

# Briefing Office sector

November 2016



Image: China Resources Building, Yangjiaping

## SUMMARY

Two new office buildings were handed over in Q3/2016, adding 128,700 sq m of supply to the market. City-wide vacancy rates fell slightly and average rents also declined.

- The China Resource Building in Yangjiaping and the Guohua Financial Center in the Jiangbeizui CBD came onto the market in Q3/2016, adding approximately 128,700 sq m of supply, and pushing total Grade A office stock to 2,115,000 sq m.

- City-wide vacancy rates decreased 0.2 of a percentage point (ppt) quarter-on-quarter (QoQ) to 47.3%, while rents decreased 1.5% QoQ to an average of RMB95 per sq m per month. Rents in

all districts except for the Jiangbeizui CBD and Yangjiaping decreased.

- Quarterly net take-up reached 74,000 sq m; the Jiefangbei CBD, Jiangbeizui CBD and Hualongqiao IBD witnessed the highest take-up levels in the entire city.

- Landlords of new projects are expected to increase various incentives to attract tenants, especially large occupiers.

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 "Landlords are showing a preference to rent to medium- and large-sized tenants to steadily improve occupancy rates and secure healthy tenant profiles." Dave Law, Savills Research  
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➔ **Market commentary**

City-wide Grade A office stock reached 2,115,000 sq m in Q3/2016, having more than doubled since Q4/2014 when stock stood at just 1 million sq m. The development of the city's office market accelerated greatly between Q4/2014 and Q3/2016, with the addition of approximately 1.2 million sq m. To put this in perspective, the city's first 1 million sq m of Grade A office GFA was added over a period of 17 years.

Two new projects were handed over in Q3/2016, located in the Jiangbeizui CBD and Yangjiaping area. Following the arrival of the previous quarter's supply, the Jiangbeizui CBD now has the second largest stock of any sub-market in the entire city. The handover of the China Resource Building in Yangjiaping last quarter also marked the first time the area has received a Grade A office since 2008, helping to raise the sub-market's total stock from 30,000 to 116,000 sq m.

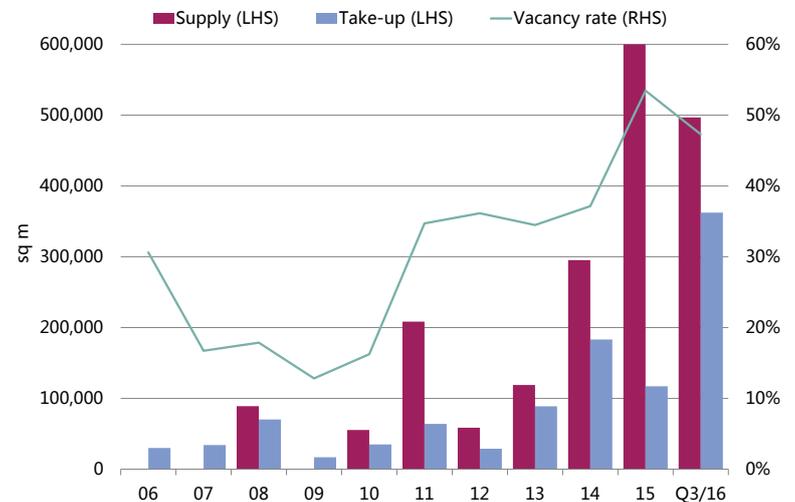
Based on data from the city's Statistics Bureau, city-wide GDP increased 10.7% QoQ over the past three quarters, 4 pts higher than the national average. The secondary and tertiary industries in the Urban Function Area achieved growth rates of 2.8% and 10.8%, respectively. The rapid development of the tertiary industry drove demand in the city's office market. Stable demand, lower rents and new promotional strategies such as extending rent-free periods decreased vacancy rates in the city to 45.6%, excluding the two new projects.

**Vacancy rate**

The overall Grade A Office market vacancy rate further edged down by 0.2 of a ppt to 47.3% during the period. Relatively high vacancy levels in new projects pushed up the market average. Excluding new projects, the vacancy rate fell by 2.9 pts QoQ to 45.6%.

