

Briefing Office sector

July 2016



Image: Oriental Plaza, Jiangbeizui CBD

SUMMARY

Three new office buildings were handed over in Q2/2016, adding 143,400 sq m of supply to the market. City-wide vacancy rates fell slightly and average rents also declined. To raise occupancy rates, landlords have had to offer more attractive rents and lower leasing standards.

- Three Grade A office projects, located in Jiefangbei CBD and Jiangbeizui CBD, brought 143,400 sq m of new supply to the market in Q2/2016, raising total Grade A office stock to 1,985,900 sq m.

- New demand for upgrades and relocations improved quarterly net take-up to 85,300 sq m, excluding take-up in self-use buildings.

- The city-wide vacancy rate fell by 4.9% quarter-on-quarter (QoQ) to 46.7% as a number of self-use office buildings entered the market.

- The average Grade A office rent fell 2.2% QoQ to RMB 96.86 per sq m per month. Rents in all areas except for Jiangbeizui CBD and Yangjiaping decreased.

- There were no changes to strata-title transaction prices in Q2/2016.

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"The Grade A office market has received large volumes of new supply, causing landlords to adjust their strategies."
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Dave Law, Savills Research

→ **Forecast**

Three projects are scheduled to enter the market in Q3/2016 – China Resources Building, Guohua Financial Center and Corporate Avenue 7, adding approximately 275,800 sq m of Grade A office space.

Market commentary

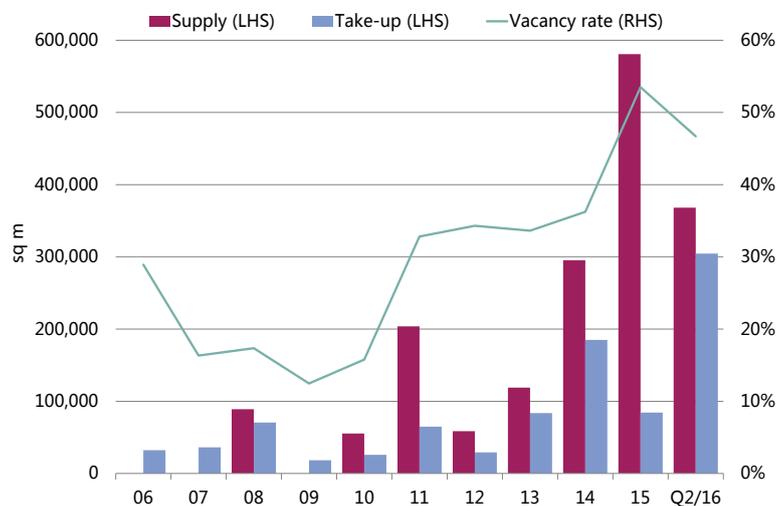
Citywide Grade A office stock stood at 1,985,900 sq m in Q2/2016, including three new office buildings and four self-use office buildings with aggregate GFAs of 143,400 sq m and 157,400 sq m, respectively. Overall vacancy rates declined noticeably even though total stock rose dramatically because much of the new supply was taken for self-use by the property owners.

Jiefangbei CBD still accounts for the largest amount of stock, 668,000 sq m, although the gap between Jiefangbei CBD and Jiangbeizui CBD is rapidly narrowing. Jiangbeizui CBD had 546,000 sq m of office space in the Q2/2016 and expects to receive a large amount of supply in the next few quarters. The China-Singapore (Chongqing) Demonstration Initiative on Strategic Connectivity announced its future development strategy in Chongqing, focusing on a number of different sectors: finance, aviation, telecommunications, logistics, ports and shipping, cloud computing and conference and exhibitions. The headquarter office of the initiative is already located in Jiangbeizui CBD, which, as witnessed by the recent agglomeration of several domestic banks, continues to receive healthy demand.

