

Guangzhou Grade-A Office Market Report



Q2 2023

This report focuses on the Grade-A office market in Guangzhou, including information about supply and demand, rents, vacancy rates and the office investment market

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Overview and Outlook

Leasing demand fluctuated from high to low, and small leasing transactions dominated the market

In Q2 2023, leasing demand in the Guangzhou Grade A office market continued the increasing trend but fluctuated from high to low. Small leasing transactions dominated the market, so it remained a strong “tenant market”.

Rents continued their downward trend to RMB147.8 /sqm/month, recording a quarterly decline for the eighth consecutive quarter, declining

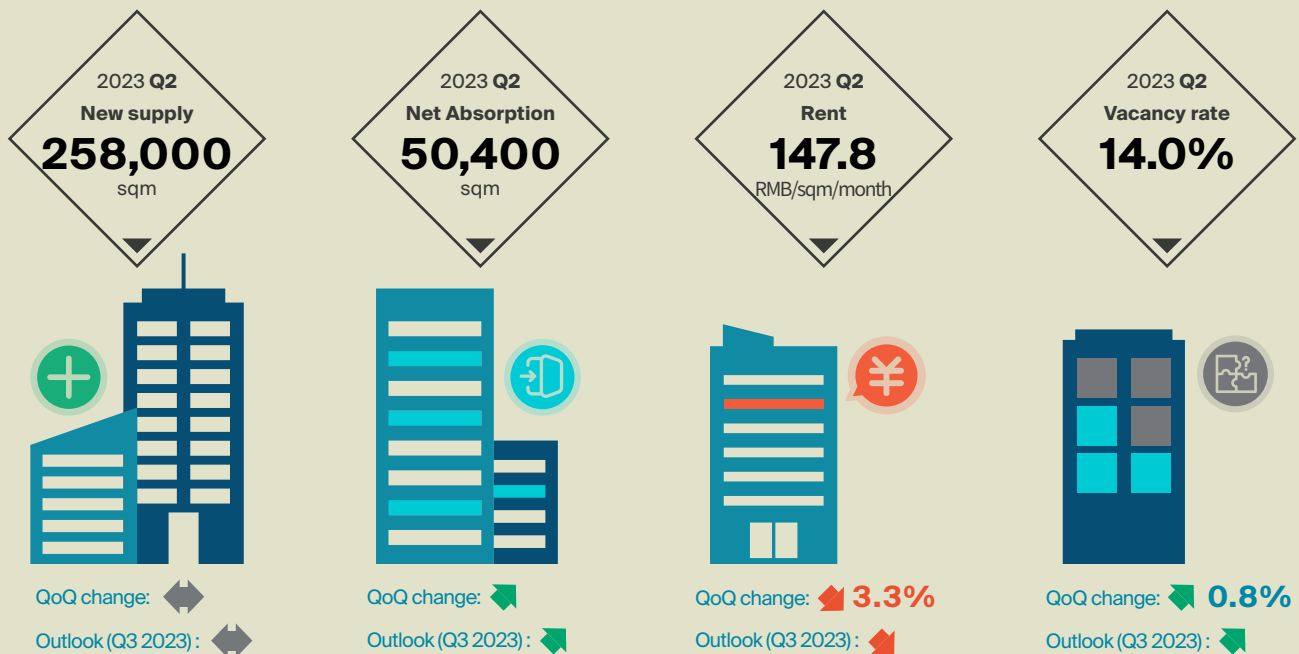
13.6% over the past eight quarters. Owing to the continuation of the active “price for volume” strategy, the vacancy rate grew only slightly by QoQ 0.8%.

In the investment market, two major transactions were recorded for a total amount of RMB5.8 billion. Fosun International Center North Tower, in a transaction that took nearly one year, was finally purchased by Guangzhou Knowledge City Group and Kingold

Group.

