

# Guangzhou Grade-A Office Market Report



Q3 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

► The economy is gradually recovering but leasing demand remains weak

In Q3, leasing demand for Grade-A offices in Guangzhou remained weak, with a QoQ decline of 12.9% in net absorption. The average rent in the city continued its downward trend, marking the ninth consecutive quarter of decline. This quarter, the overall average rent in the city stood at RMB 144.1/sqm/month, reflecting a 15% decrease compared to the same quarter in 2021. Owing to proactive implementation of the strategy of trading price for volume by property

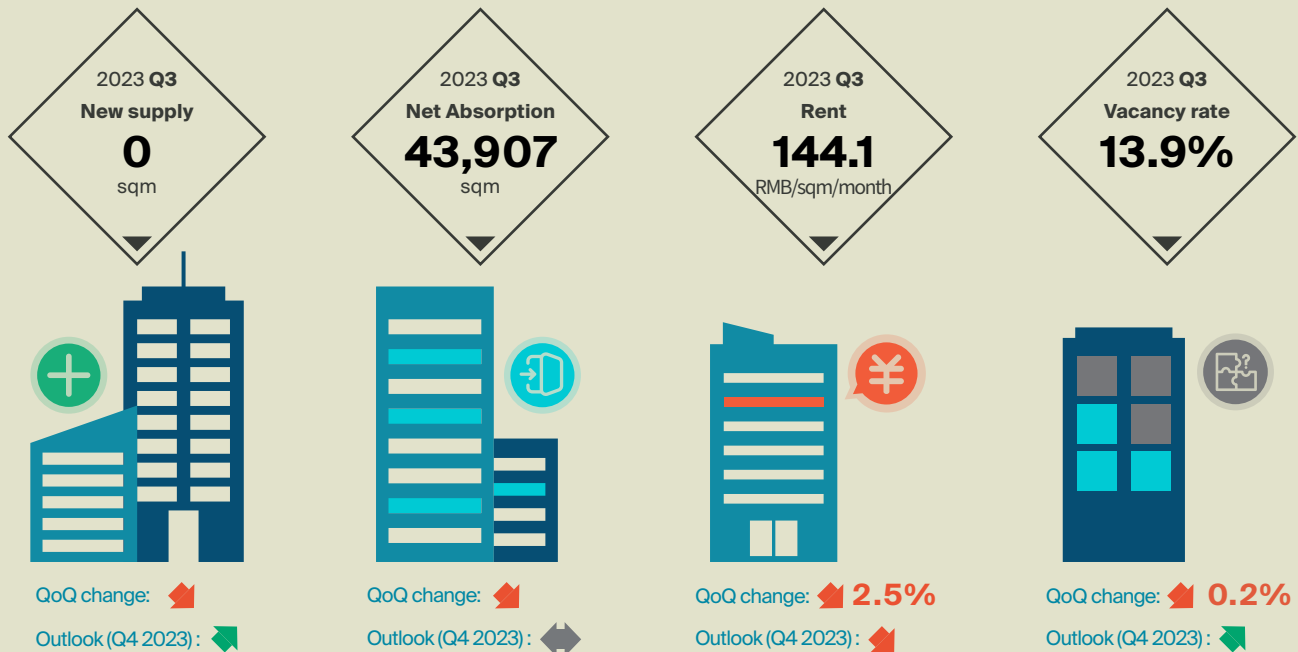
owners and no new supply in the quarter, the city's vacancy rate saw a slight decrease of 0.2% to 13.9%.

From the perspective of market activity, the Guangzhou municipal government is focusing on promoting high-end manufacturing and stimulating the economy through interaction between secondary and tertiary industries. With the implementation of serial favorable policies, the manufacturing sector is

expected to become a catalyst for the growth of office leasing demand in Guangzhou.

