

Guangzhou Grade-A Office Market Report



Q1 2023

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

knightfrank.com.cn/research



Overview and Outlook

► Leasing market is recovering as expected, but oversupply remains a concern

In Q1 2023, economic and trade activities revived and the office leasing demand in Guangzhou recovered as expected. The net absorption returned to the positive values, but it remained at a relatively low level, reflecting the gloomy economic environment and the conservative capital expansion.

There is 30,000 sqm new supply in Q1, the vacancy rate slightly increased by 0.4% QoQ to 13.2%. Rent continued a downward trend, to RMB152.8/sqm/

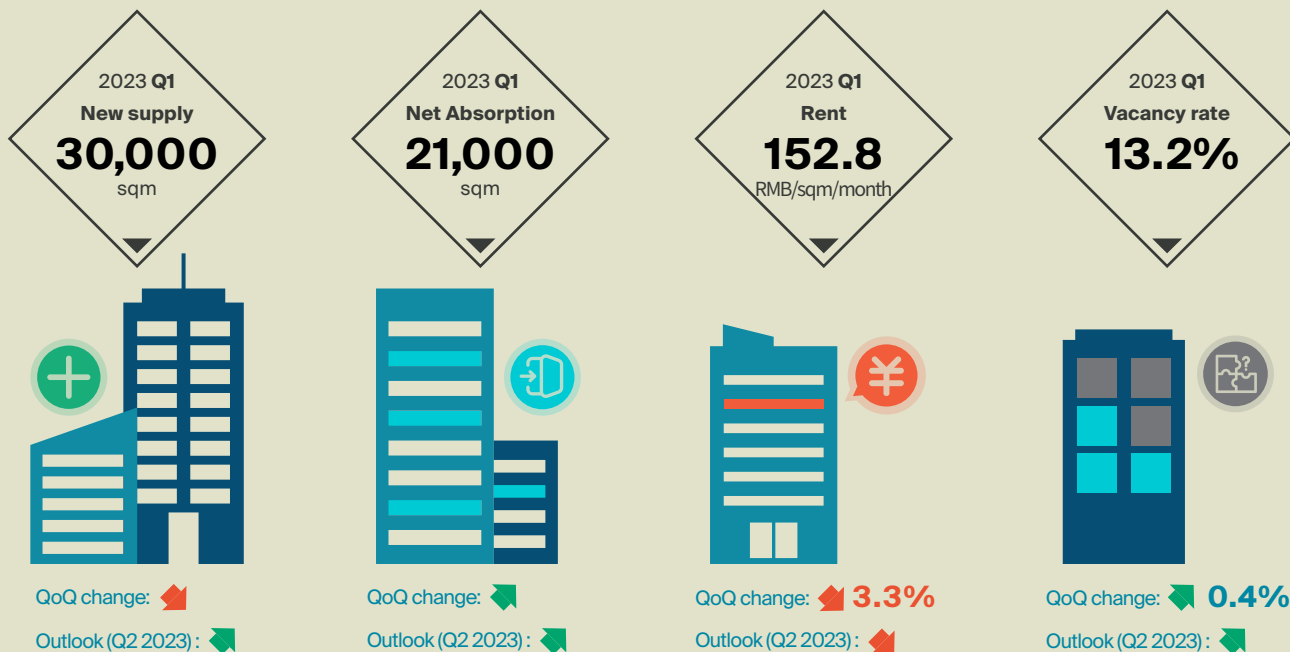
month, with a QoQ decrease of 3.3%.

In the Investment market, the uncompleted landmark of Huangpu District was successfully auctioned by state-owned company, with the transaction amount of RMB1.312 billion.

