hercynian Centre in the Haicang district had disappointing pre-commitments, with a vacancy rate of nearly 50%.

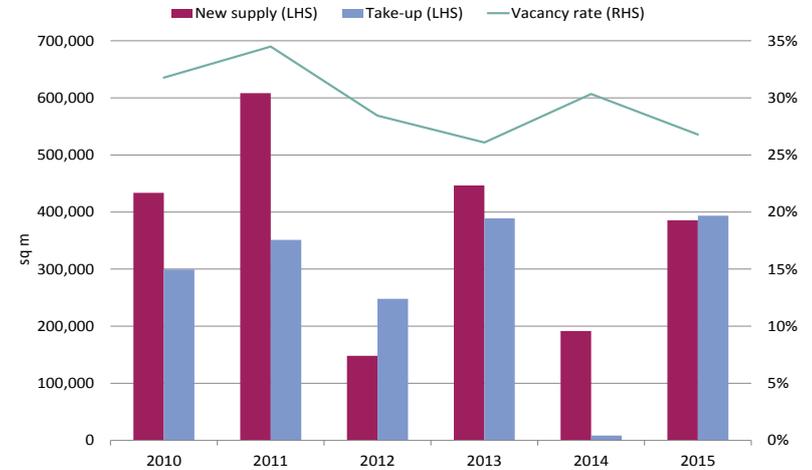
Early development, comprehensive facilities and convenient transportation ensure the stronger absorption ability of the Grade A office market on the Island than the mainland. The market on the mainland still requires further development.

Compared with the previous year, 2015 showed better absorption in the Xiamen Grade A office market, with the net take-up volume higher than new supply. Rents saw a slight increase, while the average vacancy rate decreased significantly, especially in the Siming district (7.3%) and on the mainland (7.4%). As the political, economic and cultural centre of Xiamen, the Siming district has always been the area with the strongest absorption power in the city. The obvious decrease in vacancy rates infers that Grade A office market demand on the mainland has started to grow.

The Grade A office market will see 11 new projects launch onto the market in 2016. Six will be situated in the Siming district, four in the Huli district and the remaining one, Xiamen Southeast International Shipping Centre, is in the Haicang district. 2016 is expected to be a continuance of the trend seen in 2015 whereby rents and prices in the

GRAPH 1

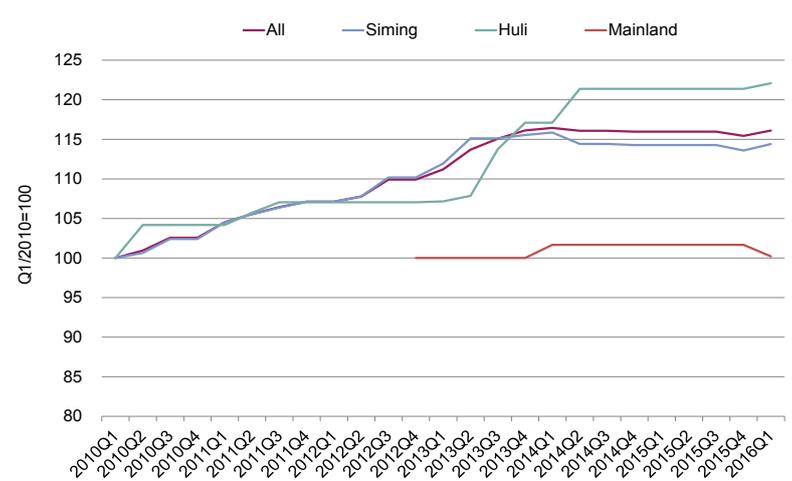
Grade A office supply, take-up and vacancy rates, 2010 – 2015



