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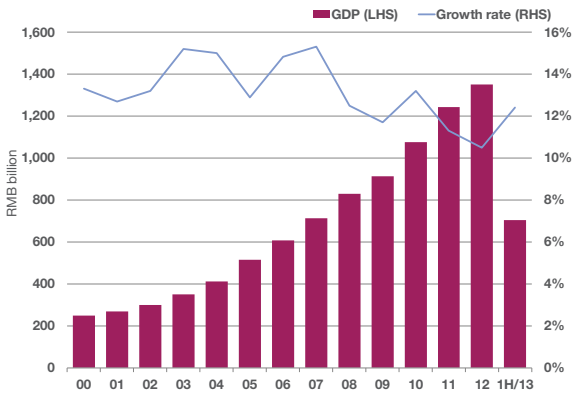
Savills World Research
China

Asian Cities Report
Guangzhou Office

2H 2013

GRAPH 1

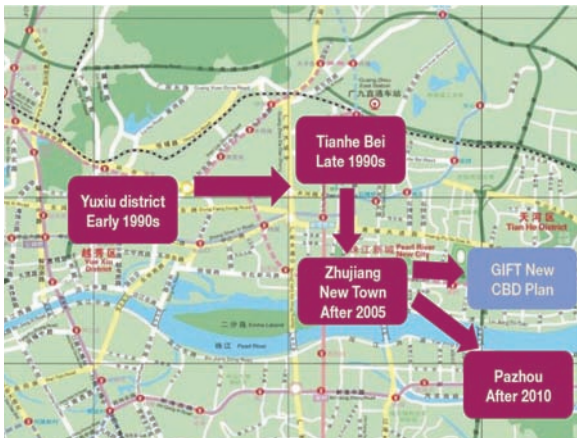
GDP, 2000–1H/2013



Source: Guangzhou Statistics Bureau, Savills Research & Consultancy

MAP 1

Business district evolution



Source: Savills Research & Consultancy

MAP 2

GIFT development scheme

Source: Savills Research & Consultancy

Overview

As a major economic centre of southern China, Guangzhou serves as a base from which multinational companies (MNCs) can expand, and where local corporations can establish regional headquarters.

Guangzhou's GDP compound annual growth rate (CAGR) was 13.2% from 2000 to 2012, with real growth slowing to below 12% between 2011 and 2012. Economic activity picked up in the first half of 2013, with GDP growth accelerating to 12.4%, reportedly the second highest in China.

In September 2012, Nansha district was designated a state-level new area (国家级新区), the sixth in China and the first for southern China. The state-level new areas are given special preferential policies and privileges directly approved by the State Council. The other five areas are Pudong New Area (Shanghai), Binhai New Area (Tianjin), Liangjiang New Area (Chongqing), Zhoushan Archipelago New Area (Zhoushan) and Lanzhou New Area (Lanzhou).

This, coupled with the development of Guangzhou International Financial Town (GIFT), should help the city put itself on a better footing to remain competitive over the next few years, opening up new opportunities for developers and investors.

Currently there are four major business districts in Guangzhou, including:

- Yuexiu – the oldest and most mature business district, comprising numerous high-end shopping malls and star-rated hotels.

- Tianhe Bei – an established business district, including mature support facilities and diversified retail options.

- Zhujiang New Town – a new business district, with a number of landmark buildings and world-class hotels.

- Pazhou – an emerging business district, featuring the Canton Fair Complex, which is expected to attract domestic exhibition and trade firms to the area.

GIFT

GIFT, with a total planned site area of 7.5 sq km, was conceived to build on the success of Zhujiang New Town and establish a new business centre. According to the planning, GIFT will feature two core areas (east and west), covering a combined area of 2.3 sq km. The east core, GIFT's pilot zone, has a buildable GFA of 1.8 million sq m (of which 1.6 million sq m will be for commercial use), while the west core has a buildable GFA of 2.9 million sq m (of which 2.7 million sq m will be for commercial use).

GIFT is positioned to develop into a leading financial hub, and together with Zhujiang New Town and Pazhou, will form a world-class business district.

