

Briefing Office sector

February 2015

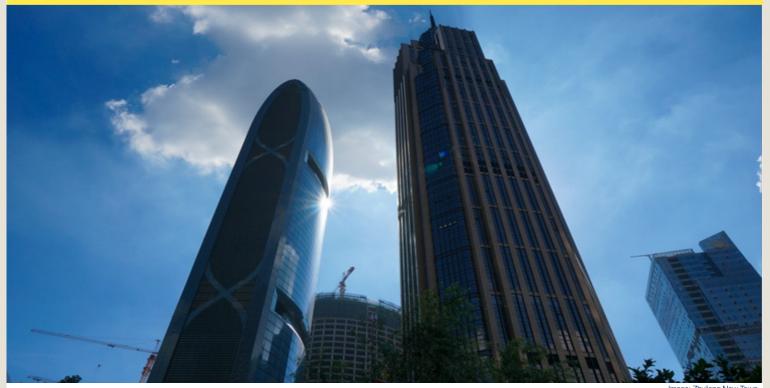


Image: Zhuijang New Town

SUMMARY

City-wide Grade A office rents are witnessing downward pressure as developers offer discounts to attract quality tenants in order to achieve satisfactory occupancy rates.

- One new project was handed over in Q4/2014, adding 84,000 sq m new supply to the market, and pushing up Grade A office market stock to 3.49million sq m.
- Net take-up totalled 29,280sq m this quarter, while city-wide vacancy rates increased0.4 of a percentage point (ppt) to 11.9%.
- Grade A office rents decreased 0.2% quarter-on-quarter (QoQ) to an average of RMB152.6 per sq m per month.
- Yuexiu district rents increased 0.7% QoQ, to an average of

- RMB117.7 per sq m per month, while vacancy rates rose 0.4 of a ppt to
- Tianhe Bei rents declined0.5% QoQ to an average of RMB154.6 per sq m per month, while vacancy rates rose1.0 ppt to 3.0%.
- Zhujiang New Town rents decreased0.3% QoQ to an average of RMB167.6 per sq m per month, and vacancy rates fell 0.2of a ppt to 20.1%.
- Pazhou rents remained at an average of RMB115.0 per sq m per month, while vacancy rates fell 0.1 of a ppt to 1.5%.

"Projects are being offered for pre-leasing, intensifying competition within the office market. This situation is expected to continue in the following few months." Sam He, Savills Research

Market summary

Over the last ten years, China has witnessed strong economic growth, with growth levels reaching up to 14%. However, the economy witnessed the start of an economic downturn in 2010, resulting in national GDP growth slowing to an estimated 7.4% in 2014.

The real estate market mirrored the domestic economy, due to the high pressure to offload large amounts of unsold existing stock. In the Grade A office market, the influx of new supply for over the next two years is surely expected to put more pressure onto the market. Many developers who currently have new projects under construction are making great efforts to promote them and to start pre-leasing in order to attract tenants. Market competition has thus intensified, especially in those areas where new supply is concentrated, such as Zhujiang New Town.

Landlords have begun offering rent incentives to attract higher quality tenants, resulting in city-wide rents witnessing an overall decrease, even as both multinational companies and domestic enterprises are continue to

remain cost conscious in regards to office space relocation and expansion plans. In Q4/2014, overall vacancy rates registered an increase of 0.4 of a ppt to 11.9% as one new project entered the market. Rents recorded a decrease of 0.2% QoQ to an average of RMB152.6 per sq m per month, up 1.2% year-on-year (YoY).

One new project was handed over in Q4/2014, adding 84,000 sq m to the market and pushing stock to 3.49 million sq m. Annual new supply in 2014 was around 184,000 sq m with only two office buildings delivered on time, while another four projects that were scheduled tofor handover this year have been delayed, helping to ease pressure on the market.

Net take-up of Grade A office space in 2014 totalled 242,650 sq m, down 38.6% YoY. Domestic enterprises, IT internet companies and private financial companies, were the major demand drivers. As new projects achieved strong pre-leasing rates, and some office space was for self-use, city-wide vacancy rate increased 0.4 of a ppt to 11.9%.

