

*The rental market of Guangzhou was significantly more active at the end of Q2 than before*



# Guangzhou Office Market Report

Q2 2020

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# AFFECTED BY THE NEW SUPPLY, THE VACANCY RATE OF GRADE-A OFFICE MARKET IN GUANGZHOU INCREASED SLIGHTLY

*In Q2 2020, Lumina was delivered in the market, bringing 90,000 sqm new supply and pushing up the stock of Grade-A office market to 5.904 million sqm.*

With the acceleration of the resumption of work and production, also the recovery of production and business activities, the economic recovery of Guangzhou has improved. Besides, the decrease of major economic indicators such as consumption and investment has shown improvement compared with Q1.

From January to May in 2020, the Total Retail Sales Consumer Goods in Guangzhou decreased by 11.9% YoY, 1.5 percentage points less from January to April. The Cumulative Growth in Fixed Asset Investment decreased by 3.0% YoY, and the decrease declined by 1.4 percentage points from January to April. Infrastructure Investment increased by 8.8% YoY, 3.3 percentage points more from January to April, which was an important support for accelerating the investment recovery in Guangzhou.

Although the macro economy has gradually recovered, but the recovery of the Guangzhou Grade-A office market in Q2 was not obvious.

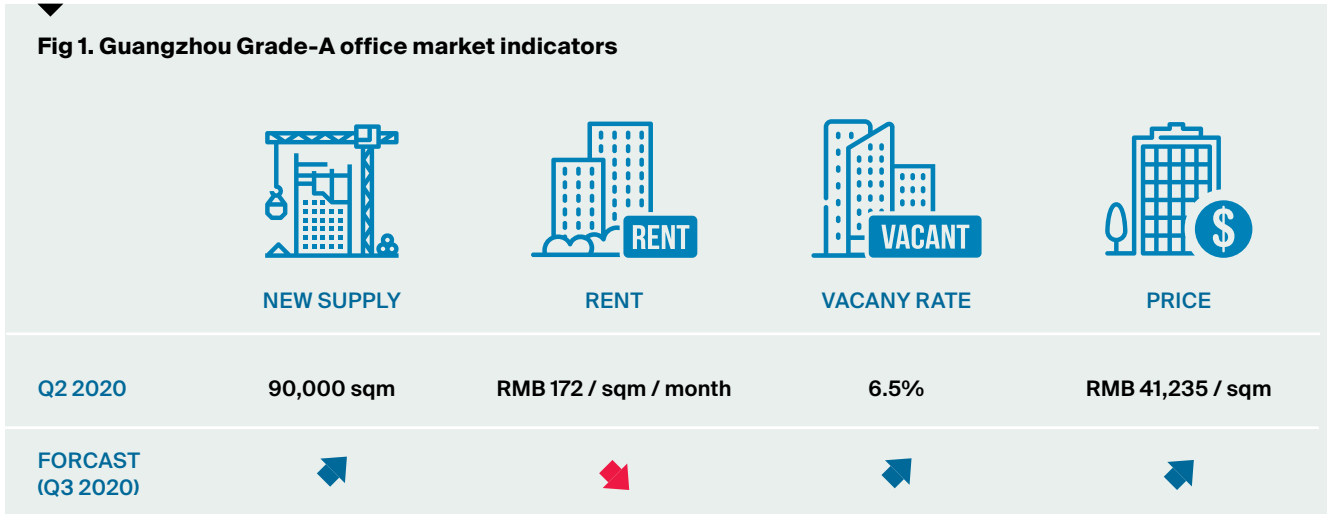
In Q2 2020, the average rent of the Guangzhou Grade-A office market declined by 2.3% QoQ to RMB 172 per sqm per month, while the vacancy rate rose by 1.1 percentage points QoQ to 6.5%. Affected by the outbreak of COVID-19, many companies put their relocation and expansion plans on hold, or even chose to withdraw their leases due to financial pressure. The demand side has not yet recovered, resulting in a higher vacancy rate in the Guangzhou Grade-A office market compared with the previous quarter. Among the sub-markets, the vacancy rate of Yuexiu sub-market recorded rose by 6.6 percentage points QoQ due to the new supply. However, Pazhou sub-market

performed relatively well, with the vacancy rate dropping by more than 1 percentage point QoQ.

