

Briefing Office sector

January 2016



Image: Zhujiang New Town

SUMMARY

Three new projects were launched onto the Guangzhou Grade A office market in the fourth quarter, adding 275,000 sq m of new space.

- Three new projects were handed over in Q4/2015, adding 275,000 sq m to the market and pushing market stock up to 3.93 million sq m.
- Net take-up reached 206,927 sq m in 2015, while city-wide vacancy rates decreased 0.9 percentage points (ppts) quarter-on-quarter (QoQ) to 10.3%, down 1.9 ppts year-on-year (YoY).
- Grade A office rents increased 0.3% QoQ and 1.1% YoY to an average of RMB155.3 per sq m per month.
- Yuexiu district rents decreased 0.1% QoQ to an average of RMB117.3 per sq m per month, while vacancy rates fell 0.4 ppts to 2.3%.
- Tianhe Bei rents rose 0.7% QoQ to an average of RMB155.4 per sq m per month, while vacancy rates fell 0.1 of a ppt to 2.4%.
- Zhujiang New Town rents increased 0.2% QoQ to an average of RMB172.1 per sq m per month, while vacancy rates decreased 1.5 ppts to 17.2%.
- Pazhou rents remained unchanged at an average of RMB117.0 per sq m per month, while vacancy rates fell 0.4 of a ppt to 0.8%.

“A large influx of supply flooded the market, however, most is earmarked for sale only and in addition has a high proportion set aside for self-use, resulting in the Guangzhou Grade A office market remaining stable in the final quarter.”

Sam He, Savills Research

➔ **Market summary**

Three new projects entered the Grade A office market in Q4/2015, adding 275,000 sq m of office space. As these new projects are earmarked for sale only and have a high proportion dedicated to self-use, it had little impact on the Grade A office leasing market. However, as seven projects will launch in 2016, the leasing market is anticipated to suffer a downward pressure.

Three new projects, located in the Zhujiang New Town and Yuexiu areas, were handed over in the last quarter, pushing Grade A office total stock to 3.93 million sq m by adding 275,000 sq m of new space. City-wide vacancy rates decreased 0.9 ppts QoQ and 1.9 ppts YoY to 10.3% while market rents increased 0.3% QoQ and 1.1% YoY to an average of RMB155.3 per sq m per month.

Annual net take-up reached 206,927 sq m in 2015, down 15% YoY as four projects entered the Grade A office market in the second half of the year. Domestic companies and foreign-invested companies were the major demand drivers in 2015, accounting for 46% and 43% respectively. The prime CBD area, Zhujiang New Town, absorbed the major transactions, while Yuexiu Tower and Chow Tai Fook Centre were seen as the most popular projects in 2015.

As the majority of newly released projects are for sale and have a high proportion set aside for self-use, the Grade A office market continued to remain stable in this quarter. As a result, Grade A office rents increased slightly to an average of RMB155.3 per sq m per month, up 0.3% QoQ and 1.1% YoY. In terms of tenants, financial companies and Internet companies

continued to drive the majority of demand, accounting for 36% and 15% respectively.

Tianhe Bei

Tianhe Bei rents increased 0.7% QoQ to an average of RMB155.4 per sq m per month, while vacancy rates fell 0.1 of a ppt to 2.4%.

Due to the advantageous location and convenient transportation links, the tenant mix of projects in the area remained stable.

Zhujiang New Town

Zhujiang New Town rents increased 0.2% QoQ to an average of RMB172.1 per sq m per month, while vacancy rates fell 1.5 ppts to 17.2%.

Three projects entered Zhujiang New Town in the second half of 2015, and the final supply will launch over the next two years. As a result, the rental growth in Zhujiang New Town is expected to remain stable in the short term.

Yuexiu

Yuexiu district rents decreased 0.1% QoQ to an average of RMB117.3 per sq m per month, while vacancy rates decreased 0.4 of a ppt to 2.3%.

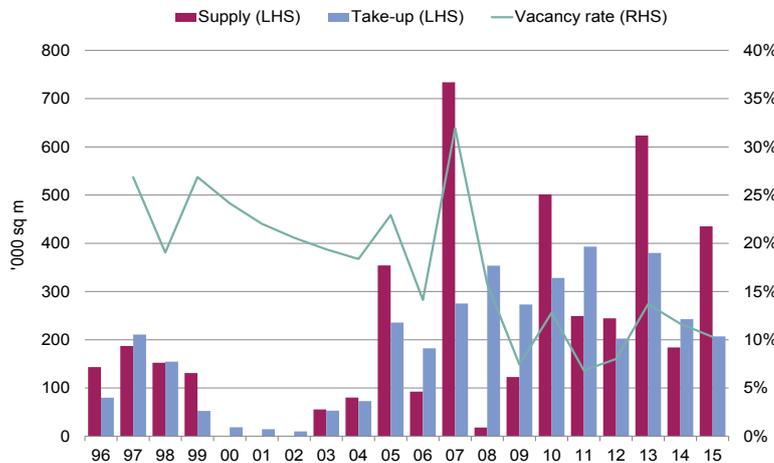
One new office project entered the Yuexiu district market in this quarter, adding 85,000 sq m of office space. However, this area witnessed tenants relocating to new and emerging business areas as result of outdated and aging projects.

