Briefing
Office sector

December 2016

Image: Maike Business Centre, High-tech Zone, Xi'an

SUMMARY

Xi'an's Grade A office supply reached nearly 360,000 sq m in the second half of 2016, pushing total stock to 827,000 sq m. Net absorption has improved compared to the first half of 2016. As new projects entered the market, vacancy rates increased significantly. Rent prices continued to decline over the same period.

- Grade A office supply totaled 359,000 sq m in 2H/2016, increasing city-wide stock by 77%, to approximately 827,700 sq m.
- Net take-up rose to more than 44,000 sq m, driven by demand in the High Tech Zone.
- Average vacancy rates rose to 49.6%, due to the supply influx
- Average rents continued to decline, falling 3.1 percentage points (ppts) year-on-year (YoY), to RMB100.94 per sq m per month.
- In the coming year, the Grade A office market is expected to receive 500,000 sq m of new supply, with the entry of Maike Commercial Centre, Lafonce, and other new projects.

"In the second half of 2016, the Grade A office market entered a period of high supply, which caused short-term vacancy rates to peak, leading rents to decline and intensifying leasing market competition. As a result, landlords are looking for new ways to improve their projects and management strategies in order to attract and retain the best tenants." Dave Law, Savills Research & Consultancy

Market overview

According to the Xi'an Bureau of Statistics, in Q1/2016, Xi'an's GDP reached RMB416.7 trillion, growing by 8.1% YoY, which is 1.4 ppts above the national average and 0.6 of a ppt higher than the provincial rate. The tertiary industry achieved the highest annual growth rate of 8.6%, adding approximately RMB260 trillion to the economy. In addition, city-wide fixed asset investment growth turned positive in 1H/2016, reaching RMB363 trillion, up 1.1% YoY. This included RMB42.5 trillion worth of real estate investment, a 7.5% increase YoY.

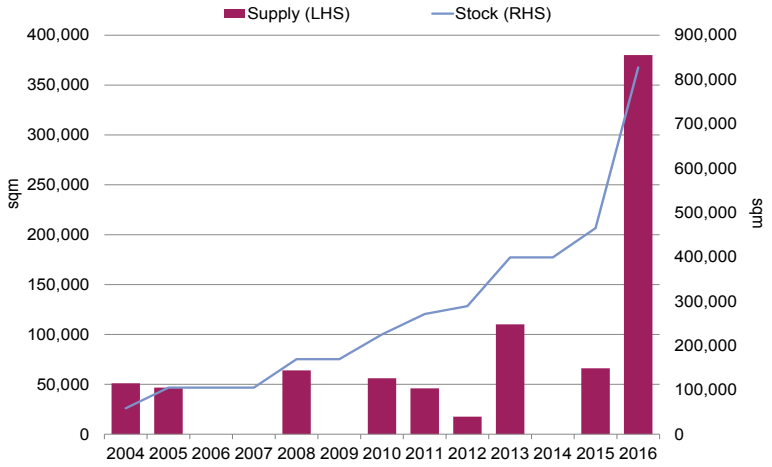
Five projects entered the market in 2H/2016, including Sian Railway Centre and Saigao Enterprise Centre. Aggregate Grade A office supply totalled 359,000 sq m, which raised city-wide stock to 827,000 sq m, an increase of 77%. A range of factors, such as upcoming new projects, has increased the city-wide vacancy rate to 49.6%.

Average city-wide rents continued to fall, declining 3.1% YoY to RMB100.94 per sq m per month. Rents in the High Tech Zone fell the steepest, with a 4.6% decrease recorded over the same period.

Financial services, management and consulting, and retail services remain the most active in the leasing market. Manufacturing, construction, real estate, and engineering saw the greatest percentage of tenants leaving Grade A office spaces.

GRAPH 1

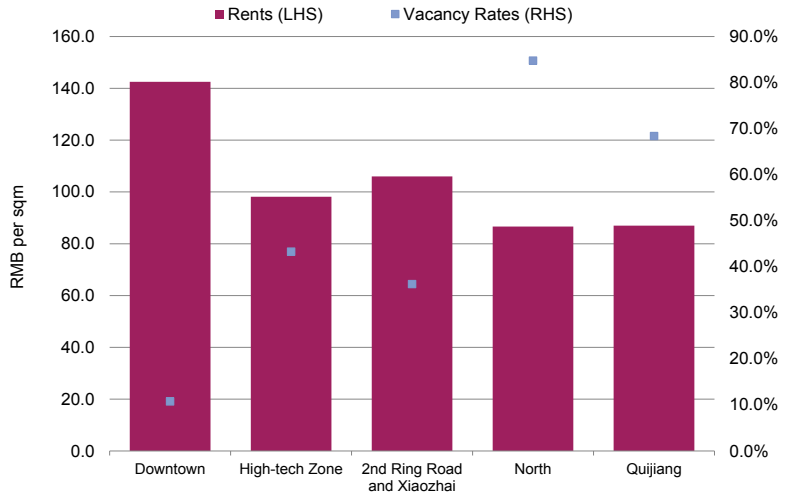
Grade A office supply and stock, 2004-2016H2



