

*Demand continues to fall, provides window of opportunity  
for office upgrade*



# Guangzhou Office Market Report

Q3 2022

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# OVERVIEW AND OUTLOOK

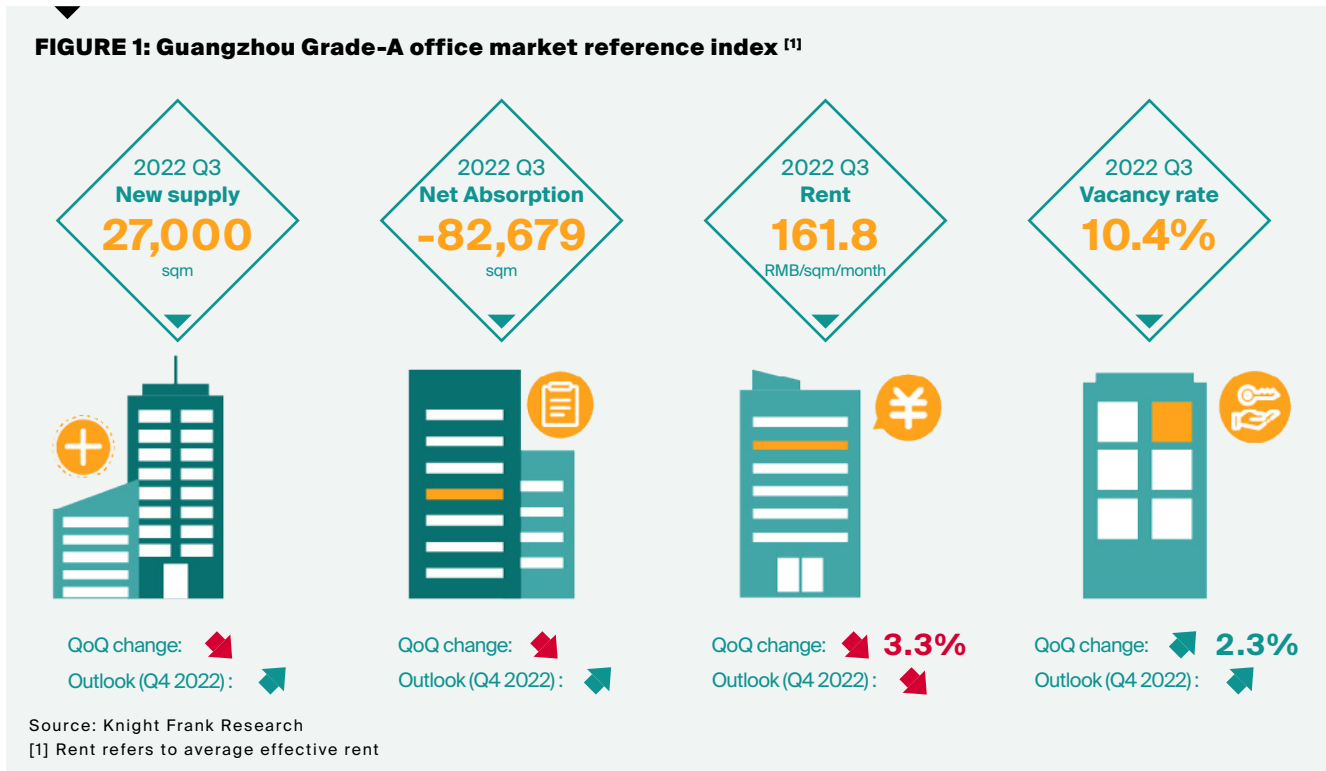
In Q3 2022, the office rental market was quiet as the leasing demand continued to weaken. Rents plunged by 3.3% QoQ to RMB 161.8/sqm/month, falling to the level of ten years ago. The vacancy rate also increased dramatically by 2.3% to 10.4% QoQ, higher than the level (10%) in 2017.

On the other hand, the investment

market remained active, with a total transaction area of about 89,000 sqm and an estimated total transaction value of more than RMB 4 billion.

