

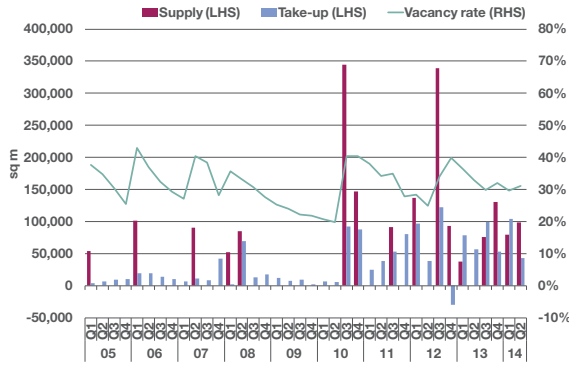
# Asian Cities Report

## **Chengdu Office**

2H 2014

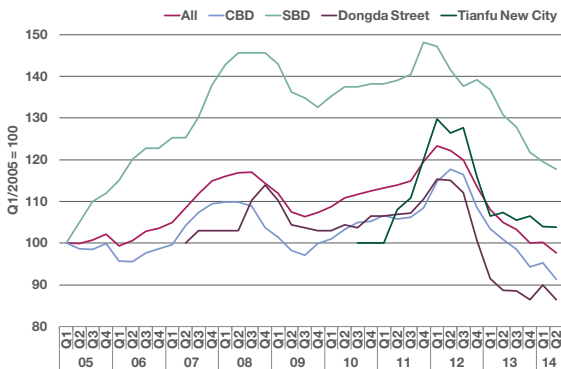


**GRAPH 1**  
**Grade A office supply, take-up and vacancy rates, Q1/2005–Q2/2014**



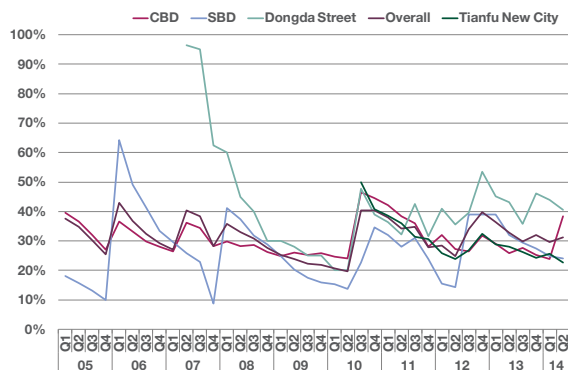
Source: Savills Research & Consultancy

**GRAPH 2**  
**Grade A office rental indices, Q1/2005–Q2/2014**



Source: Savills Research & Consultancy

**GRAPH 3**  
**Grade A office vacancy rates, Q1/2005–Q2/2014**



Source: Savills Research & Consultancy

## City overview

Chengdu is China’s strongest provincial capital and western China’s technological, trade and financial centre. It has experienced strong economic growth in the last 14 years, with average growth of 13.4 percentage points.

According to the Chengdu Statistics Bureau, gross domestic product (GDP) increased by 8.7 percentage points year on year to RMB484.3 billion in 1H/2014. Secondary industry was up 9.4% year on year to RMB225.8 billion, while the auto industry and electronic information product manufacturing industry experienced rapid growth of 27% and 16.9% respectively. Tertiary industry grew by 8.6% year on year to RMB245.8 billion, with financial services increasing by 13.8%.

## Office market overview

Chengdu’s Grade A office market took off in the mid-1990s to meet the need for high quality office space from financial, transport, logistics, IT and trading companies. The development of Chengdu’s office market has accelerated in the past four years, with annual supply averaging 364,800 sq m. By the end of 1H/2014, city-wide Grade A office market stock totalled about 1.86 million sq m, with a number of landmark buildings with state-of-the-art facilities entering the market, including Yanlord Landmark, Raffles City, COLI International Center, the Atrium and CD IFS I.

Chengdu’s Grade A office projects are primarily located in two traditional locations, and two emerging areas are being developed as new commercial hubs.

### Central Business District

The Central Business District (CBD), with its high quality office space, attracted a number of corporations. However, tenants have started to

relocate due to outdated facilities and lack of available space for expansion. To resolve the problem of falling occupancies landlords have offered tenants various concessions, such as adapting the standard of the properties for potential tenants and providing incentives such as extended rent-free periods.

### Science Business District

The Science Business District (SBD) is another traditional commercial district in Chengdu, however, there has been no new supply in 1H/2014. The area boasts a total Grade A office stock of about 500,000 sq m. Supported by improving ancillary facilities, an attractive business environment and reasonable rents, market demand in this district continues to be high and net take-up reached 17,000 sq m in 1H/2014. In 2Q/2014, the vacancy rate was 24.1% and rents fell by 1.6% year on year to an average of RMB99.44 per sq m per month.

