One Grade A office project, the 81,000-sq m FFC, was launched in the Xinpaifang submarket in Q2/2017, increasing city-wide total Grade A office space to 2.41 million sq m.

Net take-up exceeded 81,900 sq m in Q2/2017, down by 40.2% quarter-on-quarter (QoQ). The Hualongqiao IBD and Xinpaifang were the outperformers, accounting for 80% of city-wide net take-up.

City-wide vacancy rates fell by 1.6 percentage points (ppt) QoQ to 43.3%. Other than the poor performance of Xinpaifang and Guanyinqiao, vacancy rates across the city showed varying degrees of decline.

Average Grade A office rent fell slightly, by 0.5% QoQ to RMB92.2 per sq m per month in Q2/2017.

"Intense market competition saw rents fall to their lowest level and they are expected to remain flat in the near future. Therefore, high-quality office spaces in the core area should generate interest from potential tenants."

Dahuang Chen, Savills Research

SUMMARY
A new office building of 81,000 sq m entered the Grade A office market in Q2/2017. An active leasing market lowered city-wide vacancy levels for the sixth consecutive quarter, with average rents declining steadily.
Market commentary

According to data from the Chongqing Bureau of Statistics, Chongqing achieved regional GDP of RMB914.4 billion, an increase of 10.5% year-on-year (YoY), in 1H/2017. The GDP of tertiary industry increased by 10.8% YoY to RMB461.2 billion. The city’s investment in fixed assets reached RMB692.3 billion, an increase of 12.3% YoY. Investment in real estate development was RMB178.9 billion, an increase of 3.8% YoY.

Chongqing’s economy maintained a good momentum, led by the office market.

One new Grade A office project, Chongqing Finance Fortune Center (FFC), located in the Xinpaifang area, brought 81,000 sq m of new supply to the market in Q2/2017. City-wide Grade A office stock increased to 2.41 million sq m; the Jiangbeizui CBD and Jiefangbei CBD regions accounted for 60.6% of the total office stock. Driven by market demand, overall net take-up exceeded 81,800 sq m. Therefore, the Grade A office vacancy rate edged down for the sixth consecutive quarter, by 1.6 ppts to 43.3%, despite this new project.

Two major sectors, the finance industry and professional services industry, contributed significantly to the newly-occupied space.

Jiefangbei CBD

As a traditional business district, Jiefangbei CBD’s performance is relatively stable. Some landlords successfully closed deals with new tenants by reducing rent. Thus, vacancy rates fell by 1.0 ppt to 34.7%. The average rent is approximately RMB90.5 per sq m per month, higher than other areas in the city, with the exception of Jiangbeizui.

Jiangbeizui CBD

Despite no new projects launching, the Jiangbeizui CBD steadily improved its regional competitive power, positioned as the area to become the financial centre in the upper Yangtze River region. Beijing Deheng Law Firm leased an entire floor, about 2,000 sq m, in Guohua Financial Centre Tower A. The average vacancy rate dropped to 47.7%.

Several projects were expected to debut in 2H/2017, such as Financial Town No3 T2 and Oriental Plaza Tower A, contributing more than 300,000 sq m GFA.

Hualongqiao IBD

The Hualongqiao IBD had an eye-catching performance, with net take-up totaling 41,325 sq m, accounting for 50.5% of the total leased space in Q2/2017. Finance, professional services and consulting enterprises were the main new tenants. Ping An Insurance leased more than 4,600 sq m in Corporate Avenue No.7. The average vacancy rate decreased significantly, by 15 ppts to 46.3% QoQ. Following the sale of a 79.2% equity stake in the Chongqing Tiandi project to Vanke, the revival of construction at Corporate Avenue No 1 is set to start in 2H/2017. It is anticipated that the project will create a business cluster effect and...
enhance the future performance of Corporate Avenue.

