

Briefing Office sector

July 2014

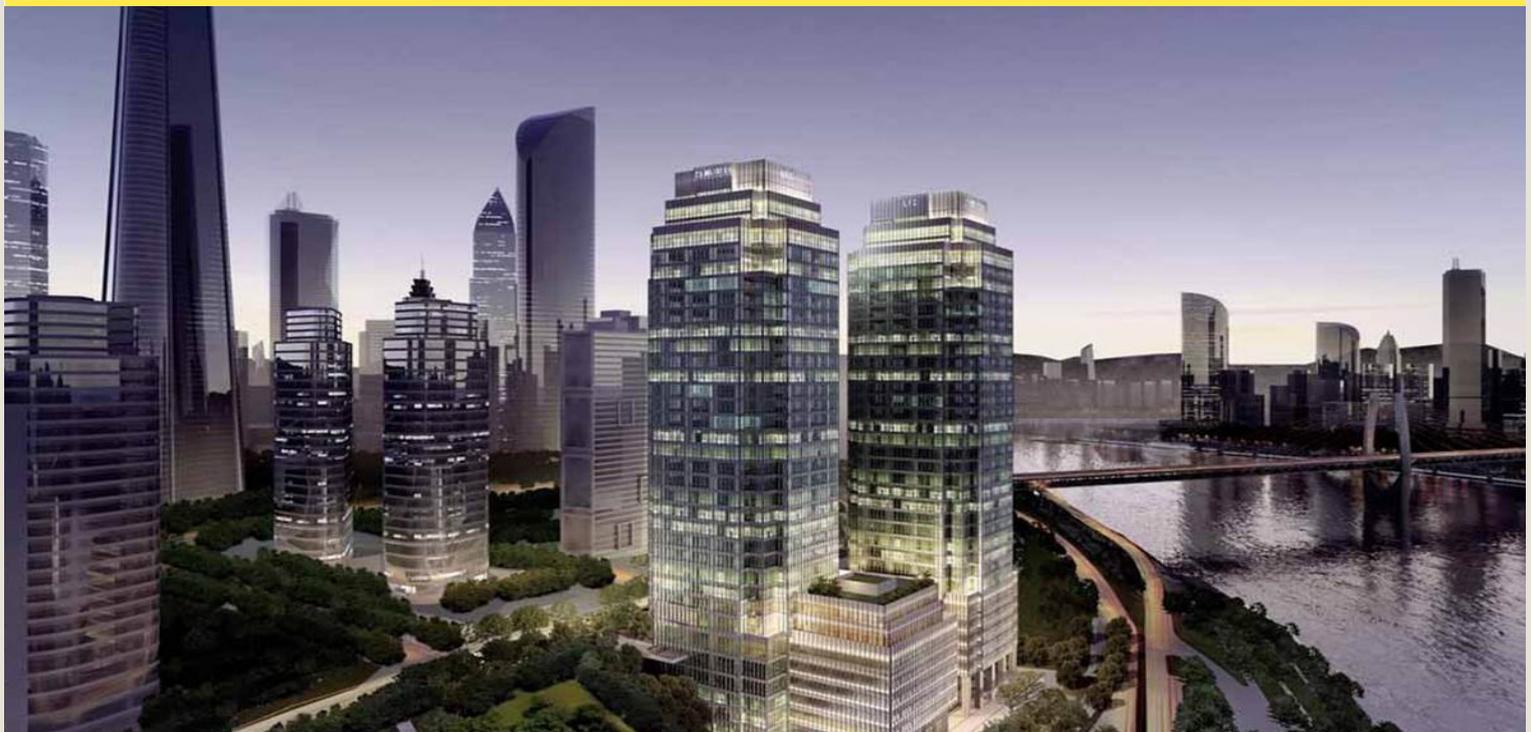


Image: Lifan Centre, Jiangbeizui

SUMMARY

Three new projects were launched onto the market in Q2/2015. As demand levels were unable to sustain supply, vacancy rates increased to 49.1%, the highest level ever recorded.

- Three new Grade A office buildings, located in Jiangbeizui and Xinpaifang areas, were handed over in Q2/2015, adding 170,000 sq m and pushing city-wide stock up to 1.35 million sq m.

- Due to the low pre-commitment rates of new projects, city-wide vacancy rates rose 6.3 percentage points (ppts) quarter-on-quarter (QoQ) to 49.1%.

- Net take-up totalled 13,800 sq m in Q2/2015, similar to levels seen in the first quarter.

- Due to high city-wide vacancy rates, Grade A office rents fell 0.5% QoQ to an average of RMB107 per sq m per month.

- Strata-title transaction prices saw a weak growth of 0.1% QoQ, averaging RMB19,900 per sq m.

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"Due to the influx of supply and the weakening national economy, digestion of these projects is expected to take a longer period of time than previously seen."
.....