Looking forward in Q2, we expect the market will continue to rebound but the issue of oversupply remains, and vacancy rate will continue to climb

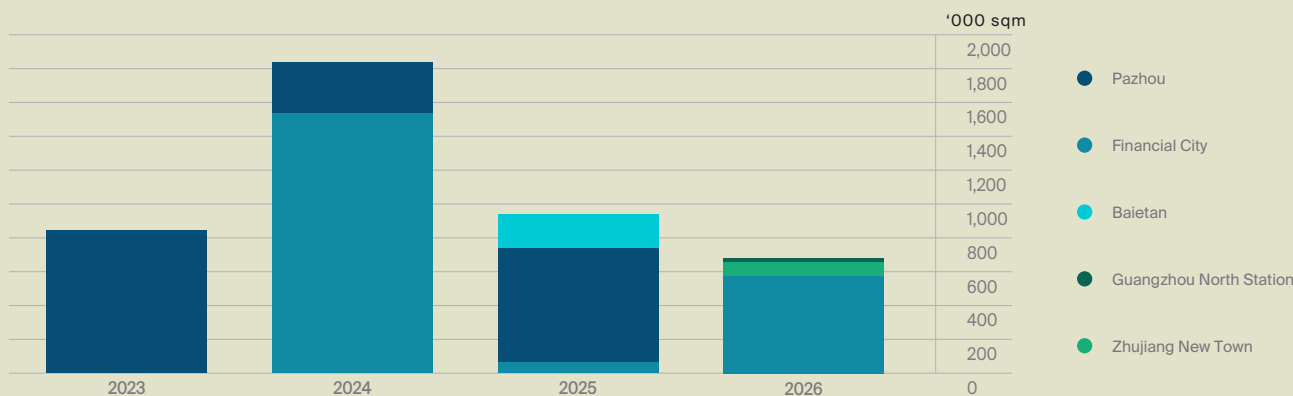
across the city. Moreover, most of tenants were rent-sensitive currently. Covid has also disrupted the economy for three years and the external environment was still uncertain, so tenants will be more conservative on leasing costs and staffing structure. Furthermore, landlords do not have any direct and effective strategies to attract tenants except price strategies. As a result, it is expected that rents to drop further.

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

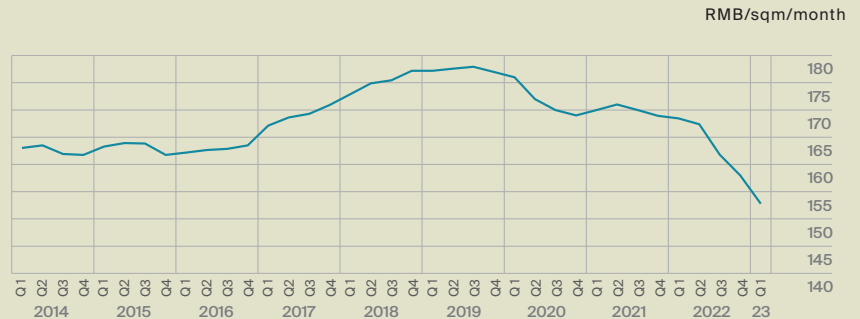
Rental Level

► The leasing demand gradually rebounded

After the Chinese New Year, the leasing demand gradually rebounded, majority of landlords adopted active rent reduction strategies to secure tenants. As a result, Grade A office rents in Guangzhou continued a downward trend, down 3.3% QoQ to RMB152.8/sqm/month.

All four sub-markets in the city experienced price wars, recording rent declines of more than 2%. The two submarkets with the largest decrease in rent were in traditional developed sub-markets, Tianhe North and Yuexiu, as landlords decreased the rents to avoid losing tenants.

Fig 3: Guangzhou Grade-A office rental trend



Source: Knight Frank Research

Table 1: Major Guangzhou Grade-A office sub-market indicators, Q1 2023

Submarket	Rent		Rental % changes (QoQ)	Vacancy Rate	Vacancy rate percentage change (QoQ)
	RMB/sqm/mth	RMB/sqm/day			
Zhujiang New Town	167.9	5.5	↓2.3%	12.0%	↓0.2%
Tianhe North	149.8	4.9	↓5.8%	5.8%	↓1.1%
Pazhou	136.4	4.5	↓3.5%	22.9%	↑3.8%
Yuexiu	126.4	4.2	↓5.3%	12.6%	↓0.7%

