



CBRE RESEARCH, CHINA

SPECIAL REPORT

Pearl River New City, Gearing Up for the Launch

- Special Report on Guangzhou Prime Office Market

PREFACE

It has been 16 years since Guangzhou Municipal Government planned to construct a new city center in Pearl River New City (PRNC) in 1993. During the first 10 years, only a few of top-end residential projects were completed-with insufficient supporting facilities, leaving commercial property development almost a blank in the area. The planning review conducted in 2003 turned out to be a turning point in the region’s progress. Propelled by the local government, the development of PRNC took off after the re-positioning and plan-adjustment. Today, PRNC is taking on a brand new look, with high-rise commercial buildings in great numbers and more in the pipeline.

However, government promotion and developer recognition only serve as a boost to an existing phenomenon. The Central Business District (CBD) is in essence the outcome of the market economy and represents the sum of all relevant business activities, so its emergence and maturation is also subject to the principle of economic development. Stepping into a stage of fast growth, PRNC is now confronted with a supply summit of prime office space. Whether there will be enough demand to absorb the supply is the biggest pending question in the market. Meanwhile, the transport infrastructure and retail supporting facilities were not fully in place, which led to an unsatisfactory business atmosphere in the zone. How to face the competition from Tianhe Sports Center Business District (Tianhebei Business Area)-a relatively mature business hub, and how to handle the relationship between the two, become factors determining if PRNC can take the role of Guangzhou’s new CBD in the 21st century. This paper gleans data from the past, present and future of PRNC in an attempt to find the right answers.



GUANGZHOU CALLS FOR A NEW CBD

As the third largest city in China, and a world-famous commercial city with a long history, Guangzhou is one of the most important business hubs in the country. In the early 1990s, Guangzhou, was among the first cities to reform and open to the outside world, thereby attracting a great number of foreign investors. The tremendous demand for business space gave rise to the local office market. At that time, business activities in Yuexiu District where the government departments densely concentrated were most robust. Early prime offices were all distributed along East Huanshi Road, Dongfeng Road and Zhongshan Road in Yuexiu District. Till early this century, with the development priority of Guangzhou shifting to Tianhe District, a new business district gradually formed around Tianhe Sports Center.

In line with the sustainable and rapid growth of Guangzhou's economy, the overall urban economic strength keeps increasing. More and more foreign-funded enterprises accelerated their arrival and expansion in Guangzhou, and local enterprises are growing fast. Demand for local office buildings is not only increasing in number but also in quality. Although the absolute stock of office buildings in Guangzhou is not small, only a handful of the existing buildings could be regarded as real prime office properties, lagging far behind of other first-tier cities in China like Beijing and Shanghai. Moreover, as the business center shifts eastward in accordance with city development, office buildings previously built were widely scattered and the city lacks a well-planned centralized business district in a real sense. The rapidly evolving economy and increasingly active business activities make it urgent for Guangzhou's government to build a coordinated, well-planned, designed and facilitated central business district. In addition to offering more prime office space, the new CBD reduces the city's "radius" and cuts the cost of business activities through pooling urban resources, capital and information, and ultimately enhances the efficiency of economic activities of enterprises and overall socio-economic benefits.

Figure 1: Guangzhou Economic Statistics

Economic Indicators	2005	2006	2007	2008	2009*
GDP (RMB billion)	515.0	607.0	705.0	822.0	638.6
GDP Growth Rate (%)	12.9	14.7	14.9	12.3	10.5
Total Retail Sales (RMB billion)	190.0	218.0	260.0	314.0	264.6
FDI (US\$ billion)	2.7	2.9	3.3	3.8	3.2
Disposable Income per capita (RMB)	18,287	19,851	22,469	25,317	21,018

Source: Guangzhou Statistics Bureau
*: Data for Q1-Q3 2009

As early as 1993, Guangzhou Municipal Government launched a preliminary scheme to build a new central business district in PRNC¹. However, the following 10 years witnessed a slow progress, with only a few residential projects completed. In 2003, the *Review on Pearl River New City Development Plan* came out to review and fine-tune the previous planning launched in 1993 and further ascertain the region's position and destination as the New CBD for Guangzhou in the 21st century. PRNC occupies a strategic location which is the connecting point of Tianhe, Yuexiu and Haizhu districts, neighboring the most prosperous business area—Tianhebei Business Area to the north. Based on the strong business atmosphere currently enjoyed in Tianhebei Business Area, the two areas (PRNC and Tianhebei) are actually forming a new city axis which connects the traditional business district—Yuexiu in the west with the to-be-developed east area, and links up the south zones across the river as well. The slow development progress in the previous ten years has left PRNC an enviable treasure which is not easily found downtown - extensive and integral land plots available for the re-planning and construction of the new urban business district. These advantages make PRNC an ideal place to build the 21st century new CBD for Guangzhou.

¹ <Guangzhou New Town Center—Pearl River New City Development Plan>1993, Guangzhou Municipal Government.

