

# Office



## Occupier sentiment weakens

Vacancy rate spiked to a ten-year high of 20.8%.

- Five new Grade A office buildings with a total lettable GFA of 442,589 sqm were completed in Q2/2023, pushing up the citywide total stock to 7.3 million sqm by end-Q2/2023.
- Leasing demand was primarily from lease renewal and relocation, which took up more than 60% of the total citywide transaction deals concluded in Q2/2023.
- The citywide vacancy rate increased by 2.6 ppts QoQ and 5.9 ppts YoY to a ten-year high of 20.8% by end-Q2/2023.
- Demand from the retail and trade, finance, and IT industries appeared to be more active than other sectors in Q2/2023, exemplified by some notable leasing deals closed by large-scale cosmetics, domestic funds and securities, and local software development companies.
- The citywide average rent decreased to RMB146.7 psm pmth by end-Q2/2023, with rental index down 1.0% QoQ and 3.4% YoY.
- Weakened leasing demand and sizable new supply (603,920 sqm) in 2H/2023 should further intensify leasing market competition and soften the asset performance of the Guangzhou office property market in at least the next six months.

“Guangzhou’s office leasing market was lacklustre with weakened occupier sentiment and reduced leasing activities across the board during Q2/2023.”

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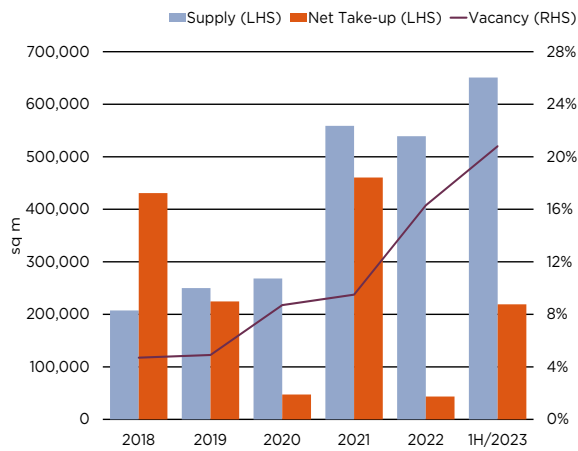
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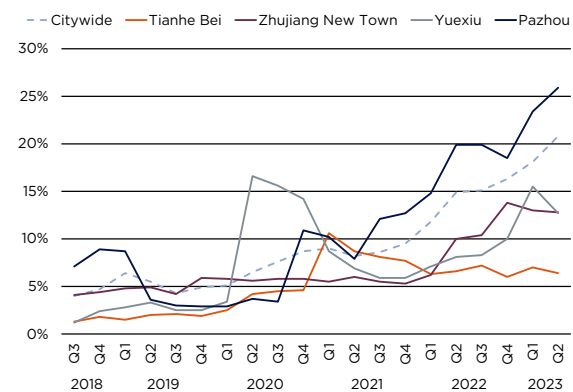
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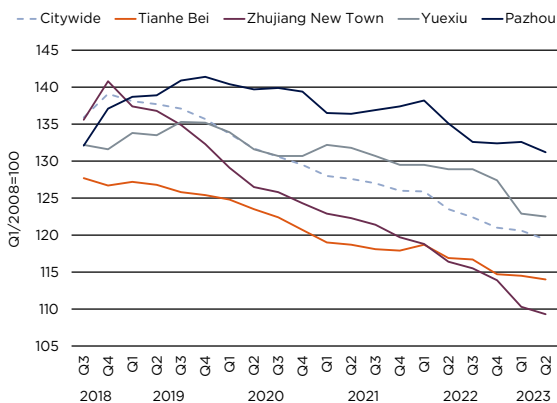
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**GRAPH 1: Grade A Office Supply, Net Take-Up And Vacancy Rate, 2018 To 1H/2023**