Dave Law, Savills Research

➔ **Forecast**

During the next quarter, at least 250,000 sq m of supply is expected to be handed over to the Grade A office market – the supply peak of 2015. Half of this is located in the Jiangbeizui area, while the rest is located in Hualongqiao, Nanping and Xinpaifang areas.

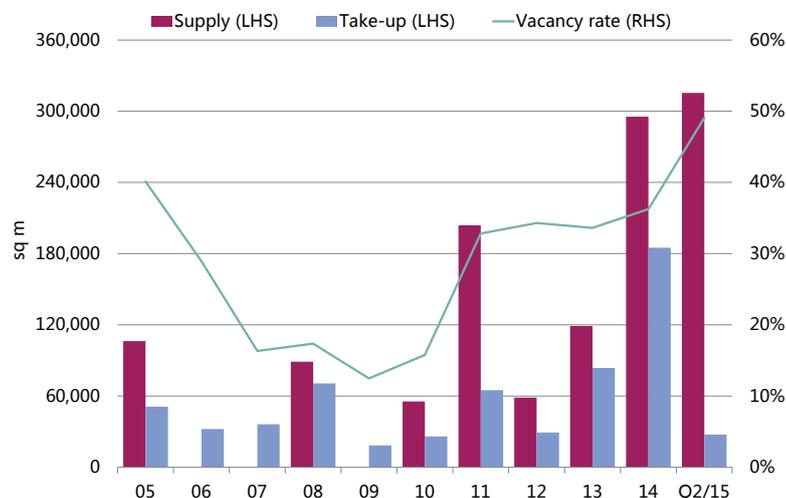
Market commentary

Three new Grade A office buildings, located in Jiangbeizui and Xinpaifang, were launched onto the market in Q2/2015, adding 170,000 sq m and pushing city-wide stock up to 1.35 million sq m. This is the first time a Grade A project has been handed over in the Xinpaifang area, and as a result will further enlarge distribution patterns of the market. With emerging areas in the spotlight, more established areas are beginning to face fiercer competition.

Net take-up totalled 13,800 sq m in Q2/2015, due to the low pre-commitment rates of new projects. The new projects provide higher quality facilities and benefit from advantageous locations, leading to older projects facing increasing competition and having to adopt more favourable rental strategies than before.

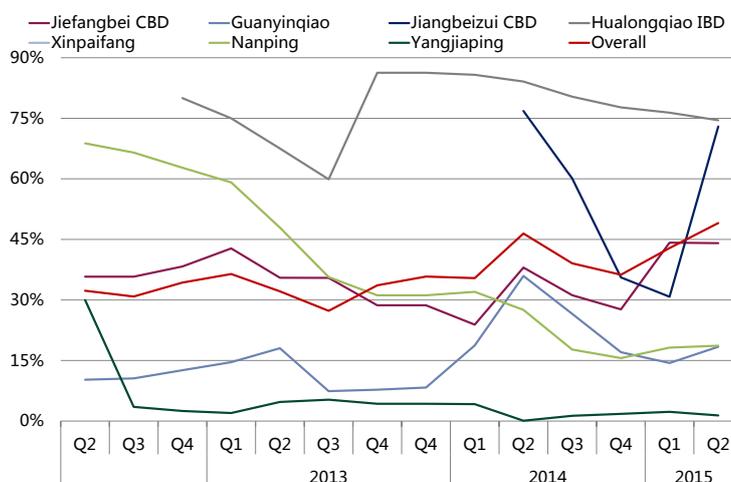
Although developers have postponed launching new projects, supply has already exceeded demand. In Q2/2015, the number of state-owned enterprises and sino-foreign joint ventures has risen across the city, by 7% and 5% respectively. As a result, the volume of office space occupied by these companies also increased by 18,400 sq m and 2,100 sq m, respectively.

GRAPH 1 **Grade A office supply, take-up and vacancy rates, 2005–Q2/2015**



Source: Savills Research

GRAPH 2 **Vacancy rates by district, Q2/2012–Q2/2015**



Source: Savills Research

Generally, these enterprises require larger amounts of office space due to their size; therefore the city-wide volume of office space leased above 1,000 sq m also increased 11% QoQ.

Vacancy rate

In Q2/2015, city-wide vacancy rates rose 6.3 ppts QoQ to 49.1%, mainly due to new supply. Vacancy rates in Jiangbei area, where some of the

supply was launched this quarter, rose 42.2 ppts QoQ to 73%, while traditional areas, such as Jiefangbei and Nanping, which witnessed no new supply, remained flat. As a new business area, the vacancy rates of Xinpaifang area reached 84.8%, a result of the handover of Zhongyu International.

The IT industry is growing rapidly, with city-wide office space occupied

by IT and professional services companies increasing 35% and 43% QoQ respectively; space occupied by trade industry and finance-related industries has decreased. Traditional industries are gradually being replaced by E-commerce.

