

Briefing Office sector

August 2014



Image: Zhujiang New Town

SUMMARY

Guangzhou's Grade A office market remained stable, with city-wide vacancy rates registering a slight drop as no new supply was launched onto the market.

- No new projects were handed over in Q2/2014, stabilising Grade A office market stock at 3.4 million sq m.
- Net take-up totalled 29,700 sq m, while city-wide vacancy rates fell 0.9 of a percentage point (ppt) to 13.3% due to stable market demand.
- Grade A office rents increased by 1.4% quarter-on-quarter (QoQ) to an average of RMB153.0 per sq m per month.
- Yuexiu district rents increased 1.1% QoQ to an average of RMB117.8 per sq m per month, while vacancy rates rose 0.7 of a ppt to 3.1%.
- Tianhe Bei rents increased 1.8% QoQ to an average of RMB158.0 per sq m per month, as vacancy rates fell 0.9 of a ppt to 2.5%.
- Zhujiang New Town rents increased by 1.3% QoQ to an average of RMB169.1 per sq m per month, while vacancy rates fell by 1.4 ppts to 24.4%.
- Pazhou rents remained stable QoQ at an average of RMB106.5 per sq m per month, while vacancy rates remained stable at 2.7%.

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“Due to their advantageous location and high quality, Zhujiang New Town projects have seen high demand from companies planning expansions and relocations.”

Lucy Lui, Savills Research

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➔ **Market summary**

In Q2/2014 the Chinese economy stabilised as GDP growth expanded 7.5% year-on-year (YoY) and 2% QoQ in the second quarter. The improvement in the economy has been vast thanks to a combination of better exports and a steady influx domestic stimulus measures.

During the first few months of 2014, the economy started showing signs of a slowdown and the government launched measures to shore up growth. Increased government spending on infrastructure has been accompanied by three rounds of selective cuts in banks' reserve requirements and various localised measures to support the troubled property market.

Underpinned by a stabilised domestic economy, the Grade A office market warmed slightly in Q2/2014. With no new projects handed over to the market, city-wide vacancy rates fell 0.9 of a ppt to 13.3%, while average rents recorded a marginal increase of 1.4%

QoQ to an average of RMB153.0 per sq m per month.

No new projects were handed over in Q2/2014, stabilising Grade A office market stock at 3.41 million sq m. However, 577,000 sq m is expected to be handed over in the second half of 2014. In Q2/2014, net take-up of Grade A office space was 29,700 sq m, down 6.1% QoQ, but with no new buildings handing over, city-wide vacancy rates fell 0.9 of a ppt to 13.3%.

Domestic and services companies were the main drivers of demand in the market this quarter, mostly concentrated within Zhujiang New Town. This district is likely to continue seeing high demand from new tenants over the next few years due to high-profile schemes handed over to the market in recent years.

Three rounds of selective cuts in banks' reserve requirement ratios in Q2/2014 have injected liquidity into the real estate market, leaving companies

with more cash to spend. In addition, a series of policy stimuli strengthened market confidence, encouraging business expansions. Therefore, office demand is expected to be stable during the next few months.

Demand recovered after a typically low season for the office market, driving up city-wide rents by 1.4% QoQ in Q2/2014, averaging RMB153.0 per sq m per month, up 3.2 ppts YoY.

Tianhe Bei

Tianhe Bei rents increased 1.8% QoQ to an average of RMB158.0 per sq m per month, while vacancy rates fell 0.9 of a ppt to 2.5%.

Due to the mature business atmosphere, well-equipped supporting facilities and the higher quality of office buildings, vacancy rates in Tianhe Bei remain relatively low as tenants are expected to remain stable in the short term.

Zhujiang New Town

Zhujiang New Town rents increased 1.3% QoQ to an average of RMB169.1 per sq m per month, while vacancy rates fell 1.4 ppts to 24.4%.

As the majority of the area's office buildings are of a premium quality, landlords remain unwilling to make significant concessions on rents. However, as new supply enters into the pre-occupancy stage, market competition will become fierce in Zhujiang New Town.

Yuexiu

Yuexiu district rents increased 1.1% QoQ to an average of RMB117.8 per sq m per month, while vacancy rates rose 0.7 of a ppt to 3.1%.

