Guangzhou Grade-A Office Market Report

Knight Frank

Q4 2024

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

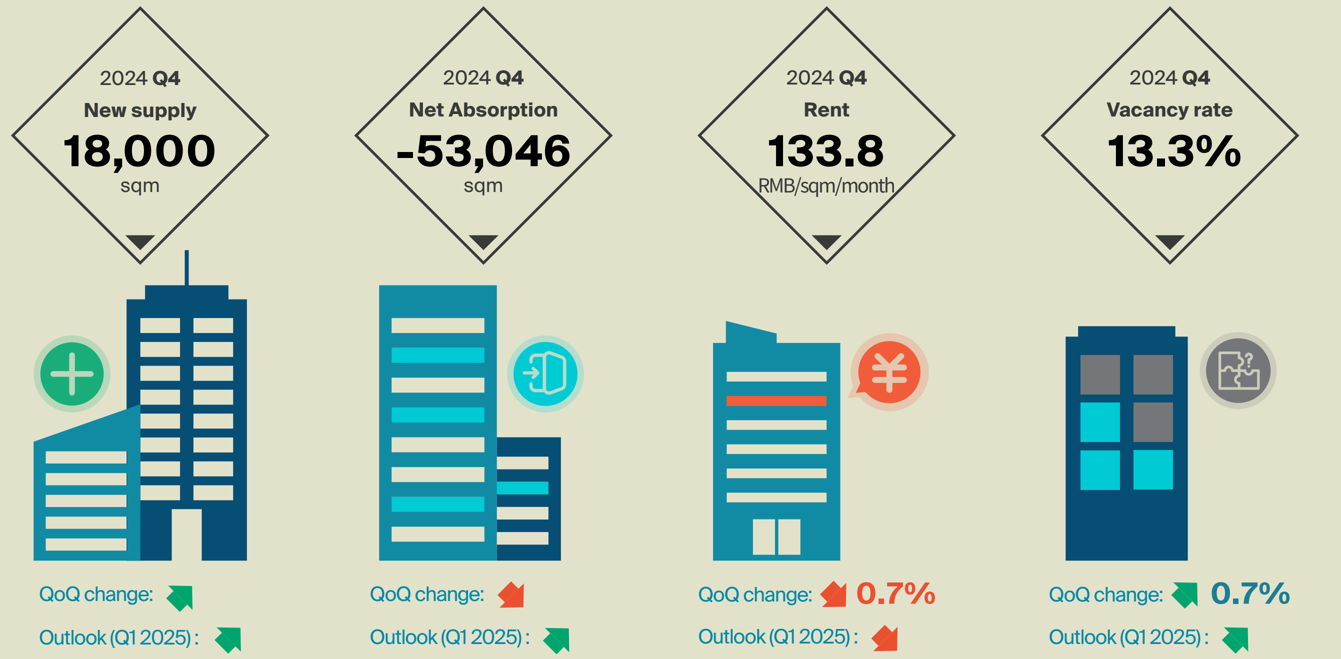
The market remained sluggish but may see a turning point next quarter

In Q4 2024, Guangzhou's office market saw 18,000 sqm of new supply, but weak leasing demand led to a sharp decline in net absorption, which dropped to -53,046 sqm. The average rent for Grade A office space fell by 0.7% QoQ to RMB 133.8 per sqm per month, and the citywide vacancy rate rose by 0.7 percentage points to 13.3%, indicating a subdued market.

For the year, leasing demand from new setups accounted for 31% of total transactions, and expansion demand significantly outweighed contraction demand, suggesting that the overall market structure did not deteriorate further. The TMT, manufacturing and professional services sectors remained the core drivers of leasing activity. The TMT sector, supported by robust demand from internet platforms and cloud computing, continued to lead leasing transactions citywide. On the investment front, the quarter recorded one major transaction, involving ABS, for a total value of RMB 1.09 billion.