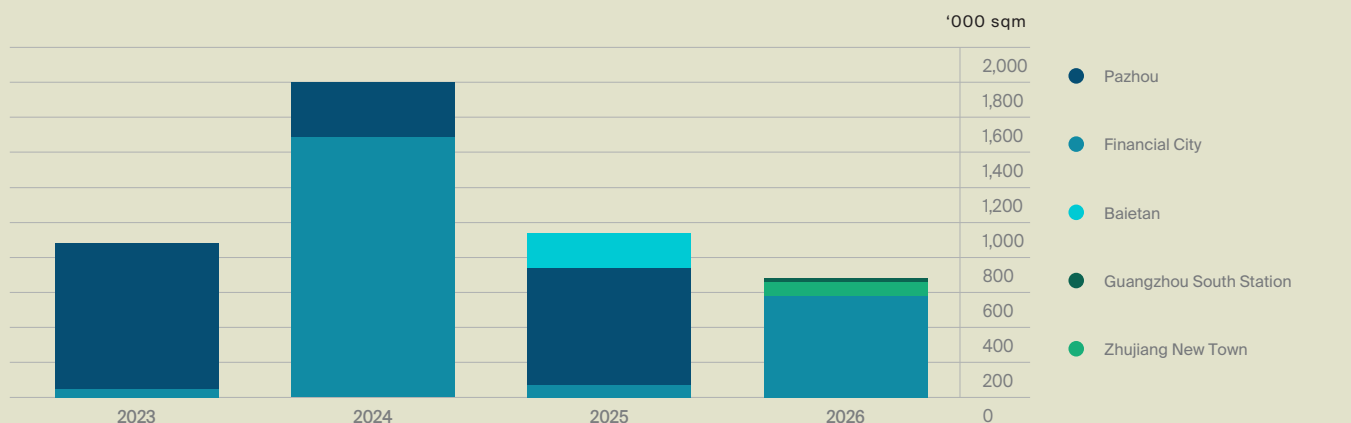
Considering the massive supply in Q4, competition in the Grade-A office market is likely to intensify. The vacancy rate and rents are expected to continue to face pressure in Q4. Property owners should adopt more proactive leasing strategies in response to the tenant-oriented market.

Fig 1: Guangzhou Grade-A office market reference index<sup>[1]</sup>



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

Fig 2: Guangzhou office development pipeline, 2023-2026



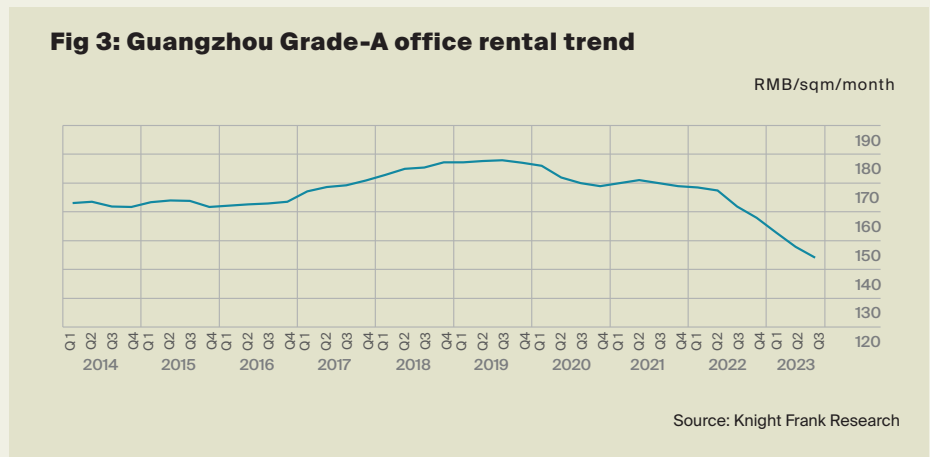
Source: Knight Frank Research  
Note: Projected supply in 2023 includes projects already on the market

# Rental Level

## Continued downtrend in rental prices

In response to market changes, properties owners continued to lower rents in Q3. The city's rental levels continued to decline, reaching RMB 144.1/sqm/month, representing a QoQ decrease of 2.5% and a YoY decrease of 10.9%. Rents decreased across all four sub-markets. Property owners in Yuexiu District, which has a large supply of older office buildings, implemented the strategy of trading price for volume, resulting in the largest decline in rents during the quarter.

Regarding the industrial restructuring Guangzhou has been going through and the slower recovery of its pillar industries, new leasing demand in the city is expected to remain constrained in Q4. Overall



market rents and vacancy rates will continue to be under pressure. However, as the year-end approaches, there might be an increase in inquiries

and visits of potential tenants because of annual budgeting and planning by businesses.