STATUS OF PEARL RIVER NEW CITY

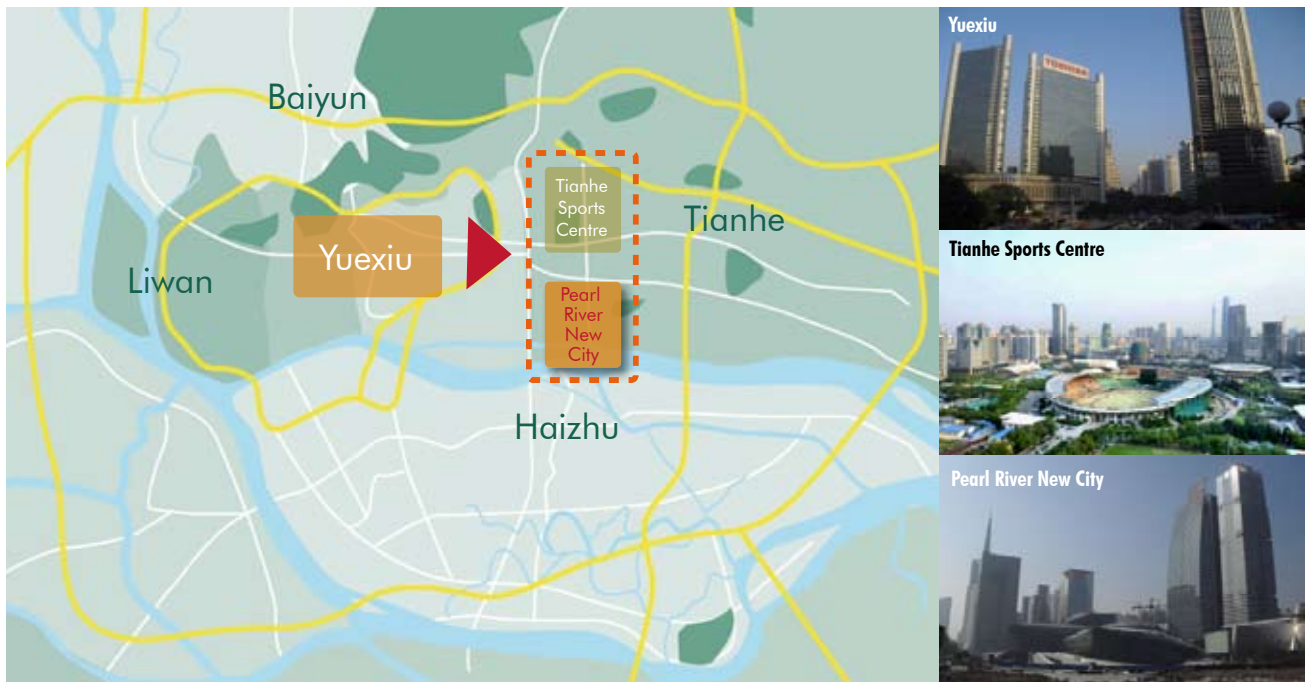
The government has been playing a significant role in the planning and development of PRNC. A majority of the offices built in the early period of the PRNC are being occupied by government bodies for self-use, such as The People’s Procuratorate of Guangzhou, The People’s Procuratorate of Guangdong Province, Guangzhou Customs, Guangdong Provincial Office SAT and Guangzhou Municipal Local Taxation Bureau, etc. Since 2003, PRNC has been infused with new vigor under the promotion of the government. The planning and construction of public infrastructure and supporting facilities have been greatly expedited.

Metro Line 3 is open for traffic, while Line 5 and the Underground Transit System being constructed are expected to put into operation in 2009 and 2010. The second Children’s Palace, one of five major public service and cultural facilities along the new city axis was completed in 2005, while the construction of another four, Guangzhou Opera House, Guangdong Museum, Guangzhou Library and the Television Tower are underway. They are scheduled to debut

successively prior to the Asian Games. Additionally, stimulus packages have been issued by the Guangzhou Municipal government in recent years, to encourage domestic and foreign financial institutions and headquarters to land in the financial business district in PRNC².

PRNC is divided into east and west sections, with the east section mainly designated for residential development and the west as a commercial zone. The core area of the west section is the proposed new city axis, which will cluster top-end office buildings, hotels, shopping malls as well as major public service and cultural facilities. Up till now, residential development represents the most mature sector in PRNC, with a large number of high-end residential projects handed over, under construction, or launched for presale. The area has won its position as one of top-end communities in Guangzhou. In comparison, the development of commercial properties is still in an early stage.

Figure 2: Major Office Hubs in Guangzhou



The development of prime offices is key for establishing a central business district. The history of office market development in PRNC is not long. It started from the fringe of the area, and moved towards the axis as the property quality improved along the way. The earliest office products were mainly strata-titled Grade B buildings distributed along Guangzhou Avenue and Huangpu Avenue, underpinned by the mature supporting facilities and business atmosphere in Wuyang New Town and Tianhebei Business Area. Later on, a batch of single-owned quality Grade- A properties emerged in the edges of the core zone. Till recent years, the development of prime office market in PRNC sped up, signaled by the completion of a couple of landmark premium Grade A buildings in the axis zone, for example, the International Finance Place and R&F Center, bringing the overall quality of prime offices in the area to a new high.

