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Savills World Research
Chengdu

Briefing
Office sector

April 2017

Image: YinTai Center, Financial City, Chengdu

SUMMARY

The city's grade A office market ushered in 80,000 sq m of new supply in Q1/2017, pushing stock up to 2,320,000 sq m. Benefitting from a good take-up, the city's average vacancy rate dropped to 33.4%, while rent remained flat compared to the previous quarter.

- One new project, Yin Tai Center T2, entered the market in Q1/2017, adding 80,000 sq m. Total Grade A office stock now stands at 2.32 million sq m.
- On the back of strong take-up in Financial City*, city-wide net take-up exceeded 65,000 sq m during the period.
- City-wide vacancy rates dropped 0.6 of a percentage point (ppt) quarter-on-quarter (QoQ) to 33.4%.
- Average office rents decreased slightly, by 0.2% QoQ to RMB97.43 per sq m per month.
- Several projects are expected to be handed over in 2017; however, their handover dates have not yet been confirmed.
- Beginning in early 2017, Savills made the decision to subdivide Tianfu City into two submarkets: Financial City and Dayuan. All the relevant data in the report will be adjusted accordingly.

"In the first quarter, the Chengdu grade A office market saw Yin Tai Center T2 enter the market. Strong take-up caused the city's vacancy rate to decline, helping to stabilise rental levels. While market fundamentals showed improvement, it remains uncertain if this trend will continue, given the volume of new supply expected in the coming months." Dave Law, Savills Research & Consultancy

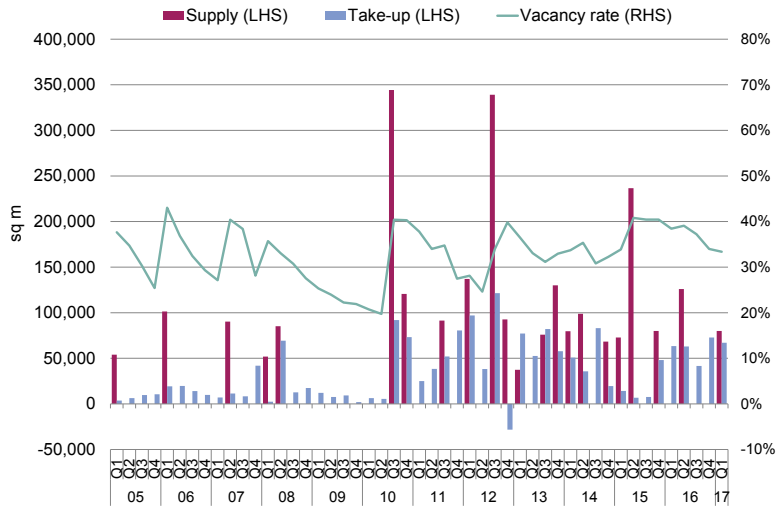
Market overview

The city's annual GDP reached RMB1.22 trillion in 2016, a year-on-year (YoY) increase of 7.7% and 1% higher than both the national and provincial rate. The tertiary industry recorded the strongest growth rate among all sectors, contributing RMB646.33 billion, up 9.0%. In addition, city-wide fixed asset investment continued to expand, up 14.3% YoY to RMB837.05billion. Among this, investment in real estate development reached RMB263.89 billion, rising 6.5% YoY.

In Q1/2017, the city's Grade A office market received one new project, Yin Tai Center T2, which contributed 80,000 sq m of office space, pushing city-wide stock to 2.32 million sq m. Driven by strong take-up levels in Financial City, which attracted many companies through favourable regional industry policies, city-wide take up exceeded 65,000 sq m. As a result, city-wide vacancy rates decreased by 0.6 of a ppt QoQ to 33.4%.

GRAPH 1

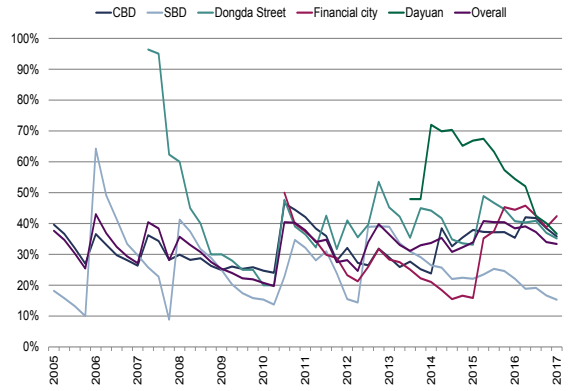
Grade A office supply, take-up and vacancy rates, Q1/2005 – Q1/2017



