

# Briefing Office sector

April 2014



Image: Financial City, Jiangbeizui CBD

## SUMMARY

Buildings with outdated facilities continued to lose tenants, pushing city-wide vacancy rates upwards. The period after the New Year has become a peak leasing season, leading to rental appreciation.

- In Q1/2014, no new supply was released onto the market and two office buildings were downgraded, leaving Grade A stock at 743,426 sq m.

- City-wide vacancy rates rose by 1.8 percentage points (pps) quarter-on-quarter (QoQ) to 35.4% in Q1/2014.

- Net take-up reached 2,867 sq m in Q1/2014.

- Grade A office rents grew by 7.2% QoQ, to RMB 97.8 per month per sq m. Landlords greatly increased

rents this quarter as many companies relocated after the New Year.

- Three new Grade A offices situated in Jiefangbei CBD and Guanyinqiao are expected to be handed over to the market in the next quarter, adding around 140,000 sq m to Grade A office stock.

- As high-quality projects continue to enter the market, older buildings with less desirable facilities will lose the interest of tenants and will eventually be downgraded.

"In the face of fiercer competition, landlords of newly built high-end projects are still setting high rental levels but with longer rent-free periods." Dave Law, Savills Research

## Market commentary

In the first quarter of 2014, no new projects were launched onto the market, while two Grade A office buildings located in Guanyinqiao were downgraded, leaving Grade A stock at 743,426 sq m. With the release of upcoming supply, office quality

throughout the city will be raised to a higher level, while more outdated office buildings face being downgraded. City-wide net take-up reached 2,410 sq m in Q1/2014, while newly launched projects have pushed vacancy rates up for three consecutive quarters to reach 35.4% in Q1.

## Vacancy rate

City-wide Grade A office vacancy rates rose 1.8 ppts QoQ to 35.4%. Although Yuzhong district vacancy rates saw a decline of 3.5 ppts compared with Q4/2013, they are the highest at 42.4%. New tenants are mainly from industries such as finance, trade and logistics.

Jiulongpo district retained the lowest vacancy rates city-wide at 4.2%, down 0.1 of a ppt QoQ. Demand is from the trade and service industries.

Generally speaking, older, lower quality office buildings are continuing to lose tenants, while newer, higher quality office projects, such as Yingli IFC and Corporate Avenue 4#, are gaining in popularity. Despite the high rental levels, the vacancy rates of these two buildings have fallen by 19.7 and 2.6 ppts respectively QoQ in Q1/2014.

## Rents

The first quarter marks the period after Chinese New Year and has become a peak leasing season in Chongqing. The demand for relocations has pushed rental levels up to 7.2%, reaching RMB97.9 per sq m per month in Q1/2014. The highest rental appreciation occurred in prime areas such as Jiangbei district, where strong demand from domestic and local companies has led to rental appreciation of 11.2% in Guanyinqiao. Nevertheless, Yuzhong district still recorded the highest rents, up 5.6% QoQ to RMB103 per sq m per month.

