DTZ Research

Property Times
Guangzhou Q3 2011
Rapid growth in retail property

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Contents

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- New leasing transactions mainly came from the tertiary industry enterprises. The total net absorption in Guangzhou grade A office market reached 177,000 sq m during the period from January to September 2011, the highest since 2007. The strong demand pushed rents up to RMB 133.4 (US$20.8) per sq m per month, an increase of 3.2% quarter-on-quarter (q-o-q) (Figure 1). The overall availability ratio fell to 5.7%.

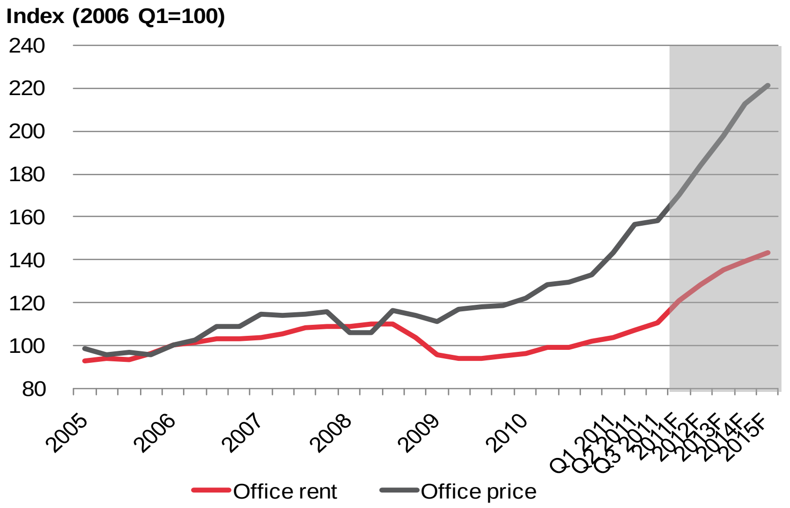
- The opening of Taikoo Hui improved the district's business environment, and attracted a number of foreign retailers to focus on the Guangzhou market. Strong demand from retailers pushed the average rents up to RMB 1,280 (US$200) per sq m per month, a growth of 8.3% quarterly.

- The limited supply of high-quality industrial properties led to a decrease in absorption of warehouses, factories and R&D properties this quarter. However, the requirement from tenants continued to increase. The monthly rents of high-quality warehouses remained stable after the robust growth in the first half of 2011.

- In Q3 2011, affected by tightening policies and loan restrictions, new home sales volume decreased 194,000 sq m quarterly to 966,000 sq m during July to August 2011. Meanwhile, the mass market witnessed a moderate growth in new home prices. Mass residential prices increased 8.5% quarterly to an average of RMB 13,776 (US$2,153) per sq m.

Figure 1

DTZ office index (2005 - 2015F)



Source: DTZ Research

Economic overview

- Guangzhou's GDP increased by 11.0% year-on-year (y-o-y) to reach RMB 573 billion (US$89.53bn) for the first half of 2011. This was 2.6 percentage points slower than during the same period in 2010 (Table 1).
- Fixed asset investments (FAI) were up 2.0% y-o-y during the period from January to August 2011, to RMB 179.1 billion (US$27.98bn) (Table 1).
- Driven by the good business environment, Guangzhou's foreign direct investment (FDI) during the period from January to August 2011 saw a modest growth of 10.6% from a year earlier, to USD 3.23 billion (Table 1).
- In light of strong consumption, the value of retail sales in Guangzhou posted an annual growth of 16.4% during the period from January to August 2011 (Table 1), to reach RMB 326.3 billion (US$50.98bn). This was 3.0 percentage points slower than the same period in 2010.
- The consumer price index (CPI) rose by 6.8% y-o-y in August 2011 (Table 1).

Table 1

Economic indicators

Indicator	Period	Unit	Value	Change y-o-y (%)
GDP	Q1 to Q2 2011	RMB 100 million	5,730	11.0
Fixed asset investments	January to August 2011	RMB 100 million	1,791	2.0
Total industrial output	January to August 2011	RMB 100 million	9,806	10.3
FDI utilised	January to July 2011	US$ 100 million	32.3	10.6
Total sales	January to August 2011	RMB 100 million	3,263	16.4
Disposable income per capita	Q1 to Q2 2011	RMB	17,902	11.7
Consumer price index (CPI)	August 2011	-	106.8	6.8

Source: Guangzhou Statistical Bureau

Offices

- In Q3 2011, Pearl River International Building came on stream and provided 67,000 sq m of new space (Table 2). Total grade A stock in the market climbed to about 2.13 million sq m.