In order to attract tenants and stabilize the cash flow income of office properties, many landlords have chosen to reduce the rents to attract and retain the tenants. Pazhou and Tianhe North sub-markets showed the most significant decline compared with the previous quarter: the average rent in Pazhou sub-market fell 5.2% QoQ to RMB 146 per sqm per month, while the average rent in Tianhe North sub-market fell 4.0% QoQ to RMB 166 per sqm per month. The new supply, Lumina, has a relatively high rental level in the Yuexiu sub-market, pushing the average rent in the sub-market up 2.9% QoQ to RMB 140 per sqm per month.

Despite China has made the significant

**Fig 1. Guangzhou Grade-A office market indicators**



Source: Knight Frank Research

achievements in fighting the COVID-19 epidemic, the repeated outbreaks overseas have brought the uncertainty to the domestic economy, which also brought the operating pressure to the enterprises. Therefore, when considering the renewal or relocation of the office space, most enterprises took “reducing operating costs” as the key point to seek

better renewal conditions, or chose the more cost-saving and flexible office space.

The change in the standard for tenants to choose office space, as well as the relatively low rental level affected by the COVID-19 pandemic, have promoted the active expansion of some co-working brands,

seeking suitable office properties and developing new co-working space. Except for the mature sub-markets such as Zhujiang New Town and Tianhe North, which are considered to be the new sites for the co-working space development, emerging sub-markets such as Pazhou were gradually favored by more co-working brands.

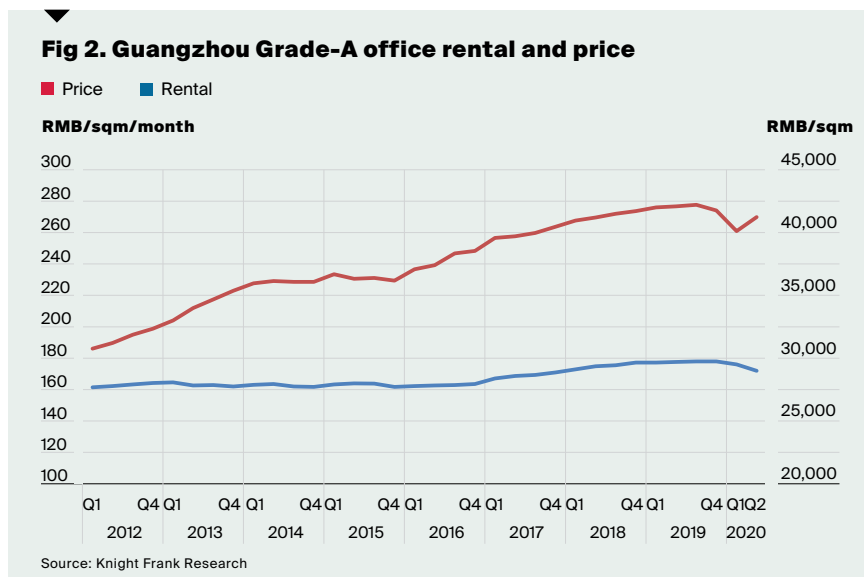
## RENTS AND PRICES

In Q2 2020, the average rent for Grade-A office space in Guangzhou was RMB172 per sqm per month, down 2.3% QoQ. The COVID-19 epidemic has further exerted the downward pressure on the rents in the Guangzhou Grade-A office market. In addition to being affected by the epidemic, Pazhou sub-market was also affected by a large number of new supplies in the future, leading to a more obvious decline in its average rent.

However, there were also some Grade-A office properties located in Zhujiang New Town, whose rent rose in the short term due to the excellent leasing demands.

