

# Briefing Office sector

May 2014



Image: Zhujiang New Town

## SUMMARY

Grade A office rents increased marginally in Q1/2014, while market demand remained stable in Guangzhou.

- One new project, R&F Yingkai Building, was handed over in Q1/2014, adding 100,000 sq m to the market.
- As most of the new supply was sold for self use, city-wide vacancy rates fell only 0.6 of a percentage point (ppt) to 14.2% due to stable market demand.
- Grade A office rents increased by 0.6% in Q1/2014 to an average of RMB151.3 per sq m per month.
- Yuexiu district rents increased marginally by 0.2% quarter-on-quarter (QoQ) to an average of RMB116.3 per sq m per month, while vacancy rates fell 0.1 of a ppt to 2.5%.
- Tianhe Bei rents increased by 0.4% QoQ to an average of RMB155.2 per sq m per month, and vacancy rates rose 0.1 of a ppt to 3.4%.
- Zhujiang New Town rents increased by 1.0% QoQ to an average of RMB169.4 per sq m per month, while vacancy rates fell by 0.4 of a ppt to 25.8%.
- Pazhou rents increased by 0.5% QoQ to an average of RMB106.5 per sq m per month, while vacancy rates fell 0.7 of a ppt to 2.8%.

“Many of the newly supplied projects in Zhujiang New Town are gaining satisfactory pre-occupancy rates due to their high quality and favourable location.” Lucy Lui, Savills Research

➔ **Market summary**

Guangzhou's Grade A office market saw one new project handed over in the first quarter. Average rents recorded a marginal increase QoQ, while current market demand remained stable. City-wide vacancy rates registered a slight decrease due to most of the new supply being sold for self use.

One new office project, R&F Yingkai Building, was handed over in the first quarter, adding 100,000 sq m of new supply to the market.

R&F Yingkai Building, located in Zhujiang New Town, is a 65-storey

for-sale project. The office space is located from the 4/F to 51/F, with the 52/F and above being used as the Park Hyatt hotel. Average office prices are around RMB41,000 per sq m, with all units currently sold out.

In Q1/2014, net take-up of Grade A office space was 31,600 sq m, down 48.9% QoQ. The majority of market demand was from domestic and service companies concentrated within Zhujiang New Town, which will continue to attract new tenants over the next few years.

Although economic growth is slowing, issues such as domestic economic

reform are helping to boost business confidence and keep the office market stable.

Grade A office rents increased by 0.6% QoQ in Q1/2014, averaging RMB151.3 per sq m per month, up 3.4 ppts year-on-year (YoY).

**Yuexiu**

Yuexiu district rents increased marginally by 0.2% QoQ to an average of RMB116.3 per sq m per month, while vacancy rates fell 0.1 of a ppt to 2.5%.

Demand from cost-conscious local companies remained stable this quarter, while high occupancy rates made office space availability relatively tight.

**Tianhe Bei**

Tianhe Bei rents rose 0.4% QoQ to RMB155.2 per sq m per month, and vacancy rates rose 0.1 of a ppt QoQ to 3.4%.

Tenants in this area have started to move to other areas, such as Zhujiang New Town, partly due to a lack of available office space making it difficult to expand. P&G, who are currently located at Central Plaza in Tianhe Bei, has acquired around 20,000 sq m of office space in G.T. Land Plaza Phase IV to be used as their office headquarters.

**Zhujiang New Town**

Zhujiang New Town rents rose 1.0% to an average of RMB169.4 per sq m per month, while vacancy rates fell 0.4 of a ppt to 25.8%.

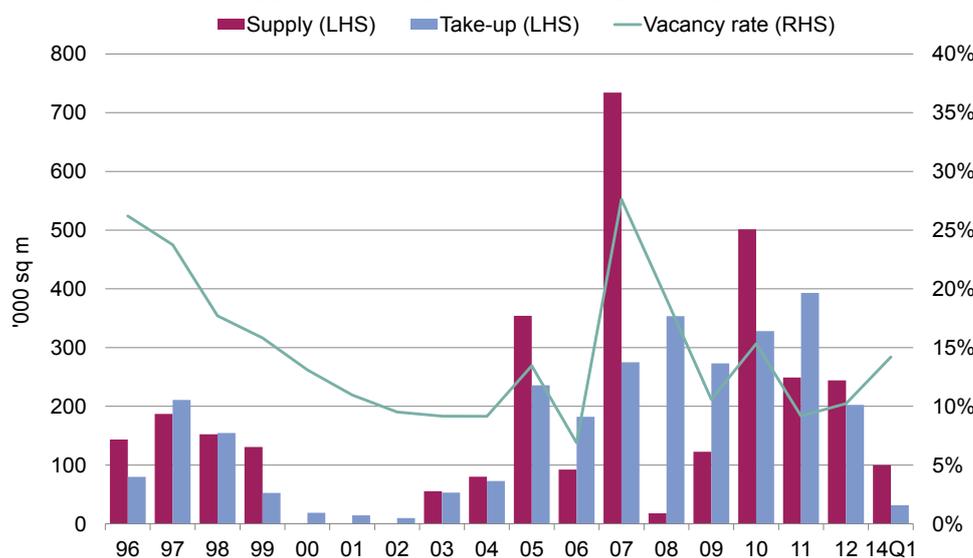
As the majority of the area's office buildings are of a premium quality, landlords remain unwilling to make significant concessions on rents. At the same time, new projects in Zhujiang New Town have recorded strong performances in pre-occupancy rates. Rents in this area are expected to remain stable.

