

Briefing Office sector

November 2016



Image: W Square, Siming district

SUMMARY

Xiamen Island, and primarily the Siming district, will receive the largest amount of Grade A office supply in the near future; however, due to growing land scarcity on the island, the mainland office market is expected to mature.

- Five new projects, the Shimao tower, the AVIC WSquare, the Shentian International Building, the International Trade Business Centre and the second phase of C&D Enjoy Centre, launched onto the market in the first three quarters of 2016, adding a total of 356,834 sq m.
- Net take-up of the Xiamen Grade A office market reached 305,285 sq m in Q3/2016.
- Due to the considerable amount of supply, city-wide vacancy rates fell 2.0 percentage points (ppts) to

20.4%, down 3.2% year-on-year (YoY).

- Rents increased 3.1% to an average of RMB89.9 per sq m per month, up 1.3% YoY.
- Strata-title transaction prices reached RMB19,030 per sq m in Q3/2016.
- One project, TFC Centre, is expected to be launched onto the market in Q4/2016, adding 177,115 sq m to the current stock.

“Several Grade A projects in the Huli district launched ahead of schedule, keeping occupancy rates in the area relatively stable. However, a large amount of new, high-quality office buildings launched in the Siming district recently will put downward pressure on office rents in Huli.”
James Macdonald, Head of Research, China.

➔ **Market summary**

Five new projects were handed over in the first three quarters of 2016. Most of the new launches occurred in Q2/2016, such as the Shimao tower, the AVIC WSquare, the Shentian International Building and the International Trade Business Centre. Due to the large amount of new supply, the market saw an increase in vacancy rates in Q2/2016. Only one project launched in Q3/2016 – the second phase of C&D Enjoy Centre in the Siming district. Market absorption remained strong, with the average city-wide vacancy rate falling 2 ppts to 20.4%.

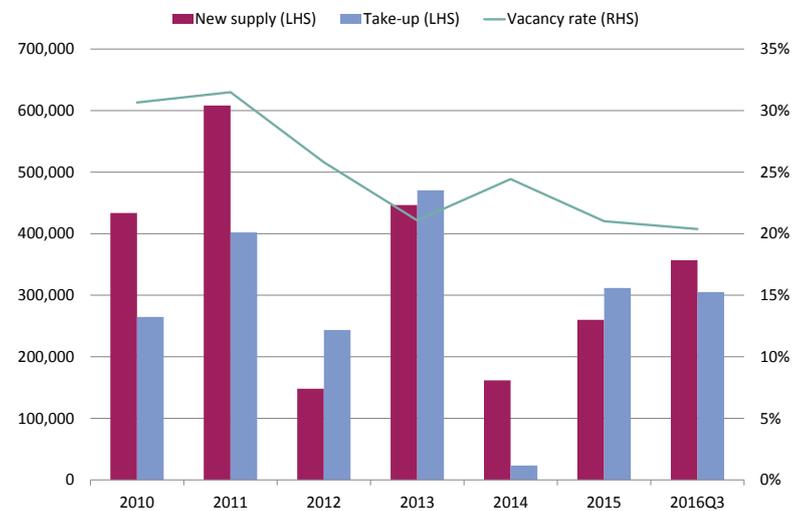
Aggregate new supply totalled 356,834 sq m from Q1/2016 to Q3/2016, while net take-up reached 305,285 sq m. This pushed the total stock of Xiamen Grade A office supply up by 10% over the same period, to 3.72 million sq m.

In Q3/ 2016, take-up in Xiamen’s Grade-A office market was strong, causing vacancy rates to fall across all districts. The mainland market witnessed the largest decrease, followed by the Siming district. The Huli district recorded the lowest vacancy rate of 17.1%, followed by Siming at 18.5%.

As the city’s core business centre, the Siming district has the largest office stock. Despite the continued influx of new supply, the absorption rate remains high, keeping market conditions in the sub-market favourable. The Huli district has received fewer new projects than Siming, but the market’s development remained stable thanks to the establishment of a Free Trade Zone (FTZ). By contrast, the vacancy rates in mainland areas remained higher, although they have continued to trend down.

