

Briefing Office sector

May 2018



Image: Guanyinshan Operation Centre, Siming district

SUMMARY

Grade A office take-up has surpassed supply for the last three years, dragging down vacancy rates and causing rents to increase steadily across the city.

- No new projects were launched in Q1/2018. The market saw 145,000 sq m of new supply in 2017.
- City-wide net take-up in the first three quarters reached around 93,000 sq m, up 238% quarter-on-quarter (QoQ).
- City-wide vacancy rates stood at 14.8%, down 2.1 percentage points (ppts) QoQ and 3.6 ppts year-on-year (YoY).
- The average Grade A office rent increased 2.3% QoQ, to RMB96.9 per sq m per month, with rental indices up 1.1% QoQ and 7.2% YoY.
- Strata-title transaction prices reached RMB24,177 per sq m in Q1/2018, with indices up 0.8% QoQ and 0.2% YoY.
- Six new projects are expected to enter the market in 2018, adding 1.01 million sq m to the current stock.

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 “The Grade A office market stayed flat in 2007, but the market is anticipating a large amount of new supply in 2018, which will shake things up significantly.” Woody Lam, Savills Southern China

➔ **Market Overview**

The total supply of office space increased in 2017 and was accompanied by relatively strong market absorption, which caused vacancy rates to decrease. The take-up volume experienced a significant increase YoY in Q1/2018. The continuous decline in the vacancy rate may bring more new supply to the market in 2018.

Supply and Demand

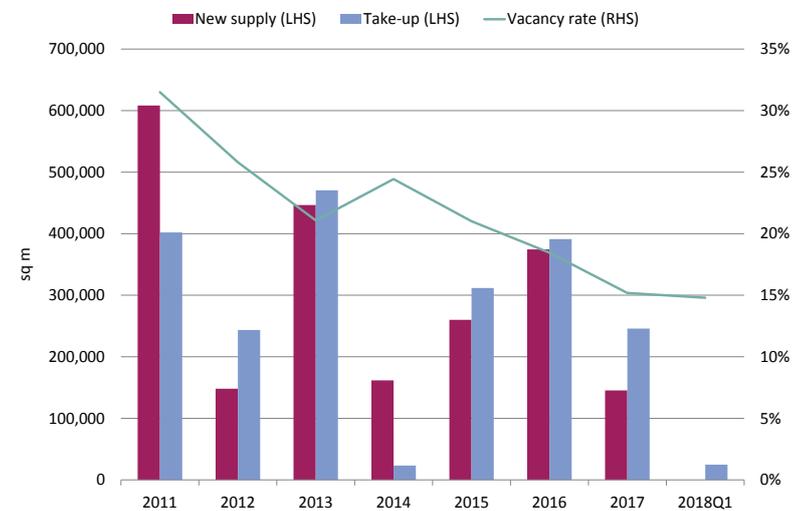
City-wide supply and take-up saw YoY decreases of 61% and 55%, respectively. Demand continued to exceed supply, which dragged down the city-wide vacancy rate. Most of the current stock has been digested. Take-up on the island¹ decreased while the mainland rate increased 127% YoY. The absorption rate saw a large increase in the beginning of 2018, with a majority of the take-up on the island.

As the main development district for the Grade A office market, Siming's Grade A office stock accounts for 69% of the city's total. After a year with no new supply, the average vacancy rate in Siming fell 13.1% in Q1/2018, down 0.6 of a ppt QoQ and 3.4 ppts YoY.

As the district that received the majority of supply in 2017, Huli's Grade A office market stock went up last year with vacancy rates increasing as well. The average vacancy rate in Huli reached 16.2% in Q1/2018, up 4.3 ppts. The grade A office market in Huli benefits from the ongoing development of the Free Trade Zone (FTZ) and the construction of the Cross Strait Financial Centre. With these two developments encouraging demand, Huli will see several new projects launched in the district's office market.