**Pazhou**

Pazhou rents rose 0.5% to an average of RMB106.5 per sq m per month, while vacancy rates fell 0.7 of a ppt to 2.8%.

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

GRAPH 1 **Grade A office supply, take-up and vacancy rate, pre-1996–Q1/2014**



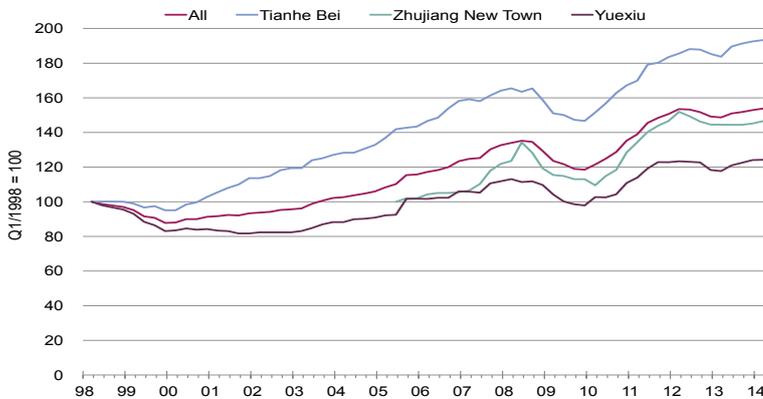
Source: Savills Research

TABLE 1 **Selected leasing transactions, Q1/2014**

Tenant	Project	Location	GFA (sq m)
China Life	Ploy V	Zhujiang New Town	5,500
Xueersi Education	KB Plaza	Zhujiang New Town	4,600
McDonalds	Heye Plaza	Liwan district	3,400
Paypal	GT Land Plaza Phase IV	Zhujiang New Town	2,000
Hang Seng Bank Guangzhou branch	KB Plaza	Zhujiang New Town	2,000
GZ Hongding Investment	Pearl River International	Yuexiu district	1,800
Jumbo Advertisement	Taikoo Hui	Tianhe Bei	1,400
Biorio Health	GT Land Plaza Phase IV	Zhujiang New Town	1,300
Guo Ce Law Firm	Agile Center	Zhujiang New Town	1,200
Gulu Gulu Food	GT Land Plaza Phase IV	Zhujiang New Town	1,000
Carl Zeiss Jena	GT Land Plaza Phase IV	Zhujiang New Town	1,000

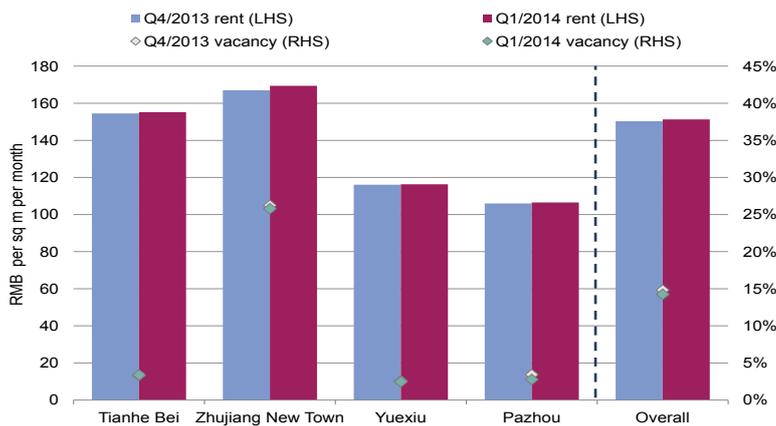
Source: Savills Research

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



Source: Savills Research

GRAPH 3  
District comparison, rent vs vacancy, Q4/2013 vs Q1/2014



Source: Savills Research

## OUTLOOK

Although the market will continue to see a large volume of new supply in the next few months, city-wide rents are expected to remain stable as several of the new projects are for sale and mostly for self use.

- 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 domestic economic uncertainties, multinational corporations and local companies will be more focused on cost controls, becoming increasingly cautious regarding office expansions. Large private enterprises will become the main demand drivers in the office market.

- Market demand will be supported by several optimistic issues, 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 likely to remain stable in the short to mid term.

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