Pazhou

Pazhou rents remained unchanged at an average of RMB117.0 per sq m per month, while vacancy rates fell 0.4 of a ppt to 0.8%.

Two projects are expected to enter the Grade A office market in 2016. In addition, the Pazhou Headquarters Economic Zone is continuing to attract domestic companies and this area is increasing in value. ■

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



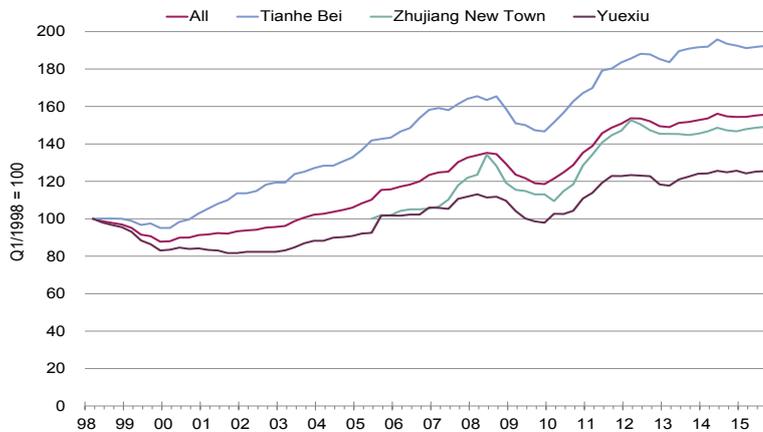
Source: Savills Research

TABLE 1 **Selected leasing transactions, Q4/2015**

Tenant	Project	Location	GFA (sq m)
Drop a Taxi	Yuexiu Financial Tower	Zhujiang New Town	1,000
Sinatay Life Insurance	Yuexiu Financial Tower	Zhujiang New Town	1,000
Fujitsu	Chow Tai Fook Centre	Zhujiang New Town	3,600
NET EASE	Kinggold Century	Zhujiang New Town	2,300
China Mobile	Kinggold Century	Zhujiang New Town	2,300
Amway China	Kinggold Century	Zhujiang New Town	5,000

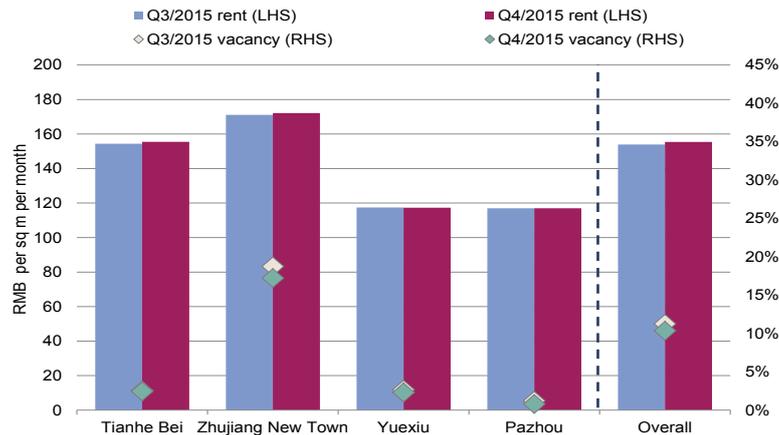
Source: Savills Research

GRAPH 2
Grade A office rental indices, 1998–2015



Source: Savills Research

GRAPH 3
District comparison, rent vs. vacancy, Q3/2015 vs. Q4/2015



Source: Savills Research

OUTLOOK

Seven projects are expected to enter the Grade A office market in 2016, resulting in an increase in vacancy rates and a decline in office rents in the following months.

Grade A office supply will peak in 2016 as seven new projects enter the market. A large portion of them will be for lease only, and as a result the leasing market is anticipated to face some downward pressure. Vacancy rates are expected to increase while office rents are forecasted to decline in the next twelve months.

The Zhujiang New Town market will continue to mature. Receiving its final batch of new stock in 2016, the development of the Grade A office market in Zhujiang New Town will come to a close. Pazhou areas and GIFT (Guangzhou International Financial Town) are expected to become the key business areas for development in the coming years.

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