- Due to strong economic base and growing foreign investment demand, Guangzhou's grade A office market experienced a steady improvement in leasing transactions in Q3. They mainly came from finance, insurance, network and exhibitions industries. Much office spaces of new projects in Yuexiu district has been taken up, this led to a sharp 67% q-o-q jump in net absorption to reach 61,000 sq m. Tianhe Sports Center CBD and Zhujiang New Town CBD are also the market focus. Benefited from strong occupier demand, the total net absorption in Guangzhou grade A office market reached 177,000 sq m during the period from January to September 2011, the highest since 2007.

- In Q3 2011, although there was much new supply, the market remained active with growing demand. The average availability ratio of the whole city fell to 5.7%. In particular, the availability ratio in Tianhe Sports Centre CBD dropped by 0.9 percentage points to reach 2.7% this quarter.

- The office market in Guangzhou remained strong with sustained rental growth during the past quarter to RMB 133.4 (US$20.8) per sq m per month, an increase of 3.2% q-o-q (Table 2). Zhujiang New Town witnessed the fastest growth of 6.9% q-o-q to RMB 163.2 (US$25.5) per sq m per month (Table 2).

- Looking forward, a number of new projects, for example, Guangzhou IFC, Leatop Plaza and G.T. Land, are expected to come on stream by the year-end, bring a total of 0.32 million sq m of new office spaces to the market. We forecast the net absorption will reach around 320,000 sq m by the end of 2011. The average rent, as a result, will grow to about RMB 145.8 (US$22.8) per sq m per month and the overall availability ratio is expected to rise to about 12% in Q4 2011.

Recent transactions

- Zhilian Zhaopin took up 1,888 sq m of floor space in Pearl River International Building, Yuexiu.

- WT Partnership took up 1,279 sq m of floor space in Huayitai International Building, Yuexiu.

- Wishing Star Group (HK) limited took up 600 sq m of floor space in Development Center, Tianhe.

Table 2

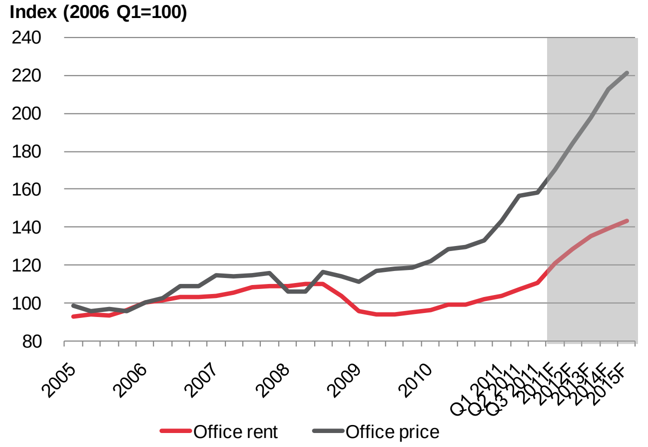
Grade A office market statistics

District	Total stock (sq m)	Availability ratio (%)	Rent (RMB/ sq m/ month)	Rent change q-o-q (%)
Tianhe Sports Center CBD	975,200	2.7	135.4	2.7
Zhujiang New Town CBD	495,300	11.0	163.2	6.9
Dongshan	440,600	3.0	110.4	3.0
Yuexiu	218,400	12.4	103	3.0
Overall	**2,129,500**	**5.7**	**133.4**	**3.2**