**Guanyinqiao**
Relying on its traditional advantages, Guanyinqiao has the city’s lowest vacancy rate. However, performance was relatively sluggish in Q2/2017. The business district lost clients, leasing a total of 7,000 sq m in Q2/2017. Due to poor performance, the average vacancy rate has increased for three consecutive quarters, up by 4.3 ppts QoQ to 24.7%. Main factors contributing to the termination of lease contracts include permanent closures and bankruptcy of small loans firms, and the lack of good quality professional property management provision.

Guanyinqiao will see Concord International Center (140,000 sq m GFA), entering the market in 2H/2017. The average vacancy rate will edge up if demand remains low.

**Xinpaifang**
The handover of the city’s new landmark, Finance Fortune Center (FFC), significantly pushed up average rents by 6% QoQ, reaching RMB88 per sq m per month. The FFC recorded several large area transactions as soon as it opened. The Eternal Asia Supply Chain Co purchased ten floors, more than 20,000 sq m GFA in total (three levels are for the group’s own use).

**Yangjiaping**
In view of several financial enterprises’ new leases in the China Resources Building (CRB), the Yangjiaping area witnessed higher net take-up compared to Q1/2017. The vacancy rate fell by 5.8%, but still remained high at above 60%.

However, due to new leases signed at higher levels of CRB, average rents continued to rise, reaching RMB77.5 per sq m per month, up 3.33% QoQ.

Finance companies and education institutions established their regional offices for their southwestern China businesses in Xicheng International, and accounted for 39.4% of total occupied office space.

**Market outlook**
Nine new projects, including five in the Jiangbeizui CBD and a huge Concord International Centre in Guanyinqiao, are expected to enter onto the market in the remainder of 2017, adding about 612,000 sq m of new supply. The influx of new projects will put city-wide vacancy rates under downward pressure, possibly further edging down rents. However, as city-wide rent is already at its lowest level for the past three years, rents might instead remain flat.

Driven by the trend of moving the core business centres towards the north of the city, and other beneficial government policies, the competitiveness of the Jiangbeizui CBD is set to be boosted, attracting large companies, especially those in the financial and professional services sectors. As the reconstruction of Corporate Avenue No 1 is being revived, the future performance of the Hualongqiao IBD is being eagerly watched by the market.

Overall market demand is expected to continue to rise in 2H/2017. However, due to a large amount of new supply, market competition will be further intensified. The established business district will be impacted, as rental deduction strategies will have little to no effect on stimulating increase in occupancy. Landlords will have to look into ways to improve the building facilities and explore better management strategies to attract new clients and retain existing tenants.
Project Focus

Chongqing Fortune Financial Centre

Chongqing Fortune Financial Centre (FFC) is a Grade A office building developed by HKI China Land. It is located in the Xinpaifang area, and has 80,584 sq m of office space across 45 floors. The building holds an LEED gold pre-certification and hired Savills as the property management company, to bring outstanding international property management services to tenants. The sales price is about RMB15,000 per sq m. The 25th floor to 34th floor has already been sold to Eternal Asia Supply Chain Group.

FFC is surrounded by major government departments and agencies, including Chongqing Development and Reform Commission, Chongqing Finance Bureau, and Chongqing Taxation Bureau. The building is also next to the Longfor community and Chongqing ecological business district EBD, and is directly connected with the metro ring which will open by 2018. The location of the project is also close to the inner ring highway, which provides direct access to Jiangbei Airport, Chongqing North Railway Station and Chongqing Bonded Port area.

<table>
<thead>
<tr>
<th>TABLE 1</th>
<th>Chongqing Fortune Financial Centre</th>
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</thead>
<tbody>
<tr>
<td>Location:</td>
<td>Xinpaifang, Chongqing</td>
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<tr>
<td>Developer:</td>
<td>HKI China Land</td>
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<tr>
<td>Office GFA:</td>
<td>80,584 sq m</td>
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<tr>
<td>No. of office floors</td>
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<td>Standard floor height</td>
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<td>Number of lifts</td>
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<td>Floor plate</td>
<td>1,970~2,100 sq m</td>
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<td>No. of parking spaces</td>
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<td>Handover</td>
<td>Q2/2017</td>
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<tr>
<td>Sales price</td>
<td>RMB15,000 per sq m</td>
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Source: Savills Research