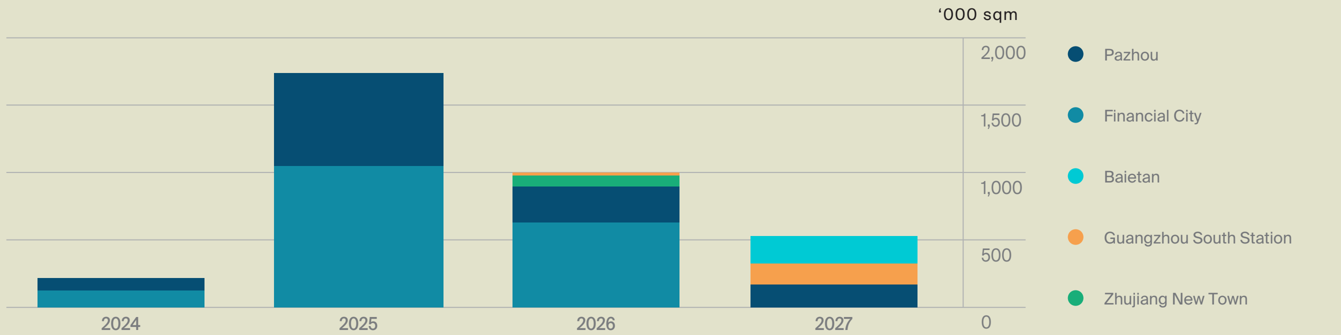
Over the year, Guangzhou's total net absorption amounted to just over 20,000 sqm, far below the 10-year annual average of approximately 300,000 sqm, indicating weak overall demand. Looking ahead to 2025, nearly 1.7 million sqm of new supply are expected to enter the market, likely driving vacancy rates higher and keeping rentals on a downward trend. However, as negative factors are fully realised , and domestic economic stimulus policies gain clarity, these measures could accelerate the release of pent-up demand. Starting in Q1 2025, net absorption is projected to rebound, marking a potential turning point for the market.

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, 2024-2026



Source: Knight Frank Research
Note: Projected supply in 2024 includes projects already on the market

Rental Level

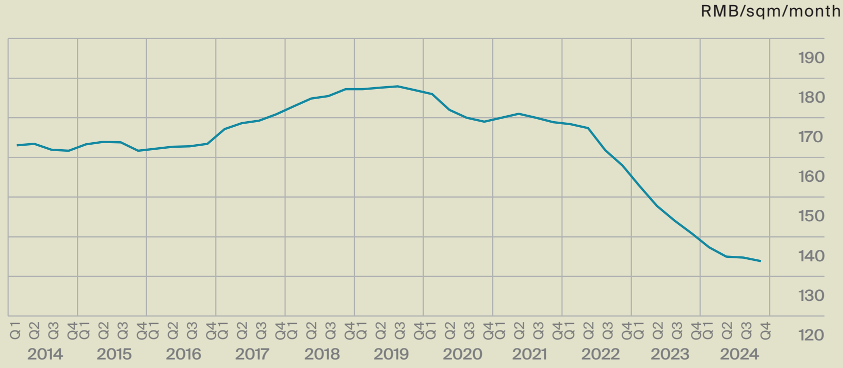
Downward pressure on rents persists

In Q4 2024, Guangzhou's office market rents continued their downward trend, declining to RMB 133.8 per sqm per month, marking a 0.7% QoQ drop and an expanded rate of decline. Over the year, average rents in the city's Grade A office market failed to stabilize, as sustained new supply exerted continued pressure on the supply side, driving rents to seek a support level.

At the submarket level, rents in Tianhe North and Zhujiang New Town were relatively stable; both recorded modest increases this quarter. However, the Pazhou and Yuexiu submarkets experienced significant declines, with Yuexiu registering the steepest quarterly drop of 6.4%, making it the worst-performing submarket during the period.

Looking ahead to 2025, Guangzhou's office market is expected to face nearly 1.7 million sqm of new supply. Among this, the Guangzhou Financial City Fangcheng project, now fully topped out, will contribute over 1 million sqm of new supply. Some of these projects are expected to enter the market as early as Q1 2025, resulting in significant destocking pressure. Given the lack of notable macroeconomic recovery signals, average rents in the city's office market are expected to remain on a downward trajectory.

Fig 3: Guangzhou Grade-A office rental trend



Source: Knight Frank Research

Table 1: Major Guangzhou Grade-A office sub-market indicators, Q4 2024

Submarket	Rent RMB/sqm/mth	Rent RMB/sqm/day	Rental % changes (QoQ)	Vacancy Rate	Vacancy rate percentage change (QoQ)
Tianhe North	128.8	4.2	↑0.2%	7.8%	↑0.2%
Zhujiang New Town	149.6	4.9	↑0.2%	11.1%	↓0.2%
Yuexiu	107.8	3.5	↓6.4%	8.1%	↓0.2%
Pazhou	121.3	4.0	↓0.9%	20.0%	↑0.5%
Financial City	106.4	3.5	↑1.9%	27.5%	↓4.2%

