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Savills World Research
Chongqing

Briefing
Office sector

May 2014

Image: World Financial Centre, Jiefangbei CBD

SUMMARY

Two new Grade A office buildings were handed over in Q1/2015, marking the beginning of a new supply surge, leading to a rise in vacancy rates and a fall in rents.

- In Q1/2015, two new Grade A offices buildings located in the Jiefangbei CBD were handed over to the market, adding over 144,000 sq m of new supply and pushing Grade A office stock up to around 1.21 million sq m.
- City-wide vacancy rates rose 6.6 percentage points (ppts) quarter-on-quarter (QoQ) to 42.8%, mainly due to the low occupancy rates of new projects.
- Net take-up totalled 13,750 sq m in the first quarter, dropping significantly from 66,900 sq m in Q4/2014.
- Grade A office rents fell 1.7% QoQ to an average of RMB107.82 per sq m per month.
- Strata-title transaction prices saw a growth of 6.8% QoQ, averaging RMB19,882 per sq m.

"New supply has created intense competition, resulting in the landlords of older buildings having to adopt a preferential leasing policy to maintain tenants. Despite this, vacancy rates have continued to rise in these buildings."
Dave Law, Savills Research

Forecast

Lifan Centre and Chongqing IFC in the Jiangbeizui CBD, and Zhongyu International T8 & T9 and Jiazhou Sincere Centre Tower A in the Xinpaifang area are expected to enter the market next quarter, bringing more than 300,000 sq m of new supply to the Grade A office market.

Market commentary

Although prime areas such as the Jiefangbei CBD are witnessing stable demand, competition is intensifying due to new supply. Two new projects were launched this quarter, pushing Grade A Office stock in the Jiefangbei CBD to 596,700 sq m. China Guangfa Bank purchased 15 floors of office space in Sincere Financial Centre Tower A for self-use, while several top 500 international corporations are relocating to the World Financial Centre as of Q1/2015.

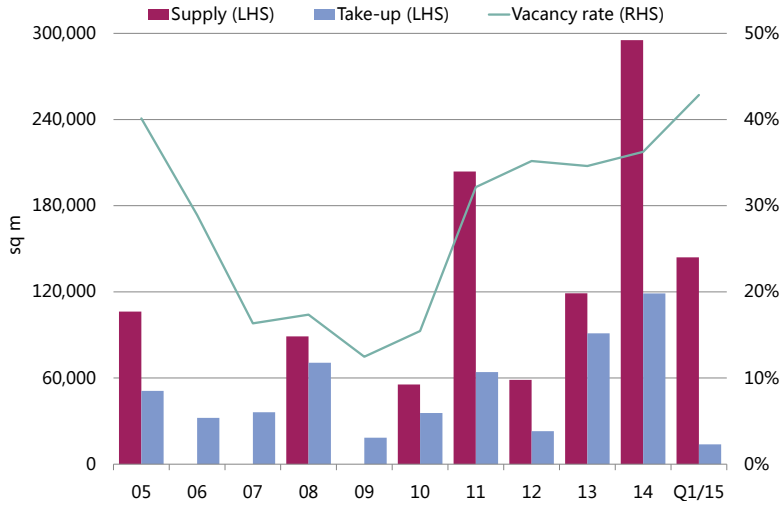
Net take-up reached 13,750 sq m in the first quarter, falling noticeably from 66,900 sq m in Q4/2014.City-wide vacancy rates rose 6.6 ppts QoQ to 42.8%. High vacancy rates are mainly due to the sudden, large amount of new supply this quarter. As developers continue to focus on decreasing vacancy rates by providing rental discounts, Grade A office rents fell 1.7% QoQ to an average of RMB107.82 per sq m per month.

Vacancy rate

In Q1/2015, new supply in the Jiefangbei CBD pushed vacancy rates up 16.5 ppts QoQ to 44.2%. City-wide Grade A office vacancy rates rose by 6.6 ppts QoQ to 42.8%.

GRAPH 1

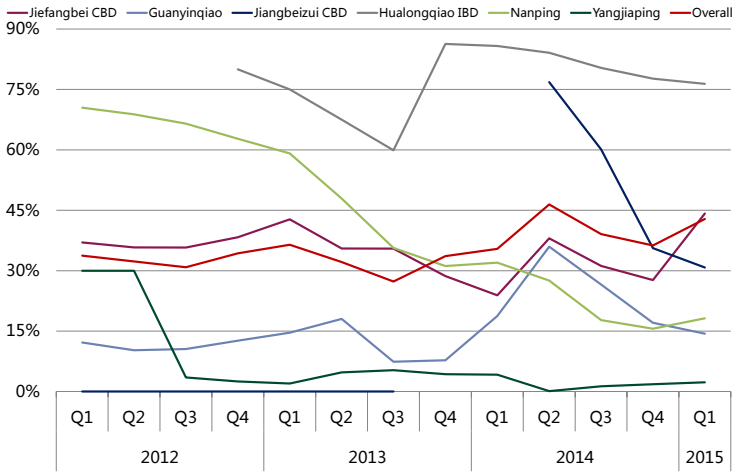
Grade A office supply, take-up and vacancy rates, 2005–Q1/2015



Source: Savills Research

GRAPH 2

Vacancy rates by district, Q1/2012–Q1/2015



Source: Savills Research

The weakening domestic economy has influenced office leasing demand, with net take-up reaching only 13,750 sq m in Q1/2015. A number of price-sensitive tenants have chosen to move to Grade B projects with relatively lower prices in non-prime areas or attempted to reduce their office space requirements by using existing space more efficiently. For example, Chongqing Yiqianyi Investment Limited Corporation, located in Changjiang International, and Chongqing Xinya Culture Art Limited Corporation, located in Xicheng International, are both seeking to relocate. Thus the vacancy rate in the Nanping and Yangjiaping districts witnessed a slight increase.