Source: Savills Research

GRAPH 2

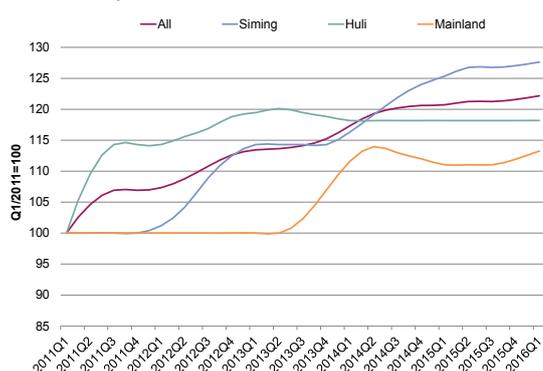
Grade A office rental indices, Q1/2010 – Q1/2016



Source: Savills Research

GRAPH 3

Grade A strata-title office price indices, Q1/2011 – Q1/2016



Source: Savills Research

Siming district, where the demand of office projects is strong, will remain relatively stable, while those in the Huli district may see a decrease. On the whole, vacancy rates on the Island are expected to increase due to the huge supply volume, while the rates on the mainland will remain constant.

City-wide rents increased 0.6% QoQ in Q1/2016, to an average of RMB93.6 per sq m per month, up 0.8% YoY.

Grade A office market rents on the Island went up in Q1/2016, indirectly resulting in the increase of city-wide rents. The average rent in the Siming district reached RMB102.2 per sq m, the highest recorded

in the city, followed by the rent in the Huli district. The average rent on the mainland was lower than that on the Island. The rents of the Xiamen Grade A office market have maintained an increasing trend since 2010 and have remained relatively constant since 2014. The Huli district saw the most significant increase among all the areas, inferring a bright future for that market.

City-wide average prices increased 0.8% QoQ, reaching an average of RMB23,139 per sq m, up 0.8% YoY. In addition, city-wide average prices in all districts remained on a slightly upward trend. Prices in the Siming district rose 0.7% to an average of RMB27,700 per sq m – the highest in the city – followed by the Huli district

at RMB19,333 per sq m. Rents on the mainland saw a larger increase in the strata-title transaction price, up 2.4% QoQ and 2% YoY, than those in the two districts on the Island. The Grade A office sales market is expected to have considerable development potential.

Market outlook

In 2016, 11 projects are expected to launch, increasing Grade A office stock by 37% to 4.83 million sq m. City-wide vacancy rates are expected to increase due to the huge amount of new supply. The majority of new projects will be on Xiamen Island. Due to the stronger demand for high-quality office buildings, the Siming district is expected to see smaller increases in vacancy rates than the Huli district. The market will see 295,482 sq m added to the current stock at the beginning of 2016, due to delayed launches from the end of 2015.

The prices and rents of Grade A office buildings kept to a slightly upward trend, however, the new supply is expected to cause a downward pressure on the two indices. Nevertheless, due to the construction of the metro system and resulting surrounding infrastructure, the value of the buildings is expected to increase. On the other hand, the potential of the Grade A office market on the mainland will be dug out because of the gradually improving facilities, the

Project Information

Thai-Hercynian Centre

The Thai-Hercynian Centre, located in the Haicang district, was developed by Xiamen Tadee Real Estate Co., Ltd. The project was launched in May 2015, adding nearly 350,000 sq m to the market. The project is for sale only, with the asking price set at approximately RMB18,000 per sq m. The office space within the tower covers floors 3 to 30 (nominal). Typical floorplate is 1,820 sq m.

Project	Thai-Hercynian Centre
	
Location	Haicang district
Developer	Xiamen Tadee Real Estate Co. Ltd.,
Handover Date	Q2/2015
GFA	350,000 sq m
Lease/Sales	Sales only
Office Floor	3 – 30
Ceiling Height	3m
Standard Floor Area	1,820 sq m
Starting Asking Price	RMB18,000 per sq m

Source: Savills China Research

development of the Free Trade Zone and the reduction of land resources on the Island. The development focus of the market on the Island will likely

stay in the Haicang district, where the Xiamen Southeast International Shipping Centre and the Cruise Home Port are located. ■

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