

Office



Leasing activity picks up for financial firms

Market activity remains stable with a gradual decline in vacant space.

- Market activity remained stable, with a rise in rental withdrawals compared to the Q1/2023, resulting in a slight YoY decline in net absorption of 18,000 sqm.
- The vacancy rate rose by 0.5 ppts YoY to 24.9%, driven by new project entry into the market.
- The main sources of leasing demand were finance, real estate, and information technology, accounting for 71% of the space.
- The leasing demand of Grade A offices by financial enterprises related to mobile payment business has increased due to the rapid development of e-commerce and digital life services.
- Currently, the leasing activity is limited in the market. Demand from the newly established categories is lower than expected, but the upgrade demand has increased to fill the gap.

“Demand in certain industries is still in adjustment. Online education sector displayed signs of recovery at the start of the year following policy modifications. Leasing demand from such sector is expected to be a new growth point in the future.”

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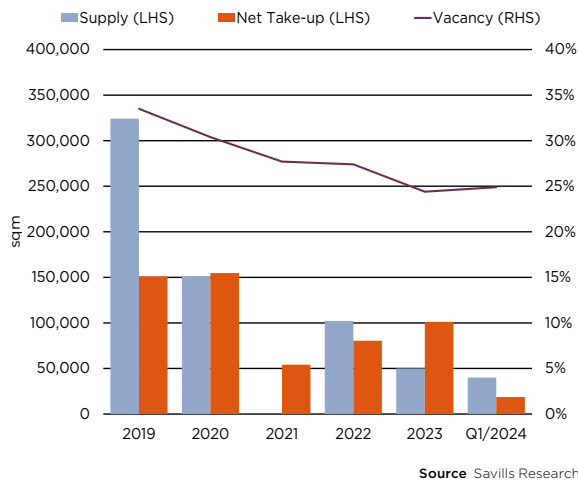
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GRAPH 1: Grade A Office Supply, Take-up And Vacancy Rates, 2019 To Q1/2024



MARKET OVERVIEW

During Q1/2024, the Yingfa Financial Center was introduced to Xi'an's Grade A office market. This new project is located in the Second Ring Road South & Xiaozhai market, bringing approximately 40,000 sqm to the region and increasing the city's Grade A office stock to 2.2 million sqm. During Q1/2024, market activity remained stable with a gradual decline in vacant space, while rental withdrawals increased compared to Q1/2023, resulting in a slight decline in net absorption YoY to 18,000 sqm. Additionally, the vacancy rate rose by 0.5 ppts YoY to 24.9% due to the impact of new projects entering the market. Regarding rents, the city's rental prices continued to edge down, down 0.6% QoQ to RMB100.8 psm pmth.

DEMAND ANALYSIS

During Q1/2024, the finance, real estate, and information technology sectors were the top three tenant sources, accounting for approximately 71% of the area. Notably, the insurance and investment/investment management/asset management sub-industries within the finance sector performed exceptionally well, contributing 62% of the financial industry's total area. In recent years, Xi'an has focused on strengthening its financial system and developing the digital economy. According to the 34th Global Financial Centre Index Report (GFCI 34), Xi'an has moved up to the 11th spot among global financial centres compared to the previous period, and has entered the global top 100. It is important to note that the rapid growth of e-commerce and digital services has increased the leasing demand from financial enterprises involved in mobile payment businesses. During the quarter, some of these enterprises moved into Grade A office buildings. Within the real estate sector, construction and engineering companies were the primary source of demand, accounting for approximately 86% of new demand. The North Crossing Development Strategy and the Xi'an-Xianyang regional integration have led to an increase in leasing demand from relevant construction and engineering enterprises. Additionally, the demand for industrial parks' capacity has increased due to the construction of a modernised industrial system, resulting

in the release of leasing demand from some engineering enterprises focusing on the Internet of Things (IoT) smart parks and the construction of supporting facilities for emerging industries.