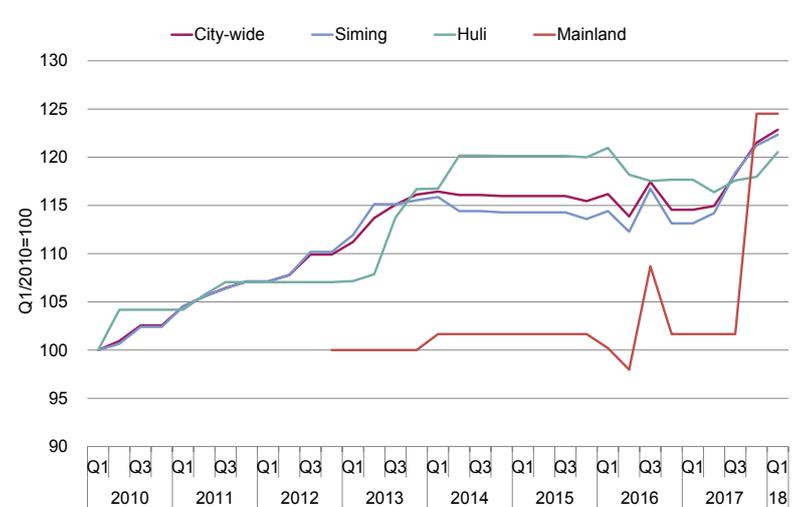
¹ Island districts: Huli, Siming; mainland districts: Haicang, Jimei, Tong'an, Xiang'an

GRAPH 1 **Grade A office supply, take-up and vacancy rate, 2011 – Q1/2018**



Source: Savills Research

GRAPH 2 **Grade A office rental indices, Q1/2010 – Q1/2018**



Source: Savills Research

The mainland market has not seen new supply since Q3/2015. With market demand gradually increasing and absorbing stock, vacancy rates have decreased. The average vacancy rate reached 24.4% in Q1/2018, down 18.8 ppts YoY.

Rents

City-wide average rents increased 1.1% QoQ in Q1/2018 to RMB96.9

per sq m per month, up 7.2% YoY. Average rents in a number of different districts witnessed increases. With no new supply last year, Siming saw significant market absorption. Average rent in the area reached RMB109.2 per sq m per month, up 8.1% YoY. Despite the volatility caused by a new project, rents in Huli increased to RMB69.9 per sq m per month in Q1/2018, up 2.4% YoY.

The average rent on the mainland increased 22.5% YoY to RMB60.0 per sq m per month.

Xiamen office stock was found mainly in two sub-markets: Hubin Rd. and the Cross Strait Financial Centre. The Cross Strait Financial Centre, an emerging area, already accounts for 30% of the city-wide total stock. It benefits from preferential government policies and will likely

see more supply in the near-term. Meanwhile, the Hubin Rd sub-market saw a significant increase in stock - accounting for 25% of the city's total - thanks to the development of the FTZ.

Except for Hubin Rd, other sub-markets all enjoyed decreases in vacancy rates, especially Jimei, which benefited from the booming Xinlin Bay Operation Centre.

City-wide average strata-title office prices reached RMB24,177 per sq m in 2018, with indices down 0.8% QoQ but up 0.2% YoY. Siming district maintained the highest price at RMB28,929 per sq m, followed by Huli district at RMB20,375 per sq m. Average transaction prices on the mainland were the lowest at RMB15,150 per sq m. Demand and take-up volumes increased in the island market, which further pushed up prices. Vacancy rates in Haicang were relatively high, indicating weak demand that drove down prices.

