Savills World Research
China

Asian Cities Report
Guangzhou Office

2H 2015

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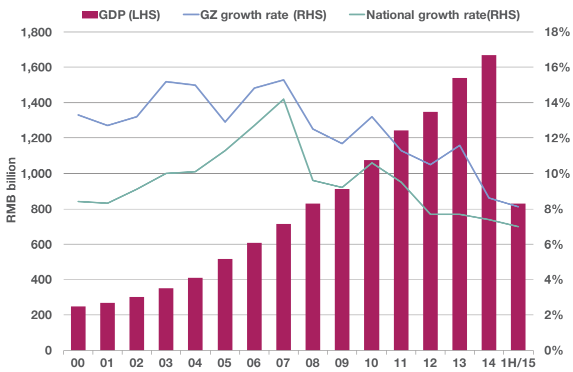
GRAPH 1

GDP, 2000–1H/2015



Source: National Bureau of Statistics, Savills Research & Consultancy

MAP 1

Guangzhou business district evolution, 1980–2015

Source: Savills Research & Consultancy

MAP 2

Greater CBD development scheme, 2015

Source: Savills Research & Consultancy

Overview

As a major economic and business hub of southern China, Guangzhou has attracted many multinational and domestic corporations to establish regional headquarters over the last few decades. The city also serves as a retail base for wholesale distribution and e-commerce trading, bringing many well-known domestic enterprises to Guangzhou.

Guangzhou's GDP compound annual growth rate (CAGR) was 12.7% from 2000 to 2014, a higher level of growth than the national GDP value. In the first half of 2015, the real GDP growth rate of Guangzhou slowed to 8.1%, ranking second highest of the four first-tier cities.

In April 2015, Nansha Free Trade Zone (FTZ) was officially launched as part of the Guangdong FTZ. The area is positioned as a comprehensive service hub as part of Guangdong-Hong Kong-Macao cooperation to develop shipping logistics, finance, international trading and high-end manufacturing industries, and is expected to open up a number of new opportunities for developers and investors over the next few years.

There are four prime 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 that includes mature supporting 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

Guangzhou International Financial Town (GIFT) is positioned to be developed into a leading financial hub, and together with Zhujiang New Town and Pazhou will form a new business district of Guangzhou.

At present, six office projects are under construction in GIFT, and one new office building, Poly Financial Centre, was released onto the sales market in July for an average sale price of around RMB35,000 per sq m. The area is expected to begin witnessing projects being launched from 2017.

Pazhou

A new e-commerce Headquarters Zone is expected to be built in Pazhou district, an area located to the south of Zhujiang New Town and GIFT, in an effort to attract an increasing number of e-commerce companies to the area. According to the local government's plan, the zone is expected to span 2.1 sq km, comprising eighteen land plots housing office headquarter buildings. The companies involved in the land auction are required to meet certain criteria to participate, namely either being on China's Fortune 500 list or having earned revenue upwards of RMB10 billion in 2014.

By the end of July, nine of the 18 land plots had been successfully purchased by domestic enterprises such as Alibaba, Tencent and Gome, with an average transacted accommodation value between RMB10,000 and RMB18,000. At least 70% of the office space of each plot is required to be for self-use, while the rest can be sold or held for leasing purposes.

Supply and demand

Over the last ten years, average annual supply of offices totalled 310,000 sq m, with highs of 734,000 sq m in 2007 and lows of 18,000 sq m in 2008. During the same period, net take-up has remained comparatively stable, averaging 286,000 sq m per annum. As a result, city-wide vacancy rates have fallen to 10.1% in 1H/2015 from 22.9% in 2005. However, they are expected to rise to about 11.9% over the next three years.

The market is entering a period of supply peaks, with three new projects expected to be launched in the second half of 2015, adding 371,000 sq m of new supply. In addition, 680,000 sq m of office space is anticipated to be delivered in 2016, with a further 1.1 million sq m in 2017 and 2018. Of this, 51.4% is to be located in Zhujiang New Town. As a result, Zhujiang New Town will account for the largest percentage of Grade A office market stock in Guangzhou, at around 54.8% by the end of 2018. However, around 52% of new supply over the next three years is estimated to enter the sales market and be mostly for owner-occupation.

The influx of new supply is expected to place more pressure onto the market, especially the leasing market. Many developers who currently have new projects under construction are making a great effort in terms of project promotions and have started pre-leasing in order to attract suitable tenants. Market competition has thus intensified, especially in those areas where the majority of new supply is concentrated, such as Zhujiang New Town.

