

Briefing Office sector

May 2017

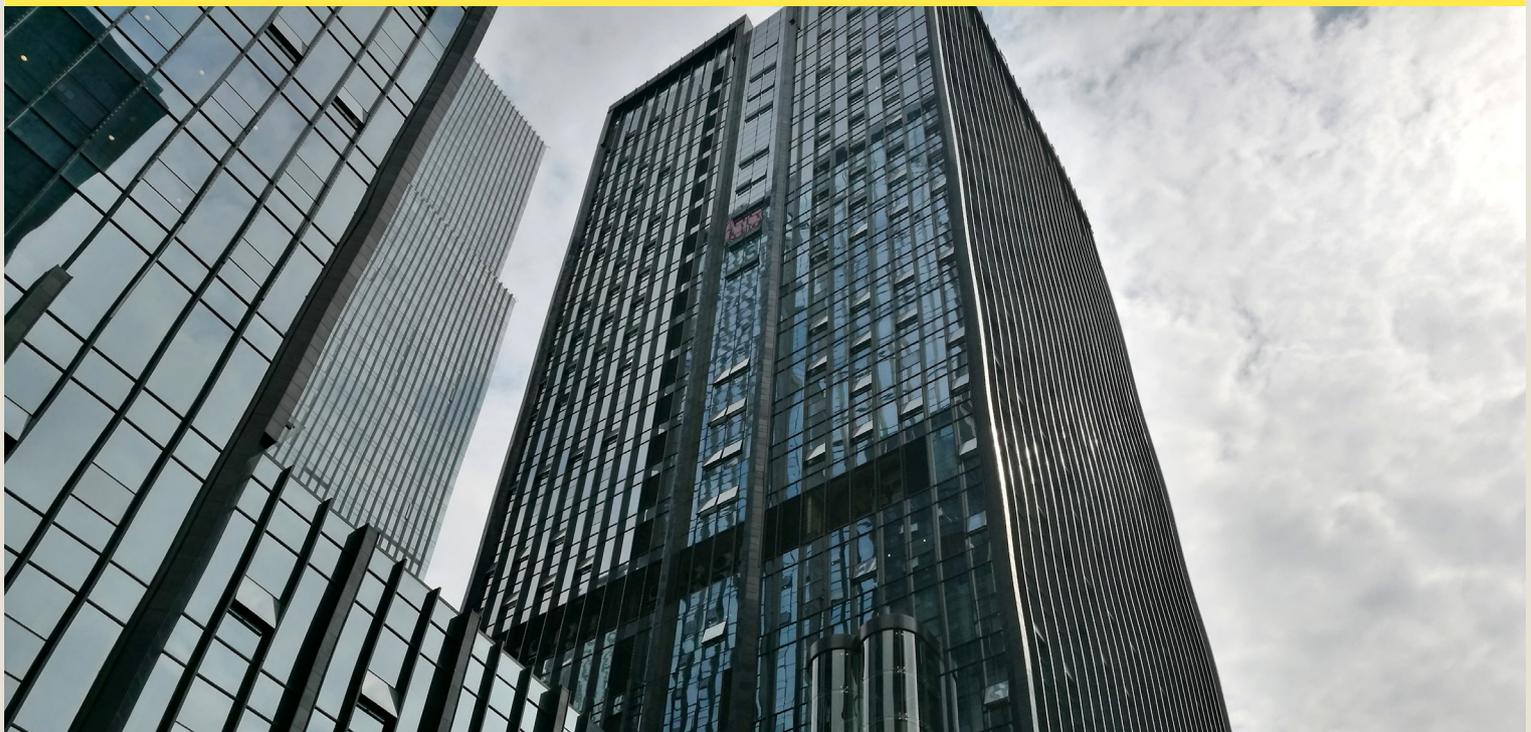


Image: Bank of Communications Tower

SUMMARY

The handover of two new projects to the market put pressure on city-wide vacancy levels, although rents increased slightly.