Source: Savills Research

GRAPH 2

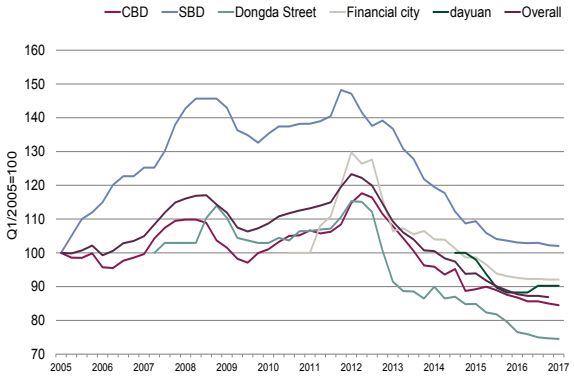
Grade A office vacancy rates, Q1/2005-Q1/2017



Source: Savills Research

GRAPH 3

Grade A office rental indices, Q1/2005-Q1/2017



Source: Savills Research

Average rents decreased slightly, by 0.2% QoQ to RMB97.43 per sq m per month during the final quarter. Financial services companies remain the most active in the office leasing market, while IT, and e-commerce, management & consulting, professional services, and retail and trade enterprises also generated significant demand.

CBD

Net take-up in the CBD exceeded 12,000 sq m in Q1/2017, pushing the area's vacancy rate down by 2.7 ppts QoQ to 35.8%. Rents decreased slightly, by 0.6% QoQ to RMB105.63 per sq m per month during the same period.

Based on recent leasing transactions, retail and trade, IT ,and e-commerce companies showed the strongest demand.

Within the next two years, Star Plaza and the Leading Centre are expected to enter the submarket, adding an additional 150,000 sq m of Grade A office space.

SBD

Net take-up in the Southern Business District (SBD) exceeded 6,000 sq m, contributing to a decline in the area's vacancy rate by 1.4 ppts QoQ to 15.3%, leaving the SBD with the lowest vacancy rate among all the city's business areas. At the same time, rents fell slightly, by 0.2% QoQ to RMB94.63 per sq m per month.

The majority of tenants in the submarket are financial services, multimedia, construction and real estate, and engineering companies.

While the area possesses several developable commercial land sites, the progress of development has slowed down, making it likely that no new supply will be added in 2017.

Dongda Street

Net-take up of this area reached approximately 10,000 sq m in Q1/2017. In response, vacancy rates fell by 1.8 ppts QoQ to 35.2%, lowering rents by 0.3% QoQ to RMB99.71 per sq m per month.

Dongda Street remains the top choice of financial services companies, as well as retail and e-commerce, and trade companies.

In addition to the arrival of many new projects, such as Pinnacle One, Western International Financial Center Tower 1, and Taihe International Wealth Center Tower 1, the area is expected to receive a further 200,000 sq m of new supply in the near future.

Financial City
In Q1/2017, Financial City received Yin Tai Center T2, with an office GFA of 80,000 sq m. The new arrival increased total stock of the area to 570,000 sq m, making the area home to approximately one quarter of the city's total Grade A office stock and, in these terms, the city's largest business sector.

As the core area of Tianfu New City, Financial City benefits from regional industry policies, which helped it achieve net take-up of approximately 30,000 sq m in Q1/2017 to become the largest contributor to city-wide absorption during the period. However, due to the entry of the new project, the vacancy rate rose 3.6 ppts to 42.4%, the highest in the city. Rents remained at the same level as the previous quarter, at RMB95.63 per sq m per month.

Financial services, management & consulting, professional services, IT, and internet companies contribute to the majority of demand in the area. Competition in Financial City is expected to intensify in 2017, catalysed by a greater influx of supply led by the handover of several new projects including COLI Int'l Center (Building C&D).

Dayuan
Net take-up in the Dayuan area exceeded 10,000 sq m in Q1/2017, pushing the vacancy rate down by 3.5 ppts QoQ to 36.7%. Rents remained flat with the previous quarter, at RMB86.25 per sq m per month.

IT and internet companies remain the most active tenants in the area. WFC Global Financial Centre and Liangjiang International Tower A will add approximately 200,000 sq m of new supply to the area in the near future.

Market outlook

In the first quarter, the city's Grade A office market saw market fundamentals improve over the previous quarter, as vacancy rates declined and rents stabilised. However, while this improvement offered a brief respite, it cannot be accepted as the new norm, given there still remain a number of projects in the pipeline that are yet to be handed over. When these projects enter the market, vacancy rates will come under new pressure, resulting in a probable decline of city-wide rents. However, while the city's office market remains in the grips of oversupply, Grade A office buildings are expected to remain the object of attention for investors, who have demonstrated a growing appetite for the city's prime office projects.

TABLE 1

Selection of leasing transaction, Q1/2017

Tenant	Project	Location	Surface area (sq m)
Beijing Dacheng Law Firm	COLI Int'l Center (Building J)	Financial City	2,000
Shenzhen QianHaiway Big Data	Chengdu International Science and Energy Saving Building	Dayuan	350
Chengdu ruima technology(expansion)	CapitaLand Tianfu	SBD	2,000

Source: Savills Research

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