Leasing Market Shows Signs Of Recovery

Leasing demand from the TMT and finance sectors remained strong while professional service, media and entertainment and real estate sectors remained resilient.

- The growth rate of Guangzhou's GDP turned positive in Q3/2020 to RMB1,747.6 billion, increasing by 1.0% year-on-year (YoY). Meanwhile, the output of the tertiary industry increased to RMB1,258.9 billion, up 1.0% YoY.
- Two new projects, Jiayu Centre and GDH Plaza, with a combined GFA of 94,210 sq m, were completed in Q3/2020.
- The office leasing market showed signs of recovery as net absorption increased from 7,647 sq m in Q2/2020 to 30,138 sq m in Q3/2020.
- Lowering rents or extending rent-free periods appeared to be the mantra among many landlords of new buildings in exchange for higher occupancy rates, which subsequently led to a moderate decrease in citywide average rents.
- The office investment market in Guangzhou remained important and attractive to investors and end-users. Although there was no official announcement for any en bloc sales transactions, one major asset transaction was reportedly closed.
- In Q4/2020, five projects, with approximately 304,753 sq m, are scheduled for completion. As the new supply is concentrated in Pazhou and International Finance Town, pressures on the landlords in these two submarkets will be obvious, and citywide average rent is expected to structurally decrease.

“Given the persistent price gap between sellers and buyers, overseas institutional investors remained prudent in deal and return scrutiny; however, domestic buyers appeared to be more proactive in deal negotiation and completion.”

CARLBY XIE, SAVILLS RESEARCH
The office leasing market showed stronger demand in Q3/2020. Relative to the previous quarter, the office leasing demand from the TMT and finance sectors remained strong in Q3/2020. Relative to the previous quarter, the office leasing demand from the professional service, media and entertainment and real estate sectors remained resilient. Notable leasing transactions included: Inke took up 3,000 sq m at Guangzhou International Media Harbor, Guangdong Dianbai Construction Group leased 2,000 sq m at Tiande Centre and Tianyuan Law Firm leased 700 sq m of office space at CTF Finance Centre. The office leasing market showed stronger signs of recovery as net absorption increased from 7,647 sq m in Q2/2020 to 30,138 sq m in Q3/2020, though it was still significantly below the historical quarterly figure over the past eight years (97,664 sq m). Despite the pick-up in leasing activities and the quarter-on-quarter (QoQ) increase in net absorption, the citywide leasing activities and the quarter-on-quarter (QoQ) increase in net absorption, the citywide office leasing market remained resilient, with its stock accounting for 52.3% of the total citywide stock.

**SUPPLY**

Partly supported by the aforementioned, office leasing demand from the TMT and finance sectors remained strong in Q3/2020. A major office leasing transaction during Q3/2020 was the letting of 700 sq m of office space at CTF Finance Centre. The leasing activities in the TMT and finance sectors remained important and attractive to investors and end-users. Given the persistent price gap between sellers and buyers, overseas institutional investors remained prudent in deal and return scrutiny; however, domestic buyers appeared to be more proactive in deal negotiation and completion. While there was no official announcement of any en bloc sales transactions, one major asset transaction was reportedly closed: Guangdong Dongsheng Group purchased multiple office floors at the Tower East, TCI Mansion during Q3/2020 for both investment and owner-occupancy purposes.

**MACRO-ENVIRONMENT**

With many more economic indicators turning positive from Q2/2020, e.g., GDP and growth in the internet, software and information technology industries, the COVID-19 epidemic impact appeared to be gradually mitigated, and the macro-environment became more supportive to the office market development in Guangzhou during Q3/2020. In addition, Guangzhou, as one of the core cities in China’s futures market, but also a significant leap to the development of the financial market in Guangzhou, which the local office property market can benefit from in the immediate term.

**RENTS**

Although some market conditions improved, most landlords continued to show a cautious attitude in stabilising their asset performance. Therefore, lowering rents or extending rent-free periods appeared to be the mantra among many landlords of new buildings to trade for higher occupancy rates. This was subsequently reflected in the overall but moderate decrease in rents citywide. By the end of Q3/2020, the citywide average rent of the Guangzhou Grade A office property market decreased to RMB168.4 per sq m per month, down 0.9% QoQ and 4.8% YoY on an index basis, respectively. The Pazhou submarket outperformed its peers, with rents increasing by 0.2% QoQ while the rest recorded a rental decline ranging from 0.6% to 0.9% QoQ, respectively.

**INVESTMENT**

The office investment market in Guangzhou remained important and attractive to investors and end-users. Given the persistent price gap between sellers and buyers, overseas institutional investors remained prudent in deal and return scrutiny; however, domestic buyers appeared to be more proactive in deal negotiation and completion. While there was no official announcement of any en bloc sales transactions, one major asset transaction was reportedly closed: Guangdong Dongsheng Group purchased multiple office floors at the Tower East, TCI Mansion during Q3/2020 for both investment and owner-occupancy purposes.

**OUTLOOK**

While a further recovery in the leasing activities is expected in the rest of the year, new supply of the Guangzhou Grade A office property market will be abundant, with approximately 304,753 sq m being scheduled for completion in Q4/2020. As the new supply is concentrated in Pazhou and International Finance Town, pressure on landlords in these two submarkets will be obvious, and citywide average rent is expected to structurally decrease.

**TABLE 1: Notable Leasing Transactions, Q3/2020**

<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>Inke</td>
<td>Information Technology</td>
<td>Guangzhou International Media Harbor</td>
<td>Pazhou</td>
<td>3,000</td>
</tr>
<tr>
<td>Guangdong Dianbai Construction Group</td>
<td>Real Estate</td>
<td>Tiande Centre</td>
<td>Zhujiang New Town</td>
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<tr>
<td>Tianyuan Law Firm</td>
<td>Professional Service</td>
<td>CTF Finance Centre</td>
<td>Zhujiang New Town</td>
<td>700</td>
</tr>
</tbody>
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