

*Net absorption is the lowest in a decade, recovery in sight
for next year*



Guangzhou Office Market Report

Q4 2022

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OVERVIEW AND OUTLOOK

In Q4 2022, due to the epidemic outbreak, the leasing activity was subdued, which led to a negative quarterly net absorption for the second consecutive quarter. Throughout the year, the cumulative net absorption of 2022 was approximately 35,000 sqm, the 10-year lowest point, only 13% of that before the epidemic in 2019. Besides, the annual new supply is 14 times of the annual net absorption in 2022. It is no exaggeration to say that the issue of

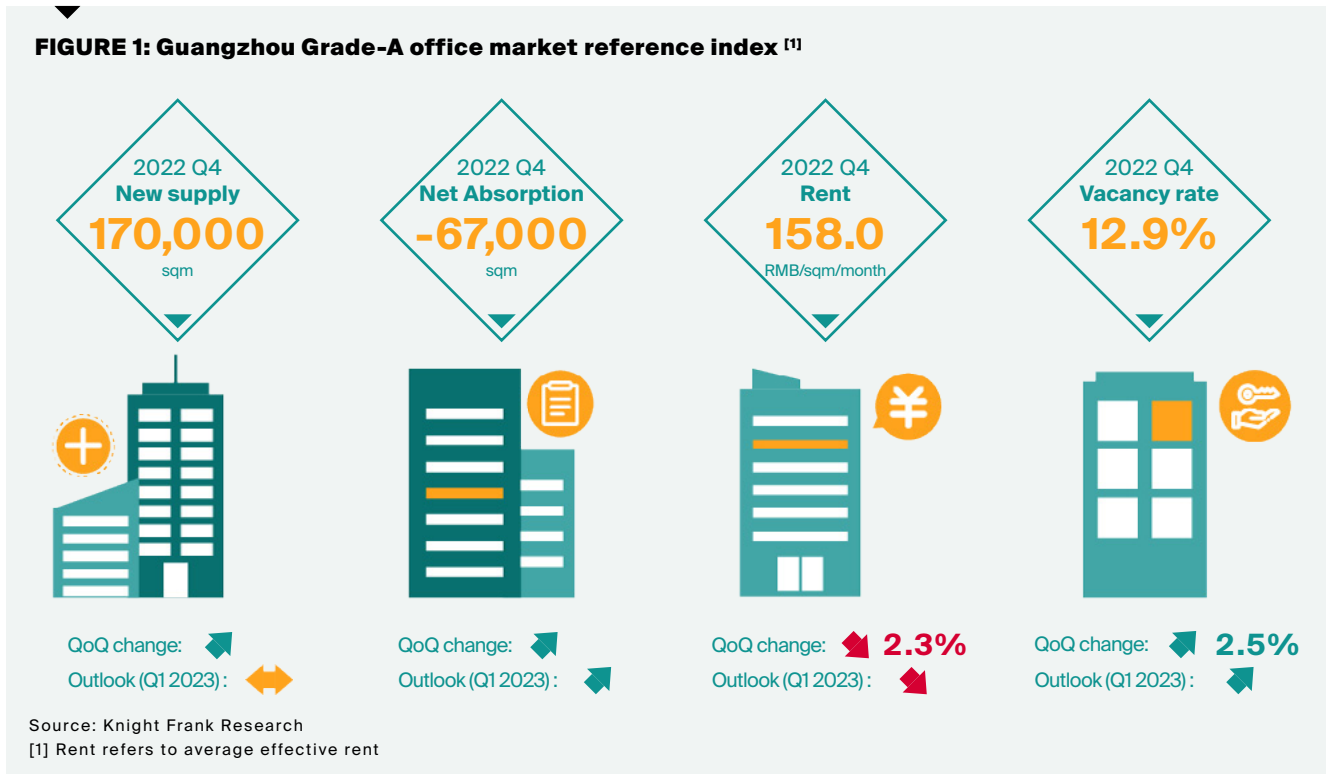
oversupply was exceptionally extreme in this year throughout the past decade.

