Market overview

Despite the slowdown of the national economy, Guangzhou continued to witness strong economic growth in 2016. According to the Guangzhou Statistics Bureau, the city’s GDP grew by 8.2% year-on-year (YoY) in 2016, to RMB1.96 trillion, 1.5 percentage points (ppts) and 0.7 of a ppt higher than the National GDP growth rate and Guangdong Province GDP growth rate, respectively.

The number of companies looking to conduct business in the city increased significantly in 2016. In the first three quarters of 2016, approximately 190,000 new companies were registered across the city, up 22% YoY. Domestic companies remained the most bullish in the market, recording an increase of 33.7% YoY, while international companies increased by 29.1% YoY.

Strong economic growth set a solid foundation for the city’s office market. A historical level of supply in 2016 accelerated the market’s development, resulting in a sizable number of new leases, expansions, and relocations.

Business area development plans

After the first project entered the market in Zhujiang New Town in 2005, the development of the area took off. However, with the development of the area expected to end after one final round of supply, the Pazhou area is expected to receive the next great influx of new supply. The area is expected to end after one quarter of 2016, approximately.

The Pazhou area began to receive a supply influx at the beginning of 2016. Most of the development is focused in the western Pazhou area, called the Pazhou E-commerce Headquarters Zone. Nearly 2.1 sq km will be constructed in the zone, with 70% of the total GFA to be set aside for self-use to attract e-commerce companies.

By the end of 2016, all plots in the Pazhou E-commerce Headquarters Zone had been purchased by top e-commerce companies, including Alibaba which plans to relocate its Southern China headquarters to the area. Average transaction unit prices ranged from RMB10,000 per sq m to RMB18,000 per sq m.

Guangzhou International Financial City

Located to the east of Zhujiang New Town, Guangzhou International Financial City encompasses 8 sq km and plans to become the headquarters area for financial institutions. The new business area is designed with two core areas to the east and west, each covering 1.32 sq km.

Fifty-four percent of the total construction area is planned to be built into Grade A office buildings. The area’s first project – Greenfield Center, a mixed-use complex composed of Grade A offices and a shopping mall – will enter the market in 2018.

Supply and demand

Over the past decade, average supply per annum totalled 363,000 sq m, with a peak of 923,000 sq m in 2016, an increase of 93.3% YoY. Despite the arrival of new projects such as Chow Tai Fook Center and Kingsgold Century in Zhujiang New Town in 2016, the main CBD has faced increasing
competition from Grade A projects located in emerging business areas, such as Bueland Plaza and the International Commerce Plaza which were both launched in the Pazhou area in 2016.

The development of large, master-planned business areas remains a trend driving the evolution of the city’s office market. Although annual supply will be largely reduced in 2017, Zhujiang New Town, the Pazhou area and the Yuexiu district will continue to receive new projects. Decentralised areas in the Panyu and Luogang districts are also scheduled to receive a series of new projects over the next few years.

Strong leasing activity due to positive planning forecasts and additional rental incentives improved market absorption, with annual net take-up increasing to 714,000 sq m in 2016, nearly double compared to the previous year and the highest level in the last 10 years. An increasing number of financial enterprises have chosen to relocate to the city, including Pramerica Fosun and Fortune & Royal Asset.

Vacancy rates and rents
The city-wide average vacancy rate increased by 0.1 of a ppt YoY to 13.8% in 2016. Fierce competition among projects in decentralised business areas due to the volume of new supply saw rental growth subside in some submarkets.

Zhujiang New Town recorded strong rental growth in the initial stage of its development; however, rising competition over the last five-year period has seen that growth slow. Zhujiang New Town and Tianhe Bei have together attracted more than 184 organisations, including 140 Fortune Global 500 companies. Benefitting from strong economic growth and growing office demand, the future development of Zhujiang New Town and Tianhe Bei appears promising.

The Yuexiu district received a few new projects, which helped to increase rents in the submarket. Demand was driven largely by domestic companies looking to relocate out of aged projects in core areas, or seeking more affordable rents.

Capital value
City-wide capital values recorded continuous growth before stagnating in late 2015 and early 2016. However, an increase of investment into the office leasing market in the second half of the year helped to push up capital values.

The average transaction unit price in Zhujiang New Town has increased significantly in the last ten-year period, from approximately RMB12,000 per sq m to over RMB35,000 per sq m.

In Tianhe Bei, the average transaction unit price decreased as a result of the accelerated development of the Pazhou area and Guangzhou International Financial City which brought new competition. The first batch of new supply in Guangzhou Financial City saw the average transaction price range from RMB25,000 sq m to RMB35,000 sq m.

Market outlook
The city’s Grade A office market is expected to receive approximately 400,000 sq m and 350,000 sq m of new supply in 2017 and 2018, respectively. Lower levels of supply compared to 2016 will help the market absorb existing vacant stock, taking some pressure off the market.