Source: Knight Frank Research

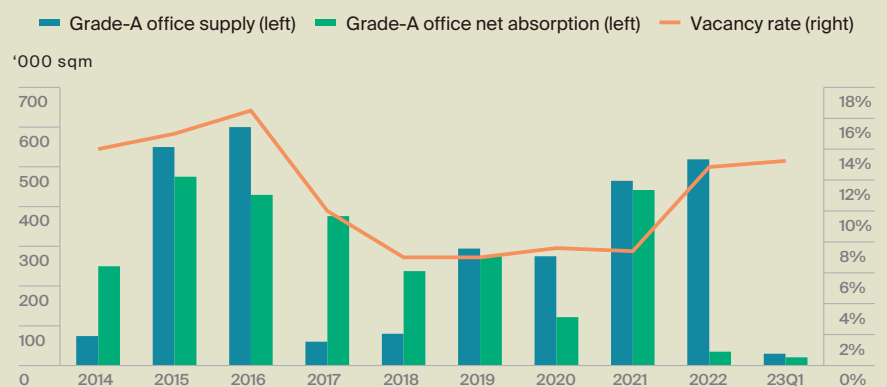
Supply and Demand

► The strategy of “price for volume” proved its effectiveness

In Q1, the strategy of “price for volume” proved its effectiveness. The net absorption swept away the negative value for the past two consecutive quarters and returned to a positive value of 21,000 sqm. Except for the emerging sub-market Pazhou in the city showed an increase in vacancy rates due to new supply, the other three submarkets all recorded a decrease in vacancy rates.

In terms of leasing, tenants tend to save cost, so most leasing transactions were small-sized transactions while larger leasing transactions occur in Pazhou. For example, Tanji Technology

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



Source: Knight Frank Research

Co., Ltd. leased 15,000 sqm of Zhitong Plaza and MFG leased 6,000 sqm of Mingfeng Mansion.

The new supply is expected to reach 840,000 sqm in 2023, twice the average annual new supply for the past three years. Considering that the current

round of supply will peak in 2024 at the earliest, the Guangzhou Grade A office market will maintain a strong “tenant market” in the next two years. It is recommended that landlords should embrace the market with proactive strategy. In addition to lowering the rent expectations, they can also

strengthen brand maintenance and maintain good partners relationships. Tenants can also review their existing leases in advance to enhance their negotiation power and lock in favorable terms.

Table 2: Major Guangzhou Grade-A office leasing transactions, Q1 2023

District	Building	Tenant	Area (sqm)	Transaction Type
Zhujiang New Town	Global Metropolitan Plaza	VITAL	2,300	New Lease
Pazhou	Zhitong Plaza	Tungee Technology	15,000	New Lease
Pazhou	Mingfeng Mansion	MFG	6,000	New Lease
Pazhou	Guanglv HQ Economic Building	Zhaoyang	1,800	New Lease
Pazhou	Guanglv HQ Economic Building	PUSHI Technology	1,000	New Lease

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

Investment Market

► Large transactions will continue to be active

In Q1 2023, only one transaction was recorded in the Guangzhou investment market. It was Guangzhou Development Zone Lanxin Investment Co., Ltd., it auctioned the uncompleted landmark Songri Headquarters Building of Guangzhou Science City at the reserve price of RMB1.312 billion. It is noticeable that the actual controller of this building was Pan Sutong, the former chairman of Gaoyin Finance,

one of the former top ten billionaires in Hong Kong.

