SPOTLIGHT
Savills Research

China Office - March 2024

The Greater Bay Area Grade A Office Index

savills
第一太平戴维斯



INTRODUCTION & GLOSSARY

Background

Savills's Greater Bay Area Grade A Office Index (GBA Grade A Office Index) aims to provide market players, investors, developers, landlords and office occupiers with a reliable benchmark for the GBA office markets.

Sampling, Timing and Delimitation

The report covers nine mainland cities and Hong Kong within the GBA, selecting different base years according to each city's market development record. Hong Kong, Shenzhen and Guangzhou have the base year of 2009, while the other cities have the base year of 2013. Macau is temporarily omitted from the report.

Rental Index

The rental index reflects the change in rents over a six-month period of a basket of properties on a like-for-like basis.

Price Index

The price index reflects the change in price over a six-month period of a basket of properties on a like-for-like basis.

Total Occupancy Cost

The total occupancy cost includes the net effective rent, property management fees and related taxes.

Frequency of Update

The GBA Grade A Office Index was first published in October 2019 and is updated on an annual basis.



KEY FINDINGS

Given the collective impacts of the economic climates, and the supply and demand dynamics, the GBA Grade A office leasing and sales markets remained in favour of occupiers and buyers, with rental and price indexes decreasing by 5.3% and 5.2% YoY by end-2023, respectively.

A surge in new supply intensified the already fierce leasing competition as well as the disequilibrium of supply and demand on the market, making the overall leasing market lacklustre in 2023. Most office occupiers held their cost-saving plans tight in lease evaluations and subsequently, relocation and/or downsizing activities. Although the regional annual net take-up increased due mainly to the increased financial incentives and flexibility of contract terms offered by most of landlords, the total was 54.3% lower than the average over the previous five years. The GBA average vacancy rate continued to rise, increasing by 3.2 ppts YoY to 27.2% by end-2023.

All of the GBA cities' office property investment markets were challenging too, with Guangzhou, Shenzhen, and Hong Kong serving as the primary target cities from many end-users' perspectives. Institutional investment activity remained low and market confidence was subject to be improved. Meanwhile, the number of sellable projects increased but price gaps between sellers and buyers remained difficult to reduce despite the yield expansion that was technically resulted from a larger cut of prices instead of rents in most cities. In 2023, price indexes of all GBA cities maintained their downward tendency.

The economics of the GBA cities are expected to grow in a range from 5% to 7% YoY for 2024, but the office leasing and investment markets by city should continue to face with challenges due mainly to another round of sizable new supply pipeline in most cities, and rental and price movements are expected to hover at the bottom in the next six to 12 months.

MACRO OVERVIEW

GBA's economic recovery continued in 2023, with the total regional GDP increasing by 4.2% YoY to RMB13.7 trillion by the end of 2023. However, most key cities within the GBA recovered at a relatively slow pace, with the GDP growths of all cities having not yet reached the level of 2021. On top of that, most developers and landlords in the GBA Grade A office market continued to feel the pinch of the current environmental challenges, a continuous influx of sizable new supply and tightening CAPEX among most office occupiers, reflected by the constant downswing in some key indicators including the rental/price indexes and occupancy rates during 2023.

