

Briefing Office sector

February 2017



Image: Financial Town 1# T1&T2, Jiangbeizui

SUMMARY

While no new supply entered the Grade A office market last quarter, city-wide vacancy rates and average rents continued to decline. To raise occupancy rates, landlords continue to offer more attractive rents or additional amenities, such as shared activity spaces.

- No new supply entered the Grade A Office market in Q4/2016, as a number of projects postponed their launch dates, keeping overall stock at 2.11 million sq m.

- Quarterly net take-up reached 26,400 sq m due to relocations by existing tenants and the entrance of new small tenants. Take-up levels in the Jiangbeizui CBD and Xinpaifang area increased quarter-on-quarter (QoQ), while take-up in other areas such as the Jiefangbei CBD and Guanyinqiao area declined.

- City-wide vacancy rates fell by 1.3 percentage points (ppts) QoQ and 7.5 ppts year-on-year (YoY) to 46%.

- City-wide Grade A office average rents fell by 4.6 ppts QoQ and 11.8 ppts YoY to an average of RMB90.03 per sq m per month.

- Strata-title transaction prices fell by 1.1% QoQ in Q4/2016, falling from RMB19,000 per sq m to RMB18,000 per sq m.

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 "Total supply reached 496,900 sq m in 2016. With pressure from new supply and the economic downturn, landlords will continue to adopt a concessional rent policy."

Dave Law, Savills Research

➔ **Market commentary**

Chongqing was announced as the site of the new China (Chongqing) Pilot Free Trade Zone, which aims to transform the city into a new financial centre and innovation hub, with the objective of improving the inland economy. The city's plan to further develop into an international business centre has already generated new demand for the office market. For example, companies with the China-Singapore (Chongqing) Demonstration Initiative on Strategic Connectivity, such as the China-Singapore Equity Funds Management Co. and the China-Singapore (Chongqing) Industry Promotion Incubation Center, have already leased space in Financial Town 3# T1 located in the Jiangbeizui CBD.

As a number of projects postponed their launch dates, no new supply entered the market in Q4/2016. City-wide Grade A office stock remained stable at 2.11 million sq m. The Jiefangbei and Jiangbeizui CBDs account for the majority (58.9%) of city-wide Grade A office stock.

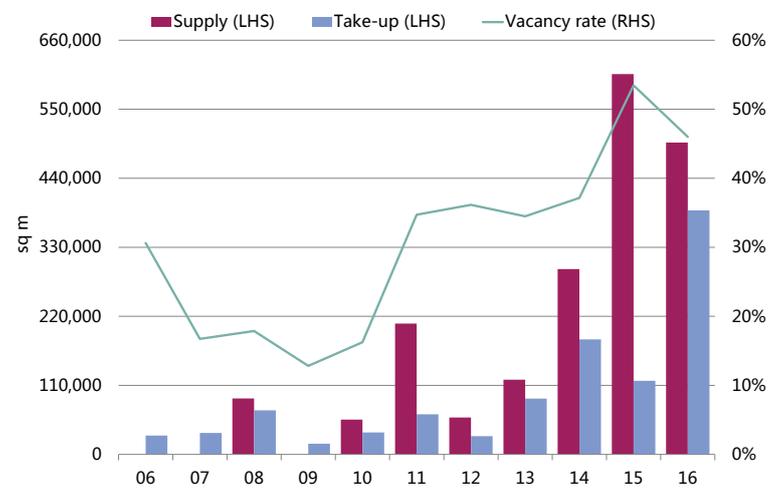
Net-take up reached 26,400 sq m in Q4/2016, due to relocation demands from existing tenants and the entry of new small tenants. Take-up levels in the Jiangbeizui CBD and Xinpaifang area increased QoQ, as the good connectivity and developed business environment of these areas attracted new tenants. By contrast, take-up in other areas such as the Jiefangbei CBD and Guanyinqiao area declined. Due to the pressure on the economy in 2016, many small- and medium-sized enterprises were unable to afford rent and chose withdrawing from Grade A offices, especially in Guanyinqiao.

Seven Grade A office projects were launched onto the leasing market during 2016, adding 496,900 sq m of supply. City-wide Grade A office stock has more than doubled to 2.11 million sq m, up from approximately 1 million in Q4/2014. At the same time, yearly take-up is nearly three times higher compared to the previous year (2015 stood at 117,220 sq m).