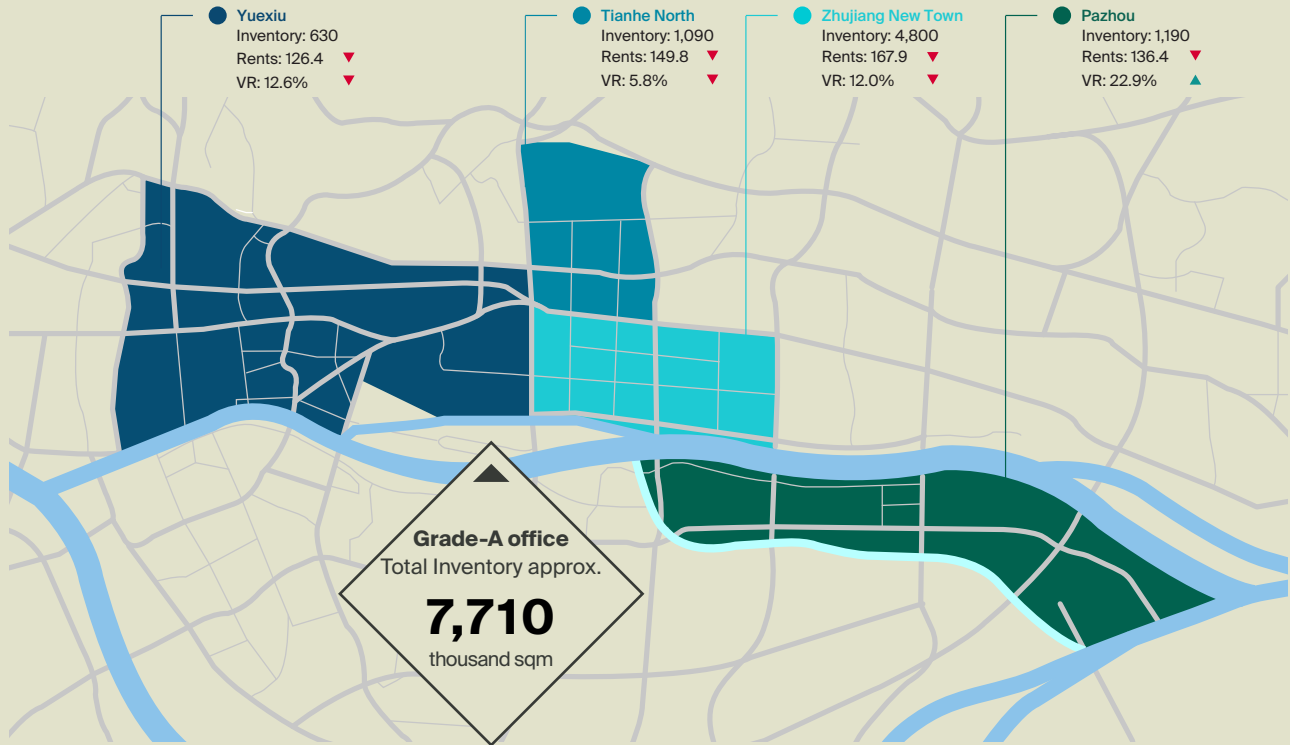
With the stabilization of the real estate industry, state-owned developers and urban investment companies actively raise funds to participate in project M&A and revitalization. We expected that state-owned enterprises will continue to expand their market share and industry position in this

transition period.

At the same time, the U.S Silicon Valley bank collapsed, the global economic situation is still full of uncertainty, and market concerns are still expanding. Investors will target long-term returns and increase their investment in commercial real estate in core areas. Overall, large transactions will continue to be active.

Guangzhou Grade-A office market dashboard Q1 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.

Due to database adjustment, some data may be different, specific values are based on this quarter

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

**Guangzhou Office
Strategy & Solutions**



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



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

Recent market-leading research publications



Beijing Office
Market Report
Q1 2023



Shanghai Office
Market Report
Q4 2022



Guangzhou Office
Market Report
Q4 2022



Shenzhen Office
Market Report
Q4 2022



Greater Bay Area
Development
Emerging
Office Hubs in Kowloon
set to reap the benefits



Asia-Pacific
Outlook 2023



Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs. Important Notice: ©Knight Frank : This document and the material contained in it is general information only and is subject to change without notice. All images are for illustration only. No representations or warranties of any nature whatsoever are given, intended or implied. Knight Frank will not be liable for negligence, or for any direct or indirect consequential losses or damages arising from the use of this information. You should satisfy yourself about the completeness or accuracy of any information or materials and seek professional advice in regard to all the information contained herein. This document and the material contained in it is the property of Knight Frank and is given to you on the understanding that such material and the ideas, concepts and proposals expressed in it are the intellectual property of Knight Frank and protected by copyright. It is understood that you may not use this material or any part of it for any reason other than the evaluation of the document unless we have entered into a further agreement for its use. This document is provided to you in confidence on the understanding it is not disclosed to anyone other than to your employees who need to evaluate it.