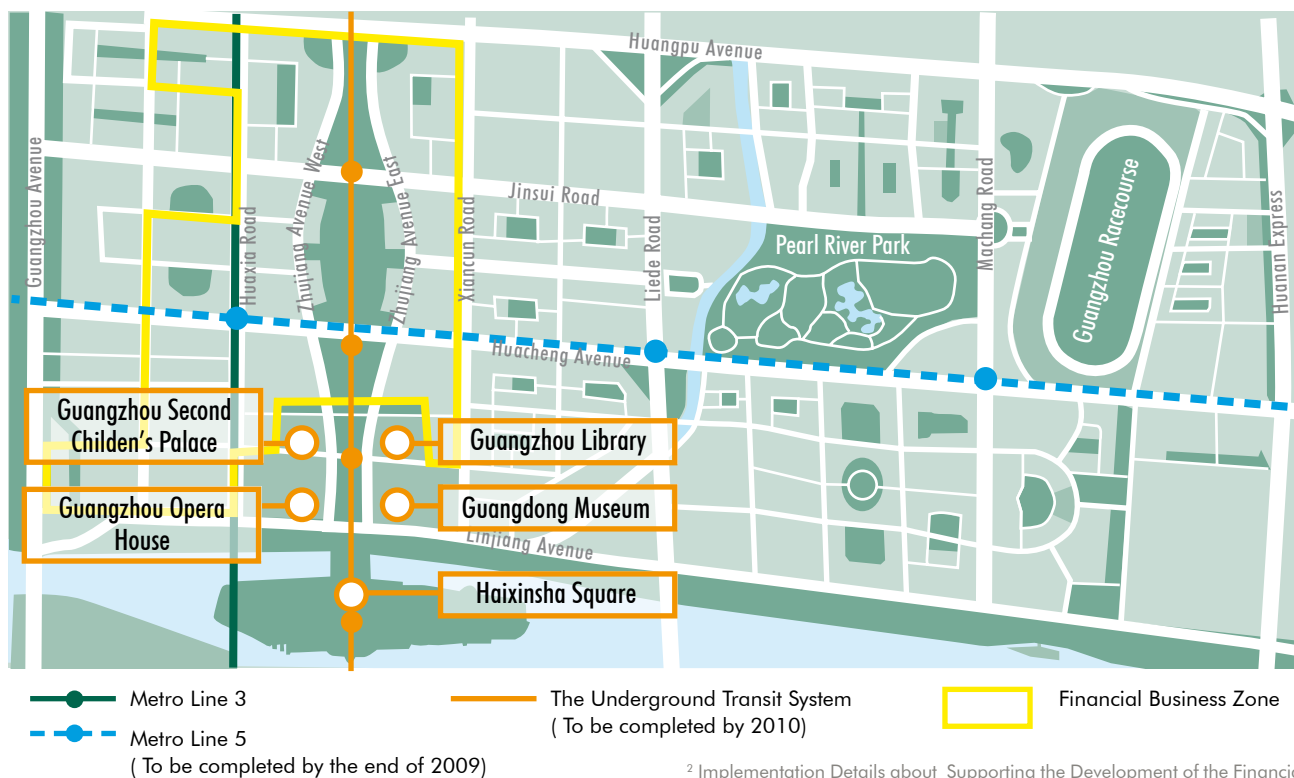
Data from CBRE show that up to September 2009, prime office stock in PRNC amounted to about 1.04 million sm, accounting for 22.4% of the total volume in Guangzhou. The proportion of Grade A to Grade B provisions was 51% to 49%. In the third quarter of 2009, average rents for prime office space in PRNC stood at RMB 112 psm per month, while rental of

Grade A space averaged RMB 131 psm per month, the highest across the submarkets in Guangzhou. Tenants from banking and finance industry, as well as other modern services sectors dominate the prime office space in PRNC, and the trend is rising, especially in Grade A buildings.

The Guangzhou prime office market was hit by the financial crisis in 2008, with many enterprises postponing or cancelling their original expansion or relocation plans. PRNC, an emerging market where newly-built office properties are dominant, was particularly exposed to the hit. Net take-up achieved in the second half of 2008 contracted to 128,000 sm, a significant drop of 80% y-o-y. In the meantime, landlords started to offer rental discounts, sometimes more than 10%.

