

Guangzhou Grade-A Office Market Report



Q1 2024

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

► Stable recovery in the overall market

In Q1 2024, the Grade A office market in Guangzhou recovered steadily, with an increase in the number of office viewings across the city. However, as demand was mostly post-seasonal, the conversion rate was low during the quarter, and the net absorption area dropped significantly to 22,615 sqm. Rental rates continued their downward trend, falling to RMB137.3 /sqm/month, for a 2.5% QoQ and 10.1% YoY decline, because of the ongoing price war in the city's office leasing market. The city's overall vacancy rate fell by 1.0% QoQ to 11.5%, as no new supply entered the market in Q1.

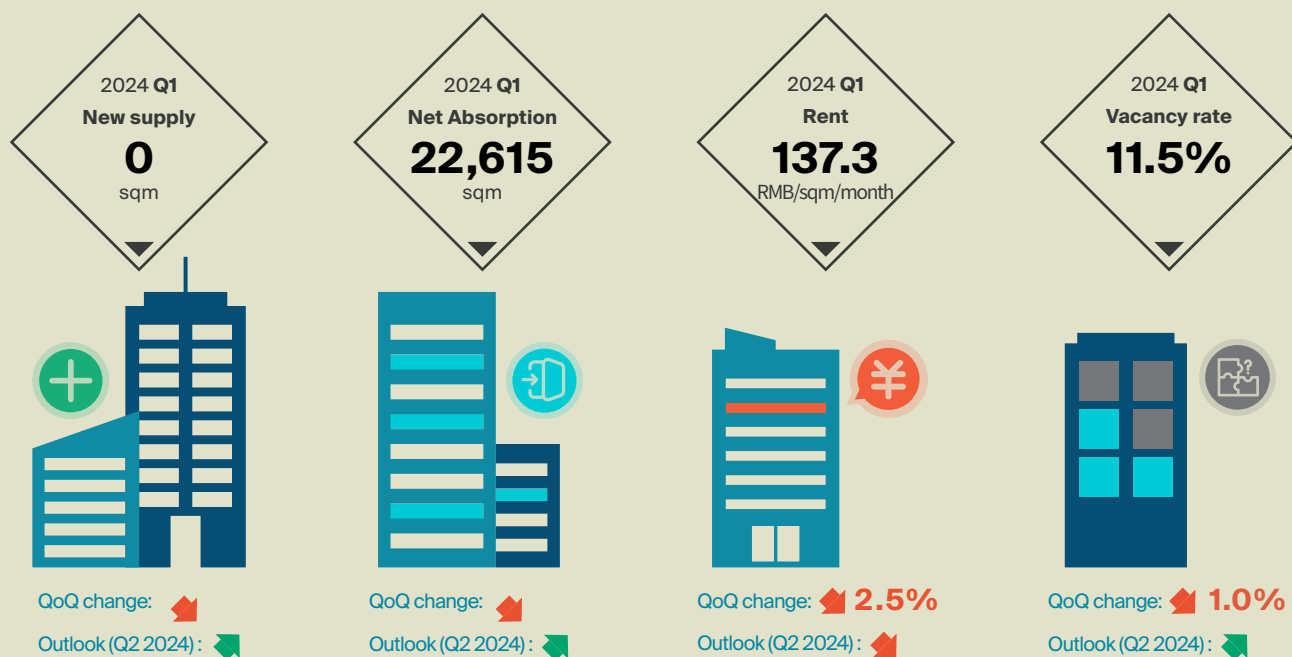
Professional services and TMT

were the main engines of leasing demand in Q1. Pazhou remained at the forefront of net absorption across the city. The leasing performance of gaming and TMT-related companies was outstanding, and the gaming industry is expected to generate more transaction opportunities in the Guangzhou office market.

Looking ahead to Q2 2024, it is still expected to be difficult to reverse the downward trend in rental prices in the Guangzhou office market. Stimulated by new supply, the negotiation window benefiting tenants is expected to continue, with tenants being able to rent better quality office space at lower cost, and even the possibility

