

While the economic environment remains uncertain, most tenants were still making relocation plans that aimed at saving leasing costs



Guangzhou Office Market Report

Q3 2020

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RENTAL DECLINE OF GUANGZHOU GRADE-A OFFICE MARKET NARROWED AND RENTS GRADUALLY STABLIZED

In Q3 2020, due to the delay of the construction of new projects, there was no new supply in Guangzhou Grade-A office market this quarter. Overall stock maintained at 5.904 million sqm.

The production and economic activity in Guangzhou have resumed to normal. The major economic indicators such as private consumption has shown signs of recovery, and the urban economy has been further strengthened. From January to August 2020, total retail sales of consumer goods in Guangzhou decreased by 7.5% YoY. The decline was 1.5 percentage points less than the period from January to July. The cumulative growth in fixed asset investment increased by 5.5% YoY, and the decrease was 0.9 percentage points higher than the period from January to July. Infrastructure investment increased by 9.5% YoY, 4.0 percentage points more as compared to the period from January to July, which provide the urban economic development with vitality.

In Q3 2020, the vacancy rate of the

Guangzhou Grade-A office market rose slightly by 0.3% QoQ to 6.8%, while the average rent declined by 1.2% QoQ to RMB 170 per sqm per month.

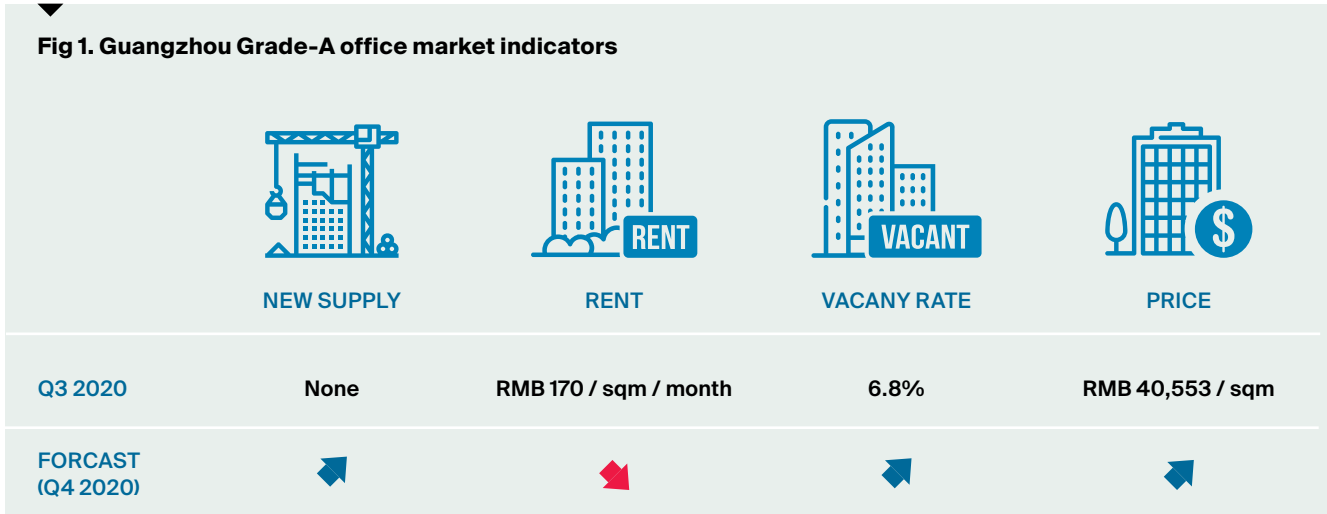
Despite the gradual recovery of the economy, most tenants were still making relocation and leasing plans that aimed at saving operating costs and cost-effective office spaces. Meanwhile, the quality of property management of the office building also became one of the important factors for tenants when considering relocations. In response, some office property owners have also offer concessions such as discounts for overtime air conditioning to attract tenants. While there are more cases of lease surrender and downsizing in the market, some office owners chose to restructure and optimize the tenant structure during this time, so as

to improve the image and branding of the building.

Under the severe economic environment, co-working projects were more favoured by tenants because they can save the fitout cost and enjoy more flexible lease terms. Beyond that, customized office projects were also favoured by enterprises because they can better meet the development needs of enterprises and improve the utilization rate of office spaces.

In this quarter, the co-working brands remained active in expansion. Apart from office location, the potential rent increase the in office sub-market has gradually become an important criteria for co-working space expansions.