Source: Savills Research

GRAPH 2

Grade A office rents and vacancy rates by district, 2H/2016



Source: Savills Research

Downtown

Downtown received no new projects in 2H/2016. With relatively older properties and traffic congestion issues, the area continues to lose tenants to emerging CBDs.

The renovation of Chang'an International E Tower will soon be completed, bringing in 50,000 sq m of new supply.

High Tech Zone

In the second half of 2016, two new projects entered this submarket – China Rail Xi'an Centre and Greenland Centre Block A. The two new office skyscrapers brought a total of 200,000 sq m of new supply, increasing stock to 510,000 sq m.

Due to the fall in rental prices, absorption improved significantly half-on-half (HoH). However, even as take-up exceeded 30,000 sq m, vacancy rates remain above 40%. The competitiveness of the current market continues to push down rental rates, which declined by 4.6% YoY.

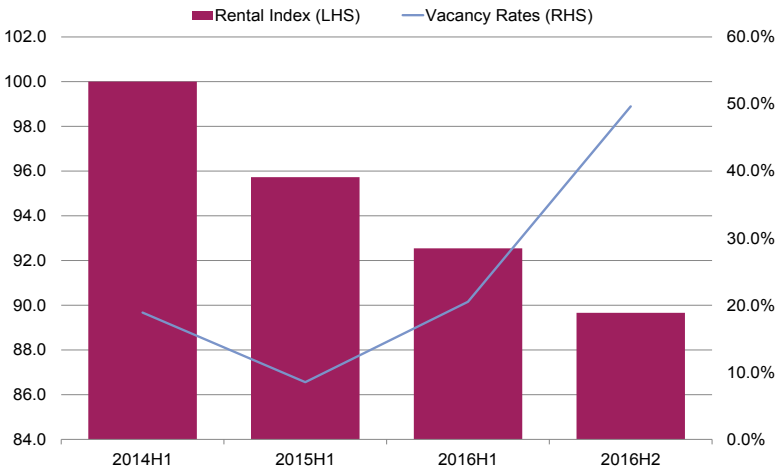
The handover of Maike Business Centre, Wynn International Centre, and other new projects in 2017 will bring more than 300,000 sq m of new supply. This will keep vacancy rates high and further decrease rents.

2nd Ring Road South and Xiaozhai

There was no new supply in this submarket in 2H/2016, which helped lower the vacancy by 7 ppts, to 36.2%. Rents decreased slightly by 1.4%, to RMB106 per sq m per month. Next year, the launch of MOMOPARK will add 34,000 sq m of new Grade A office space.

GRAPH 3

Rents and vacancy rates of Grade A office market, 1H/2014-2H/2016



Source: Savills Research

North

North West International Financial Centre B and Saigao Enterprise Centre entered this submarket in 2H/2016, adding approximately 110,000 sq m, which raised total stock to 138,000 sq m. Due to the effect of new projects entering the market, current vacancy rates exceeded 80%, while rents dropped to RMB86.87 per sq m per month.

Next year, Lafonce will enter the market with 50,000 sq m of office GFA. Due to its limited industrial development potential, the North area is expected to face challenges absorbing the new supply.

Quijang

Daxia International Centre entered the market in 2H/2016, adding approximately 46,000 sq m of new supply. The vacancy rate rose by more than 60% during the period, pushing rents down to RMB87 per sq m per month.

In the coming year, there will be no new supply in the district, and as a result, the vacancy rate will decline.

Market outlook

The city's Grade A office market is entering a period of high supply. While this bodes well for the development of the market, it will intensify competition over the short term. This is especially true for the High Tech Zone II Jinye Road area, where most of the supply is concentrated. The supply influx is expected to turn the market into a "buyer's market", pressuring owners to lower their rents or offer other incentives to attract clients. To succeed, landlords will also have to take proactive steps to adapt their management strategies, providing better services to enhance the competitiveness of their projects.

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