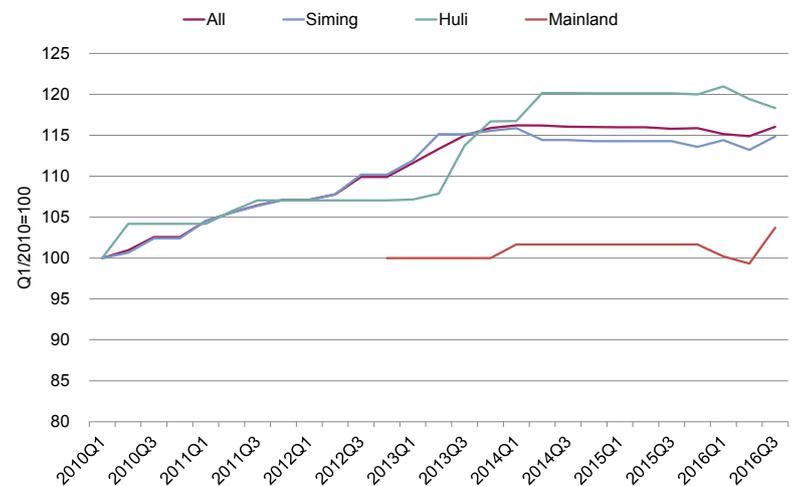
Upcoming supply will be focused on the Siming district, mainly in the Cross-strait Financial Centre. However, as the island continues

GRAPH 1 **Grade A office supply, take-up and vacancy rates, 2010 – 2016/Q3**



Source: Savills Research

GRAPH 2 **Grade A office rental indices, Q1/2010 – Q3/2016**



Source: Savills Research

to urbanise and land resources decrease, a greater percentage of Grade A office market supply will be transferred to the mainland.

City-wide rents increased 3.1% QoQ in Q3/2016, to an average of RMB89.9 per sq m per month, up 1.3% YoY.

Most handovers were completed in the second quarter, pushing down rental indices during the period by 2% QoQ and 1.8% YoY. Market

rents rebounded in Q3 after only one project was launched.

The Siming district recorded the highest rent of RMB102.2 per sq m per month, followed by the Huli district. Rents on the mainland are typically much lower than on the island. Rents in Siming fell in the second quarter but rebounded in Q3/2016, with rental indices increasing 4% QoQ and 2.2% YoY. Take-up in the sub-market remained strong as new projects

have improved the overall quality of the entire district. This has increased competition for older projects, especially in the Huli district, pushing down rents in the area. Rents of Grade A office buildings on the mainland continued to rise.

City-wide average strata-title prices remained stable in Q3/2016, at RMB19,030 per sq m, as prices in all districts remained relatively flat. Prices in the Siming district maintained their top spot at

RMB20,875 per sq m, followed by the Huli district at RMB19,125 per sq m. Average transaction prices on the mainland remain lower than the two island districts at RMB15,150 per sq m.

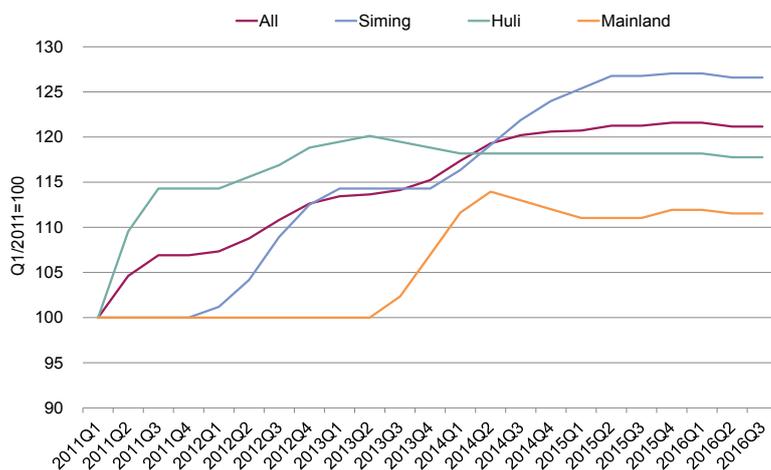
Market yields increased slightly in Q3/2016 to 4.25%. The Siming district saw the highest yields of the city, with an average of 4.65%. The yield in the Huli district reached 4%, while the mainland market averaged 3.79%. The Siming district, with a

vibrant business environment and active leasing market, remained the most popular investment option.