In Q4, around 370,000 sqm of new supply is expected to enter the market. Considering that the peak of new supply has already kicked off which will last until 2024, and the sharp rebound in

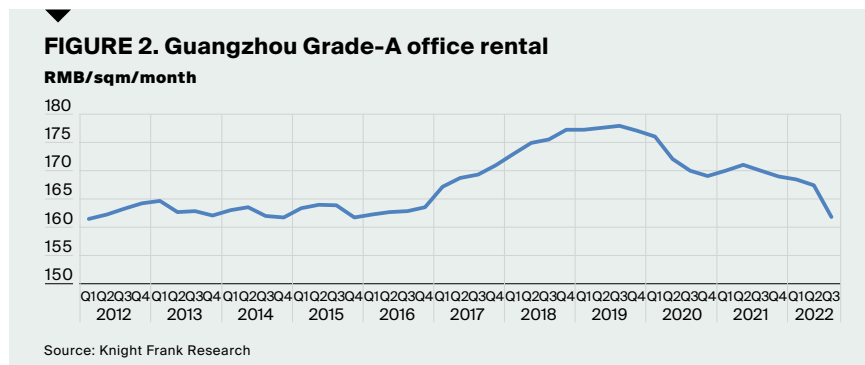
demand in 2021 seems not to be seen this year. Therefore, it is expected that the pressure on the vacancy rate will increase significantly in the short term. In response to the upward vacancy rate, the rental market is expected to fluctuate downward.



# RENTS LEVEL

In Q3, average rent of Grade A office continued the downward trend, recording the largest quarterly decline in a decade, fell 3.3% to RMB 161.8, down to the level of ten years ago.

Zhujiang New Town, where many landlords' have increased concerns, has recorded the largest quarterly decline over the past ten years, plunged from RMB 191.2 to 174.1. As Zhujiang New Town has the largest Grade A office stock and the strongest business environment, the rapid reduction in rents will pass onto other sub-markets. As a result, except for the Pazhou sub-market, which has raised the average price of the area due to new supply of recent quarters, the other three sub-markets have recorded rent declines.



At this stage, the most common leasing strategy is "price for volume" strategy, but with this leasing strategy, the marginal utility has been significantly narrowed. Furthermore, the

incremental demand driven by lowering market quotations was significantly lower than the previous level, reflecting a low demand for leasing.

**Table 1. Major Guangzhou Grade-A office sub-market indicators, Q3 2022**

Submarket	Rent		Rental % changes (QoQ)	Vacancy Rate	Vacancy rate percentage change (QoQ)
	RMB/sqm/mth	RMB/sqm/day			
Zhujiang New Town	174.1	5.7	↓8.9%	10.1%	↑1.8%
Tianhe North	161.5	5.3	↓4.4%	7.4%	↓0.2%
Yuexiu	135.7	4.5	↓1.5%	6.2%	↑0.6%
Pazhou	148.2	4.9	↑1.4%	15.9%	↑6.5%

Source: Knight Frank Research

## SUPPLY AND DEMAND

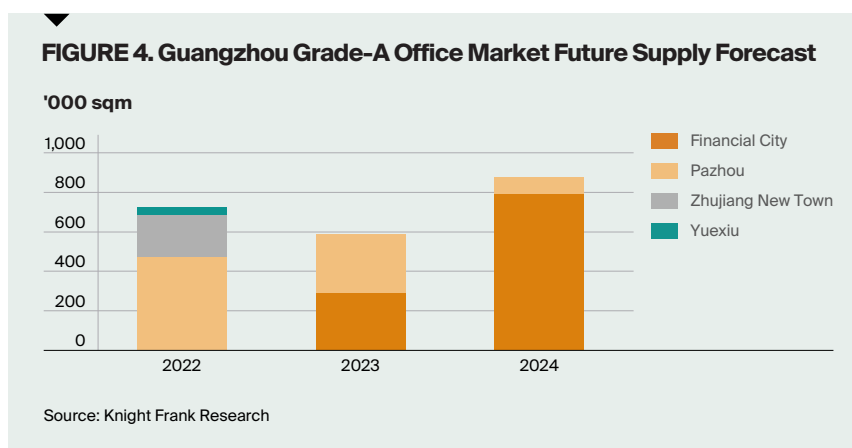
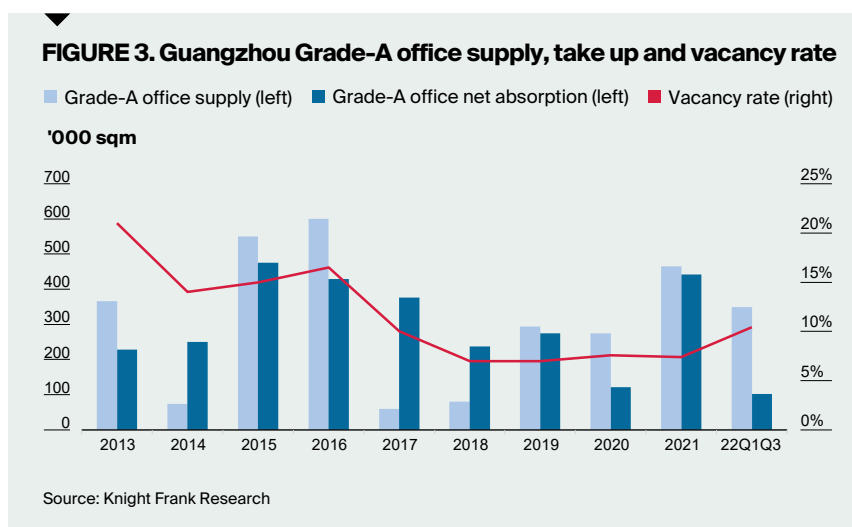
In Q3, Zhitong Plaza in Pazhou was completed. The new supply increased by 27,000 sqm. Leasing activity across the city was subdued, with a negative quarterly net absorption. The cumulative net absorption in Q3 2022 was less than a quarter of last year’s total, and even slightly worse than the same period in 2020 after the epidemic.

