

# Briefing Office sector

May 2016



Image: Pazhou

## SUMMARY

One new project, located in the Pazhou area, was handed over this quarter, adding 165,000 sq m to Guangzhou's Grade A office market.

- One new project entered the Grade A office market, adding approximately 165,000 sq m.
- City-wide vacancy rates decreased by 0.1 of a percentage point (ppt) quarter-on-quarter (QoQ) to 10.2%, while rents reached an average of RMB156.7 per sq m per month, up 0.8% QoQ.
- While vacancy rates increased 0.6 of a ppt to 2.9% in the Yuexiu district, rents rose by 0.6% QoQ to RMB118.1 per sq m per month.
- Rents in Tianhe Bei rose 0.6% QoQ to an average of RMB156.5 per sq m per month, as vacancy rates fell 0.5 of a ppt to 1.9%.
- Zhujiang New Town saw rents increase 0.9% QoQ to an average of RMB173.8 per sq m per month, while vacancy rates decreased 3.9 ppts to 13.3%.
- Tenant relocation and the handover of a new project in the Pazhou area this quarter increased vacancy rates in the area by 29.9 ppts to 30.7%, while rents increased 0.3% QoQ to an average of RMB117.5 per sq m per month.

.....  
 “The Pazhou area is still in its initial phase of development, but expects to receive several new projects throughout the remainder of the year; further support from the local government should quicken the pace of development in the area.”  
 Sam He, Savills Research  
 .....

➔ **Market summary**

The handover of a 165,000-sq m project in the Pazhou area last quarter had little effect on the leasing market, as a large percentage of the space was designated for self-use. However, four new projects, all designated for lease, will launch in the next quarter, putting pressure on the Grade A office leasing market.

With the addition of one new project in Pazhou, totalling 165,000 sq m, Grade A office market stock reached 4.09 million sq m. City-wide vacancy rates

decreased 0.1 of a ppt QoQ to 10.2%, while market rents increased 0.8% QoQ to an average of RMB156.7 per sq m per month.

Quarterly net take-up of 56,253 sq m was not evenly distributed over core business districts and saw some tenants from Yuexiu and other traditional offices areas relocate to emerging business areas, due to an availability of higher quality projects.

The demand for new office space from the finance and IT sectors remains the

major driver of higher rent, especially as the development of the Pazhou E-commerce Zone continues to aggregate IT, technology and related companies.

**Tianhe Bei**

Rents in Tianhe Bei increased 0.6% QoQ to an average of RMB156.5 per sq m per month, while vacancy rates fell 0.5 of a ppt to 1.9%.

Benefitting from a central location and convenient transportation links, the occupancy of projects in the area was stable.

**Zhujiang New Town**

Zhujiang New Town saw its rents increase 0.9% QoQ to an average of RMB173.8 per sq m per month, while vacancy rates fell 3.9 ppts to 13.3%.

Zhujiang New Town is not expected to receive any new supply in the next two years. This will benefit the existing properties in the area by further decreasing vacancy rates, putting upward pressure on rents.

**Yuexiu**

Yuexiu district rents increased 0.6% QoQ to an average of RMB118.1 per sq m per month, while vacancy rates rose 0.6 of a ppt to 2.9%.

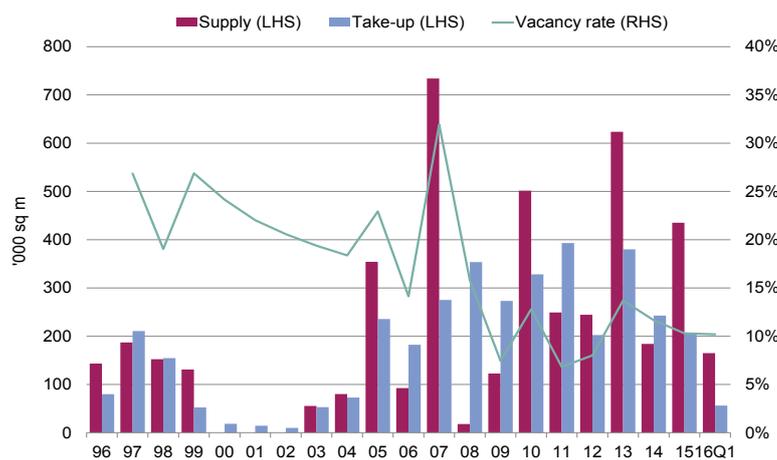
Yuexiu witnessed a few new transactions this quarter; however, the area continues to lose tenants to newer, emerging business districts, due to the lack of newer projects with modern facilities and better management.

**Pazhou**

The handover of one new project in the Pazhou area in this quarter brought 165,000 sq m of new office space.