Compared to other first-tier cities, annual Grade A office supply in Guangzhou will be relatively low over the next few years. This, combined with strong leasing demand from large domestic technology companies and stated-owned enterprises, should see market fundamentals improve over the next two to three years.

City-wide vacancy rates are expected to fall gradually, due to high absorption levels and a decrease in new supply, while market rents will rise steadily. Nonetheless, the handover of several new projects in 2019 is expected to lead to a short-term increase in vacancy rates, which will put downward pressure on market rents.

Aged buildings in traditional business areas will find it increasingly difficult to compete with newer projects in emerging locations unless they undergo renovations of existing facilities or improve their management strategies. The future development of the city’s office market is expected to shift to certain master-planned areas, such as the Pazhou E-commerce Headquarter Zone and Guangzhou International Financial City.
HONG KONG SAR
Savills (Hong Kong) Limited
23/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2842 4400   Fax: (852) 2869 4386
Contact: Raymond Lee   E-mail: rlee@savills.com.hk
EA Co. Licence: C-029650
Savills Valuation and Professional Services Limited
28/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2801 6100   Fax: (852) 2501 5810
Contact: Charles Chan   E-mail: ccchan@savills.com.hk
EA Co. Licence: C-033916
Savills Property Management Holdings Limited
8/F Citipiazza One, 1111 King’s Road, Tsim Sha Tsing, Hong Kong
Tel: (852) 2534 1828   Fax: (852) 2508 1883
Contact: Johnnie Chan   E-mail: jckchan@savills.com.hk
EA Co. Licence: C-029965
Savills Guardian (Holdings) Limited
7/F Citipiazza One, 1111 King’s Road, Tsim Sha Tsing, Hong Kong
Tel: (852) 2512 1838   Fax: (852) 2887 3698
Contact: Peter Ho   E-mail: peterho@savillsguardian.com.hk
EA Co. Licence: C-038123

MACAU SAR
Savills - Macau
Savills (Macau) Limited
Suite 1009-10, 10/F Macau Landmark, 55 Avenida da Amizade, Macau
Tel: (853) 8506 6288   Fax: (853) 2878 1805
Contact: Franco Liu   E-mail: fliu@savills.com.mo

CHINA
Savills - Shanghai
25/F Two ICC, 288 South Shaanxi Road, Shanghai 200031, PRC
Tel: (86) 21 6391 6688   Fax: (86) 21 6391 6691
Contact: Albert Lau   E-mail: Albert.Lau@savills.com.cn
Savills - Beijing
2101 East Tower Twin Towers, B-12 Jiangguomenwai Avenue, Chaoyang District
Beijing 100022, China
Tel: (86) 10 5925 2288   Fax: (86) 10 5925 2299
Contact: Billy Chau   E-mail: Billy.Chau@savills.com.cn
Savills - Guangzhou
Room 906, R & F Centre, 10 Hua Xia Road, Zhujiang New Town
Guangzhou, 510623, China
Tel: (86) 3892 7168   Fax: (86) 3892 7030
Contact: Woody Lam   E-mail: Woody.Lam@savills.com.cn
Savills - Shenzhen
Unit A, 5/F, Asia Plaza, 4019 Jintian Road, Futian District, Shenzhen 518026, China
Tel: (86) 755 8828 5707   Fax: (86) 755 8828 5678
Contact: Woody Lam   E-mail: Woody.Lam@savills.com.cn
Offices in Chengdu, Chongqing, Dalian, Hangzhou, Nanjing, Qingdao, Shenyang, Tianjin, Xiamen, Xi’an, Zhuhai

ASIA
Savills - Indonesia
PT Savills Consultants Indonesia
Puri Echo Tower – Senayan City
16th Floor, Unit C
Jl. Asia Afrika Lot. 19
Jakarta 10370, Indonesia
Tel: +62 (21) 293 293 80   Fax: +62 (21) 293 293 81
Contact: Jeffrey Hong   E-mail: jeffrey.hong@savills.co.id
Savills - Japan
Savills Japan Co., Ltd
15/F Yurakucho TOCJA
2-7-1 Yurakucho, Chiyoda-ku
Tokyo 100-0006, Japan
Tel: (81) 03 6777-5105   Fax: (81) 3-6777-5105
Contact: Christian Manconi   E-mail: cmanconi@savills.co.jp
Savills - Korea
Savills Korea
13/F Seoul Finance Center, 84 Taepungno-1-ga
Chung-gu, Seoul, Korea 100-768
Tel: (82) 2 2124 4201   Fax: (82) 2 2124 4186
Contact: K.D. Jeon   E-mail: kdeon@savills.co.kr

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