

Guangzhou Grade-A Office Market Report



Q4 2023

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

► Moderate recovery but lack of upside momentum

In Q4, Guangzhou's Grade A office leasing market witnessed a mild recovery, with net absorption at its highest level in the past two years, reaching 313,094 sqm for the whole year. The city's rents continued their downward trend, having fallen continuously over the past two years, but the rate of decline has gradually narrowed. The city's overall market average rent for Q4 was RMB 140.8/sqm/month, marking a decline of 17% over the past two years. Despite nearly 100,000 sqm of new supply entering the market in Pazhou, the city's overall vacancy rate fell by 1.5% to 12.4% owing

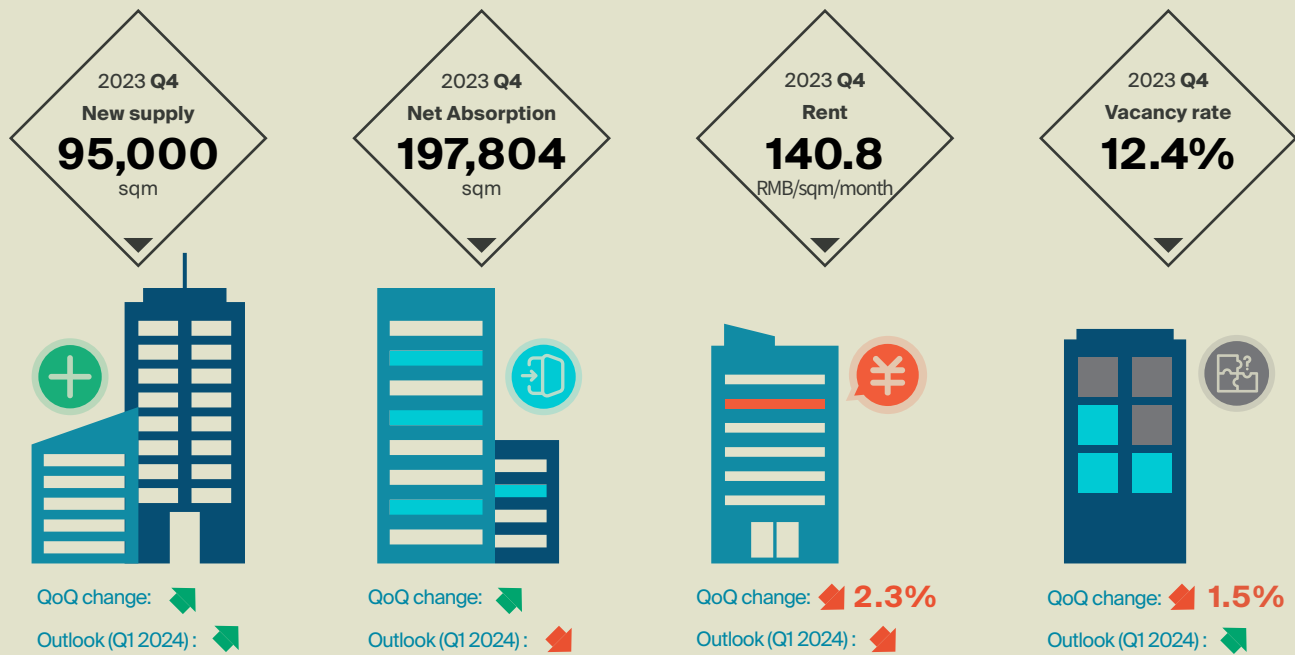
to the cyclical recovery on the demand side.

In terms of the investment market, en-bloc transaction activity picked up. During Q4, Guangzhou recorded one en-bloc transaction with a transaction value of approximately RMB 1.1 billion, which was the highest en-bloc transaction value in the city for the year. The total amount of en-bloc transactions for the year was approximately RMB 7.5 billion.