Source: DTZ Research

Figure 2

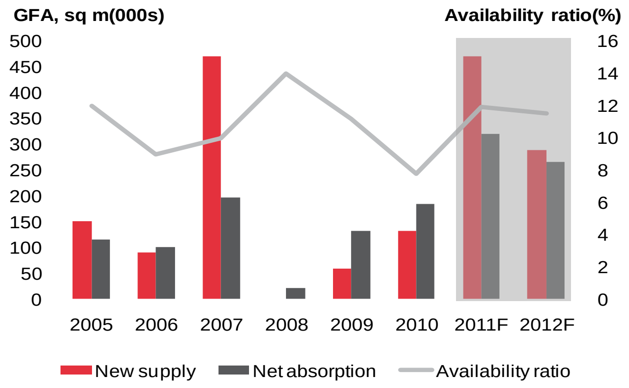
DTZ office index (2005 - 2015F)



Source: DTZ Research

Figure 3

Supply, net absorption and availability ratio (2005 - 2012F)



Source: DTZ Research

Retail

- Increasing consumer confidence boosted Guangzhou's total retail sales, jumping 16.4% y-o-y from January to August 2011 to RMB 326.3 billion (US$50.98bn). This was 3.0 percentage points slower y-o-y (Figure 4).

- In Q3, Taikoo Hui and Grandbuy Fashion came on stream, bringing 135,000 sq m of new retail space to the market (Table 3). Thus, the total retail stock increased to 1.10 million sq m.

- The new coming projects continued to attract suitable tenants. Affected by the increasing supply and strong demand, Guangzhou's retail market became more active. Demand for retail space from fashion, catering and entertainment sectors greatly increased this quarter. For example, Zara set up a new store in Onelink Walk. Meanwhile, Oysho and P&B also opened new stores in Grandview Mall.

- The open of Taikoo Hui has improved the district's business environment, and attracted a number of foreign retailers to focus on the Guangzhou market. In Q3 2011, Bershka set up a store in Grandview Mall. Also, Elisa Palomino launched at Happy Valley.

- Strong demand from retailers has pushed rents up in prime locations. Retail rents in the whole city witnessed a growth of 8.3% q-o-q to reach an average of RMB 1,280 (US$200) per sq m per month,. In particular, rents in Tianhe Sports Centre CBD grew by 7.7% q-o-q, from RMB 1,425 (US$223) to RMB 1,535 (US$240) per sq m per month (Table 3, Table 4).

- Despite the new retail supply, strong demand led the availability ratio to increase slightly by 0.85 percentage points, reaching10.1% in Q3 2011.

- Looking forward, a batch of new projects in Zhujiang New Town CBD and Huanshidong district are expected to come on stream, providing 155,000 sq m of new retail space. We expect retailers will produce more of a sturdy demand of the Guangzhou retail market, which will push the city's average rents up.

Recent transactions

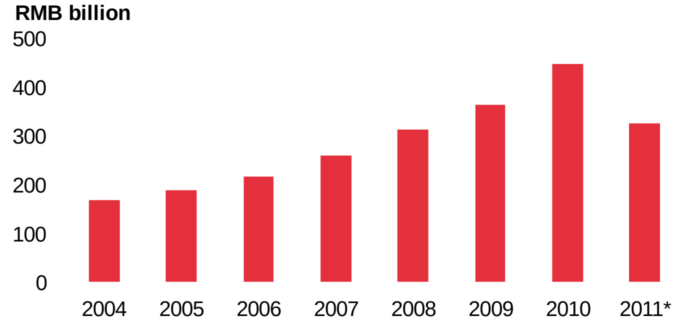
- Louis Vuitton leased 1,800 sq m of space in Taikoo Hui, Tianhe district.

- Hermes leased 371 sq m of space in Taikoo Hui, Tianhe district. It is the largest store in China.

- Teemall leased 16,000 sq m of space in G5, Baiyun district.

Figure 4

Total retail sales of consumer goods (2004 - 2011*)



Note: Total retail sales for 2011 as of August

Source: Guangzhou Statistical Bureau

Table 3

Shopping mall statistics

District	Total stock (sq m)	New supply (sq m)	Rental range (RMB/sq m/ month)
Tianhe Sports Center CBD	484,000	121,000	600-3,000
Zhujiang New Town CBD	143,370	0	500-1,000
Beijing Road	169,900	14,000	600-1,400
Huanshidong	24,000	0	1,000-2,000
Zhongshan San /Nonglinxia Road	142,000	0	800-1,200

