

Briefing Office sector

November 2014



Image: Corporate Avenue 7#, Hualongqiao

SUMMARY

No new projects were launched onto the market in Q3/2014, allowing vacancy rates to decrease due to steady growth in demand. Rental appreciation slowed, however, as developers concentrated on securing high quality tenants with favourable rent levels.

- No new Grade A office buildings were launched onto the leasing market in Q3/2014.

- City-wide vacancy rates fell 6.9 percentage points (ppts) quarter-on-quarter (QoQ) to 39.2% in Q3/2014.

- Net take-up reached 67,700 sq m in Q3/2014.

- Rental levels remained stable as developers aimed to decrease vacancy rates, increasing 0.8% QoQ, to RMB105.95 per sq m per month.

- Strata-title transaction prices saw a decline of 1.1% QoQ, averaging RMB18,770 per sq m.

- Two quality projects are expected to be launched onto the leasing market in Q4/2014, adding over 100,000 sq m and resulting in increasingly intensified competition between landlords.

- The majority of new supply anticipated between 2015 and 2018 will be located in decentralized and emerging areas, such as Jiangbeizui, which is expected to redefine Chongqing's office market distribution pattern.

- Another round of new supply is expected to put pressure on take-up rates and rental appreciation.

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"Due to limited supply and buoyant demand from expansions and relocations, non-prime areas such as Nanping have seen a continuous decrease in vacancy rates."
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Dave Law, Savills Research
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➔ **Market commentary**

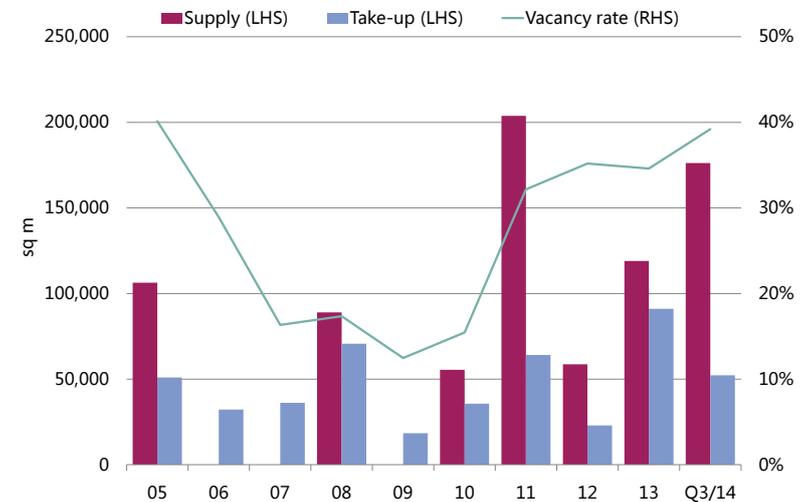
In Q3/2014, no new office projects were handed over to the market, keeping city-wide stock at 1 million sq m. During the remainder of the year, two quality buildings, Corporate Avenue #7 and #8, situated in the Hualongqiao area, are expected to be launched, adding 107,400 sq m to the leasing market.

High vacancy rates, resulting from oversupply in Q2/2014, have begun to trend downward due to buoyant demand. In Q3/2014, city-wide vacancy rates fell 6.9 pts QoQ to 39.2%, with take-up reaching 67,700 sq m. As developers continue to focus on decreasing vacancy rates, rents increased 0.8% QoQ to RMB106 per sq m per month.

Vacancy rate

In Q3/2014, city-wide vacancy rates fell 6.9 pts QoQ to 39.2%. Due to large amounts of stock and new supply, Yuzhong district and Jiangbei district are recording high vacancy rates of 43.7% and

GRAPH 1 **Grade A office supply, take-up and vacancy rates, 2005–Q3/2014**



Source: Savills Research

39.9% respectively. It should be noted that outdated projects in the Jiefangbei and Guanyinqiao areas of the two aforementioned districts are continuously losing tenants due to building and cost inefficiencies. Jiangbeizui, an emerging area in the Jiangbei district, is witnessing the fastest occupancy rate growth in the city, rising 16.7% this quarter. Financial services and trade companies are the main drivers of demand within the area.

Due to undersupply, vacancy rates in Nan'an district and Jiulongpo district remained relatively low at 17.7% and 1.3% respectively. Limited supply in Yangjiaping is likely to be relieved after office components of China Resources' MixC project are handed over in 2015.

Due to take-up pressure, landlords are offering more favourable rent levels to tenants, allowing rental growth to remain stable this quarter. City-wide rents increased 0.8% QoQ to RMB106 per sq m per month.