- Two Grade A office projects launched in the Jiangbeizui CBD in Q1/2017, adding 88,141 sq m of new supply.

- Net take-up exceeded 132,900 sq m in Q1/2017, quadrupling the 26,400 sq m recorded in Q4/2016. The Jiangbeizui CBD accounted for approximately 58.17% of city-wide net take-up.

- City-wide vacancy rates fell 4.7 percentage points (ppts) quarter-on-quarter (QoQ) to 42.1%. The vacancy rates in all areas except for Guanyinqiao declined.

- The average Grade A office rent increased slightly by 1.3% QoQ to RMB91.59 per sq m per month in Q1/2017.

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"Emerging business areas such as Jiangbeizui CBD and Hualongqiao are increasingly competitive due to a rapidly-maturing business environment and government support."

Dave Law, Savills Research

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➔ **Market commentary**

Two Grade A office projects, one for lease and one for self-use, located in the Jiangbeizui CBD, brought 56,641 and 31,500 sq m of new supply to the market in Q1/2017, respectively. City-wide Grade A office stock increased to 2.20 million sq m. City-wide vacancy rates continued to decline, primarily because of the strong demand for upgrades and relocations seen in the first quarter.

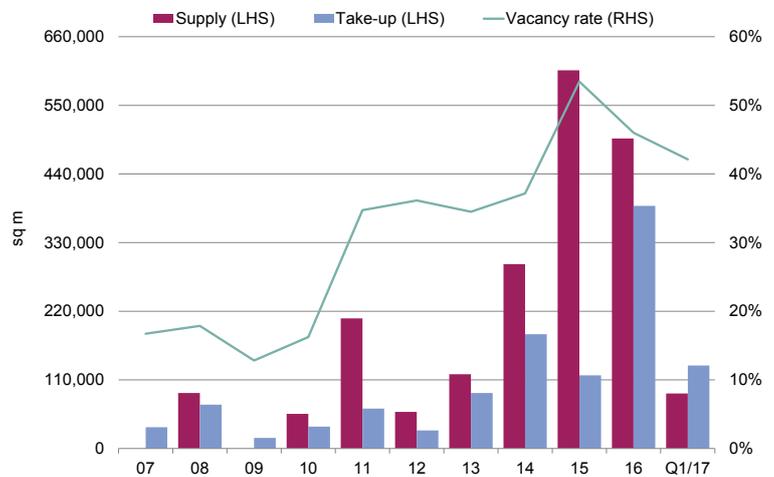
Grade A office stock in the Jiangbeizui CBD has climbed continuously since 2016. In this quarter, office stock in the Jiangbeizui CBD, totaling 676,409 sq m, exceeded that of the Jiefangbei CBD for the first time. The gap is expected to extend further due to a considerable amount of postponed projects scheduled to enter the market in the remainder of the year.

Net take-up exceeded 132,900 sq m in the first quarter, increasing greatly from 26,400 sq m in Q4/2016. City-wide vacancy rates fell 4.7 ppts QoQ to 42.1%. In addition to the China-Singapore (Chongqing) Demonstration Initiative on Strategic Connectivity, the establishment of the Chongqing Free Trade zone further accelerated the development of the city's financial industry. The Jiangbeizui CBD absorbed the majority of demand, accounting for approximately 58.17% of city-wide net take-up. In contrast, Guanyinqiao recorded negative take-up, handing 3, 875 sq m back to the Grade A office market.

