

*Effective absorption of vacant space in Pazhou
despite the intensified competition*



Guangzhou Office Market Report

Q1 2022

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OVERVIEW AND OUTLOOK

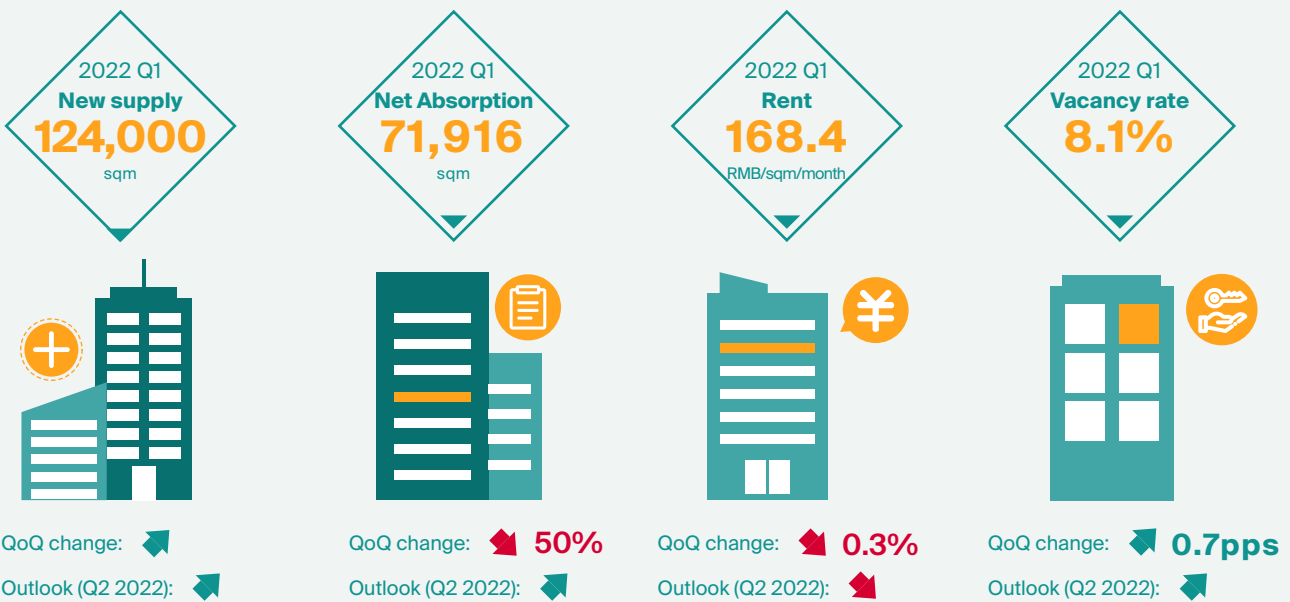
In Q1 2022, the leasing market performed relatively inactive. The net absorption reached about 72,000 sqm, decreased 50% QoQ and 67% YoY. The vacancy rates rose 0.7% QoQ to 8.1%, in line with that over the past five years. Rents fell for the third consecutive quarter, decreased 0.3% QoQ to RMB 168.4 per sqm per month.

Technology, finance, and professional services sectors maintained stable leasing demand, while manufacturing, with the guidance of the policy, showed a significant increase in leasing transactions and inquiries.

It is expected that more than 480,000 sqm of new office space in the next

quarter, exceeding that of the last year and all of which in Pazhou sub-market. The rapidly increasing supply will lead to an upward trend in vacancy rate in the short term. Thus, trend of concession strategy is expected to continue, and rents will continue to decline.