Four of the pilot zone's nine commercial-zoned land plots were sold in February, with an average accommodation value (AV) of over RMB12,000 per sq m, while plot A001 reached a high of RMB17,761 per sq m. In August, another four commercial plots were purchased at over RMB5.7 trillion, with an AV-high of RMB19,078 per sq m. Buyers included Guangdong Nanyue Bank and New China Life Insurance.

Supply and demand

Despite some quite volatile supply levels in the last eight years, with highs of 734,000 sq m (2007) and lows of 18,000 sq m (2008), demand, or specifically net take-up, has remained comparatively stable, averaging 280,000 sq m over the same period. The result was a vacancy rate that increased to 27.6%, which then rapidly fell to 10.6% over the next two years.

The market is entering a high-supply period, with four new projects launched in the first half of 2013 adding 418,000 sq m of supply (almost doubling that of 2012). These four projects were all located in Zhujiang New Town, which also saw over 68% of supply between 2010 and 2012. As a result, by the end of 1H/2013, Zhujiang New Town held the largest percentage of Grade A office market stock in Guangzhou at around 47%. This percentage is set to grow further, with the vast majority of future supply for the next four years located in Zhujiang New Town.

A moderate recovery the city's and province's economies in 1H/2013 helped to stimulate demand somewhat, with 253,000 sq m of net take-up recorded in the first half of the year. Nevertheless, with business confidence not fully recovered and the wider domestic economy still weak, alongside mounting supply pressure, the city's Grade A office market is likely to continue to encounter difficulties in the short term.

The domestic private sector has become a major driver of demand over the last couple of years, as companies relocate to central areas and upgrade their offices. Meanwhile, however, MNCs have become increasingly cautious regarding expansions or relocations due to uncertainty in the global economy.

Rents

After a year of decreases, rents recorded a quarter-on-quarter increase in Q2/2013, primarily supported by strong growth in Tianhe Bei and Yuexiu – the two districts with the lowest vacancy rates at 4.5% and 3.1% respectively. Zhujiang New Town, which maintains the highest vacancy rates in the city (23.3% in Q2/2013), saw rents start to stabilise with a change of just -0.1% in the second quarter.

However, the slight pick up in rents in Q2/2013 does not necessarily signal a turnaround in the market, with the market still facing supply pressure in the coming years.

Market outlook

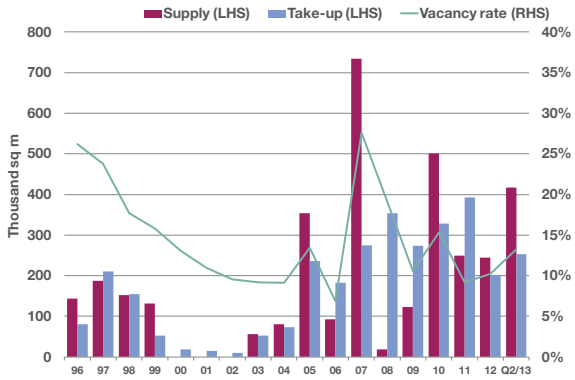
In the second half of 2013, three projects are expected to be handed over to the market, adding 244,000 sq m of new supply and bringing full-year supply to 747,000 sq m. Between 2014 and 2016, Grade A office supply is expected to total nearly 1.0 million sq m, all of which is located in Zhujiang New Town.

Demand from local private firms is likely to remain robust as those firms establish offices in downtown CBDs, yet overseas corporations are expected to remain conservative with regards to office upgrades and expansions.

Although demand is expected to remain strong during 2013, the large amount of expected supply will result in rising city-wide vacancy rates, leading to weak rental growth.

