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LASALLE

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# Emerging City Winners Profiles: China Chongqing

Chongqing is one of mainland China's four municipalities, with a population of 28 million.

Chongqing has become a hot spot for foreign investment following the "Go West" policy launched in 2001. The emphasis of central government's 11th 5 Year Plan on the Chengdu-Chongqing axes has further enhanced the city's unique position.

The city's large supply of low-cost labour and its strategic location in the western region will underpin Chongqing's future development.

We believe Chongqing's role as a key city in China's modernization process should and will not be underestimated.





**ECONOMIC DASHBOARD**

Size	Population (million 2005)	28
	GDP (USD billion 2005)	38.4
	Employment (million 2005)	17
Growth	Population (% pa 2000–2005)	(1.3)
	GDP (% pa 2000–2005)	14
Infrastructure	Air Passengers ('000 2005)	5,233
	Freight Traffic (million tons 2005)	392
Openness	FDI (USD billion 2005)	0.5
	Exports (USD billion 2005)	2.5
Wealth	GDP/Capita (USD 2005)	1,372
	Disposable Income /Capita (USD 2005)	1,281
Education and Labour	Higher Education Institutions (2005)	35
	Total Enrolments ('000s 2005)	358
	Unemployment (% 2005)	4.1
	Average Wage Rates (USD 2005)	2,079
Business	Business Environment (Score)	A
Lifestyle	Quality of Life (Rank)	1*

\* Please refer to Definition of Terms

**CITY SUMMARY**

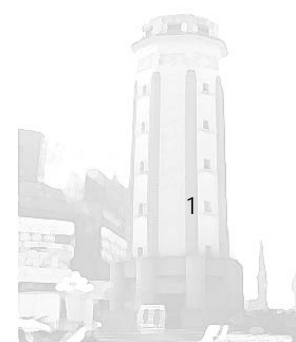
Chongqing, the 'mountain city', is located at the confluence of the Yangtze River and its major tributary, the Jialing River. Having served as the main commercial and transportation centre for Sichuan province for centuries, Chongqing was granted national status as a municipal region in 1997. It is now one of China's four municipalities, together with Beijing, Shanghai and Tianjin.

The Three Gorges Dam project, launched in 1992 with a total investment of USD 26 billion, has been the main driver for extensive city re-generation. Over the course of the 18 year project, 1.3 million people will have been displaced and many old neighbourhoods will have been demolished.

The motorcycle industry is another strong point for Chongqing. Its 26% share of national output has made it one of the top three motorcycle production bases in China, followed by Guangdong province with a 22% market share and Zhejiang province with 10%. Five of mainland China's top six motorcycle companies are based in Chongqing.

The outstanding performance of the automotive industry and Chongqing's solid industrial background has caught the eye of numerous foreign investors. Its special political status has, on the other hand, acted as a catalyst for Chongqing's real estate market. Many Hong Kong developers entered the market after 1997, once Chongqing had obtained its municipal status.

We believe that Chongqing will be a key city in China's modernization process provided that it continues to strengthen its automotive industry while simultaneously putting more effort into value-added and tertiary industries.



**DEMOGRAPHICS**



Chongqing has been touted as the world's largest city due to the 31 million people<sup>1</sup> under its jurisdiction. However, more than four-fifths of the population live in rural areas with the city proper having a population of around 5 million.

The city has witnessed three periods of strong immigration since the Yuan Dynasty and these have made Chongqing a vibrant city. Most of the immigrants came from coastal cities as part of Chongqing's city development plan under Mao<sup>2</sup>.

However, Chongqing has suffered from an overall net decrease in the population, attributable to slow economic development and the Three Gorges Dam project. In 2005, the number of emigrants reached 3.88 million, an almost 50% increase on the number in 2000. The majority of emigrants (52.4%) headed to east China, compared to 11.4% to west China and only 3.9% to central China.

The high emigration should not have too big an impact on labour-intensive companies given that the population profile is relatively young and the population base is large. Indeed, 68% of the overall population is between the ages 15-64, the same proportion as in Shanghai. This gives Chongqing a considerable edge when competing for labour intensive industries.

**ECONOMIC BACKGROUND**

As one of the first inland cities to open its doors to foreign investors, Chongqing has enjoyed active trading with the outside world since 1891. Chongqing's unique geographic location also accounts for its emergence as a key city in China's revolutionary process. Chongqing was the seat of the KMT<sup>3</sup> between 1937 and 1946 and, today, is the only municipality in western China. The special political status of the city and the Three Gorges

<sup>1</sup> 31 million is the registered population, while 28 million is the total population.

<sup>2</sup> It was part of Mao's policy that those educated in the cities should spend several years in a poor region of China in order to gain more experience.

<sup>3</sup> KMT refers to Kuomintang, a centre-right political party in the Republic of China, now in Taiwan. Also known as The Nationalist Party of China.

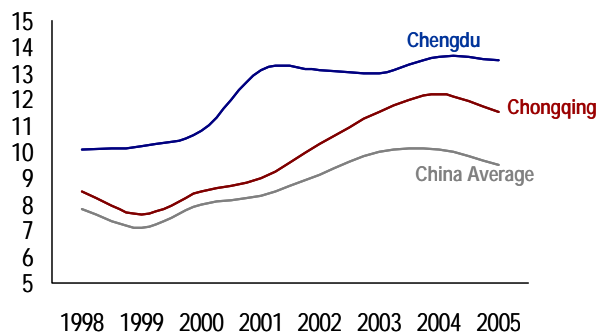
Dam project launched in 1998<sup>4</sup> are important drivers of Chongqing's economic growth.

GDP growth increased rapidly until 2004. However, although it has exceeded China's average growth rate since 1998, the growth rate still lags behind that of Chengdu by almost 200 basis points.