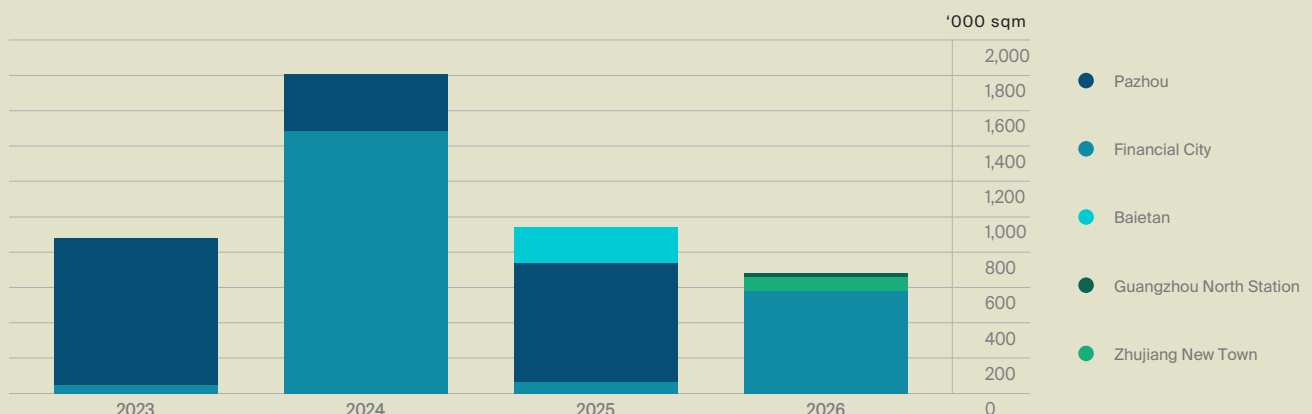
Since pressure from oversupply increased in Q2, the vacancy rate and rents should continue the current trend in Q3. Enterprises with improving prospects will continue to take advantage of the lease exchange window period, so leasing demand should continue to maintain a mild recovery trend.

Fig 1: Guangzhou Grade-A office market reference index^[1]



Source: Knight Frank Research
[1] Rent refers to average effective rent

Fig 2: Guangzhou office development pipeline, 2023-2026



Source: Knight Frank Research
Note: Projected supply in 2023 includes projects already on the market

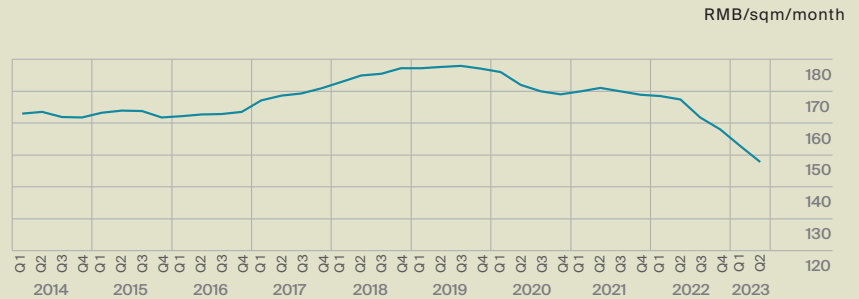
Rental Level

Grade A office rents in Guangzhou continued their downward trend

Grade A office rents in Guangzhou continued their downward trend, indicating that the gloomy outlook is lingering despite the recovery of leasing demand in multiple industries, so landlords reduced rents to an average of only RMB147.8 /sqm/month, for a quarterly decrease of 3.3% and an annual decrease of 11.7%. All four submarkets recorded a decrease in rent.

Rents are expected to stop falling and stabilize only when the macro fundamentals improve significantly and demand picks up sharply.

