

In Q1 2020, Guangzhou Grade-A office market had the lowest vacancy rate among 4 first-tier cities in China



Guangzhou Office Market Report

Q1 2020

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THE VACANCY RATE OF GRADE-A OFFICE MARKET IN GUANGZHOU DECREASED SLIGHTLY AND THE RENT REMAINED STABLE

In Q1 2020, there were no new office projects delivered to the Guangzhou Grade-A office market, and the stock of Grade-A office market was 5.814 million sqm. With the supply of office space remaining unchanged and leasing demand rising during the quarter, the vacancy rate of Grade-A office space in Guangzhou declined slightly by 1.6 percentage points QoQ to 5.4%.

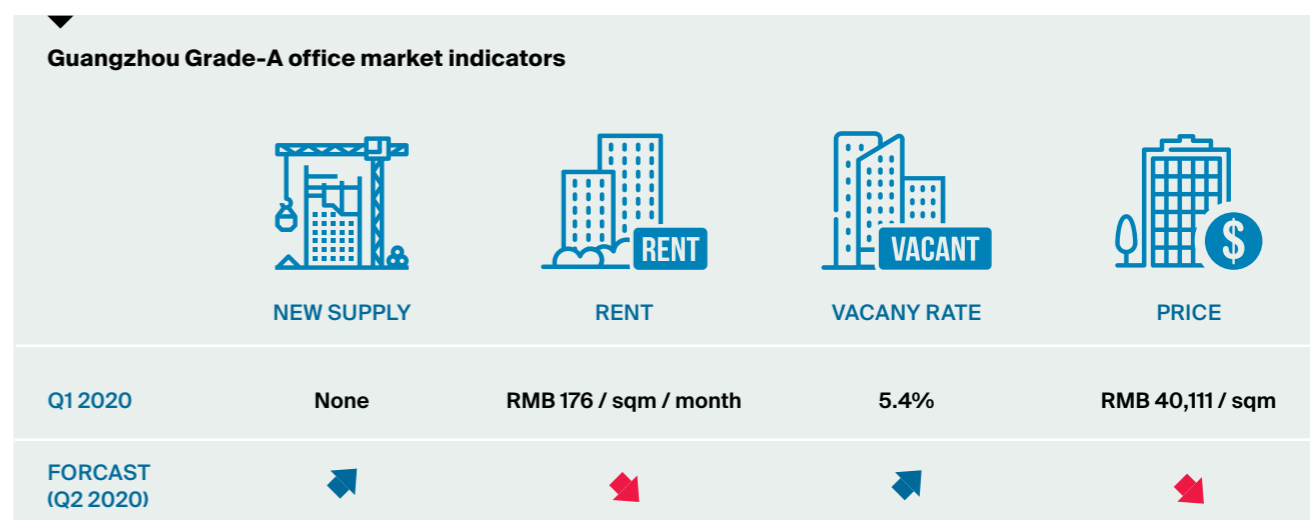
In Q1, the average rent in the Guangzhou Grade-A office market declined slightly from the previous quarter by 1.1% to 176 RMB per sqm per month, while the vacancy rate declined by 1.6 percentage points from the previous quarter to 5.4%. In the current quarter, despite the outbreak of the novel coronavirus, there was no significant impact due to the fact that many leasing transactions had been underway prior to the outbreak. Moreover, there was no new supply in the Grade-A office market in Guangzhou this quarter, so the vacancy rate of the Grade-A office market in Guangzhou has decreased, especially in Tianhe North sub-market and Zhujiang New Town sub-market. The vacancy rate of Tianhe North sub-market decreased by 3.3 percentage points QoQ to 4.6% and that of Zhujiang New Town sub-market decreased by 1.5 percentage points QoQ to 5.2%.

Despite the decrease in vacancy rate, some office owners lowered their rents to compete for tenants due to the uncertainty of economic outlook caused by the domestic and global epidemic, resulting in a drop in the rental of Grade-A office buildings in Guangzhou this quarter. In the quarter, the submarkets with the biggest QoQ declines were Pazhou sub-market and Yuexiu sub-market: the average rent in Pazhou sub-market fell 3.1% QoQ to 154 RMB per sqm per month, while the average rent in Yuexiu sub-market fell 2.9% QoQ to 136 RMB per sqm per month.

Since the beginning of 2020, the outbreak of COVID-19 has intensified the economic downward pressure and other negative factors, which brought a certain impact on the development of the office market in Guangzhou.

However, as the overall stock and vacancy rate of Guangzhou office market are lower than other first-tier cities in China, the office market in Guangzhou will remain relatively stable in Q1 2020 and the rent will also remain at a relatively stable level.