Vacancy rate

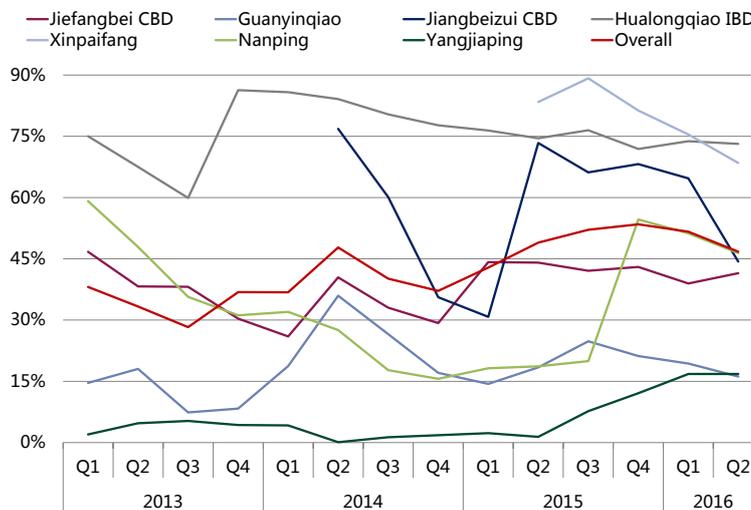
The city-wide Grade A office vacancy rate slid 4.9 ppts to 46.7%; however, this was mostly due to high occupancy rates in new self-use

GRAPH 1 **Grade A office supply, take-up and vacancy rates, 2006–Q2/2016**



Source: Savills Research

GRAPH 2 **Vacancy rates by district, Q1/2013–Q2/2016**



Source: Savills Research

buildings. If these projects are not taken into consideration, city-wide vacancy actually rose in Q2 after three projects entered the leasing market. Jiangbeizui CBD witnessed the largest decrease in vacancy rates, with levels falling 22.4 ppts to 44.3%, due to the handover of several self-use projects: Tower 1 and Tower 3 of Financial Town

2, China Citic Bank Tower and Chongqing IFC Tower 3. Tower 1 of Financial Town 3 was placed on the leasing market but did not impact vacancy rates greatly due to strong demand for the project.

In Xinpaifang and Hualongqiao, vacancy rates fell slightly but remained high, at 68.5% and

73.1% respectively. These areas have been hit especially hard by the economic slowdown as demand for these areas was driven primarily by aggressive company office expansions. With relatively underdeveloped transportation and supporting infrastructure, and many companies cutting back on office space requirements, Xinpaifang and Hualongqiao have been unable to attract the same demand as the city's central business areas, such as Jiefangbei, Guanyinqiao and Nan'an. Hualongqiao has also continued to develop itself as a centre for consulting, finance and professional services, leading it into direct competition with Jiefangbei CBD and Jiangbeizui CBD.