FIGURE 1: Guangzhou Grade-A office market reference index



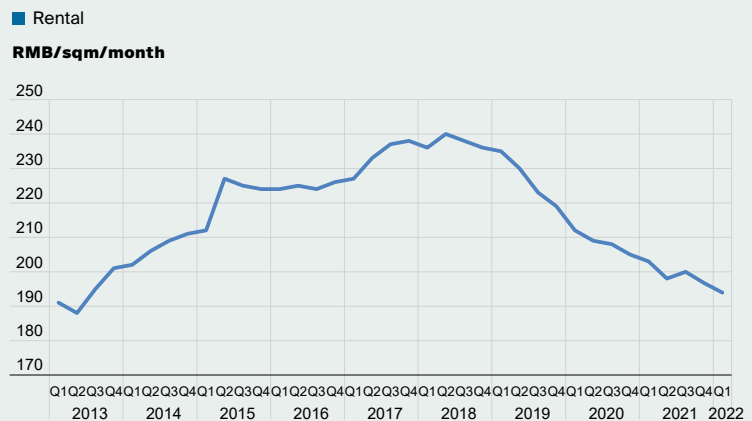
Source: Knight Frank Research

RENTAL MOVEMENT

In Q1, the average rent of Grade-A office market in Guangzhou continued the downward trend, fell 0.3% QoQ to RMB 168.4 /sqm/month.

There were considerable differences between business districts. On the one hand, due to the relocation of main tenants in Zhujiang New Town, with the consideration of intensified competition, some landlords extended the rent-free period and lowered the rent in order to ensure the effective absorption of vacant space and avoid sharp drops in the rents. The rent in Zhujiang New Town decreased by 1.1% QoQ to RMB 193.7/sqm/month.

FIGURE 2. Guangzhou Grade-A office rental and price



Source: Knight Frank Research

On the other hand, in Pazhou, emerging business district, there is a rapid reduction of vacant space, for example, AIA-IT leased around 8,000 sqm in

Mingfeng Mansion and Tencent leased 12,000 sqm in Mingfeng Mansion. As a result, the landlords increased the rent with confidence. Rent in Pazhou

increased by 4.1% QoQ to RMB 147.5/sqm/month, with the largest quarterly increase in two years.

Table 1. Major Guangzhou Grade-A office sub-market indicators, Q1 2022

Submarket	Rent			Rental % changes (QoQ)	Vacancy Rate	Vacancy Rate Percentage Change (QoQ)
	RMB/sqm/mth	USD/sqf/mth	EUR/sqf/mth			
Zhujiang New Town	193.7	2.8	2.5	↓1.1%	8.9%	↑2.0
Tianhe North	168.4	2.5	2.2	↓1.0%	6.4%	↓1.3
Yuexiu	136.3	2.0	1.8	↑0.1%	6.8%	↑0.5
Pazhou	147.5	2.2	1.9	↑4.1%	7.9%	↓1.7

Source: Knight Frank Research

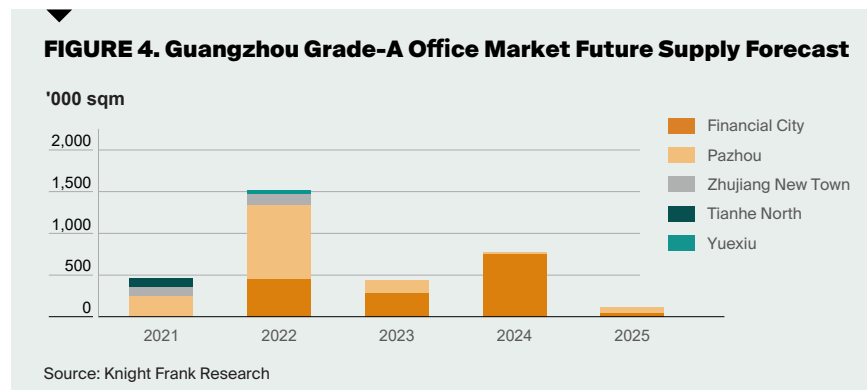
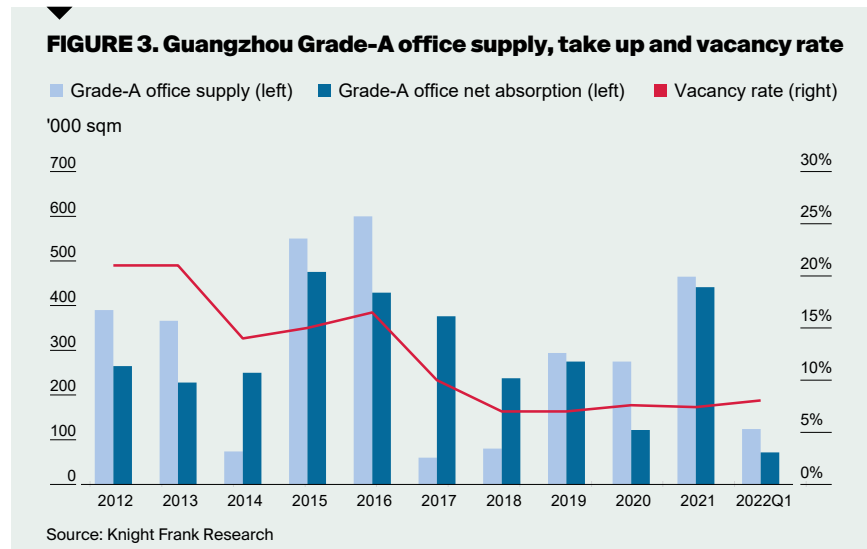
Note: Exchange rate: 1 RMB = 0.1576 US dollars = 0.1417 euros