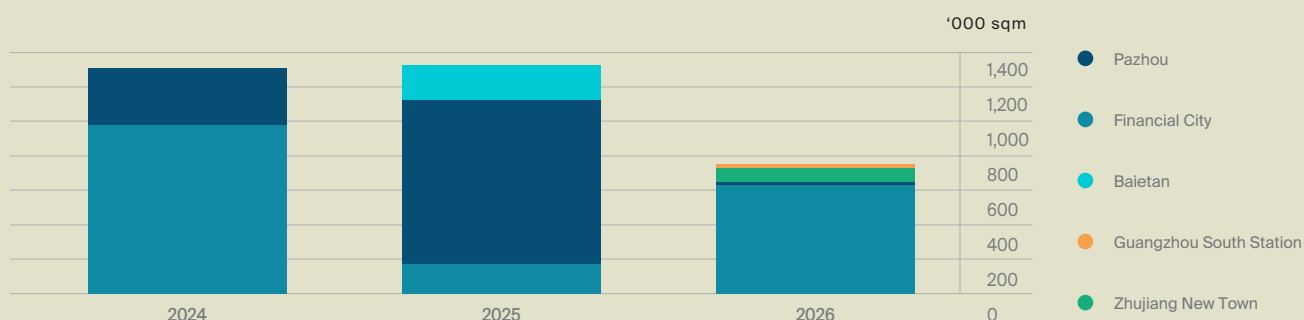
moving from renting to purchasing. The city's net absorption is expected to pick up slightly because of the price adjustments. With more cost-effective rents, higher office quality, and a more concentrated industry atmosphere, the Pazhou and Financial City sub-markets are expected to benefit from relocation and renewal demand from game publishers. Against the backdrop of weaker expectations for a recovery in the macroeconomy, leasing demand in the Guangzhou office market should remain relatively weak, with limited growth momentum. Owing to the impact of new supply, the vacancy rate is expected to structurally rise.

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, 2024-2026



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

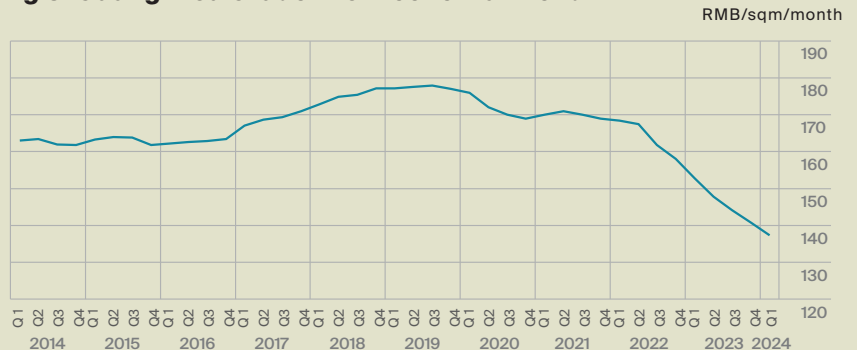
Rental Level

► Rents continued their downward trend

In Q1, rents in the Guangzhou's office market continued to dip, falling to RMB137.3 / sqm / month, representing a QoQ decline of 2.5%. Owing to accelerated tenant attrition, landlords in the Zhujiang New Town and Tianhe North submarkets made proactive price adjustments.

Overlying the impact of database adjustments, Tianhe North rents recorded an 8.5% QoQ decline, far lower than the levels seen during the same period last year. Yuexiu and Pazhou, in contrast, which focus on cost-effectiveness, recorded the most stable rental performance in Q1, as they catered for mainstream demand for lower leasing rates. Office rents in Yuexiu District recorded a slight increase of 1.2% QoQ.

Fig 3: Guangzhou Grade-A office rental trend



Source: Knight Frank Research

Looking ahead to the Q2 2024, with the gradual release of new supply in the Financial City and Pazhou submarkets, the overall office market in Guangzhou

is expected to face significant pressure in terms of net absorption, leading to a continued downward rental price expectations.

Table 1: Major Guangzhou Grade-A office sub-market indicators, Q1 2024

Submarket	Rent		Rental % changes (QoQ)	Vacancy Rate	Vacancy rate percentage change (QoQ)
	RMB/sqm/mth	RMB/sqm/day			
Zhujiang New Town	152.2	5.0	↓3.1%	11.6%	↑1.5%
Tianhe North	128.8	4.2	↓8.5%	6.5%	↑0.4%
Pazhou	123.2	4.1	0.0%	17.4%	↓5.7%
Yuexiu	116.9	3.8	↑1.2%	6.4%	↓1.8%

Source: Knight Frank Research

Supply and Demand

► Pazhou led the city in net absorption but overall demand in the city remained relatively weak

After the previous quarter's significant releases, leasing demand in the Guangzhou office market once again fell back to a low level in Q1. The net absorption area in Q1 was only 22,615 sqm. The vacancy rate continued to narrow by 1.0 % QoQ to 11.5%, as no new supply entered the market in Q1. Notably, Pazhou led the city in net absorption area, with the vacancy rate dropping sharply by 5.7% QoQ to 17.4%. Zhujiang New Town, in contrast, saw the largest outflow, with vacancy rates rising by 1.5% QoQ.

Relocation and new establishment were the two major sources of leasing demand in Q1. Demand for relocation accounted for 47.2% of total demand area. The proportion for tenants maintaining their scale or expanding was much higher than reductions, accounting for over 90% of total leasing area. The preferred destination for relocation and expansion was mainly the Pazhou area.

