

Briefing Office sector

July 2014



Image: Westin International, Jiefangbei CBD

SUMMARY

Five new projects were launched onto the market in the second quarter of 2014, representing a new wave of higher quality supply helping to upgrade the overall Grade A office market in Chongqing.

- In Q2/2014, five new office buildings were handed over to the market, adding 236,200 sq m and bringing Grade A office stock to about 979,600 sq m.
- As supply surged in Q2/2014, city-wide vacancy rates rose by 10.7 percentage points (ppts) quarter-on-quarter (QoQ) to 46.1%.

- Year-to-date (YTD) Grade A office take-up reached 50,000 sq m.
- Rents increased by 4.1% QoQ, to RMB105.1 per sq m per month due to rising demand.

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 "Due to buoyant leasing demand, rental levels in all main business areas witnessed positive consecutive quarterly growth. However, with a surge in supply in Q2, take-up levels may begin to suffer in the coming quarters."

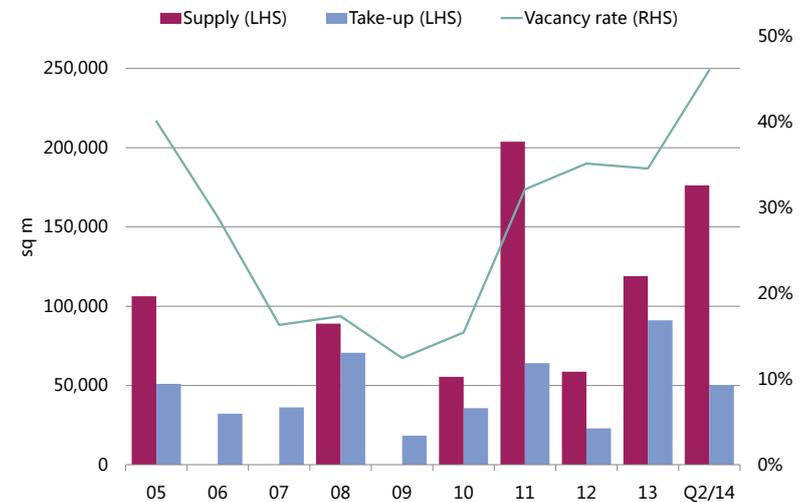
Dave Law, Savills Research

➔ **Market commentary**

In Q2/2014, five new office buildings were handed over, adding 236,200 sq m to the leasing market, including Westin International, HNA Poly International Plaza and Corporate Avenue 5# in Yuzhong district, and Rongheng Times Square and Financial Town #2 T2 in Jiangbeizui CBD, Jiangbei district. This new supply is believed to be leading the market into a new era of higher quality supply. By the end of Q2/2014, Grade A office market stock reached 979,600 sq m, of which 88.2% is situated in Yuzhong and Jiangbei districts.

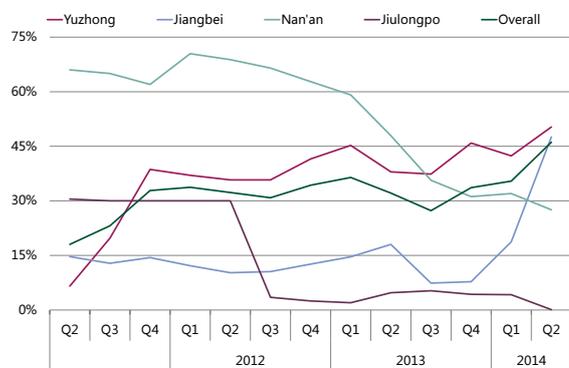
City-wide Grade A office take-up reached 50,000 sq m YTD. City-wide vacancy rates surpassed 40% for the first time since 2006, reaching 46.1%. Rents increased by 4.1% QoQ, to RMB105.1 per sq m per month due to rising demand.