This phenomenon is mainly attributable to the structure of industry in Chongqing, with heavy industry such as chemicals, steel and aluminium as the major drivers of the overall economy. High value-added sectors such as the high-tech industry only accounted for 7% of total industrial output in 2005, which is even lower than the average level for mainland China (at 11.3%).

The relatively slow GDP growth rate and the large portion of poor residents have constrained wealth creation in Chongqing. Although GDP ranked first among 9 major secondary cities in western China in 2005, GDP/capita barely met the average level of that area.

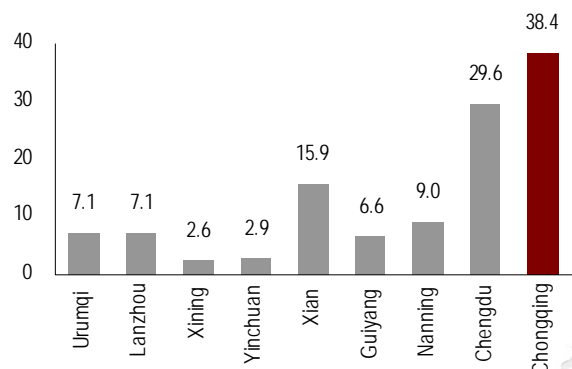
**GDP Growth Rate Comparison 2005 (%)**



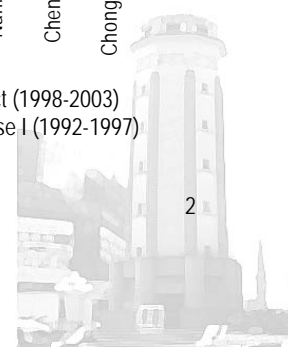
Source: Chongqing, Chengdu, China Statistics Yearbook 1998-2005

**GDP Comparisons, 2005 - Major Cities in West China**

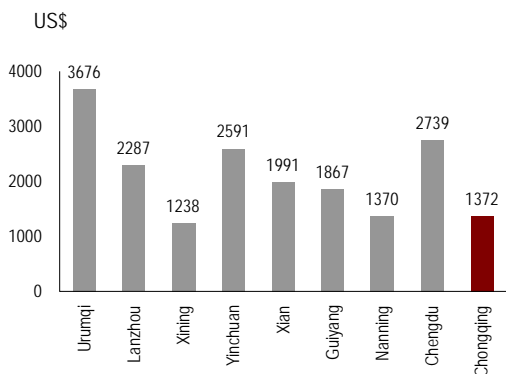
US\$ billions



<sup>4</sup> The second phase of Three Gorges Dam project (1998-2003) constituted the main progress of the project. Phase I (1992-1997) involved mostly preparation work.

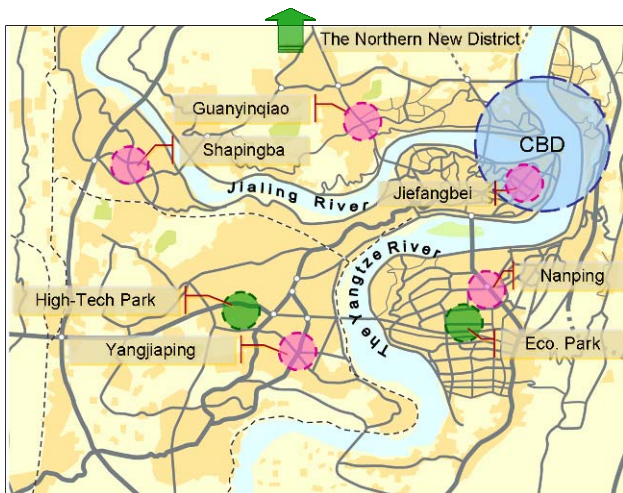


**GDP/Capita Comparisons, 2005 - Major Cities in West China**



Source: Statistics Yearbook

**URBAN PLANNING & INFRASTRUCTURE**



Chongqing's city centre covers nine administrative districts, namely Yuzhong, Jiangbei, Shapingba, Jiulongpo, Dadukou, Nan'an, Yubei, Banan and Beipei, and has an urban population of 5 million. Unlike most cities, Chongqing has five commercial centres, each with its own pedestrian street. This special layout is the result of difficult transportation because of the mountainous topography. Out of the five business centres, Jiefangbei in the Yuzhong District is the most prominent and hosts a large part of the Grade-A offices, high-end retail space and five-star hotels.

A CBD has been designed to include the three most prestigious areas: Jiefangbei, Jiangbeizui and Danzishi. It will cover a total area of 5-6 sq km with the core area occupying 4 sq km. Jiefangbei will continue to be the most dynamic commercial area and will serve the whole city. Danzishi, on the other hand, is to become an entertainment area similar to "The Bund" in Shanghai, and Jiangbeizui a "modern business centre".

Apart from the core CBD, Shapingba, which hosts most of the universities and colleges, has been conceived as a municipal level educational and cultural centre, while Yangjiaping is to be a municipal level sports centre.



A totally new area, named the Chongqing North New District (NND), has also been designed in the Yubei and Beipei districts. The municipal government is moving some of the government functions to the NND in order to support the development of

the new district. It occupies an area of 91.7 sq km and will have an estimated population of 650,000. Most of the NND area is split into two major industrial zones: the Chongqing Economic & Technological Development Zone and the Chongqing Hi-tech Industry Development Zone. The government aims to build a new manufacturing base for Chongqing which is to reach an industrial output of USD 19 billion by 2010.

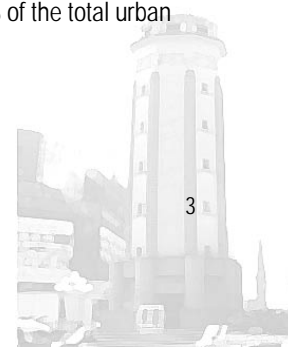
**Infrastructure Improvements**

Infrastructure improvements have been a major challenge for the municipal government. The poor infrastructure has become one of the main concerns of foreign investors and hinders wider city integration.

