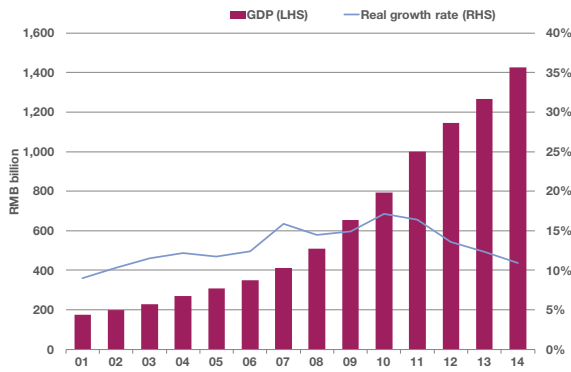


Asian Cities Report **Chongqing Office**

1H 2015



GRAPH 1
GDP, 2001–2014



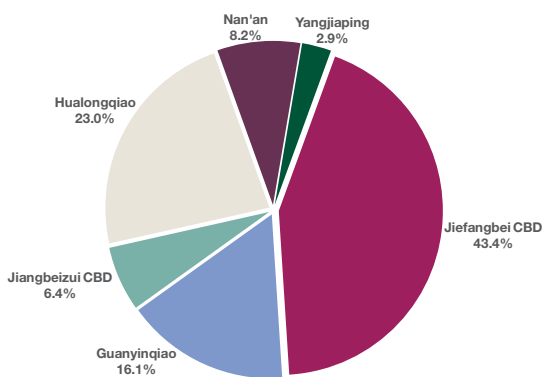
Source: Chongqing Statistics Bureau, Savills Research & Consultancy

MAP 1
Metro network, 2007–2020E



Source: Official website of Chongqing Metro

GRAPH 2
Office stock distribution, Q4/2014



Source: Savills Research & Consultancy

Macroeconomy

Dubbed the “Chinese Detroit” due to its manufacturing based industry, both Chongqing’s economy and national status have witnessed rapid development since the establishment of the municipality. In 2014, Chongqing was ranked the most competitive city in western China and ninth nationally by GN Chinese City Competitiveness Valuation Indicator. Additionally, Liangjiang New Area ranked the most competitive new economic area nationally by the same institute, after Pudong, Shanghai (浦东新区) and Binhai, Tianjin (滨海新区).

In 2014, Chongqing’s GDP totalled RMB1,426.5 billion with a compound annual growth rate (CAGR) of 13.3%. As the economy flourishes, Chongqing’s industry structure has begun optimising. In 2014, tertiary industry (46.8%) surpassed secondary industry (45.8%) to become the biggest contributor to Chongqing’s economy. The finance sector grew 15.6% year-on-year (YoY) in 2014 and accounted for 8.6% of the tertiary industry, which has resulted in buoyant leasing demand.

Metro development

By the end of 2014, metro lines 1, 2, 3 and 6 were all operational, reaching a total length of 202.2 km, the longest in western China and fourth nationally after Beijing, Shanghai and Guangzhou, three first-tier cities. Line 3 has become the world’s longest and busiest monorail line. Additionally, construction began in 2013 on line 5 and circular line 10 and they are expected to be operational by 2017.

Improvement in infrastructure and public transportation has greatly eased previous congestion issues in prime areas such as Jiefangbei and Guanyinqiao. The improved connectivity has also allowed commercial areas to mature.

Office market

As the largest economy in south-west China, Chongqing’s position as a regional business hub was further enhanced during 2014. Moreover, the

establishment of Liangjiang New Area and the city’s continued urbanisation has generated more business areas and, in turn, office clusters. By the end of 2014, Chongqing Grade A office stock reached 1.04 million sq m, up 25% YoY.

Chongqing Grade A office stock locations have expanded from four areas to six areas. Prime area Jiefangbei CBD has over 452,700 sq m of office stock, accounting for 43.4%. Over 240 of the world’s top 500 corporations have established a presence in Chongqing by the end of 2014, half of which chose the business hub of Yuzhong district (mainly Jiefangbei CBD) to set up offices. Another traditional area, Guanyinqiao has over 168,000 sq m of stock, and is generally preferred by domestic SMEs.

With the establishment of Liangjiang New Area, Jiangbeizui CBD was set up to target domestic financial companies. Jiangbeizui CBD has access to metro lines 6 and 9. Currently, nine out of 24 buildings are owned by financial institutes for self-use. A further one million sq m of new stock is expected to enter the leasing market from 2015 to 2018. Not only positioned as a business district, Jiangbeizui CBD is also transforming into another high-end shopping destination to serve the surrounding white-collar workers and other rich generation in the city. Over five shopping malls (equivalent to over 500,000 sq m) and five five-star hotels will enter the market from 2015 to 2018.

Grade A office supply in Hualongqiao wholly stems from the Shui On Corporate Avenue project. In 2014, Corporate Avenue 5# and 8# were handed over to the market, adding 92,000 sq m. 5# building was purchased en-bloc by Ping’an Insurance along with 3# building and 4# building. Currently, Hualongqiao houses 23.0% of office stock.

