

Briefing Office sector

November 2018



Image: R&F Centre, Zhujiang New Town

SUMMARY

The Guangzhou Grade A office leasing market remained active during Q3/2018 with city-wide net absorption doubling quarter-on-quarter.

- One new project was completed in Pazhou in Q3/2018, adding 87,405 sq m of Grade A office space and expanding the total citywide stock to 5.1 million sq m.
- Average vacancy rate decreased by 1.2 percentage points (ppts) quarter-on-quarter (QoQ) to 3.7%.
- Average market rent increased by 2.8% QoQ to RMB173.2 per sq m per month.
- The average sales price of strata-titled assets increased by 1.2% QoQ to RMB32,239 per sq m.

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 “The office investment market was more active due to robust leasing demand, growing interest from a wider spectrum of investors and, more importantly, expectations of further rental upside.”

 Carly Xie, Savills Southern China

➔ **Supply**

Poly Midtown Plaza (保利中悦广场) was completed during Q3/2018, adding a total GFA of 87,405 sq m to the Guangzhou Grade A office property market. Total city-wide stock expanded to approximately 5.1 million sq m by the end of Q3/2018.

Demand

The Guangzhou Grade A office leasing market continued to be active during Q3/2018 with the city-wide net absorption increasing by 131.5% QoQ to 145,401 sq m. The financial, insurance, real estate, professional services and IT sectors located in Pazhou and Zhujiang New Town drove the strong take-up. On the back of this, the average vacancy rate continued downward, declining by 1.2 pts QoQ and 8.2 pts YoY, to 3.7% by the end of Q3/2018. The vacancy rate in Pazhou's Grade A office market has declined in the past five quarters, down 26.2 pts from 33.4% in Q2/2017 to 7.2% in Q3/2018.

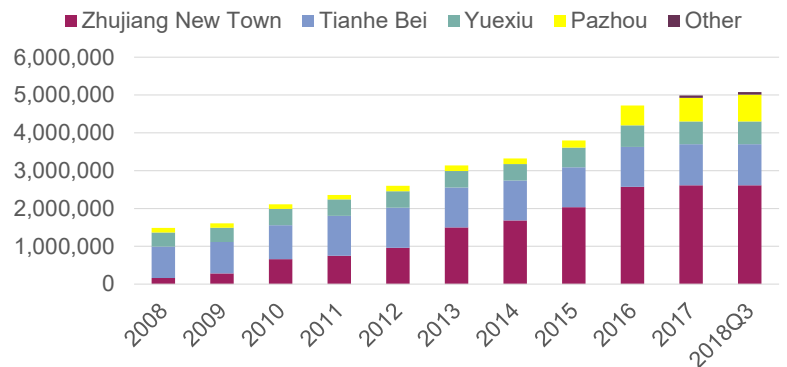
Rents

City-wide average rent increased by 2.8% QoQ, or 11.7% YoY, to RMB173.2 per sq m per month. The average rent for Zhujiang New Town rose to RMB202.9 per sq m per month, up 3.8% QoQ. The average rent for Pazhou increased by 4.3% QoQ to RMB141.7 per sq m per month, which was the largest gain in Guangzhou during Q3/2018.

Investment

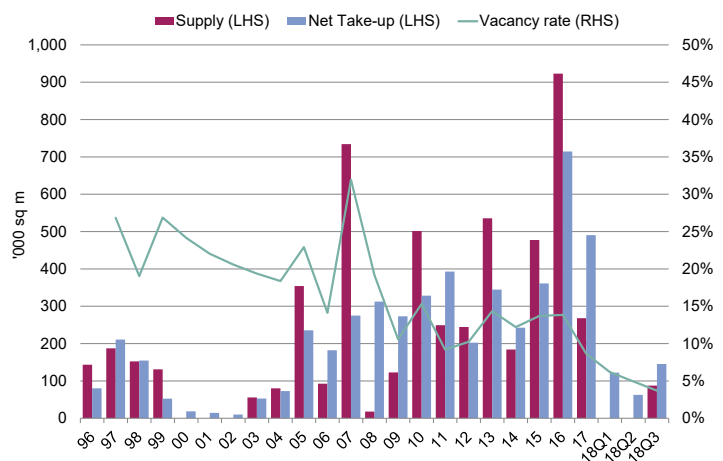
Underpinned by robust leasing demand, continued interest from a wider spectrum of investors and,