Traffic congestion is a considerable problem given the numerous mountains, bridges and tunnels. The distinctive topography has also resulted in high construction costs, and has complicated the development process. Therefore, in order to improve its current infrastructure and drive Chongqing's economic growth, USD 67 billion will be invested over the next 5 years (1.5 times the amount invested over the period 2000-2005).

**Light Railway Construction**

A total of nine light railways have been proposed as part of the Chongqing municipal government's 11<sup>th</sup> Five Year Plan. Three of these lines are already under construction and are due to be completed by 2013. All three lines will pass through Jiefangbei, which will effectively consolidate its traditional business area as a core place in Chongqing. This will also facilitate market integration between different areas. According to the plan, by 2013 the transport capacity of the 3 light railways will reach 575,000 people per day, accounting for 23% of the total urban transport capacity.



### *Expressway Construction*

According to the Chongqing Municipal Expressway Planning Bureau, by 2020 the total expenditure on expressway construction will reach USD 25.5 billion, resulting in a network 3,600 km long. There are now seven new expressways under construction which will be completed by 2010. Among these, the most important is the Yu-hu (Chongqing to Shanghai) Expressway. With a total length of 2,500 km, this expressway will enable people to complete the trip in only 23 hours (19 hours faster than by train). It will also connect six main cities, namely Chengdu, Chongqing, Wuhan, Hefei, Nanjing and Shanghai. This expressway will clearly help ease traffic problems and foster economic cooperation between those cities.

### *Port Construction*



Given its advantageous location half way along the upper stream of the Yangtze River, the Chongqing municipal government aims to develop the city into a key logistics hub and USD 2 billion will be invested to enhance port capacity. The

construction of Cuntan Port started in June 2003, with a total investment of USD 199 million. After its completion in 2007, annual container throughput will reach 700,000 TEUs. Furthermore, in 2009, when the Three Gorges Dam project is completed, ocean going cargo ships will be able to load up in Chongqing and supply factories in Shanghai and beyond. By using the Yangtze River transport, raw materials as well as manufacturing products should be delivered at comparatively low cost.

## **BUSINESS ENVIRONMENT**

As the major target city of China's "Go West" policy, Chongqing has been continuously upgrading its investment environment. More capital is expected to flow into the city according to the central government's 11<sup>th</sup> 5 Year Plan, and those SMEs planning to invest in Chongqing should obtain funding easily. Simultaneously the Chongqing municipal government is also making a significant effort to attract investment.

To market Chongqing both internally and externally, Mayor Wanghongju launched an Asia Pacific Cities Summit (APCS) in 2005 to introduce Chongqing to the world and, at the same time, gain mutual benefits from city cooperation.

Higher ecological standards will be essential for a more attractive business environment. Chongqing is known as a city with bad air quality. Days with good air quality only make up 60% of the total, whereas in Chengdu and several coastal cities this figure reaches 90%. Heavy pollution has become the primary concern of foreign investors. The government has spent USD 6 billion on improving the environment over the last 5 years.

These initiatives have been reflected in the positive feedback from investors. According to a survey by a market research company, 56% of investors with an operation in Chongqing will continue to expand, while 28% of them would like to keep their current investment scale (up from 19%).

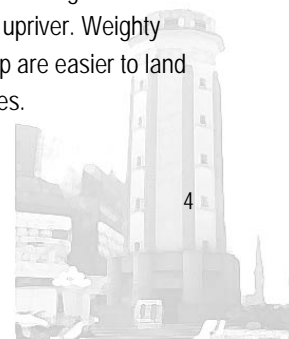
The government's initiatives, together with inherent advantages such as the cheap cost of labour, an abundant labour supply and an effective logistics market, will further improve the investment environment in Chongqing.

## **KEY INDUSTRIES/SECTORS**

Chongqing's economy has been dominated by heavy industry ever since the 1930s. The military industry was thriving at this time as a result of the Sino-Japanese War, with Chongqing's rich natural resources underpinning the development of manufacturing enterprises as well as the city as a whole. Pillar industries in Chongqing include automotive parts, machinery, and new materials.

Car manufacturing has long been crowned the pivotal industry of Chongqing and has witnessed significant growth as the price of automobiles has declined while incomes have risen over the last few years. For over ten years the annual output of the automotive industry has accounted for more than 1/3 of the city's total industrial output. Chongqing, which is currently the fourth largest car manufacturing base in China, plans to reach a production volume of 2.6 million vehicles per year by 2020 and to become one of the top 3 car manufacturing bases of the country. Moreover, as the largest motorcycle manufacturing base of China, Chongqing has the most clustered motorcycle parts suppliers. A significant portion of their production is delivered to the South East Asia market.

The machinery and new materials industry in Chongqing is fuelled by the city's privileged position near the Yangtze River which makes it the largest inland port on the upriver. Weighty materials that can only be transported by ship are easier to land in Chongqing than in other nearby inland cities.



Its prominent location by a water artery also makes Chongqing a natural logistics hub. From 2009 huge ocean-going cargo vessels will be able to call on Chongqing when the Three Gorges Dam project is completed, fulfilling the rising demand for higher shipment handling capacity of the traditional heavy-industry manufacturing base. New highway and rail links will be extended via Chongqing over the next 10 years to connect China's south-west area to the east. To capitalize on the infrastructure advantage, a modern logistics park is being built in the North New Zone of Chongqing and a sizeable volume of warehouse spaces (Chongqing Cuntan Logistics Park: USD 1.3 billion; Chongqing Railway Logistics Park: USD 423 million; and Chongqing Airport Logistics Park: USD 256 million) will be completed in late 2007. According to the 11<sup>th</sup> FYP, USD 4.9 billion will be invested in developing the logistics industry in Chongqing. Its contribution to total GDP is to be 12% by 2010 (up from the current 10%).

