

Office



Total surrender space down significantly

The total area surrendered was down 50% YoY, with a significant decline in large-area surrender.

- The first new office project of the year, Lanrun Ruichen Centre, was introduced to the market in Q3/2024.
- Grade A office market average rental rates decreased by 0.6% QoQ to RMB 98.6 psm pmth, while the city's vacancy rate rose 0.3 ppts QoQ to 32.3%.
- Net absorption of Grade A office space turned positive to 11,000 sq m.
- IT and Retail & Trade sectors ranked as the top two sources of leasing transactions, accounting for 22% and 17% respectively.
- The leasing market is still dominated by demand for small-area tenants, with nearly 80% of leasing transactions having a turnover area of less than 500 sq m.
- Approximately 100,000 sq m of new grade A office space are expected to enter the Chengdu Grade A market in Q4/2024.

“In Q3/2024, the first new project of the year, Lanrun Ruichen Centre, brought nearly 30,000 sq m of new supply to the market. Leasing demand remained weak, but total surrender space declined significantly. In Q4/2024, approximately 100,000 sq m of new supply is expected in Tianfu New District, intensifying competition in the area.”

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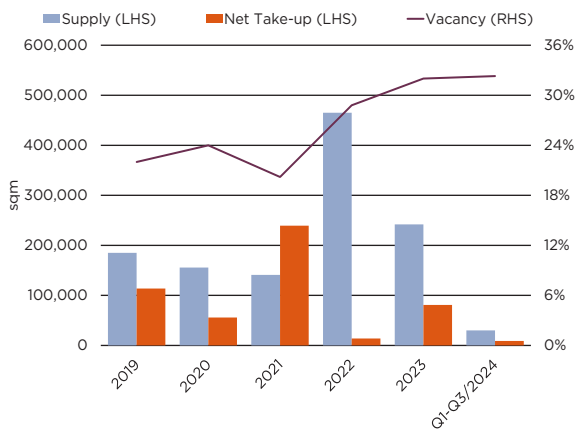
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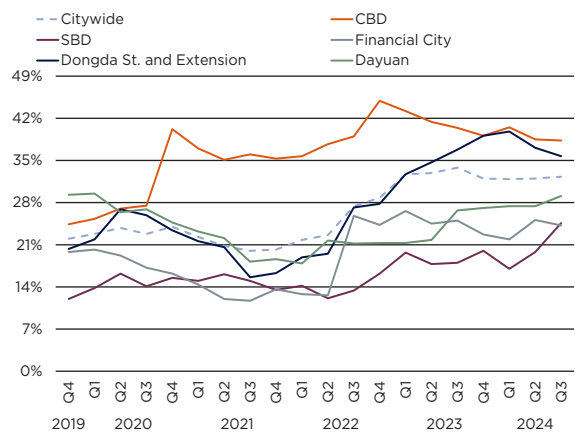
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GRAPH 1: Grade A Office Supply, Take-up And Vacancy Rates, 2019 To Q3/2024



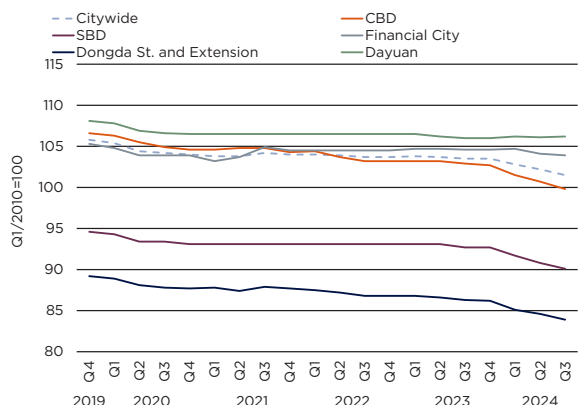
Source Savills Research

GRAPH 2: Grade A Office Vacancy Rates, Q4/2019 To Q3/2024



Source Savills Research

GRAPH 3: Grade A Office Rental Indices, Q4/2019 To Q3/2024



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 1115.21 billion in H1/2024, up 4.8% YoY. The tertiary industry added value reached RMB766.89 billion, up 5.1% YoY. Total fixed asset investments grew 6.1% YoY, while real estate development investments decreased by 5.9%.

The first new office project of the year, Lanrun Ruichen Centre, was introduced to the market in Q3/2024, representing the first new office project within the SBD submarket in the past ten years. Approximately 30,000 sq m of Grade A office space was added to the city, pushing the Grade A office stock to over 3.9 million sqm.

In Q3/2024, Grade A office market average rental rates decreased by 0.6% QoQ to RMB 98.6 psm pmth, while the city’s vacancy rate rose 0.3 ppts QoQ to 32.3%.

Net absorption of Grade A office space turned positive to 11,000 sq m in Q3/2024. This positive shift was attributed to a significant reduction in surrender space, including a significant reduction in large-area surrenders, reflecting the gradual stabilization of the rental market. It is worth noting that several headquarter buildings located in the Tianfu New Area and the Financial City submarket will be delivered soon, by which time the office leasing space of these enterprises in Grade A buildings may be scaled down or surrendered, and landlords should pay attention to the potential risks ahead of time and make timely response.

Transaction demand relied heavily on existing tenants’ relocation and upgrades, with incremental demand growing weak. A majority of large-area leasing transactions

were driven by existing tenants, some of whom upgraded from Grade B buildings to Grade A buildings in the same district, and others relocated from older Grade A buildings to Grade A buildings in better condition. Rent declines in Grade A office buildings have contributed greatly to tenants’ relocations and upgrades. This has led office landlords to keep a close eye on the market and offer well-furnished offices to attract and retain tenants.

INDUSTRY DEMAND

In Q3/2024, the IT and Retail & Trade sectors ranked as the top two sources of leasing transactions, accounting for 22% and 17% respectively. Moreover, the professional services sector recorded the highest net absorption, reflecting the high leasing stability of professional services tenants represented by law firms and accounting firms.

The leasing market is still dominated by demand for small-area tenants, with nearly 80% of leasing transactions having a turnover area of less than 500 sq m.

MARKET OUTLOOK

Approximately 100,000 sq m of new grade A office space are expected to enter the Chengdu Grade A market in Q4/2024, predominantly in the Tianfu New Area submarket, which will continue to be subject to intense competition.

Municipal and provincial governments have enacted several policies, including lowering enterprise taxes and fees, providing subsidies to high-tech businesses, and enhancing foreign investment conditions. Along with economic stabilization policies, it is expected to boost office leasing demand.

TABLE 1: Selected Important Leasing Transactions, Q3/2024

TENANT	INDUSTRY	PROJECT	LOCATION	GROSS FLOOR AREA (SQ M)
Horgos Golden Box Intelligent Information Technology	IT	Co-innovation and cooperation centre	Dayuan	2,500
YILI	Retail & Trade	Huixin Fortune Centre	Dongda St. and Extension	2,200
XWSESA	Manufacturing	International Land	SBD	1,500
Walnut Coding	Consumer Services	Huixin Fortune Centre	Dongda St. and Extension	1,100

Source Savills Research