In the short term, the epidemic will have a certain impact on the office market in Guangzhou. For instance, the corporate leasing strategy will be conservative, while expansion plans will be temporarily put on hold. However, at the same time, the development of TMT (technology, media, communications) tenants is less affected by the epidemic, while that of the biomedical industry has even been promoted. It is expected that these types of enterprises still need to be upgraded and expanded. In order to support the enterprises to survive, Guangdong province issued "About



Source: Knight Frank Research

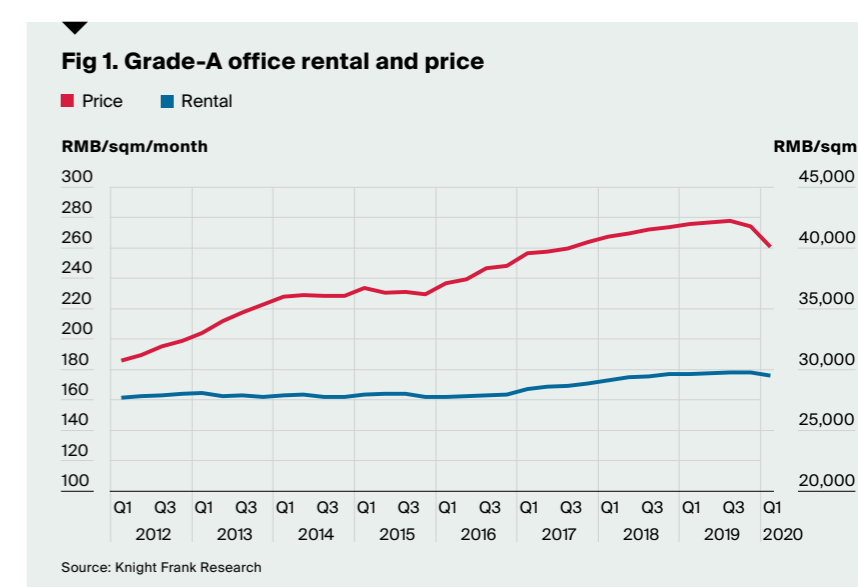
outbreak response affect some policies and measures to increase support for individual industrial and commercial households", which stated that state-owned enterprises should take the lead in helping tenants of state-owned assets and who have been significantly influenced by the outbreak. These tenants should be offered rent-free for one month and have their rents halved for the second and third months.

The COVID-19 outbreak also put forward higher requirements for realty service level of office buildings. In the future, occupiers would look for Grade-A office space with higher property management level, while old buildings with outdated facilities will have less demand. Consequently, upgrading of the old office buildings will become particularly important.

It is expected that from Q2 2020, the new supply of Grade-A office market in Guangzhou will increase significantly. As such, the vacancy rate of Grade-A office market in Guangzhou is expected to increase, and the downward trend of rent will become more obvious.

RENTS AND PRICES

In Q1, the average rent for Grade-A office space in Guangzhou was RMB176 per sqm per month, down 1.1% QoQ. Although the outbreak of COVID-19 in Q1 brought downward pressure on Grade-A office rent in Guangzhou, some office owners also offer preferential prices to attract tenants to move into their office buildings, causing the average rent of Grade-A office in Guangzhou to be relatively stable in this quarter. However, as the epidemic has delayed the demand for relocation and expansion of enterprises, it is expected that the impact on the performance of office buildings will gradually emerge. In Q1, the lease transactions with large area were recorded, mainly for the professional service tenants. In addition to traditional Guangzhou office markets favored by professional service tenants,



some office buildings in emerging markets are being subjected to such tenant, one typical case was China's Ping An Life Insurance Co., LTD. Guangdong branch rented a 4,800 sqm of office space in Baiyun district of Vanke Sanyuanli Center in Q1. For the strata-title market, the average selling price of office buildings in Guangzhou during Q1 was RMB40,111 per sqm. Affected by the outbreak,

some office owners began to reduce the sale price to attract more buyers. In addition, strata-title office projects priced below RMB40,000 per sqm were more attractive to buyers this quarter than the same type of projects which were priced above RMB40,000 per sqm. In this quarter, compared with the central area, the strata-title office transactions in the peripheral areas were more active, mainly concentrated

in Huangpu district, Zengcheng district and Huadu district. For instance, as an important economic engine of the second CBD of Guangzhou, Huangpu Harbor Economic Zone recorded a bulk transaction of 13,259 sqm for Poly Yuzhu Port office project in Q1, with unit price of RMB35,000 per sqm.

