

Briefing Office sector

January 2014



Wharf IFS, Jiangbeizui CBD

SUMMARY

One new project was launched onto the market in Q4/2014, pushing city-wide Grade A office supply to over one million sq m. Although supply is trending upwards, vacancy rates continue to slide due to buoyant demand.

- One new Grade A office, located in Hualongqiao, was handed over in Q4/2014, adding 63,000 sq m and pushing city-wide stock upto 1.04 million sq m.

- Due to buoyant demand from expansions and relocations, vacancy rates fell 2.7 percentage points (ppts) quarter-on-quarter (QoQ) to 35.4% in Q4/2014, even though Grade A stock increased.

- Net take-up reached 66,900 sq m in the last quarter of 2014.

- City-wide average rents continued to rise, increasing 3.1% QoQ to RMB108.9 per sq m per month.

- Strata-title transaction prices recorded a decline of 4.6% QoQ, averaging RMB17,900 per sq m.

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"Relocation, new setup and upgrading demand from corporations in finance, consulting and trade is trending upward, leading vacancy rates to drop rapidly in several new projects."
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Dave Law, Savills Research

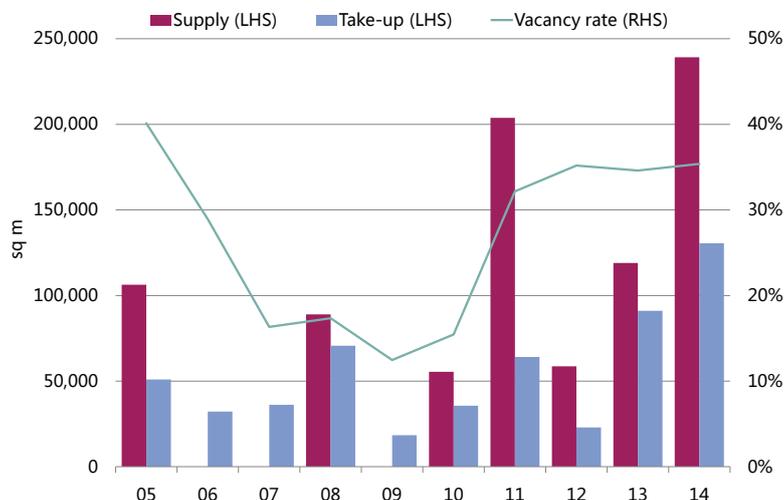
➔ **Forecast**

At least 850,000 sq m of supply is expected to be handed over next year, almost half of which is located in the Jiangbeizui area. The remaining supply is distributed throughout the Jiefangbei, Xinpaifang and Yangjiaping areas. This new supply will further enlarge the Chongqing Grade A office distribution pattern, and lead to increased competition.

Market commentary

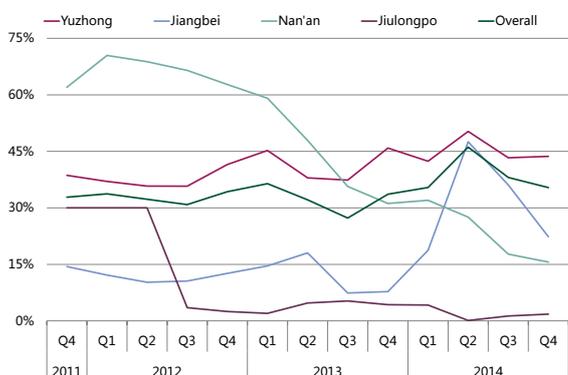
As the largest economy in south-western China, Chongqing's position as a regional business hub has been further enhanced during 2014. Over 240 of the world's top 500 corporations established a presence in Chongqing by the end of the year,

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



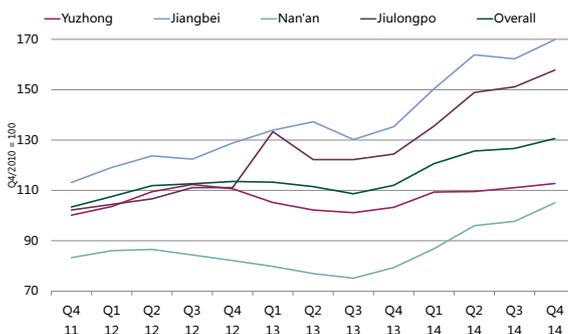
Source: Savills Research

GRAPH 2 **Vacancy rates by district, Q4/2011–Q4/2014**



Source: Savills Research

GRAPH 3 **Vacancy rates by district, Q4/2011–Q4/2014**



Source: Savills Research

half of which chose the business hub of the Yuzhong district to set up offices. Chongqing's Grade A office market expanded rapidly during 2014; prime areas such as Jiefangbei and Guanyinqiao are facing buoyant demand amid fiercer competition. Emerging areas such as Hualongqiao and Jiangbeizui have played an increasingly important role in the Grade A office market, with a new round of supply handed over.

Six Grade A office projects were handed over to the leasing market in 2014, adding over 300,000 sq m and increasing competition. Yearly take-up surpassed 196,000 sq m, double that of 2013. This is mainly due to active relocation and new setup demand from companies from industries such as finance and trade. In Q4/2014, Corporate Avenue #8 was handed over, adding 63,000 sq m to the leasing market and pushing stock up to 1.04 million sq m. This is the fourth building launched in Corporate Avenue. The remaining three blocks, #3, #6 and #7, are expected to be handed over in the coming year, adding 120,000 sq m.

In Q4/2014, rents averaged RMB108.9 per sq m per month. Rental appreciation in prime areas such as Nan'an and Guanyinqiao is highly notable, increasing 7.6%

and 4.7%QoQ, respectively. The upgrading of newly handed over office projects in terms of quality has enhanced landlords' confidence in raising rent levels.

