Oversupply Continues
Tenants have become more cost-sensitive, and the market witnessed widespread leasing withdrawals or relocations.

- Xiamen’s GDP decreased by 3.2% year-on-year (YoY) to RMB31.8 billion by the end of Q1/2020. The decrement was 3.6 and 2.0 percentage points (ppts) lower than the national and Fujian provincial levels, respectively.

- Ruida International Finance Centre, located in the Cross-Straits Financial Center submarket, was handed over to the market in 1H/2020, pushing up citywide total stock by 1.6% half-on-half (HoH) to approximately 3.9 million sq m.

- During 1H/2020, net absorption of the Xiamen office market dropped by 90.7% YoY to 4,191 sq m due to the softened leasing demand and the injection of new supply. Correspondingly, the citywide vacancy rate increased by 1.1 ppts HoH to 27.1%.

- By the end of 1H/2020, the citywide average rent decreased by 2.7% HoH and 5.7% YoY on rental index basis to RMB83.9 per sq m per month.

- Strata-titled sales to individuals or small-size companies continued to dominate the Xiamen office investment market scenery. With increasing new supply coming into the market and policy support from the local government, the number of saleable and good-quality opportunities is expected to increase.

- Ten new projects, with a total office GFA of approximately 830,000 sq m, are scheduled for completion in 2H/2020, pushing the market stock to expand by 23.3%.

“Considering a plethora of new supply and the impact of COVID-19 on leasing demand, leasing competition is set to intensify. In addition to incentive financial terms as a conventional approach, additional value-added service packages and high-quality property management are one of the crucial operation strategies for many landlords.”

CARLBY XIE, SAVILLS RESEARCH
SUPPLY
Ruida International Finance Centre, located in the Cross-Straits Financial Center submarket, was handed over in 1H/2020, adding 60,000 sq m of office areas to the market. As a result, the total stock of the Xiamen office market increased by 1.6% HoH to approximately 3.9 million sq m. In the past decade, the total stock of the Cross-Straits Financial Center submarket expanded to become the largest Grade A office submarket in the city, accounting for approximately 54.7% of the citywide total stock.

DEMAND
Enterprises in Xiamen became more cost-sensitive due to the pandemic-hit local economy in 1H/2020. Leasing demand softened as some office occupiers chose to reduce their corporate real estate areas or relocated to projects with lower rents. Owing to this and the injection of new supply, net absorption of the Xiamen office market dropped by 90.7% YoY to 4,191 sq m and, correspondingly, the citywide vacancy rate increased by 1.1 ppts HoH to 27.1% by the end of 1H/2020.

A divergent growth pattern of leasing demand by sector was witnessed as a result of the impact of the COVID-19 pandemic. Given the strict quarantine measures and restrictions on outdoor activity, leasing demand from tourism, education services and international trading sectors contracted, but that from the healthcare and information technology sectors remained stable, as reflected in many leasing transactions in 1H/2020.

RENTS
Overall, most landlords were more willing to offer flexible financial terms in exchange for a stable occupancy in 1H/2020 to counter the continued oversupply situation. As a result, the citywide average rent decreased by 2.7% HoH and 5.7% YoY on an index basis to RMB83.9 per sq m per month at the end of 1H/2020.

MARKET OUTLOOK
Ten new projects, with a total office GFA of approximately 830,000 sq m, are scheduled for completion in 2H/2020, expanding the market stock by 23.3%. Considering a plethora of new supply and the limited leasing demand, the citywide vacancy rate is anticipated to increase and reach its peak in the coming years. In consideration of the continued and obvious disequilibrium between supply and demand in 2H/2020, most landlords are expected to continue lowering their rents in exchange for stable occupancy rates, leading to a further decline in the citywide average rent.

INVESTMENT
Strata-titled sales to individuals or small-sized companies continued to dominate the Xiamen office sales transaction market scenery. With increasing new supply coming into the market and policy support from the local government, the number of saleable and good-quality en bloc investment sales transaction opportunities are expected to increase.

TABLE 1: Notable Leasing Transactions, 1H/2020

<table>
<thead>
<tr>
<th>TENANT NAME</th>
<th>INDUSTRY</th>
<th>PROJECT</th>
<th>SUBMARKET</th>
<th>LEASING AREA (SQ M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changrong Capital</td>
<td>Finance</td>
<td>Fortune Centre</td>
<td>Luijiang Avenue-Xiahe Road</td>
<td>780</td>
</tr>
<tr>
<td>Everbright Futures</td>
<td>Finance</td>
<td>Fortune Centre</td>
<td>Luijiang Avenue-Xiahe Road</td>
<td>225</td>
</tr>
</tbody>
</table>

Source: Savills Research