Throughout the year, the overall average market rent in Guangzhou

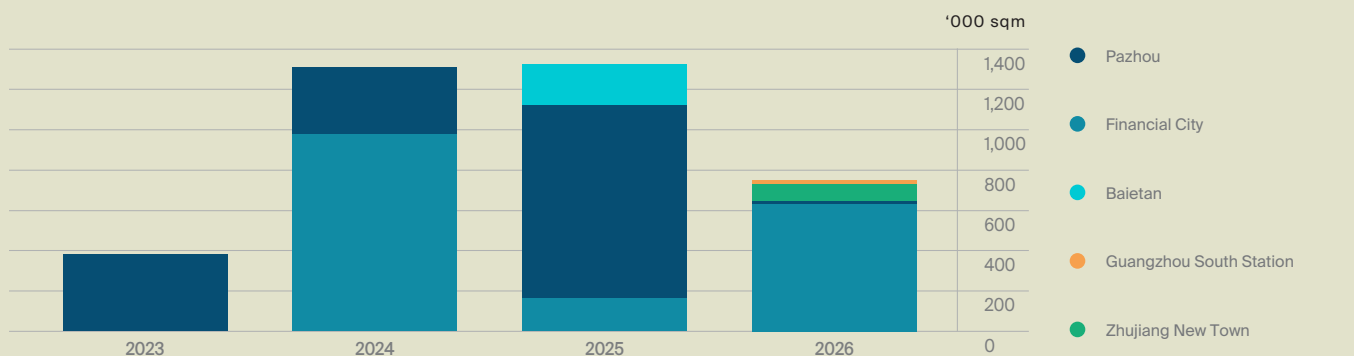
continued to fall, and net absorption increased, but the overall market is still in the process of bottoming out. Looking ahead to 2024, as the endogenous momentum of the macro economy remains insufficient, the foundation for a significant recovery in demand has yet to solidify, and with an estimated release of more than 1.3 million sqm on the supply side, rents are expected to remain under pressure and the vacancy rate is expected to fluctuate on an upward trend.

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, 2023-2026



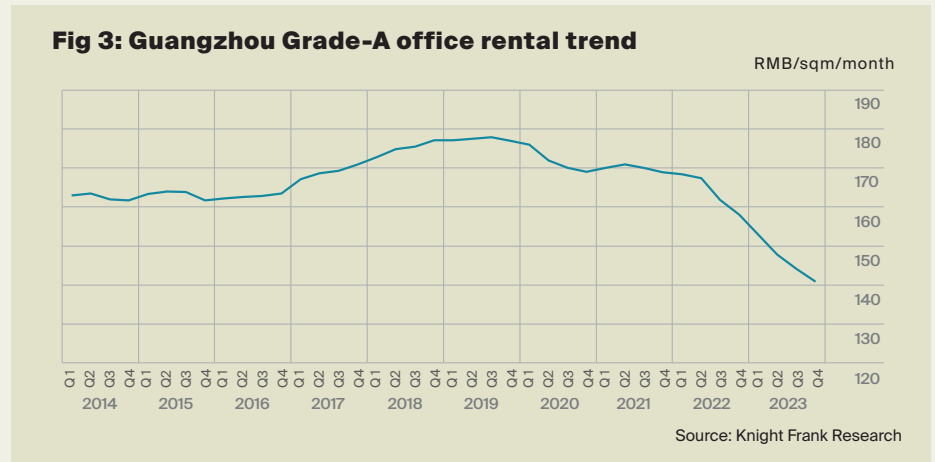
Source: Knight Frank Research
Note: Projected supply in 2023 includes projects already on the market

Rental Level

► Rents are still expected to remain on the downside

In Q4, Guangzhou's overall office market rent continued to decline, falling to RMB 140.8/sqm/month and recording a QoQ decrease of 2.3%. Owing to new supply in Q4, Pazhou experienced an increase in the scissors gap between supply and demand, intensifying the regional price war and resulting in the quarter's largest decline in rents among all sub-markets. For full-year 2023, the average Guangzhou office market rent recorded a YoY decline of 10.9%. Apart from Zhujiang New Town, the average rent of the other three submarkets recorded a YoY decline of more than 10%, so the overall market is still in the basing stage.

Looking ahead to Q1 2024, releases accelerated on the supply side of



the Guangzhou office market, but momentum on the demand side remains relatively weak. Overall

inventory pressure is still heavy, so rents are expected to continue their downward trend.