Source: DTZ Research

Table 4

Prime projects rental as of Q3 2011

District	Project	Asking rental (RMB/sq m /month)
Tianhe Sports Center CBD	Teemall	2,000-3,000
Tianhe Sports Center CBD	Grandview Mall	1,000-2,000
Tianhe Sports Center CBD	Taikoo Hui	1,500-2,500
Zhujiang New Town CBD	G.T. Land Season Mall	500-1,000
Zhongshan San Road	China Plaza	800-1,200
Beijing Road	May Flower Plaza	1,000-1,200

Source: DTZ Research

Industrial & logistics

- Sino-Singapore Guangzhou Knowledge-city continued to attract suitable tenants. Disney, Philips and Huadian Xinyuan have set up their R&D department and south-china headquarters there. The knowledge-city will encourage the rapid development of Pearl River Delta region's industrial restructuring and technological innovation.
- In September, China Merchants Group signed an agreement with Guangzhou Port Group and Maersk Group for the development of Nansha Port.
- Global Logistic Properties (Zengcheng) (Part 2), providing 60,000 sq m, will come on stream by the end of this year and now started its market campaigns to look for tenants.
- The limited supply of industrial space for high-quality properties led the leasing transactions in warehouses, factories and R&D properties decrease this quarter. However, the requirement from tenants still continued to increase.
- The monthly rents of Guangzhou's high-quality warehouses remained stable after the growth of the first half of 2011 (Figure 5, Figure 6, Table 5). Due to limited supply and strong demand, the average rents of industrial properties are expected to hover a stable level.
- Looking forward, R&F International Airport Logistic in Huadu will provide 140,000 sq m of warehouse space to the market. This will become the market focal point.

Recent transactions

- Guangzhou Fuhe Auto Company purchased two plots of warehouse land in Huangpu district for the land value of RMB 618 (US$96.6) per sq m. The total area of two sites reached 127,000 sq m.

Table 5

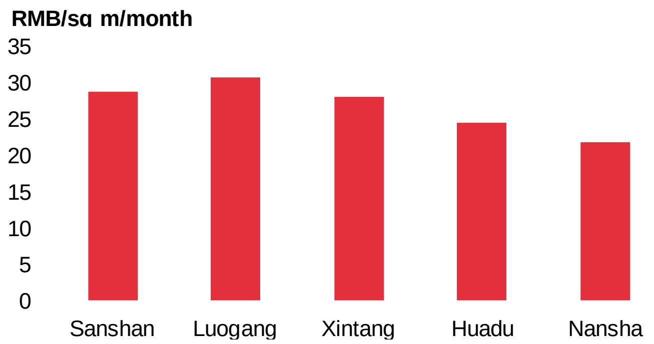
Industrial market statistics

	New supply (sq m)	Availability ratio (%)	Rent (RMB/sq m /month)
R&D properties	0	15	40-50
Warehouses	0	5	25-32
Factories	0	10	16-28

