

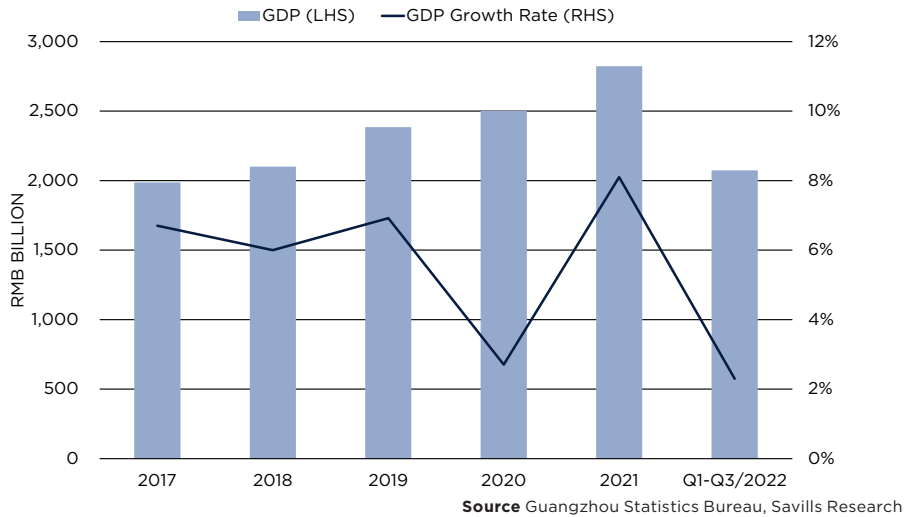
# Guangzhou Offices



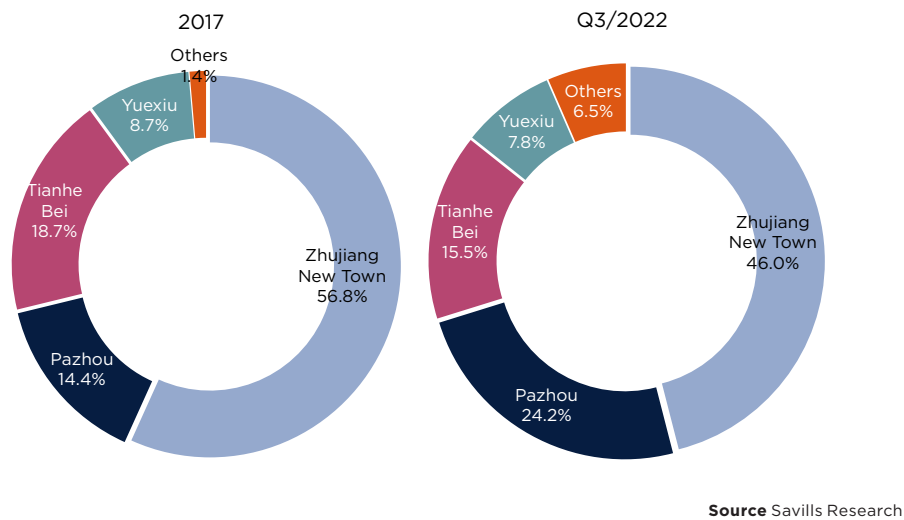


# Demand to remain subdued, office market augments supply

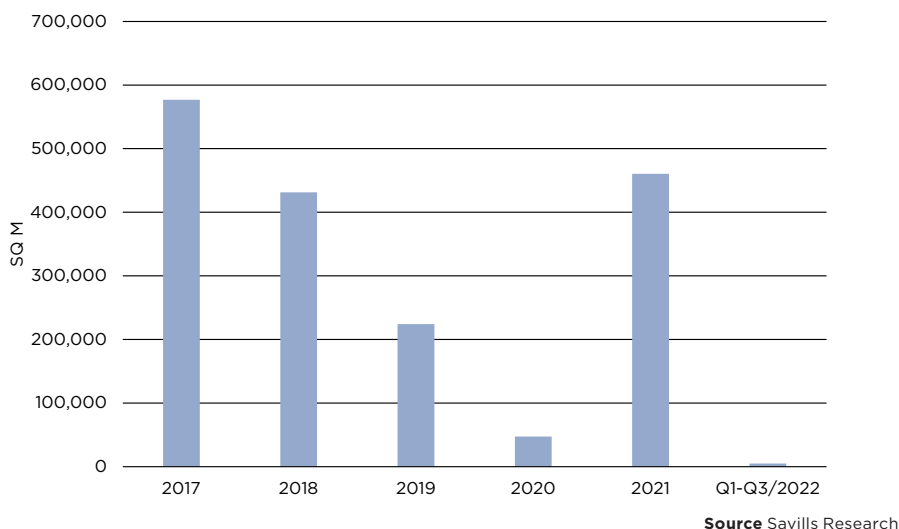
**GRAPH 1: GDP and GDP Growth Rate, 2017 to Q3/2022**