2023

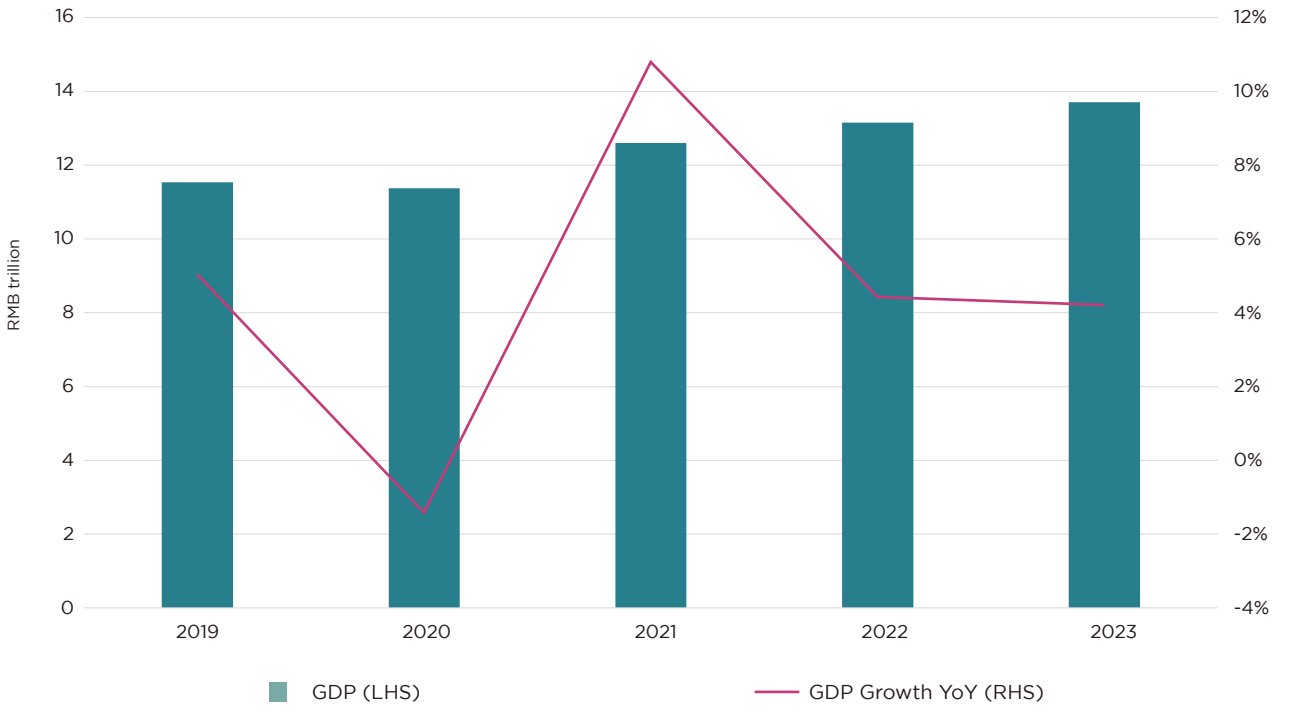
GBA GDP

RMB **13,707.1** billion

YoY Change

▲ **4.2%**

GBA GDP & GDP Growth, 2019-2023

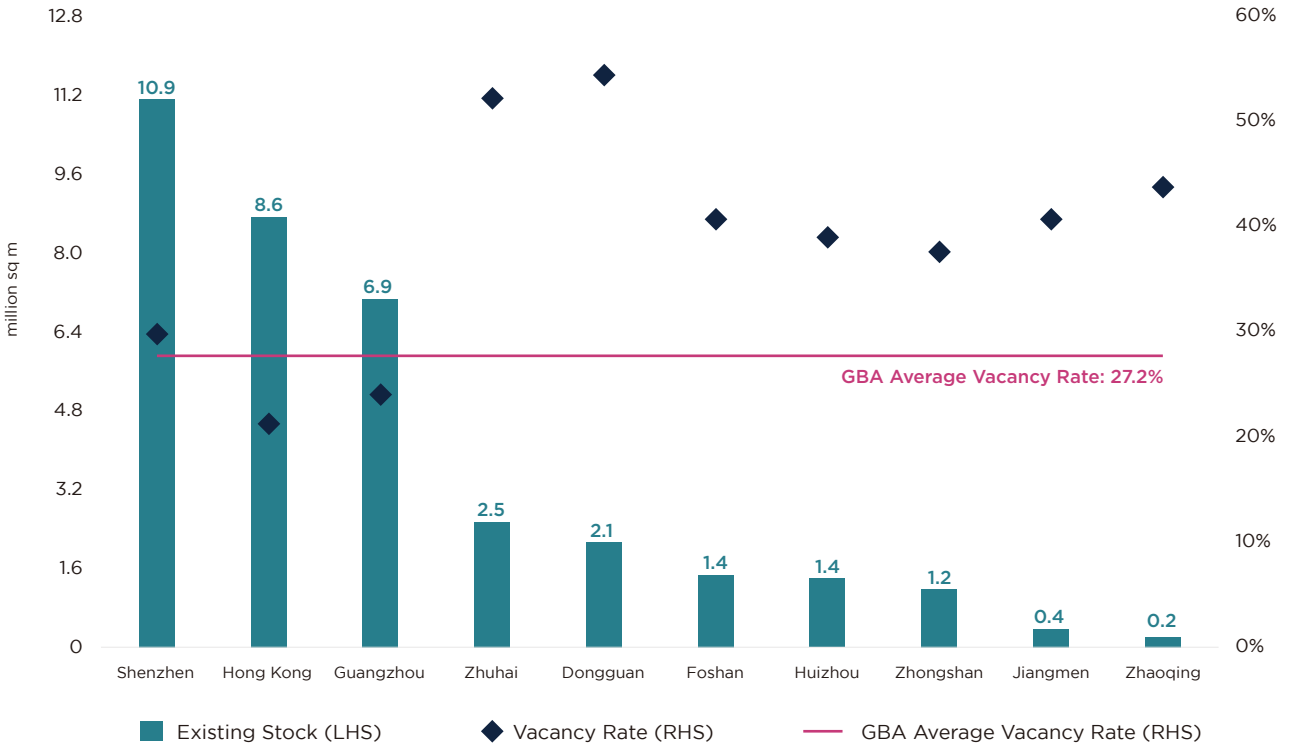


Note: GDP of Hong Kong and Macau were updated to 2022.
Source: National Bureau of Statistics, Bureaus of Statistics of GBA Cities, Savills Research

SUPPLY & DEMAND

During 2023, a combined leasable GFA of 2.2 million sqm was completed in the GBA office property market. The regional office stock was expanded by 6.3% YoY to 35.6 million sqm. Notably, nearly 80% of the new completions were concentrated in Shenzhen, Guangzhou and Hong Kong. Looking at these three primary markets, the stock of Shenzhen was 57.2% and 27.3% larger than that of Guangzhou and Hong Kong as of end-2023, respectively.

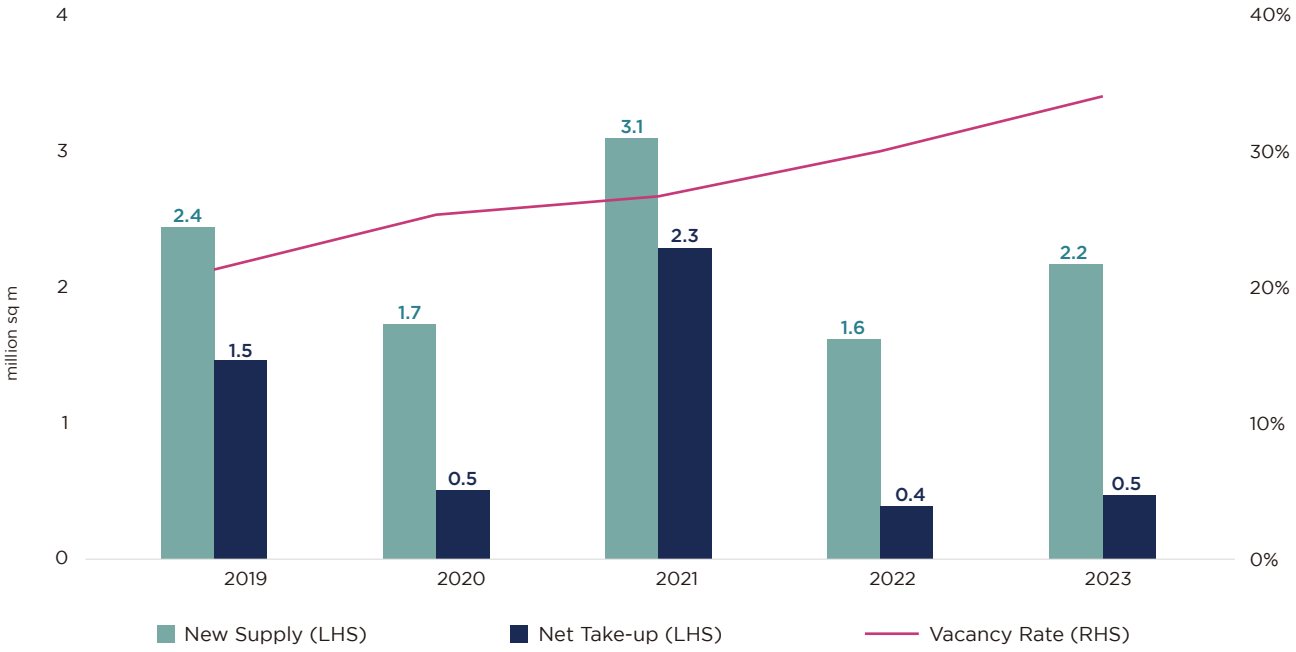
Stock & Vacancy Rate By City, 2023



Source: Savills Research

In response to the cyclical headwinds, macroenvironment uncertainties and business operational challenges among many corporations, most office occupiers remained prudent in leasing strategies and broadly chose to tighten their corporate real estate budgets. As a result, the overall GBA leasing demand was restrained in 2023. Although the regional annual net take-up increased by 21.7% YoY due mainly to more financial incentives and flexible contract terms offered by most of landlords, the number was 54.3% lower than the last five years' average, registering 466,790 sqm in 2023. Meanwhile, the regional average vacancy rate continued to increase as it has since 2019, up 1.4 ppts HoH and 3.2 ppts YoY to 27.2% by end-2H/2023.

