

*Slight recovery on the leasing demand, and rents in
Zhujiang New Town decreased*



Guangzhou Office Market Report

Q2 2022

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OVERVIEW AND OUTLOOK

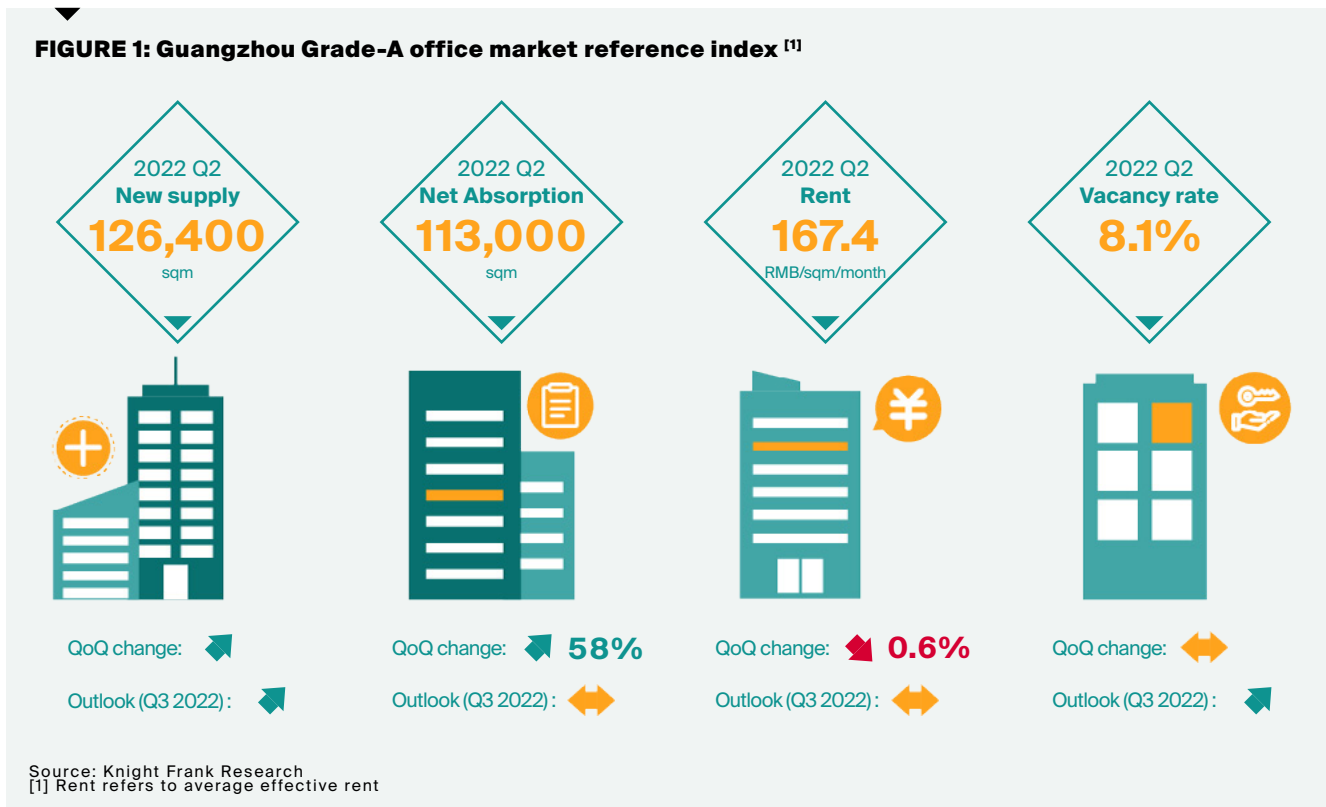
In Q2 2022, the leasing market experienced a slight recovery. The net absorption reached approximately 113,000 sqm, increased 58% QoQ and 38% YoY. The cumulative net absorption in H1 2022 reached 185,000 sqm, 54% of last year, but less than that in H1 2021. Rents slightly fell 0.6% QoQ to RMB 167.4/sqm/month and the vacancy rate remained stable with the last quarter of 8.1%, which indicated the

concession strategy continued to work.

