

Briefing Office sector

January 2016



Image: Financial Town #2 , Jiangbeizui

SUMMARY

Two new projects were launched in Q4/2015, adding supply of 96,000 sq m. This increased city-wide Grade A office stock to 1.6 million sq m. City-wide vacancy rates continue to increase due to the influx of supply.

■ Two new Grade A offices, with a total supply of 96,000 sq m, entered the market in Q4/2015. Located in the Jiangbeizui CBD and Nanping, they increased city-wide stock to 1.6 million sq m.

■ The increase of Grade A office stock impacted the vacancy rate, causing it to increase by 1.6 percentage points (ppts) quarter-on-quarter (QoQ) to 53.5% in Q4/2015.

■ Net take-up reached 20,577 sq m in the last quarter of 2015. Although Yangjiaping, Nanping and Jiefangbei

declined QoQ, new areas such as Hualongqiao and Jiangbeizui showed an upward trend. Hualongqiao received 11,018 sq m of supply, contributing 53% towards net take-up.

■ City-wide Grade A office average rents fell by 1.7% QoQ and 6.4% year-on-year (YoY) to an average of RMB101.27 per sq m per month.

■ In Q4/2015, strata-title transaction prices fell by 0.1% QoQ (decreasing from RMB20,036 per sq m to RMB19,864 per sq m). However, prices still increased by 8.6% YoY.

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"New supply reached 580,853 sq m in 2015, which resulted in a distinct rise in vacancy rates and a decline in the average rent."
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Dave Law, Savills Research

➔ **Forecast**

At least 1.18 million sq m of supply is expected to be handed over in 2016, almost half of which will be located in the Jiangbeizui area. The remaining supply is distributed throughout Jiefangbei, Guanyinqiao, Xinpaifang, Yangjiaping and the new North Zone. This new supply will further enlarge the distribution layout of Grade A office space in Chongqing.

Market commentary

With increases in both the secondary and tertiary industries, Chongqing's role as the business centre of western China is becoming increasingly obvious. By the end

of 2015, more than 160 foreign-funded enterprises, half of which are Fortune 500 companies, were located in Chongqing, an increase of 13.5% from last year. In addition, several larger companies such as Deloitte, who were brought into Chongqing by Mayor Huang Qifan, have chosen Chongqing as their development centre in the western region. Other companies such as Tencent and Beijing Hyundai have also settled in Chongqing, which, together with the influx of other foreign-funded enterprises, have stimulated the demand for Grade A office space in the market.

Stock has expanded rapidly this year, with growth showing no signs of slowing down in 2016. The central position of Jiefangbei has begun to change and the Hualongqiao and Jiangbeizui areas have begun to play a more important role. Supported by the SASAC (State-owned Assets Supervision & Administration Commission) the Corporate Avenue projects in Hualongqiao are expected to attract a considerable amount of high-quality companies, which will ultimately improve the current standing of the area.

Ten Grade A office projects were launched onto the leasing market during 2015, adding over 580,900 sq m of supply and increasing competition. Due to the current pressure on the economy in China, many businesses have begun to downsize or even declare bankruptcy, with small- to medium-sized enterprises affected the most. This has resulted in a decrease in demand for Grade A office space within the small to medium enterprise sector. As this sector holds the majority stake in Chongqing, yearly take up is down (only half of what it was in 2014), totalling 84,402 sq m.

Vacancy rate

Limited demand is resulting in superfluous supply, causing an increase in city-wide vacancies. In Q4/2015, the city-wide vacancy rate reached 53.5%, the highest ever recorded. Net take-up for the quarter was 20,577 sq m.

In 2014, the number of small to medium enterprises within the finance, trading and consulting sectors, grew rapidly. However, the downturn of the economy in 2015 resulted in a number of these enterprises downsizing or declaring bankruptcy. As these types of enterprises carry more risk, they were the most affected group. This lowered demand and caused a decline in take up for 2015. However, some industries have not been affected, for example an English education agency, Puchan, in the World Trade Center increased their office space from 300 sq m and took up an entire floor in the same building. As a result, this has caused fluctuation within this market.