Vacancy rates

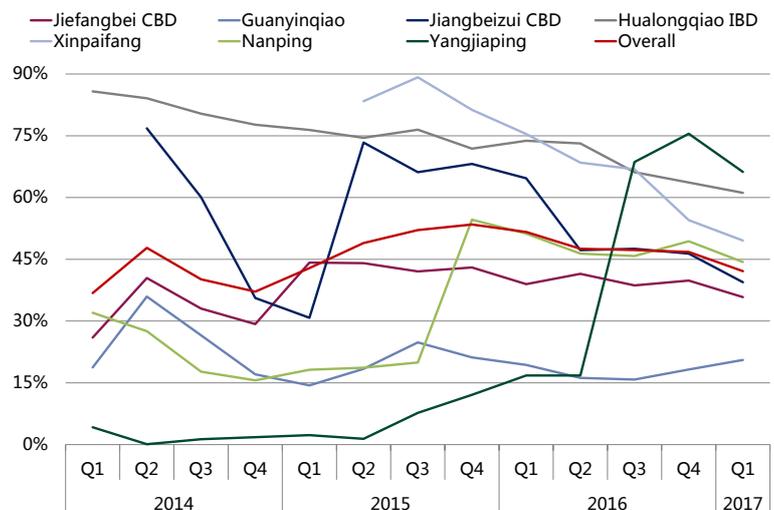
The city-wide vacancy rate slid 4.7 ppts QoQ to 42.1%. Most areas in the city, except for Guanyinqiao, saw a decline in vacancy rates due to heavy demand for upgrades and

GRAPH 1 **Grade A office supply, take-up and vacancy rates, 2007-Q1/2017**



Source: Savills Research

GRAPH 2 **Vacancy rates by district, Q1/2014-Q1/2017**



Source: Savills Research

relocations in the first quarter. While the Grade A office market in the Jiangbeizui CBD received two new projects, Bank of Communications Tower and Chongqing IFC T6, the vacancy rates in the area declined a further 6.9 ppts QoQ to 39.4%. In the Jiefangbei CBD, the traditional prime area, stable demand combined with the absence of new supply resulted in a quarterly drop in vacancy rates of 4 ppts to 35.8%.

The Yangjiaping area witnessed a much higher net take-up compared to Q4/2016. Nevertheless, the vacancy rate in this area remained high following the handover of Chongqing Resources Building last year at 66.2%. Benefiting from a maturing business environment and an increase in high-quality projects, emerging areas such as the Hualongqiao IBD and Xinpaifang showed growing competitiveness.

Meanwhile, vacancy rates in the Hualongqiao IBD and Xinpaifang declined to 61.1% and 49.6%, respectively.

By contrast, Guanyinqiao handed 3,875 sq m back to the Grade A office market last quarter. The vacancy rate in Guanyinqiao has increased for two consecutive quarters, up 2.3 ppts QoQ to 20.5%. The severe traffic congestion in this area, as well as poor facilities and unprofessional property management teams in several projects, discouraged tenants from renewing their leases.

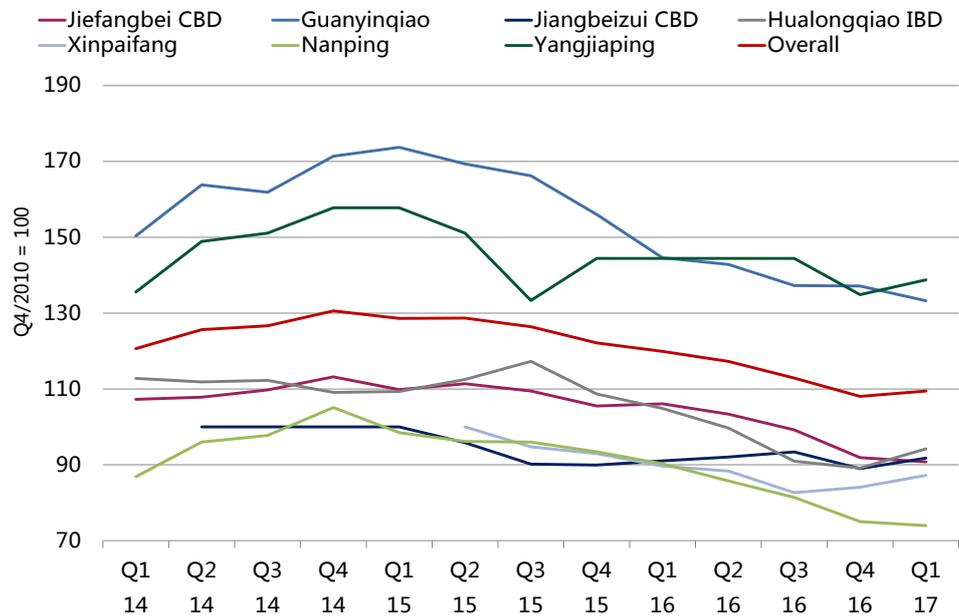
Last year several projects in the Jiangbeizui CBD, such as Oriental Plaza Tower A, postponed launch dates. As a result, new projects are expected to provide over 267,000 sq m of new supply to the Grade A office market in the remainder of this year, which may push up the vacancy rates in the Jiangbeizui CBD in the following quarters.

