

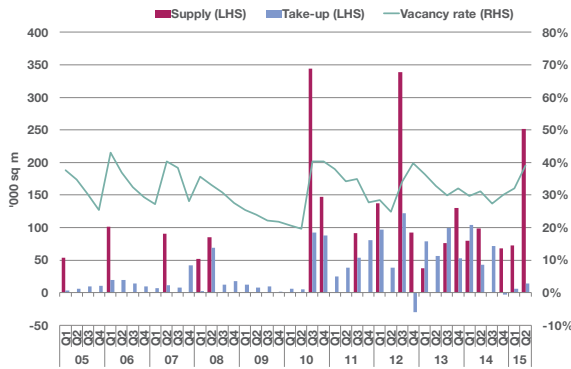
Asian Cities Report

Chengdu Office

2H 2015

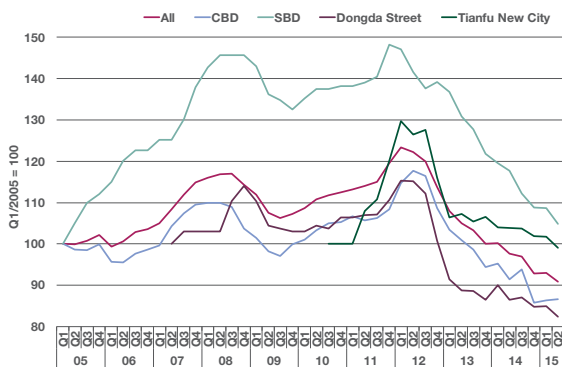


GRAPH 1
Grade A office supply, take-up and vacancy rates, Q1/2005–Q2/2015



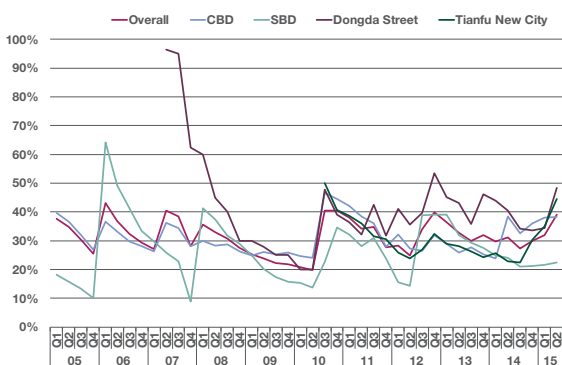
Source: Savills Research & Consultancy

GRAPH 2
Grade A office rental indices, Q1/2005–Q2/2015



Source: Savills Research & Consultancy

GRAPH 3
Grade A office vacancy rates, Q1/2005–Q2/2015



Source: Savills Research & Consultancy

City overview

Chengdu is a node-city in The Belt and Road Initiative. According to the “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road” published by the Chinese government, Chengdu has been positioned as one of the leading areas in opening-up in the inland region. This important position in the “One Belt and One Road” scheme is expected to accelerate the economic development of Chengdu and bring new opportunities to the office market. In recent years, Chengdu has greatly improved the city’s infrastructure links, including access to international air travel and convenient railway systems. Chengdu’s GDP reached RMB513.5 billion, up 8.0% year-on-year (YoY), and although the growth rate is slowing, it is still higher than the national GDP growth rate.

According to the Chengdu Statistics Bureau, 1H/2015 saw the primary industry up 2.5% YoY to RMB12.8 billion, with the secondary industry up 6% YoY to RMB222.4 billion and the tertiary industry growing 10% YoY to RMB278.5 billion. The tertiary industry contributed 54.2% of GDP in 1H/2015, up 3.4 percentage points (ppts) YoY. However, it also contributed 64.7% of the GDP growth, up 16.2 ppts YoY. The overall industry structure is continuing to optimise, with a higher proportion coming from tertiary industry.

Office market overview

Chengdu Grade A office supply has increased dramatically since 2012. In 1H/2015, three new projects were handed over, adding over 251,400 sq m of new supply to the market. Grade A office market city-wide stock totalled 2.21 million, the highest in western China. Concurrently, due to market pressure and construction issues, among other factors, many developers chose to postpone the launch dates of their projects.

An influx of supply like this usually requires a longer period of time to absorb and, as such, vacancy

rates rose to 39.9% from 30% in 2H/2014. To compensate for the increasing competition and vacant space, landlords have begun to lower the rent and extend rent-free periods to ensure higher occupancy rates. Affected by this, average rents were recorded below RMB100 per sq m per month for the first time since 2007.

Increasing competition within the market has shifted Chengdu Grade A office focus from “development stage” to “value-added service stage”. More projects have begun to change strategies in an effort to remain competitive by placing more emphases on fulfilling tenants’ individual requirements and providing better value-added services. For example, in 1H/2015, COLI International Centre launched a “cloud business centre”, while Greenland Group continues to implement its new intelligent cloud platform into new projects.

