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Savills World Research
Chengdu

Briefing
Office sector

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Image: Shangri-La, Jinjiang District, Chengdu

SUMMARY

With the launch date of the Sichuan Airlines Centre delayed, no new projects entered the market in Q1/2016. Take-up improved quarter-on-quarter due to an increase in relocations, upgrades and expansions. Average citywide rents continue to experience downward pressure although vacancy rates fell.

- The total stock of Grade A office space remained at 2.12 million sq m as no new supply entered the market in Q1/2016.
- Quarterly net take-up improved to 32,000 sq m due to greater demands for relocations, upgrades and expansions from existing tenants.
- City-wide vacancy rates dropped 0.5 percentage points (ppts) to 40.3%.
- Greater leasing pressure resulted in a fall of city-wide average rents by 1.3% quarter-on-quarter (QoQ) to RMB98.64 per sq m per month.
- Two buildings, totaling 150,000 sq m of Grade A office space, are expected to enter the market in Q2/2016.

"Recently, co-working space operators have begun to occupy Grade A office projects. However, it remains to be seen if current co-working space tenants, such as start-ups looking to save money, will relocate to better quality buildings with higher rents." Dave Law, Savills Research & Consultancy

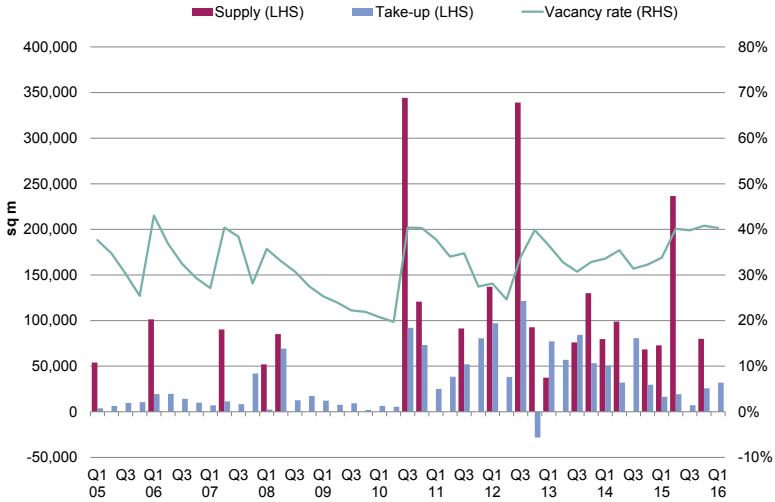
Market overview

In 2015, Chengdu's GDP reached RMB1.08 trillion, a year-on-year (YoY) growth of 7.9%, which is 1 ppt higher than the national average and equal to the provincial rate. The tertiary industry achieved the highest annual growth rate of 9%, the same as the previous year, adding RMB570.45 billion to the market. City-wide fixed asset investment growth performed strongly, reaching RMB700.7 billion, up 5.8% YoY, including RMB244.2 billion worth of real estate investment, up 10% YoY.

In Q1/2016, the Sichuan Airlines Centre pushed back its launch date, resulting in no new supply, keeping total Grade A office stock at 2.12 million sq m. Increasing demands for relocations, upgrades and expansions in the first quarter further increased take-up by 32,000 sq m, lowering vacancy rates by 0.5 ppts QoQ, to 40.3%.

GRAPH 1

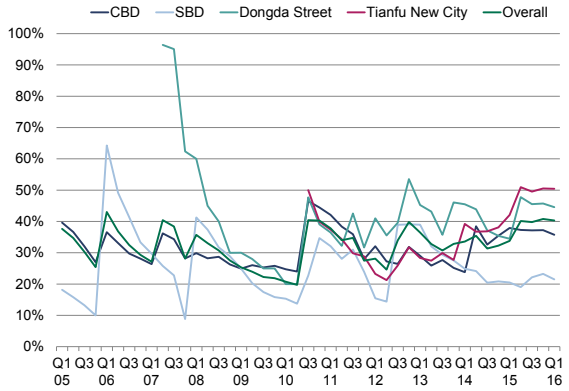
Grade A office supply, take-up and vacancy rates, Q1/2005-Q1/2016



