

# Briefing Office sector

February 2014



Image: Zhujiang New Town

## SUMMARY

The market continued to see a large volume of new supply, as two projects were handed over in Q4/2013. However, due to active demand from domestic companies, Grade A office city-wide rents remained stable.

- Two new projects, GT Land Plaza and R&F Yingtong Building, were handed over in Q4/2013.
- With new supply up to 166,000 sq m, city-wide vacancy rates rose 2.5 percentage points (ppts) to 14.8%.
- Grade A office rents increased by 0.7% in Q4/2013 to an average of RMB150.3 per sq m per month.
- Yuexiu district rents increased by 1.3% quarter-on-quarter (QoQ) to an average of RMB116.1 per sq m per month, while vacancy rates fell 0.6 of a ppt to 2.6%.
- Tianhe Bei rents increased by 0.6% QoQ to an average of RMB154.5 per sq m per month, while vacancy rates fell 0.7 of a ppt to 3.3%.
- Zhujiang New Town rents increased by 0.5% QoQ to an average of RMB167.0 per sq m per month, and vacancy rates rose by 4.8 ppts to 26.2%.
- Pazhou rents increased by 1.0% QoQ to an average of RMB106.0 per sq m per month, while vacancy rates fell 2.2 ppts to 3.4%.

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 “Most of the new high-quality projects gained satisfactory pre-occupancy rates when handed over, leading to the city-wide vacancy rate increasing marginally in 2013.”  
 Lucy Lui, Savills Research  
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➔ **Market summary**

The fourth quarter saw Guangzhou Grade A office vacancy rates climb as two new projects were handed over to the market, while average rents recorded a marginal increase QoQ. The slowing domestic economy resulted in a quiet office market.

Two new office projects were handed over in the fourth quarter, adding 166,000 sq m of new supply to the market. Both projects, GT Land Plaza (Phase 4) and R&F Yingtong Building, are located in Zhujiang New Town.

GT Land Plaza (Phase 4) includes two towers; the south tower comprises apartments for sale and the north

tower is office space available for lease (around 85,000 sq m). The pre-occupancy rate is already over 70% due to tenants such as Guangzhou P&G taking the 9/F to 20/F as their headquarters.

R&F Yingtong Building, with a GFA of 120,000 sq m and a height of 196 m, is a 41-storey for-sale project. The average price in the building was about RMB36,000 per sq m and all units have now been sold.

In Q4/2013, net take-up of Grade A office space was 62,000 sq m, down 4.5% QoQ, bringing take-up for 2013 to over 380,000 sq m, the second highest level seen in the last

decade. However, total new supply far exceeded net take-up, which led to a continued increase in vacancy rates, up 4.6 pts year-on-year (YoY).

Although economic growth is slowing, factors such as domestic economic reform are helping to boost business confidence and keep the office market active.

Grade A office rents increased by 0.7% QoQ in Q4/2013, averaging RMB150.3 per sq m per month, up 2.5 pts YoY.

**Yuexiu**

Yuexiu continued to see the strongest rental growth in Q4/2013, up 1.3% to RMB116.1 per sq m per month, while vacancy fell by 0.6 of a ppt to 2.6%. This district was viewed as a relatively good value proposition by many cost-conscious companies, making office space in Yuexiu relatively tight.

**Tianhe Bei**

Tianhe Bei rents rose 0.6% QoQ to RMB154.5 per sq m per month, while the vacancy rate fell 0.7 of a ppt QoQ to 3.3%. Several projects in Tianhe Bei have seen improvements in rents after tenant adjustments, namely China Shine Plaza and CITIC Plaza, where rents have been increased in new deals in the last three months.

**Zhujiang New Town**

Zhujiang New Town rents rose 0.5% to an average of RMB167.0 per sq m per month, and vacancy rates rose 4.8 pts to 26.2% due to a large amount of new supply.

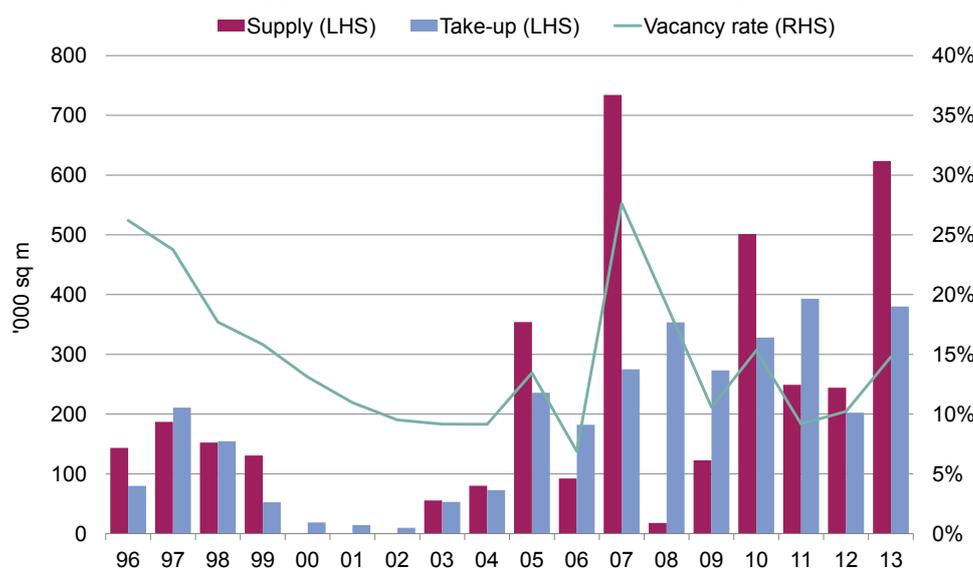
As the majority of the area's office buildings are of premium quality, landlords remain unwilling to make significant concessions on rents. At the same time, new projects in Zhujiang New Town have recorded good performances in pre-occupancy rates, as many large-space deals have been completed. Rents in this area are expected to remain stable.