Regional New Supply, Net Take-up And Vacancy Rate, 2019-2023



Source: Savills Research

Finance and professional services sectors continued to be the main demand generators for mainland GBA cities in 2023, with banks, insurance and securities companies and law firms showing strong resilience in taking up Grade A office space. This was especially evident in Guangzhou where the proportions of leasing deals from the aforementioned industries increased by 15.5 ppts YoY to 42.1%. The sluggish stock market, however, dampened business prospects of financial institutions in Hong Kong, resulting in a year-long slowdown in take-up across all districts and derailing leasing momentum from the finance sector. Although some notable deals from IT and retail & trade sectors were concluded in some major GBA cities during 2023, the overall leasing demand from these two sectors slowed down as many small and medium-sized local companies suffered from the growing economic uncertainties. This could be exemplified by a 3.8-ppts YoY decrease in the proportion of leasing deals from IT and retail & trade sectors in Shenzhen, which accounted for 43.0% of the citywide total.

Strong Leasing Demand

Finance

Professional Services

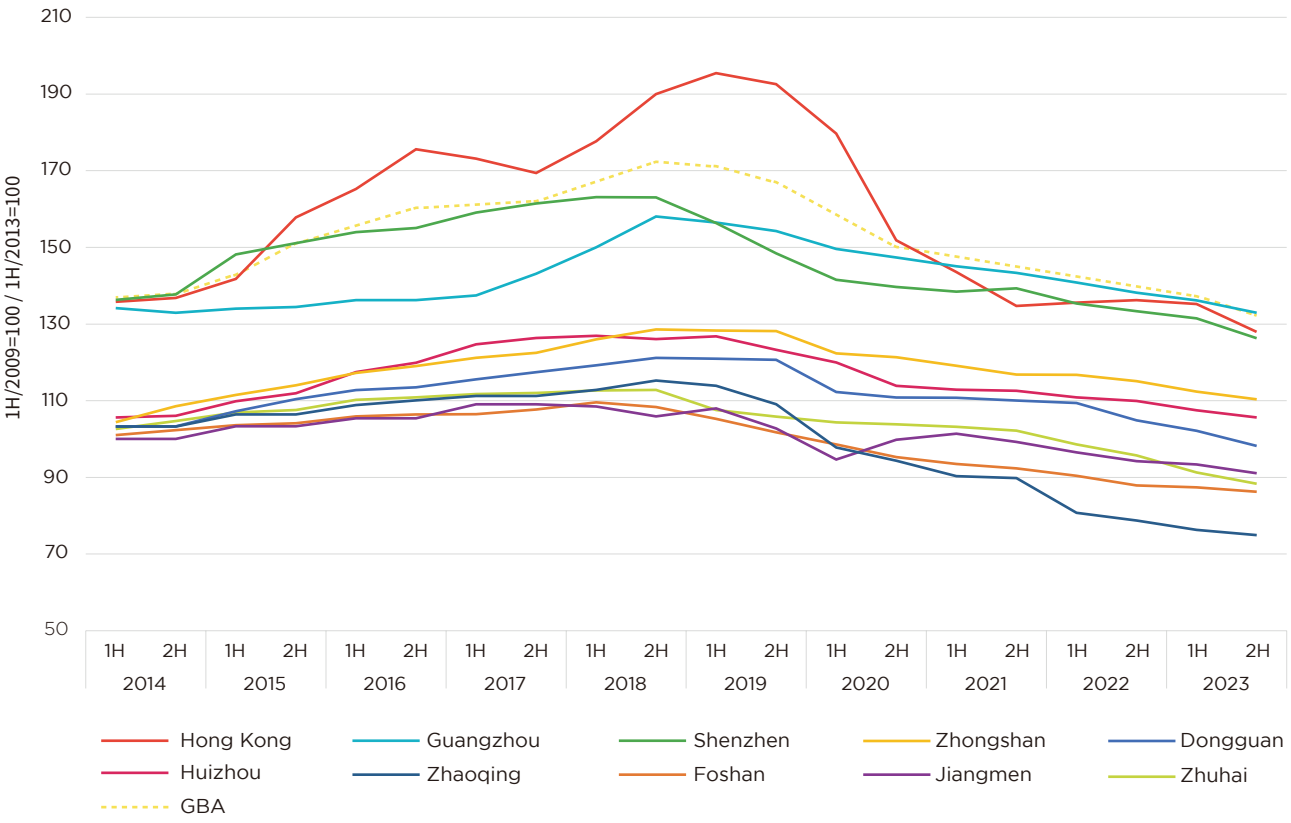
Softened Leasing Demand

IT

Retail & Trade

RENTAL INDEX

Rental Index, 1H/2014-2H/2023



Source: Savills Research

Finding enough new office occupiers remained a problematic exercise among basically all office property landlords across the GBA cities and landlords were broadly forced to take more aggressive initiatives in addition to the necessary and direct rental cuts to achieve stable or increased occupancy throughout 2023. For those landlords who had commitments in capital markets or other issues, keeping a relative stable face rent whilst offering longer rent-free periods became the mantra in their lease contract negotiations. The net effective rents decreased as a result of all these. Thus, the GBA Grade A office rental index fell by 3.7% HoH and 5.3% YoY as of end-2H/2023. Simultaneously, occupancy costs of all GBA cities decreased ranging from -6.6% to -1.2% YoY as of end-2023, with Zhuhai (-6.6%), Hong Kong (-5.4%) and Guangzhou (-5.2%) being the most notable.