Source: Savills Research

GRAPH 2

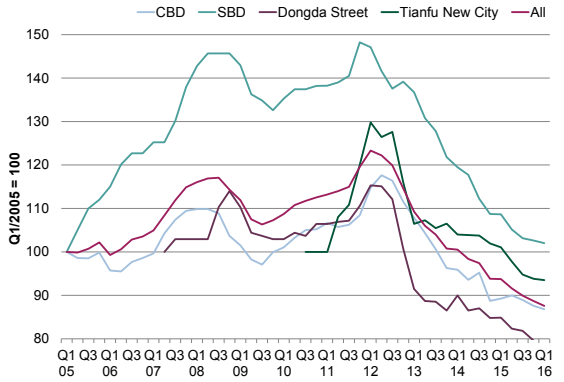
Grade A office vacancy rates, Q1/2005-Q1/2016



Source: Savills Research

GRAPH 3

Grade A office rental indices, Q1/2005-Q1/2016



Source: Savills Research

Rents continued to decrease to an average of RMB98.64 per sq m per month, down 1.3% QoQ, and 6.6% YoY. Dongda Street experienced the largest drop, down 3.8% QoQ.

In Q1/2016, the major drivers of demand remain financial services and management and consulting firms, though the IT, internet, E-commerce, and retail industries also remain active. However, tenants from the architecture, real estate, manufacturing and construction industries have been hit hardest by slowing economic growth, and represent the greatest percentage of occupiers leaving Grade A office space.

The most surprising trend of Q1/2016 is the movement of co-working space into Grade A office buildings. Co-working space was previously only located in non-prime buildings, such as factories, villas and Grade B office towers. Large floor plans required by co-working space providers will benefit take-up levels in Chengdu's Grade A office market, simultaneously diversifying the tenant base.

CBD

Take-up in One Aerospace Centre improved, following the relocation of Hi-coffice, a co-working spaces operator, which took up 6,000 sq m (net). Overall vacancy rates decreased 1.5 ppts to 35.7% in the CBD, while rents slightly decreased 0.9 ppt to RMB107.86 per sq m per month, the highest in the city.

However, excluding Hi-coffice, take-up in the CBD totalled 7,000 sq m in Q1/2016, due to significant tenant loss.

In Q2/2016, the Sichuan Airlines Center is expected to bring 80,000 sq m of new supply to the market, leading to higher vacancy rates and lower rents.

SBD

In Q1/2016, SBD net take-up improved by 8,000 sq m, decreasing vacancy rates by 2 ppts QoQ, to 21.5%. At the same time, rents decreased to RMB93.57 per sq m per month. Management and consulting and professional services companies were the most active drivers of new leasing volume.

Dongda Street

In Q1/2016, the net-take-up in the area was 17,000 sq m. Vacancy rates decreased to 44.6%, while rents dropped significantly by 3.8% QoQ to RMB102.86 per sq m per month.

Dongda Street remains the primary leasing option for financial companies, though management and consulting,

professional services and high-tech companies are also active in the area.

With no new supply forecast to enter the market in Q2/2016, vacancy rates around Dongda Street are expected to decrease further, due to the location's accessibility and the high quality of existing projects.

Tianfu New City

Net-take up in Tianfu New City was lacklustre in Q1/2016, despite new government support policies, leading to high vacancy rates of 50.5%. Higher rents and lower building quality have resulted in significant tenant losses in several projects. The rents in the area decreased 0.3 ppt, to RMB93.75 per sq m per day.

Only Twin Rivers International A is expected to enter the market in Q2/2016, bringing 70,000 sq m to the market. The launch dates of other projects have been delayed, ending fears of greater leasing pressure in the short term.

Market outlook

Based on the current situation, launch dates of many projects slated for 2016 are expected to be pushed back, as developers search for new strategies to turn a profit amidst intensifying market competition.

It is expected that Grade A office projects will continue to see an influx of co-working space operators, alleviating some of the leasing pressure felt by landlords. However, it remains to be seen if lower margin tenants and start-up companies will accept the higher costs of co-working spaces in Grade A buildings, especially as companies search for methods to reduce expenditure in the current economic environment.

TABLE 1

Selection of leasing transaction, Q1/2016

Tenant	Project	Location	Surface area (sq m)
Hi-Coffice	One Aerospace Center	CBD	7,000
MetLife	International Financial Center	Dongda Street	>1,000
Epson	The Atrium	Dongda Street	400

Source: Savills Research

Please contact us for further information

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