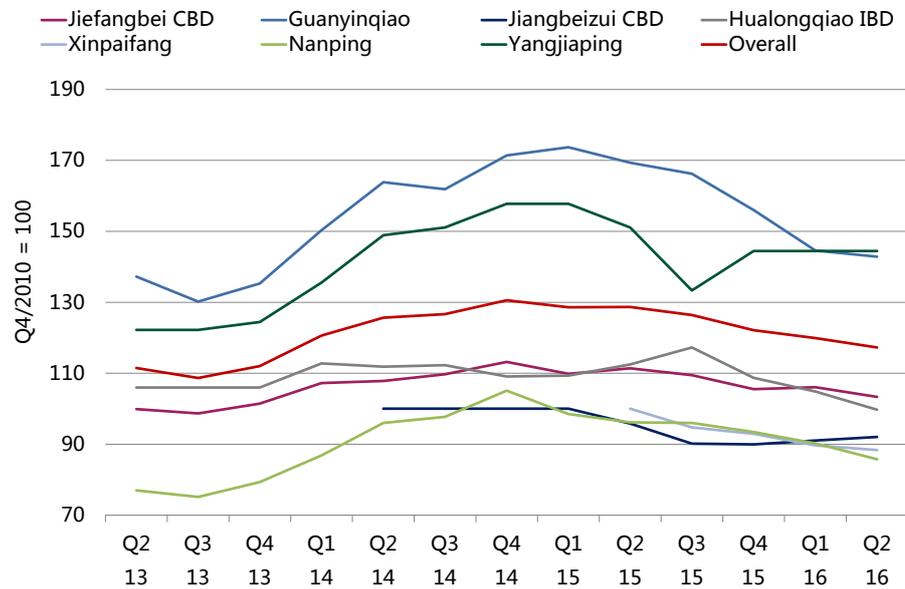
Rent

Grade A office rents fell by 2.2% in Q2/2016 to RMB96.86 per sq m per month, as landlords adjusted rents downwards in response to the arrival of new supply in the Jiangbeizui CBD. Not surprisingly, only rents in Yangjiaping did not depreciate as most of the companies located in the area are small-sized trading companies with no need for high-end office space. Jiangbeizui CBD maintained the highest average rent in the city at RMB104.4 per sq m per month, followed by Jiefangbei. These areas continue to benefit from beneficial policies aimed at attracting large SOEs, banks and leading financial institutions.

Hualongqiao rents recorded the greatest decrease, from RMB99 per sq m per month in Q1 to RMB94 per sq m per month in Q2. Undeveloped infrastructure and public transit options in the surrounding area in addition to the lack of noteworthy tenants have led landlords to greatly reduce their asking rents in response to the most recent supply surge.

GRAPH 3

Rental indices by district, Q2/2013–Q2/2016



Source: Savills Research

Market outlook

City-wide vacancy rates are expected to come under pressure in the following quarter because of an increase in new supply and continued weakening demand caused by the economic slowdown. Alongside this trend, rents will continue to decrease across the city, though the fall will be more pronounced in non-CBD areas where landlords will have the most difficulty attracting stable clients. More self-use office buildings are expected to enter the market in the remainder of the year, which may slow overall vacancy rate growth or even decrease vacancy levels. Nonetheless, once these self-use projects are removed from existing stock and future supply, it is clear that vacancy rates in the city's office leasing market are rising. Faced with intensifying competition from emerging projects, older buildings will have to adopt more attractive price discounts, improve surrounding facilities and provide

better management services to attract and retain tenants.

The office market in Jiangbeizui CBD will continue to benefit from the clustering of financial services companies and the completion of the Sino-Singapore cooperation project, which is expected to attract more MNCs to the area. Established business areas are encountering more competition from emerging business areas as the growth of demand slows; this will force projects in all areas to lower rents. New supply scheduled to come onto the market over the next few years is expected to greatly exceed take-up, especially in Jiangbeizui CBD, resulting in rising vacancy rates and continued downward pressure on rents. ■

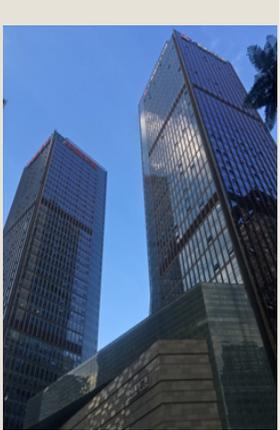
Project Focus

Sincere Financial Center Tower B

Located in Jiefangbei CBD, Sincere SFC Tower B, developed by Sincere Group, was purchased by Pingan Bank. The project is connected to Xiaoshizi station (line 1), providing convenient transportation access.

The building has 48 floors (43 above ground) and has a total office GFA of 63,000 sq m. The whole of Tower B was purchased by Pingan Bank, while Tower A remains on both the sales and leasing market. The project also has a retail space developed by Starlight 68, which provides luxury shopping, premium services and a wide selection of restaurants. The project caters to financial companies which typically congregate in the Jiefangbei CBD.

TABLE 1 **Sincere Financial Center Tower B**

Location	Sincere Financial Center, Jiefangbei, Chongqing	
Developer	Sincere Group	
Office GFA	63,000 sq m	
No. of office floors	43	
Standard floor height	4.2m	
Number of lifts	24	
Floor plate	1,800sq m	
No. of parking spaces	850	
Handover date	Q2/2016	

Source: Savills Research

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