

Office



Landlord sentiment softens

Rents edged down in exchange for higher occupancy due to landlords' softening outlook.

- The total stock of the Guangzhou office market remained at approximately 5.1 million sq m by the end of Q3/2019 as there was no completion during the quarter.
- Demand for the Guangzhou office leasing market remained largely unchanged, with many corporations waiting for better economic conditions.
- The citywide average vacancy rate decreased by 0.6 percentage points (ppt) quarter-on-quarter (QoQ) to 3.7% by the end of Q3/2019.
- The citywide average rent decreased by 0.4% QoQ to RMB179.2 per sq m per month.
- Average rents for Tianhe Bei and Zhujiang New Town decreased by 0.9% and 1.4% to RMB172.5 and 203.2 per sq m per month, respectively, whereas rents for Yuexiu and Pazhou increased by 1.3% and 1.4% to RMB143.0 and 152.5 per sq m per month, respectively.
- Two en-bloc sales transactions were concluded during the quarter. Keppel Corporation Limited has entered into a share sale and shareholder loan transfer agreement ("SPA") to acquire 30% equity interest held by Topchain in Win Up

Global, which held 100% equity, of the Westmin Plaza in Liwan District. Meanwhile, a company owned by Guangzhou Hi-Tech Industrial Development Zone Committee purchased the Modern Avenue Building for approximately RMB975 million.

- Vacancy is anticipated to increase as three new projects will enter the market. Most landlords are expected to offer rental concessions to stay competitive in the market in Q4/2019.

“Many landlords became more flexible in contract negotiations, including rental and leasing terms, in a bid to accelerate market digestion. Consequently, the citywide average rent edged down during Q3/2019.”

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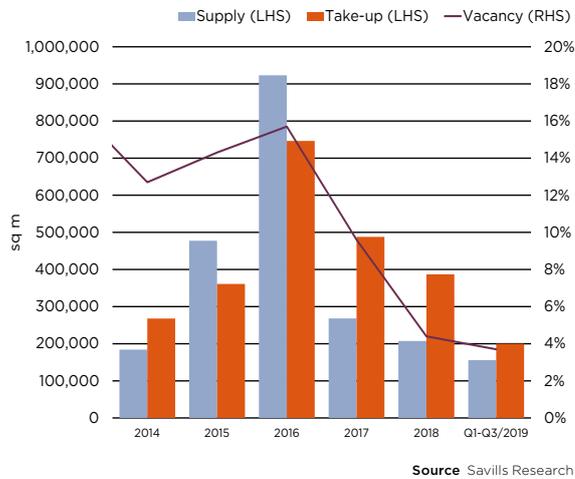
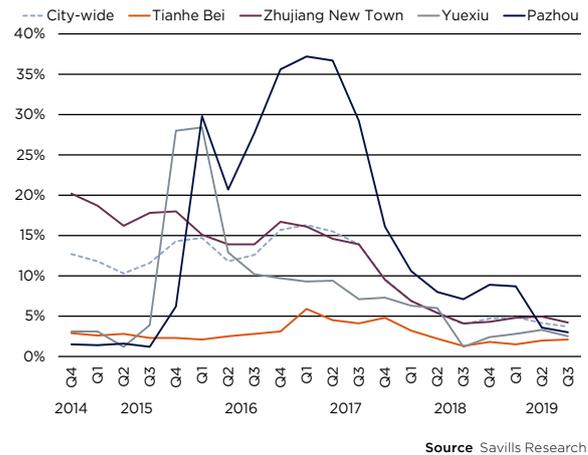
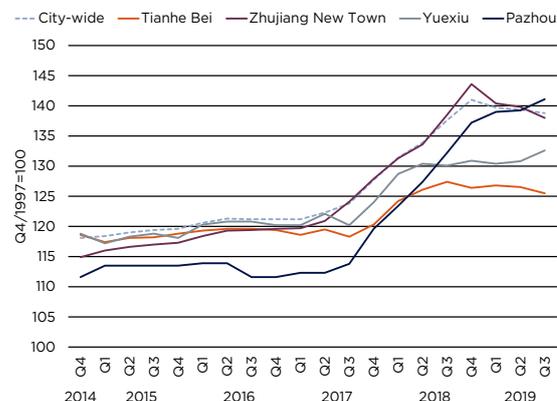
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GRAPH 1: Grade A Office Supply, Net Take-Up And Vacancy Rate, 2014 to Q3/2019**GRAPH 2: Vacancy Rates by Submarket, Q4/2014 to Q3/2019****GRAPH 3: Office Rental Index, Q4/2014 to Q3/2019****MACRO ENVIRONMENT**

The promulgation of the Three-Year Development Plan by the People's Bank of China for the FinTech Industry in August 2019 showed the government's continued support on the growth and expansion of the FinTech industry, underpinning the strong potential of growing leasing demand from FinTech enterprises during the quarter.