Vacancy rate

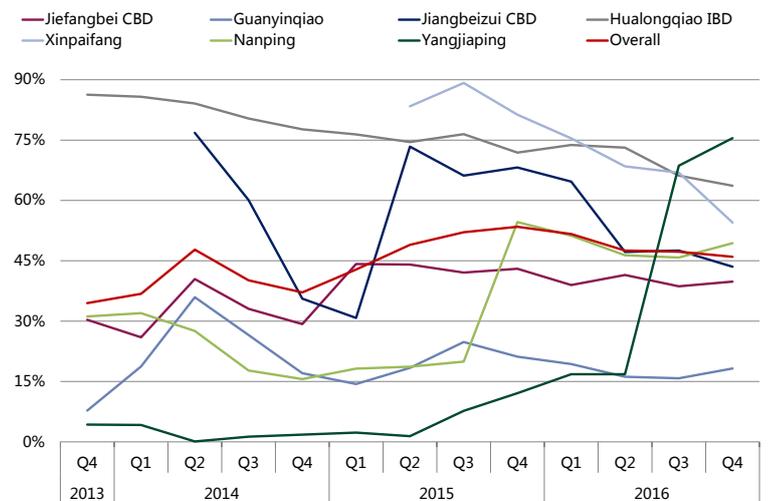
The city-wide Grade A office

GRAPH 1 **Grade A office supply, take-up and vacancy rates, 2006–Q4/2016**



Source: Savills Research

GRAPH 2 **Vacancy rates by district, Q4/2013–Q4/2016**



Source: Savills Research

vacancy rate slid 1.3 pts QoQ and 7.5 pts YoY to 46% in Q4/2016. The vacancy rate of the Xinpaifang area fell by 12.4% QoQ, due to preferential property management fees and more flexible floor plans. For example, the Jiazhou Sincere Centre, which witnessed strong take-up, allows tenants to rent 50 to 150 sq m on each floor, allowing them to lease space that better suits their current office requirements. Property companies also adopted preferential management fees in the first year (RMB22 fell to RMB18 per sq m per month), which attracted new tenants. As the old

infrastructure and low quality office environment of Xicheng International begins to adversely affect the attraction of new tenants, the vacancy rate of Yangjiaping showed an upward trend, rising by 6.9pts QoQ.

Although seven projects brought 496,900 sq m of new supply onto the market in 2016, falling rents attracted new tenants and encouraged more office expansions from existing tenants, which caused city-wide vacancy rates to decline by 5.6 pts during the period, to 46%. The total number of

companies renting space across all industries increased by 3.44% QoQ, and tenants occupying over 1,000 sq m recorded a growth of 24.5% QoQ. Among these companies, the number of financial institutions decreased at the rate of 1.74% QoQ.

Occupied space in the Jiangbeizui CBD has rapidly expanded, from 108,800 sq m in Q1/2016 to 332,300 sq m in Q4/2016. This is mainly attributable to high occupancy rates in new self-use buildings and the entrance of companies that are part of the China-Singapore (Chongqing) Project. Due to its favourable location, high room efficiency rates (73%) and affordable rents,

Corporate Avenue 7 in the Hualongqiao IBD was another strong performer in 2016, managing to lease three floors to Chongqing Solton Law Firm.

Rent

Average Grade A office rents fell by 4.7% QoQ in Q4/2016, to RMB 90.03 per sq m per month. Landlords have adopted new strategies, such as lowering rents and management fees, in response to intensifying competition.

With a large number of high-quality projects, the Jiangbeizui CBD maintained the highest average rent in the city, at RMB106 per sq m per month. However, rents in the area fell by 4.7 ppts QoQ, due to the arrival of three new

projects to the leasing market, totaling 122,700 sq m. The main tenants of the Jiangbeizui CBD are large, state-owned enterprises and financial institutions. Rents in the Jiefangbei CBD fell by 7.4% QoQ to RMB90 per sq m per month as occupancy rates slid sharply. Financial institutions accounted for 31% of enterprises that canceled leases, followed by retail and trade enterprises (13%). Average rents in the Nanping area saw the greatest decrease, from RMB90 per sq m per month to RMB82.67 per sq m per month. Since the area lacks a well-developed cluster of industries necessary to attract large companies, occupancy levels have not improved, resulting in substantial rental adjustments. Landlords of new projects in the area, such as Jiafa Centre, the only project to launch onto the market in Nanping over the past year, may consider adopting more flexible leasing strategies in the future to increase take-up levels. Currently, the Jiafa Centre only allows whole-floor leases on upper floors.

City-wide average rents have continued to decline at a quicker rate each quarter over the past year, falling below RMB100 per sq m per month in Q4/2016, a decrease of 11.8 percent YoY. Hualongqiao IBD recorded the greatest decline due to inadequate surrounding facilities and poor accessibility to subway lines.

Market outlook

Fourteen new projects are expected

to be handed over in 2017, adding 923,000 sq m of Grade A office space. More than half of the new projects will be located in the Jiangbeizui CBD, including Chongqing IFC T1 and Guohua Financial Centre Tower B. The remaining supply will be distributed across the Jiefangbei CBD, the Guanyinqiao area and Liangjiang New Area. Intense competition brought by new supply will lead to a further decline in rent.