Central Business District (CBD)

The CBD is a traditional commercial district that benefits from an advantageous location and quality surrounding facilities. However, due to the aging facilities of many projects in the area, a number of tenants have begun relocating. Under this increased pressure, the newly-launched projects have recorded occupancy rates lower than 20%, below the average rate of projects in other areas which were launched during the same period.

Science Business District (SBD)

SBD is another traditional commercial district in Chengdu. Major tenants include financial, construction and engineering and medical companies. During 1H/2015, landlords were actively adjusting rents, resulting in average rents decreasing 3.9% to RMB94.44 per sq m per month. Benefiting from these lower rents, SBD achieved better occupancy rates than other areas in the city. In 1H/2015, SBD played an important role in city-wide take-up rates, accounting for more than 50% of total take-up.

Dongda Street

Dongda Street, in Jinjiang district, is planned to be Chengdu's future financial centre. Major tenants include financial, consultancy, and trade companies. In 1H/2015, International Financial Square PhII was launched in Dongda Street area, adding 130,000 sq m of supply. The intensified market competition, combined with a number of financial companies relocating to more cost-effective buildings or shutting their doors completely, meant vacancy rates in the area increased to 48.4% – the highest recorded in the city.

Tianfu New City

Tianfu New City, an important part of Tianfu New Area, is located along Tianfu Avenue, the high-tech and business hub of the city. Covering a total area of 37 sq km, it is expected to become a home to a working population of 600,000 and residential population of two million. Tianfu New City is expected to become the future business district and high-tech industry hub.

Landlords are facing increasing pressure brought on by the expected influx of supply. In 1H/2015, Tianfu New City welcomed one project, COLI International Center Blocks F and G, adding over 100,000 sq m. This resulted in vacancy rates increasing 9.5 ppts to 44.6%. In addition, a large amount of supply entering the Grade B office market has caused rents to decrease 2.7% quarter-on-quarter (QoQ) to RMB91.5 per sq m per month in 1H/2015.

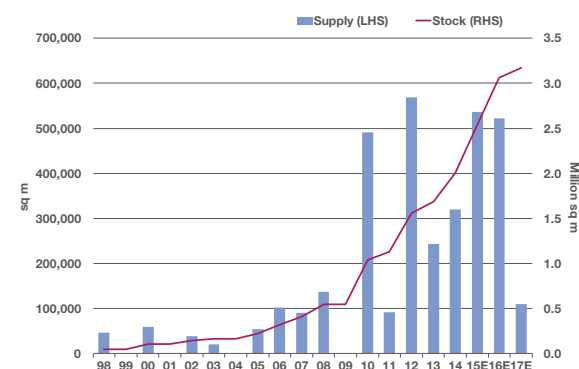
Market outlook

The combination of the expected influx of supply and the current slowing in economic growth has placed increasing pressure on the office market. By the end of 2016, the market is expected to welcome 10 new buildings city-wide, totalling more than 800,000 sq m. Of this, more than 50% of leasable space will be located in Tianfu New City, including COLI International Center Blocks C, D, J and H. Tianfu New City is expected to receive the largest portion of total supply in Chengdu over the next three years. However, as Tianfu New City is

a state-level new area, it is expected to drive sustained growth of the office net take-up in the long term. Vacancy rates and rents in SDB are expected to remain stable, while no new supply is expected over the next two years.

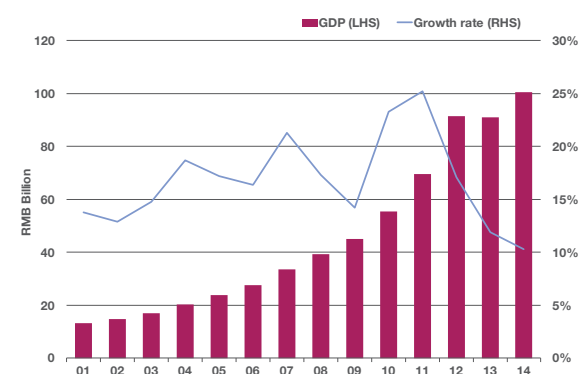
In conclusion, although the market is expected to face the pressure of the increasing supply and longer absorption rates in the next two to three years, landlords are actively adjusting leasing and property management strategies combined with more innovative value-added services. This is anticipated to have a positive effect on the overall market. In the long term, new office demands brought by Chengdu's industrial structure adjustment, the development of tertiary industry, especially high-end services, and the implementation of "One Belt and One Road" will add new opportunities to the Chengdu office market. ■

GRAPH 4
Market supply forecast, 1998–2017E



Source: Savills Research & Consultancy

GRAPH 5
GDP and growth rate, 2001–2014



Source: Chengdu Bureau of Statistics

TABLE 1
Key future office projects, 2H/2015–2H/2016

Project name	Launch date	Area	GFA (sq m)
Dongyuan Plaza	Q3/2015	CBD	100,000
COLI International Center J	Q3/2015	Tianfu New City	40,000
Yintai Centre	Q3/2016	Tianfu New City	160,000

Source: Savills Research & Consultancy

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