Office leasing demand declines in 2019

After a massive increase last year, leasing demand has been under pressure this year. Annual net absorption of Grade A office buildings in Xi’an stood at only 150,000 sq m, a 51.4% decrease from 2018.

- Land Center T6 in Qujiang, debuted in Q4/2019, bringing about 66,000 sq m of new supply area to the market, pushing stock to 1.88 million sq m. The building is the first retail project in the Qujiang area in five years.
- After a massive increase last year, leasing demand has been under pressure this year. Annual net absorption of Grade A office buildings in Xi’an was only 150,000 sq m, a year on year (YoY) decrease of 51.4%.
- The decline in leasing demand and the increase in new supply have led to a 4.2 percentage point (ppt) increase in the citywide vacancy rate to 33.5% YoY. The average rent in the city has continued to decline during the year, reaching RMB103.7 RMB per sq m per month at the end of the year. In Q4/2019, the citywide vacancy rate increased 0.3 percentage point.
- On the demand side, the top three industries with the most active new leases in Xi’an Grade A offices throughout the year were the finance (26%), consumer services (18%), and information technology (15%) sectors.

“Xi’an continues to adjust and optimise its economic structure. The consumer service, cultural tourism, information technology, and entertainment sectors have performed well, which will stimulate leasing demand and provide strong support for the city’s office buildings.”

SOPHY PAN, SAVILLS RESEARCH
MARKET OVERVIEW

Land Center T6 in Qujiang, debuted in Q4/2019, bringing about 66,000 sq m of new supply area to the market, pushing stock to 1.88 million sq m. The building is the first office project in the Qujiang area in five years in 2019, five projects including Tian An Life Centre, New Chang’an Plaza II, Vanke Kingsway, Northwest International Finance Centre (NIFC), and Land Centre, with a total area of more than 320,000 sq m, debuted in the Xi'an Grade A Office market, bringing the total stock of Grade A office buildings to 1.88 million sq m. Annual net absorption of Grade A office buildings in the city was only 150,000 sq m, a YoY decrease of 51.4%.

The decline in leasing demand and the increase in new supply have led to a 4.2 ppt increase in the citywide vacancy rate to 33.5%. The dual pressure of both sides of heavy supply and lacking demand has resulted in owners lowering rents to attract or retain tenants. The average rent in the city has continued to decline, reaching RMB103.7 per sq m per month at the end of Q4/2019, a decrease of 1.1% YoY.

On the demand side, the top three industries with the most active new leases in Xi'an Grade A offices throughout the year were the finance (26%), consumer services (18%), and information technology (15%) sectors. Xi'an's unique university resources, strong educational atmosphere and competitive cost advantages provide an excellent development environment for educational enterprises. Education contributed 85% of the area of the consumer service industry, a major contributing factor to the prominence of consumer services in Grade A offices across the city.

With the continuous entry of high-quality offices and the pressure of slowing market demand, some owners have begun to broaden their focus from new leases to internal customer retention by improving the services offered in the building. For example, many landlords have installed intelligent entrance guards, hold festivals and other experiential activities, improve the wellness qualities (air, light, facilities, etc.) and host social and networking events to promote interaction between tenants.

MARKET OUTLOOK

Looking forward to 2020, Xi'an will see 150,000 sq m of new supply, which will push the total stock over 2.0 million sq m. As Xi'an continues to adjust and optimise its economic structure, the consumer service, cultural tourism, information technology, and entertainment sectors have performed well; these industries are expected to continue to drive leasing demand for Xi'an Grade A office space and help meet the demand of rising demographics in the city.

### TABLE 1: Selection Of Important Leasing Transactions, Q4/2019

<table>
<thead>
<tr>
<th>TENANTS</th>
<th>PROJECT</th>
<th>LOCATION</th>
<th>GROSS FLOOR AREA (SQ M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Xi'an Finance Bureau</td>
<td>Northwest International Finance Centre</td>
<td>City North</td>
<td>10,500</td>
</tr>
<tr>
<td>New Oriental Education</td>
<td>Tian An Life Centre</td>
<td>Hi-Tech II</td>
<td>10,000</td>
</tr>
<tr>
<td>Shaanxi Yuanqi Information Technology Co., Ltd</td>
<td>Zhongjing Technology Square</td>
<td>Hi-Tech I</td>
<td>9,125</td>
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</tbody>
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