Fig 3: Guangzhou Grade-A office rental trend



Source: Knight Frank Research

Table 1: Major Guangzhou Grade-A office sub-market indicators, Q2 2023

Submarket	Rent		Rental % changes (QoQ)	Vacancy Rate	Vacancy rate percentage change (QoQ)
	RMB/sqm/mth	RMB/sqm/day			
Zhujiang New Town	162.6	5.3	↓3.2%	13.8%	↑1.8%
Tianhe North	145.9	4.8	↓2.6%	6.5%	↑0.7%
Pazhou	133.6	4.4	↓2.0%	20.4%	↓2.5%
Yuexiu	123.8	4.1	↓2.0%	11.2%	↓1.4%

Source: Knight Frank Research

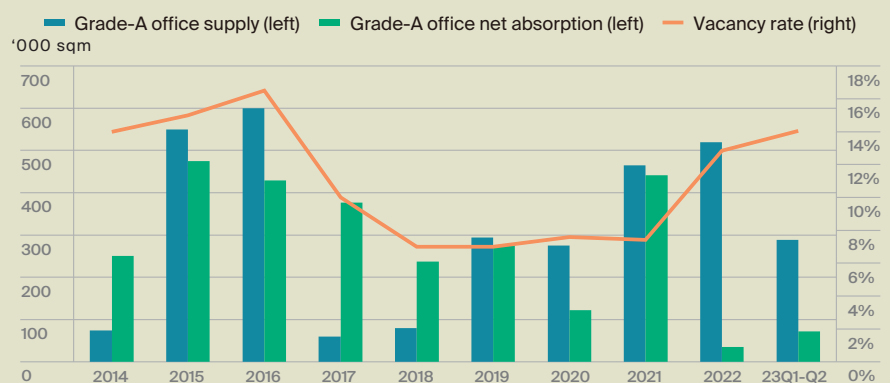
Supply and Demand

Leasing demand remained on a recovery trend

In Q2, three new Grade A offices were launched in Guangzhou, all located in the Pazhou submarket. Leasing demand remained on a recovery trend, but there has been a significant wave from high to low, which indicates that the majority of demand might still come from the delay caused by the Covid disruption at the end of 2022 .

Based on the market situation, most landlords still adopted the “price for volume” strategy. In addition, some of them started to follow the market, introducing personalized preferential measures, such as decoration subsidies. As a result, the vacancy rate in the city

Fig 4: Guangzhou Grade-A office supply, take-up and vacancy rate



Source: Knight Frank Research

Notes: 2023Q1-Q2's Grade A office supply and net absorption are cumulative values
2023Q1-Q2 vacancy rates are for the second quarter.

increased by only 0.8%.

In terms of leasing, small transactions dominated the market, mostly between 200-500 sqm but there were some large transactions. For example, LORÉAL Paris leased 26,800 sqm in JOYY

Center, and Yinghelawyer leased 3,000 sqm in Yuexiu Financial Building.

Annual new supply is expected to reach 840,000 sqm in 2023, double the average annual new supply of the past 3 years. The annual average

net absorption over the past 10 years was about 300,000 sqm, indicating that the city's vacancy rate will most likely continue to rise. The continued high vacancy rate could bring more bargaining space and concessions for tenants.

Table 2: Major Guangzhou Grade-A office leasing transactions, Q2 2023

District	Building	Tenant	Area (sqm)	Transaction Type
Zhujiang New Town	Yuexiu Financial Tower	Yinghelawyer	3,000	New Lease
Zhujiang New Town	IFC	China Asset Management	2,000	Expansion
Pazhou	JOYY Center	LORÉAL	26,800	New Lease
Yuexiu	Lifeng International Center	Focus Media	1,500	New Lease

Source: Knight Frank Research
Note: all transactions are subject to confirmation

Investment Market

► Large transactions will continue to be active

In Q2 2023, there were two major transactions in the Guangzhou office investment market, for a total transaction amount of RMB5.8 billion.

In one transaction, BYHEALTH expressed its intention to purchase Guangbao Yunhui Commercial 57,000 sqm with its own funds for a total price of RMB1.83 billion.