SUPPLY AND DEMAND

In Q1, the supply of Grade A office buildings in Guangzhou increased by 124,000 sqm. Two new office projects are in Pazhou, including Xiaomi Internet Park and Guomei Building West Tower. Net absorption reached about 72,000 sqm, only about half of the last quarter (Q4 2021). The vacancy rate rose 0.7% QoQ to 8.1%, in line with the average vacancy rate over the past five years and remained relatively low in general. The relocation of tenants in Zhujiang New Town sub-market was the main reason for pushing up the vacancy rate of the whole city.

The leasing demand still mainly dominated by the technology and finance sectors in Q1. It is noteworthy that with the 2022 Guangzhou Government Work Report emphasized the real economy, and under the guidance of the unwavering policy of "Manufacturing is fundamental to the city", the leasing demand of manufacturing industry, especially high-end manufacturing industry, has increased significantly.

In the next quarter, the new supply will remain high. If it can be delivered on time, it is expected to exceed 480,000 sqm, while the supply in 2021 was only 460,000 sqm. All new office projects are in Pazhou, such as GD Cultural



Mansion, Star River Center, Guanglv HQ Economic Building, Huaxin Center etc. As a result, it is expected the vacancy

rate will be pushed up and rents will continue to drop.

Table 2. Major Guangzhou Grade-A office strata-title sales transactions, Q1 2022

District	Building	Tenant	Area (sqm)	Transaction Type
Zhujiang New Town	GT Land Plaz	FANG&FANG Law Firm	1,800	New Lease
Yuexiu	Lumina Commercial Center	DHL	4,000	New Lease
Pazhou	Mingfeng Mansion	AIA-IT	8,000	New Lease
Pazhou	TCL Mansion	BOC-Samsung Life	4,000	New Lease
Pazhou	TCL Mansion	Tencent Kaibo Information Technology	1,400	New Lease