**Table 1: Major Guangzhou Grade-A office sub-market indicators, Q3 2023**

Submarket	Rent		Rental % changes (QoQ)	Vacancy Rate	Vacancy rate percentage change (QoQ)
	RMB/sqm/mth	RMB/sqm/day			
Zhujiang New Town	159.2	5.2	↓2.1%	13.4%	↓0.4%
Tianhe North	143.0	4.7	↓2.0%	7.0%	↑0.5%
Pazhou	128.7	4.2	↓3.7%	20.9%	↑0.4%
Yuexiu	117.7	3.9	↓5.0%	10.1%	↓1.1%

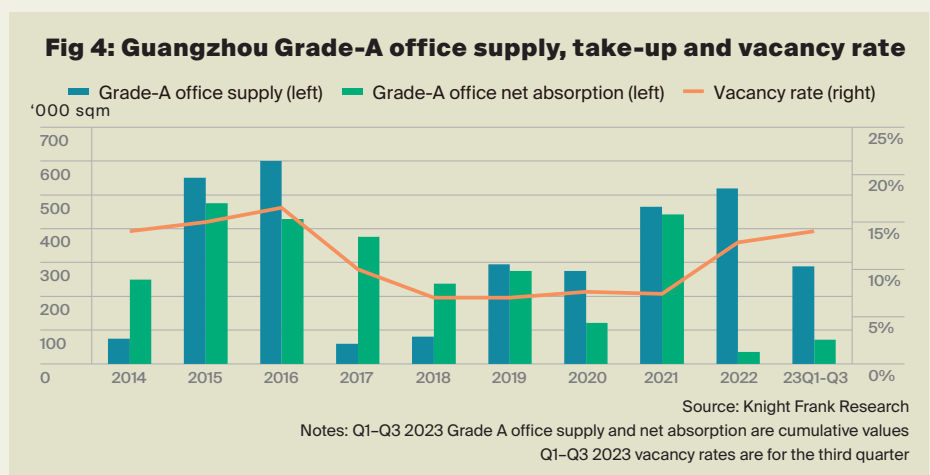
Source: Knight Frank Research

# Supply and Demand

## Leasing remains under massive pressure

In Q3, impacted by weak leasing demand, the net absorption area declined by 12.9% QoQ. With no new supply of Grade-A office space in the city, the vacancy rate saw a slight decrease of 0.2 percentage points to 13.9%, marking the first decline in the vacancy rate recorded this year.

In terms of leasing demand, renewals and relocations were the main types of leasing activity in Q3. There was strong willingness among tenants to downsize their leased space, reflecting cost reduction and efficiency enhancement as important execution factors in lease transactions. In terms of industry





structure, most of the leasing demand in the quarter came from the financial sector, with strong demand resilience from sub-segments such as securities and insurance. The TMT sector followed closely, benefiting from a series of policies announced by the Guangzhou municipal government to promote the development of the software and information technology industries. Software development companies

emerged as a growth engine for TMT leasing demand in Q3.

Total new supply for 2023 is expected to reach 880,000 sqm, with several projects that were delayed expected to be released in the market in Q4. Since the average annual net absorption in Guangzhou over the past decade has been only 300,000 sqm, and the slow recovery of the city's

macroeconomic environment has had limited effectiveness in stimulating leasing demand, the office market in Guangzhou will face significant absorption pressure in Q4. Property owners, influenced by pressure from operating costs, will need to adopt more diversified leasing strategies to effectively attract high-quality tenants.

**Table 2: Major Guangzhou Grade-A office leasing transactions, Q3 2023**

District	Building	Tenant	Area (sqm)	Transaction Type
Pazhou	Star River Center	GF Securities	22,000	New Lease
Zhujiang New Town	Guangzhou International Finance Center	MFG	5,500	New Lease
Zhujiang New Town	Pacific Insurance Building	Guotai Junan Securities	3,300	New Lease
Zhujiang New Town	IFP	Qman Toys	2,900	New Lease
Zhujiang New Town	BCC	Mingsheng Insurance	1,000	New Lease

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

# Investment Market

## ► High-end manufacturing expected to drive leasing demand growth

The development of the high-end manufacturing industry is providing opportunities for industrial parks and office space providers throughout the city, becoming a driving force in the growth of office leasing demand in Guangzhou. Guangzhou has a solid manufacturing foundation, leading the country in terms of the number of manufacturing enterprises, the production of new energy vehicles, and the growth rate in the number of unicorn companies. Against the backdrop of sluggish demand for office leasing in the financial and TMT sectors, the recovery of retail trade and logistics, driven by the rebound in consumer spending has effectively facilitated the circulation of goods, supporting the steady recovery of the