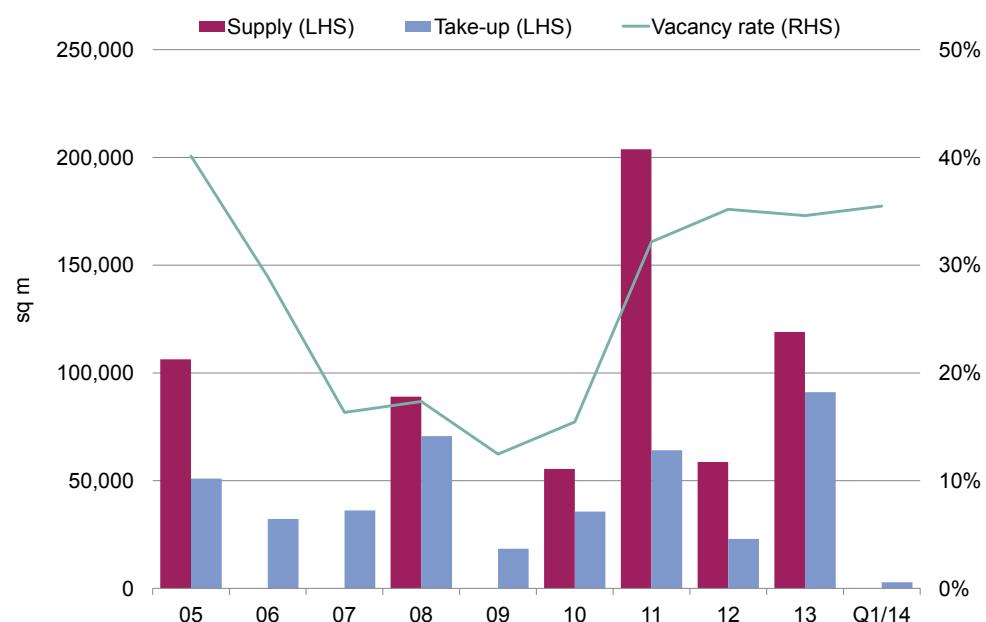
## Market outlook

The Westin International, Poly International and Rongheng Times Square will be handed over next quarter, adding total office space of 140,000 sq m to Grade A office stock. The Westin and Poly projects are located in Jiefangbei, while Rongheng Times Square is in Guanyinqiao. All of the new supply will target Fortune 500 enterprises and international companies, adding vitality to the Grade A leasing market.

In Jiefangbei CBD, Yuzhong district, almost all of the future supply is expected to launch on Wuyi Road, informally known as the Western Wall Street. This particular CBD

GRAPH 1

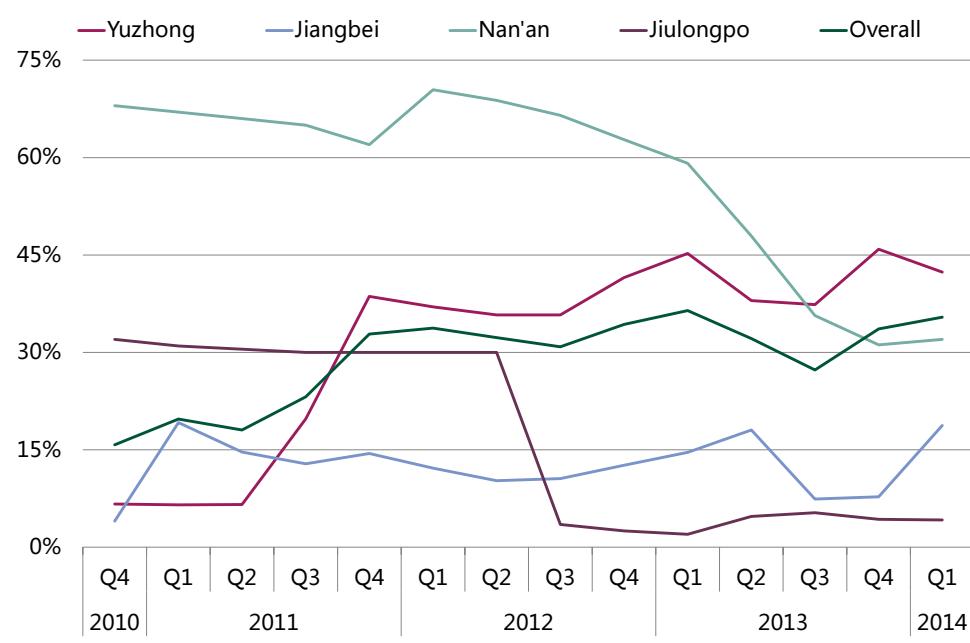
### Grade A office supply, take-up and vacancy rates, 2005–Q1/2014