The rental gap between emerging markets and developed markets narrowed, and Zhujiang New Town and Yuexiu sub-markets were price competitive, recording a decline in vacancy rate. Pazhou, an emerging market, experienced an increase in vacancy rate and a slight reduction in rents.

Going forward, around 180,000 sqm are expected to be delivered in Q3. The new supply will remain high but considering the joint effect of the macro policies and the repairment of market in H2 2022, the rental market is expected to rebound. Therefore, office rents would remain flat and the vacancy rate would be pushed up with a slight increase.

FIGURE 1: Guangzhou Grade-A office market reference index ^[1]

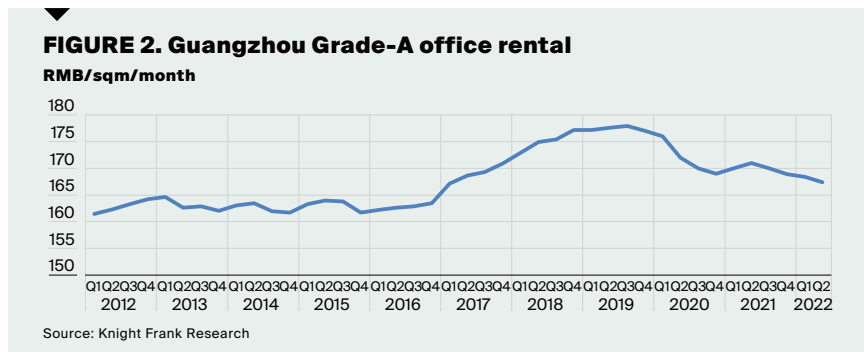


RENTS LEVEL

In Q2, Guangzhou's average rent of Grade-A office dropped for fourth consecutive quarters, down 0.6% QoQ. It recorded a cumulative drop of 2.1% over the four quarters, reaching RMB 167.4/sqm/month.

With the decline in tenants' expectations on rental, there were different rental strategies between business districts. On one hand, in developed sub-market with competitive rental, for example Yuexiu sub-market, landlords increased the rent since the vacant space reduced. On the other hand, in intensified competition

FIGURE 2. Guangzhou Grade-A office rental



sub-markets, for example Zhujiang New Town and Pazhou, landlords continued the concession strategy to achieve lease

renewal and vacant area reduction effectively.

Table 1. Major Guangzhou Grade-A office sub-market indicators, Q2 2022

Submarket	Rent		Rental % changes (QoQ)	Vacancy Rate	Vacancy rate percentage change (QoQ)
	RMB/sqm/mth	RMB/sqm/day			
Zhujiang New Town	191.2	6.3	↓1.3%	8.3%	↓0.6%
Tianhe North	168.9	5.6	↑0.3%	7.6%	↑1.2%
Yuexiu	137.7	4.5	↑1.1%	5.6%	↓1.2%
Pazhou	146.2	4.8	↓0.9%	9.4%	↑1.5%

Source: Knight Frank Research

SUPPLY AND DEMAND

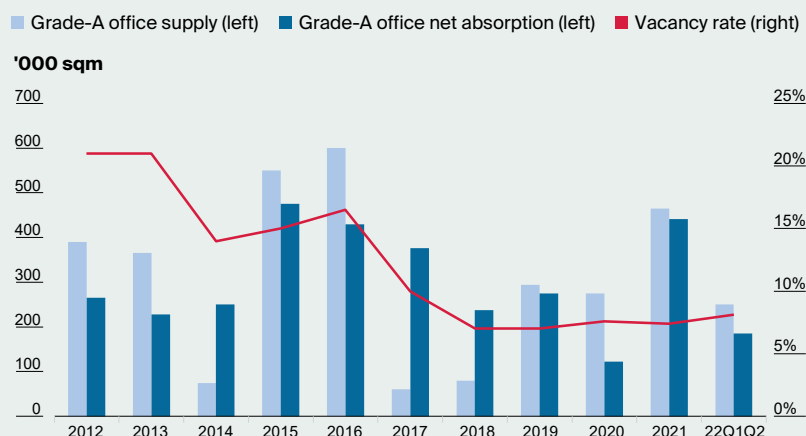
In Q2, several new Grade-A office buildings were delayed so the peak period was postponed. The new supply increased by 126,000 sqm. Two new office projects are in Pazhou, including Foson North and Star River Center.