Rent

Average Grade A office rents increased slightly, by 1.3% QoQ in Q1/2017, to an average of RMB91.59 per sq m per month. The abrupt rise in rent was mainly driven by the emerging business areas, especially Hualongqiao and the Jiangbeizui CBD. Beneficial policies continued to drive demand in the Jiangbeizui CBD, and the average rent in this area continued to grow, reaching RMB107.5 per sq m per month in Q1/2017. Hualongqiao rents recorded the greatest increase, up 5.9% QoQ from RMB84 per sq m per month in Q4/2016 to RMB89 per sq m per month in Q1/2017. Rental growth resulted from an active leasing market as the area's business environment matures, which encouraged a number of large

GRAPH 3

Rental indices by district, Q1/2014-Q1/2017



Source: Savills Research

companies, particularly from the financial and services industries, to relocate to Hualongqiao.

In contrast, average rents in the established business areas saw declines of varying degrees. Most notably, Guanyinqiao rents fell by 2.8% QoQ from RMB92.50 to RMB89.75 per sq m per month, marking the first time rents have fallen below RMB90 since Q1/2014. Landlords have been forced to adjust rents downwards in the face of the growing competitiveness of emerging business areas.

Market outlook

Ten new projects (seven in the Jiangbeizui CBD) are forecast to enter the market in the remainder of 2017, adding 756,526 sq m of new supply. The influx of new projects will put city-wide vacancy rates under pressure, tentatively stopping the unusual city-wide rental growth seen this quarter. Landlords in

emerging business areas will have to offer some price discounts in order to improve take-up rates.

As a result of the recent establishment of the Chongqing Free Trade Zone and other beneficial policies, the competitiveness of the Jiangbeizui CBD is expected to increase, attracting large companies, especially in the financial services industry. In addition, the upcoming Underground Ring Road and Light Rail Line 9 will greatly improve the area's accessibility. Faced with growing competition, projects in established markets will continue to lower rents, improve facilities and provide better management services to attract and retain tenants. ■

Project Focus

Chongqing IFC T6

Chongqing IFC T6 is a Grade A office building jointly developed by Hong Kong Wharf (Holdings) Limited and China Overseas in the Jiangbeizui CBD, providing 56,641 sq m of office space across 34 floors. The sales price ranges from RMB19,000 per sq m to RMB21,000 per sq m for a whole-floor sale. The 33rd floor has already been sold to a local real estate agency.

The building is part of a large, mixed-use project, which will include a shopping centre, five Grade A office buildings and a five-star Niccolo hotel operated by Marco Polo Hotels. The project is located in the easily accessible Jiangbeizui CBD, which is located on the junction of existing Light Rail Line 6 and upcoming Line 9. The Chongqing North Railway and Jiangbei Airport are an approximately 15-minute and 25-minute drive from the project, respectively.

TABLE 1
Chongqing IFC T6

Location :	Jiangbeizui, Chongqing	
Developer:	The Wharf (Holdings) Limited and China Overseas Building	
Office GFA:	56,641 sq m	
No. of office floors	30 (4F-34F)	
Standard floor height	4.3m	
Number of lifts	14	
Floor plate	1,938 sq m	
No. of parking spaces	2456 (total number of IFC project)	
Handover	Q1/2017	
Sales price	RMB19000~21000 per sq m	

Source: Savills Research

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