



Existing tenants dominate leasing demand

Upgrades and relocations of existing customers account for up to 60% of total new leases.

- No new projects entered the market and the Grade A office stock remained at around 3.87 million sqm.
- The city's vacancy rate fell 0.8 ppts YoY to 32.0%.
- The city's average rent fell 1.6% YoY to RMB 99.5 psm pmth.
- Buildings providing finished offices or customized renovation services performed better in leasing transactions.
- Finance and professional services sectors were the two largest sources of new tenants, accounting for 36% of the total new transaction area.
- Consumer services sector jumped to the third in demand source, contributing nearly 12% to newly leased transactions.

“Chengdu is expected to see 200,000 sqm of Grade A office supply in H2/2024, adding to the over 4 million sqm of total stock at the time. The market will continue to face greater destocking pressure, as it may be difficult for rental demand to grow significantly in the short term.”

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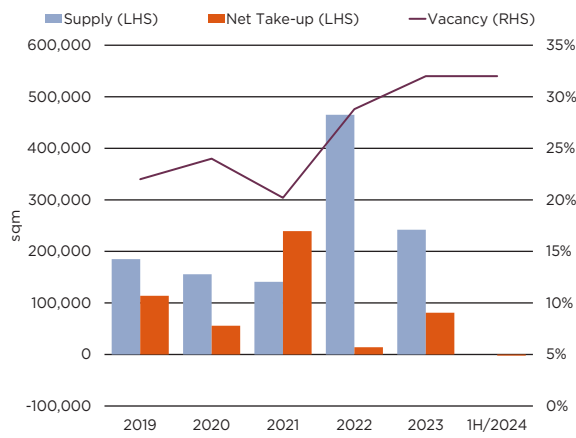
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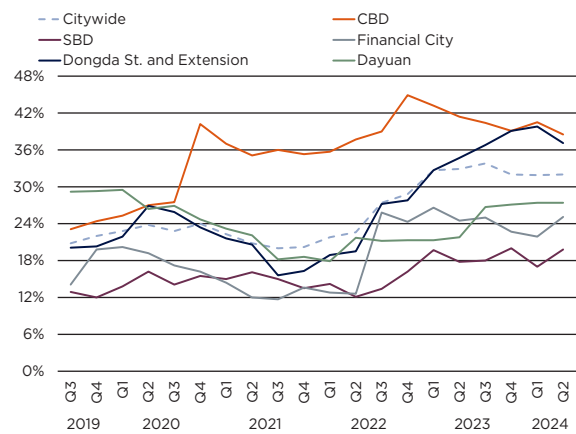
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GRAPH 1: Grade A Office Supply, Take-up And Vacancy Rates, 2019 To 1H/2024



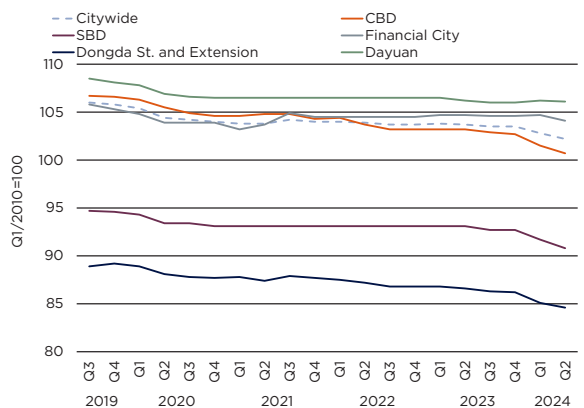
Source Savills Research

GRAPH 2: Grade A Office Vacancy Rates, Q3/2019 To Q2/2024



Source Savills Research

GRAPH 3: Grade A Office Rental Indices, Q3/2019 To Q2/2024



Note Calculation of rental indices for all submarkets starts from Q1/2020 except for: Financial City- Q3/2012; Dayuan-Q2/2013

Source Savills Research

MARKET OVERVIEW

Chengdu’s GDP reached RMB 551.82 billion in Q1/2024, up 5.0% YoY. The tertiary industry added value reached RMB 387.50 billion, up 5.3% YoY. Total fixed asset investments grew 6.8% YoY, with industrial investment growth and infrastructure investment achieved substantial growth, while real estate development investment decreased by 12.9%.

No new projects entered the market in 1H/2024, providing a valuable window for space destocking. The city’s vacancy rate fell 0.8 ppts YoY to 32.0%. However, over the past two years, about 700,000 sqm of new supply has entered the market, providing tenants with a wide selection of options.

The relatively high vacancy rate enabled customers to negotiate more effectively, leading to many property owners adopting a softer stance toward rents and terms. Chengdu’s average rental rate of the Grade A office market decreased by 1.6% YoY to RMB 99.5 psm pmth.

Rental demand from newly established enterprises in Chengdu remained insufficient in 1H/2024. Upgrade and relocation transaction space from existing tenants accounted for 60% of the total leased area, up 10 ppts YoY. Most enterprises remained cautious, leading to a YoY decline in expansion space.

Within submarkets, among Grade A buildings with similar projects, those providing finished offices or customized renovation services performed better in leasing transactions. Furnished properties can significantly reduce tenants’ renovation expenses and time cost, while customized

furnishing services can meet enterprises’ demand for personalized office space.

INDUSTRY DEMAND

The financial and professional services sectors ranked the top two sources of leasing transactions, accounting for 23% and 13% respectively. Consumer services sector jumped to the third source of industry demand, contributing nearly 12% to newly leasing transactions, driven by training and education companies. In 1H/2024, several projects across the city recorded transactions from non-academic training providers including tutoring for language study and vocational training, extra curriculum study and overseas study applications.

MARKET OUTLOOK

Construction in the East River area of the Jiaozi Financial Business District is accelerating. This area aims to be a “national-level innovative financial center,” which will enhance Chengdu’s local financial industry in the future. Nearly one million sqm of office space is expected to be built in the area, containing commercial streets, high-end residences, schools, and medical facilities.

Due to the shrinking demand in current market, new supply is expected to slow down in H2/2024, with individual buildings meeting the launch standard rescheduling their entry plans or switching from leasing to selling their properties. The government has implemented several policies to strengthen leading industries and cultivate emerging industries. With the continuous accumulation of capital, talent, technology and other factors, office leasing demand will continue to recover in the future.

TABLE 1: Selected Important Leasing Transactions, Q2/2024

TENANT	INDUSTRY	PROJECT	LOCATION	GROSS FLOOR AREA (SQ M)
ZEHUI Law Firm	Commercial & Professional Services	World Financial Center	Dayuan	2,000
ACTIVE Network	IT	International Finance Square	CBD	1,500
New Channel Education	Consumer Services	International Finance Square	CBD	1,000
Migong Lan Education	Consumer Services	NIC National Innovation Centre	Financial City	800

Source Savills Research