

Office



Demand for Grade A offices declines

Three new projects with a combined total of around 220,000 sq m entered Xi'an's office market in 1H/2019. Meanwhile, the citywide vacancy rate rose 5.8 percentage points (ppts) half-on-half (HoH) due to declining demand.

- Three new projects—Greenland Central T2 (Tian An Life), New Changan Plaza and Vanke Kingsway—debuted in the Xi'an Grade A office market in 1H/2019, contributing about 220,000 sq m of new area and pushing total stock to 1.78 million sq m.
- Due to the decrease in demand for office space, net absorption dropped by 72% HoH to 57,988 sq m.
- Various macroeconomic uncertainties have had an impact on corporate decision-making, resulting in longer decision-making cycles. The city's overall market vacancy rate rose 5.8 ppts HoH to 35.1%.
- Finance, real estate and information technology were still the strongest drivers for new leasing transactions, accounting for 35%, 19% and 16% of demand, respectively.
- In the first half of the year, the average rent of the Grade A office market fell by 0.9% HoH to RMB105.1 per sq m per month.
- After large-scale expansions last year, third-party office space operators in Xi'an are currently operating in tighter conditions. Even so, well-run brands are still expanding with support and subsidies from the local government.

“For three years Xi'an has seen increasing levels of new supply, and under pressure from the high volume, landlords are shifting their focus to improving customer services to retain clients.”

JAMES MACDONALD, SAVILLS RESEARCH

Savills team

Please contact us for further information

RESEARCH

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

CENTRAL MANAGEMENT

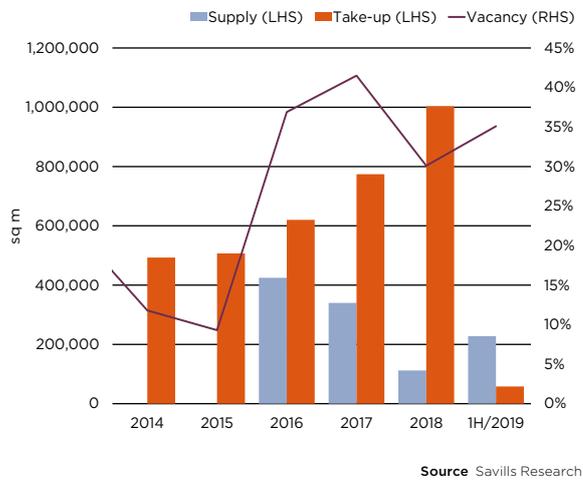
Dave Law
 General Manager
 Xi'an
 +8628 8665 7375
 dave.law@savills.com.cn

Agency

Criz Dai
 Senior Director
 Western China
 +8628 8658 7111
 criz.dai@savills.com.cn

Savills plc
 Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 600 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.

GRAPH 1: Grade A Office Supply, Take-up And Vacancy Rates, 2014 to Q2/2019



MARKET OVERVIEW

The city's GDP reached RMB199.5 billion in 1H/2019, increasing by 8.6% year-on-year (YoY). The tertiary industry recorded the strongest growth rate among all sectors, contributing RMB142.6 billion, up 7.8% YoY. In addition, total citywide investment in fixed assets continued to grow, increasing by 8.4% YoY.

Three new projects—Greenland Central T2 (Tian An Life), New Changan Plaza and Vanke Kingsway—debuted in the Xi'an Grade A office market in 1H/2019, contributing about 220,000 sq m of new area. The three projects pushed total stock up to 1.78 million sq m. However, due to a decrease in demand for office space, net absorption dropped by 72% HoH to 57,988 sq m. Additionally, the current macroeconomic environment has slowed the decision-making cycle for many corporations, contributing to a 5.8 ppts HoH rise in the overall market vacancy rate to 35.1%. With more new supply coming to the market and market demand declining, owners are expected to lower rents in the rest of the year. In the first half of the year, the average rent of the Grade A office market fell by 0.9% HoH to RMB105.1 per sq m per month.

Finance, real estate and information technology were still the strongest drivers for new leasing transactions. At present, the national de-leveraging campaign has focused on creating a more sustainable leverage policy, which in turn has increased credit demand from financial firms and caused leasing demand from the industry to gradually stabilise and rebound. The traditional financial firms, such as investment asset management and bank insurance, were active and accounted for 35% of all newly leased space. Regionally, large-scale leases by financial enterprises were located mainly in the High-tech I and High-tech II Zones. All of this financial leasing demand is further consolidating the role of Xi'an's High-tech Zone as the core business district.