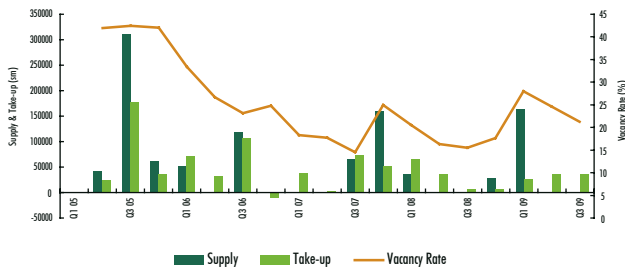
Entering 2009, the depression of the peripheral economy has been easing off, and China even gradually showed signs of resuming its fast growth. Consequently, the prime office market in Guangzhou saw a recovery in demand and stabilization in rental, and office leasing and sales showed some resilience in PRNC.

Figure 3: Map of Pearl River New City



² Implementation Details about Supporting the Development of the Financial Industry in Guangzhou (Hui Jin Rong. No. 6, 2006), Temporary Measures adopted by Tianhe District to Promote the Development of Headquarters. (Hui Tian Fu No. 9 2008), etc.

Figure 4: Prime Office Supply, Take-up and Vacancy in PRNC



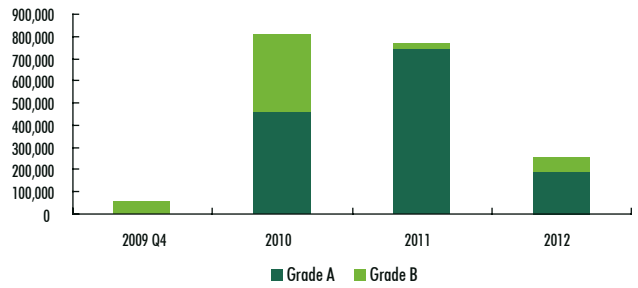
PEARL RIVER NEW CITY, GEARING UP FOR THE LAUNCH

A SUPPLY BOOM OF PRIME OFFICES AHEAD

PRNC has entered a rapid growth period, with a construction and completion boom of prime office properties ahead. It is estimated that in the next two years (till the end of 2011), there will be as much as 1.736 million sm of prime office completion in this area, making up around 79.4% of Guangzhou’s new supply over the same period, 1.67 times the present stock in PRNC. With all these schemes completed, the prime office scale in PRNC will surpass that of the Tianhebei Business Area, becoming the submarket offering the largest stock in Guangzhou.

A majority of these office buildings to be supplied will boast high market position and design standards. About 80% will be Grade A products and some even future landmark buildings. Take the Guangzhou International Finance Center (IFC) as an example, the complex development will have a total floor area of more than 450,000 sm, consisting of top-end office and retail space, as well as a hotel. Upon completion, it will exceed CITIC Plaza with a height of 432 meters, taking over the role of the highest building in Guangzhou. As this wave of high standard office properties flows into the market, led by the Guangzhou International Finance Center, it will undoubtedly boost PRNC to a top-grade business area and further enhance its position as the new CBD in Guangzhou.

Figure 5: Prime Office Supply in PRNC



However, the massive supply coming on stream within a short time will trigger worries over the balance between demand and supply on the market. According to our experience, it’s not unusual to see delays in completion of mega schemes due to many unpredictable factors encountered over the long construction periods. In addition, developers are expected to proactively adjust marketing strategies according to the prevailing market situation, including the timing for launch and the pace of leasing or sales, in order to avoid the sudden breakout of massive supply.

In fact, an estimation of supply was made at the end of last year based on our knowledge about the construction status of all projects and the schedules of developers, which assumed that in 2009, there would be as many as 12 prime office projects completed, providing 730,000 sm of area in total. Unfortunately, we’ve seen only 3 schemes finished during the first three quarters, bringing 210,000 sm to the market so far. Even adding the 110,000 sm contributed by two other projects expected to be completed in the fourth quarter, the total completed volume for the entire year will be less than half of the number estimated previously. Therefore, we assume that in the following two years, the actually realized prime office supply will be much less than the currently predicated number. However, periodical supply peaks of small scale will appear from time to time over the next three to five years, and possibly beyond.

Despite all this, demand for prime office is still the key. If the overall demand turns out to be insufficient, accumulated supply may still lead to destructive competition or overall vacancy lingering at high level. Furthermore, land premiums, design and construction costs of these trophy office buildings are relatively high, which will result in high price or rental of the final products. Whether they will be acceptable to the Guangzhou market still needs to be further discussed.

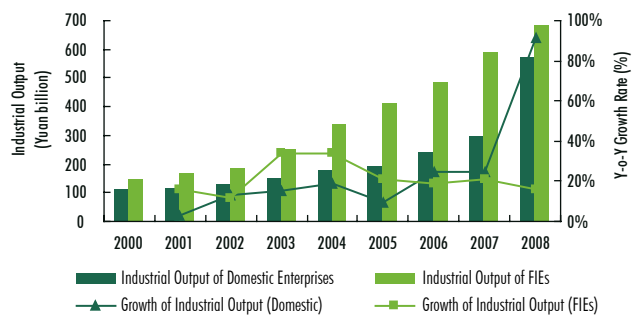
WILL PRIME OFFICE DEMAND CATCH UP WITH THE PACE OF SUPPLY GROWTH?