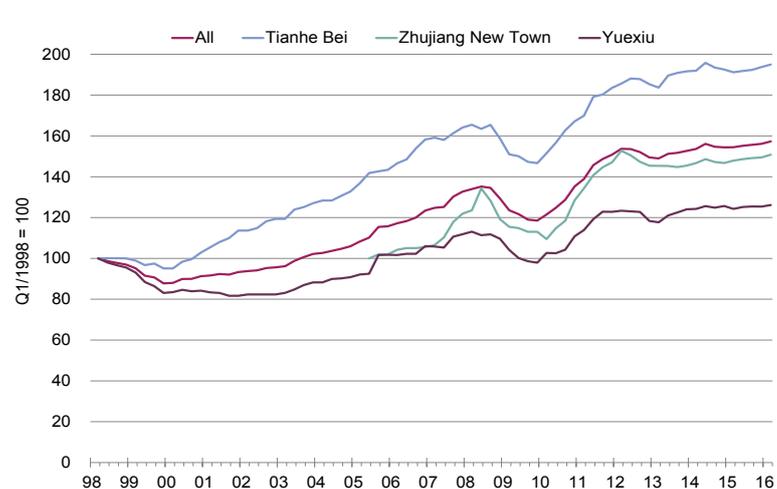
Pazhou office rents rose 0.3% QoQ to an average of RMB117.5 per sq m per month, while vacancy rates increased 29.9 ppts to 30.7%. This area saw a high volume of tenant relocations as a result of outdated and aging projects. ■

GRAPH 1 **Grade A office supply, take-up and vacancy rate, 1996–2016Q1**



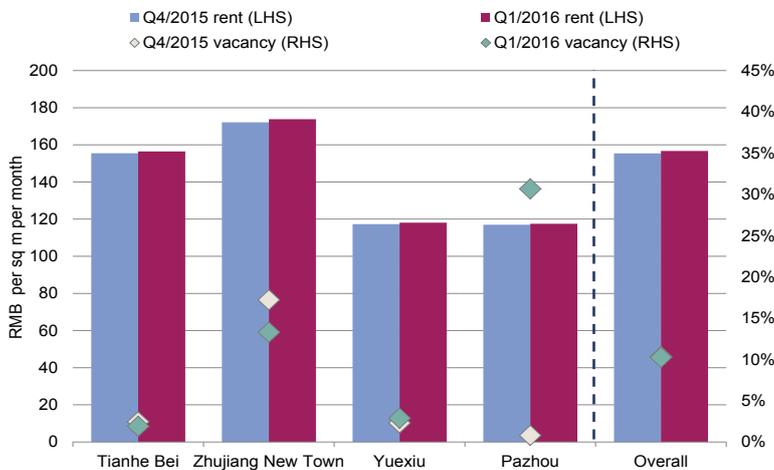
Source: Savills Research

GRAPH 2 **Grade A office rental indices, 1998–2016Q1**



Source: Savills Research

GRAPH 3  
District comparison, rent vs. vacancy, Q4/2015 vs. Q1/2016



Source: Savills Research

TABLE 1  
Selected leasing transactions, Q1/2016

Tenant	Project	Location	GFA (sq m)
AS Pire (renewal)	R&F Centre	Zhujiang New Town	4,800
Yum! (renewal)	Friendship Building	Huanshi Dong	3,600
Mercedes-Benz (renewal)	R&F Centre	Zhujiang New Town	2,400
Ly.com	City Development Plaza	Tianhe Bei	1,800
Ying Chuang Group	Laifung Tower	Yuexiu	700
MI	R&F Centre	Zhujiang New Town	400

Source: Savills Research

## OUTLOOK

The Guangzhou Grade A office market will welcome a supply boom in the following quarter, resulting in an increase in vacancy rates and declining pressure on office rents.

A few projects are expected to enter the Grade A office market in the next quarter, mostly located in Zhujiang New Town areas. The leasing market is expected to face some downward pressure, due to an increase in vacancy rates. However, rents are expected to decrease.

The Pazhou area is expected to benefit in the next quarter from the launch of one new project, in addition to continued support from the government, which has focused on improving the area. As a Recreational Business District (RBD), the Pazhou area is expected to aggregate more companies from the booming E-commerce and IT services industries, transforming it into the key business area for development.

## Please contact us for further information

### Research



**James Macdonald**  
Director, China  
+8621 6391 6688  
james.macdonald@savills.com.cn

### Agency



**Sam He**  
Senior Manager  
+8620 3892 7350  
sam.he@savills.com.cn



**Steven Liu**  
Director  
+8620 3892 7355  
stevenxn.liu@savills.com.cn

### Project & Development Consultancy



**Lucy Lui**  
Director  
+8620 3892 7130  
lucy.lui@savills.com.cn

#### Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 700 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.