The prosperity of heavy industry has been fuelling Chongqing's economic growth for nearly a century. However, the city still crucially lacks more value-added industries such as hi-tech. Interestingly the government is looking at unique ways of developing such industries rather than seeking to become a carbon copy of other cities. The wind power industry, for example, is gaining ground in the North New District, relying on the government's preferential policy to develop new technology industries for example new energy, materials, etc. Kairui, a vehicle manufacturer specializing in a city environmental sanitation vehicle series, also gives a fresh growing point to the already mature car manufacturing industry.

## EMPLOYMENT STRUCTURE

Until the early 1980s, about half of the working population was employed in the primary agriculture sector. However, at that time a significant number of employees shifted into the secondary (manufacturing) and tertiary sectors. The number of people working in the secondary sector has since then remained stable at around 16%-18%.

In the secondary and tertiary sectors, the manufacturing, wholesale and retail industries have undergone reasonable expansion, with employment reaching 3 million in 2005 (representing a 10% increase on the 2000 level).

## MAJOR EMPLOYERS

**Southwest Aluminium:** The history of Southwest Aluminium dates back to 1965. After over 40 years of development, the company has become the largest comprehensive aluminium fabrication enterprise in China, given its huge production scale and variety of products. The company is now actively participating in the national aerospace industry and aims to become one of the top 3 aluminium production groups in the world. Over 30,000 employees work for Southwest Aluminium, 25% of which are technicians.

**BP:** BP is Chongqing's biggest foreign investor and taxpayer. Its acetic acid plant, a joint venture with the state-owned Sinopec, came on stream in 1998. The plant had an initial annual production capacity of 150,000 tonnes. An additional investment of USD 150 million in 2005 increased the capacity to 350,000 tonnes annually.

**Chang'an Ford:** Ford formed a joint venture with Chang'an in Chongqing in 2001. By 2006, total investment had reached USD 487 million. The manufacturing base of Chang'an Ford is located in the North New Zone and has 5,500 employees and an annual production capacity of 250,000 vehicles. The company is expected to produce 360,000 vehicles in 2007, 18 times the amount produced five years ago.



**Lifan:** Lifan Industrial Group is one of the largest private companies in Chongqing, engaged in engine, motorcycle and automotive parts manufacturing. The China Enterprise Confederation & China Enterprise Director Association dubbed the group the 'No.1 private-owned motorcycle enterprise of China 2006'. The group currently has more than 12,000 employees, and has produced 1,330,000 units of motorcycles over the course of its 15 years of development.

**Coca-Cola:** Together with the Chengdu Huajin Group, Coca-Cola opened a factory in the North New Zone in 2005. The annual production capacity of Coca-Cola Chongqing is currently 100,000 tons, and is expected to increase by 50% over the next two years. The company has around 600 employees.

**Chongqing Iron & Steel:** The resource complex, with a history of 100 years, has total assets of USD 1.8 billion. The whole group has over 27,000 employees in 21 subsidiaries and 5 holding companies, including Chongqing Steel, the Hong Kong listed core company. In February 2007, Chongqing Steel



launched an IPO on the mainland market, indicating an aggressive investment and expansion plan.

## MAJOR INVESTMENT DEALS

**Ericsson:** The leading telecommunications provider announced in May 2005 its plan to set up a global sourcing centre in the New North Zone of Chongqing. This is to be one of its 3 global sourcing centres worldwide and the only one in the Asia Pacific region. The project covers a land area of 20,000 sq m and is due to be completed in the 3<sup>rd</sup> quarter of 2007. The sourcing centre is to enhance Ericsson's supply chain and procurement services in West China.

**Prologis :** Prologis is one of the world's largest providers of distribution facilities and services. Prologis Park Chongqing, the first foreign-invested logistics park in this city, is backed by a total investment of USD 60 million from the company. As the most active logistics property investor, Prologis' investment in China is expected to accumulate to over USD 2 billion by 2010.

**Visteon Corporation:** Visteon Corporation is a leading automotive supplier from the U.S. Yanfeng Visteon (Chongqing) Automotive Trim Systems Co. Ltd. was established in 2001, with an investment of USD 32 million. In 2005, Visteon partnered with China's third-largest automaker, Chang'an, to form a joint venture producing engine systems and electronic control units.

**ProMOS :** ProMOS Technologies, a memory solution provider from Taiwan, signed an investment agreement with the government in January 2007 stating that it will invest USD 900 million in an 8-inch-wafer fabrication plant in Chongqing. The wafer plant is expected to produce 20,000 units /month in 2008. ProMOS is one of the three chip manufacturers that has been authorized by the Taiwan government to build 8-inch-wafer plants in China since 2002.

**Bao-Steel :** The powerhouse, Bao-Steel, began the construction of a steel sourcing centre in December 2006. The 0.08 sq km base, backed by Bao-Steel's investment of over USD 30 million, is due to be completed in July 2008. The plant will improve Bao-Steel's supply chain of steel resources and will provide more efficient services to car manufacturers in Chongqing.

## LABOUR AND EDUCATION

Chongqing's general level of education is poor compared to that in other large cities in China. Out of every 100,000 people, only 3,425 have a college degree or higher. This is the third lowest score among all of China's provinces.

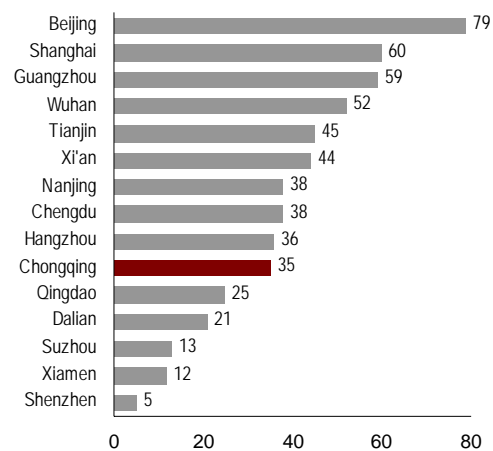
Unlike in Chengdu, many college graduates leave Chongqing and relocate to other cities for better opportunities. More efforts are needed to improve the city's competitiveness and overall level of education.