Source: Knight Frank Research

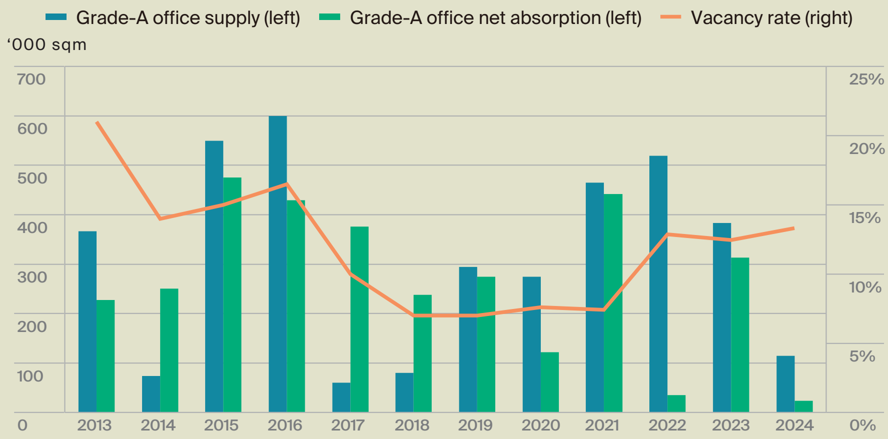
Supply and Demand

Demand likely to rebound as downward pressures ease

In Q4 2024, projects such as the Yueke Technology Financial Tower, 37 Interactive Entertainment Tower and Intercity Center were launched. However, as these new supplies are primarily self-used or not operated on a market-based leasing model, the actual new leasable supply amounted to only 18,000 sqm. Influenced by delayed transaction data, the impact of new supply, and the ongoing cyclical adjustment in the market, citywide net absorption declined, recording a net outflow of 53,046 square meters. Consequently, the vacancy rate for Grade A office space rose by 0.7 percentage points to 13.7%. For the year, Guangzhou's total net absorption reached just 23,260 sqm, significantly below the decade-long average, reflecting persistently weak demand.

From a corporate demand perspective, relocation activity dominated leasing transactions this quarter, accounting for 72% of activity. On an annual basis, relocations contributed 44% of total leasing transaction volume, underscoring their significance as a key demand driver. New setups followed, representing 31% of total demand. Expansion and renewal activities each accounted for approximately 8%, outpacing contraction activity.

Fig 4: Guangzhou Grade-A office supply, take-up and vacancy rate



Source: Knight Frank Research
Notes: The supply and net absorption of Grade A office space in 2024 is accumulated
The 2024 vacancy rate is for Q4

Over the year, Guangzhou's office market faced sustained demand pressure, with total net absorption hitting historic lows. In the absence of significant macroeconomic improvements, leasing demand remained constrained. However, as bearish market factors are gradually priced in, the market may be nearing the end of its downward adjustment phase, potentially entering a cyclical period of recovery.

In Q1 2025, with demand likely remaining subdued, landlords may adopt more aggressive pricing strategies to attract tenants amid the fiscal year transition. This approach could help slow the rise in vacancy rates and support a gradual correction in net absorption, signalling the beginning of a potential market rebound.

Table 2: Major Guangzhou Grade-A office leasing transactions, Q4 2024

District	Building	Tenant	Area (sqm)	Transaction Type
Pazhou	Poly Zhongyue Plaza	Perfect Diary	7,800	Relocation
Financial City	Hanyin Plaza	Inspur	2,800	Relocation
Financial City	Ping'an Finance Building	Lieping	2,400	Relocation
Zhujiang New Town	Central Tower	Embassy of the State of Qatar	2,300	Relocation

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

Investment Market

ABS as a new path for cautious institutional investors

In Q4 2024, Guangzhou's office investment market recorded a single en-bloc transaction valued at RMB 1.092 billion. For the year, total transaction volume in the city's office investment market reached approximately RMB 3.2 billion, reflecting a YoY decline of over 50%, as institutional investors maintained a cautious approach.