Rental Index

HoH Change

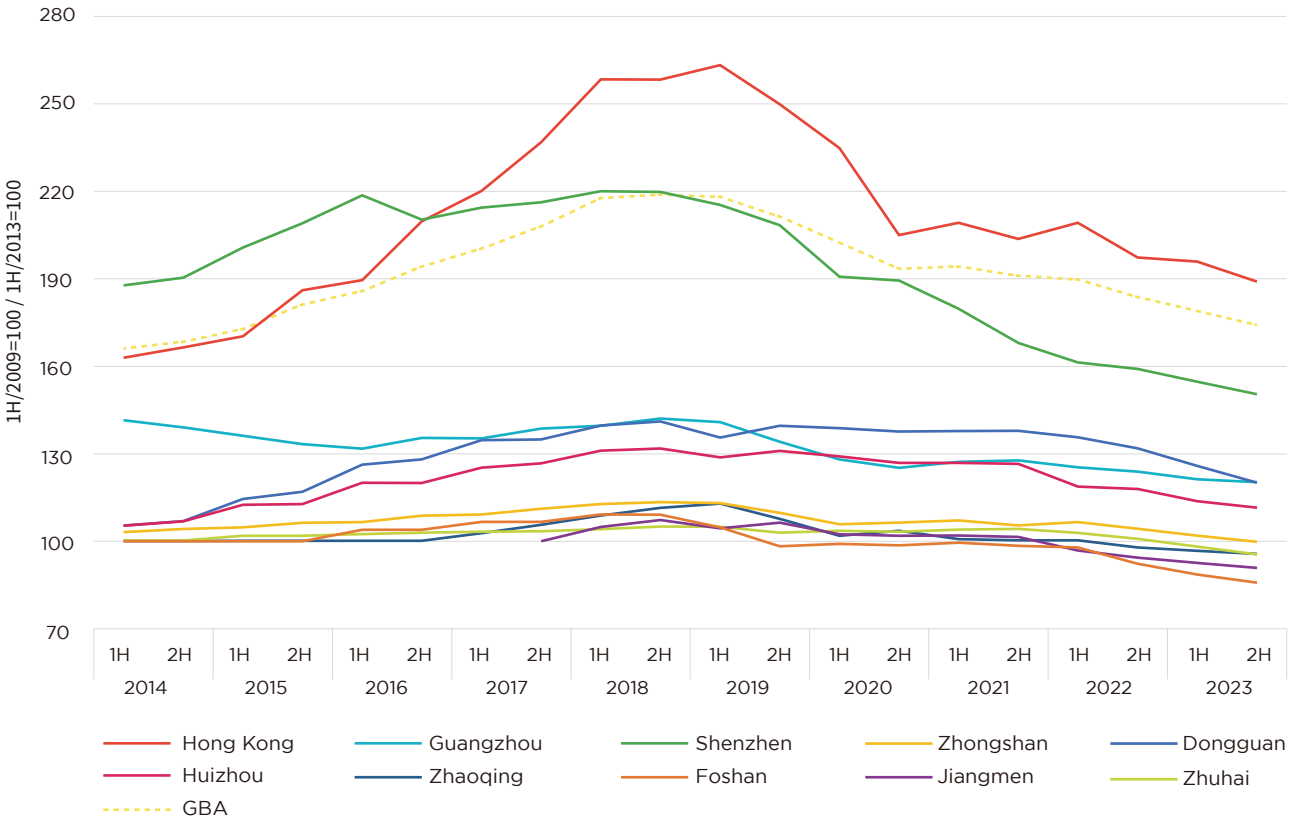
▼ **3.7%**

YoY Change

▼ **5.7%**

PRICE INDEX

Price Index, 1H/2014-2H/2023



Source: Savills Research

Price indexes declined in all GBA cities too in 2023, dragging the GBA Grade A office price index down by 2.9% HoH and 5.2% YoY as of end-2H/2023, following the downward trend in 2022. The decrements in Dongguan, Foshan, Shenzhen, Huizhou and Zhuhai were most notable – all over 5.0% YoY in 2023, primarily resulted from the economic settings, heightened USD interest rate, softened investment confidence, a rise in letting risks, and a decline in rents.

Price Index

HoH Change

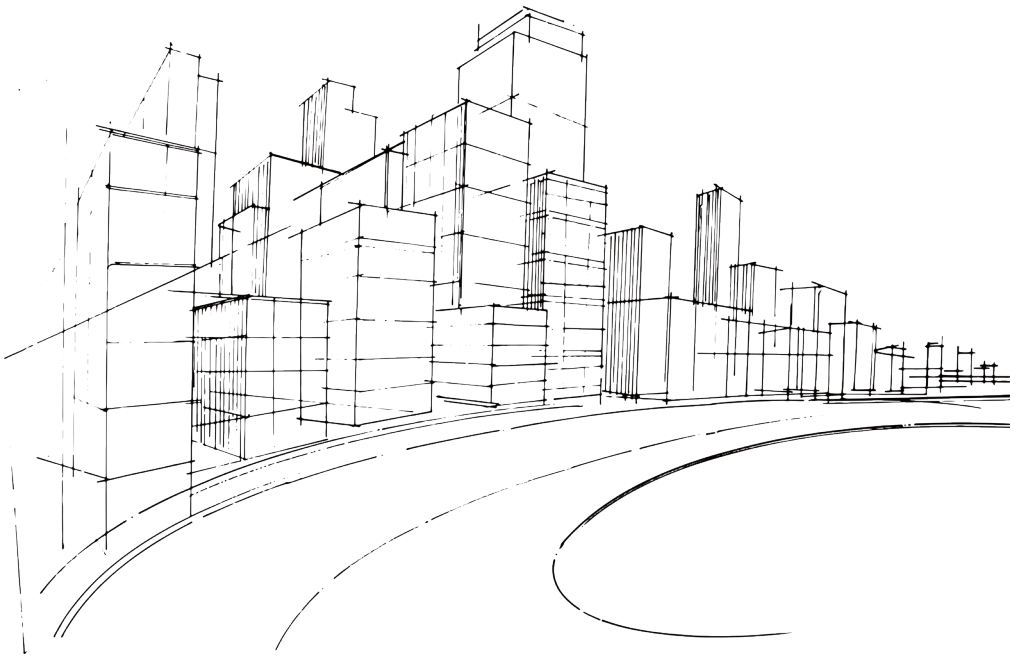
▼ **2.9%**

YoY Change

▼ **5.2%**

MARKET OUTLOOK

The Guangdong Provincial Government Work Report, released on 23 January 2024, has set a GDP growth target of at least 5.0% for 2024. Both the central and local governments will continue to make greater efforts in improving business environments, facilitating the development of strategic emerging industries and enhancing attractiveness for foreign investment with further measures, including the Three-Year Action Plan for the GBA unveiled in December 2023. These should help boost the economic growth and generate more growth momentum for the GBA office property market on a macro level. However, the office leasing and investment markets should continue to see persistent uncertainties and challenges generated from the new supply issues in most cities, relatively fragile demand and companies' cautious real estate strategies. The pressure on project letting should remain sound, weighting on a foreseeable asset performances. Rental and price movements are expected to hover at the bottom in the next six to 12 months.



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