Thanks to the recovery of leasing demand, net absorption reached about 113,000 sqm, up 58% QoQ and 38% YoY, but the cumulative net absorption in H1 2022 was still lower than H1 2021, reflecting a weak recovery.

It is noteworthy that in H1 2022, with the situation of external trade environment deterioration and occasionally outbreak of domestic epidemics, even large-scale companies with high rental payment ability, such as industry leaders or foreign multinational enterprises with headquarters in Shanghai / Beijing, they tended to be more conservative and cautious. For small and medium-sized enterprises with weak anti-risk capabilities, Guangzhou has issued “Ten Relief Measures” to help them with the operating pressure in terms of tax rebates, tax reduction, and rent reduction and exemption etc.

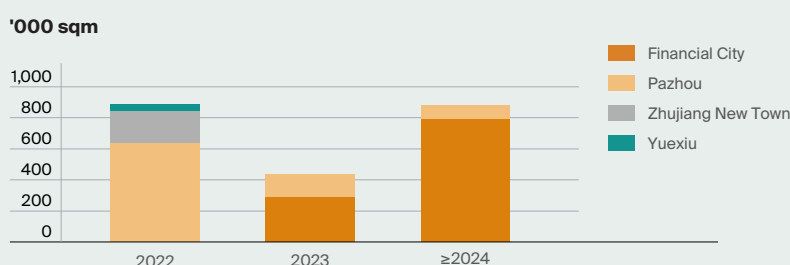
In Q3, new supply is expected to be reached 180,000 sqm, including Huaxin Center, Guanglv HQ Economic Building in Pazhou and Lifeng International Financial Center in Yuexiu. Considering the joint effect of the macro policies and

FIGURE 3. Guangzhou Grade-A office supply, take up and vacancy rate



Source: Knight Frank Research

FIGURE 4. Guangzhou Grade-A Office Market Future Supply Forecast



Source: Knight Frank Research

the repairment of market in 2H of this year, the rental market is expected to be rebounded. Therefore, office rental

would remain flat and the vacancy rate would be pushed up with a slight increase.

Table 2. Major Guangzhou Grade-A office leasing transactions, Q2 2022

District	Building	Tenant	Area (sqm)	Transaction Type
Yuexiu	Lifeng Center	Watsons	12,000	Lease Renewal
Zhujiang New Town	CTF Financial Tower	Bank of East Asia	3,900	New Lease
Pazhou	Guomei West Tower	Youyu Games	4,000	New Lease
Tianhe North	Zhongtai International Building	Bay Area Industry and Finance	1,600	New Lease

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

INVESTMENT MARKET

In Q2, investment market continued to be active, with two en-block office transactions, both located in the Financial City Sub-market of Tianhe District.