GRAPH 2

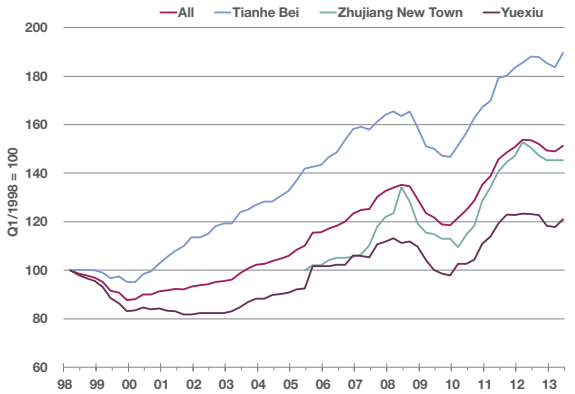
Grade A office supply, take-up and vacancy rate, 1996–Q2/2013



Source: Savills Research & Consultancy

GRAPH 3

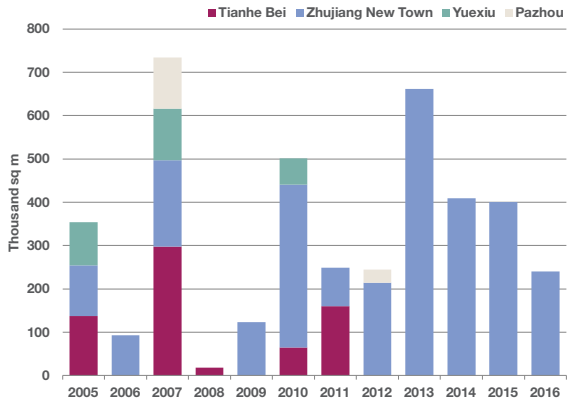
Grade A office rental index, Q1/1998–Q2/2013



Source: Savills Research & Consultancy

GRAPH 4

Grade A office supply, 2005–2016E



Source: Savills Research & Consultancy

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savills.com

ASIA PACIFIC HEADQUARTERS

23/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2842 4400 Fax: (852) 2868 4386

Robert McKellar - CEO, Asia Pacific
Raymond Lee - CEO, Greater China
Chris Marriott - CEO, South East Asia
Christian Mancini - CEO, North East Asia
Charles Chan - MD, Valuation & Professional Services, Greater China

HONG KONG SAR

Savills (Hong Kong) Limited
23/F Two Exchange Square , Central, Hong Kong
Tel: (852) 2842 4534 Fax: (852) 2869 6738
Contact: Raymond Lee E-mail: rlee@savills.com.hk
EA Co. Licence: C-002450

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-023750

Savills Property Management Holdings Limited
8/F Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong
Tel: (852) 2534 1628 Fax: (852) 2508 1883
Contact: Johnnie Chan E-mail: jckchan@savills.com.hk
EA Co. Licence: C-002955

Savills Guardian (Holdings) Limited
7/F Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong
Tel: (852) 2512 1838 Fax: (852) 2887 3698
Contact: Peter Ho E-mail: peterho@savillsguardian.com.hk
EA Co. Licence: C-004089

MACAU SAR

Savills - Macau
Savills (Macau) Limited
Suite 1309-10, 13/F Macau Landmark, 555 Avenida da Amizade, Macau
Tel: (853) 8506 6288 Fax: (853) 2878 1805
Contact: Franco Liu E-mail: fliu@savills.com.mo

CHINA

Savills - Shanghai
20/F Shanghai Central Plaza, 381 Huaihai Middle Road, Shanghai 200020, China
Tel: (86) 21 6391 6688 Fax: (86) 21 6391 6699
Contact: Albert Lau E-mail: Albert.Lau@savills.com.cn

Savills - Beijing
2101 East Tower, Twin Towers, B-12 Jianguomenwai 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, Zhu Jiang 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, Anlian Plaza, 4018 Jintian Road, Futian District, Shenzhen 518026, China
Tel: (86) 755 8828 5707 Fax: (86) 755 8828 5676
Contact: Woody Lam E-mail: Woody.Lam@savills.com.cn
Offices in Chengdu, Chongqing, Dalian, Hangzhou, Qingdao, Shenyang, Tianjin, Xiamen, Zhuhai