However, the city's large population base sustains an adequate labour pool. Chongqing is well known for its skilled labour force, when it comes to the manufacturing industry. The city has 36 universities and colleges and cultivates 63,600 graduates each year (32% are engineering majors), thus supplying Chongqing's manufacturing industry with a large educated work force. Besides the tertiary educational institutions, there are 38 specialized secondary schools in Chongqing from which 24,600 students graduate each year (11% with majors in processing and manufacturing).

The pharmaceutical and IT industries have also benefited from a well trained work force given that almost half the graduates of specialized secondary schools have majors in these two sectors.

The highest regarded universities in Chongqing are Chongqing University, Chongqing Medical University, Chongqing Technology and Business University and Chongqing University of Posts and Telecommunications.

### Higher Education Institutions (2005)



Source: Ministry of Education, China & Government Statistic Reports, 2005



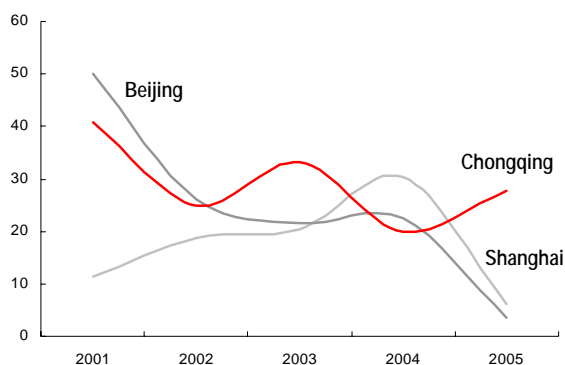
## REAL ESTATE DASHBOARD

<b>Market Size/Stock</b>	
Offices Grade A (000s sq m, Q1 2007)	373
Retail ('000s sq m, 2006)	888
Number of Five Star Hotels (2006)	5
<b>Market Activity</b>	
Office Construction Grade A (000s sq m by 2009)	na
Office Vacancy Grade A (%Q1 2007)	5%-40%
<b>Benchmark Values</b>	
Offices Grade A – Rents (USD per sq m pa)	132
Retail – Rents* (USD per sq m pa)	1278
Industrial – Rents (USD per sq m pa)	20.4
Hotels – Room Rates (Five Star, USD)	90
Residential Prices (USD per sq m)	640-1280
Grade A Offices – Indicative Yields (%)	8-10

Source: Jones Lang LaSalle Research

## REAL ESTATE TRENDS

### Real Estate Investment Growth Rate (%)



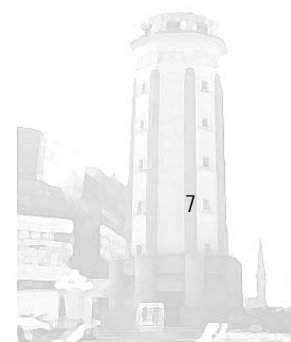
Source: Statistics Yearbook

## JONES LANG LASALLE'S VIEW

**Office Sector:** Chongqing's Grade A offices are mainly located in the Yuzhong, Jiangbei and Nan'an districts, with Yuzhong hosting almost 75% of total Grade-A office buildings. However, most Grade A offices on the market are strata titled and managed by local management companies; they barely meet international standards. Metropolitan Plaza, developed by Hutchison Whampoa in 1997, is the only single-owned building in Chongqing and is the most successful Grade-A office building on the market. It is almost fully occupied by MNCs and international organisations, in contrast to the 40% vacancy rate seen in other local-standard Grade-A office buildings.

**Retail Sector:** Chongqing's retail market is separated into five sub-markets with Jiefangbei being the most mature retail strip. Each of these five sub-markets has a pedestrian street which serves the large population size in each of these areas. The retail sector is dominated by middle-range department stores and a few shopping malls. Chongqing Department Store, Maoye Department Store, New Century Department Store and Pacific Department Store are the most successful operators in Chongqing and their chain branches can be seen in all of Chongqing's main commercial areas.

**Residential Sector:** The residential market has witnessed steady growth since 1997 when many Hong Kong developers flocked to the market to reap the benefits from the special political status of the city. The market is mainly driven by local residents, buying for the purpose of self-occupation rather than speculation as in other coastal cities. Therefore, prices haven't risen as rapidly despite the participation of a large number of big-name players in the market. We foresee that prices will rise moderately as the base price is still very low in Chongqing.



## KEY PLAYERS

### Investors

**Residential:** Hutchison Whampoa, Wharf, Shui On, Hongkong Land, Henderson, Ploy Real Estate, China Overseas, China Resources, Greenland, Shanghai Forte, Long Hu, Jin Ke<sup>5</sup>, Rong Qiao Group, Shangdong Luneng, Wanda, Vanke

**Offices:** Hutchison, CITIC

**Industrial:** Ford, Visteon, Johnson Controls, ABB, American Standard, Honda, Suzuki, Isuzu, Yamaha, BP, Coca-Cola, Daikin, Kansai, Ericsson

**Hotels:** Hilton, JW Marriott, Sofitel, Carlton, Harbour Plaza, Holiday Inn, InterContinental, Hyatt

**Retail:** SM Group, Wanda, Hutchison Whampoa, Wharf

**Logistics:** Prologis

### Occupiers

**Retail:** Carrefour, Wal-Mart, Metro, Lotus, B&Q, New World Department Store, Maison Mode, Pacific Department Store, Chongqing General Trade Group, Chongqing Department Store

**Service Firms:** HSBC, ABN AMRO, BEA, Allied Commercial Bank, Liberty Mutual Insurance, Great Eastern Life, PWC

## KEY TRANSACTIONS

### Investors

**Hongkong Land:** In August 2005, Hongkong Land won a bid for the land-use right of Bamboo Grove, a high quality residential and commercial project located in the Hi-tech Industrial Development Zone of Chongqing. The site comprises an area of about 450,000 sq m with total developable area of one million sq m. The land premium payable is USD 66.5 million. Development of the project is has commenced in 2006.