For the strata-title market, the average selling price of office buildings in Guangzhou during Q2 was RMB41,235 per sqm, increased 2.8% QoQ. The peripheral area of the city was still a hot spot for the transaction activities, especially in Huangpu District. As the strategic position of Huangpu District

**Fig 2. Guangzhou Grade-A office rental and price**



in the development plan of Guangzhou city has been strengthened, the popularity of the office buildings in Huangpu District, which has been favored by increasing buyers. For instance, Poly Yuzhu Port, located in

Huangpu Harbor Economic Zone, recorded a bulk transaction of 42,000 sqm in this quarter, with unit price of RMB 40,000 per sqm.

**Table 1. Major Grade-A office sub-market indicators, Q2 2020**

Submarket	Rent (RMB / sqm / month)	Rent Change QoQ	Vacancy Rate	Vacancy Rate Change QoQ
Zhujiang New Town	195	↓2.0%	5.9%	↑0.7
Tianhe North	166	↓4.0%	4.6%	↔
Yuexiu	140	↑2.9%	12.2%	↑6.6
Pazhou	146	↓5.2%	5.3%	↓1.5

Source: Knight Frank Research

**Table 2. Major Grade-A office strata-title sales transactions, Q2 2020**

District	Building	Area (sq m)	Unit Price (RMB / sq m)
Huangpu	Poly Yuzhu Port	42,000	40,000
Huadu	Poly International Financial Center	891	21,000
Finance City	Huijin Dongyi	634	45,000
Nansha	China Railway Construction Global Center	549	19,000

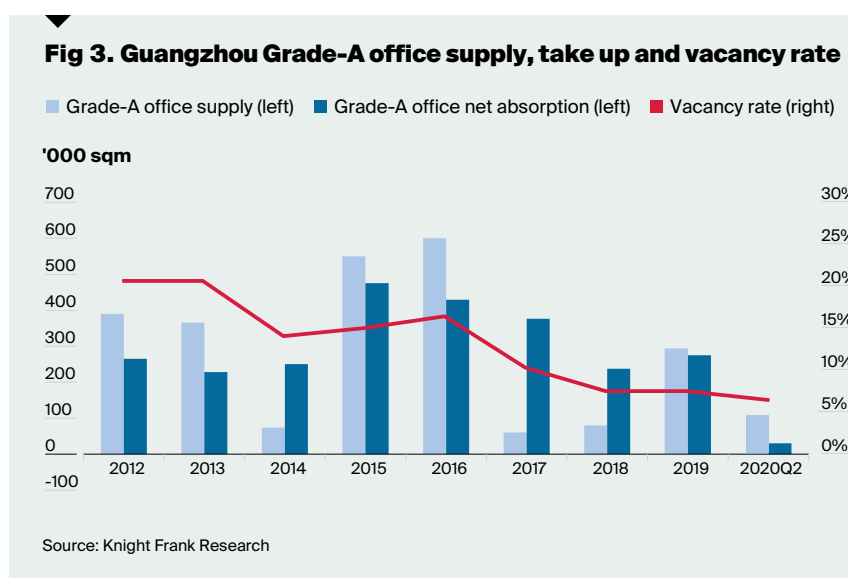
Source: Knight Frank Research  
Note: all transactions are subject to confirmation

## SUPPLY AND DEMAND

In Q2 2020, Lumina in Yuexiu sub-market was delivered, bringing an additional supply of 90,000 sqm to the Grade-A office market in Guangzhou and pushing the stock up to 5.904 million sqm. The net absorption recorded the value of 20,196 sqm. Due to the epidemic, the delivery and listing time of some office buildings will be delayed. As a result, the downward rental pressure on the office market from new supply projects is expected to be less than projection in this year.

Despite the outbreak of COVID-19 had a certain impact on the office rental market, some TMT and professional service companies still chose to expand their office space in this quarter. Meanwhile, some office owners reported that the rental market was significantly more active at the end of Q2 than before.

However, in this quarter, some TMT and professional service enterprises



still chose to expand their office space, because their relocations plans have been negotiated with the brokers or landlords for some time, and the epidemic has not had a great impact on their enterprises, so these enterprises did not put their

relocation plan on hold. Some enterprises were also choosing to save money by moving to the office building with lower rents.