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

INVESTMENT MARKET

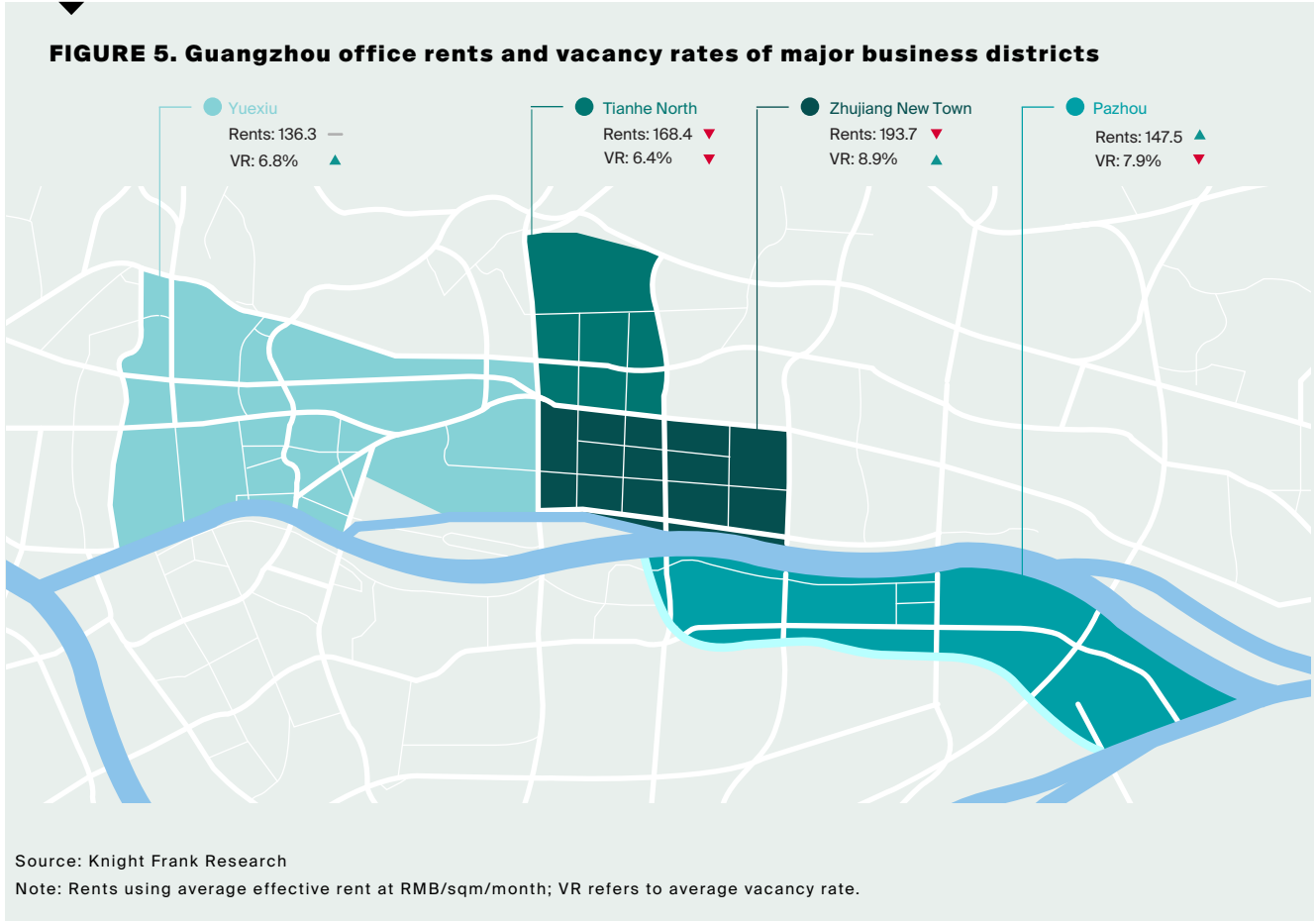
In Q1, there were two en-bloc office transactions recorded in the investment market, located in Zhujiang New Town and Pazhou.

One is BCC in the west of Huangpu Avenue in the Zhujiang New Town. The

total GFA of the building is about 69,000 sqm and the buyer was a domestic insurance company. The other was the subsidiary building of Xiaomi Internet Park, with a transaction area of about 20,000 sqm (20 floors), which was purchased by a foreign fund.

The supply of office projects for disposal mainly located in Pazhou, Financial City and Panyu. In addition, the stock of commercial properties disposed of by developers has also increased significantly.

GUANGZHOU GRADE-A OFFICE MARKET DASHBOARD Q1 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.

Research & Consultancy



Laurence Zhu
Senior Director,
Head of Research & Consultancy, China
+86 21 6032 1769
laurence.zhu@cn.knightfrank.com



Regina Yang
Director, Head of Research & Consultancy,
Shanghai & Beijing
+86 21 6032 1728
regina.yang@cn.knightfrank.com



Martin Wong
Director, Head of Research & Consultancy,
Greater China
+852 2846 7184
martin.wong@hk.knightfrank.com



Stephen He
Analyst, Research & Consultancy
Guangzhou
+86 20 3877 1477
stephen.he@cn.knightfrank.com

Guangzhou Office Services



Even Huang
General Manager,
Guangzhou
+86 20 3877 1477
even.huang@cn.knightfrank.com

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