The vacancy rate once again exceeded 10% to 10.3% after 2017. The continued weakening of market demand and the peak of new supply were the critical reasons for the increase vacancy rate.

Law firms and game companies were still active in leasing, for example, DHH Law Firm and JINLUN Law Firm leased more than 7,800 sqm in BCC, and KUROGAME leased 8,000 sqms in Xiaomi Internet Park, Pazhou.

Law firms’ leasing activity remained active, reflecting the growing demand for legal consulting as the external environment with increasing uncertainty and the epidemic also occasionally interrupts economic activities. On the other hand, the gaming industry, is a core industry in Guangzhou, thanks to the support policy proposed by Pazhou, this round of contrarian expansion reflected the strength and the stableness of the gaming industry, as it has taken the lead by using the rental adjustment “window period” to upgrade their office.

In Q4, new supply is expected to be reached 370,000 sqm of 6 projects. If the completion can be delivered on time, the cumulative new supply in 2022 will reach around 720,000 sqm, which exceeds the sum of the past two years. Considering that even if some projects



might be delayed, a new supply peak has already begun and will continue until 2024. At the same time, the significant sharp rebound in demand seen in 2021 will not be seen this year. Therefore, the pressure of the vacancy rate is expected to increase in the short term. To cope

with the increased vacancy rate, the market will continue to in flavor with the tenants, i.e. lower rental expectations and introduce more incentives terms, also an excellent “window” or gap for office upgrades.

**Table 2. Major Guangzhou Grade-A office leasing transactions, Q3 2022**

District	Building	Tenant	Area(sqkm)	Transaction Type
Zhujiang New Town	BCC	DHH Law Firm	5,600	New Lease
Zhujiang New Town	IFC	ALLBRIGHT Law Offices	3,000	Expand
Zhujiang New Town	GZ Radio and Television Center Building	ZENITGame	2,300	Expand
Zhujiang New Town	BCC	JINLUN Law Firm	2,200	New Lease
Pazhou	Xiaomi Internet Park	KUROGAME	8,000	New Lease

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

## INVESTMENT MARKET

In Q3, investment market continued to be active, with seven transactions, distributed in Tianhe District and Haizhu District. The total transaction amount is expected to exceed RMB 4 billion. Most of the sellers were private enterprise real estate developers while buyers are mostly enterprises with domestic background or private owners.

The largest transaction amount is expected to be the pending sale of the main tower (north tower) of Guangzhou Fosun International Center held by Fosun Group in Pazhou, with a GFA of 48,999 sqm. The transaction amount has not been disclosed, but the total amount is expected to break the record in Guangzhou this year.