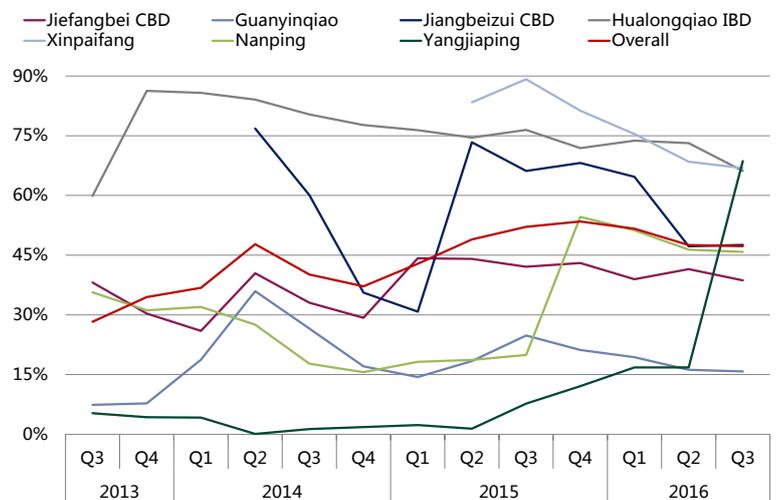
The Guanyinqiao and Nanping districts saw vacancy rates

GRAPH 1 **Grade A office supply, take-up and vacancy rates, 2006–Q3/2016**



Source: Savills Research

GRAPH 2 **Vacancy rates by district, Q3/2013–Q3/2016**



Source: Savills Research

decrease by 0.4 and 0.6 of a ppt QoQ, respectively. In these districts, new demand has come from the management & consultancy sector. Occupancy levels in the Jiefangbei CBD and Xinpaifang area rose relatively highly, by 2.8% and 1.6%, respectively. Projects that have entered the Jiefangbei CBD office market in the past two years, on average, showed stronger competitiveness than projects that

entered this past quarter. New projects such as Shenji Financial Plaza and World Financial Centre (WFC) recorded increases in occupancy rates of 11.3% and 8.9% QoQ, respectively. Many tenants of older buildings moved out during the period as well, since many of these projects still charge relatively high rents despite the age of their facilities.

The Jiangbeizui CBD was the only district that experienced an increase in vacancy levels, by 0.4 of a ppt to 47.6%. This rise was attributed to the low take-up levels in new projects that entered the market during the last two quarters. Except for these projects, an increase of whole-floor occupiers slightly increased the occupancy rate in the Jiangbeizui CBD. This includes Ping'an Life Insurance, which took up two floors in Lifan Center T1, and Oupeng Real Estate, which now occupies two floors in the Guohua Financial Center. Even though vacancy rates in the Jiangbeizui CBD remained relatively high, future government support for this area is expected to accelerate the development of the office market.

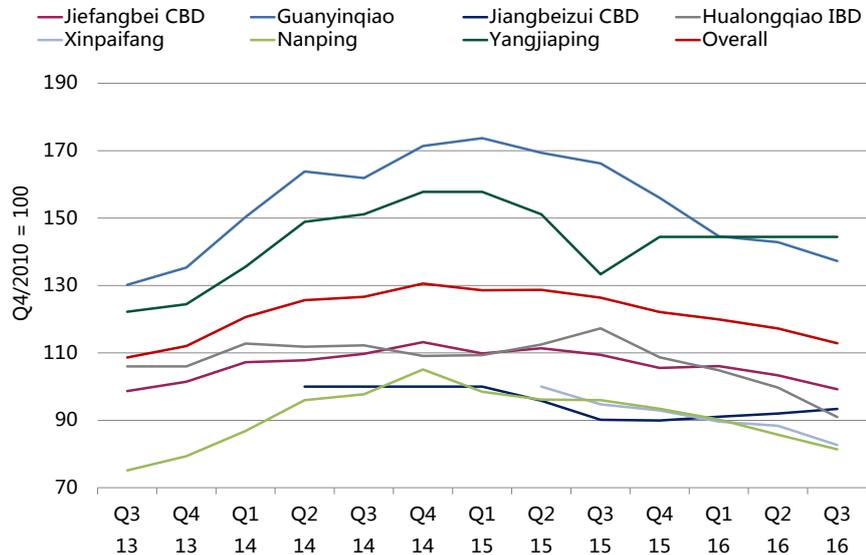
### Rent

The continuing influx of new office supply will intensify market competition. While city-wide office market vacancy rates decreased to 47.3%, average Grade A office rents fell by 3.7% QoQ, to RMB95 per sq m per month. This is mainly attributed to many landlords lowering asking rents to increase leasing transactions and attract more clients.