In addition, there were a number of

leasing transactions with large area recorded during the quarter, with the main tenants being professional services,

TMT and real estate enterprises. Typical cases included Baibu rented a 5,000 sqm of office space in VIP Headquarter

Building, Junmins Group rented a 2,270 sqm of office space in Tiande Plaza.

**Table 3. Major Grade-A office leasing transactions, Q2 2020**

District	Building	Tenant	Area (sq m)
Pazhou	VIP Headquarter Building	Baibu	5,000
Zhujiang New Town	Central Tower	CICC Wealth Management	2,300
Zhujiang New Town	Tiande Plaza	Junming Group	2,270
Zhujiang New Town	IFP	KDB	2,000
Zhujiang New Town	Poly Clovis Square	TEDU	2,000
Tianhe	Guangdian Pingyun Plaza	NINED	1,400
Zhujiang New Town	Tiande Plaza	iJianJi	700
Zhujiang New Town	R&F Yingkai Square	Glory Data	600

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

## INVESTMENT MARKET

In Q2 2020, no en-bloc transactions were recorded in the investment market of Grade-A office building in Guangzhou.

Affected by the epidemic, global monetary policies have been soft, and many countries have entered the era with low interest rates, boosting the demand trend of capital preservation to be more obvious. Office properties with high quality in the core business district possessing stable cash flow and potential rent increase in the future, as a good safe haven asset, can be less affected by the cycle. It is expected that such office properties will be favored by more

investors.

Although the en-bloc transaction activity was stagnant, the stock and vacancy rate of Grade-A office building in Guangzhou are lower than those of other first-tier cities in China, and the rent is more stable. Therefore, many investors began to seek high-quality office properties in Guangzhou as investment opportunities. With the gradual recovery of domestic economic life, it is expected that there will be increasing institutional, private and other types of investors looking for high-quality office property as an opportunity to maintain and increase

the value of their assets.

Except for the office buildings located in the developed business districts, increasing investors are looking at the quality office investment opportunities in the emerging business districts such as Pazhou and Huangpu.

Since the buyers have increased their attentions to the market, the sellers can also consider how to make decisions to achieve a win-win situation, seize the opportunity of the market, so as to achieve the rapid elimination of the project and gain the rapid cash flow.

## MARKET OUTLOOK

In May 2020, Premier Li Keqiang pointed out in the government work report, "We will promote the upgrading of manufacturing and the development of emerging industries. We will develop the industrial Internet and promote intelligent manufacturing. New forms of business such as e-commerce and

online services have played an important role in the fighting the COVID-19 epidemic. We need to continue to introduce supportive policies, comprehensively promote the "Internet Plus" strategy, and create new advantages for the digital economy."

Emerging industries, as one of the key industries of national economic transformation, have maintained a strong development trend in recent years. In the office leasing market, emerging industries, especially TMT enterprises, have gradually become significant tenants in the office

market, and their leasing demands have shown strong resilience in the face of the epidemic.

Meanwhile, in April 2020, the Ministry of Commerce, Cyberspace Administration of the CPC Central Committee and the Ministry of Industry and Information Technology jointly announced the designation of 12 districts as national digital services export bases, with a view to accelerate the development of digital trade and the application of digital technologies, fostering the new forms and models of trade, and achieving high-quality development of service trade. Guangzhou Tianhe Central Business District is one of the 12 national

digital service export bases on the list.

The combination of macro orientation and micro practice is expected to further promote the development of TMT enterprises, further strengthen their positions in the national development strategy, resulting in their strong demands for office space.