Table 1. Major Grade-A office sub-market indicators, Q1 2020

Submarket	Rent (RMB / sqm / month)	Rent Change QoQ	Vacancy Rate	Vacancy Rate Change QoQ
Zhujiang New Town	199	↓0.6%	5.2%	↓1.5%
Tianhe North	173	↓2.8%	4.6%	↓3.3%
Yuexiu	136	↓2.9%	5.6%	↓0.7%
Pazhou	154	↓3.1%	6.8%	↓0.8%

Source: Knight Frank Research

Table 2. Major Grade-A office leasing transactions, Q1 2020

District	Building	Tenant	Area (sq m)
Baiyun	Vanke Sanyuanli Center	Ping An Life Insurance	4,800
Zhujiang New Town	Central Tower	Colgate	3,200
Pazhou	Banghua International Trade Center	HOPSON	1,980

Source: Knight Frank Research
Note: all transactions are subject to confirmation

Table 3. Major Grade-A office strata-title sales transactions, Q1 2020

District	Building	Area (sq m)	Unit Price (RMB / sq m)
Huangpu	Poly Yuzhu Port	13,259	35,000
Zengcheng	CADRE ITC	1,029	30,000
Huadu	Poly International Financial Center	832	21,000
Huangpu	Guangzhou International Port and Navigation Center	511	35,000

Source: Knight Frank Research
Note: all transactions are subject to confirmation

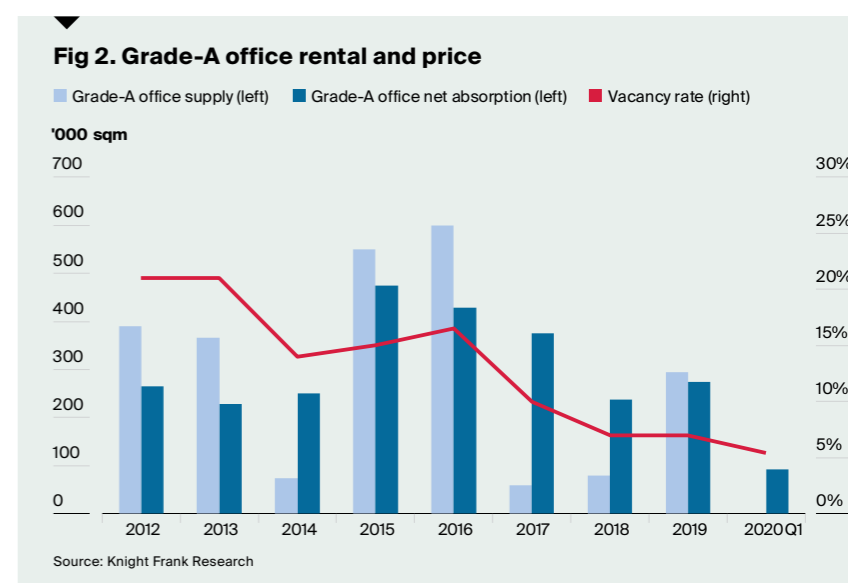
SUPPLY AND DEMAND

In Q1 2020, no new Grade-A office project was completed and delivered in Guangzhou. Therefore, the stock of Grade-A office market in Guangzhou remained unchanged from the previous quarter at 5.814 million sqm.

In Q1, the overall vacancy rate of Grade-A office buildings in Guangzhou declined 1.6 percentage points QoQ to 5.4%. The drop in vacancy rate was mainly due to the lack of new supply and the rising demand for previously accumulated office leasing from last quarter, especially in Tianhe North and Zhujiang New Town sub-markets.

The supply and demand of Grade-A office building market in Guangzhou were relatively stable in Q1. However, the office supply will increase significantly in the Q2-Q4 of 2020, with an estimated 657,000 sqm of new supply entering the market within the year.

The new supply of Grade-A office buildings in Guangzhou is expected



to account for 11.3% of the total stock of Grade-A office buildings in Q1 2020. It is expected that the vacancy rate of Grade-A office buildings in Guangzhou will gradually increase with the listing of new supply office buildings and the weak demand due to the COVID-19 pandemic.

Lumina in Yuexiu sub-market and the Alibaba Southern China Center in Pazhou sub-market are expected to deliver in Q2 2020, bringing an additional supply of 130,000 sqm to the Grade-A office market in Guangzhou.

INVESTMENT MARKET

In Q1, the investment market of Grade-A office building in Guangzhou was quiet. No en-bloc transactions were recorded.

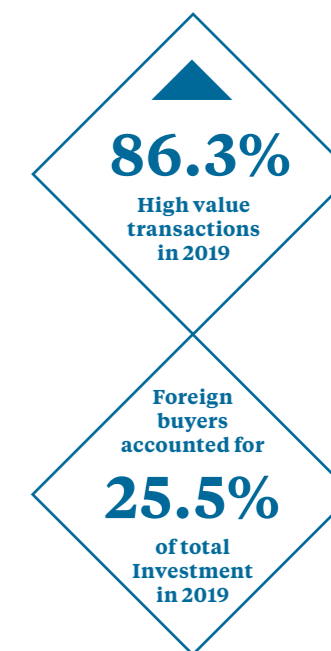
In the short term, the epidemic has imposed certain impact on the investment market of Guangzhou office buildings. In general, investors have adopted a wait-and-see attitude towards the market, and the investment decisions have been delayed. But in the medium and long term, Guangzhou office investment market prospects remain optimistic.