The economic recession triggered by the financial turmoil has curbed the demand growth from MNCs for Guangzhou prime office space. Despite the domestic economy showing signs of recovery since early this year, MNCs' demands for prime office space in Guangzhou is unlikely to pick up rapid growth in a short run, as foreign-funded enterprises in general were heavily impacted by the financial crisis, and their tightened office budgets may not be unleashed within the year. Nevertheless, it is worth noting that these enterprises, while keeping prudent in business on one hand, remain upbeat about the Chinese economic outlook on the other. In particular, the Chinese economy succeeded in staying on the path to growth and even managed to regain momentum when the global crisis severely impinged on the economy worldwide. In the long run, China has been regarded as a market with the largest potential and is possible to become one of the most powerful economic growth engines in the world. Against such a backdrop, the long-term expansion plans of the MNCs in China are actually underway or in the pipeline. As CBRE has observed, a number of companies have showed initial interests to relocate or expand office spaces, only to wait for the right timing and more suitable properties. Over the next two years, the overall quality of the prime office properties is expected to improve significantly compared with the existing provision, which will offer more and richer options for MNCs and trigger a new round of relocations and expansions.

Meanwhile, domestic companies are also witnessing surging demand for prime office space. The economic boom in China over recent years has been serving as a hothouse for the ripening of these domestic corporations. As a result, large-scaled SOEs and private companies, in particular those from the finance, energy, telecom and other monopolized sectors, entered a blooming stage:

- According to the *FT Global 500 2009* released by Financial Times on 29th May, three Chinese companies are listed among the Top 5, including PetroChina which ranked No.2³.
- As of end 2008, the total assets of banking institutions in China reached RMB 62.4 tri, doubling that of 2004.⁴
- From the local figures in Guangzhou (see Figure 6), it can be seen that, while foreign-funded companies made greater contributions to the Guangzhou economic growth during the early 1980s when the reform and opening up policy was just launched, their domestic peers have played an increasingly active role in the local economic context lately⁵.

Figure 6: Increasing Contributions of the Domestic Sectors to the Local Economy



³Financial Times

⁴Annual Report 2008 of China Banking Regulatory Commission

⁵Consolidated and assessed according to the data from Guangzhou Municipal Statistics Bureau. Hong Kong, Macau and Taiwan funded companies as well as Sino-foreign joint ventures are regarded as foreign-funded sector.

With the rise of domestic companies, demand for higher quality office space stimulated by the increasing awareness of corporate images and brands, and the growing corporate strength enable them to afford workplaces on par with the MNCs. As a result, the effective demand for prime office space from domestic occupiers has increased dramatically over recent years, becoming a new force in a market traditionally dominated by foreign-funded enterprises.

We found that, consistent with local economic dynamics shown by Figure 6, demand for Guangzhou prime office space before 2008 was mainly driven by the expansion of MNCs, which resulted in stable yet limited growth in overall market demand. Since 2008, however, new setup leasing demands and the office acquisition demands with the purpose of self-occupation, from domestic companies, have risen with noticeably accelerating paces, represented by the domestic financial institutions such as banks, insurance companies and security firms, as well as the locally-based private entities setting up headquarters and branches in Guangzhou. This strong growth of the domestic sector became more apparent amid the declining needs of their foreign counterparts suffering from the impact of financial crisis.

According to CBRE statistics on the major leasing transactions of prime offices in Guangzhou over the past 12 months, office space absorbed by domestic tenants exceeded that of their foreign counterparts, accounting for 55.8% of total take-up. Leasing activities to set up new branches in Guangzhou dominated the space secured by domestic tenants, followed by private companies upgrading from lower-grade office buildings and expanding into prime office premises. These two demand drivers combine to be the major net take-up forces in the market, representing 43% and 33%, respectively, of the total spaces snapped up by domestic tenants in Guangzhou.

Unlike the MNCs' practice of securing office space in the leasing market only, the domestic companies satisfied their workplace demands through much diversified modes. They acquire development sites to build self-occupied buildings or purchase properties

on en-bloc or large-area bases, in addition to taking office space via leases. Among those prime office developments in PRNC, there are cases of large-scaled SOEs constructing office towers mainly for self-use, such as Guangdong GoTone Building (China Mobile Guangdong Branch), Pearl River Tower (Guangdong Tobacco Corporation), Leatop Plaza (Guangdong Communication Group). The developments, are supposed to not only meet the landlords' own office demand and help to build up a better corporate image, but actually generate rental income as well as capital value appreciation. Upon completion, a majority of the office space in these buildings will be occupied by the developer-landlords, and probably the subsidiaries or affiliated companies of these giants as well, with less than half of the total space to flow into the leasing sector.

