SUMMARY

The absence of new supply, combined with steady take-up levels, decreased the city-wide vacancy rate to 34.0%, while average rents recorded no significant change.

- No new supply entered the market in Q4/2016, leaving Chengdu Grade A office stock standing at 2.25 million sq m.
- Driven by the development of Tianfu New City, city-wide net take-up exceeded 70,000 sq m.
- City-wide vacancy rates dropped 3.2 percentage points (ppts) quarter-on-quarter (QoQ) to 34.0%.
- Average rents decreased by 0.5% QoQ to RMB97.69 per sq m per month.
- Several projects are expected to be handed over in 2017; however, their handover dates have not yet been confirmed.

“Market supply decreased significantly in 2016; however, the en-bloc sales market was relatively active. At the same time, developers continued to adjust their strategies, while investors became increasingly optimistic of the market’s potential.” Dave Law, Savills Research & Consultancy
Market overview
In the first three quarters of 2016, the city’s GDP reached RMB859.8 billion, a year-on-year (YoY) increase of 7.5%, 0.8 of a ppt higher than national average and the same as the provincial rate. The tertiary industry recorded the strongest growth rate among all sectors, contributing RMB460.04 billion to the city’s GDP, a YoY increase of 8.1%. In addition, city-wide fixed asset investment continued to expand, up 13.3% YoY to RMB625.58 billion. Among this, investment in real estate development reached RMB199.88 billion, rising 6.1% YoY.

Grade A market stock remained at 2.25 million sq m as no new supply entered the market in Q4/2016. Driven by strong take-up levels in Tianfu New City, which attracted many companies through favourable regional industry policies, city-wide take-up exceeded 70,000 sq m. As a result, city-wide vacancy rates dropped by 3.2 pts QoQ to 34.0%.

Average rents decreased slightly by 0.5% QoQ to RMB97.69 per sq m per month during the final quarter. Financial services companies remain the most active in the office leasing market, while management & consulting, professional services, retail and trade, IT, and e-commerce enterprises also generated significant demand.

CBD
Net take-up in the CBD exceeded 15,000 sq m in Q4/2016, pushing the vacancy rate of the area down by 3.3 pts QoQ to 38.5%. Rents decreased slightly by 0.8% QoQ to RMB106.25 per sq m per month during the same period.

Based on recent leasing transactions, management & consulting, professional services, and retail and trade companies demonstrated the strongest appetite. New tenants are also increasingly showing a favouritism for newer projects.

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

SBD
The net take-up of the SBD reached 10,000 sq m, pushing vacancy rates down 2.3 pts QoQ to 15.5%, leaving the SBD area with the lowest vacancy rate among all the business areas. At the same time, rents slightly fell by 0.8% QoQ, to RMB93.00 per sq m per month.

The majority of tenants in the sub-market are management & consulting, professional services, IT, and e-commerce companies.

While space remains available in the area for new projects, the progress of development has been slow, making it likely that no new supply will be added in 2017.

Dongda Street
The net take-up of this area turned from negative to positive in Q4/2016, to approximately 20,000 sq m. Vacancy rates fell by 3.9 pts QoQ to 37%, lowering rents by 0.4% QoQ to RMB100.00 per sq m per month.

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

**Tianfu New City**

Favoured by regional industry policies, the area witnessed a net take-up of over 25,000 sq m in the final quarter, lowering vacancy rates 3.3 ppts to 39.3%. At the same time, rents decreased by 0.1% to RMB93.69 per sq m per month.

Financial services, IT, and internet companies are the most active tenants in the area.

One major en-bloc sale was transacted in Q4/2016: China Railway Trust purchased Building 2, of the Tairan Global Times Centre in Financial City.

Competition in this area is expected to become fiercer in 2017, catalysed by a greater influx of supply led by the handover of several new projects including WFC Global Financial Centre and Liangjiang International Tower A.

**Market outlook**

Several projects have adopted new operational strategies this year in response to the new market challenges, such as delaying handover dates or expanding their search for large, anchor tenants. With only two projects, Sichuan Airlines Square and COLI International Centre J, entering the market this year, new supply stood at 130,000 sq m, down a significant amount compared to 2015. In contrast, the en-bloc investment market was relatively active of late, with five key deals transacted in 2016. This indicates that investors hold bullish views on the long-term development of the city’s office market, even as developers continue to adjust themselves in under-current-market conditions.

The current situation is expected to continue in 2017. Although several projects are ready to launch, their launch dates have not yet been announced. Given the market is currently undergoing an adjustment period, developers are expected to continue to withhold their projects from entering the market until the most advantageous moment. However, the ongoing development of the city, such as the establishment of the new free trade zone and the municipal government’s plan to support the commercial real estate market, is forecast to improve take-up, ultimately slowing and then reversing the current decline of office rents.

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**TABLE 1**

**Selection of leasing transaction, Q4/2016**

<table>
<thead>
<tr>
<th>Tenant</th>
<th>Project</th>
<th>Location</th>
<th>Surface area (sq m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changjiang Property and Casualty Insurance Co. Ltd</td>
<td>Chengdu Yintai Centre</td>
<td>Tianfu New City</td>
<td>1,000</td>
</tr>
<tr>
<td>Merck KGaA</td>
<td>Yanlord Square</td>
<td>CBD</td>
<td>500</td>
</tr>
<tr>
<td>Aviva-Cofco</td>
<td>International Finance Square</td>
<td>Dongda Street</td>
<td>4,000</td>
</tr>
</tbody>
</table>

Source: Savills Research

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