On March 15, 2020, the Federal Reserve announced an emergency rate cut to zero and launched a massive US\$700 billion program of quantitative easing. The reduction of financing rate and the improvement of dollar liquidity will

further reduce the cost of capital cash flow for foreign investors.

According to RCA, the proportion of foreign buyers' investment amount in the 2018-2019 period in the market of real estate investment transactions with high value in Guangzhou exceeded that of the 2015-2017 period. Foreign buyers have invested 25.5% of the total in 2019. In the four years from 2016 to 2019, the transaction amount of office buildings as a proportion of the total transaction amount of real estate transactions with high value in Guangzhou has maintained an increasing trend, rising from 50.4% to 86.3%.

Therefore, the interest rate cut by the Federal Reserve for high-quality office projects in Guangzhou has become a



major positive factor. It is expected to attract more foreign investment for office properties in Guangzhou. China has made major initial achievements in fighting the COVID-19 epidemic. As China's economy and society gradually return to normal, it is expected that China's economy will first enter the recovery period, which will help attract the foreign capital inflow. As a national central city and a comprehensive gateway city in the Guangdong-Hong Kong-Macao Greater

Bay Area, Guangzhou's positioning has been continuously strengthened in the planning outline of the Greater Bay Area. Besides, the continuous promotion and implementation of various development policies at the beginning of 2020 in Guangzhou makes the capital value of office properties in Guangzhou have a large space to rise and attract more foreign investors.

Among the four first-tier cities in China, the relatively low property

prices of office buildings in Guangzhou will also be an important factor to attract investors. It is expected that except for the office projects located in the traditional business district of Guangzhou with large potential for improvement, investors will pay attention to the investment opportunities of some emerging office projects in the emerging core business districts.

MARKET OUTLOOK

Given the uncertainty of the world economy and epidemics, it is expected that by 2020, companies will be more stringent about the cost of office leasing. With the massive new supply of Grade-A office buildings in Guangzhou in 2020, the rent of office market is set to be under huge pressure.

Although the economic uncertainty and the outbreak of COVID-19 will haunt the Grade-A office market in Guangzhou for some time, the market is expected to return to normal market conditions when the virus subsides. In the long run, the greater potential and resilience of Guangzhou's economy can support the active expansion of its business market, the development of the Greater Bay Area will continue to benefit the business environment of Guangzhou, and the transformation and upgrading of key industries will continue to show.

According to the "Economic Operation of Guangzhou in 2019" released by the Guangzhou Statistics Bureau in January 2020, the GDP growth rate of the whole city in 2019 was 6.8%. The total retail sales of consumer goods increased by 7.8%, 0.2 percentage points higher than that of the same period last year. "Internet plus" related services grew rapidly. From January to November 2019, the operating revenue of Internet and related services, software and information technology services

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**Software and
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increased by 20.3%, becoming the most powerful industry among the services above the city's scale.

The high-quality and steady economic development of Guangzhou in 2019 has provided an important foundation for the development of enterprises. In contrast, sufficient supply of office buildings in Guangzhou in 2020 can maintain a relatively stable state of office rent. The stability of leasing cost is undoubtedly beneficial to enterprises at the backdrop of economic uncertainty.

Although the outbreak of COVID-19 in 2020 has brought negative impacts to the development of many industries, the speed of the settlement of Guangdong-Hong Kong-Macao Greater Bay Area has not been hindered.

In February 2020, the Guangdong Development and Reform Commission

formally released the general plan for the construction of "Guangzhou Artificial Intelligence and Digital Economy Pilot Zone". According to the plan, Pazhou will work with Gangzhou university city, Guangzhou International Financial City and Yuzhu district to build the zone, striving to become a national pilot zone. The plan was also released as the first document of the Guangdong-Hong Kong-Macao Greater Bay Area in 2020.

In March 2020, Nansha International Financial Island, with an estimated total investment of RMB30 billion, was included in the "Guangdong 2020 Key Construction Project Plan" published by the Guangdong Development and Reform Commission. Nansha International Finance Island has the International Finance Forum (IFF) permanent site project. After the completion of the project, the IFF annual conference will be held in the IFF permanent site.

The release of the construction plan of "Guangzhou Artificial Intelligence and Digital Economy Pilot Zone" and the landing of "Nansha International Financial Island" are expected to promote the upgrading of the office market and bring long-term development, and the capital value of office buildings in related regions will increase.

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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