Professional services companies were the main engine for leasing

demand in Q1, accounting for 24.6% of total leasing area. Co-working and consulting firms were the main subcategories. Second, driven primarily by gaming, travel platforms, and culture and media-related enterprises, TMT ranked second among sources of leasing demand in the city in the quarter, with an average leasing area of more than 1,000 sqm for a single deal. The finance sector, in contrast, saw a significant drop in Q1, slipping to third place. The main subcategories of demand were securities and fund

firms. Tenants from the finance industry preferred to locate in Zhujiang New Town.

Looking ahead to the Q2 2024, growth momentum in leasing demand in Guangzhou is still in a stage of recuperation and accumulation because of the pain of industrial transformation, making it difficult to break out of the downturn in the short term. However, stimulated by the entry of new supply, it remains a tenants' market in leasing negotiation. Coupled with deferred leasing demand, overall net absorption in Guangzhou is expected to see a slight increase. Pazhou will continue to lead the city in net absorption area owing to a more abundant stock of newly built offices and more cost-effective rental rates.

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

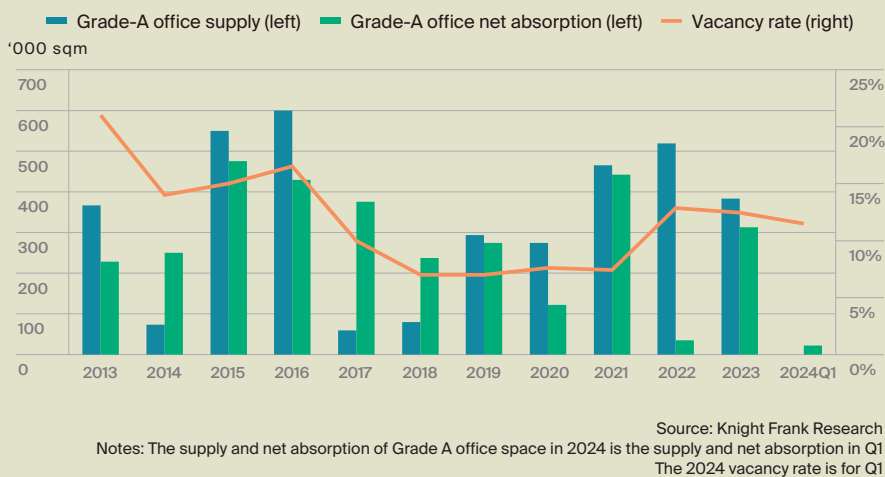


Table 2: Major Guangzhou Grade-A office leasing transactions, Q1 2024

District	Building	Tenant	Area (sqm)	Transaction Type
Tianhe North	ICC	PowerChina	2,700	Relocation
Tianhe North	Teem Tower	EIC Education	2,600	New lease
Pazhou	Galuminium Group headquarters building	Linghit Culture	2,100	Relocation
Pazhou	GD Media Tower	Shengben Network	800	Relocation

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

Market Trends

Opportunities in the Gaming industry in GZ

After the end of the “Game License Winter” in 2022 and the stabilization of the license regulatory situation, the gaming industry in China experienced a significant recovery in 2023. According to an announcement by the Guangzhou Municipal Government, sales revenue of the gaming market in Guangzhou reached RMB105.8 billion in 2023, accounting for approximately 35% of national industry revenue. Among the “Key National Cultural Export Enterprises” in the 2023–2024 fiscal year, nine gaming companies from Guangzhou were listed, with

local gaming companies such as 37 Interactive Entertainment, NetEase, and Lingxi Games emerging as leading enterprises for going global in the Guangzhou and even national gaming industry.

Looking back over the past two years, the gaming industry in Guangzhou has achieved a remarkable performance in terms of leasing demand. Kuro Games relocated from Tangxia Industrial Park to the Xiaomi Building in Pazhou in 2022, renting the entire 14th to 17th floors

and expanding its workforce from dozens to thousands of employees. In H2 2023, Guangzhou Manling Games moved from Tianhe Tangxia Village to Huijin Centre, renting 5,000 sqm. In terms of purchasing, 37 Interactive Entertainment purchased nine floors of the Poly Financial Metropolitan building for self-use and acquired land in Pazhou to build its global headquarters. In 2023, Shiyue Network, whose office was still located in Tianhe Software Park, acquired land in the Financial City for RMB1 billion.