Vacancy rate

The establishment of middle- and small-sized enterprises is growing rapidly in Chongqing, resulting in an increase in office demand from these companies. In an attempt to enhance business image, companies in old and lower quality buildings are seeking to upgrade, increasing to demand for space to expand and relocate to. For example, Haipai Ltd. completed their relocation from Jinyuan Underground City in Guanyinqiao to Rongheng Times Square in Guanyinqiao.

As a result, vacancy rates in newer, higher quality buildings are declining at a fast rate. Financial Town #2 T2 in the Jiangbeizui CBD has witnessed take-up rates doubling in Q4/2014, increasing 24.5%.

In Q4/2014, city-wide vacancy rates continue to decline, falling 2.7 ppts to 35.4%. The highest vacancy rates continue to be recorded in the Yuzhong district, reaching 43.7% as one new building was added. The largest fluctuations can be seen in the Jiangbei district, where vacancy rates fell 13.8 ppts from 36.1% to 22.3%.

Rents

Buoyant demand and improvements in quality have given landlords in mature areas the momentum to increase rents. In Q4/2014, rents increased 3.1% QoQ to RMB108.9 per sq m per month. During 2014, city-wide Grade A rents increased from RMB98.2 per sq m per month to RMB108.9 per sq m per month, showing that new supply has not led to a downward pressure on rents as anticipated.

Projects in the Jiangbei district saw tenants expanding and relocating to higher quality offices. Due to a strong pool of tenants and limited high-quality supply, Jiangbei continued to see rents grow by 4.7% to RMB116.6, which remains the highest in the city. Tertiary industry has been a pillar industry in the Jiangbei district, increasing the number of small- and medium-sized enterprises and stabilising demand for high-quality office buildings.

Rents in Nan'an climbed 7.6% to RMB112.0 per sq m per month as a result of limited supply of high quality projects, despite the area's immature infrastructure. As there is only one Grade A office building in the Jiulongpo area, landlords of this building were able to continue to increase rents, rising 4.4% QoQ to RMB71.0 per sq m per month.

Office strata-title market

The stagnancy of the real estate market reduced investors' interest in the Chongqing office strata-title market. Up to now, property developers have had to offer a lower price to increase the transaction volumes. By the end of Q4/2014, average office prices reduced to RMB17,900 per sq m, continuing the decline from Q3/2013, down 4.6% QoQ.

Market outlook

Chongqing's urban design bureau has become increasingly aware

of the advantages metro lines create. Eventually, most of the emerging business hubs such as the Jiangbeizui CBD will have links to metro lines. Metro line 6 will be fully operationally the end of 2014, thus the Jiefangbei CBD and emerging Jiangbeizui and Chayuan New Area (茶园新区) in Nan'an District will be linked. Travel time between these three areas will be shortened to under 30 minutes. The convenience of the metro system has given tenants more options in choosing office locations, and more investors are also attracted to emerging areas with metro lines.

Unlike Chengdu whose tertiary industry is more developed, Chongqing is strong in secondary industry and more like a manufacturing centre in western China. Industry transformation is what the government will be tackling – in 2013, the proportion of Chongqing's tertiary industry

Project focus

Chongqing Corporate Avenue Office #8

Chongqing Corporate Avenue Office #8 is a new project of Chongqing Tiandi, which was developed by Shui On Land Limited. The building is expected to house domestic and overseas companies. The project benefits from convenient surrounding leisure amenities in Chongqing Tiandi. Without a convenient railway network and bus transportation system, however, tenants are still hesitant to choose office buildings in Corporate Avenue, even with its higher quality.

The total office space GFA is 63,000 sq m, spanning floors 7 to 37, and the target market is overseas corporations and institutes. The project is managed by Feng Cheng Property Management and the rent is RMB105 per sq m per month. The building is now named "Deloitte Building" as Deloitte has chosen the building as its south-western headquarters. Currently, landlords are offering a relatively lower asking rent, ranging from RMB90 per sq m per month to RMB110 per sq m per month, along with longer free rent periods of more than three months, to attract more suitable tenants

TABLE 1
Chongqing Corporate Avenue Office #8

Location	Hualongqiao, Yuzhong district	
Developer	Shui On Land Limited	
Office GFA	63,000 sq m	
No. of floors	7F–37F	
Standard floor height	4.25 m	
Number of lifts	14	
Floor plate	2,100 sq m	
No. of parking spaces	800	
Handover date	Q3/2014	
Property management company	Feng Cheng Property Management	

Source: Savills Research

in GDP accounted for 41.6%, while Shanghai, Guangzhou and its counterpart Chengdu achieved 62.2%, 64.6% and 50.2% respectively. Chongqing still has room to improve. In the coming years, the municipal government is determined to boost its tertiary industry. As tertiary industry is on the fast track, it's believed that relevant finance, service and other industries will be motivated, thus helping the market to digest the surging office supply gradually.

At least 850,000 sq m of supply is believed to be due to be handed over in 2015. Almost half of this will be in Jiangbeizui, with the rest

mainly contributed in Jiefangbei, Xinpaifang and Yangjiaping.

With new buildings serving the market, there is a corresponding increase in the quality of the city-wide Grade A office market. Rental appreciation in quality projects won't be hindered that much by upcoming supply pressure as landlords seek to withdraw their investment; longer rent-free periods and some tax deduction policies will be offered by both landlords and district government to stimulate take-up rate. Consequently, more old and low quality buildings will be facing downgrading in the next one or two years. ■

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