**GRAPH 2: Guangzhou Office Property Market Stock Breakdown by Submarket, 2017 vs Q3/2022**



**GRAPH 3: Guangzhou Office Property Market Net Take-up, 2017 to Q3/2022**



## 2021: LEASING DEMAND REBOUNDED WITH STRONG ECONOMIC RECOVERY

The gradual resumption of work and production after the initial epidemic in 2020 brought a significant recovery to Guangzhou's economy in 2021, growing by 8.1% YoY and up 1.3 ppts from the pre-COVID level (2019), thereby outperforming many cities across China and ranking second among the first-tier cities. Consequently, the office leasing demand also rebounded significantly with tenants from several TMT giants, retail and trade companies, law firms and financial institutions taking up sizable office spaces in both core and emerging submarkets. This led to an increase in the annual net take-up of 460,528 sq m, reaching a four-year high and 8.7 times higher than that of 2020. It also surpassed the pre-COVID level net-take up by 1.1 times.

## 2022: COVID RECURRENCES AND GLOBAL UNCERTAINTIES HALTED LEASING MARKET RECOVERY

Guangzhou's path to full recovery was challenged by COVID resurgences in many major cities in China since the beginning of 2022, with its GDP growth rate slashing to 2.3% YoY in Q3/2022. This, along with the growing uncertainties brought by the current global macroeconomic environment weighed heavily on the local office leasing market. Many companies had their business operations affected by COVID disruptions, not to mention the rising inflation. As they turned more prudent toward expanding their businesses, they also became cautious in reviewing their corporate real estate strategies and capital expenditures (CapEx).

The net take-up in the first three quarters of 2022 only totalled 4,972 sq m, plummeting by 98.3% YoY, mostly attributed to the negative take-up (-87,699 sq m) in the Zhujiang New Town submarket where several large-scale tenants withdrew their occupied areas or relocated to the emerging submarkets. For the first time since Q3/2017, the average vacancy rate exceeded 15%, increasing by 5.6 ppts YTD to 15.1% by end-Q3/2022.

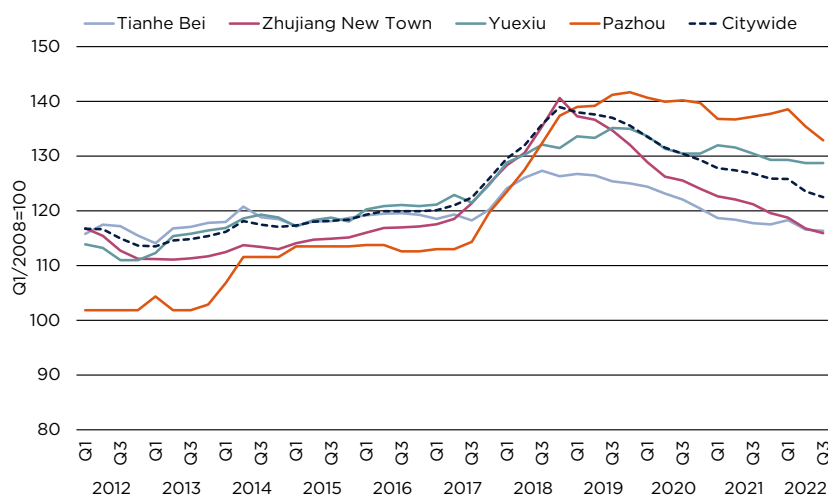
## NEW SUPPLY INCREASED COMPETITION AND DAMPENED RENTAL EXPECTATIONS

25 new Grade A office buildings were completed over the last five years, bringing