Source: DTZ Research

Figure 5

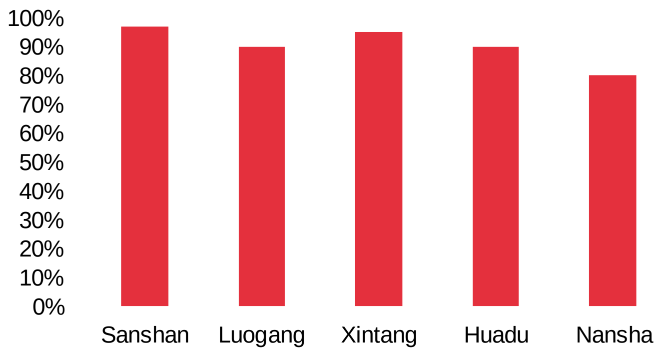
Warehouses rental by district



Source: DTZ Research

Figure 6

Warehouses occupancy ratio by district



Source: DTZ Research

Key statistics – occupier market

Table 6

Occupier market

	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	q-o-q change (%)	y-o-y change (%)	Directional outlook
Tianhe Sports Center CBD office								
Net absorption* (GFA, sq m)	24,764	61,499	2,398	27,354	36,053	-	-	▲
Availability (GFA, sq m)	34,217	62,482	60,084	35,128	26,429	-24.8	-22.8	▲
Availability ratio (%)	3.76	6.41	6.16	3.60	2.71	-89 bps	-105bps	▲
New supply* (GFA, sq m)	0	65,000	0	0	0	-	-	▲
Prime rents (RMB/sq m/month)	127	127.56	129.72	131.82	135.40	2.72	6.61	▲
Market yield (%)	7.66	7.54	7.15	7.00	6.5	-50bps	-105bps	▼
Zhujiang New Town CBD office								
Net absorption* (GFA, sq m)	86,037	100,422	1,734	39,689	58,519	-	-	▲
Availability (GFA, sq m)	67,915	53,530	51,796	73,441	54,611	-25.6	-19.6	▲
Availability ratio (%)	15.59	12.29	11.89	14.83	11.03	-380bps	-456bps	▲
New supply* (GFA, sq m)	66,000	66,000	0	59,600	59,600	-	-	▲
Prime rents (RMB/sq m/month)	138.53	140.56	144.83	152.72	163.19	6.9	17.8	▲
Market yield (%)	8.40	6.75	6.5	6.0	5.7	-30bps	-270bps	▼
Tianhe Sports Center CBD retail								
New supply* (GFA, sq m)	0	46,000	0	0	121,000	-	-	▲
Prime rents (RMB/sq m/month)	1,359	1,289	1,375	1,425	1,535	3.6	9.0	↔
Market yield (%)	6.90	6.60	6.30	5.80	5.07	-73 bps	-183 bps	▼

* Please note that net absorption and new supply are cumulative (i.e. the total net absorption and new supply for the entire calendar year).

Source: DTZ Research

Table 7

Leasing transactions

Property name/Address	Submarket	Size (sq m)	Tenant	Sector
Taikoo Hui	Tianhe Sports Center CBD	1,800	Louis Vuitton	Retail

Source: DTZ Research

Residential

- At the beginning of Q3 2011, a large number of new projects entered to the market, especially in the six major central districts of Guangzhou. According to government data, new housing completions from July to August 2011 amounted to 0.32 million sq m in the six major central districts of Guangzhou (Table 8), representing 38.5% of the total supply, 14.4 percentage points more than last two months.

- Affected by tightening policies and loan restrictions, new home sales volume decreased 194,000 sq m quarterly to 966,000 sq m during July to August 2011 (Table 8). Areas in Panyu, Huadu and Nansha contributed 68.7% of the city's total transaction volume, to reach 594,000 sq m (Table 8).

- In Q3 2011, the increasing supply and transactions of high quality residential projects in central districts driven up a moderate growth in new home price of the mass market. Comparing to May and June, mass residential prices increased 8.5% to an average of RMB 13,776 (US$2,153) during July and August 2011. In particular, large amount of transactions from high quality properties in Tianhe and Yuexiu district drove up the prices of the regions, increased 16.8% and 12.3% respectively. The price in Yuexiu district reached RMB 31,135 (US$4,865) per sq m (Figure 8).

- In Q2, average new home price in Guangzhou luxury residential market was up 0.6% q-o-q, 5.1 percentage points slower than last quarter (Figure 7).

- Looking ahead, developers will remain cautious due to the weakened sentiment and tight cash flow. However they may not cut down prices of new projects unless they are under capital pressure. Meanwhile, potential buyers are expected to remain hesitant in the face of market uncertainty, and transaction volume will shrink in the short term. In particular, transaction volume in Nansha, Panyu districts will see a short and sharp rise because of the fluent supply. Affected by the large amount of transactions in suburbs, the average price in Guangzhou residential market is expected to drop slightly.

Recent transactions

- Vanke Group purchased a plot of land in Baiyun district for RMB 1.27 billion (US$198m). The accommodation value of GFA reached RMB 13,536 (US$2,115) per sq m.