GRAPH 1 **Stock breakdown, 2008 – Q3/2018**



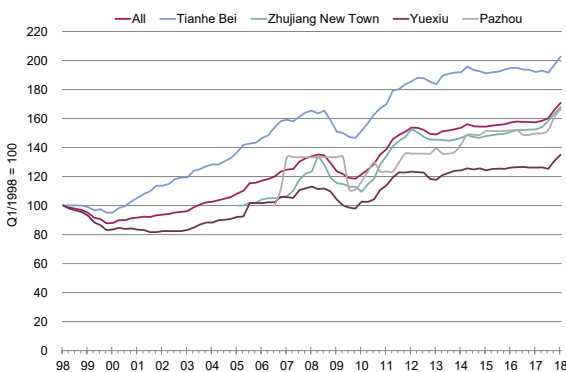
Source: Savills Research

GRAPH 2 **Grade A office supply, net take-up and vacancy rate, 1996–Q3/2018**



Source: Savills Research

GRAPH 3 **Grade A office rental indices, 1998–Q3/2018**



Source: Savills Research

more importantly, the continued growth in rents, the office property investment market remained active. Although there were no major en-bloc sales transactions concluded during Q3/2018, the volume of investment inquiries and site visits increased compared to Q2/2018. In the local market, the number of sellable office buildings with single ownership and a prime location available for disposal remained largely stable and limited. However, few projects began to consider asset disposition for corporate financing and dividend payouts. By the end of Q3/2018, the city-wide average sales price increased by 1.2% QoQ to RMB32,239 per sq m.

Market outlook

The economic outlook for the city is upbeat as economic growth

momentum and fundamentals remain positive. The main districts where Guangzhou's pillar industries and large-scale enterprises are located should continue to see growing revenue, based on our surveys and meetings with some related government agencies. Supported by the economic environment and government policy, the finance, IT, modern services and trading sectors are expected to expand. Demand for quality office space is set to increase in the short- to medium term (1-2 years).

However, the market should remain landlord-favoured due to the persistent disequilibrium of supply and demand, at least in the immediate term (six months). Only one Grade A office project, Poly Skyline Plaza (保利天幕广

场), is scheduled for completion in Q4/2018, but it remains questionable whether the 120,000 sq m project can receive its operation permit in time.

For the next three years (2019-2021), an influx of new supply will alter the market landscape. The majority of new supply, however, is concentrated in Pazhou and International Financial Town, and as a result, the impact on established office submarkets, like Zhujiang New Town, should be mild. ■

GRAPH 4 **Grade A office price indices, Q1/2006-Q3/2018**

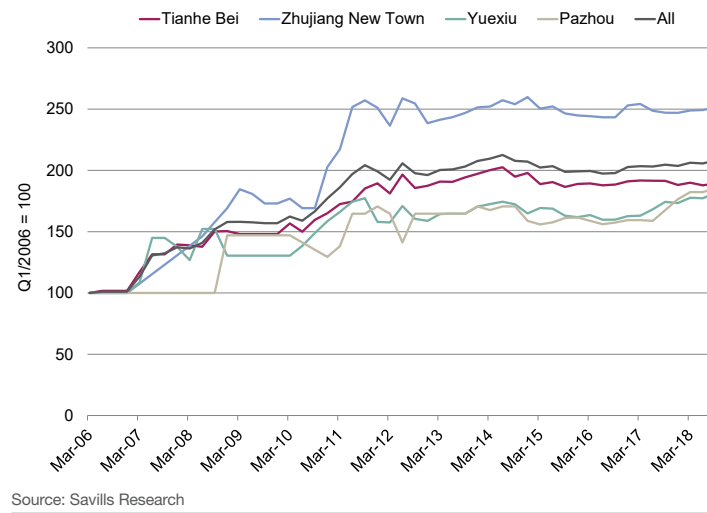


TABLE 1 **Notable leasing transactions, Q3/2018**

Tenant	Tenant CN	Tenant Industry	Project	Business District	Leasing Area
Zhaotai	兆泰	Real Estate	Poly Midtown Plaza	Pazhou	13300
Ping An Insurance	平安保险	Financial and Insurance	Park Place	Pazhou	6000
Ikang	爱康国宾	Healthcare	Poly Midtown Plaza	Pazhou	4171
Hopefluent	合富集团	Real Estate	One Bravo	Zhujiang New Town	4000
Huafa Law Firm	华发律师	Commercial & Professional Services	Chow Tai Fook Centre (East Tower)	Zhujiang New Town	3900
Vanke	万科	Real Estate	Central Tower	Zhujiang New Town	3700
Bole	广州市柏乐商务服务有限公司	Commercial & Professional Services	Centre Plaza	Tianhe	2900
I Dark Horse	黑马游戏	Information Technology	Poly Midtown Plaza	Pazhou	2600
Peanut Diary	花生日记网络科技有限公司	Information Technology	Park Place	Pazhou	2100
Cedar Holdings	雪松控股	Financial and Insurance	Chow Tai Fook Centre (East Tower)	Zhujiang New Town	1800

Source: Savills Research

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