In addition, the vacancy rate increased to 12.9%. Rents continued the downward trend, plunged by 2.3% QoQ, 6.5% YoY, to RMB 158.0/sqm/month, a 10-year low.

Looking forward in 2023, thanks to relaxation of epidemic prevention control policy and reopening of borders between Hong Kong and the Mainland,

the leasing market is expected to recover. However, we expect the recovery of demand will be slower than supply and the upward pressure on the vacancy rate still exists. Moreover, tenants are now generally adopting the strategy of costs reduction. Meanwhile, the landlords usually use “price for volume” strategy to strive for stable occupancy performance, and rents are expected to drop.

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



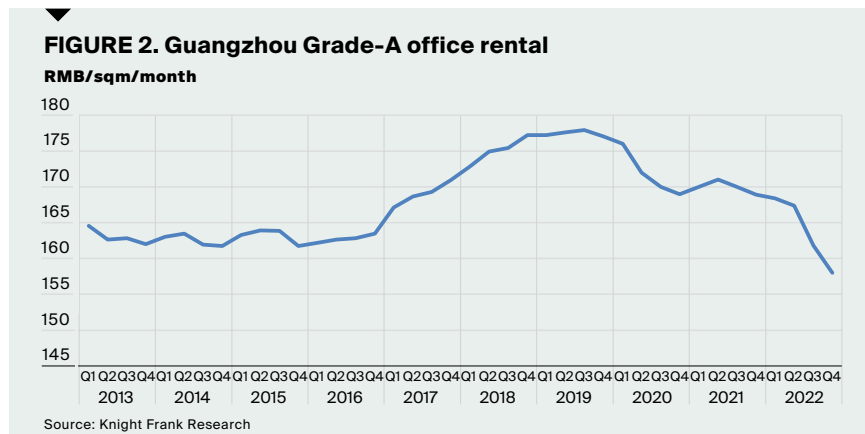
RENTS LEVEL

In Q4, the rents in Guangzhou recorded the 10-year lowest point, down 2.3% QoQ to RMB 158.0. But it is on a narrowing trend compared from the 3.3% decline in Q3.

All four sub-markets in the city recorded a rent decline of more than 1%. The largest drop was in an emerging sub-market, Pazhou. Pazhou is positioned as an Internet innovation cluster, but the Internet industry has recently faced a period of intense adjustment. On the other hand, including the CBD Zhujiang New Town, the landlords made substantial concessions.

It is worth noting that there will be no new supply in Zhujiang New Town for a long period in the future, which means

FIGURE 2. Guangzhou Grade-A office rental



that Zhujiang New Town will remain in a long period of stock depletion cycle. Currently, tenants are generally

concerned about the final costs, so each sub-market may occur a price war.

Table 1. Major Guangzhou Grade-A office sub-market indicators, Q4 2022

Submarket	Rent		Rental % changes (QoQ)	Vacancy Rate	Vacancy rate percentage change (QoQ)
	RMB/sqm/mth	RMB/sqm/day			
Zhujiang New Town	171.8	5.6	↓1.3%	12.2%	↑2.1%
Tianhe North	159.0	5.2	↓1.5%	7.0%	↓0.4%
Yuexiu	141.2	4.6	↓4.7%	19.0%	↑3.1%
Pazhou	133.5	4.4	↓1.6%	13.2%	↑7.0%

Source: Knight Frank Research

SUPPLY AND DEMAND

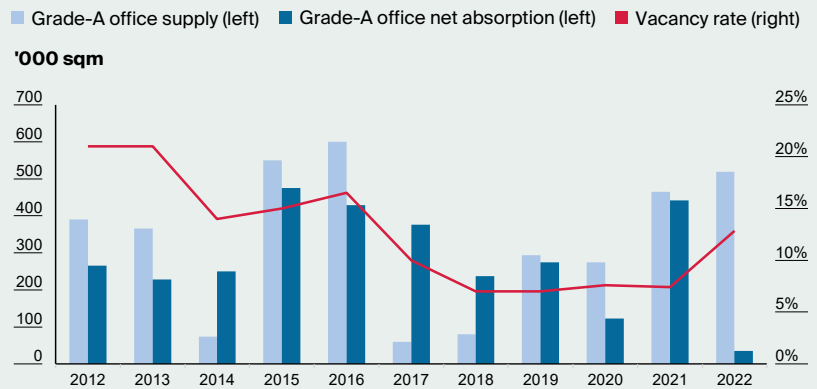
In Q4, BCC in Zhujiang New Town and Lifeng International Center in Yuexiu were completed.