However, the Jiangbeizui CBD still maintained relatively high rental levels, with the average rent increasing to RMB110 per sq m per month, even as the average rent of the other five districts fell to RMB89 per sq m per month. The China-Singapore (Chongqing) demonstration initiative on strategic connectivity will provide comprehensive financial services to industry-related companies in the Jiangbeizui CBD. Financial Tower Three T1 has already been selected by the China-Singapore demonstration project as a building to introduce to such enterprises. It is expected that the initiative will attract large-scale SOEs, banks and financial institutions to enter the market and develop a financial services industry cluster in the district. The high-quality building specifications and stable demand from medium and large tenants

GRAPH 3

### Rental indices by district, Q3/2013–Q3/2016



Source: Savills Research

is forecast to maintain the rental performance.

Rents in the Hualongqiao CBD continue to decrease, from RMB94 per sq m per month in Q2/2016, to RMB90 per sq m per month in Q3/2016. Incomplete infrastructure, namely the inconvenience of public transport, remains the most significant cause of rising vacancy rates. Most landlords in the area hope to attract medium- and large-sized tenants by expanding rental discounts in order to alleviate the problem of high vacancy rates.

### Market outlook

With several projects delaying their handover dates, the market is expected to receive two new projects in the remainder of the year. The Bank of Communications Building in the Jiangbeizui CBD and Zhongxun Times in the Danzishi CBD will enter the market in Q4/2016, adding approximately 69,000 sq m to Grade A office space supply. The Bank of Communications Building will be used as the landlord's new regional headquarters.

On the back of the municipality's dramatic GDP growth, the tertiary

industry increased by 11.2%. The sector's output value is expected to continue to increase, driving new demand for high-quality office buildings. The financial services industry remains an especially important driver, followed by professional services and high-tech companies.

As the city's Grade A office market continues to expand, landlords will face new challenges. Intensifying competition will force landlords to offer more preferential policies to maintain or improve the occupancy rates of their respective projects. Thus, the average net rental rate is expected to continue to come under downward pressure.

The Jiefangbei Underground Circle Line project is expected to be completed in March 2017, significantly improving traffic congestion. This will improve office demand in Jiefangbei and encourage companies to move into the area. The project will support the development of Jiefangbei's commercial areas and business environment. ■

# Project Focus

## Guohua Financial Center

The Guohua Financial Center, developed by Chongqing Ping Hua real estate corporation, is located in the Jiangbeizui CBD. Guohua Financial Tower A was handed over in the third quarter of 2016. The project is within a ten-minute walk of a subway station, providing easy accessibility to other commercial districts. The building has a diverse tenant make-up, including one of the world's top art collections, the Long Museum, which recently became a tenant. The project is managed by Savills property management services, providing top-level real estate consultancy to meet the demands of enterprises seeking the highest-quality office environment.

Tower A consists of approximately 44,000 sq m of office space, with the Guohua Financial Center spanning floors 10 to 31. The building possesses a double-height hall design, making it the tallest office hall in the city. The rent is forecast at RMB120 per sq m per month, among the highest level in the market. Target customers include SOEs, banks and financial institutions.

TABLE 1  
**Guohua Financial Center**

<b>Location</b>	Jiangbeizui, Chongqing	
<b>Developer</b>	Chongqing Ping Hua real estate corporation	
<b>Office GFA</b>	Tower A 44,000sq m Tower B 28,000sq m	
<b>No. of office floors</b>	Towel A 31, Towel B 26	
<b>Standard floor height</b>	4.3m	
<b>Number of lifts</b>	23	
<b>Floor plate</b>	2,018sq m	
<b>No. of parking spaces</b>	898	
<b>Handover date</b>	Q3/2016	

Source: Savills Research

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