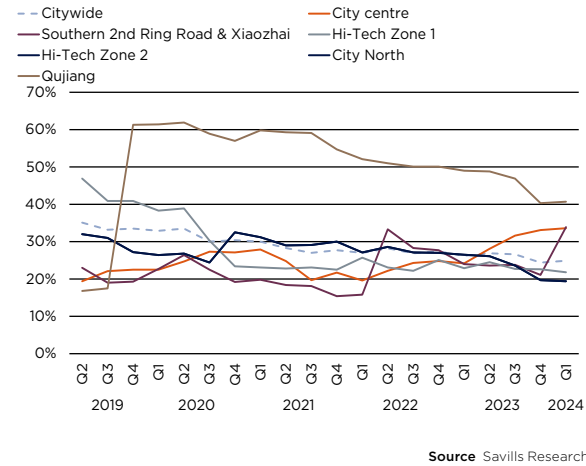
The information technology sector, which ranked third in terms of new leasing demand, experienced a slight decline in its area share YoY. Analysis shows that IT software and service enterprises, which were more active in the previous period, had limited leasing demand during Q1/2024. However, it is expected that the demand will gradually increase throughout the year. Furthermore, during the H2/2023, several law firms were located in Grade A buildings, driven by the professional services industry. This resulted in an increase in demand, but this quarter, the share has fallen back to below the previous average level. It is expected that some law firms, represented by professional services enterprises, still have unfulfilled office demands. It is anticipated that demand for this type of activity may rise in the latter part of the year.

Currently, there has been a limited increase in activity in the market. The incremental demand for the newly established category has fallen short of expectations, leading to a rise in demand for upgrades to compensate. In addition to the pressure on the demand, some landlords have adjusted rents or offered customised fit-out and furnished rental packages to attract tenants. Against this backdrop, many tenants chose to relocate to Grade A buildings with better quality and ancillary facilities. This drove significant YoY growth in demand for company leasing upgrade, up by 9.9 ppts to 31.9%.

MARKET OUTLOOK

Looking ahead to Q2/2024, no new projects are expected to enter Xi'an's Grade A office market. The leasing market will remain stable. In recent years, Xi'an has invested in high-end manufacturing and advanced industrial sectors, improving the industrial chain. Therefore, it is still worth paying attention to the growth in demand from such enterprises and their upstream and downstream businesses in the future.

GRAPH 2: Xi'an Office Submarket Vacancy Rates, Q2/2019 To Q1/2024



GRAPH 3: Xi'an Office Submarket Rental Index, Q2/2019 To Q1/2024

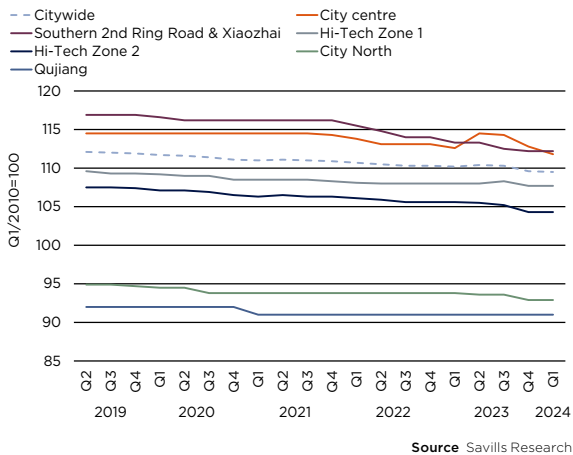


TABLE 1: Major Office Leasing Transactions, Q1/2024

TENANTS	Industry	PROJECTS	LOCATION	GROSS FLOOR AREA (SQ M)
UnionPay	Finance	CapitaMall Office Phase 2	Second Ring Road South & Xiaozhai	2,300
Huawei	Information Technology	Tianyi International	High-Tech 1	2,100
China Construction Third Engineering Bureau	Real Estate	Yongli IFC	High-Tech 2	2,100
China Life	Finance	Zhongjing Technology Square B Block	High-Tech 1	1,600

Source: Savills Research