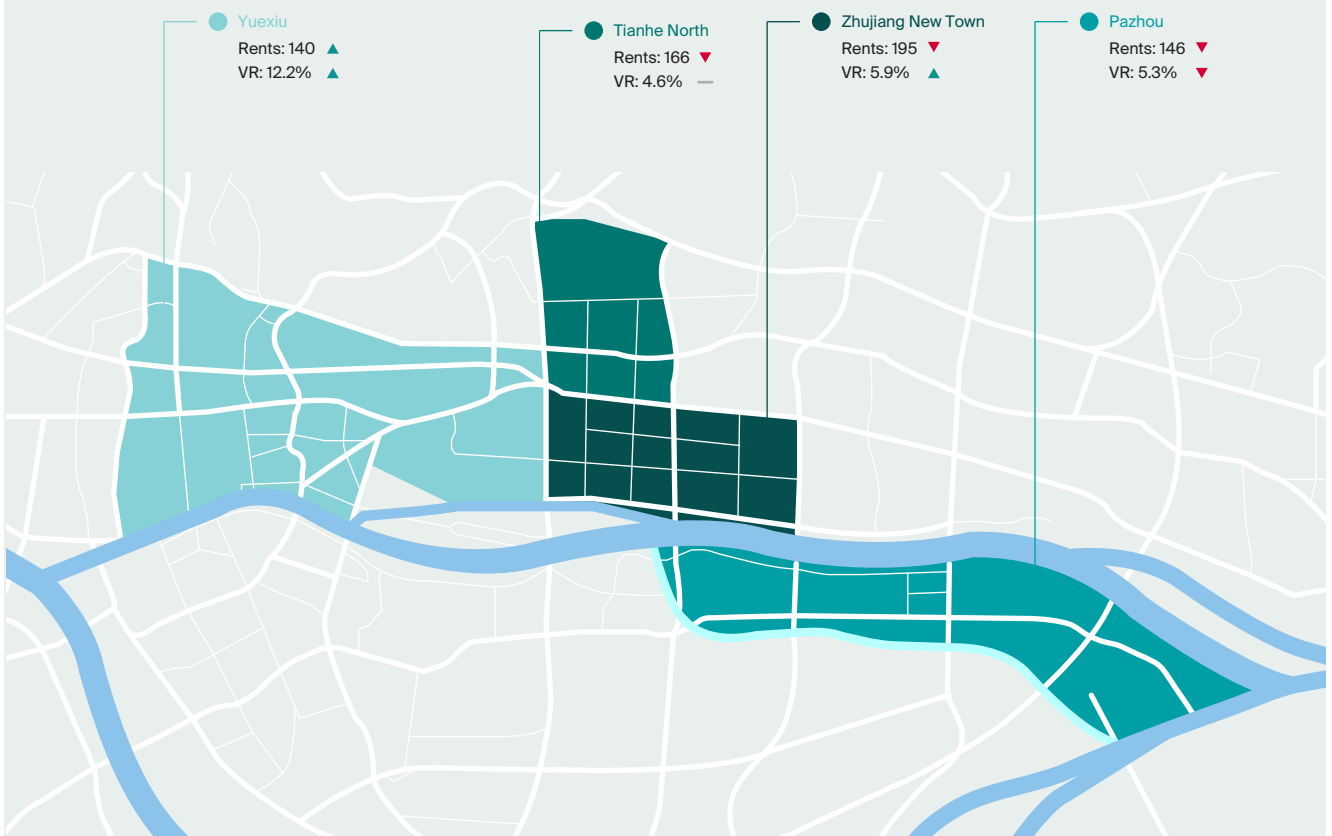
Besides, in May 2020, the People’s Bank of China, CBIRC, CSRC and SAFE jointly issued “Opinions on Financial Support for the Development of the Guangdong-Hong Kong-Macao Greater Bay Area”. The policies put forward 26 specific measures from the following five aspects: Within the Guangdong-Hong Kong-Macao Greater Bay

Area, promoting the cross-border trade and facilitating the investment, opening the financial industry to the world, promoting financial market and financial infrastructure inter-connectivity, enhancing the financial service innovation, preventing the cross-border financial risks.

The release of “Opinions on Financial Support for the Development of the Guangdong-Hong Kong-Macao Greater Bay Area”, is expected to attract relevant talents to Guangzhou market in the medium and long term, thus stimulating the office leasing demand of professional services, especially financial enterprises.

## GUANGZHOU OFFICE MARKET DASHBOARD

Fig 4. Guanzhou office rents and vacancy rates of major business districts Q2, 2020



Source: Knight Frank Research

Note: 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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