

Briefing Office sector

May 2015



Image: Zhujiang New Town

SUMMARY

As no new projects were launched onto the market in Q1/2015, the Guangzhou Grade A office market witnessed a slight fall in city-wide vacancy rates.

- No new projects were handed over in Q1/2015, leaving the Grade A office market stock at 3.49 million sq m.
- Net take-up reached 27,750 sq m this quarter, while city-wide vacancy rates fell 0.8 of a percentage point (ppt) quarter-on-quarter (QoQ) to 11.4%.
- Grade A office rents remained stable at an average of RMB152.7 per sq m per month, up 0.5% year-on-year (YoY).
- Yuexiu district rents fell 1.1% QoQ, to an average of RMB116.3 per sq m per month, while vacancy rates remained unchanged at 2.1%.
- Tianhe Bei rents dropped 0.7% QoQ to an average of RMB153.3 per sq m per month, while vacancy rates fell 0.3 of a ppt to 2.7%.
- Zhujiang New Town rents increased 0.8% QoQ to an average of RMB169.7 per sq m per month, while vacancy rates fell 1.4 pts to 19.7%.
- Pazhou rents increased 1.7% to an average of RMB117.0 per sq m per month, while vacancy rates fell 0.1 of a ppt to 1.4%.

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 “As the majority of supply expected in 2015 is anticipated to be handed over in the second half of the year, the first half is likely to witness a temporary easing of the market, allowing for higher levels of absorption.” Sam He, Savills Research

➔ **Market summary**

The Guangzhou Grade A office market is expected to witness several new projects handed over in the next two years, with a total GFA of around 460,000 sq m in 2015 and 580,000 sq m in 2016, of which over 80% is located in the Zhujiang New Town area. However, as eight of the total 11 new projects are for sale, pressure witnessed in the leasing market will be relieved to a certain extent, with market rents expected to remain at a stable level for the next twelve months.

In addition to the large amount of new supply expected to enter the market, the national economy has already entered a period of downturn, with an anticipated national GDP growth rate of 7% according to a report released by the central government in March – the lowest level since 2004.

During the first quarter of 2015, no new projects were handed over, leaving market stock unchanged at 3.49 million sq m. However, several office projects are expected to launch onto the market during the second half of this year. As a result, city-wide vacancy rates dropped 0.8 of a ppt to 11.4%.

Due to the Chinese New Year holiday period, net take-up fell 53.1% QoQ in Q1/2015, totalling 27,750 sq m. Domestic financial companies and state-owned enterprises were the major demand drivers, while multinational companies started to gain momentum as a result of attractive rental incentives offered by landlords.

As a large amount of new supply is expected to enter the Grade A office market over the next two years, quality tenants have a number of options for

relocating or expanding their office space. Intensified competition has meant developers who currently have projects under construction are starting pre-leasing in advance and offering rental incentives to attract suitable tenants. As a result, rental growth is expected to be suppressed in the short term.

In Q1/2015, office rents remained unchanged at an average of RMB152.7 per sq m per month, up 0.5% YoY.

Tianhe Bei

Tianhe Bei rents fell 0.7% QoQ to an average of RMB153.3 per sq m per month, while vacancy rates fell 0.3 of a ppt to 2.7%.

Tenant mix remained stable in terms of relocations in Tianhe Bei, mainly due to the advantageous location and convenient traffic facilities.

Zhujiang New Town

Zhujiang New Town rents increased 0.8% QoQ to an average of RMB169.7 per sq m per month, while vacancy rates fell 1.4 ppts to 19.7%.

Zhujiang New Town is currently witnessing an influx of new, high-quality projects entering the market, and landlords are offering rental incentives to attract tenants. Therefore, market competition is expected to continue to intensify, depressing the rental growth for the next few months.

Yuexiu

Yuexiu district rents fell 1.1% QoQ to an average of RMB116.3 per sq m per month, while vacancy rates remained unchanged at 2.1%.

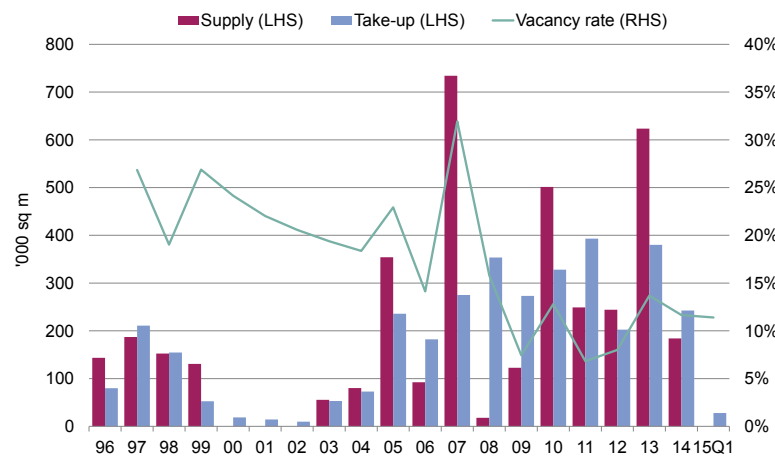
Due to the dated office buildings, the Yuexiu district may witness tenants relocating to other business areas such as Zhujiang New Town and Tianhe Bei.

