SUMMARY

No new grade A projects were handed over in Q1/2018, so city-wide vacancy rates dropped significantly.

- No new Grade A projects launched in Q1/2018, thus the city-wide gross floor area (GFA) stock remained at 4.99 million sq m.
- City-wide vacancy rates fell by 2.4 percentage points (ppts) to 6.2%, while average market rents increased 3.0% quarter-on-quarter (QoQ) to RMB166.2 per sq m per month, up 8.6% year-on-year (YoY).
- Yuexiu rents increased 3.2% QoQ to RMB128.2 per sq m per month. Vacancy rates in the district decreased by 1.4 ppts QoQ to 5.3%.
- Tianhe Bei rents increased 2.8% QoQ to RMB162.3 per sq m per month. Vacancy rates decreased by 1.6 ppts QoQ to 3.3%.
- Zhujiang New Town rents increased 2.8% QoQ to RMB191.7 per sq m per month, while vacancy rates dropped 2.3 ppts QoQ to 6.5%.
- Pazhou rents increased 3.5% QoQ to RMB131.7 per sq m per month, while vacancy rates decreased 5.6 ppts QoQ to 9.4%. Vacancy rates continued their sharp decline in Pazhou because of the active market demand and limited supply over the past two quarters.

“The Guangzhou Grade A office market witnessed a remarkable performance due to limited new supply in recent quarters. However, Guangzhou might experience an adjustment as significant new supply is expected in future quarters.”

Woody Lam, Savills Southern China
Market summary
There was no new Grade A office supply in Q1/2018, so the city-wide total stock remained at 4.99 million sq m. All take-up in Q1/2018 came from existing projects, causing city-wide vacancy rates to decrease 2.4 ppts QoQ to 6.2%, and city-wide average rents to increase 3.0% QoQ and 8.6% YoY to RMB166.2 per sq m per month.

With no new Grade A office supply in Q1/2018, all take-up came from current stock. City-wide take up reached 122,000 sq m and vacancy rates decreased 2.4 ppts QoQ and 7.6 ppts YoY to 6.2%. Zhujiang New Town was the most active area and contributed nearly half of total take-up. Pazhou had a remarkable performance as well; nearly one-third of total take-up came from the area.

Multiple projects, such as the Guangzhou Daily Project (广州报业中心) and GuangFa Securities Tower (广发证券大厦), had their handovers delayed to Q4/2018 or even later. Approximately 1.8 million sq m of new supply is expected to hand over during late 2018 and in to 2019. Most of the space will be located in Pazhou and International Financial Town.

As a result, Guangzhou’s city-wide vacancy rates will rebound significantly due to increased supply in the near future. This will likely lead to greater pressure on landlords to find tenants, especially in emerging areas.

City-wide Grade A office rents increased 3.0% QoQ and 8.6% YoY to RMB166.2 per sq m per month. Pazhou’s price momentum carried into Q1/2018, up 3.5% QoQ and 11.3% YoY; the area has now recorded the fastest rental growth of all four main business districts for two consecutive quarters. Zhujiang New Town rents reached RMB191.7 per sq m per month, which is still the highest rental price in Guangzhou’s Grade A office market. Overall, city-wide rents have increased for four consecutive quarters as a consequence of relatively low supply.

Tianhe Bei
Tianhe Bei rents increased 2.8% QoQ and 5.6% YoY to RMB162.3 per sq m per month. Vacancy rates decreased 1.6 ppts QoQ and 2.0 ppts YoY to 3.3%.

Tianhe Bei is still the most mature and well-developed business zone in Guangzhou, with average rents 15% lower than Zhujiang New Town. As a result, Tianhe Bei is highly attractive due to its good commercial environment and relatively lower costs for office tenants. Trade and logistics tenants take up the highest proportion in the district, manufacturing companies (head offices) come second and professional services companies third.

Zhujiang New Town
Zhujiang New Town vacancy rates decreased by 2.3 ppts QoQ and 8.4 ppts YoY to 6.5%, while rents...
increased by 2.8% QoQ and 10.1% YoY to RMB191.7 per sq m per month.

Vacancy rates have fallen in Zhujiang New Town since Q1/2017, while average rents have continued to rise. Zhujiang New Town is full of high value-added tenants; one-third of tenants come from the finance and insurance industries, 13% from IT and telecom companies, and 13% from professional and business services companies.

Yuexiu
Yuexiu rents increased 3.2% QoQ and 7.0% YoY to RMB128.2 per sq m per month, and vacancy rates decreased 1.4 ppts QoQ and 2.3 ppts YoY to 5.3% in Q1/2018.

Yuexiu is the most traditional commercial area in Guangzhou, with average rent much lower compared to Zhujiang New Town and Tianhe Bei. Most tenants in Yuexiu are trade and logistics companies, which are Guangzhou’s traditional leading industries. Real estate and construction, and finance and insurance rank second and third, respectively.

Pazhou
Pazhou rents increased 3.5% QoQ and 11.3% YoY to RMB131.7 per sq m per month, while vacancy rates dropped 5.6 ppts QoQ and 24.0 ppts YoY to 9.4%.

Pazhou has performed remarkably well since Q3/2017, with vacancy rates significantly dropping and average rent rapidly increasing. Low-grade A office supply helped to consume existing stock and drive up rents, and showcased Pazhou's strong development potential. However, with more projects handing over in late 2018 and in to 2019, Grade A offices in Pazhou will see vacancy rates increase and rents decrease.

Market outlook
Most of Guangzhou’s new Grade A office projects are expected to handover in 2H/2018 and will add a total of 730,000 sq m new supply to the market.

There is no new Grade A office supply opening in the next quarter. As a result, all take-up will come from existing stock. With no new supply and high office demand, vacancy rates are expected to drop significantly and rents are expected to increase as well.

Handovers of several Grade A office projects, such as Girdear Tower (哥弟总部大厦) and Galuminium Centre (广铝琶洲总部大厦), will be delayed to 2019. Thus, city-wide vacancy rates are expected to increase significantly when the projects open, and rents will experience downward pressure due to high supply.

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**TABLE 1**

**Selected leasing transactions, Q1/2018**

<table>
<thead>
<tr>
<th>Tenant</th>
<th>Project</th>
<th>Location</th>
<th>GFA (sq m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evergrande</td>
<td>Park Place (邦华环球贸易中心)</td>
<td>Pazhou</td>
<td>10,000</td>
</tr>
<tr>
<td>Advance China IP Law Office (ACIP)</td>
<td>Chow Tai Fook Centre (珠江新城)</td>
<td>Zhujiang New Town</td>
<td>3,600</td>
</tr>
</tbody>
</table>

Source: Savills Research

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**GRAPH 3**

Rent and vacancy rate by business area, Q4/2017 vs. Q1/2018

Source: Savills Research
Savills plc

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