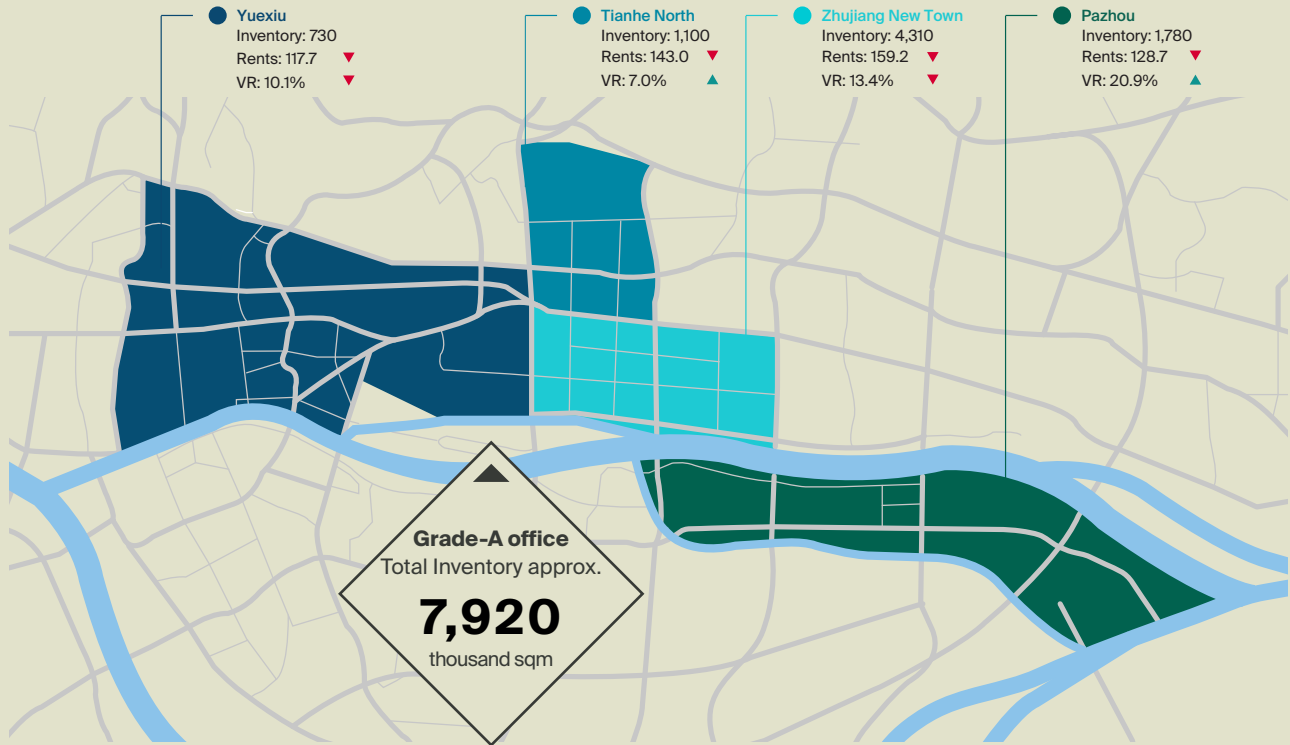
manufacturing industry.

During the quarter, the Guangzhou municipal government, which has a manufacturing-oriented perspective, issued a series of policies to promote the development of the high-end manufacturing industry. The policies provide increased support for technological innovation in the high-end manufacturing sector through tax incentives, subsidies, and entrepreneurship assistance, thereby promoting the formation of a “finance + manufacturing” pattern in Guangzhou. In addition, China fully lifted restrictions on foreign access to the manufacturing sector, which will further benefit the revitalization of the industry.

With the implementation of these favorable policies, the number of specialized, refined, advanced, and small to medium-sized enterprises is expected to increase, leading to the rapid development of the high-end manufacturing industry, particularly the cluster in Guangzhou, attracting upstream and downstream enterprises in sectors such as commerce, finance, and exhibitions. Combined with the office and exhibition space requirements during the expansion of the high-end manufacturing industry, this will create synergies between the secondary and tertiary sectors, potentially boosting the activity level of office leasing transactions throughout Guangzhou.

# Guangzhou Grade-A office market dashboard Q3 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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