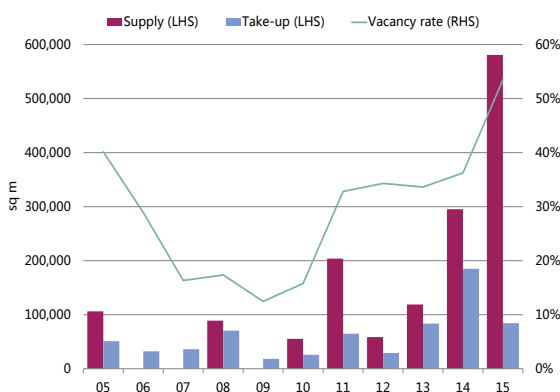
A difference in building qualities has also affected vacancy rates. In Q4/2015, although city-wide vacancy rates increased, rates in the Jiangbeizui, Guanyinqiao, and Hualongqiao, areas, which house high-quality projects, are down compared with the previous quarter, even though they are continuously receiving new supply.

Jiafa Centre, the third Grade A Office building in Nanping, was handed over in Q4/2015. This is the first supply in the area in four years. Total stock is now up to 142,000 sq m, resulting in a high regional vacancy rate of 54.6%.

Rents

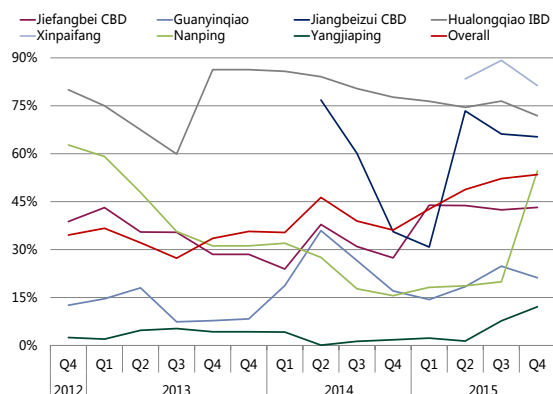
City-wide average rents in Q4/2015 reached RMB101 per sq m per month, showing a decline of 3.3%

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



Source: Savills Research

GRAPH 2 **Vacancy rates by district, Q4/2012–Q4/2015**



Source: Savills Research

QoQ. Due to competition from new projects as well as weak demand, landlords have begun to adopt preferential policies to attract and retain tenants.

Rents decreased significantly YoY, with the greatest decrease occurring in Guanyinqiao. Due to 46% of the city-wide new supply in 2015 being located in Jiangbeizui, and with these projects being of a high quality, there is now an increasing amount of location choices for corporates. Under pressure, landlords in Guanyinqiao reduced rents and restrictions on quality control in an effort to retain tenants. This is reflected in the current leasing area statistics which show that enterprises occupying space of less than 200 sq m accounted for 56.1% of the market, whereas in Jiangbeizui it was only 2%.

The Yangjiaping area saw an annual rent growth rate increase of 8.3% in 2015, from 4.4% in 2014. As there is only one Grade A office building in this area, the regional market is far from saturated, resulting in the landlord's ability to continue to increase rents.

Office strata-title market

City-wide strata-title transaction prices remained stable and averaged RMB20,000 per sq m, a 3.5% increase YoY.

This indicates that within the high-end office market, purchasing power of large enterprises has not been greatly affected. Coupled with current government policies, the price of Grade A office space is likely to continue to increase.