**Pazhou**

Pazhou rents rose 1.0% to an average of RMB106.0 per sq m per month, while vacancy rates fell 2.2 pts to 3.4%.

Pazhou, the smallest of Guangzhou's four submarkets, has the lowest rents of any district, helping to attract a number of local companies with large space requirements. ■

GRAPH 1 **Grade A office supply, take-up and vacancy rate, pre-1996–2013**



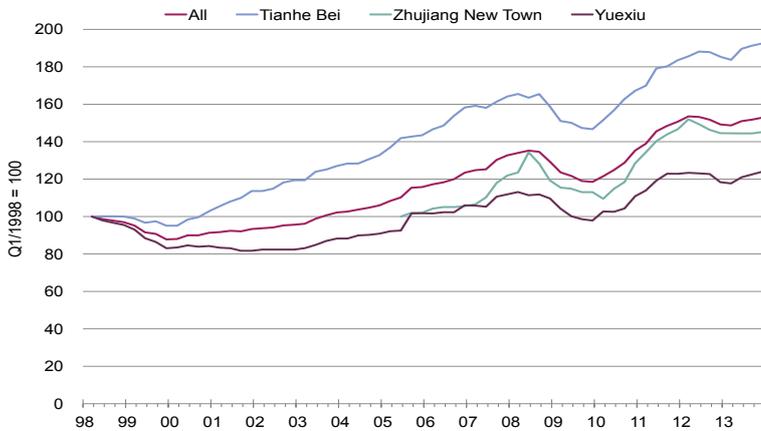
Source: Savills Research

TABLE 1 **Selected leasing transactions, Q4/2013**

Tenant	Project	Location	GFA (sq m)
AstraZeneca	Onelink	Tianhe Bei	3,300
Canadian Consulate of Guangzhou	Leatop Plaza	Zhujiang New Town	2,200
Longfor	GT Land Plaza Tower D	Zhujiang New Town	2,200
Sheng Shi Chang Yun	The Pinnacle	Zhujiang New Town	2,200
British Consulate of Guangzhou	Guangzhou IFC	Zhujiang New Town	2,200
Pin An Bank	Guangzhou IFC	Zhujiang New Town	2,000
Rong Jie Group	Guangzhou IFC	Zhujiang New Town	2,000
K. Wah Group	Taikoo Hui	Tianhe Bei	1,500
Societe Generale Bank	Guangzhou IFC	Zhujiang New Town	1,000
Bemis	Taikoo Hui	Tianhe Bei	1,000

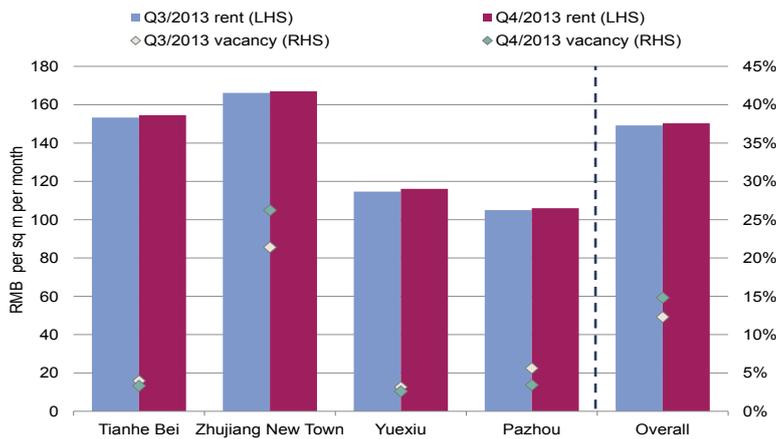
Source: Savills Research

GRAPH 2  
Grade A office rental indices, Q1/1998–Q4/2013



Source: Savills Research

GRAPH 3  
District comparison, rent vs vacancy, Q3/2013 vs Q4/2013



Source: Savills Research

## OUTLOOK

A large volume of new supply is expected to enter the market in 2014, all located in Zhujiang New Town. These projects may need time to gain satisfactory pre-occupancy rates, which will push the district vacancy rate up and place downward pressure on city-wide rents.

- Five new Grade A office projects, all located in Zhujiang New Town, are scheduled to be handed over in 2014, adding around 687,000 sq m to the market.
- As the domestic economy remains weak, multinational corporations and local companies will be more focused on cost controls and will be increasingly cautious regarding office expansions, while large private enterprises will become the main tenants in the office market.
- Market demand will be supported by several optimistic factors, such as economic reform and improved business confidence. However, vacancy rates are expected to rise given the large amount of new supply, while rents are unlikely to fall significantly in 2014.

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