Pazhou

Pazhou rents increased 1.7% to an average of RMB117.0 per sq m per month, while vacancy rates fell 0.1 of a ppt to 1.4%.

The Pazhou district is planning to establish a group of headquarter towers for domestic companies, within a designated area called Headquarters Economic Zone. ■

GRAPH 1 **Grade A office supply, take-up and vacancy rate, 1996–Q1/2015**



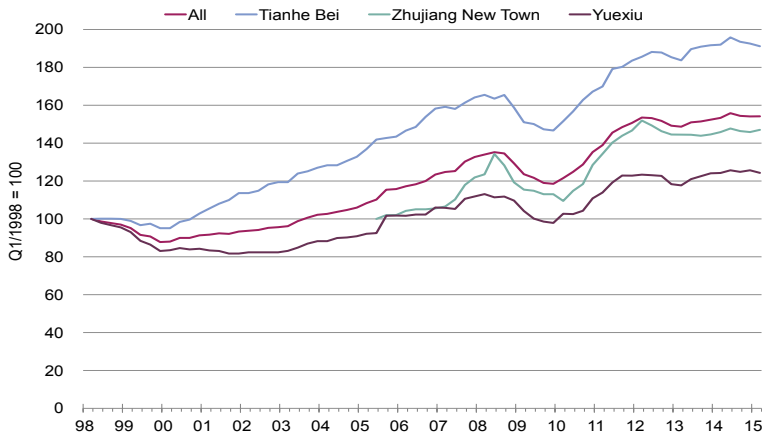
Source: Savills Research

TABLE 1 **Selected leasing transactions, Q4/2014**

Tenant	Project	Location	GFA (sq m)
China Telecom	Yuexiu Financial Tower	Zhujiang New Town	10,000
Deloitte	Yuexiu Financial Tower	Zhujiang New Town	3,500
Bank of Taiwan	GZ International Financial Center	Zhujiang New Town	1,600
Lenovo	Yuexiu Financial Tower	Zhujiang New Town	1,400
Sony	Agile Center	Zhujiang New Town	800
Beijing Ivy Capital	Bravo International Tower	Zhujiang New Town	670
Volkswagen Group	Yuexiu Financial Tower	Zhujiang New Town	500

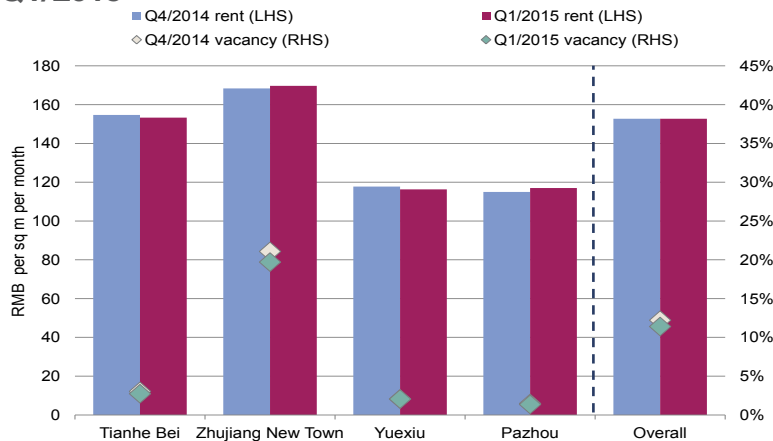
Source: Savills Research

GRAPH 2
Grade A office rental indices, Q1/1998–Q1/2015



Source: Savills Research

GRAPH 3
District comparison, rent vs. vacancy, Q4/2014 vs. Q1/2015



Source: Savills Research

OUTLOOK

The Grade A office market is expected to witness a city-wide fall in rents as a large amount of new supply floods the market during the next twelve months.

The Guangzhou Grade A office market is expected to see an influx of supply during the rest of 2015, adding over 430,000 sq m, all located in Zhujiang New Town.

With both national and global economic uncertainty expected to continue, the market looks set to face a downward pressure in the short term, with full recovery unlikely to occur during the next few quarters. Both overseas and domestic companies are expected to remain cost conscious about rents and cautious about expansion plans. As a result, city-wide rents are expected to continue falling throughout the rest of 2015, while overall vacancy rates are expected to rise due to the influx of new supply scheduled to enter the market.

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