Since this year, the PRNC office market saw several large-area purchases committed by domestic companies which have long been seeking prime office space for self-occupation in the area. Among them, the domestic financial institutions represent the most active sector. Following the China Development Bank snapping up ten office floors in R&F Winner Plaza for approximately RMB 500 million in May, Shanghai Pudong Development Bank and Guangdong Development Bank Guangzhou Branch spent RMB 420 million and RMB 300 million, respectively, to secure office space in R&F Yingyue International Building and Nanya Zhonghe Plaza on large-area basis. Total consideration of these deals added up to over RMB 1.2 billion.

In addition, there are still quite a few enterprises, in particular those from the domestic banking and financial sector, showing interest in newly-built or to-be-completed office properties in PRNC, mainly for self-use. It can be expected that as the SOEs and private companies keep prospering, their demand for prime offices will continue to see sustainable and fast growth over the long run.

Figure 7: Domestic Giants Settled Down or to Set Foot in PRNC

ENTERPRISE NAME	INDUSTRY	ENTRY YEAR	ENTRY MODE	PROPERTY	OFFICE AREA (sm)	ORIGINAL OFFICE SOLUTION	ORIGINAL LOCATE
Agriculture Bank of China, Guangdong Branch	Financial	2004	purchase	Guangdong Agriculture Bank Building (South Tower of Zhujiang Investment Buildin)	42, 500	self-built	Yuexiu
Zhujiang Investment	Property	2004	self-built	Zhujiang Investment Building	40, 000	self-built	Yuexiu
Guangzhou Rural Credit Union	Financial	2005	self-built	C.C. Tower	30, 000	n.a.	n.a.
Guangdong Rural Credit Union	Financial	2006	purchase	Guangdong Rural Credit Union Building (formerly known as R&F Science Centre)	8, 000	n.a.	n.a.
Guangzhou Development Industry (Holdings) Co., Ltd.	Energy,Infrastructure	2005	self-built	Development Centre	8, 300	lease	Yuexiu
China Unicom Guangdong Branch	Telecom	2006	self-built	Unicom New Space Building	60, 000	lease	Tianhe
China Construction Bank	Financial	2007	lease	International Finance Place	2, 000	self-built	Expansion
Bank of China	Financial	2007	lease	International Finance Place	2, 000	self-built	Expansion
KWG Property	Property	2007	self-built	International Finance Place	6, 600	self-built	Yuexiu
R&F Properties	Property	2007	self-built	R&F Centre	21, 500	self-built	Yuexiu
China Merchants Bank	Financial	2008	lease	R&F Centre	3, 250	lease	Tianhe
China Development Bank Guangdong Branch	Financial	2009	purchase	R&F Profit Plaza	22, 000	lease	Tianhe
Shanghai Pudong Development Bank Guangzhou Branch	Financial	2009	purchase	Infinitus Centre (formerly known as R&F Yingyue International)	14, 000	lease	Tianhe
Guangdong Development Bank Guangzhou Branch	Financial	2009	purchase	Nanya Zhonghe Plaza	12, 000	self-built	Yuexiu
Guangzhou City Construction & Development Property Holdings	Property	2010	self-built	Guangzhou International Finance Centre (under construction)	15, 000	self-built	Tianhe
China Mobile Guangdong Branch	Telecom	2010	self-built	Guangdong GoTone Building (under construction)	90, 000*	self-built	Yuexiu
Guangdong Communication Group	Transportation	2011	self-built	Leatop Plaza(under construction)	80, 000*	self-built	Yuexiu
Guangdong Tobacco Corporation	Tobacco	2011	self-built	Pearl River Tower(under construction)	60, 000*	self-built	Tianhe

*Estimated office area to be owner-occupied

In fact, the development of PRNC is closely tied with the economic context of the entire Pearl River Delta (PRD) region. As the central city in South China occupying a strategic location in the heart of PRD, Guangzhou has been playing a critical role in the region and leading other cities along the development path. PRNC therefore, as the CBD of Guangzhou, represents the first option for the PRD- and South China-based enterprises to set up headquarters, and domestic companies having presence nationwide and MNCs to set up regional headquarters. The three domestic banks committed to large office transactions mentioned above all expresses their intentions to relocate or set up headquarters and regional headquarters in the purchased properties in PRNC.

Moreover, with the construction progress of the so called 'Three Rings and Eight Radiations'⁶ inter-city rail transit system centering around Guangzhou, all the cities above county level in PRD will be connected

by the railway, and a 'one-hour living circle' around Guangzhou will be established in the region by then. At that time, by leveraging the advanced transportation network, the manufactures in the PRD can decouple the functions including marketing, administration, design, R&D etc from the production sites, placing the former in Guangzhou which serves as a frontier providing sophisticated services. This trend is believed to trigger greater demand for prime offices in Guangzhou, in particular its CBD area.

According to the Outline of the Plan for the Reform and Development of Pearl River Delta (2008-2020) recently approved by the State Council for implementation, the position of Guangzhou will be lifted to a new high as a national central city and a comprehensive portal city. This will definitely strengthen the city's position as the regional center in South China, and expand its jurisdiction to other regions in China.