The other transaction involved the

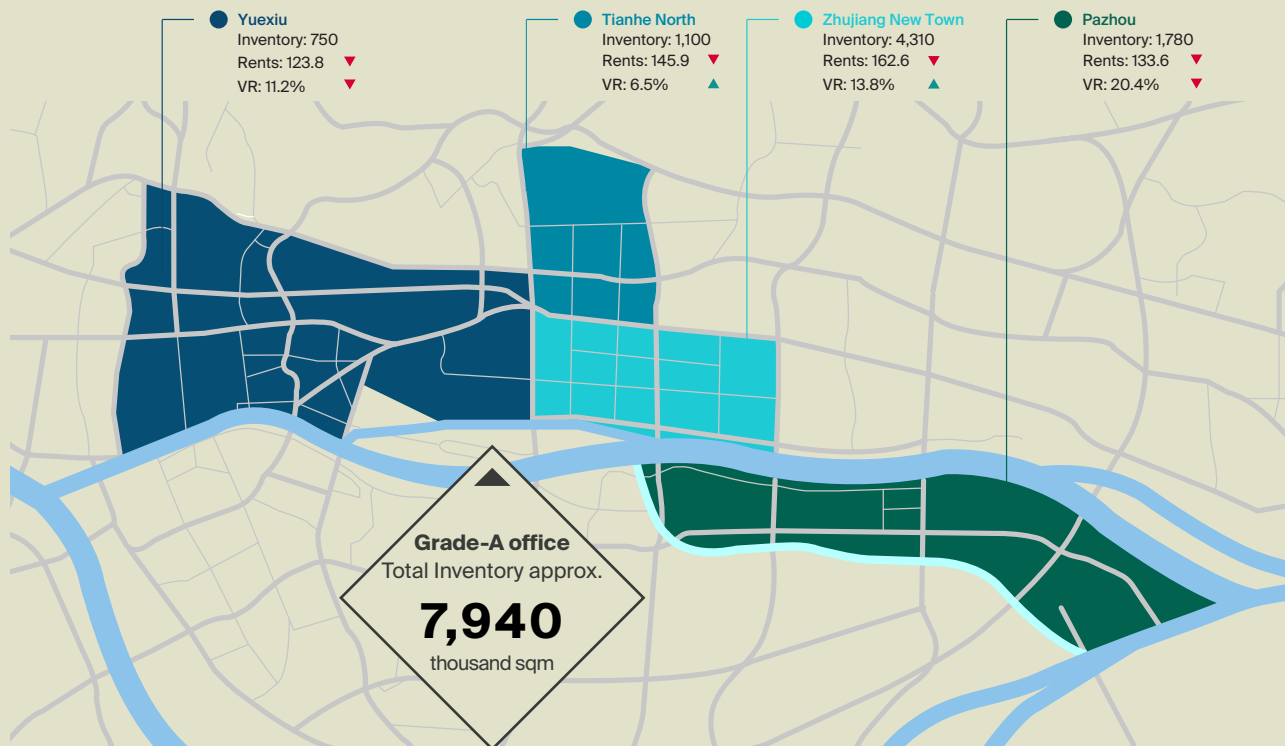
north tower of Fosun International Center (140,000 sqm) in Pazhou, which was finally purchased by state-owned enterprise Guangzhou Knowledge City Group and luxury property developer Kingold Group for RMB4 billion, equivalent to an accommodation value of about RMB29,000/sqm. As early as 2019, the Fosun International Center South Tower plot (now known as Mingfeng Mansion) was purchased by Singapore Fengshu Group. So at

present, all the projects of Fosun Group's southern headquarters have been sold.

Looking ahead to the second half of 2023, state-owned enterprises are expected to continue to serve as the main buyers in the Guangzhou office investment market, and large transactions should continue to be active.

Guangzhou Grade-A office market dashboard Q2 2023

Guangzhou Grade-A office inventory, rents and vacancy rates of major business districts



Source: Knight Frank Research

Note: unit for market inventory – 1,000 sqm; rents using average effective rent at RMB/sqm/month; VR refers to average vacancy rate.

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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