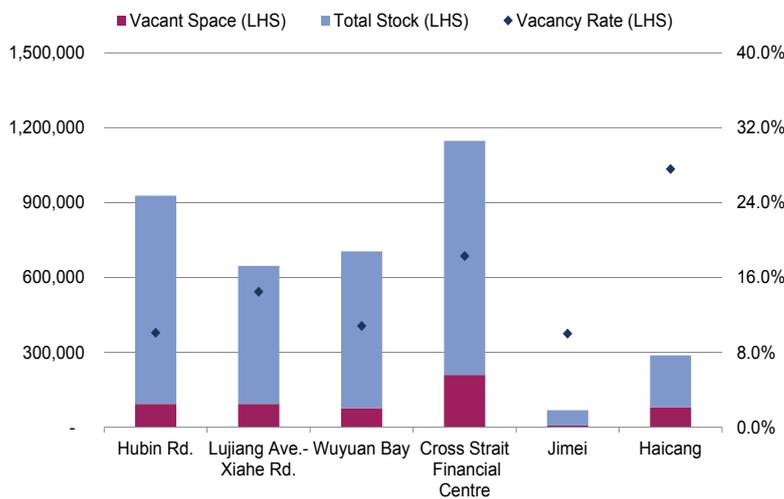
The strata-title yield remained at 4.31% compared with last quarter. The mainland market recorded the highest yields in the city, with an average of 4.64%, followed by Siming with 4.54%, and Huli at 3.8%. The yields on the mainland saw increases but also significant volatility because of the market's small size.

Market Outlook

Six projects are expected to launch in 2018, adding 1.01 million sq m to the market and increasing Grade A office stock by 23%, to 4.80 million sq m. The expected supply is spread out across Xiamen's three main districts, but mainly in Siming.

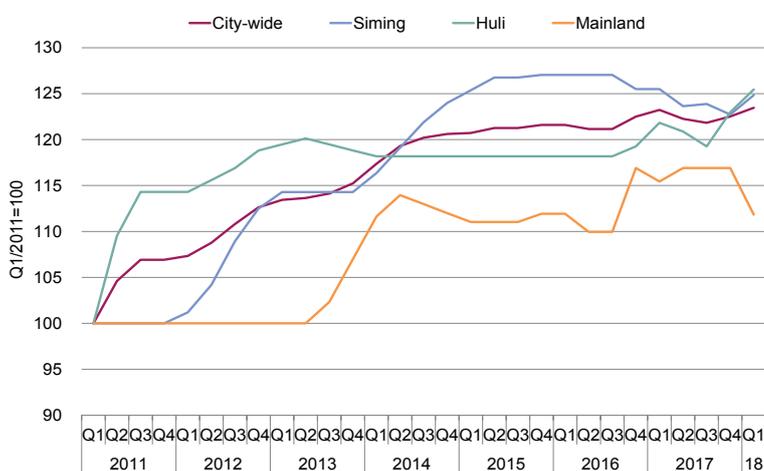
Lujiang Road and Hubin Road are the most mature office sub-markets in Xiamen, and are not expecting much future supply. Thus, demand in the area is likely to overflow to Haicang, also part of the Free Trade Zone, as well as the emerging market Cross Strait Financial Centre. ■

GRAPH 3 Performances of Grade A office in different sub-markets, Q1/2018



Source: Savills Research

GRAPH 4 Grade A strata-title office price indices, Q1/2011 - Q1/2018



Source: Savills Research

Project Information

Free Trade Financial Centre

The Free Trade Financial Centre is a Grade A office project with nice sea views. The management headquarters of Xiamen Free Trade Zone and the Financial Service Centre are planned to be in this office. The project aims to form an industry cluster with finance as the core industry. The leading enterprises moving into this project include China Post, Standard Chartered, Good First Finance Holding, Xiangyu Finance Holding and Xiamen Finance Leasing. The project includes three buildings—building A provides small units with sea views, building B focuses on tenants that require entire floors, and building C will serve as headquarters for leading companies.

Project	Free Trade Financial Centre
Location	Huli district
Owner	Xiamen Xiangyu Group
Office GFA	84,700 sq m
Lease/sale	Lease only
Ceiling height	3.9m
Starting asking rent	RMB84 per sq m per month



Source: Savills China Research

Please contact us for further information

Research



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

Central Management



Woody Lam
Managing Director
South China
+8620 3892 7108
woody.lam@savills.com.cn

Project & Development Consultancy



Lucy Lui
Director
South China
+8620 3892 7130
lucy.lui@savills.com.cn

Property Management



Peter Zhang
Director
Xiamen
+8659 2806 4616
peter.zhang@savills.com.cn

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