Hi-tech demand is rising

Under the fallout from the COVID-19 epidemic and international economic recession, the average office vacancy rate increased to 24.0%.

- Vanke Wenchuang Tower with 56,000 sq m entered Chengdu’s office market in Q2/2020, causing Grade A office stock in Chengdu to increase to more than 3.3 million sq m.

- The citywide net absorption area measured 1,300 sq m, a quarter-on-quarter (QoQ) 105% increase, but an 85% year-on-year (YoY) decrease.

- Grade A office vacancy rate increased 1.3 percentage points (ppts) QoQ to 24.0% due to new supply and a less active office market.

- Information technology, real estate and finance generated the most demand, totalling 22.7%, 18.6% and 17.8%, respectively, of total new leasing area.

- Demand was most active in Dongda St. and Financial City. Demand in Dayuan and SBD came next, while office leasing demand in CBD was the weakest.

- Co-working spaces largely polarised in H1/2020. Most co-working companies paused their expansion, while some third-party office operators expanded into strata-title office buildings.

- New office supply of Chengdu’s Grade A office is expected to exceed 250,000 sq m in H2/2020. One of the new projects, Fengde Chengda Centre in CBD, is expected to reinvigorate this traditional, high-quality office area.

“COVID-19 has had a significant negative impact on industries such as retail, hospitality, tourism and offline education. However, insurance, online services and information technology have thrived during the epidemic. Chengdu’s economy is expected to develop steadily as the central and provincial governments promote work resumption, and Chengdu’s office market is expected to pick up in 2H/2020.”

SOPHY PAN, SAVILLS RESEARCH
MARKET OVERVIEW

Chengdu's GDP reached RMB384 billion in Q1/2020, a decrease of 3.0% YoY. The growth value of the tertiary industry reached RMB286 billion, a 2.8 ppts YoY decrease. In addition, the total citywide investment in fixed assets decreased by 7.2%. 

Due to the pandemic and global economic recession, developers delayed the launches of some new Grade A office supply in Chengdu. However, Vanke Wenchuang Tower with 56,000 sq m entered office market in Q2/2020, causing Grade A office stock in Chengdu to increase to more than 3.3 million sq m.

During 1H/2020, the office leasing activity continued to be quiet, with the citywide net absorption area at -2,500 sq m in 1H/2020, and the total new leasing area stood at 270,000 sq m. In Q2/2020, the citywide withdrawal area for Grade A offices increased 75% YoY. These withdrawals, coupled with the new project entering the market, pushed the vacancy rate up to 24.0%.

The total rental level kept steady at the beginning of the year despite being under pressure from the outbreak. In Q2/2020, some landlords reduced their rent and lowered their expected transaction price. Due to this, high-quality tenants saw their bargaining power increase significantly during Q2/2020. The average rent of Grade A office buildings in Chengdu stood at RMB101.3 per sq m per month, decreasing 1.3% YoY.

Finance, IT and real estate were the top three industries in terms of new tenants for Grade A offices in 1H/2020, occupying more than 60% of new leasing areas in total. Co-working spaces polarised in 1H/2020. On the one hand, most of the commercial centres and co-working companies paused their expansion, and several brands even had to reduce their leasing area and adjust project layouts due to financial difficulties stemming from the outbreak. On the other hand, local, private third-party operators still can meet micro-, small-and medium-sized enterprises' rental demands thanks to their price advantages and smaller working spaces. Additionally, some third-party office operators have recently expanded into strata-title office buildings.

MARKET OUTLOOK

In 2H/2020, projects over 250,000 sq m are expected to enter the citywide Grade A office market. Notably, the entry of the Fengde Chengda Centre in CBD is expected to bring new vitality to the traditional, high-quality office area. However, COVID-19 still rages across the globe and that could potentially affect Chengdu's economic and office prospects, especially given recent flare-ups in Beijing. Overseas risk factors continue to grow, and several industries, like retail, hospitality, tourism and offline education, are still dealing with the fallout of the initial outbreak in the city. However, other industries such as insurance, online services and IT services are expected to benefit from the shifting paradigms in the city.

The national, provincial and municipal governments have been promoting work resumption as the outbreak comes under further control, which should encourage the citywide economy and thereby promote a more robust office market in Chengdu in 2H/2020.

### TABLE 1: Selected Of Important Leasing Transactions, 1H/2020

<table>
<thead>
<tr>
<th>TENANT</th>
<th>PROJECT</th>
<th>LOCATION</th>
<th>GROSS FLOOR AREA (SQ M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Merchants Bank</td>
<td>OCG Tower A</td>
<td>Dayuan</td>
<td>10,000</td>
</tr>
<tr>
<td>Shusheng Science &amp; Technology</td>
<td>Wonkee International</td>
<td>Dayuan</td>
<td>10,000</td>
</tr>
<tr>
<td>New China Life Insurance</td>
<td>Pinnacle One</td>
<td>Dongda St.</td>
<td>6,000</td>
</tr>
<tr>
<td>Hetai Jiasheng Investment</td>
<td>Pinnacle One</td>
<td>Dongda St.</td>
<td>5,000</td>
</tr>
</tbody>
</table>

Note: Calculation of rental indices for all submarkets starts from Q1/2020 except for Financial City - Q3/2012; Dayuan - Q2/2015

Source: Savills Research