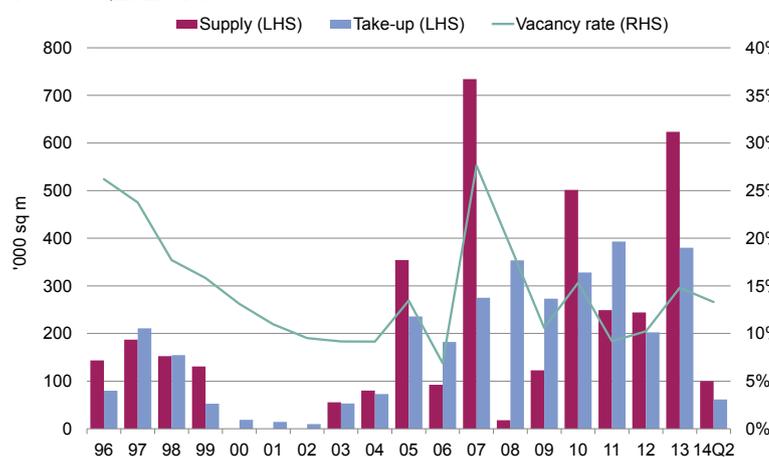
Some tenants currently located in Yuexiu district are relocating to other business areas due to the outdated facilities. Landlords have had to make adjustments to rents to achieve satisfactory occupancy rates.

Pazhou

Both rents and vacancy rates in Pazhou remained unchanged QoQ at an average of RMB106.5 per sq m per month and 2.7% respectively.

Pazhou is currently the smallest of Guangzhou's four submarkets, attracting a number of local companies with large space requirements due to the competitive rents. ■

GRAPH 1 **Grade A office supply, take-up and vacancy rate, pre-1996–Q2/2014**



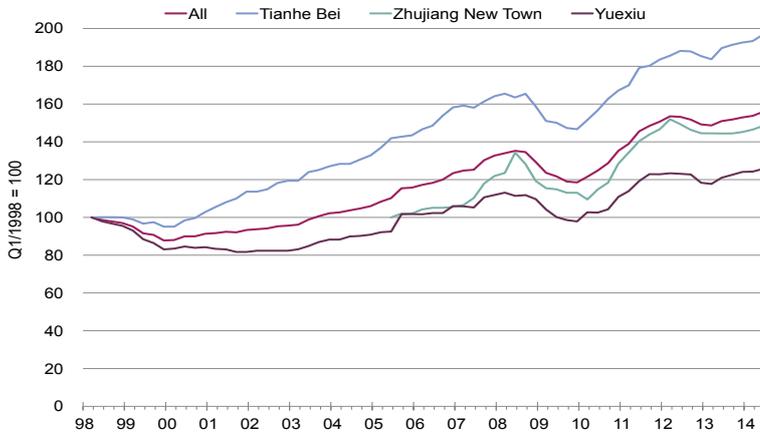
Source: Savills Research

TABLE 1 **Selected leasing transactions, Q2/2014**

Tenant	Project	Location	GFA (sq m)
CITI Bank	KB Plaza	Zhujiang New Town	2,300
Huaxia Life	HNA Tower	Tianhe Bei	1400
Jingguang Trading	R&F Yingtong Building	Zhujiang New Town	800
Zhengao Clothing	R&F Yingtong Building	Zhujiang New Town	800
Suijia Oil Products	Goldlion Tower	Tianhe Bei	800
The Orient Overseas Container Line	Goldlion Tower	Tianhe Bei	600

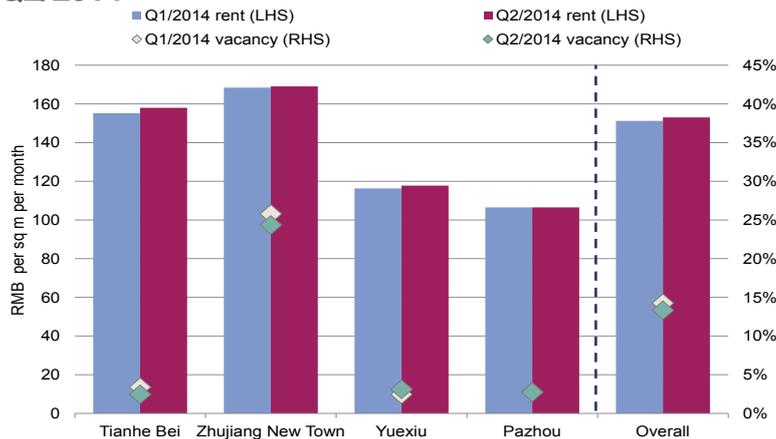
Source: Savills Research

GRAPH 2
Grade A office rental indices, Q1/1998–Q2/2014



Source: Savills Research

GRAPH 3
District comparison, rent vs vacancy, Q1/2014 vs Q2/2014



Source: Savills Research

OUTLOOK

New supply expected to be handed over during the remainder of 2014 is likely to ease supply and demand pressures in the current market.

- Five new Grade A office projects, all located in Zhujiang New Town, are scheduled to be handed over in the next nine months, adding around 577,000 sq m to the market.
- Due to the current uncertainties in the domestic economy, multinational corporations and local companies are focusing on cost controls, and are increasingly caution regarding office expansions. As a result, large private enterprises are expected to become the main demand driver in the office market.
- Although the market will continue to see a large volume of new supply in the next few months, market rents are expected to remain stable as several of the new projects are for sale and mostly for self use, while city-wide vacancy rates are likely to rise with the new supply.

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