Figure 8: Inter-city Rail Transit System in Pearl River Delta



⁶The Framework of Three Rings and Eight Radiations-First Ring: Guangzhou-Foshan Ring; Second Ring: four inter-city rail lines of the Pearl River estuary-rim comprising Guangzhou-Dongguan-Shenzhen, Zhongshan-Nansha-Humen, Guangzhou-Foshan-Jiangmen-Zhuhai, Foshan-Dongguan; Third Ring: four inter-city rail lines of the larger Pearl River estuary-rim comprising Guangzhou-Dongguan-Shenzhen, Shenzhen-Zhuhai, Guangzhou-Foshan-Jiangmen-Zhuhai, Foshan-Dongguan lines. The eight radiating lines are the eight inter-city rail lines of Guangzhou-Qingyuan, Guangzhou-Huizhou, Dongguan-Huizhou, Shenzhen-Huizhou, Zhuhai-Doushan, Jiangmen-Enping, Zhaoqing-Nansha, Foshan-Zhaoqing lines.

OTHER CHALLENGES

Although the enabling conditions for CBD have been met, PRNC still faces many other challenges and has to withstand the test of time and market before it can really take on the role of the Guangzhou CBD in the 21st century:

INFRASTRUCTURE AND SUPPORTING FACILITIES NEED TO BE IMPROVED

A CBD is an area with the highest density of construction and traffic flow in the city. The frequent economic and commercial activities in this area should be supported by complete and comprehensive transport and business facilities. At the moment, however, only one subway line, Metro Line 3, is accessible in PRNC, whereas other infrastructure developments, including a number of underground tunnels, Metro Line 5, and the south-north Underground Transit System to run along the city new axis, are still underway and not yet available for service. Additionally, construction sites of new projects spread all over the PRNC, leading to relatively poor accessibility and environment in the area.

In the meantime, the under-developed supporting business amenities also make PRNC fail to meet the growing demand for accommodation, shopping and F&B services originating from the high-end business activities, leaving the overall business atmosphere rather immature. By far, only two five-star hotels, i.e. Ritz-Carlton Guangzhou and Grand Hyatt Guangzhou, have just opened for business in the area. And there are merely mid-to-low end street shops and retail podiums mainly scattered around the surrounding residential communities, with no large-scaled, comprehensive shopping malls in the neighborhood.

Fortunately, Guangzhou is hosting the Asia Games in 2010. With the efforts of the local government, development of the public infrastructure and supporting facilities, as well as some landmark construction and key commercial projects in PRNC, are being sped up,

and all of these have been scheduled to be completed prior to the launch of the Games. By that time, transportation efficiency will be greatly enhanced in PRNC, facilitated with a comprehensive urban road network, two metro lines running south-north and east-west respectively, together with an underground rail system which links PRNC with the Tianhebei Business Area and Guangzhou East Railway Station while running along the new Guangzhou city axis and cutting through the PRNC core zone. At the same time, the supporting business facilities will be considerably improved with the completion of those significant developments including the landmark buildings, high-end hotels and retail projects. The Four Seasons Hotel and the local traditional high-end department

Figure 9: The Ritz Carlton Guangzhou



store—Friendship Department Store have both pre-committed to the Guangzhou International Finance Center (GZ IFC), and will open for business in 2010 upon the completion of GZ IFC; Meanwhile, at least three large-scaled, comprehensive shopping centers, i.e. Seasons Mall, Happy Valley, and PRNC Zhongyang Shangye Guangchang, will open in succession by then, filling the absence of shopping malls in PRNC. In addition, the hosting of the 2010 Asian Games in Guangzhou will contribute to promoting the city’s international prestige and attractiveness to foreign investors, and in turn help to accelerate the maturing process of PRNC.

COMPETITION AND SYNERGY WITH TIANHEBEI BUSINESS AREA

The relationship of PRNC with Tianhebei Business Area which serves as the current CBD in Guangzhou is another confusing issue in the growth of the new city CBD: Are they competitors or partners? Compared with PRNC, Tianhebei Business Area is an established area, well-supported with business amenities. Furthermore, the area will have quality office supply like Taikoo Hui and The OneLink International Plaza coming on stream over the next two years. As thus, the areas will be inevitably compete with PRNC for quality tenants in

the short term. Nevertheless, the two will not stay in a competitive relationship for long. As PRNC is actually the result of the evolution and expansion of the current Tianhebei Business Area, the two areas will become complementary partners and eventually integrated into one region in a long run. As a matter of fact, over many years of development, the Tianhebei Business Area is suffering from a strain of land resources for further development, and under heavy traffic pressure. The large-scale development of PRNC coincides with the dire need of expansion of Tianhebei Business Area for further growth. As per the economic development plans⁷ recently approved by the Guangzhou Municipal Government for implementation, by 2020, a greater CBD area of the new century will be built around “PRNC-Yuancun-Pazhou” and “Tianhebei-Huanshi East Road-Dongfeng Road”. The greater CBD will focus on attracting South China regional headquarters of MNCs as well as headquarters of domestic enterprises, which are believed to generate extra economic returns, and strive for becoming a key economic zone and modernized CBD area for headquarters clustering in the Asia Pacific Region. It can be seen that the synergistic effects between the Tianhebei Business Area and PRNC outweigh the competitive aspects of the districts and, the two are virtually mutual promoting and collaboratively developing as a whole .