Only one submarket saw rents decrease in Q3/2016 – the Huli Centre area. Rents in the Xiamen Station-Lianban area and the Hubin Rd remained consistent. New projects in the three submarkets launched early, keeping occupancy rates stable and causing rents to flat-line or fall. The Guanyinshan Business Operation Centre, benefitting from a recent renovation, witnessed an increase in tenant quality and take-up, leading rents to rise dramatically. Future supply will be concentrated in the Cross-strait Financial Centre area, where the Guanyinshan Business Operation centre is located. The quality of office buildings in this area continues to improve at the fastest pace in the city. New supply is expected to continue bringing new volatility to rents in the area.

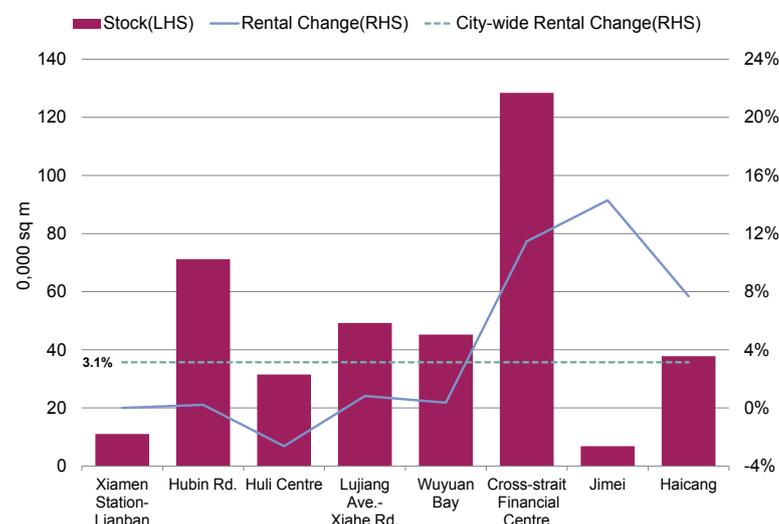
Mainland submarkets have smaller stocks and quicker rental growth rates. The future development of these markets will be catalysed by the on-going development of the FTZ and rising land scarcity on the island.

GRAPH 3
Grade A strata-title office price indices, Q1/2011 – Q3/2016



Source: Savills Research

GRAPH 4
Grade A office rental indices, Q1/2010 – Q3/2016



Source: Savills Research

Market outlook

Only one project, TFC centre in the Siming district, is expected to launch in the remaining part of the year, increasing Grade A office stock by 4.8% to 3.90 million sq m. Future supply in the Xiamen Grade A office market will be concentrated in the island districts over the short term, namely in the Cross-strait Financial Centre. However, as land availability becomes tighter on Xiamen Island, development will gradually transition to the mainland. Construction on the mainland will be focused in the Jimei and Haicang districts due to the development of the Xiamen FTZ and the opening of the third phase of the Software Park.

An abundance of new supply came onto the market in 1H/2016, but

absorption remained strong, causing an upswing in occupancy rates and rents in Q3. The recipient of much of this new supply, the Siming district will become an attractive destination for long-term investment. Faced with growing competition from the other island districts, the Huli area saw rents come under pressure, particularly those of aging projects. However, with new projects slated to launch in the Huli district in the near future, average rents in the area are expected to rise.

The Cross-strait Financial Centre, as well as the Jimei and Haicang districts, are expected to continue to see relatively high rental growth rates. A number of new projects will also be handed over in these areas over the next few years, furthering the development of the city's emerging office market. ■

Project Information

Shimao Tower

The Shimao Tower, located in the Siming district northwest of Yanwu Bridge and west of Huandao Road, occupies a land area of more than 30,000 sq m. The project is made up of two high-rise skyscrapers over 300 metres and a podium building. The property includes offices, a hotel and the SOHO offices.

The office towers were developed by the Shimao Group, and have an aggregated GFA of 154,482 sq m. Both projects are planned as sales-only, with prices projected to be between RMB45,000 to RMB48,000 per sq m.

Project	Shimao Tower
	
Location	Siming district
Owner	Shimao Group
Handover Date	Q2/2016
GFA	154,482 sq m
Lease/Sales	Sales only
Office Floor	6 – 64
Ceiling Height	3.5m
Standard Floor Area	1,700 sq m
Starting Asking Price	RMB45,000 – 48,000 per sq m

Source: Savills China Research

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