As the Grade A office market is expected to witness an influx of supply during the next two years, most developers who have projects currently under construction are starting pre-leasing in advance and offering rental incentives to attract suitable tenants. This has resulted in intensified competition, especially in areas such as Zhujiang New Town and Tianhe Bei.

In Q4/2014, office rents continued to fall, down 0.2% QoQ to an average of RMB152.6 per sq m per month, up 1.2% YoY.

Tianhe Bei

Tianhe Bei rents declined 0.5% QoQ to an average of RMB154.6 per sq m per month, while vacancy rates rose 1.0 ppt to 3.0%.

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

Zhujiang New Town

Office rents in Zhujiang New Town dropped 0.3% QoQ to an average of RMB167.6 per sq m per month, while vacancy rates fell 0.2 of a ppt to 20.1%.

As market competition intensifies due to the fact that most of the new supply in this area is expected to be handed over the next two years, 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 increased 0.7% QoQ, to an average of RMB117.7 per sq m per month, while vacancy rates rose 0.4 of a ppt to 2.1%.

With its advantageous location and convenient traffic facilities, Yuexiu district continued to attract cost-conscious domestic companies relocating their offices.

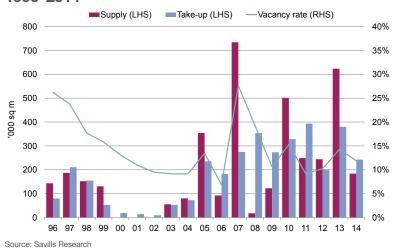
Pazhou

Pazhou rents remained at an average of RMB115.0 per sq m per month, while vacancy rates fell 0.1 of a ppt to 1.5%.

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

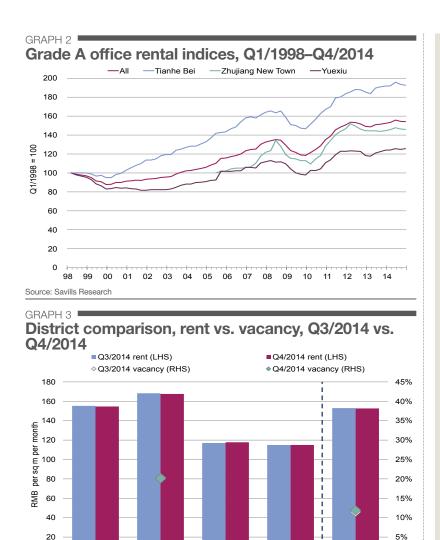
GRAPH 1

Grade A office supply, take-up and vacancy rate,
1996–2014



Selected leasing transactions, Q4/2014

Tenant	Project	Location	GFA (sq m)
UC Browser	GRG Tower	Zhujiang New Town	3,500
Huangjinpu Properties Group	G.T Land Phase IV	Zhujiang New Town	2,000
Zking Property &Casualty Insurance	Poly Zhong Ying Tower	Zhujiang New Town	1,200
ROWERP2P Fiancial Consulting	R&F Ying Long Building	Zhujiang New Town	800
Shenyin Wanguo Securities	Pearl River Tower	Zhujiang New Town	600
CNPC Iron Material	Pearl River Tower	Zhujiang New Town	600
Source: Savills Research			



OUTLOOK

Rent discounts are expected to continue being offered by developers, especially for tenants who are seeking larger areas of office space. Fortune 500 companies and largescale domestic enterprises are expected to have more relocation choices in areas such as Zhujiang New Town.

Guangzhou's Grade A office market is expected to witness a large amount of supply entering the market, with five new projects scheduled to be delivered in 2015. Annual supply is expected to reach 464,000 sq m.

However, due to the effects of the slowing national economy and uncertainty of the global economy, the office market will be hard put to absorb the supply influx. Both overseas and domestic companies continue to remain cost conscious about rents for office space. Some Fortune 500 companies favoured by developers are able to obtain favourable rents for projects currently under construction. In addition, the new projects have a larger floor plate, allowing more choice for companies that want to relocate or want more office space. Intensified competition is anticipated to continue placing downward pressure on rental growth. As a result, city-wide rents are expected to crise in 2015.

Please contact us for further information

Pazhou

Overall

Yuexiu

Savills Research

Tianhe Bei Zhujiang New Town



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