ASIA

Savills - Japan
Savills Japan Co., Ltd
CR Kamiyacho Building 10F, 1-11-9 Azabudai, Minato-ku,
Tokyo 106-0041, Japan
Tel: (81) 3 5562 1700 Fax: (81) 3 5562 1705
Contact: Christian Mancini E-mail: cmancini@savills.co.jp

Savills - Korea
Savills Korea
11/F Seoul Finance Center, 84 Taepyungro-1-ga
Chung-gu, Seoul, Korea 100-768
Tel: (82) 2 2124 4201 Fax: (82) 2 2124 4188
Contact: K.D. Jeon E-mail: kdjeon@savills.co.kr

Savills - Malaysia
Savills Rahim & Co
Level 17, Menara Uni. Asia, 1008 Jalan Sultan Ismail, 50250
Kuala Lumpur, Malaysia
Tel: (60) 3 2691 9922 Fax: (60) 3 2691 0096
Contact: Robert Ang E-mail: robertang@savillsrahim-co.com

Savills - Philippines
KMC MAG Group
8/F Floor Sun Life Centre, 5th Ave
Bonifacio Global City 1634, Philippines
Tel: (+632) 403-5519
Contact: Michael McCullough Email: michael@kmcmaggroup.com

Savills - Singapore
Savills (Singapore) Pte Ltd.
30 Cecil Street, #20-03 Prudential Tower, Singapore 049712
Tel: (65) 6836 6888 Fax: (65) 6836 2668
Contact: Chris Marriott E-mail: cjmarriott@savills.asia

Savills - Taiwan
Savills (Taiwan) Limited
17F-1, Exchange Square, 89 Sung Ren Road
Xin-Yi District, Taipei, Taiwan
Tel: (886) 2 8789 5828 Fax: (886) 2 8789 5929
Contact: Cynthia Chu E-mail: cchu@savills.com.tw
Office in Taichung

Savills - Thailand
Savills (Thailand) Limited
26/F Abdulrahim Place, 990 Rama IV Road
Silom, Bangrak, Bangkok 10500, Thailand
Tel: (66) 2 636 0300 Fax: (66) 2 636 0339
Contact: Mark Price E-mail: mprice@savills.co.th
Office in Pattaya

Savills - Vietnam
Savills Vietnam Ltd. Co.
18/F, Fideco Tower, 81-85 Ham Nghi Street
District 1, Ho Chi Minh City, Vietnam
Tel: (84) 8 3823 9205 Fax: (84) 8 3823 4571
Contact: Neil MacGregor E-mail: nmacgregor@savills.com.vn
Office in Hanoi

AUSTRALIA

Savills - Australia
Savills (Aust) Pty Ltd.
Level 7, 50 Bridge Street, Sydney, Australia
Tel: (61) 2 8215 8888 Fax: (61) 2 8215 8899
Contact: Paul McLean E-mail: pmclean@savills.com.au
Offices throughout Sydney, Parramatta, Liverpool, Canberra, Melbourne, Notting Hill, South East Melbourne, Adelaide, Perth, Brisbane, Gold Coast and Sunshine Coast.

NEW ZEALAND

Savills - New Zealand
Level 8, 33 Shortland Street, Auckland NZ 1010
Tel: (64) 9 951 5910 / (64) 9 951 5911
Contact: Doug Osborne E-mail: dosborne@savills.co.nz
Contact: Paddy Callesen E-mail: pcallesen@savills.co.nz

NORTH AMERICA

Savills - New York
Savills LLC
599 Lexington Avenue, 36th Floor, New York, NY 10022
Tel: (1) 212 328 2800 Fax: (1) 212 328 2828
Contact: Jeff Cooper

UNITED KINGDOM / EUROPE / SOUTH AFRICA

Savills - Europe
20 Grosvenor Hill, London W1K 3HQ, U.K.
Tel: (44) 207 499 8644 Fax: (44) 207 495 3773
Contact: Jeremy Helsby E-mail: jhelsby@savills.com
Offices throughout the United Kingdom, Belgium, France, Germany, Hungary, Italy, Netherlands, Poland, Spain and Sweden. Associate offices in Austria, Greece, Norway, Portugal, Russia, Turkey and South Africa.

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