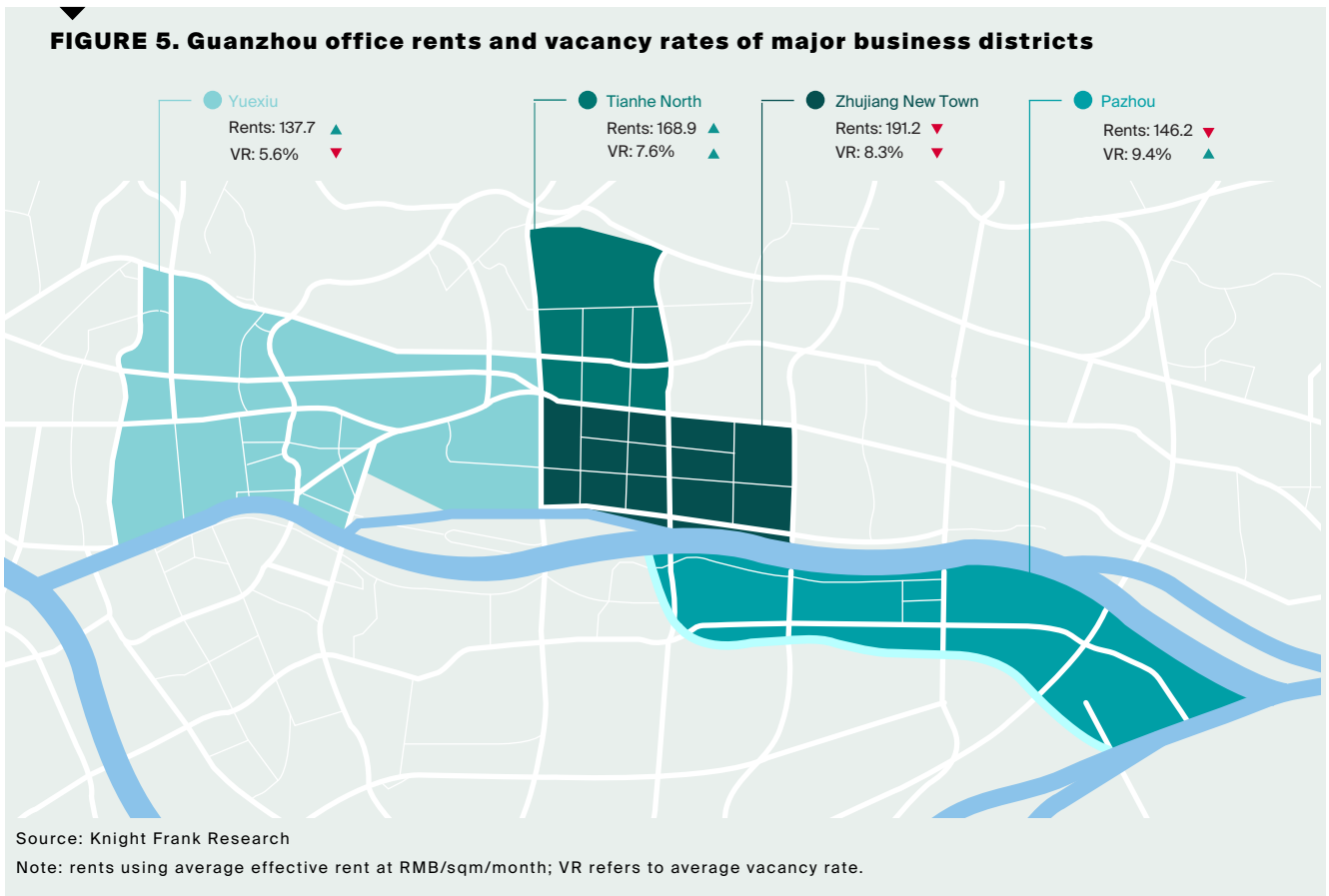
One was Building No. 4 of Zhuguang Financial City No. 1 on the east of Huangpu Avenue. The GFA was over

30,000 sqm. The other was Canton Financial Center, which was jointly built by Shimao Group, China Resources Land and KWG Property, with a transaction area of two half-floors (approximately 4,500 sqm).

It is noteworthy that Canton Financial Center broke the history of only renting

but not selling of the core CBD landmarks in Guangzhou. It has always been a hot spot in the market. The main buyer was for self-use, and the domestic companies needed to expand due to the rapid growth of business.

GUANGZHOU GRADE-A OFFICE MARKET DASHBOARD Q2 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.

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