Fig 1. Guangzhou Grade-A office market indicators



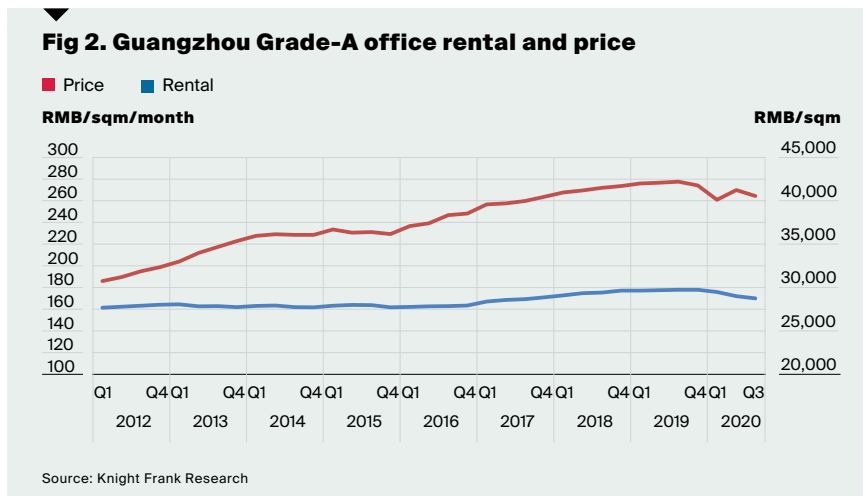
Source: Knight Frank Research

RENTS AND PRICES

In Q3 2020, the average rent of Grade-A office market in Guangzhou was RMB 170 per sqm per month, dropped 1.2% QoQ, and the decline narrowed by 1.1 percentage points QoQ. The decline of average rent gradually stabilized.

However, in Q3, Yuexiu sub-market was curtailed by the abundant new supply from the previous quarter, with rents falling 4.3% QoQ to RMB 134 per sqm per month. As affected by the large amount of new supply in the future, rents in Pazhou sub-market continued to be under pressure, with rent falling 2.1% QoQ to RMB 143 per sqm per month. In addition, the supply of office building in Pazhou sub-market will be peaked in 2021. It is expected that the rental level in Pazhou sub-market will remain relatively low in the medium-term due to oversupply.

Fig 2. Guangzhou Grade-A office rental and price



Source: Knight Frank Research

For the strata-title market, the average selling price of office buildings in Guangzhou during Q3 was RMB 40,553 per sqm, dropped 1.7% QoQ. Poly Yuzhu Port, located in the

Huangpu Harbor Economic Zone, recorded a bulk transaction of 7,000 sqm in this quarter, with a unit price of RMB 38,000 per sqm.

Table 1. Major Grade-A office sub-market indicators, Q3 2020

Submarket	Rent (RMB / sqm / month)	Rent Change QoQ	Vacancy Rate	Vacancy Rate Change QoQ
Zhujiang New Town	192	↓1.5%	6.1%	↑0.2
Tianhe North	169	↑1.8%	6.1%	↑1.5
Yuexiu	134	↓4.3%	10.4%	↓1.8
Pazhou	143	↓2.1%	7.0%	↑1.7

Source: Knight Frank Research

Table 2. Major Grade-A office strata-title sales transactions, Q3 2020

District	Building	Area (sq m)	Unit Price (RMB / sq m)
Huangpu	Poly Yuzhu Port	7,000	38,000
Nansha	Zhongjiao International Cruise Plaza	5,000	25,000

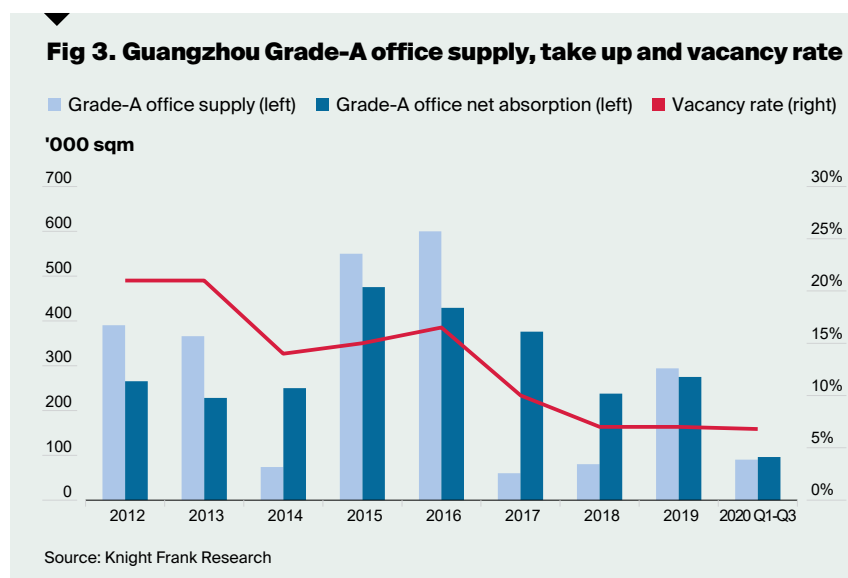
Source: Knight Frank Research
Note: all transactions are subject to confirmation

