Leasing sentiment remains intact
Vacancy and rental rates decreased marginally as most landlords continued to lower rents to trade for higher occupancy.

- During Q2/2021, Siyou Vanke Centre with a lettable office GFA of 73,134 sq m was completed, pushing up the citywide total stock to approximately 5.8 million sq m.
- The leasing market performance was mixed during Q2/2021. The market was active from April to May but was then disrupted again by a small outbreak of COVID-19 in early June.
- The citywide quarterly net take-up aggregated to 110,728 sq m, and the citywide vacancy rate decreased by 0.8 of a percentage point (ppt) quarter-on-quarter (QoQ) to 8.2% in Q2/2021.
- Many SOEs reduced their rental thresholds in response to an internal call for better budget control and internal resource optimisation. Meanwhile, many practices in the private sector continued with their cautious attitude in cost control, resulting in direct cuts on their real estate related costs.
- The citywide average rent slipped to RMB163.6 per sq m per month, with the rental index decreasing by 0.3% QoQ and 3.1% year-on-year (YoY) by the end of Q2/2021.
- Although the en bloc investment sales market was calm and no sales transactions were announced, a handful of deal sourcing, negotiation and due diligence activities were still undergoing by the end of Q2/2021.

“The office leasing market continued to gain momentum from the last quarter, and a handful of headline leasing deals were concluded on the back of unabated demand from occupiers in spite of the COVID-19 disruption in the latter part of the quarter.”

CARLBY XIE, SAVILLS RESEARCH
SUPPLY
Siyou Vanke Centre was completed in Q2/2021, injecting a total office GFA of approximately 73,334 sq m into the Guangzhou Grade A office property market. With the new addition, the total citywide stock increased to approximately 5.8 million sq m by the end of the quarter.

DEMAND
The performance of the Guangzhou Grade A office leasing market was mixed during Q2/2021. The market continued to be active from April to May as it has since Q1/2021. The strong momentum of the leasing activities accumulated from the previous quarter resulted in the conclusion of a number of headline leasing transactions such as Miniso’s commitment of 27,000 sq m at mPlaza Guangzhou in Pazhou, an overseas insurance company’s lease of 1,200 sq m at Chow Tai Fook Finance Centre in Zhujiang New Town, Huangen Mingyang New Energy’s relocation of 2,600 sq m to LCC in Tianbei Bei and Banco Tai Fung’s lease of 2,342 sq m at Lumina in Yuexiu.

However, the market was disrupted again by a small outbreak of COVID-19 and, subsequently, the escalated prevention and control measures in several areas in early June, causing a slump in site visits and the postponement of many deals during the later period of the quarter. Nonetheless, the citywide quarterly net take-up aggregated to 110,728 sq m, and the citywide vacancy rate decreased by 0.8 of a ppt QoQ to 8.2% by the end of Q2/2021. All submarkets, including Pazhou, Yuexiu and Tianhe Bei, outperformed Zhujiang New Town in terms of vacancy rates, with the former all registering a decrease and the latter marking a 0.5 of a ppt QoQ increase in vacancy rate during Q2/2021. The majority of leasing demand came from the finance, information technology and retail and trade sectors.

RENTS
Many SOEs reduced their rental thresholds in response to an internal call for better budget control and internal resource optimisation made by their top management. On top of that, a wide range of enterprises in the private sector continued with their cautious attitude in cost control, resulting in direct cuts on their real estate related costs, including rentals and CAPEX. These combined to push most landlords to remain prudent in retaining or attracting tenants with lower rents to trade for higher market digestion. The citywide average rent slipped to RMB163.6 per sq m per month, with the rental index decreasing by 0.3% QoQ and 3.1% YoY by the end of Q2/2021.

OUTLOOK
With the successful control of the small COVID-19 outbreak in June, the strict prevention and control measures affecting site visits, deal signing and fit-out work are expected to deescalate in Q3/2021. This should help accelerate the local economic recovery. The overall office leasing market sentiment should remain intact, with most prospective occupiers continuing their site selection activities for new setups and relocation. New supply in Q3/2021 is expected to amount to 178,000 sq m, and that should push up the citywide vacancy rate moderately and generate some pressure on the average rental growth. In terms of the investment sales market, International Financial Town, Tianhe Bei and Pazhou continued to be active, especially in the International Financial Town, with end-users and entrepreneurs purchasing offices as an alternative investment being the major buying force.

INVESTMENT
The level of market inquiry and site visits in the Guangzhou office en bloc investment sales market during Q2/2021 was on par with that of the last quarter. Although there were no sales transactions announced, a handful of deal sourcing, negotiation and due diligence activities were still underway. Meanwhile, the strata-title sales market continued to be active, especially in the International Financial Town, with end-users and entrepreneurs purchasing offices as an alternative investment being the major buying force.