**Shui On Land:** Over the next 10 years, Shui On plans to invest USD 1.28 billion in the redevelopment of the old city of Hualong Bridge in the Yuzhong district. Covering a land area of approximately 1.3 million sq m, the construction area will amount to over 3 million sq m. In 2005, Shui On kicked off the first phase of the project, Xidamen residential district, which covers a site area of 50,000 sq m and consists of low-rise and high-rise buildings between 18 and 31 storeys high. In October

<sup>5</sup> Long Hu and Jin Ke are the most well known local property developers in Chongqing.

2005, Shui On announced the official launch of the second phase of the project, "Chongqing Tiandi". It is reported that "Chongqing Tiandi" will not only help enhance the image of the Yuzhong Peninsula, but will also act as an international "showcase" for Chongqing.

**Prologis:** In February 2006, Prologis signed an investment contract with Chongqing Economic & Technological Development Zone to develop a logistics park. The total investment is expected to be USD 60 million. The first phase of the project covers a site area of over 500,000 sq m and is scheduled for completion in 2007.

### Occupiers

**Chongqing New World Department Store:** In September 2006, the Hong Kong New World Department Store opened its Chongqing store in the Guanyinqiao commercial centre. The store covers a GFA of about 42,000 sq m and has 6 floors.

**ABN AMRO:** ABN AMRO leased approximately 700 sq m of office space in the Metropolitan Tower to set up a Chongqing branch. The branch opened in January 2007.

## OFFICES



Chongqing's Grade A offices are mainly located in Yuzhong, Jiangbei and Nan'an. The Yuzhong office area hosts most major Grade A offices in Chongqing given the easy access, good communications and well developed facilities. The existing Grade A office stock in this area is around 280,000 sq m, accounting for 75% of the total stock.

The other two areas, Jiangbei and Nan'an, are newly emerging business centres. Jiangbei will benefit from the relocation of a number of municipal governmental departments while Nan'an stands to gain from the business environment created by the newly completed Exhibition Centre.

Due to the better building facilities and business environment, the average net rent for Grade A offices in the Yunzhong District is USD11 /sq m /month<sup>6</sup>, much higher than for offices in the other two districts at around USD 5 to 7.7 /sq m /month.

The overall vacancy rate is relatively high, mainly due to the high volume of supply coming onto the market in recent years.

<sup>6</sup> Including management fee.



For example, in the Jiefangbei area, two completions that came onto the market in 2004 and 2005 added about 150,000 office spaces and pushed the vacancy rate to a high level.

The high vacancy rate is also the result of limited demand. Small to medium sized domestic firms account for most of the demand for Grade-A offices, followed by foreign companies and government organizations. We do not see much growth potential for new demand due to Chongqing's industrial structure, notably its reliance on heavy industry, and its proximity to Chengdu. Chengdu, which is endeavouring to strengthen its service industry, is often the preferred location for foreign companies setting up western China headquarters, particularly those in the financial services and professional services sectors. Moreover, international industrial companies investing in Chongqing are more likely to build manufacturing bases than to occupy expensive office space in the city centre.

However, there is an extremely successful case in the market, namely the Metropolitan Plaza, which was developed by Hutchison Whampoa in 1997 and is the only single-owned property in Chongqing. The professional management services and favourable tenant mix have made this building very popular among new comers in the market regardless of its ageing facilities. The net rent of the Metropolitan Plaza has reached USD 15 to 17/sq m /month, almost double the rents of the nearby so-called Grade-A offices. The limited space and increasing demand have led the landlord to reorganise the tenant mix by squeezing out smaller tenants in order to provide space for large firms.

As no new Grade-A office space has been planned for the next 2-3 years, we estimate that the current high vacancy rate will gradually be absorbed over the next few years and that rents will remain stable. On the other hand, the lack of high quality Grade A offices with single ownership and good building management will be a major factor restricting new market entrants in the future.

## INDUSTRIAL

There are geographically three development zones in Chongqing, namely the Chongqing Economic & Technological Development Zone, the Chongqing Hi-Tech Industrial Development Zone and the New North Zone. The New North Zone is however an extension of the two other development zones and, although it is located inside the Jiangbei and Yubei

districts, it constitutes an independent administrative area and benefits from special government incentives on tax policy.

The Chongqing Economic & Technological Development Zone is the first state-level economic development zone in west China. Its south part lies in Nanping and has an area of 9.6 sq km. Five divisions have been built over the course of the zone's 13-year development period including three industrial zones, one comprehensive trading block and one residential area. The younger north part, located in the New North Zone, has a projected area of 83.7 sq km, and will be built with export processing, automobile manufacturing, logistics and business functions. Chang'an Ford, Visteon Corporation, Ericsson and BP, the major players in the Chongqing Economic & Technological Development Zone, are setting up self-built bases on the transacted lands. The development zone also provides standard manufacturing factories for lease and rental ranging from USD 0.6 to 1.9 /sq m /month depending on the annual tax contribution of the tenant.