Rents climbed 1.4% to RMB107.1 per sq m per month in the Yuzhong district, while Jiangbei district recorded a decrease of 1.0% to RMB111.4 per sq m per month. In the Nan'an district, rising demand, coupled combined with limited leasable space, reinforced landlord bargaining power, allowing rents to grow 1.8%, the highest increase in the city. Rents

in Yangjiaping increased 1.5% to RMB68.0 per sq m per month.

Office strata-title market

Most Grade A offices in Chongqing are strata-title. Due to intensified competition, city-wide transaction prices have been facing downward pressure since 2013. By the end of Q3/2014, average office prices reached RMB18, 770 per sq m, down 1.1% QoQ.

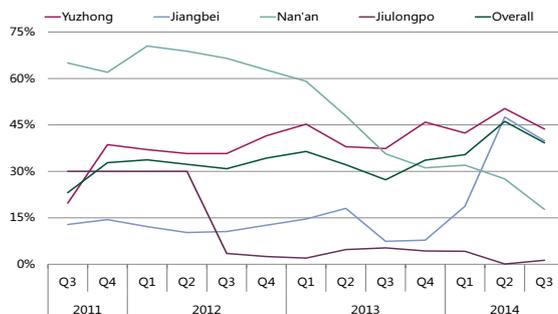
Market outlook

Two new projects, Corporate Avenue #7 and #8, are expected to be launched during the remainder of 2014, adding a total new supply of 107,400 sq m to the market. As a result, city-wide vacancy rates are likely to trend upward in the short term.

As the quality of office buildings continues to grow, and more favourable leasing terms are offered, multinational corporations and large domestic companies are becoming increasingly interested in office relocations and expansions. The leasing market is expected to be more active through the end of the year and the start of 2015. Although demand is buoyant, rental appreciation and transaction prices are still under pressure as occupancy rates are still considered acceptable.

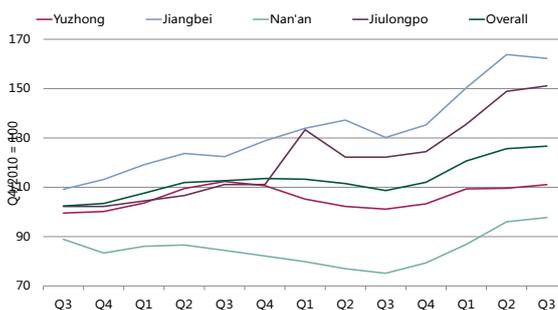
The Chongqing office market is also benefiting from improving

GRAPH 2 **Graph 2: Vacancy rates by district, Q3/2011–Q3/2014**



Source: Savills Research

GRAPH 3 **Rental indices by district, Q3/2011–Q3/2014**



Source: Savills Research

infrastructure systems. The second-phase of metro line 6, connecting Jiangbeizui and Jiefangbei, is expected to begin operations by the end of the year. The end of 2014 will see metro lines 1, 2, 3 and 6 connecting almost all office market areas in Chongqing, giving corporations more location choices as traffic problems are relieved. ■

TABLE 1
Selection of leasing transactions, Q3/2014

Tenant	Project	Location	GFA (sq m)
Deloitte & Touche	Corporate Avenue #8	Hualongqiao	6,300
KYOCERA Corporation	The World – The Centre	Nan'an	260

Project focus

HNA Poly International Plaza

HNA Poly International Plaza, located on Minsheng Road, on the outskirts of the Jiefangbei CBD, was developed by China Poly Group Corporation and sold en-bloc to HNA Group Co Ltd. . The site, the former location of Chongqing Hotel, has been transformed into a city complex consisting of Grade A offices, retail and a five-star hotel.

Total office space GFA is 56,890 sq m, spanning 30/F to 58/F, and the targets for rental are international corporations and institutes. Tenants such as Fuji Xerox, Canada Visa Information Centre and the Consulate General of Hungary have relocated to this building. Asking rents range from RMB120 per sq m per month to RMB130 per sq m per month. The project is managed by DTZ Holdings plc. for a management fee of RMB26.0 per sq m per month.

TABLE 2
HNA Poly International Plaza

Location	Minsheng Road, Jiefangbei
Developer	China Poly Group Corporation
Office GFA	56,890 sq m
No. of floors	30/F–58/F
Standard floor height	4.5 m
No. of lifts	18
Area for each floor	2,000 sq m
No. of parking spaces	700
Handover date	Q2/2014
Property management company	DTZ Holdings plc.



Source: Savills Research

Please contact us for further information

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