The technology industry is benefitting from the government's support for innovation and entrepreneurship in the field of hard technology as well as the introduction of technology talent programs. The recent implementation of the Xi'an Science and Technology Little Giant Enterprise Cultivation Plan will help increase office demand from information technology enterprises. New leases from information technology

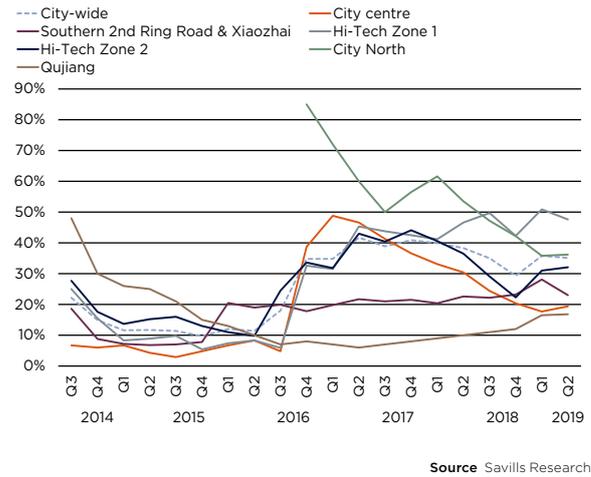
companies ranked second and accounted for 19% of transactions. Real estate development and construction engineering enterprises also accounted for significant new leasing transactions, and their rental contribution rate stood at 16%. Additionally, as the city with the largest concentration of educational resources in northwest China, Xi'an continues to attract educational companies. This sector has expanded across the city and helped improve the proportion of consumer service enterprises signing new leases to close to 10%.

At present, co-working space operators occupy more than 120,000 sq m in the Grade A office market, accounting for 8% of the total Grade A office space, which leads other cities in Western China. From the perspective of regional distribution, Xi'an's co-working operators enjoy more options in a wider range of districts with some even opening in relatively immature business locations. In addition to mature business districts, areas that benefit from government support also saw an uptick in co-working spaces. After WeWork opened in the city centre and the north of the city, the co-working brand's latest transaction occurred in Qujiang New District for about 4,000 sq m. The site is expected to open before the end of the year. From a demand perspective, more and more tenants are seeing the advantages of flexible leasing terms as well as the conveniences offered by co-working outfits. However, third-party operators in inconvenient locations or places with poor public transportation links are still waiting for new tenants.

MARKET OUTLOOK

Xi'an will see around 100,000 sq m of new supply added to the Grade A office market in the rest of 2019 with much of the new supply concentrated in the Hi-Tech Zone. The increasing number of high-quality offices could improve overall market performance but intensify market competition as well. The quality of projects in this submarket will be largely polarised in future. Downward pressure on rents still exists due to the tension between supply and demand. However, the city's improving business environment and optimised talent policies are creating many good investment and development opportunities. In addition, the increasing number of self-use tenants will improve citywide occupancy rates.

GRAPH 2: Xi'an Office Submarket Vacancy Rates, Q3/2014 to Q2/2019



GRAPH 3: Xi'an Office Submarket Rental Index, Q3/2014 to Q2/2019

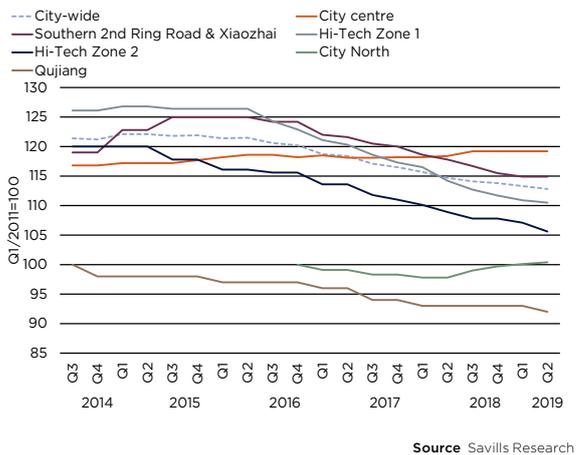


TABLE 1: Selection of Important Leasing Transactions, 1H/2019

TENANTS	PROJECT	INDUSTRY	LOCATION	GROSS FLOOR AREA (SQ M)
17zuoye	Zhongjing Technology Square	Education	High-tech I	3,650
Zuoyebang	New Chang'an	Education	High-tech I	6,800
Rsun Group	Saigao Enterprises Headquarters Building	Real Estate	City North	2,200