Supply, take-up and vacancy rate

Six Grade A office projects were handed over to the leasing market in 2014, adding over 300,000 sq

m and, consequently, intensifying competition. Yearly take-up surpassed 196,000 sq m, double that of 2013. This can be mainly attributed to relocations and new demand from companies within the financial and trade industries.

Vacancy rates reached 35.4%, up 0.8 of a ppt compared to 2013 with quality buildings in prime locations enjoying an average occupancy rate of over 80%. An upward pressure on vacancy rates mainly stems from newly handed-over projects in immature areas such as Hualongqiao and Jiangbeizui CBD. The absorption rate of these newly handed-over projects, however, rose as fast as 20% on a quarterly basis throughout 2014. Older projects in prime areas have begun losing tenants to newly-handed over projects due to congestion issues and poor amenities; this trend is expected to continue into 2015.

Rents

As an increasing number of investors continue to choose Chongqing as their point of entry into the western China market, Grade A office demand in Chongqing is expected to experience an upward trend. Buoyant demand and improvements in buildings' quality have enhanced the bargaining power of landlords in mature areas. Consequently, Grade A office rents increased from RMB91.5 per sq m per month in Q4/2013 to RMB108.9 per sq m per month in Q4/2014. Yuzhong district (Jiefangbei CBD and Hualongqiao) and Jiangbei district (Guanyinqiao and Jiangbeizui CBD) have recorded highest rental level with RMB108.3 and RMB116.6 per sq m per month respectively in Q4/2014.

However, constrained by an influx of new supply, the rental appreciation rate has slowed in recent quarters. In order to raise occupancy rates and secure quality tenants, landlords have begun offering discounts and longer rent free periods.

Strata title price

Unlike other first tier cities such as Beijing, Shanghai and Guangzhou, Grade A office projects are typically

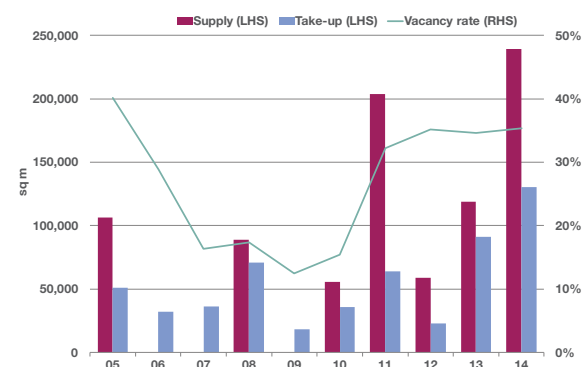
sold strata-title in Chongqing as developers seek to cash-in as soon as possible. By the end of 2014, 59% of Grade A office stock in Chongqing was sold strata title, of which 41% was sold en-bloc to large domestic insurance institutes such as Ping'an and Sunshine Insurance. By the end of 2014, there was no office projects held by their own developers. The stagnancy of the real estate market has weakened investor interest in the Chongqing office strata-title market. By the last quarter of 2014, Chongqing Grade A office strata title price averaged RMB17,970 per sq m, down 4.6% quarter-on-quarter (QoQ).

Outlook

2015 is expected to see Chongqing receive another round of new supply on the leasing market. Over 1.25 million sq m is likely to be handed over, expanding the stock by over 115%. Over half of this new supply is expected to be launched in Jiangbeizui CBD.

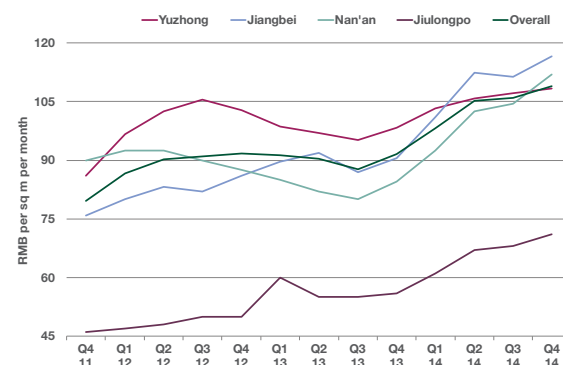
In 2014, the city's tertiary industry once again surpassed the secondary industry with the financial sector in particular recording positive growth. This trend is expected to boost demand. Rental appreciation is also expected over the course of 2015 as competition intensifies due to the new supply. Quality projects in prime areas may not be as affected by this problem but the downgrading of buildings will be accelerated as their facilities fail to meet tenant requirements. Take-up rates are likely to face a downward pressure while vacancy rates are expected to rise temporarily as the market digests the new supply. ■

GRAPH 3
Supply and stock, 2005–2014



Source: Savills Research & Consultancy

GRAPH 4
District rental breakdown, Q4/2011–Q4/2014



Source: Savills Research & Consultancy

TABLE 1
Selected future office supply, 2015E

Project name	Location	GFA (sq m)
Wharf IFS T2	Jiangbeizui CBD	61,200
Lifan Centre T1	Jiangbeizui CBD	110,000
Financial Tower 3# T1	Jiangbeizui CBD	47,000
Tianhe International	Guanyinqiao	72,200
Sincere SFC	Jiefangbei CBD	118,430

Source: Savills Research & Consultancy

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