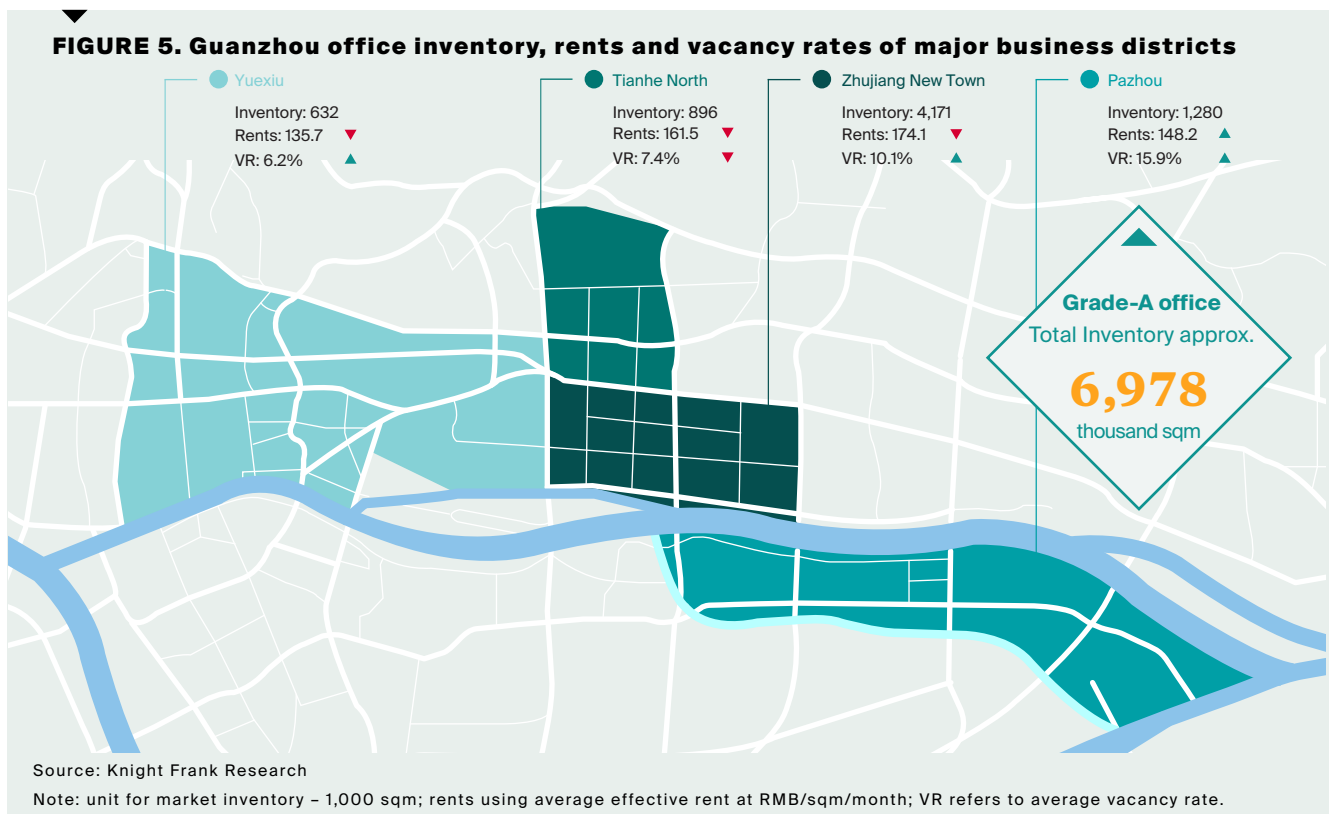
It is understood that back in 2021, Fosun Group sold the south plot of Fosun International Center to Singapore Fengshu Group, with a total transaction price of RMB 4.29 billion, a transaction area of about 110,000 sqm, and about RMB 39,000 per sqm.

The other two were in Tianhe District. The first one was the acquisition by Guangzhou Restaurant Group of an entire property located in Keyun Road, Tianhe District, with a total GFA of 20,334 sqm and a price of RMB 490 million. The other was the sale of the office of Country Garden's Zhihui ECO project located in Xincensi Road, Tianhe District, with a price of around RMB 550 million.

Another transaction was an equity transaction. Mr. Guan Yihong, a chairman of the Board of Directors of JIUMAOJIU Group, purchased 26% rights of the Guangzhou International Financial City project under Country Garden of around RMB 1 billion, with an area of 30,292 sqm. This project is expected to be completed in 2026 and will become a large commercial complex upon completion.

In addition, there were three office transactions with a total area of more than 9,500 sqm at Zhong Dai Plaza in Pazhou, for a transaction price of RMB 591 million.

## GUANGZHOU GRADE-A OFFICE MARKET DASHBOARD Q3 2022



**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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