GRAPH 1 **Grade A office supply, take-up and vacancy rates, 2005–Q2/2014**



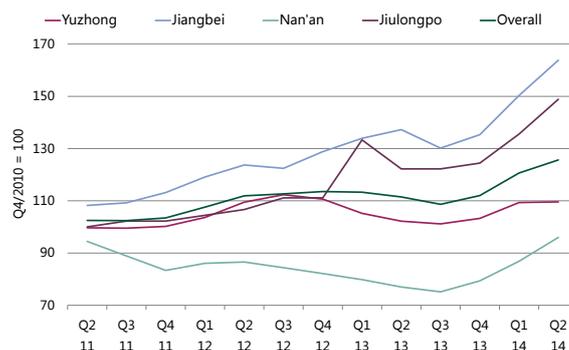
Source: Savills Research

GRAPH 2 **Vacancy rates by district, Q2/2011–Q2/2014**



Source: Savills Research

GRAPH 3 **Rental indices by district, Q2/2011–Q2/2014**



Source: Savills Research

Vacancy rate

City-wide Grade A office vacancy rates rose by 10.7 ppts QoQ to 46.1%. The highest increases appeared in Yuzhong and Jiangbei districts, where all the new supply this quarter was launched. Vacancy rates in Yuzhong district rose 10.7 ppts QoQ to 50.3%, while Jiangbei increased by 28.8 ppts to 47.5% due to the substantial amount of supply. Landlords of these new projects are offering longer rent-free periods and more administrative services, such as additional facilities from business centres within the projects, to raise their take-up rates as soon as possible amid intensified competition.

In Nan'an district, landlords of existing projects lowered their threshold of the standards of companies in order to attract more tenants. Benefiting from sufficient leasing demand and limited supply, office projects in Jiulongpo district are almost fully occupied with a vacancy rate of 0.1%. This situation will be greatly eased by the entrance of Huarun Centre in early 2015.

Rents

City-wide rents increased by 4.1% QoQ, to RMB105.1 per sq m per month. The highest rental growth occurred in Nan'an district, up 10.5% due to an increase in demand, followed by Jiulongpo district, which lacks good quality projects.

Given the higher quality of new projects in Yuzhong and Jiangbei, landlords have been able to set relatively high rental levels. For example, Financial Town #2 T2 recorded rents of RMB120 per sq m per month, which is even higher than that of most existing projects.

Market outlook

The majority of new Grade A office supply in 2014 was released this quarter. With new supply entering the market, rents and vacancy rates have fluctuated greatly, leaving 451,800 sq m of vacant office space on the market at the end of Q2/2014. Rents and take-up are believed to have suffered amid fierce competition and this trend seems set to continue over the course of 2014. Landlords have begun to adjust their marketing and leasing strategies to lower vacancy rates.

Long-established Jiefangbei CBD and Guanyinqiao are still well known as corporations' first choice due to the mature business facilities and complete transportation networks. Financial Town #2 T2 in emerging Jiangbeizui CBD recorded a relatively high rental level of RMB120 per sq m per month and a take-up rate of 20% in its first leasing quarter. Nevertheless, leasing pressure is still climbing in this less mature future financial hub as more quality supply looms. ■

Project focus

Westin International

Westin International is situated on Wuyi Road in Jiefangbei CBD, where the government aims to attract overseas and domestic financial institutions with state-of-the-art office projects. Westin International is the first Grade A office completed at the so-called “Western Wall Street” – Wuyi Road. With a total GFA of 200,000 sq m, Westin International is a city complex with office space and a five-star hotel. The office component takes up the 9/F to 32/F, totalling 48,466 sq m. With easy access to Xiaoshizi Station (metro line 1) and the mature commercial environment of Jiefangbei CBD, Westin International aims to attract financial companies with higher rental affordability and larger space demands.

TABLE 1
Westin International

Location	Wuyi Road, Jiefangbei	
Developer	The Forebase Group	
Office GFA	48,466 sq m	
No. of floors	B9/F–32/F	
Standard floor height	4.3 m	
No. of lifts	19	
Area for each floor	2,200 sq m	
No. of parking spaces	830	
Handover date	Q2/2014	
Property management company	Chongqing Nuofute Property Management	

Source: Savills Research

Please contact us for further information

Savills Research



James Macdonald
Director, China
+8621 6391 6688
james.macdonald@savills.com.cn

Savills Project Development & Consultancy



Dave Law
Senior Associate Director
+8628 8658 7120
dave.law@savills.com.cn



Eric Wo
Deputy Managing Director
+8628 8672 1810
eric.wo@savills.com.cn



Backy Fung
Director
+8628 8658 7841
backy.fung@savills.com.cn

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