Table 8

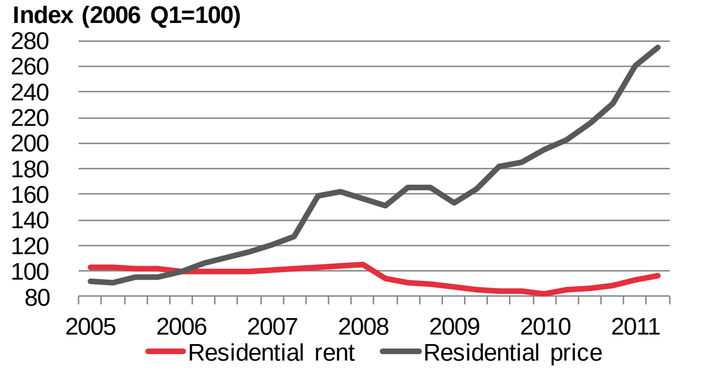
Residential market statistics (July - August 2011)

District	New supply (sq m)	Transaction volume (sq m)	Price (RMB/sq m)	Price change y-o-y (%)
Yuexiu	36,900	11,100	31,135	16.8
Liwan	45,100	38,300	22,677	-0.5
Haizhu	62,000	34,300	21,932	1.2
Tianhe	20,300	44,100	28,245	12.3
Baiyun	158,100	127,100	16,384	-8.5
Huangpu	0	3,400	14,311	-3.7
Panyu	183,900	196,800	16,205	15.8
Huadu	126,000	277,700	7,764	3.2

Source: Bureau of Land and Resources and Housing Management of Guangzhou Municipality

Figure 7

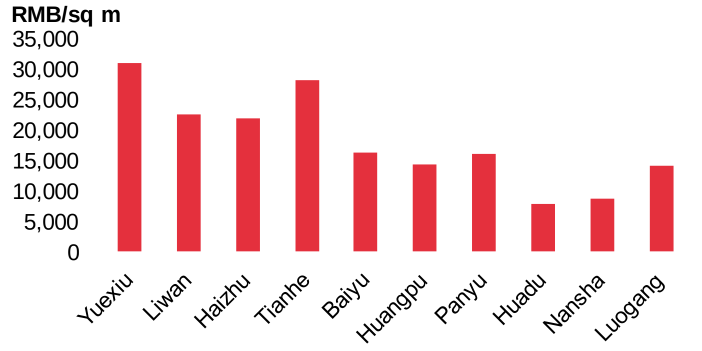
DTZ residential index (Q1 2005 – Q3 2011)



Source: DTZ Research

Figure 8

Primary residential price by district (July - August 2011)



Source: Bureau of Land and Resources and Housing Management of Guangzhou Municipality

Definitions

Availability
Total floorspace in properties marketed as available to let, whether physically vacant or occupied, and ready for occupation immediately.

Availability Ratio
Total space currently available as a percentage of the total stock of floorspace.

Development Pipeline
Comprises two elements:

1. Floorspace in course of development, defined as buildings being constructed or comprehensively refurbished to grade A standard.
2. Schemes with the potential to be built in the future, through having secured planning permission/development certification.

Net Absorption
The change in the total of occupied floorspace over a specified period of time, either positive or negative.

New Supply
Total marketed grade A floorspace which is ready for occupation now. Ready for occupation means practical completion, where either the building has been issued with an occupancy permit, where required, or where only fit-out is lacking.

Prelet
A development leased or sold prior to completion.

Prime Rent
The highest rent that could be achieved for a typical building/unit of the highest quality and specification in the best location to a tenant with a good (i.e. secure) covenant.

(NB. This is a net rent, excluding service charge or tax, and is based on a standard lease, excluding exceptional deals for that particular market.)

Rent
Gross transacted rental (unless otherwise specified), which excludes management fees and other outgoings.

Prime Yield
The best (i.e. lowest) yield which could be expected for a typical building/unit of the highest quality and specification in the best location leased to a tenant with a good (i.e. secure) covenant.

(NB. This is a net yield, which uses net income, after deducting all non-recoverable expenditure, divided by the purchase cost, excluding transaction costs and taxes.)

Market Yield
Annual transacted rent as a percentage of the capital value of the property

Stock
Total accommodation in the commercial and public sectors both occupied and vacant.

Take-up
Floorspace acquired for occupation, including the following:

(i) offices let/sold to an eventual occupier;
(ii) developments pre-let/sold to an occupier;
(iii) owner occupier purchase of a freehold or long leasehold.

(NB. This includes subleases but excludes lease renewals.)

Vacancy
Floorspace that is empty, i.e. not occupied. It may be being marketed, or it may not (whether because a lessee is not occupying, it is being refurbished or it is deliberately being left empty by the landlord).

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