### Dongda Street

The Jinjiang district government has been proactive in promoting Dongda Street as Chengdu’s future financial centre, with ambitious plans to turn this area into the “Western China’s Wall Street”. To support this objective a series of policies have been introduced applicable to financial and related industries, including tax incentives on the purchase and lease of space and parking fees, and tax discounts on the personal income of senior executives. Similar to the CBD, this area has already attracted many leading international and domestic developers. A number of international financial institutions, such as First Commercial Bank and ANZ Bank have already established their Chengdu offices in this area. Dongda Street has also attracted non-bank financial intermediaries and prominent law firms, such as Haitong Futures and King & Wood Mallesons.

Grade A office stock stabilised at 447,000 sq m as no new projects were handed over in 1H/2014. The net take-up amounted to over 47,000 sq m and the vacancy rates fell 5.6 percentage points to 40.5%, the city's highest rates. As some projects charged significantly higher rents, such as CD IFS I, average rents increased to RMB110 per sq m per month.

### Tianfu New City

Tianfu New City is the largest business zone development in Chengdu, covering a total area of 37 sq km. Since the municipal government office relocated here, government support has increased for both high-tech and financial support service industries.

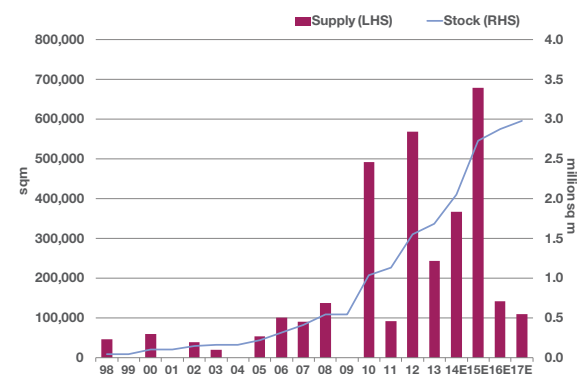
Although a large amount of future supply is expected to enter this market, transport networks, shopping facilities and other infrastructure in the surrounding areas continue to be unable to sustain demand. The majority of office space in Tianfu New City has sold as strata titles, resulting in inconsistent rental policies and deteriorating quality of property management.

## Market outlook

Similar to other second-tier cities, pressure on Chengdu's office supply is expected to remain an issue in the future. There is still about 539,000 sq m of rentable space in the market and over 525,000 sq m scheduled to be released over the next year. The majority of this supply will be located in Dongda Street and Tianfu New City, with CD IFS II, Pinnacle One and Tongwei International Center expected to be handed over towards the end of 2014. Due to weak demand, city-wide vacancy rates will increase as rents fall. As a result, most landlords will continue to offer rental discounts and incentives to retain quality tenants and compete for new tenants.

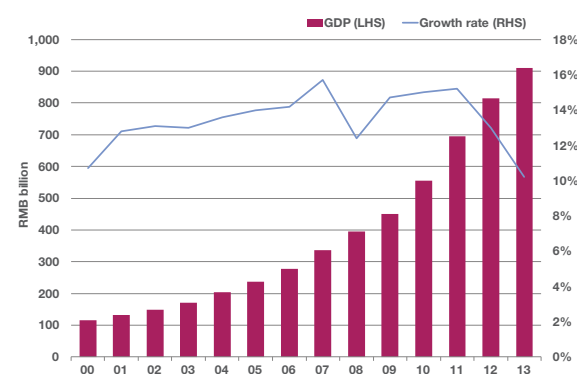
Uncertainties in the global economy and the slowdown in China's domestic market have reduced overall demand to a certain extent. Multinational companies are more cautious when pursuing expansion and are paying more attention to cost control. Chengdu is seen as one of the key cities in China with the most potential for future development, and the government is making tremendous efforts to stimulate demand. The city boasts a large, well-trained workforce; a business-friendly government; support from central government; competitive wage rates; and low overhead costs. Once the supply and demand balance out, Chengdu will be in a good position to encourage businesses to increase their operations in the city. ■

GRAPH 4  
Market supply forecast, 1998–2017E



Source: Savills Research & Consultancy

GRAPH 5  
GDP and growth rate, 2000–2013



Source: Chengdu Bureau of Statistics

TABLE 1  
Key future projects, 2H/2014

Retailer	Category	Location	Area (sq m)
Old Navy	Fashion	Nanjing Road (W)	1,750
M&M's World	Confectionary	Nanjing Road (E)	1,400
Tao Heung	F&B	Jing'an Temple	1,250
Jade Garden	F&B	Xujiahui	850
New Look	Fashion	Zhongshan Park	800

Source: Savills Research & Consultancy

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