

Briefing Office sector

November 2014



Image: Zhujiang New Town

SUMMARY

Guangzhou's Grade A office market registered an increase in net take-up in Q3/2014, as no new projects entered the market.

- No new projects were handed over in Q3/2014, leaving Grade A office market stock at 3.4 million sq m.

- Net take-up totalled 60,500 sq m, while city-wide vacancy rates fell 1.8 percentage points (ppts) to 11.5%.

- Grade A office rents decreased 0.9% quarter-on-quarter (QoQ) to an average of RMB153.0 per sq m per month.

- Yuexiu district rents declined 0.6% QoQ to an average of

RMB117.0 per sq m per month, while vacancy rates fell 1.4 ppts to 1.7%.

- Tianhe Bei rents decreased 1.2% QoQ to an average of RMB155.3 per sq m per month, as vacancy rates fell 0.4 of a ppt to 2.1%.

- Zhujiang New Town rents declined 0.9% QoQ to an average of RMB168.3 per sq m per month, while vacancy rates fell 2.7 ppts to 20.3%.

- Pazhou rents remained stable QoQ at an average of RMB115.0 per

sq m per month, while vacancy rates fell 1.2 ppts to 1.6%.

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 "As the influx of new supply in the next year is expected to put pressure on the market, many developers focused on office pre-leasing, intensifying market competition." Lucy Lui, Savills Research

➔ **Market summary**

Although a steady influx of domestic stimulus measures has been implemented over the last few months, the national economy has not seen obvious signs of improving as of yet. In Q3/2014, the national GDP was RMB15.08 trillion, increasing 7.3% QoQ, down 0.2 percentage points (ppts) from last quarter's growth rate.

Given that the domestic economic market remains sluggish in this quarter, the national real estate market continues to weaken and there is a higher pressure to reduce large amounts of stock. Additionally, the influx of new supply in the coming year is expected to put more pressure onto the market, with many developers concentrating on office pre-leasing, thus intensifying market competition.

Many developers which currently have projects under construction, mostly in Zhujiang New Town, are starting to focus on pre-leasing and offering rental discounts to attract

tenants. This has resulted in higher take-up witnessed in the last few months. City-wide vacancy rates fell 1.8 ppts to 11.5%, while average rents also recorded a decrease of 0.9% QoQ to RMB153.0 per sq m per month.

No new projects were handed over in Q3/2014, leaving Grade A office market stock at 3.4 million sq m. Several projects which were scheduled to be delivered this year have delayed hand over, helping to ease pressure on the market.

In Q3/2014, net take-up of Grade A office space was 60,500 sq m, up 52.8% QoQ. Domestic enterprises, mainly private financial companies, were the major drivers of demand. As no new projects were handed over to the market, companies chose to relocate to projects with superior locations and facilities, leading city-wide vacancy rates to fall 1.8 ppts to 11.5%.

The Guangzhou Grade A office market is facing high pressure to

absorb the large influx of new supply that is expected to enter the market in the coming year. As a result, developers which have projects currently under construction are starting pre-leasing in advance and offering rental discounts in order to attract tenants, causing competition to intensify.

Office rents fell 0.9% QoQ to an average of RMB153.0 per sq m per month in Q3/2014, up 2.0% year-on-year (YoY).

Tianhe Bei

Tianhe Bei rents decreased 1.2% QoQ to an average of RMB155.3 per sq m per month, as vacancy rates fell 0.4 of a ppt to 2.1%.

Owing to the mature business atmosphere and fully equipped, higher quality office buildings, vacancy rates in Tianhe Bei remain relatively low as demand is expected to remain stable in the short term.

Zhujiang New Town

Office rents in Zhujiang New Town dropped 0.9% QoQ to an average of RMB168.3 per sq m per month, while vacancy rates fell 2.7 ppts to 20.3%.

As market competition intensifies due to the fact that most of the new supply in this area is expected to be handed over next year, landlords are willing to make concessions on rents in order to achieve satisfactory occupancy rates. This trend is expected to continue for the next few months.

Yuexiu

Yuexiu district rents declined 0.6% QoQ to an average of RMB117.0 per sq m per month, while vacancy rates fell 1.4 ppts to 1.7%.

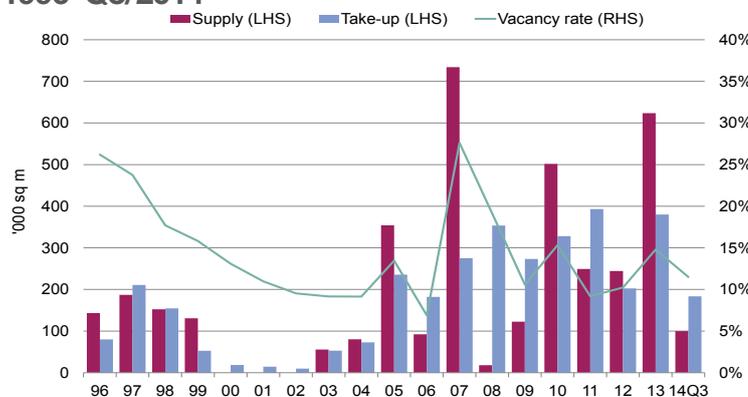
Due to the outdated facilities in Yuexiu district, some tenants are relocating to other business areas such as Tianhe Bei and Zhujiang New Town. Landlords have had to make adjustments to rents to achieve satisfactory occupancy rates.