⁷The Implementation Plan of Developing Modern Service Center in Guangzhou, the Guideline of Modern Service Function Zones in Guangzhou, and the Plan of Developing Headquarter-based Economy in Guangzhou

CONCLUSION

With an advantageous strategic location and great support from the government in terms of planning and policies, PRNC is undoubtedly an ideal option for building the future CBD in Guangzhou. After merely 6 years of efforts since 2003, the prime office market in PRNC has grown into the second largest business area, after Tianhebei Business Area in terms of prime office stock, accommodating a great number of MNC tenants engaged in the modern services sector as well as increasingly large numbers of domestic giants. The rental level in PRNC is presently highest in the Guangzhou market. The upcoming prime office supply in the next two years is expected to help PRNC surpass and replace Tianhebei, becoming the largest prime office submarket in Guangzhou. Even more significantly, the massive premium supply is anticipated to facilitate an uplift of the overall quality of office provision in the area.

As we have discussed above, the development of CBDs in modern cities is a natural outcome of economic progress, and grounded on the office demands aroused at the same time. Whether the massive introduction of prime office supply is diverging from the local economic fundamentals and will result in serious supply surplus remains the biggest issue for the market. Particularly, foreign corporations' demands which provided the strongest support to the local prime office sector previously witnessed slackness amid the financial storm sweeping across the world. This has further aggravated concerns in the industry. Even so, we are still upbeat about the long term development of Guangzhou New Century CBD, in light of the projected growth of the demand forces listed as follows:

- The demand from multinational corporations for prime office space may not be able to pick up fast growth within a short time. Yet, in the long run, China, with huge development potential will sooner or later become one of the most essential destinations for them.

- The demand from large-scale SOEs and private domestic enterprises which are enjoying rapid growth for prime office continues to soar. This is emerging as a strong new demand force in the market.
- The Pearl River Delta Economic Zone -- one of the most vigorous areas in China-- will serve as a strong backup force for the development of the prime office market in PRNC. With the continuous improvement of the regional transport network, we'll see a growing tendency of prime offices in PRNC serving the whole Pearl River Delta area.

We have to admit that currently, PRNC is not qualified as a CBD in terms of transportation, supporting facilities and business atmosphere, and within a short period, it will have to compete with the mature Tianhebei Business Area for quality office tenants. But we are convinced that the 2010 Guangzhou Asian Games will serve as a good opportunity for quickening the rate of new CBD development. As the evolution of metropolis going forward, we will see complementation and integration, rather than competition between PRNC and Tianhebei Business Area in the future.

Construction of a business center in any city takes time and shall be conducted step by step. Consider Shanghai, which is the most internationalized city in China. It took 19 years for the Lujiazui Financial Business District to develop a prime office market in its early stages, in which, the average rental is still below half of that in Central Hong Kong. We can not expect PRNC to be fully developed into a CBD as prosperous as well-known business centers in advanced countries and regions overnight. While with the joint efforts of government, developers and enterprises, and underpinned by the speedy economic growth of South China and the whole nation, the prospect of PRNC is promising. It is gearing up to be launched as the new CBD for Guangzhou in the 21st Century.

APPENDIX: MAJOR PRIME OFFICE DEVELOPMENTS IN PRNC

GUANGZHOU INTERNATIONAL FINANCE CENTRE			POLY INTERNATIONAL CENTRE		
	ECY	2010		ECY	2010
	Office Area	167,000 sm		Office Area	60,000 sm
	Developer	GZ City Construction & Development Property Holdings		Developer	Poly Real Estate
R&F YINGXIN PLAZA			G.T. LAND PLAZA PHASE 2		
	ECY	2010		ECY	2010
	Office Area	81,500 sm		Office Area	60,000 sm
	Developer	R&F Properties		Developer	GT Landmark Group
LEATOP PLAZA			PEARL RIVER TOWER		
	ECY	2011		ECY	2011
	Office Area	124,000 sm		Office Area	176,000 sm
	Developer	Guangdong Communication Group		Developer	Guangdong Tobacco Corporation
PREMIER INTERNATIONAL PLAZA			PINNACLE PLAZA		
	ECY	2011		ECY	2011
	Office Area	100,000 sm		Office Area	120,000 sm
	Developer	Mcwatts Investment Holding Ltd.		Developer	GD Rising Assets Management Co., Ltd.
POLY PLACE			R&F YINGKAI PLAZA		
	ECY	2011		ECY	2012
	Office Area	112,000 sm		Office Area	41,400 sm
	Developer	Poly Real Estate		Developer	R&F Properties

For more information, please contact

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