In the future, the new supply will be concentrated in Pazhou and the Financial City. Hence, the Guangzhou office market may open a new chapter.

In terms of leasing, landlords adopted active and flexible leasing policies, which were still able to attract high-quality tenants to move in. For example, ICC has successfully attracted Mentholatum and and Jingdong Allianz General Insurance rented 2,600 and 1,700 sqm of office space respectively.

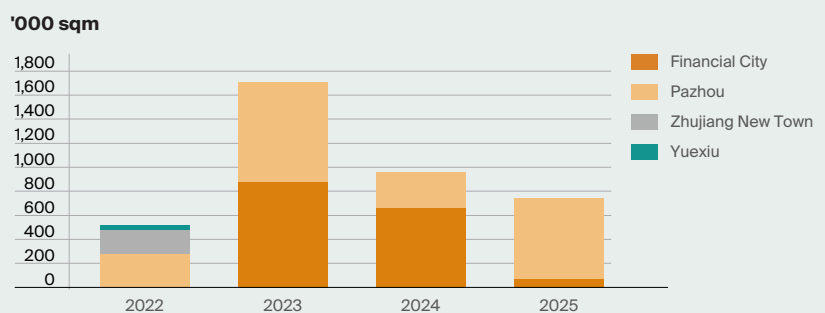
In 2022, leasing demand was weak, with net absorption recorded the lowest point in the last decade, recorded approximately 35,000 sqm. In 2023, there are more than one million sqm new supply and the average net absorption in the three years before the epidemic was only about 300,000 sqm. As a result, the issue of oversupply remains “hanging sword” in Guangzhou office market.

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



Source: Knight Frank Research

FIGURE 4. Guangzhou office development pipeline, 2022-2025



Source: Knight Frank Research

Table 2. Major Guangzhou Grade-A office leasing transactions, Q4 2022

District	Building	Tenant	Area(sqkm)	Transaction Type
Tianhe North	Shengfeng Plaza -IFC	ATLAS	2,900	New Lease
Zhujiang New Town	ICC	Mentholatum	2,000	New Lease
Zhujiang New Town	ICC	Jingdong Allianz General Insurance	1,700	New Lease
Zhujiang New Town	IFC	Bank of America	1,400	Renewal
Zhujiang New Town	IFP	Shell	1,200	Renewal

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

INVESTMENT MARKET

In Q4 2022, there were two transactions in investment market of Guangzhou and the total transaction amount was RMB750 million. Throughout the year, the total volume of transactions in Guangzhou office exceeded RMB12 billion. Compared to last year, the foreign buyers were significantly active, but domestic owner-occupier buyers dominated the market again in 2022. There was only one foreign buyer in 2022, which was the purchase of the subsidiary building of Xiaomi Internet Park by Kailong Equity Investment Fund in Q1.