As more companies within older buildings seek to upgrade, demand for expansions and relocations has increased. For example, Soufang.net completed their relocation from WTC to Lifan Centre in Jiangbeizui area.

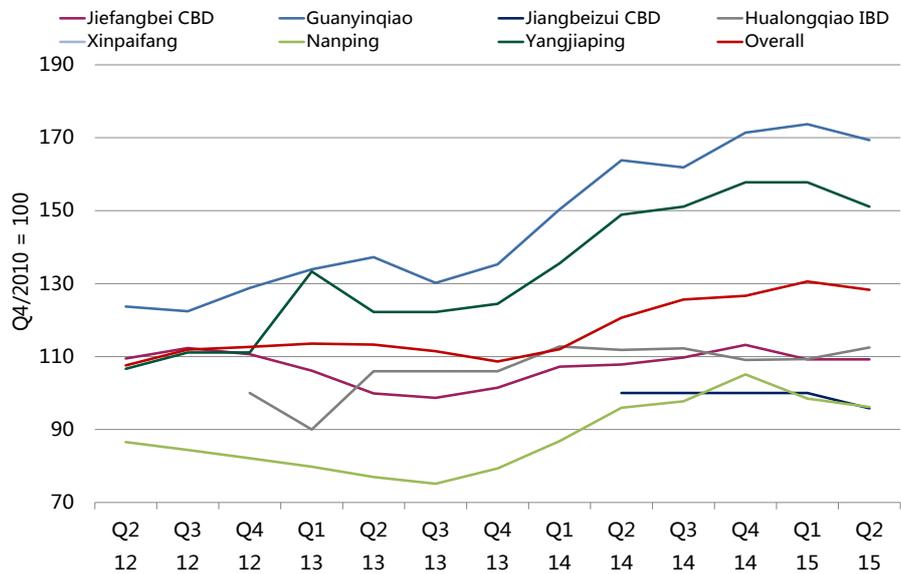
Rents

Grade A office rents fell 0.5% QoQ to an average of RMB107 per sq m per month in Q2/2015. Nanping and Guanyinqiao areas decreased 2.4% and 2.5% respectively. Jiangbeizui area rents fell due to the large amount of supply and increasing competition. However, in Yangjiaping area, rents are falling due to the new supply surge of Grade B office buildings.

Office strata-title market

Jiefangbei and Guanyinqiao area strata-title office prices rose 1.4% and 4.9% respectively in Q2/2015. Traditional areas such as Nanping and Yangjiaping witnessed prices fall 8.4% and 8.7% respectively, due to the competitiveness of traditional areas declining, while the new areas are receiving more attention from investors. City-wide strata-title transaction prices remained flat, averaging RMB19,974 per sq m.

GRAPH 3 **Rental indices by area, Q2/2012–Q2/2015**



Source: Savills Research

Market outlook

The city municipal government has invested RMB2,640 billion in key construction projects, focusing on the transportation, energy, communications and environmental sectors, facilitating a general upgrade of the Chongqing economy. In Q2/2015, the People's Bank of China (PBoC) cut interest rates for the second time, aiming to stimulate short-term investment in the real estate market, and the launch of the “330” housing-loan policy in 2014 has begun to have a positive effect on the economic situation. The combination of all these factors has indicated a pick-up in the real estate market. In terms of the office market, although no new policies

have been implemented, investors are more likely to prefer office buildings with higher-quality facilities and ease of access, which might have the better rental yield.

Over 250,000 sq m of supply is expected to be launched in the next quarter, of which the majority is located in the Jiangbeizui CBD. The large amount of supply is expected to push city-wide vacancy rates up, while rents continue to fall. ■

Project focus

Lifan Centre T2

Lifan Centre T2, located in Jiangbeizui CBD, was handed over in Q2/2015, offering 77,700 sq m of Grade A office space across 46 floors. Lifan Centre T2 is only for leasing, however the other tower is for sale.

The asking rent is RMB120 per sq m per month, while management fees are around RMB26.0 per sq m per month. The project aims to attract private enterprises, with soufang.net already occupying three floors. The Lifan Centre has a full-view of the Jialing River and aims to be a landmark in Jiangbeizui CBD.

TABLE 1
Lifan Centre T2

Location	Lifan Centre T2, Jiangbei CBD	
Developer	Chongqing Lifan Real Estate Development Limited Company	
Office GFA	220,000 sq m	
No. of office floors	46	
Standard floor height	2.9 m	
Number of lifts	33	
Floor plate	2,150 sq m	
No. of parking spaces	1,500	
Handover date	Q2/2015	
Asking rent	RMB120 per sq m per month	
Management fee	RMB26 per sq m per month	

Source: Savills Research

Please contact us for further information

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