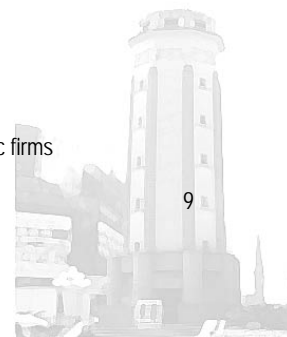


The Chongqing Hi-Tech Industrial Development Zone was established in 1991, occupying a total area of 73 sq km, comprising two parks in south Chongqing and one in the New North Zone. The zone features hi-tech industries such as bio-chemicals, pharmaceuticals, information technology and new materials. In the aim of spurring the growth of modern technology, the zone developed incubation office space for infant technology enterprises with rents generally lower than USD 2.6 /sq m /month. Manufacturing workshops in the zone ask USD 1.5 to 1.9 /sq m /month, comparable to the rents in the Chongqing Economic & Technological Development Zone and eligible for a partial refund if the tenant's sales volume or tax contribution reaches a certain level.

## RESIDENTIAL

The residential market in Chongqing has witnessed two key development phases: 1997, when Chongqing was granted municipal status, and 2006, when Chongqing was targeted by central government as a key city in the "Go West" policy<sup>7</sup>. These two events attracted numerous big name developers from both Hong Kong and mainland China.

<sup>7</sup> 2006 is the year seen flocking of lots of domestic firms



Hutchison Whampoa, considered the pioneer in the Chongqing market, achieved great success after launching its Metropolitan Plaza in 1997. This consequently triggered the clustering of other developers such as Wharf, which developed Time Square, and Poly Group, which launched the Poly Champagne Garden. To capitalize on the growing market, Hutchison Whampoa then invested aggressively in a residential project named Yang River Garden, the first large-scale residential project in Chongqing, as well as Beverly Hills, the first high-end villa project on the local market. Last year, Hutchison Whampoa committed millions of dollars to the Cape Coral project near the Bund-Nanbing Road.

Hong Kong developers' participation has effectively filled the gap in high-end residential projects on the market. However, prices didn't see the rapid increase witnessed in other cities in early 2000. The sales price in the city centre registered only USD 333 /sq m, almost half that in Chengdu in 2005.



With its less developed market, the large re-generation project launched by the municipal government; and as a beneficiary of the "Go West" policy, Chongqing has continued to be an attractive place for developers. Therefore, in 2007, most large developers from the mainland such as

Forte, China Overseas, Sunco, and Green Town flocked to the market in search of their "gold".

These two main groups of developers have contributed to the emergence of several high-end living areas.

Jiangbei is now considered the prime area for luxury apartments and villas due to the friendly environment and relatively new urban development. High-end projects such as Jinke Upper Vision and Green Valley are located in this area.

The Nanbing road area, known as Chongqing's 'Bund', is being aggressively redeveloped. This area, together with the Yuzhong district and Jiangbei Zui, is the golden triangle in the city. Nanbing road now hosts most of the entertainment places as well as several high-end residential projects.

We foresee that residential prices in Chongqing will see steady growth given that the base price is relatively low and 90% of end-users in Chongqing are local residents, compared to only 50% local residents in Chengdu.

## RETAIL

The retail market is doing well on the back of the city's large population base and increasing income. Department stores, shopping malls, hypermarket operators are all active.

Chongqing has five main commercial areas, namely Jiefangbei, Shapingba, Yangjiaping, Guanyinqiao and Nanping.

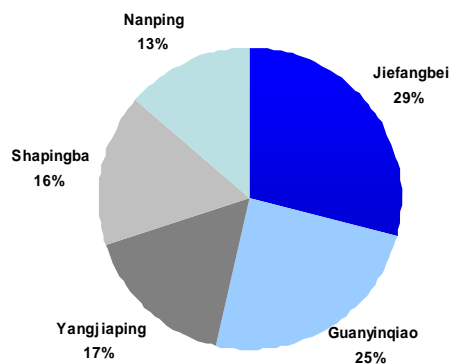


Out of the five commercial areas, Jiefangbei in the Yuzhong district, which is the old city centre, is the most mature. It generates the

highest turnover and is the location of choice for most high-end department stores such as Maison Mode. During the 2006 May Golden Week, Jiefangbei took 30% of the combined market share of all the five areas. Retail sales in Jiefangbei reached USD 21.8 million, that's over 60% of the retail sales in the Shanghai Xujiahui area over the same period<sup>8</sup>. In the Jiefangbei area, rents for street side shops have reached as much as USD 7 /sq m /day and are likely to continue to rise.

The other four areas are also doing well. With more property development, these four areas are improving their profiles and are becoming legitimate competitors to Jiefangbei.

Market Share (turnover) in 2006 May Golden Week



Source: Chongqing Statistics Bureau

Department stores are dominating Chongqing's retail market. There are 45 department stores in Chongqing with a total area of around 888,000 sq m<sup>9</sup>. To cater for customers in all five sub-markets, many department store operators like the Chongqing Department Store and the New Century Department Store have opened stores in every sub-market.

<sup>8</sup> Source: Chongqing Commercial Committee, Shanghai Commercial Committee

<sup>9</sup> Source: Chongqing Commercial Committee

Encouraged by the dynamic retail scene in Chongqing, investors are showing strong interest in the market and are investing heavily in shopping malls around the city. Chongqing Longhu Real Estate Development Inc. and Shanghai Bailian Group both have shopping malls and are planning to develop big sized shopping malls in sub-markets.

The city also attracts hypermarket operators. Carrefour has four stores in Chongqing, Wal-Mart has three, while Lotus has two and B&Q has only one. These big players are all looking for opportunities to open new stores.

However, the quality of retail buildings in Chongqing is relatively poor because most of the malls are podiums of residential projects and some of them were sold strata titled. This may make it difficult for mall operators to locate opportunities for their stores and may also be a deterrent to foreign investment.

