Leasing Market Bounces Back

Buying interest from domestic investors or end-users increased while that from overseas investors remained generally intact.

- Lumina Guangzhou, with a total office GFA of 89,000 sq m, entered the market, expanding the total stock of the Guangzhou office property market to 5.32 million sq m during Q2/2020.

- The overall leasing demand of the Guangzhou office market recovered moderately, with the quarterly net absorption rebounding to 7,647 sq m.

- Office occupiers tended to look for cost-effective offices for consolidation and relocation, resulting from the increasing economic uncertainties caused by the COVID-19 pandemic.

- By the end of Q2/2020, the citywide vacancy rate increased structurally by 1.4 percentage points (ppts) quarter-on-quarter (QoQ) to 6.5% due to the new completion.

- Landlords adopted a series of approaches in a bid to retain or attract tenants, and as a result, the citywide average rent declined by 1.5% QoQ on an index basis, to RMB170.5 per sq m per month.

- No investment sales transactions were announced in Q2/2020, though the market witnessed an increasing buying interest from domestic institutions and end-users.

- The supply peak of the Guangzhou office market has been postponed to 2021 and 2022, due to the extended construction pace of many projects. A total of 403,000 sq m of new supply is expected to enter the market in 2H/2020.

“The continued growth in the information technology, media and entertainment and insurance industries supported the growth of leasing demand in Guangzhou during Q2/2020.”

CARLBY XIE, SAVILLS RESEARCH
SUPPLY

Lumina Guangzhou, with a total office GFA of 89,000 sq m, entered the market, expanding the total stock of the Guangzhou office property market to 5.32 million sq m in Q2/2020.

DEMAND

The overall leasing demand of the Guangzhou office market recovered moderately, with the quarterly net absorption rebounding to 7,647 sq m. The growing economic uncertainties, caused by the COVID-19 pandemic, forced many tenants to be increasingly cautious towards their capital expenditures and their corporate real estate strategies. Consequently, office occupiers tended to look for cost-effective offices for consolidation and relocation. By the end of Q2/2020, the citywide vacancy rate increased structurally by 1.4 ppts QoQ to 6.5% due to the new completion.

It was worth noting that leasing demand from the information technology, insurance, and media and entertainment sectors continued to be active during Q2/2020. The recent boom in the livestream and short-video industry in China accelerated the expansion of enterprises in the information technology and media and entertainment industries, providing the growth engine for leasing demand for the sector. Meanwhile, 14 incentive policies released by the central government in May, which aimed at sustaining and accelerating the development of the insurance industry, incubated the growth of the leasing demand from the sector. A number of leasing transactions from these sectors were recorded in Q2/2020. For example, Hong Ren Zhuang, a short-video and online shopping platform, recently leased an office space of approximately 1,200 sq m in an office building in Pazhou; ijianji.com took up 800 sq m of office space in Tiande Centre; Metlife Insurance leased an office space of 1,900 sq m in IFP; and Sunshine Insurance Group renewed their lease of 984 sq m in GT Land Plaza.

MARKET OUTLOOK

The supply peak of the Guangzhou office market has been postponed to 2021 and 2022, due to the extended construction pace of many projects. A total of 403,000 sq m of new supply is expected to enter the market in 2H/2020, growing the total stock of new supply to approximately 7,500 sq m by the end of the year. Leasing demand from domestic tenants, especially those from the information technology, media and entertainment, and finance sectors are expected to dominate the office leasing market, supporting the growth of the overall leasing demand, while those from overseas are expected to remain cautious towards office relocation and expansion during 2H/2020. On average, the citywide vacancy rate is expected to remain structurally while rent is expected to decrease due to the increasing leasing competition by year-end.

INVESTMENT

No en bloc investment sales transactions were officially announced, although investment-related activities gradually recovered during Q2/2020. On the back of the strengthened market liquidity and the recovering economy in the post-COVID-19 period, the market saw an increase in the volumes of investment enquiries and site visits. Investors’ profile became more diversified as the buying interest from domestic institutions and end-users grew notably, while that from overseas investors remained generally intact, mostly searching online for investment opportunities.

TAB1: Notable Leasing Transactions, Q2/2020

<table>
<thead>
<tr>
<th>TENANT NAME</th>
<th>INDUSTRY</th>
<th>PROJECT</th>
<th>SUBMARKET</th>
<th>LEASING AREA (SQ M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Youzan</td>
<td>Information Technology</td>
<td>VIPSHOP Headquarter Building</td>
<td>Pazhou</td>
<td>3,000</td>
</tr>
<tr>
<td>Metlife Insurance</td>
<td>Finance</td>
<td>IF Plaza</td>
<td>Zhuijiang New Town</td>
<td>1,900</td>
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<tr>
<td>ijianji.com</td>
<td>Information Technology</td>
<td>Tiande Centre</td>
<td>Zhuijiang New Town</td>
<td>800</td>
</tr>
</tbody>
</table>

Source: Savills Research