Source Savills Research

**GRAPH 2: Vacancy Rates by Submarket, Q3/2018 To Q2/2023**

Source Savills Research

**GRAPH 3: Rental Indices by Submarket, Q3/2018 To Q2/2023**

Source Savills Research

**SUPPLY**

Five new Grade A office buildings with a combined lettable GFA of 442,589 sqm were completed in Q2/2023, making the quarterly new supply of Guangzhou's office property market reach its historical peak and expanding the citywide total stock by 6.5% QoQ and 12.1% YoY to 7.3 million sqm by the end of the quarter. Notably, all the new completions during the quarter were located in Pazhou and the International Financial Town, making the stock of emerging areas account for 35.8% of the citywide total by end-Q2/2023.

**DEMAND**

Although the service sector in the local economy grew by 7.8% YoY as of April 2023 and foreign trade increased by 11.0% YoY as of May 2023, most occupiers showed weakened sentiment again during Q2/2023, following a small rebound in Q1/2023. Meanwhile, most corporations became a lot more prudent than before towards their corporate real estate (CRE) needs and strategies, further tightening their budget control on the CRE costs to hedge the potential risks in business operations and profit loss amid economic headwinds. These resulted in a slump in new leasing activity and a slowdown in CRE decision-making. Although some leasing transactions were concluded during the quarter, most were literally cascaded from the previous quarters. Remarkably, over 60% of the deals were renewal or relocation, embracing a cost-effective approach. This, along with the sizable new supply, pushed up the citywide average vacancy rate to a ten-year high of 20.8% by end-Q2/2023, up 2.6 ppts QoQ and 5.9 ppts YoY.

Demand from the retail and trade, finance, and IT industries appeared to be more active than other sectors in Q2/2023, exemplified by some notable leasing deals closed by large-scale cosmetics, domestic funds and securities, and local software development companies. For example, an international cosmetics group committed to 28,000 sqm at Joyy Center; China Asset Management

leased 2,000 sqm at Guangzhou IFC, and Yi Le Hu Dong relocated to Agile Center, taking up 2,500 sqm.

**RENTS**

Cost saving continued to be the mantra among most occupiers under the current macroeconomic contexts. The persistence of market conditions in favour of tenants forced landlords to lower rents to a level competitive enough to retain or attract tenants. As a result, the citywide average rent decreased to RMB146.7 psm pmth by end-Q2/2023, with rental index down 1.0% QoQ and 3.4% YoY.

**INVESTMENT**

Inquiry volume of the en bloc investment sales market decreased in Q2/2023 compared to the beginning of the year as some investors put their investment plans on hold given the subdued leasing market and economic uncertainties; some became stricter in reviewing the potential investment opportunities and raised their hurdle rates. Despite that, two en bloc sales were concluded in Q2/2023. KCI Group and Kingold Group jointly purchased the Kaiyuan Square (Fosun International Center) in Pazhou, and BYHEALTH acquired the Convergence Media Centre at Yuzhu with a total GFA of 56,970 sqm for a total consideration of RMB1.8 billion.

**OUTLOOK**

The economic challenges and prudent occupier sentiment in Guangzhou should continue into the rest of 2023, underlining the persistent pressure among most landlords on their property letting businesses. In addition, new supply pipeline will be strong as a combined office GFA of 603,920 sqm is scheduled for handover in the second half of the year. These are collectively expected to undermine the asset performance of the Guangzhou office property market, with citywide occupancy and rental rates set to decrease over the next six months.

**TABLE 1: Notable Leasing Transactions, Q2/2023**

TENANT NAME	INDUSTRY	PROJECT	SUBMARKET	LEASING AREA (SQ M)
One Cosmetics Group	Retail & Trade	Joyy Center	Pazhou	28,000
Yi Le Hu Dong	IT	Agile Center	Zhujiang New Town	2,500
China Asset Management	Finance	Guangzhou IFC	Zhujiang New Town	2,000

Source Savills Research