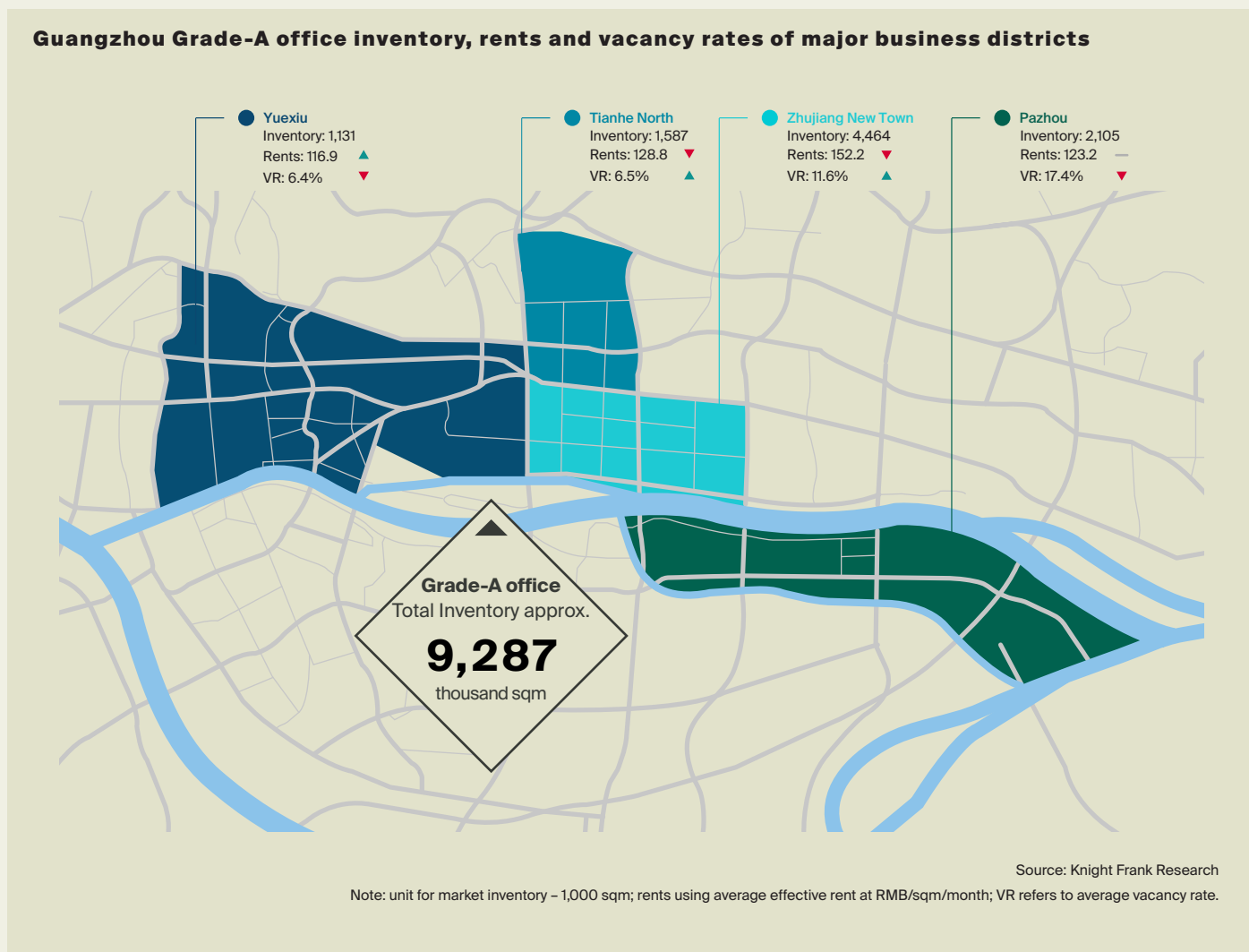
In addition to these gaming companies, there are still quite a few large-scale game developers with considerable revenue in Guangzhou. Although they have multiple games generating hundreds of millions in revenue, their office locations are still in traditional industrial parks or Grade B office buildings for historical reasons. Examples include SP Games, Efun, and Junhai Games. With more cost-effective rental and sale prices, higher office building quality, and a more concentrated industry atmosphere, sub-markets represented by Pazhou

and the Financial City are expected to leverage and accommodate leasing and transaction demand from gaming companies.

Furthermore, NetEase's re-signing of a cooperation agreement with Blizzard has once again become a hot topic. Owing to the need for team restructuring, rebuilding server rooms, and restoring various data, the launch of the first game is expected only in summer. The reformation of the team and the expansion of personnel will generate new demand for office

leasing in the short term. Additionally, because of the special construction standards for data centres regarding height, load-bearing capacity, heat dissipation, power supply, and communication cable connections, it is difficult to complete the construction of data centres in the short term, so NetEase may need to rent external data centres to cope with the urgent launch schedule. The significant storage requirements will also provide opportunities for data centre leasing transactions in Guangzhou in Q2.

Guangzhou Grade-A office market dashboard Q1 2024



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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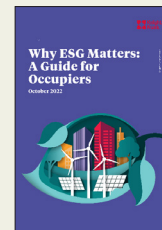
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