Market outlook

The NPC & CPPCC (National People's Congress & Chinese People's Political Consultative Conference) in 2015 stressed that the GDP growth was expected to reach 7% in 2015 (from high economic growth to medium-high economic growth). The macroeconomic situation in 2014 largely impacted the real estate industry, with greater loss experienced by small- to medium-sized businesses. The decline in basic investment, which real estate forms a part of, is bound to affect the GDP. A number of factors are expected to negatively

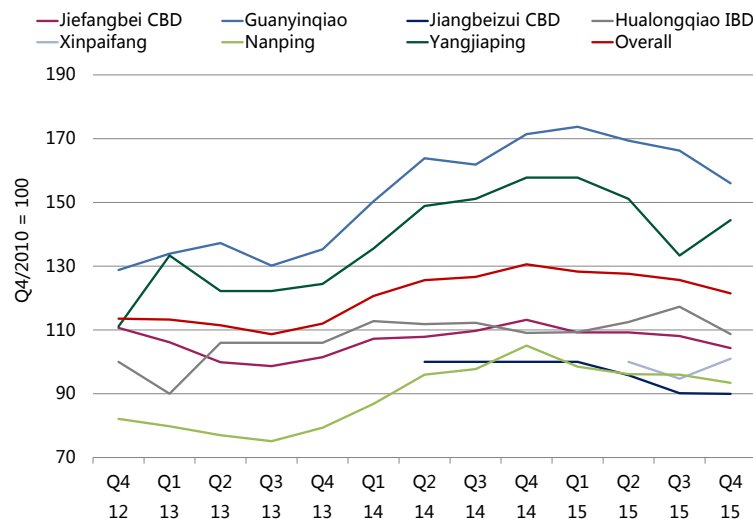
affect the absorption rate, including government assistance investments, lower tax rates, developers' discounts and a higher quality of properties.

The impact of infrastructure construction on the market is huge. The construction of three, inner-city metro lines has begun and these are expected to be completed by 2017. By then, Jiangbeizui CBD, Jiefangbei CBD and Hualongqiao CBD will be linked by light rail and a one-way trip will take no more than 30 minutes. The third phase of the south extension of the Jiahua bridge has started, resulting in a 10-minute journey from the Jiangbei district to the Jiulongpo district, and only 15 minutes from the Jiangbei district to the Banan district. This increase in transportation options will make areas more accessible and provide more choices for office locations.

In 2016 an expected 1,175,000 sq m of Grade A Office space will be launched. Chongqing New North Zone (CNNZ) will see the launch of two Grade A office buildings, which will fill a current void in the market for high-end office buildings. Yangjiaping will also see new Grade A office supply, which has the potential to change the current status quo of low average rents and imbalanced tenant quality found in the area.

Due to the large amount of new supply expected to enter the market, the Grade A office market will see greater competition as well as an increase in city-wide vacancy rates and a decline in rents. The selling price is not expected to change; however, in certain high-end areas it will rise steadily. ■

GRAPH 3 Rental indices by district, Q4/2012–Q4/2015



Source: Savills Research

Project Focus

Financial Town #3 T3

Financial Town #3 T3 is a new building in the Financial Town project, which was developed by Chongqing Jiangbeizui Ltd. This building is expected to bring in domestic, overseas and state-owned enterprises. The project benefits from the surrounding high-quality Grade A office market in Jiangbeizui. The area lacks a convenient transportation system which will only be remedied in 2020 once metro line 9 is launched.

The total office space GFA is 39,000 sq m, spanning floors 6 to 26. The rent is RMB110 per sq m per month. The Fourth Party Congress of Chongqing set a clear target in 2015 to build up the financial centre in the upper reaches of the Yangtze River. With the help of government policies, a number of high-quality organisations are based in Jiangbeizui, one of these being the office of the China-Singapore cooperation project. Due to its high-quality status, landlords have confidence in increasing rental rates.

TABLE 1 **Financial Town #3 T3**

Location	Jiangbeizui, Jiangbei district	
Developer	Jiangbeizui Real Estate	
Office GFA	39,000 sq m	
No. of office floors	6F-26F	
Standard floor height	4.35 m	
No. of lifts	12	
Floor plate	6F -16F 1917sq m 18F-26F 1,959sq m	
No. of parking spaces	1,000	
Handover date	Q4/2015	

Source: Savills Research

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