Office market competition increases

Facing downward pressure, several owners of uncompleted office projects decided to apply for a change of use to apartments or hotels.

- No new projects entered the market in Q3/2019, and the total stock of Grade A office remained at 2,310,000 sq m.
- Net absorption was 43,000 sq m, an increase of 53% quarter-on-quarter (QoQ), and the overall vacancy rate dropped by 2.5 percentage points (ppts) to 32.5%.
- The average rent of the Grade A office market in Chongqing fell by 1.1% QoQ to RMB86.5 per sq m per month due to increased competition between landlords.
- The 2019 China Smart Expo was held successfully in Chongqing during the quarter, showcasing the growth and scale of emerging industries such as big data and information technology.
- By the end of Q3/2019, the information technology industry showed a 34% increase in lease transactions compared to the whole of 2018.
- Flexible leasing projects achieved an average high occupancy rate of 77.4% as of the end of Q3/2019.
- It is expected that there will be 85,000 sq m of new supply at the end of the year. The highly anticipated Chongqing Raffles Tower A project is expected to be completed and will become the benchmark for business offices in the core area.

“Emerging industries are developing rapidly in Chongqing, with tenants from the information technology industry growing steadily. The success of the 2019 China Smart Expo will greatly benefit the development of the industry.”

SOPHY PAN, SAVILLS RESEARCH
MARKET OVERVIEW

No new projects entered the market in Q3/2019, and the total stock of Grade A office remained at 2,310,000 sq m. Facing downward pressure, several owners of uncompleted office projects decided to delay entry into the market or adjust the project usage of properties to apartments or hotels. The city’s short-term supply pressure reduced slightly.

While the net absorption in Q3/2019 was 43,000 sq m, an increase of 53% QoQ, worries remained that the transactions were coming mainly from clients who were concluding their long-term negotiations during the quarter. New client visits were down significantly QoQ and year-on-year (YoY), which brings uncertainty to future market growth. The overall vacancy rate dropped by 2.5 ppts to 32.5%. Facing many unfavourable factors, such as client visit reductions, the continued high vacancy rate (above 30%) and future supply pressure, several projects took on sharp price cuts to reach leasing deals, leading average rent to drop 1.0 ppt to 86.5RMB per sq m per month.

The 2019 China Smart Expo, which is a professional event to encourage global exchanges of smart technologies and a high-end platform for in-depth international cooperation in the smart industry, posted 530 new contracts. Total investment amounted to RMB816.9 billion, which will greatly benefit the development of the information technology industry. By the end of Q3/2019, the information technology industry showed an increase of 34% in leasing transactions and 16% in average leased area compared to the whole of 2018—evidence of new economic momentum.

The customer service industry became a new demand generator during Q3, accounting for 13.1% of total new leases. The expansion of hotels, restaurants and other related companies in Grade A office buildings—helped in part by the rapid growth of city tourism and education companies that are leaving Beijing and Shanghai and relocating to Chongqing—are two major reasons for the growth of the customer service industry.

Flexible office space projects achieved an average high occupancy rate of 77.4%, but many in the market still question the sustainability of low-price subleasing strategies.

MARKET OUTLOOK

A total of 85,000 sq m of new supply is expected by the end of the year. The highly anticipated Chongqing Raffles Tower A project, with approximately 64,000 sq m, is expected to be completed and will become the benchmark for business offices in the core area of the city. Rents should continue to fall in the short term since market sentiment will not likely change in Q4/2019.

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TABLE 1: Selection Of Important Leasing Transactions, Q3/2019

<table>
<thead>
<tr>
<th>TENANT</th>
<th>INDUSTRY</th>
<th>PROJECT</th>
<th>LOCATION</th>
<th>GROSS FLOOR AREA (SQ M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tianhua</td>
<td>Architecture &amp; Design</td>
<td>Corporate Avenue #8</td>
<td>Dashiuhua</td>
<td>5,000</td>
</tr>
<tr>
<td>Yuan Ti Ku</td>
<td>Education</td>
<td>Evergrande Zhongyu Plaza T1</td>
<td>Xinpaifang</td>
<td>2,000</td>
</tr>
<tr>
<td>Tec DLF Centre</td>
<td>Business Centres</td>
<td>Metropolitan Oriental Plaza Tower</td>
<td>Jiefangbei</td>
<td>1,400</td>
</tr>
</tbody>
</table>

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GRAPH 1: Grade A Office Supply, Take-up And Vacancy Rates, 2014 to Q3/2019

GRAPH 2: Grade A Office Vacancy Rate, Q4/2014 to Q3/2019

GRAPH 3: Grade A Office Rental Indices, Q4/2014 to Q3/2019