SUPPLY AND DEMAND

In Q3 2020, no new Grade-A office project was completed and delivered in Guangzhou. Therefore, the stock of Grade-A office market in Guangzhou remained unchanged from the previous quarter at 5.904 million sqm. In the previous three quarters of 2020, the market recorded a net absorption of 96,000 sqm.

In this quarter, the office leasing market rebounded further, and the number of inquiries about office leasing also increased. Some office properties were fully let, but most companies preferred to reduce office spaces or leasing costs. Meanwhile, foreign enterprises preferred to renew leases. Since the market became more active, owners were advised to make concessions on leasing terms to stabilize the cash flow of the buildings.

Professional service enterprises were particularly active in the market, which



were important tenants of leasing transactions with large area in this quarter. Some examples included AVIVA-COFCO rented a 5,000 sqm of office space in Lumina, THE EXPORT-IMPORT BANK

OF CHINA rented a 3,500 sqm of office space in Poly International Square, JT&N rented a 2,300 sqm of office space in Central Tower.

Table 3. Major Grade-A office leasing transactions, Q3 2020

District	Building	Tenant	Area (sq m)	Transaction Type
Yuexiu	Lumina	AVIVA-COFCO	5,000	Relocation
Zhujiang New Town	Tiande Plaza	Lonkey	4,000	Relocation
Zhujiang New Town	Tianying Plaza	HANDAR BLASTING	2,800	Relocation
Zhujiang New Town	Central Tower	JT&N	2,300	New Lease
Zhujiang New Town	Tiande Plaza	Kuaishou	1,975	Relocation
Pazhou	Poly International Square	THE EXPORT-IMPORT BANK OF CHINA	1,700	Enlarge
Yuexiu	Lumina	Denmark Consulate	1,300	Relocation
Yuexiu	Lumina	CICC Wealth Management	500	Relocation

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

INVESTMENT MARKET

In Q3, no en-bloc transactions were recorded in the investment market of Grade-A office building in Guangzhou, but there was office building located in the mature business district planned to be sold. On September 23, Guangzhou Pearl River Industrial Development Co., Ltd. announced that it plans to transfer its ownership of Yide Mansion to its

controlling shareholder, Guangzhou Pearl River Industrial Group Co., Ltd. through a non-public agreement, with a transaction value of RMB 1.622 billion. This transaction was to accelerate the activation of the company's stock assets, improve the asset turnover rate, optimize the asset structure and improve the financial situation.

As the economic recovers further, Guangzhou Grade-A office market rental level further stabilized, investors' confidence in Guangzhou market has been enhanced. Office buildings with high-quality tenant structures in the core areas are expected to become increasingly popular among investment buyers.

MARKET OUTLOOK

Currently, the industrial structure of Guangzhou is at the stage of transformation and upgrading, which has attracted the attentions of many enterprises. In August 2020, 266 projects signed agreement with a total investment value of RMB 654 billion in the 2020 International Investing Congress in Guangzhou, China. The projects are mainly concentrated in the headquarter economy, artificial intelligence,

digital economy, financial services, cold chain logistics, culture, tourism and other sectors, including Alibaba's new retail operations center of South China, a series of projects for Baidu, etc.

Besides, the settlement of several major projects in Guangzhou has also accelerated the development of high-tech industries in many non-traditional core areas. The

core area of Pazhou was rated as the first National Industrial Demonstration Base of New Industrialization in the province and was selected as one of the First Artificial Intelligence Industrial Parks in the province. Yuzhu District was approved to establish a National Blockchain Development Pilot Demonstration Zone. Huawei Guangzhou R&D Center settled in Baiyun District, attracting high-quality

upstream and downstream enterprises to settle in Guangzhou and accelerating regional transformation and upgrading. Guangzhou Development Zone signed a strategic agreement with Baidu to cooperate in diverse fields such as autonomous driving, intelligent vehicle alliance and intelligent transportation.

