

# Office



## Net absorption falls sharply

One project entered Chengdu's Grade A office market while declining market demand pushed up the overall vacancy rate by 0.5 of a percentage point (ppt) quarter-on-quarter (QoQ).

- China Overseas International Centre (Tower D) entered the market in Q1/2019, bringing the total Grade A office stock to 3.2 million sq m GFA.
- The citywide net absorption was 33,134 sq m, a fall of 77.9% year-on-year (YoY).
- The overall vacancy rate increased by 0.5 of a ppt QoQ to 21.5%.
- Finance, real estate, information technology, and commercial and professional services generated the most demand, occupying 33%, 19%, 12% and 7% of the total new leasing area, respectively.
- Demand was most active in CBD and Dongda St. where the share of total take-up comprised 29% and 23%, respectively. Demand in Financial City, SBD and Dayuan came next, with each district occupying 19%, 18% and 5%, respectively.
- The average rent of Grade A offices in Chengdu increased by 0.3% to RMB103.5 per sq m per month in Q1/2019.
- The new supply of Grade A office space in Chengdu is expected to reach more than 200,000 sq m over the remainder of 2019. Half of that space will be located in the Financial City submarket.

“The number of companies establishing offices in Sichuan declined significantly in Q1/2019, sending shockwaves through the overall leasing market.”

DAHUANG CHEN, SAVILLS RESEARCH

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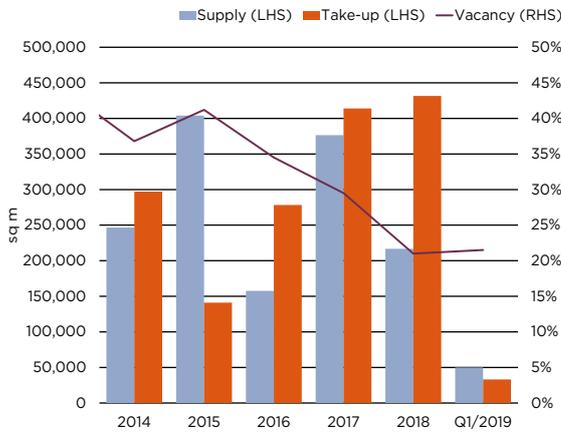
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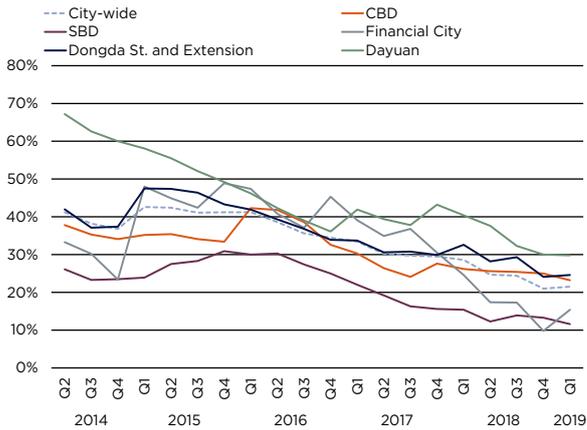
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**GRAPH 1: Grade A Office Supply, Take-up And Vacancy Rates, 2014 to 2018**



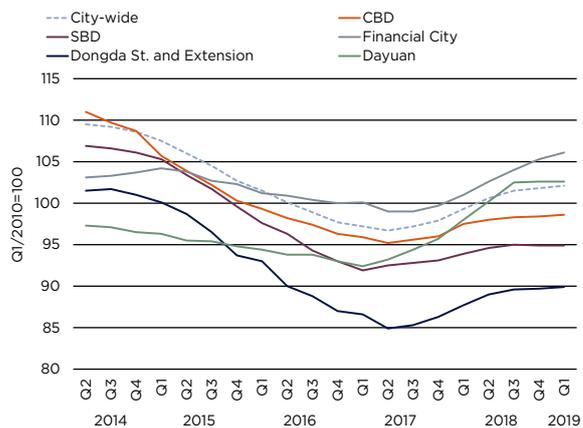
Source Savills Research

**GRAPH 2: Grade A Office Rental Indices, Q2/2014 to Q1/2019**



Source Savills Research

**GRAPH 3: Grade A Office Rental Indices, Q2/2014 to Q1/2019**



Source Savills Research

**MARKET OVERVIEW**

Chengdu’s GDP reached RMB1,53.28 billion in 2018, an increase of 8.0% YoY, the same as the Sichuan provincial rate, and 1.4 ppts higher than the national rate. The tertiary industry recorded the strongest growth rate among all industrial sectors, contributing RMB830.4 billion to the economy, an increase of 9.0% YoY. In addition, the city-wide total investment in fixed assets continued to expand, up by 10.0% YoY.

In Q1/2019, the office market in Chengdu was influenced by the limited expansion of national investment, leading to depressed demand. The number of companies entering Sichuan for the first time has declined significantly compared to 2018, and this drop has affected overall market leasing activity.

The China Overseas International Centre (Tower D) launched in the Grade A office market, pushing the city-wide stock to 3.2 million sq m. The citywide net absorption area was 33,134 sq m, a decrease of 77.9% QoQ. Finance, real estate, information technology, and commercial and professional services generated significant demand, taking up 33%, 19%, 16% and 15%, respectively, of total new occupancy.

Demand from financial enterprises was the strongest in Q1/2019, activated by the slowdown in the government’s deleveraging campaign. Co-working spaces and other flexible-office space providers expanded slowly, though their occupancy level was already at 6.8% in Q1/2019.

The overall vacancy rate increased by 0.5 of a ppt QoQ to 21.5%, and average rent increased by 0.3% QoQ to RMB103.5 per sq m per month in Q1/2019.

Demand was much more active in CBD in Q1/2019. CBD’s net absorption accounted for 29% of the citywide market, and the district’s vacancy rate declined 1.7 ppts to 23.2% YoY. Finance and business centres,

along with co-working spaces, were the strongest demand drivers for new leasing transactions, while information technology and healthcare also generated significant demand. These four sectors occupied 51%, 9%, 7% and 7%, respectively, of new occupancy in the CBD submarket. Rent levels increased in CBD to coincide with the growth in leasing activity in Q1/2019. The average rent of Grade A office space in CBD reached RMB110.0 per sq m per month, and the rental index rose by 0.3% QoQ.

Many Grade A office buildings citywide raised their property management fees due to higher labour costs and demands for upgraded services in Q1/2019. This led to higher overall costs for companies to enter Grade A office buildings.

**MARKET OUTLOOK**

Looking at the rest of 2019, the country’s overall macro-economic changes—especially the shrinking of the total capital that the real economy has gained from the financial system—may dampen business growth and thus deter any rise in office leasing demand. However, the new supply of Grade A office space in Chengdu is expected to reach more than 200,000 sq m in the next three quarters of 2019, including Taihe International Fortune Centre (the first Grade A office building in Panchenggang), Leading Centre (West Tower) in CBD, and China Overseas International Centre (Tower H&I) and Tianfu International Financial Centre in Financial City. With the continued development of Chengdu commerce and industry, and the city’s rising prominence, the vacancy rate is expected to fluctuate around the 20% mark for the next few years.

**TABLE 1: Selection Of Important Leasing Transactions, Q1/2019**

TENANT	PROJECT	LOCATION	GROSS FLOOR AREA (SQ M)
Ping An Financial Service	SAC	CBD	16,000
MFG	Lanrun ISC	Other	16,200
Ruisen International	Maoye Plaza	CBD	4,000
China Merchants Shekou Industrial Zone Holdings	China Overseas International Center (Tower C)	Financial City	2,780

Source Savills Research