the total office stock to 6.5 million sq m in Q3/2022, expanding 35.3% since 2017. 72.9% of the new completions were concentrated in emerging submarkets, with 51.8% located in the Pazhou submarket, its stock totalling 1.6 million sq m by end-Q3/2022. This accounted for 24.2% of the citywide total, 9.8 ppts higher than 2017 (14.4%). Although occupiers saw this as a cost-effective measure against either relocation or renewal options, the new completions meant more pressure on attracting new tenants considering the current economic backdrop. Thus, landlords continued to review their leasing strategies and negotiate rentals to

**The office market had gone through a significant recovery as Guangzhou’s economy rebounded in 2021, however covid resurgences in 2022 on top of current global economic headwinds led to the vacancy rate spiking to a new high since 2017.**

**GRAPH 4: Guangzhou Office Property Market Rental Indices by Submarket, Q1/2012 to Q3/2022**



Source Savills Research

support the occupancy of their properties. Consequently, rents continued to trend downward since Q1/2019, decreasing by 3.4% YoY to an average of RMB153.5 per sq m per month by end-Q3/2022.

**END-USERS AND INDIVIDUAL INVESTORS DOMINATED THE INVESTMENT MARKET**

COVID disruptions continued to dent the overall investment market confidence, with transactional activities including deal sourcing, site visits and deal negotiations being relatively less active in 2022. Most institutional investors have raised their hurdle rates to take advantage of potential investments in the market given the current circumstances as well as the strong future supply pipeline that is expected to limit rental upsides in the short term. On the other hand, end-users and local

**TABLE 1: Major Sales Transactions of the Guangzhou Office Property Market, Q1/2022 to Q3/2022**

PROPERTY NAME	TRANSACTION TIME	LOCATION	TOTAL CONSIDERATION	BUYER
Pacific Finance Centre (GDH BCC T1)	Q1/2022	Tianhe	N/A	CPIC
Xiaomi Plaza (Tower A)	Q1/2022	Haizhu	N/A	KaiLong
Country Garden ECO	Q2/2022	Tianhe	N/A	A private buyer
Canton Financial Centre	Q2/2022	Tianhe	N/A	An online game company
No.16 Keyun Road Property (Block #4)	Q3/2022	Tianhe	RMB490 million	Guangzhou Restaurant
Poly Hanxi Tai To Wun (Block #6-1)	Q3/2022	Panyu	RMB150 million	A financial institution

Source Official Announcement, Savills Research

individual investors with strong cashflows and low gearing status notably showed more interest in purchasing office assets for self-use and investment purposes. En-bloc sales transactions were officially announced in Q3/2022 with Guangzhou Restaurant purchasing the 20,333 sq m Block #4 at the No.16 Keyun Road compound in Tianhe District from Guangzhou Chengxing Trading Co. Ltd, meanwhile a financial institution purchased the 4,504 sq m Block #6-1 at the Poly Hanxi Tal To Wun in Panyu District from Poly Group.

### **MARKET CONDITIONS TO REMAIN FAVOURABLE TO TENANTS IN THE SHORT TERM**

The macro environment is forecast to remain challenging considering the heightened global economic uncertainties, global trade contraction and more importantly, a new wave of COVID outbreaks in the locality. This, along with a strong supply pipeline in the next three to six months, should further intensify the competition among existing projects. The coming quarters will be more favourable to tenants as landlords are likely

to continue lowering their rental expectations to compete against each other amidst the increasing supply and subdued leasing demand.



For more information about this report, please contact us

---

### **Savills Guangzhou**

**Woody Lam**  
Managing Director  
Southern China  
+8620 3665 4777  
woody.lam@savills.com.cn

### **Savills Research**

**James Macdonald**  
Senior Director  
China  
+8621 6391 6688 ext 8605  
james.macdonald@savills.com.cn

**Carlby Xie**  
Director  
Southern China  
+8620 3665 4874  
carlby.xie@savills.com.cn

**Simon Smith**  
Regional Head of Research  
& Consultancy, Asia Pacific  
+852 2842 4573  
ssmith@savills.com.hk