In addition to high-end industries, the professional service industries is also developing well under the guidance of policies. In July 2020, the executive meeting of Guangzhou Municipal Government deliberated and approved the Action Plan

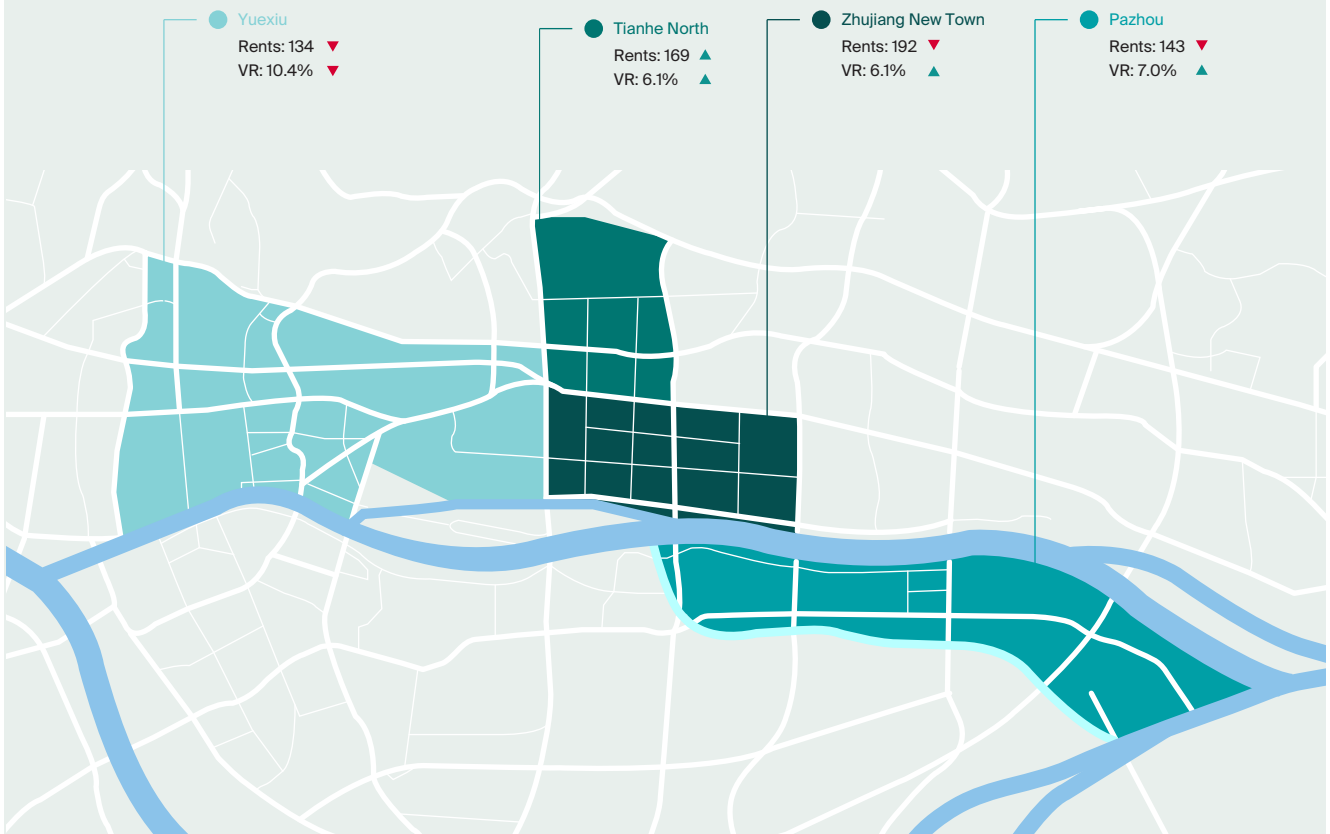
on Implementing the Opinions on Financial Support for the Construction of Guangdong-Hong Kong-Macao Greater Bay Area. The plan proposes to accelerate the establishment of the Guangdong-Hong Kong-Macao Greater Bay Area International Commercial Bank in the Nansha New District of Guangzhou. At the same time, eligible insurance institutions from Hong Kong and Macao will be supported to set up offices in Nansha District. Qualified Hong Kong and Macao Banks and other financial institutions are supported to expand their business in Guangzhou by setting up new mainland legal person headquarters, branches and

franchised institutions. The establishment of foreign-controlled securities companies, fund management companies and futures companies in Guangzhou will be supported in an orderly manner in accordance with the law.

The combination of major projects and policies is expected to consolidate Guangzhou's position being the central city in the Guangdong-Hong Kong-Macao Greater Bay Area, thus promoting the vigorous development of Guangzhou's office market.

GUANGZHOU OFFICE MARKET DASHBOARD

Fig 4. Guangzhou office rents and vacancy rates of major business districts



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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