Rents

Zhujiang New Town, now the prime CBD in Guangzhou, currently commands the highest rents of all the districts at an average of RMB170.5 per sq m per month, around 11% higher than city-wide average rents. Financial and IT companies, as well as MNCs, are continuing to relocate to Zhujiang New Town from other areas such as Yuexiu and Liwan, mostly due to the newer facilities offered.

Rental growth remained relatively unchanged in Tianhe Bei as no new projects have entered the market since 2011.

Pazhou is currently the smallest of Guangzhou's four submarkets with its competitive rents attracting a number of domestic companies from the Pearl River Delta region with larger space requirements.

As a large amount of high-quality new supply is expected to enter the Grade A office market over the next two years, quality tenants have a number of options for relocating and/or expanding their office space. Intensified competition has meant developers who currently have projects under construction are starting pre-leasing well in advance and offering rental incentives to attract suitable tenants, especially multinational corporations (MNCs) and domestic corporations who want larger offices to relocate and expand into. As a result, rental growth is expected to be suppressed in the short term.

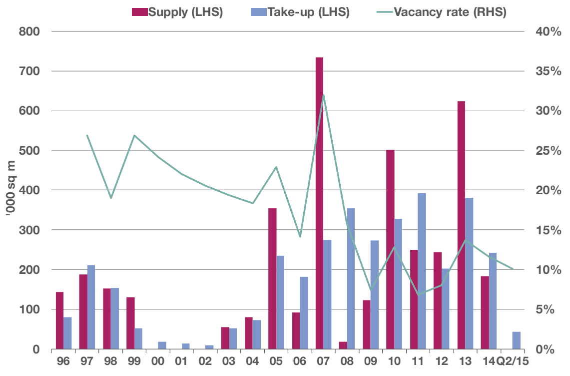
Market outlook

Three new office projects will be handed over in the second half of 2015, adding around 371,000 sq m of space to the market. As only about 42% of new supply is for lease and has already seen strong pre-leasing rates, city-wide vacancy rates are expected to remain stable. However, overall rents are anticipated to fall over the next few quarters due to the launch of new projects.

Project owners are continuing to focus on offering rental discounts to quality tenants and large space occupiers. Well-known domestic enterprises and professional services companies will continue to be the main drivers of demand in the Grade A office leasing market. Multinational companies have become active, as landlords who own incoming projects are offering rental incentives. We believe that the office market will start to witness more multinational companies relocating or even expanding in new projects during the next three years.

GRAPH 2

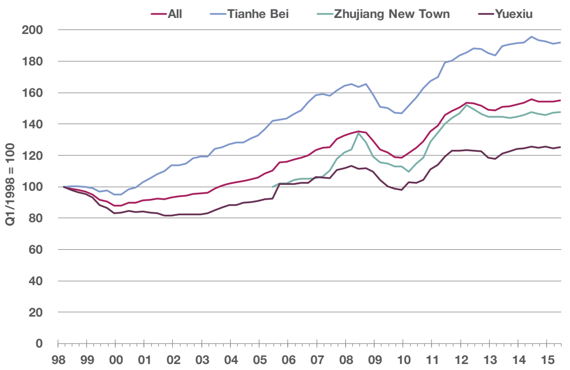
Grade A office supply, take-up and vacancy rate, 1996–Q2/2015



Source: Savills Research & Consultancy

GRAPH 3

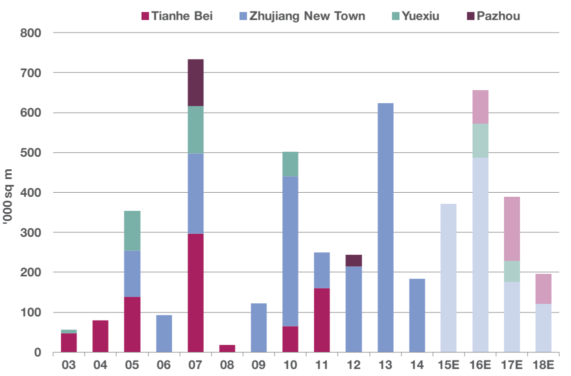
Grade A office rental index, 1998–2015 YTD



Source: Savills Research & Consultancy

GRAPH 4

Grade A office supply, 1998–2018E



Source: Savills Research & Consultancy

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