Office

Guangzhou – January 2020

Investment sentiment remains unabated
Landlords continued to be flexible in financial terms in exchange for higher and more stable occupancy.

- The total stock of the Guangzhou Grade A office market increased to 5.2 million sq m by the end of 2019 as Tiande Centre was completed during Q4/2019.
- The citywide vacancy rate of the Guangzhou office property market continued to hover at a low level, resting at 4.8% at the end of 2019 in spite of the new completion.
- Office leasing demand, in general, remained relatively stable compared to the last quarter.
- Rents for the Guangzhou Grade A office property market decreased by 1.0% QoQ on a rental index basis, to RMB177.4 per sq m per month at the end of Q4/2019.
- Investment sentiment in the sector remained unabated, with deal sourcing and site visit activities picking up during Q4/2019.
- Leasing competition in the Guangzhou Grade A office property market is expected to intensify in 2020 as almost one million sq m of new supply is planned to enter the market.

- Citywide vacancy is expected to increase structurally, and rental growth should remain soft for 2020.

“A handful of notable leasing transactions by well-known international and domestic financial institutes were concluded, demonstrating the resilient leasing demand from the finance sector for expansion and relocation.”

CARLBY XIE, SAVILLS RESEARCH
SUPPLY
The completion of the Tiande Centre in Zhujiang New Town brought 94,000 sq m of new supply to the Guangzhou office market during Q4/2019. As a result, the total stock of the market increased to 5.2 million sq m.

DEMAND
During Q4/2019, office leasing demand in general remained relatively stable compared to the last quarter. Nevertheless, a handful of notable leasing transactions by well-known international and domestic financial institutes were concluded, demonstrating the resilient leasing demand from the finance sector for expansion and relocation. This could be exemplified by the cases of CCB’s commitment to take up 22,000 sq m at Tiande Centre; an American insurance company’s lease of 4,000 sq m in Yuexiu district submarket; and a British financial institute’s lease of approximately 19,200 sq m in the Tianhe Bei submarket. By contrast, most of the mid- to small-scale firms from various sectors remained prudent in formulating and implementing their corporate real estate strategies, leading to a relatively unchanged demand size in the overall Guangzhou office property market. Consequently, the citywide vacancy rate continued to hover at a single-digit level though the new completion caused it to inch up by 0.4 of a percentage point (ppt) quarter-on-quarter (QoQ) to 4.8% at the end of 2019.

RENTS
Seasonality was one of the major issues that pushed many landlords to be more willing to offer flexibility in financial terms in exchange for higher and/or stable occupancy during the Q4/2019. Combining with the impact of the new completion, the average rent of the Guangzhou office property market structurally decreased by 1.0% QoQ on a rental index basis to RMB77.4 per sq m per month as of the end of Q4/2019.

INVESTMENT
Investment sentiment in the Guangzhou office property investment market remained unabated, with deal sourcing and site visits picking up during Q4/2019, compared to Q3/2019. This could be attributed to that a handful of institutional investors planned to tap into the Guangzhou office investment market by setting up their GBA investment funds and by acquiring core and/or core-plus assets, in hopes of implementing their investment strategies and mandates.

MARKET OUTLOOK
Overall, the outlook for the Guangzhou Grade A office property market in 2020 is expected to be relatively stable. Although total stock is anticipated to expand by 20%, with new supply likely to amount to 994,000 sq m in 2020, much of the leasing competition should be in the battlefield of Pazhou. Demand, in general, is forecast to continue picking up during Q4/2019, compared to Q3/2019. This could be attributed to that a handful of institutional investors planned to tap into the Guangzhou office investment market by setting up their GBA investment funds and by acquiring core and/or core-plus assets, in hopes of implementing their investment strategies and mandates. The office investment market is expected to be more active as the number of projects available for en-bloc sales increases, though these new availabilities are more opportunistic type.

TABLE 1: Notable Leasing Transactions, Q4/2019

<table>
<thead>
<tr>
<th>TENANT NAME</th>
<th>INDUSTRY</th>
<th>PROJECT</th>
<th>SUBMARKET</th>
<th>LEASING AREA (SQ M)</th>
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<tbody>
<tr>
<td>CCB</td>
<td>Finance</td>
<td>Tiande Centre</td>
<td>Zhujiang New Town</td>
<td>22,000</td>
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<td>Mizuho Bank</td>
<td>Finance</td>
<td>IFP</td>
<td>Zhujiang New Town</td>
<td>1,800</td>
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<td>CITIC-Prudential Life Insurance</td>
<td>Finance</td>
<td>Tiande Centre</td>
<td>Zhujiang New Town</td>
<td>1,100</td>
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<td>Fuxinghuiyu Holdings</td>
<td>Real estate</td>
<td>IFC</td>
<td>Zhujiang New Town</td>
<td>600</td>
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<td>Jingtian &amp; Gongcheng</td>
<td>Professional Services</td>
<td>IFC</td>
<td>Zhujiang New Town</td>
<td>883</td>
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