Vacancy rate stays stable

The Xi’an commercial market is gradually recovering from COVID-19.

- No new supply was added to the market in 1H/2020, so the total stock of Grade A office in Xi’an remained at 1.88 million sq m.
- Due to the continuing fallout from COVID-19, the demand for office leasing in Xi’an decreased significantly. Office vacancy rates actually decreased during Q1/2020, but COVID-19 caught up with the market in Q2/2020, forcing the vacancy rate back up as the number of buildings visits dropped. As a result, the citywide vacancy rate stood at 33.5% by the end of Q2/2020, flat compared with 1H/2019.
- The average rent in Xi’an was reported at RMB103.5 per sq m per month in Q2/2020, which was a 1.1% decrease quarter-on-quarter (QoQ).
- Financial, real estate and consumer services were the three most active industries in 1H/2020, accounting for 26%, 20% and 19% of leasing demand, respectively.
- High-tech I, High-tech II and City North had high transaction activity in 1H/2020.
- In 2H/2020, it is expected that many new and existing projects will seize the market opportunities presented by COVID-19 by updating and improving tenant structures, such as the North International Financial Centre and Tianyi International, which will further exert pressure on the city’s average rent.

“Xi’an continues to be a favoured destination for education companies, improving the office market fundamentals, and many firms are expanding the range of locations they are willing to consider.”

SOPHY PAN, SAVILLS RESEARCH
MARKET OVERVIEW

No new supply was added to the market in 1H/2020, and the total stock of Grade A office in Xi’an remained at 1.88 million sq m. Office leasing demand in Xi’an decreased due to the continued influence of COVID-19. Office vacancy rates fell during Q1/2020, but COVID-19 caught up with the market in Q2/2020, forcing the vacancy rate back up as the number of buildings visits dropped. As a result, the citywide vacancy rate stood at 33.5% by the end of Q2/2020, flat half-on-half (HoH). Rents declined during Q2/2020, and the average rent was reported at RMB103.5 per sq m per month, a 1.1% quarter-on-quarter (QoQ) decrease. Most owners lowered their expectations for the future market as well as providing tenants with benefits such as preferential parking fees and rent-free periods to ease pressure on rent reduction.

In terms of new leasing demand, financial, real estate and consumer services were the three most active industries in 1H/2020, accounting for 26%, 20% and 19%, respectively. The consumer service industry was driven in large part by the number of transactions from education companies. In recent years, Xi’an has favoured educational companies, which has expanded the range of offices available for location selection and has pushed forward large-scale transactions in Grade B offices. By region, High-tech I, High-tech II and City North had high transaction activity in 1H/2020. Multiple factors, such as a relatively new, high-quality buildings with convenient transportation, make these areas attractive to potential tenants.

MARKET OUTLOOK

As COVID-19 comes under further control in Xi’an and China, the economy is gradually recovering, and commercial demand is expected to recover later in the year. In 2H/2020, it is expected that many new and existing projects will seize the market opportunities presented by COVID-19 by updating and improving tenant structures, such as the North International Financial Centre and Tianyi International, which will further exert pressure on the city’s average rent. Maintaining tenant relationships and improving building competitiveness will be key points for landlords as the Xi’an office market competition becomes fiercer in the coming quarters and years.