## CLOSING THOUGHTS

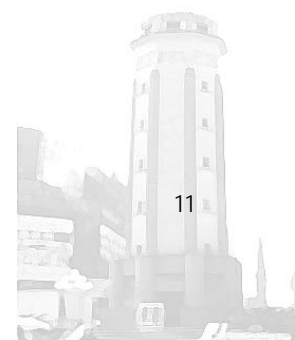
According to a business reporter from the BBC, "Chongqing today is a huge, messy building site". This quote is particularly apt as regards to Chongqing city. On the one hand, the aspect of the city explains the local government's determination to improve the infrastructure and re-generate the city. On the other hand, the large scale fixed asset investments have also been the cause of some serious environmental problems, especially the poor air quality. The combined effect of a mountainous foggy climate, industrial emissions and the dust from demolition and reconstruction has worsened the environment.

Apart from the poor infrastructure and air quality, reducing the wealth gap between the city and the large suburban area has been the most challenging issue for the municipal government.

Although the problems are difficult to contend with, the Chongqing municipal government is set on pushing the city to a new level and turning Chongqing into the "Land of Promise" referred to by Mayor Wang Hongju. Over the next 10 years, with the expansion of the highway and rail links that will connect China's South-West to the East via Chongqing, this city is well placed to develop into one of China's main logistics hubs. The rich natural resources, the central government's policy support for strengthening the Chongqing-Chengdu axes, the incentives for foreign investment in western China, and the large pool of cheap labour have all offered Chongqing a key competitive edge.

As long as the municipal government learns seeks to capitalise on its particular assets and increases the openness of the city,

Chongqing is very likely to emerge as a true economic giant in western China.



## DEFINITION OF TERMS

### ECONOMIC DASHBOARD

**Population:** Population refers to the total population as at 31 December.

There are two definitions of population:

- Registered population – those officially registered with the police.
- Permanent residence population – those who actually reside permanently in a location, usually longer than one-half year.

Chongqing's population refers to total population.

**GDP:** Refers to the gross domestic (i.e. regional) product of a location.

**Employment:** Refers to the number of persons engaged in labour and receiving remuneration payment or earning business income, including fully employed staff and workers in state-owned, collective-owned or other kinds of economic sectors and otherwise employed persons.

**Population Growth:** Refers to the compound annual growth rate over the five-year period 2000–2005

**GDP Growth:** Refers to the annual GDP growth rate over the five-year period from 2000 to 2005.

**Freight Traffic** Refers to the volume of freight transported by various means, measured in millions of tons.

**FDI:** Foreign direct investment refers to investments made inside China by foreign enterprises and economic organisations or individuals (including overseas Chinese, compatriots in Hong Kong, Macau and Chinese enterprises registered abroad).

**GDP/Capita:** Refers to total gross domestic product divided by the registered population.

**Disposable Income:** Refers to the actual income at the disposal of a household that can be used for final consumption, other non-compulsory expenditure and savings, which is part of the urban households' income that can be disposed by the urban households themselves.

**High Education Institutions:** Refers to the number of higher education institutions providing higher education courses and training for senior professionals. They include full-time universities, colleges, high professional schools, high professional vocational schools and others. High education institutions are set up according to the central government evaluation and approval procedures.

**Unemployment Rate:** The registered urban unemployment rate refers to the ratio of the number of the registered unemployed to the sum of the number of persons employed and registered unemployment in a location.

**Average Wage Rates:** Average wage rate refers to average wage of fully employed staff and workers. It is calculated as follows:

Average wage of fully employed staff and workers = total wages of fully employed staff and workers/average number of fully employed staff and workers.

**Business Environment:** Jones Lang LaSalle's grading, measured by an assessment of a locations macroeconomic environment, its policy towards private enterprise and foreign investment, and its labour market and tax regimes. A location's business environment is graded from A (highest) to C (lowest), with Shanghai providing the benchmark.

**Quality of Life:** Jones Lang LaSalle's grading, refers to the quality of health, culture and environment in each city. A city is ranked among 15 cities (Shanghai, Beijing, Guangzhou, Shenzhen, Chongqing, Chengdu, Tianjin, Wuhan, Xi'an, Qingdao, Hangzhou, Suzhou, Nanjing, Dalian and Xiamen).

### REAL ESTATE DASHBOARD

**Offices Grade A Stock:** Refers to the total completed Grade A office space (occupied and vacant). Grade A reflects an above average property in the market, with quality criteria being at the upper end of the scale.

**Retail Stock:** Represents the total stock of all department stores in Chongqing.

**Number of Hotels:** Refers to the number of five-star hotels.

**Office Construction Grade A:** Refers to the total amount of Grade A office space in properties where construction has commenced, and completion is expected in 2007, 2008 or 2009. Grade-A is local standard.

**Office Vacancy Grade A:** Refers to Grade A office floor space (as a % of total Grade A stock) in existing properties that are physically vacant, ready for occupation today and being actively marketed. The vacancy rate of Grade-A offices in Chongqing mainly refers those in Jiefangbei area.

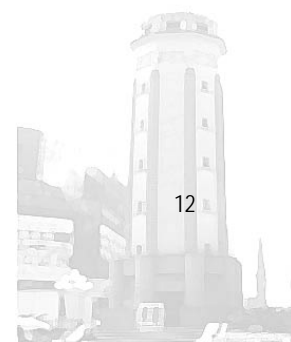
**Benchmark Rents:** Refer to the typical open-market rents (within a range) that could be expected for a unit of the highest quality and specification in the best location expressed in US Dollar per square metre per year.

**Grade A Office Rents:** Refers to net effective rents including management fees.

**Industrial Rents:** Refer to rents of pre-built business parks mainly in Chongqing Economic & Technological Development Zone and Chongqing Hi-tech Zone.

**Residential Prices:** Refer to typical prices (within a range) for high-end residential projects in US Dollar per square metre.

**Grade A Offices – Indicative Yields:** Refer to the best (i.e. lowest) yield estimated to be achievable for a notional office property of the highest quality and specification. Indicative yields represent Jones Lang LaSalle's 'market view', based on a combination of market evidence where available and a survey of expert opinion. 8%-10% is calculated by Grade-A offices in Jiefangbei area.





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