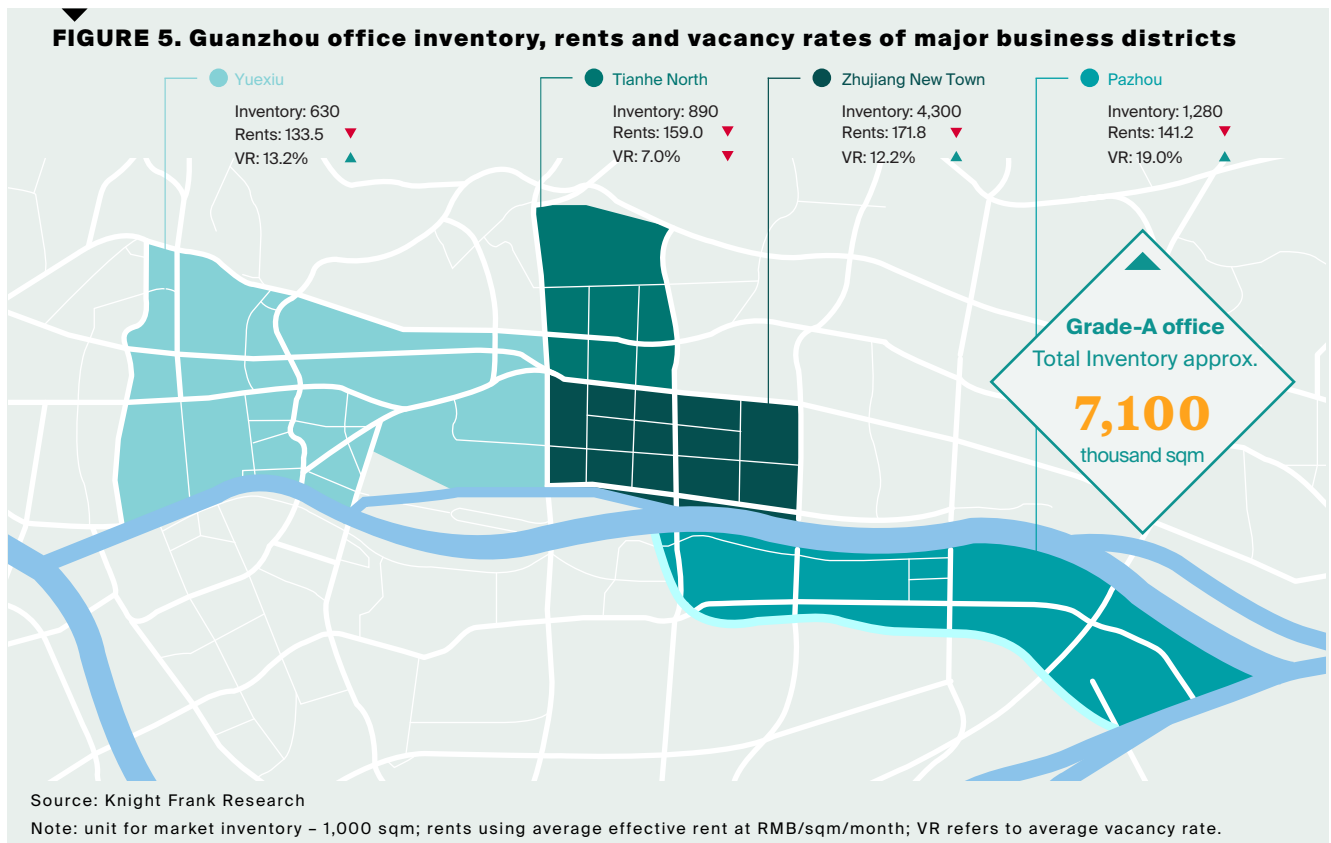
In Q4, the largest transaction amount

was COSCO Shipping Holdings purchased the 19-22 floors of Guangzhou International Shipping Building in Pazhou from Hailong Real Estate for its own use at around RMB520 million, with an area of 9,939 sqm and a unit price of about RMB 52,000 per sqm. The other one was the purchase of an office building in Haiyin Festival City, located in Panyu District, from Guangdong Highsun Group by Pak Pai Co Ltd with an area of 17,000 sqm and a total price of about RMB230 million.

With the relaxation of epidemic prevention and control policies, economic and trade activities,

including cross-border investment will be revived. In addition, governments issued support policies for real estate, including lowering the threshold of house purchase and the implementation of “three arrows”, respectively providing liquidity support in bank credit, bond financing, equity financing. We expected that the real estate industry will gradually stabilize in 2023, but enterprises with high leverage and serious debts still need to sell projects with discounts. For 2023, we expect investment markets will remain active, and the foreign buyers are expected to return.

GUANGZHOU GRADE-A OFFICE MARKET DASHBOARD Q4 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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