Table 1: Major Guangzhou Grade-A office sub-market indicators, Q4 2023

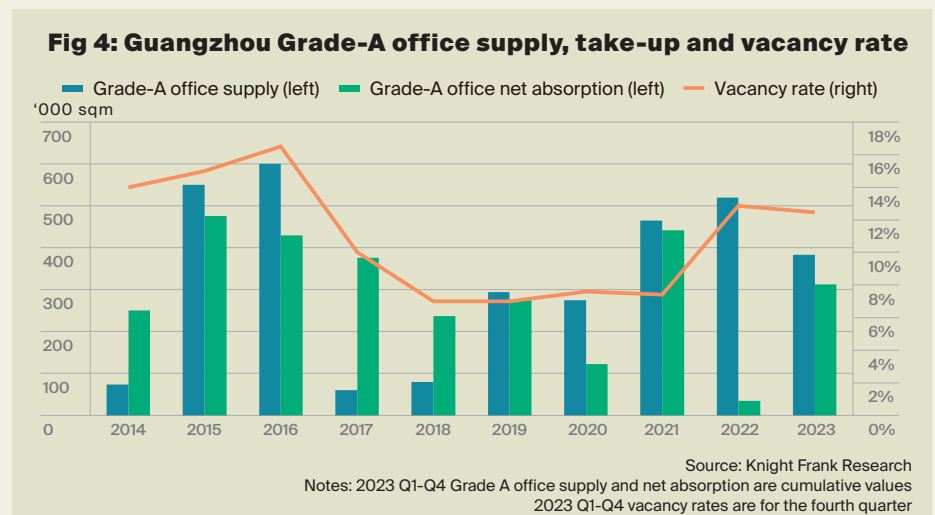
Submarket	Rent		Rental % changes (QoQ)	Vacancy Rate	Vacancy rate percentage change (QoQ)
	RMB/sqm/mth	RMB/sqm/day			
Zhujiang New Town	157.0	5.2	↓1.4%	10.1%	↓3.3%
Tianhe North	140.9	4.6	↓3.3%	6.1%	↓0.8%
Pazhou	123.2	4.1	↓4.2%	23.1%	↑2.2%
Yuexiu	115.6	3.8	↓1.8%	8.2%	↓1.8%

Source: Knight Frank Research

Supply and Demand

► Cyclical recovery in demand whilst the supply-demand imbalance remains challenging

In Q4, the Guangzhou office market experienced a cyclical recovery, with a net absorption area of 197,804 sqm, the highest in the past two years. Annual net absorption reached 313,094 sqm, equivalent to 70% of the net absorption area for full-year 2021. Although there was new supply in the market in Q4, the citywide vacancy rate continued to narrow, with a QoQ decline of 1.5%, reaching 12.4%. The continuous implementation of the "price for volume" strategy by property owners proved to be effective, as pent-up corporate leasing demand in Q1-Q3 was finally released at the end of the year. Apart from Pazhou, the vacancy rates in the other three sub-markets recorded



decreased. Among them, Zhujiang New Town, the sub-market with the highest net absorption area in Q4, witnessed the largest fall in the vacancy rate, reaching 3.3%.

Although relocations remained the main type of leasing demand in Q4, there was a significant increase in demand for newly established or newly leased office space, accounting for over 20% of leasing demand in Q4. The financial industry continued to be the leading source of leasing demand, accounting for over 25% of the transaction area, with insurance and private-equity-related companies the most active in leasing activity. The biggest transaction area for single

deal in the city in Q4 also involved the financial industry. The professional services industry ranked second in the city's overall leasing demand, driven by demand from legal and public relations firms, and related enterprises. Law firms contributed more than 40% of demand in the professional services sector, most of them newly established or expanding. While the financial and professional services industries are highly concentrated in Zhujiang New Town, TMT companies were more cost sensitive and preferred areas such as Tianhe North, Pazhou and Panyu, where rental prices offer a better price/performance ratio.

Total new supply in 2023 reached

383,000 sqm, with over 240,000 sqm of supply delayed to 2024. Considering the cyclical and other expected factors behind the demand recovery in Q4, it is estimated that there will be over 1.3 million sqm of new supply entering the overall Guangzhou market in 2024. However, in the macroeconomic context, with relatively weak endogenous driving forces for growth and average annual absorption of only about 300,000 sqm in the Guangzhou office building market over the past decade, the supply-demand imbalance will continue to loom over the Guangzhou office building market like the sword of Damocles. Overall inventory in the market will continue to be under pressure.

Table 2: Major Guangzhou Grade-A office leasing transactions, Q4 2023

District	Building	Tenant	Area (sqm)	Transaction Type
Zhujiang New Town	BCC	Efunds	21,329	Newly established
Pazhou	Poly Zhongyue Plaza	Jiumaojiu	10,000	New lease
Zhujiang New Town	Guangdong Media Center	Ant-Yikang	4,300	Relocation
Zhujiang New Town	CTF Financial Tower	Lawsons Law Office	3,800	Relocation
Zhujiang New Town	Huimei Mansion	Winshang.com	22,00	Renewal

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

Investment Market

► Slight improvement but caution continues

In Q4 2023, there was only one en-bloc transaction in the Guangzhou office building market, which involved the acquisition of Buildings A2 and A4 in the Guangzhou GDH Future City Project by a company from Shenzhen. The transaction included a total of 220 commercial properties, with a transaction value of approximately RMB 1.1 billion, making it the highest-value en-bloc transaction in the Guangzhou market for the year.