SUPPLY

The stock of the Guangzhou office market remained at approximately 5.1 million sq m by the end of Q3/2019, as there was no new completion.

DEMAND

On the one hand, office occupier leasing sentiment eroded and many corporations remained prudent in reviewing and executing their corporate office relocation and expansion strategies during Q3/2019 as a collective impact of the macroeconomic performance, increasingly competitive business environment and uncertainties in the international business and geopolitical contexts. Some more cost-conscious enterprises and those with CAPEX restrictions postponed their new hiring plans and were more apt to stay at existing premises.

On the other hand, office leasing demand from FinTech, financial, insurance and healthcare sectors, for either consolidation or relocation, remained unabated and active in sourcing suitable availabilities and leveraging the current market conditions for office upgrades. This was mostly seen in several areas such as the Zhujiang New Town, Tianhe Bei and Pazhou submarkets. In Zhujiang New Town, a handful of notable leasing transactions were concluded during Q3/2019. For example, FWD Life Insurance Company leased 2,400 sq m to expand its local representative office in Guangzhou, and China Export & Credit Insurance Corporation expanded its office by adding another 500 sq m.

Many landlords became more flexible in contract negotiations, including rental and leasing terms, in a bid to accelerate market digestion. Consequently, the citywide average vacancy rate inevitably edged down by 0.6 ppts to 3.7% during Q3/2019.

RENTS

Most landlords in the Guangzhou Grade A office market became more flexible in rental negotiations, tenant profiles, and tenancy

agreement terms in order to accelerate leasing deal conclusions and property stock digestion. It is worth noting that landlords of some prime office properties started to accept "master lessors", or offered direct rental cut during Q3/2019, in a bid to achieve better occupancy for their investors' and owners' interest. This led to a decrease in rent for the Guangzhou Grade A office market. By the end of Q3/2019, the citywide average rent decreased by 0.4% QoQ to RMB179.2 per sq m per month. The phenomenon was more prevalent in the Zhujiang New Town submarket where the average rent decreased by 1.4% QoQ to RMB203.2 per sq m per month - the largest decrease among all the submarkets in Guangzhou's Grade A office market during this quarter.

INVESTMENT

The overall investment market sentiment weakened in comparison with the previous quarters. This was primarily a result of the tightened financing regulations and conditions, which slowed liquidity, and capital deployment priorities by the city causing a temporary decrease in the volume of project enquiries, site visits and assessments during the quarter.

Notwithstanding this, two en-bloc sales transactions were announced in Q3/2019. Keppel Corporation Limited has entered into a share sale and shareholder loan transfer agreement ("SPA") to acquire 30% equity interest held by Topchain in Win Up Global, which held 100% equity, of the Westmin Plaza in Liwan District. Meanwhile, a company owned by Guangzhou Hi-Tech Industrial Development Zone Committee purchased the Modern Avenue Building for approximately RMB975 million.

MARKET OUTLOOK

Guangzhou's office property market will see an increase in new supply in Q4/2019 as three new projects are scheduled for completion during the next quarter. Weakened office occupier leasing sentiment among many MNCs and the conventional seasonality looming in Q4/2019 are expected to lead to a stagnant market. Landlords are expected to create and offer noticeable financial concessions in exchange for higher occupancy rates. Under these circumstances, the citywide average vacancy rate is anticipated to rise, and average rent should continue to decrease in the next quarter.

TABLE 1: Notable Leasing Transactions, Q3/2019

TENANT NAME	INDUSTRY	PROJECT	BUSINESS DISTRICT	LEASING AREA (SQ M)
FWD Life Insurance Company	Insurance	GT Land Plaza	Zhujiang New Town	2,400
BOSS Zhipin	HR & Employment Services	GT Land Plaza Ph 1 (Tower A)	Zhujiang New Town	2,200
Beike	Diversified Real Estate Activities	Premier International Plaza	Zhujiang New Town	2,000
Nestlé	FMCG	International Commerce Place	Pazhou	2,000
China Southern Power Grid	Water, Electricity, Gas, Multi-Utilities,	GT Land Plaza	Zhujiang New Town	1,500

Source: Savills Research