



Rents remain at a low level

Most corporations with relocation demand were cost sensitive.

- No new Grade A office building was completed in Q2/2024, and the total stock remained at 7.1 million sqm by quarter end.
- Given the challenging market environment, most occupiers took prudent decisions about corporate real estate needs and solutions, and relocated their offices for cost-saving purpose.
- Pazhou and the International Financial Town's combined net take-up totalled 44,113 sqm in Q2/2024, up 51.1% QoQ.
- The citywide vacancy rate edged down 0.5 ppt QoQ to 18.5% by the end of Q2/2024.
- Professional services and IT companies remained the most important demand generators in Q2/2024, taking up more than 30% of the total quarterly new leases.
- The citywide average rent decreased to RMB140.2 psm pmth by end-Q2/2024, with rental index down 1.4% QoQ and 5.1% YoY.
- In the short term, most office occupiers are expected to continue with their tightened CRE budget plans and the cost-saving campaign will inevitably restrict their rental thresholds of office space.

“Emerging areas with quality buildings and competitive rentals managed to absorb considerable relocation demand and achieved over 50% QoQ increase in net take-up.”

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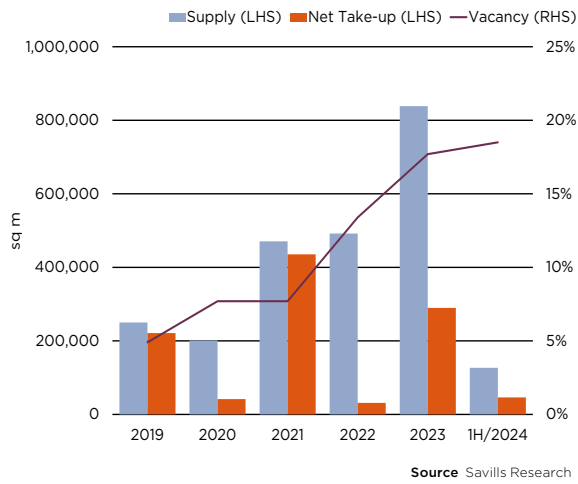
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GRAPH 1: Grade A Office Supply, Net Take-Up And Vacancy Rate, 2019 To 1H/2024



MARKET OVERVIEW

Guangzhou’s GDP growth moderated to 2.5% YoY in 1H/2024 from 4.6% YoY in 2023 as a result of the softened domestic demand and the challenging global environment. In sync with the slowing economy, most corporations continued to be prudent in their business operations and expansions during Q2/2024. Simultaneously, office leasing activities slowed after a small uptick in transaction volume at the beginning of the year. While new demand remained relatively fragile, landlords’ leasing competition became more fierce and more efforts and incentives were required to conclude a deal.

SUPPLY

No new Grade A office building was completed in Q2/2024, and the total market stock remained at 7.1 million sqm by quarter end.

DEMAND

Leasing sentiment remained prudent in Q2/2024 and occupiers searching for offices on the market broadly cut their rental budgets considering the challenging business and market environment. Relocation activities for cost-saving purposes therefore continued to dominate the leasing market during the quarter, and over 50% of the deals closed within Q2/2024 were from relocation demand. Notably, emerging submarkets, including Pazhou and the International Financial Town outperformed other submarkets in terms of leasing transaction volumes as properties in these areas provided tenants with more cost-effective options for relocation. Not only could this be reflected in the conclusions of several headline transactions such as CNPC’s relocation to Wansheng Plaza and VFS Global’s relocation to GAL Tower, but also in the 51.1% QoQ increase in these two emerging submarkets’ quarterly net take-

ups, which totaled 44,113 sqm in Q2/2024. This offset the impact of Tianhe Bei and Yuexiu’s negative net take-ups on the citywide vacancy rate, which edged down 0.5 ppt QoQ to 18.5% by end-Q2/2024.

Professional services and IT companies remained the most important demand generators in Q2/2024, with their combined leases taking up more than 30% of the total quarterly amount. Law firm demand remained resilient in Q2/2024 and contributed 45.9% of professional services sector’s total transaction areas. Notable transactions included JT&N’s lease of 2,300 sqm at Central Tower, and Jiayu Law Firm expanded its office space to 2,000 sqm within Guangzhou IFC.

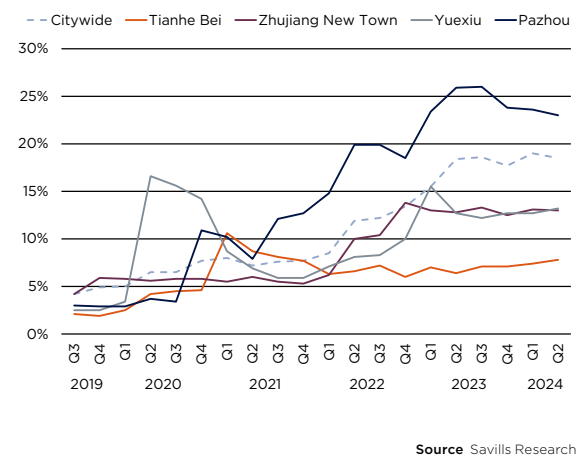
RENTS

Guangzhou’s office rents continued with its downward trend since Q1/2019 as landlords lowered rents further to stay competitive in retaining the existing tenants and attracting the relocation demand from target clients given the persistent tenant-favoured market conditions. Thereby, the citywide average rent decreased by 1.4% QoQ and 5.1% YoY on an index basis to RMB140.2 psm pmth by the end of Q2/2024.

OUTLOOK

Demand from the new quality productive forces, including the low-altitude economy and the AI sector is expected to grow with more government policy support, such as providing financial incentives or rental subsidies to qualified companies. However, the macro environment remains challenging for both landlords and occupiers in at least the next six months. Most office occupiers are expected to stick to their tightened CRE budget plans and the cost-saving campaign will inevitably restrict their rental thresholds.

GRAPH 2: Vacancy Rates by Submarket, Q3/2019 To Q2/2024



GRAPH 3: Rental Indices by Submarket, Q3/2019 To Q2/2024

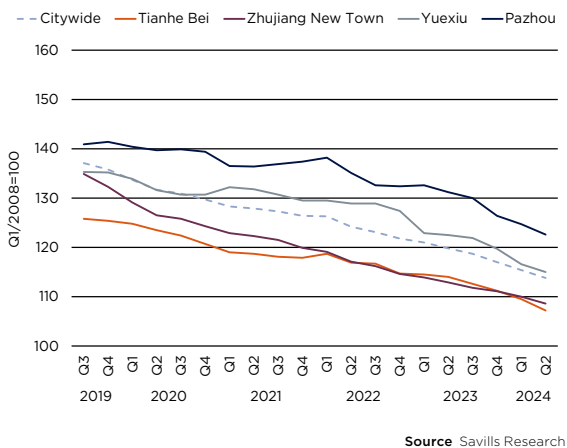


TABLE 1: Notable Leasing Transactions, Q2/2024

TENANT NAME	INDUSTRY	PROJECT	SUBMARKET	LEASING AREA (SQ M)
CNPC	Energy & Raw Materials	Wansheng Plaza	Pazhou	7,200
VFS Global	Consumer Services	GAL Tower	Pazhou	6,000
JT&N	Professional Services	Central Tower	Zhujiang New Town	2,300
Jiayu Law Firm	Professional Services	Guangzhou IFC	Zhujiang New Town	2,000

Source: Savills Research