Source: Savills Research

GRAPH 2

### Vacancy rates by district, 2005–Q1/2014

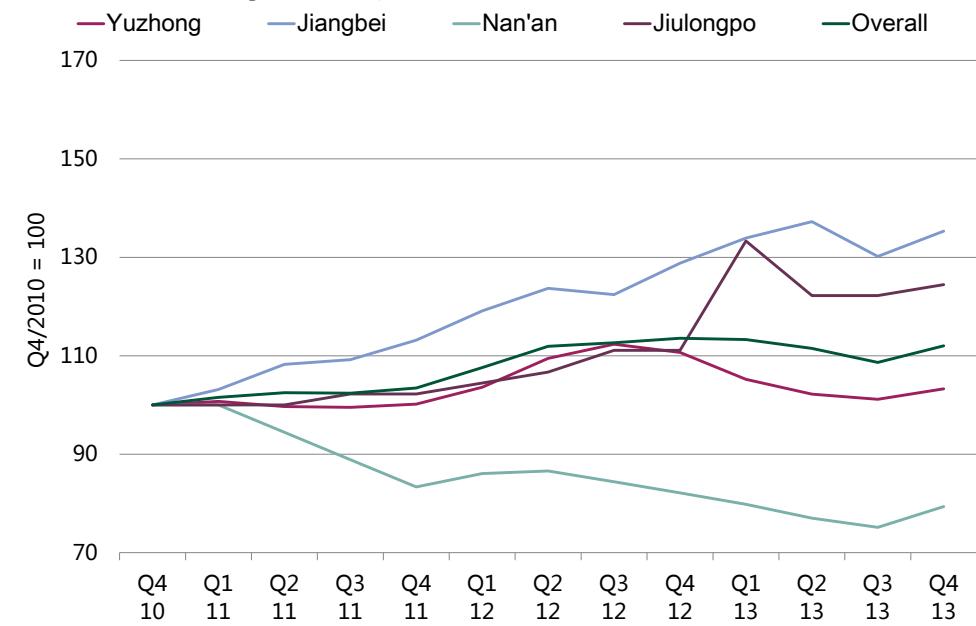


Source: Savills Research

has become a hub for companies operating in the financial sector and the new projects will target the same tenant profile, undoubtedly intensifying competition in the area. Landlords of new projects, with the support of updated configurations and a large tenant pool in the CBD area, will have the opportunity to raise rental levels, and in order to assure take-up rates, a more preferential and customised service for tenants will be provided.

In Guanyinqiao, Jiangbei district, tenants of buildings with congested elevators have started to relocate and, as a result, an increasing number of outdated buildings will be downgraded in the near future. Demand is high due to the increasing success of domestic small- and medium-sized companies in the area. Rents may continue to rise due to limited supply in the area until expected new supply in the form of the Sun Valley cluster is launched in 2016. ■

**GRAPH 3**  
**Rental indices by district, 2005–Q1/2014**



Source: Savills Research

## Project focus

### Rongheng Times Square

Located in Guanyinqiao Pedestrian Street, Jiangbei district, Rongheng Times Square will be the first of a cluster of new buildings, named Sun Valley, to be handed over. The building benefits from a convenient transportation network, with easy access to metro line 3.

The whole project comprises an office building with a GFA of 35,174 sq m and a luxury retail mall with a GFA of 26,160 sq m. Positioned as a Grade A office building, they are targeting international and large domestic corporations, while the retail element has signed high-end luxury fashion brands such as Maria Luisa, Balmain and Neil Barrett. An internationally renowned property management company has been appointed to this project.

**TABLE 1**  
**Rongheng Times Square**

<b>Location</b>	Guanyinqiao, Jiangbei district	
<b>Developer</b>	Chongqing Ruilin Industrial Ltd	
<b>Office GFA</b>	35,174 sq m	
<b>No. of storeys</b>	B5/F-35/F	
<b>Ceiling height</b>	3.9 m	
<b>No. of lifts</b>	8 (passenger lift)	
<b>Floor area</b>	1,498 sq m	
<b>Parking spaces</b>	432	
<b>Estimated handover date</b>	Q2/2014	
<b>Property management</b>	DTZ	

Source: Savills Research

TABLE 2

**Selection of leasing transactions, Q1/2014**

Tenant	Project	Location	GFA (sq m)
China Gold	Yingli IFC	Jiefangbei CBD	2,000
Hualian Group Investment Holdings	Changjiang International	Nan'an	763

Source: Savills Research

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