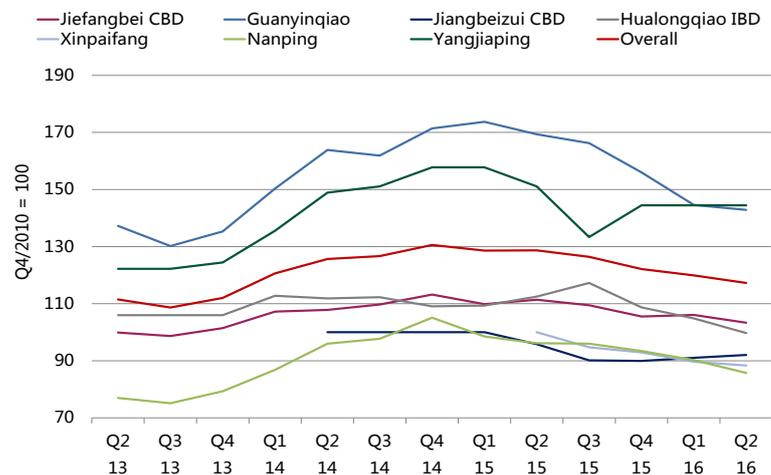
The Grade A office market in the traditional business districts has been unable to attract more demand than emerging business districts. Nevertheless, with three new projects entering the market next year, city-wide vacancy rates are expected to increase, causing landlords of existing projects to lower asking rents.

Emerging business districts, such as the Jiangbeizui CBD and Hualongqiao area, will continue to benefit from the China-Singapore cooperation project and policy support of the SASAC (State-owned Assets Supervision and Administration Commission), which helped attract some government agencies and foreign-funded enterprises, such as China-Singapore (Chongqing) Industry Promotion Incubation Center and APL Logistics. Palm Springs International Center will launch onto the market next year, supplying the emerging Jinzhou business district with a large amount of Grade A office space and furthering the trend of the city's office market northward.

The Jiefangbei Underground Ring Road will be completed next year, which will help alleviate traffic congestion in the Jiefangbei CBD. The basement levels of several well-known buildings in the core Jiefangbei area, such as World Trade Center and World Financial, will also be better connected, improving conditions for tenants in the area. In addition, four rail transits, Ring Line, Line 4, Line 5 and Line 10 are expected to begin operation in 2017, connecting Xinpaifang, Nanping, Guanyinqiao, Yangjiaping and other business districts. Developed and convenient transportation will help improve emerging business areas and give enterprises more choices of office location. ■

GRAPH 3

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



Source: Savills Research

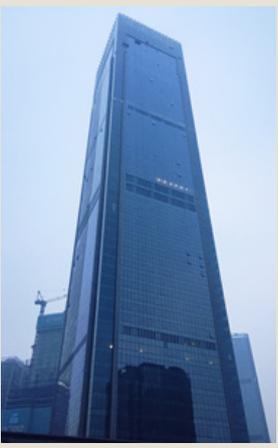
Project Focus

Chongqing IFC T1

Chongqing IFC T1 is a Grade A office building jointly developed by Hong Kong Wharf (Holdings) Limited and China Overseas in the Jiangbeizui CBD. The project has an office GFA of 126,000 sq m, sub-divided into four office areas spanning floors 5 to 51, while a high-end hotel will occupy floors 52-62. Currently, office areas 1 and 4 of the project are leasing, with rents standing at RMB110-140 per sq m per month, while management fees are RMB28 per sq m per month.

The building is part of a large, mixed-use development project which will include a shopping centre, five Grade A office buildings and a five-star hotel when completed. The project is located in the Jiangbeizui CBD, which has a strong business environment and a number of other projects in the surrounding area. The area is easily accessible by existing light rail line 6 and upcoming line 9. There are also a number of main roads that connect the project to the city, while the Chongqing North Railway Station and Jiangbei Airport are only 15 and 25 minutes away, respectively.

TABLE 1
Chongqing IFC T1

Location	Jiangbeizui, Chongqing	
Developer	The Wharf (Holdings) Limited and China Overseas Building	
Office GFA	126,000sq m	
No. of office floors	47 (5F-51F)	
Standard floor height	3m	
Number of lifts	32	
Floor plate	3,000 sq m	
No. of parking spaces	2000	
Handover date	Q4/2016	
Asking rent	RMB110-140 per sq m per month	
Management fee	RMB28 per sq m per month	

Source: Savills Research

Please contact us for further information

Research



James Macdonald
Director
+8621 6391 6688
james.macdonald@savills.com.cn

Project Development & Consultancy



Dave Law
Director
+8628 8665 7375
dave.law@savills.com.cn

Agency



Eric Wo
Managing Director
+8628 8658 7828
eric.wo@savills.com.cn

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