Rents

Grade A office rents fell 1.7% to an average of RMB107.8 per sq m per

month, the first decrease seen in the past four quarters. As a result of new office buildings launching onto the market, existing projects have had to offer rental incentives to maintain occupancy rates and competitiveness. The highest decreases appeared in the Nanping and Jiefangbei districts, decreasing 6.3% and 3.5% respectively. However, due to the steady and continuous leasing demand in Guanyinqiao, the area continued to see rents grow by 1.4% QoQ to RMB117.2 per sq m per month.

Office strata-title market

Due to the entry of two new, high-quality office buildings, average city-wide market prices increased. This, alongside the People's Bank of China (PBoC) cutting interest rates to stimulate short-term investment of the real estate market, saw strata-title transaction prices increase 6.8% QoQ, averaging RMB19,882 per sq m in Q1/2015.

Market outlook

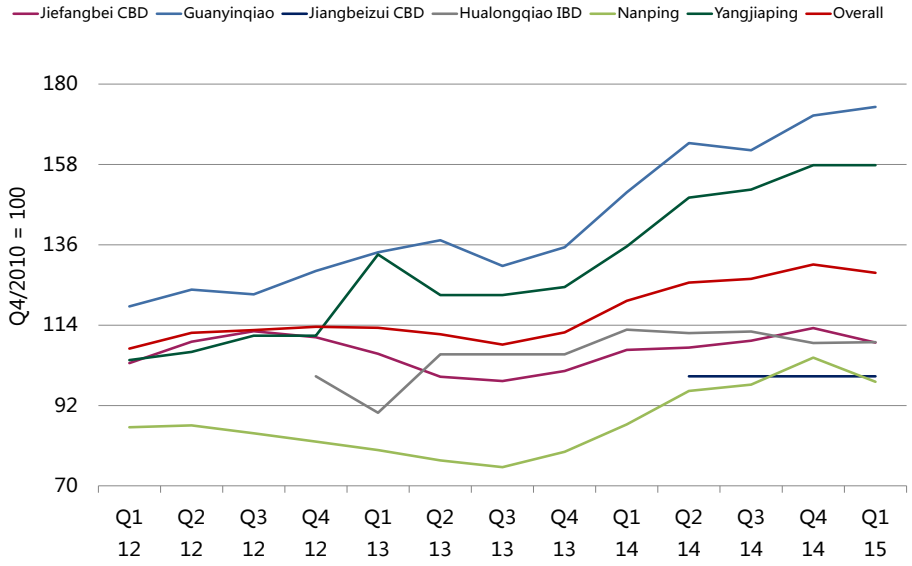
The national Silk Road Economic Belt strategy and the launch of the 21st Century Maritime Silk Road has allowed emerging industries, such as internet-based finance, high-end equipment manufacturing, and the new-energy vehicle industry, to develop rapidly. Furthermore, Chongqing's position as a regional financial centre has been increasingly highlighted over the past year. A combination of these factors indicates Chongqing's Grade A office market is expected to witness an increase in demand levels.

Although an influx of new supply is expected to enter the Chongqing office market in the short term, the leasing market is expected to remain tight. This is mainly due to a number of buildings, such as the Bank of China Building and Agricultural Bank of China Building, in the emerging Jiangbeizui CBD, being mostly for self-use. Consequently, the impact of a large amount of office supply in the future is not too terrifying.

About 380,000 sq m of supply is expected to be launched in the next quarter, of which the majority is located in the Xinpaifang and Jiangbeizui CBD areas This new supply will further enlarge the Chongqing Grade A office distribution pattern and lead to increased competition. Therefore, it is expected to push the city-wide vacancy rates up and continue to place a downward pressure on rents in the short term.

GRAPH 3

Rental indices by district, Q1/2012–Q1/2015



Source: Savills Research

Project focus

World Financial Center

The World Financial Centre, located in the Jiefangbei CBD core area and handed over in Q1/2015, is a city complex project which offers 106,197 sq m of Grade A office space, a luxury shopping mall and a five-star Langham Hotel. The office component, known as the landmark of Chongqing, has 78 floors (72 above ground and six below ground).

The project is both for sale and leasing. Current asking prices for sales start at around RMB29,000 per sq m, and asking rents range from RMB130-160 per sq m per month; management fees are around RMB28.0 per sq m per month. The project aims to attract both international and large national corporations, predominantly from the financial sector, with the Italian Visa Application Centre and China Construction Bank Credit Card Centre both already relocating to this building.

TABLE 1

World Financial Center

Location	Jiefangbei CBD, Yuzhong district
Developer	Chongqing Huaxun Real Estate Development Limited Company
Office GFA	106,197 sq m
No. of office floors	48
Standard floor height	4.2 m
Number of lifts	46
Floor plate	2,212 sq m
No. of parking spaces	827
Handover date	Q1/2015
Asking rent	RMB130-160 per sq m per month
Management fee	RMB28 per sq m per month

Source: Savills Research

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