Pazhou

Pazhou rents remained stable QoQ at an average of RMB115.0 per sq m per month, while vacancy rates fell 1.2 ppts to 1.6%.

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

GRAPH 1 **Grade A office supply, take-up and vacancy rate, 1996–Q3/2014**



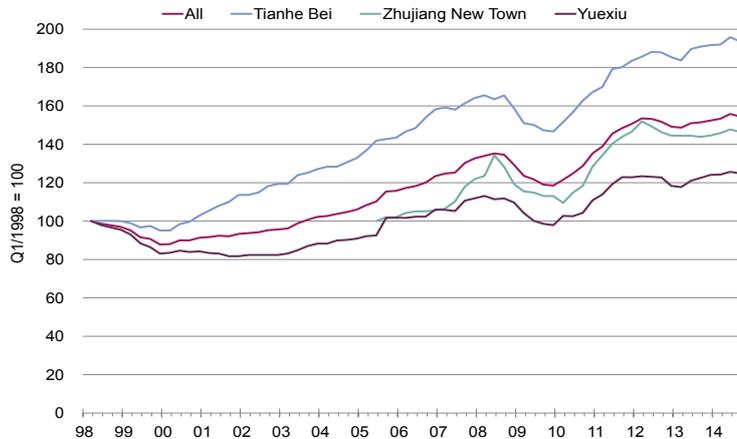
Source: Savills Research

TABLE 1 **Selected leasing transactions, Q3/2014**

Tenant	Project	Location	GFA (sq m)
Nike	Agile Centre	Zhujiang New Town	6,000
ETR Law Firm	Chow Tai Fook Centre	Zhujiang New Town	3,600
DHL	Agile Centre	Zhujiang New Town	2,300
MetLife Insurance	GZ Int'l Electronics Tower	Yuexiu	2,000
Inspur IT Group	GRG Tower	Zhujiang New Town	1,600
Generali China Insurance	GZ Int'l Electronics Tower	Yuexiu	1,100
Huatai Insurance	Centre Plaza	Tianhe Bei	1,000
D&S Law Firm	CITIC Plaza	Tianhe Bei	1,000
Credit Harmony Investment	One Bravo Plaza	Zhujiang New Town	800
Kimberly-Clark	Yi An Plaza	Yuexiu	560

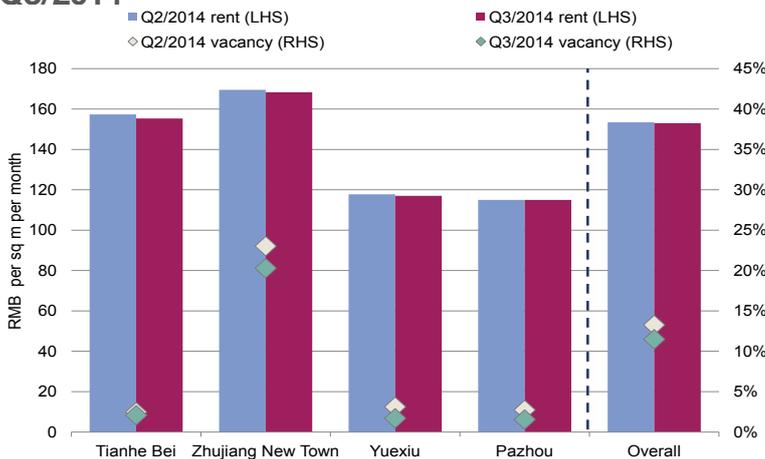
Source: Savills Research

GRAPH 2
Grade A office rental indices, Q1/1998–Q3/2014



Source: Savills Research

GRAPH 3
District comparison, rent vs vacancy, Q2/2014 vs Q3/2014



Source: Savills Research

OUTLOOK

The large amount of new supply expected next year is anticipated to add pressure to the market and many developers have already begun pre-leasing activities in an effort to secure quality tenants. This is expected to help lower city-wide vacancy rates over the next few months.

- Influenced by slow construction progresses, the majority of delayed projects will be launched onto the market in 2015. It is expected that only the Agile Centre project will be delivered on time in Q4/2014, adding GFA of 84,000 sq m to the office market.

- Both the domestic economic downturn and global economic uncertainty are expected to continue putting downward pressure on the market in the short term, with recovery unlikely. Overseas and domestic companies are continuing to remain cost conscious about rents for office space and expansion. As a result, city-wide rents are expected to continue falling, while vacancy rates are expected to rise in Q4/2014.

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