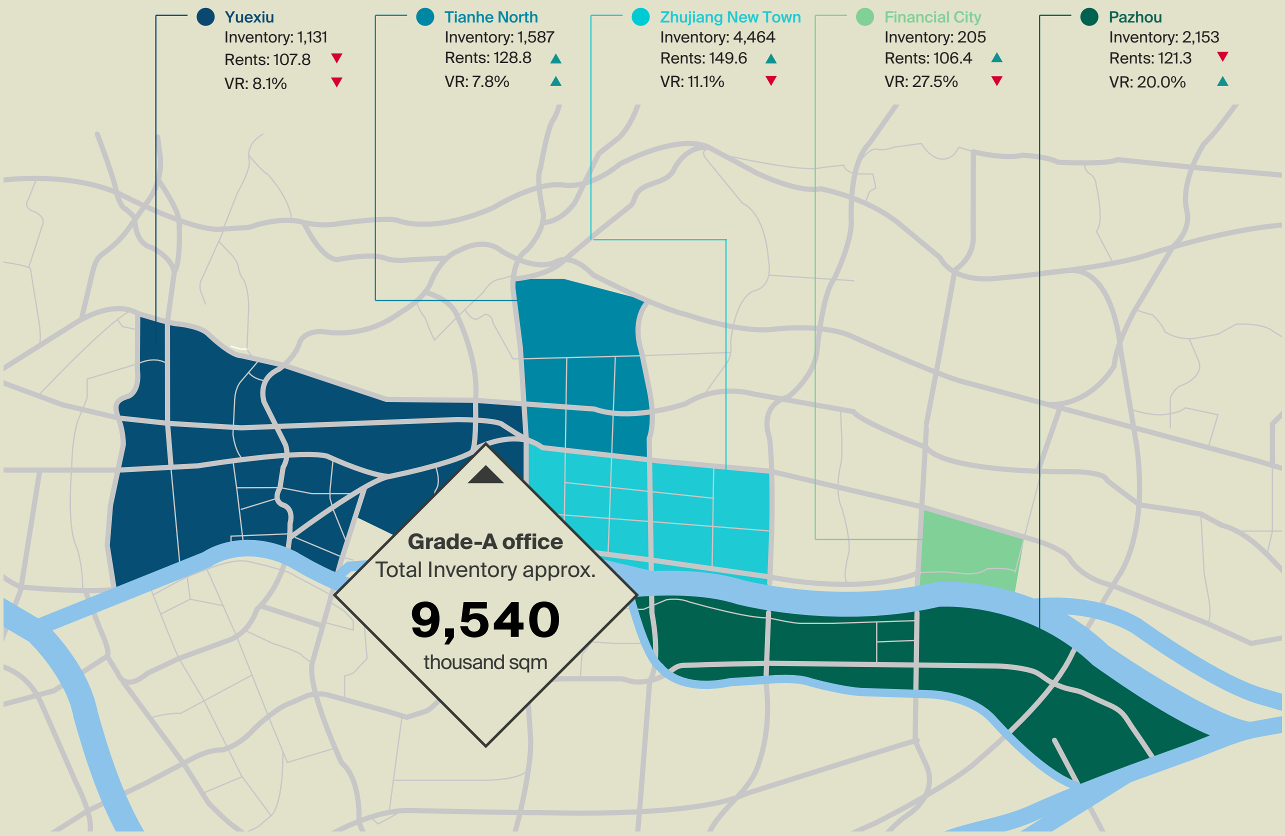
The transaction involved Yuexiu Property's sale of 100% equity in Guangzhou Macrocity Development Co., Ltd., the project company for the Guangzhou ICC, to Guangzhou Renyao Economic Consulting Co., Ltd., a subsidiary of CITIC Securities, acting as the plan manager. The deal, worth RMB 1.092 billion, included approximately 116,000 sqm of office and parking space. The ICC mall remained unsold. The residential apartments on the property are managed by Ascott. Following the transaction, the asset was securitised , marking the first-ever ABS in China for a holding commercial property.

Reflecting on 2024, the Federal Reserve's three interest rate cuts temporarily boosted attention to domestic assets, but China's real estate sector continued to grapple with lingering debt issues, despite some alleviation. Developers frequently adjusted to discounted asset sales, and rate adjustments placed downward pressure on asset valuations, dampening market expectations.

Looking ahead to 2025, properties characterized by low valuations, strong rental yields and high investment returns are likely to remain the top picks for investors. Beyond traditional asset sale mechanisms, Yuexiu Property's successful securitization of Guangzhou International Metropolis Plaza could signal a new direction for the institutional investment market, paving the way for innovative trends in en-bloc transactions.

Guangzhou Grade-A office market dashboard Q4 2024

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.

Research & Consultancy

Guangzhou Office Strategy & Solutions

Laurence Zhu
Senior Director,
Head of Research & Consultancy, China
+86 21 6032 1769
laurence.zhu@cn.knightfrank.com

Regina Yang
Director, Head of Research & Consultancy,
Shanghai & Beijing
+86 21 6032 1728
regina.yang@cn.knightfrank.com

Aaron Huang
Director,
Head of Office Strategy & Solutions,
Guangzhou
+86 166 5801 0718
aaron.huang@cn.knightfrank.com

Martin Wong
Senior Director,
Head of Research & Consultancy,
Greater China
+852 2846 7184
martin.wong@hk.knightfrank.com

Henry Chen
Analyst, Research & Consultancy,
Shenzhen
+86 136 4231 4481
henry.chen@cn.knightfrank.com

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