Throughout the year, the total value of office building en-bloc

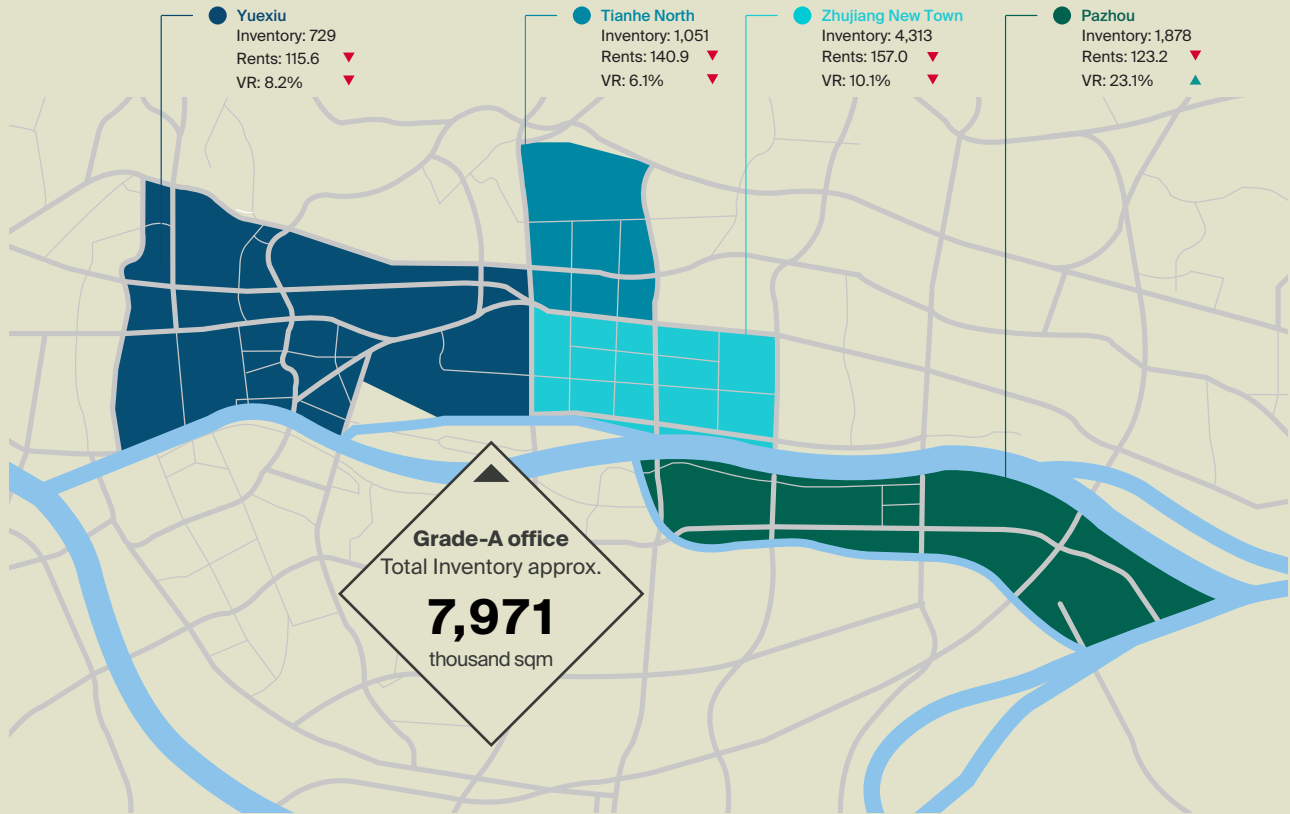
transactions in Guangzhou amounted to approximately RMB 7.5 billion, indicating a moderate recovery in the market. However, compared to 2022, investors in en-bloc transactions remained cautious, as the overall market saw a decline in transaction activity, transaction value, and the number of transactions. A further recovery in the overall market is needed for investor confidence in en-bloc transactions to return.

In 2024, a continued reduction in the reserve ratio and interest rate by

the central bank is expected. With the declining cost of financing, and in the absence of effective stimulation of macroeconomic conditions, the price of properties should continue to decline. The required investment return rates will increase, and properties with stable income will continue to draw the attention from en-bloc transaction buyers amidst the interest rate reduction trend.

Guangzhou Grade-A office market dashboard Q4 2023

Guangzhou Grade-A office inventory, rents and vacancy rates of major business districts



Source: Knight Frank Research

Note: unit for market inventory – 1,000 sqm; 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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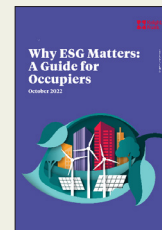
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