MARKETBEAT

GUANGZHOU

Office Q2 2020

	QoQ Change
¥184.5 Rent (PSM/MO)	▼
-2.7% Rental Growth (QoQ)	▲
6.7% Vacancy Rate	▲

Source: Cushman & Wakefield Research

GUANGZHOU ECONOMIC INDICATORS Q1 2020

	1-4Q 2019	12-Mo. Forecast
-6.8% GDP Growth	6.8%	▲
-2.2% Service Sector GDP Growth	7.5%	▲
4.1% CPI Growth	3.0%	▼
-8.4% Real Estate Development Investment Growth	14.8%	▲

Source: Guangzhou Statistics Bureau/Oxford Economics/ Cushman & Wakefield Research

Ongoing Impacts From COVID-19 and New Supply Drive Up Vacancy Rate

The Lumina Guangzhou project in Yuexiu completed in Q2, bringing 87,000 sq m of new space to the office market and taking overall stock to 5.04 million sq m. New projects, coupled with the continuing economic impact of the pandemic, pushed the citywide vacancy rate up 1.5 percentage points q-o-q to 6.7%.

However, despite the headwinds, some industries have seen new opportunities and have enjoyed growth. In Q1, the city's added value from internet-related industries and the financial sector surged 12.5% and 8.4% y-o-y respectively. Financial institutions and TMT enterprises have become the key drivers of leasing demand. In contrast, the market shake-up in business centers and the co-working space continues, with several operators who had previously expanded rapidly now shuttering some locations.

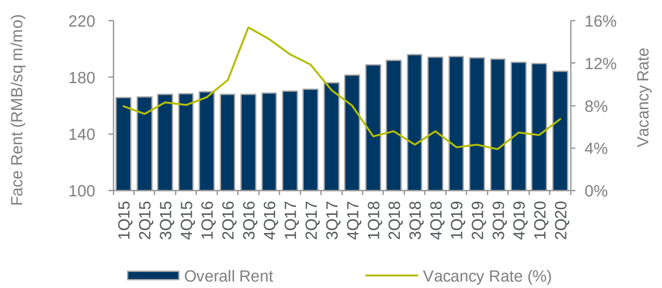
Landlords Cut Rents to Attract Tenants

With the exception of mature prime properties with limited vacancy, many landlords responded to the softening demand with more competitive rent offers, leading overall average monthly rental to slip 2.7% q-o-q. By submarket, in Yuexiu new prime projects pushed rents slightly higher, up 0.8% q-o-q to RMB139.4 per sq m per month. Pazhou, the core of Guangzhou's AI and Digital Economy Experimental Zone and supported by a cluster of TMT firms, remained relatively stable, with monthly average rent dropping just 0.9% q-o-q to RMB149.0 per sq m. In Zhujiang New Town and Tianhe Sports Center, with higher rental costs, tenants acted to downsize or surrender leases. Landlords in the two submarkets came under growing pressure, with monthly average rent retreating by 2.8% and 2.0% q-o-q to RMB200.9 and RMB180.5 per sq m, respectively.

Rental Levels Set to Continue to Drop

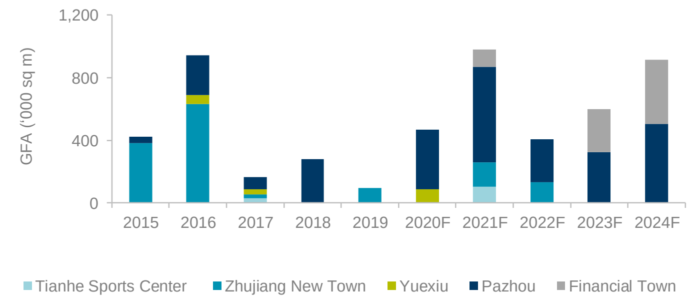
In the wake of the pandemic and uncertain economic outlook, leasing activities are expected to focus on downsizing or downgrading office space. In 2H 2020 more than 378,000 sq m of new space is scheduled to complete, further intensifying competition and driving up the city's vacancy rate. Tenants are likely to bargain for lower rents, leading to downward pressure on overall rental levels over the coming months.

GRADE A OFFICE RENT & VACANCY RATE



Source: Cushman & Wakefield Research

GRADE A OFFICE ANNUAL NEW SUPPLY



Source: Cushman & Wakefield Research

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GUANGZHOU

Office Q2 2020

CUSHMAN & WAKEFIELD

SUBMARKET	INVENTORY (SQ M)	VACANCY RATE	PLANNED & UNDER CONSTRUCTION TILL 2024 (SQ M)	GRADE A FACE RENT		
				RMB/SQ M/MO	US$/SF/MO	EUR/SF/MO
Tianhe Sports Center	857,190	4.9%	105,942	180.5	2.4	2.1
Zhujiang New Town	3,000,576	5.6%	288,850	200.9	2.6	2.4
Yuexiu	387,739	19.2%	-	139.4	1.8	1.6
Pazhou	796,989	7.1%	2,088,911	149.0	1.9	1.7
GUANGZHOU GRADE A TOTAL	5,042,494	6.7%	2,483,703	¥184.5	US$2.40	€ 2.16
Financial Town	-	-	796,047	-	-	-

** Rent is calculated based on gross floor area and assuming a letting of mid floors for a typical three-year lease term with VAT.*
1 USD = 7.1315 RMB = 0.8993 EUR as at Jane 1, 2020

KEY LEASING TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	TENANT	AREA (SQ M)	LEASE TYPE
Lumina Guangzhou	Yuexiu	AIA	5,000	Relocation
CTF Finance Centre	Zhujiang New Town	Greater Bay Area Investment Group	3,900	Relocation
International Metropolitan Plaza	Zhujiang New Town	Evergrande Life	1,000	Expansion

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

PROPERTY	SUBMARKET	MAJOR TENANT	AREA (SQ M)	COMPLETION YEAR
Trendy International Centre	Pazhou	-	87,000	2020
Guangzhou mTower	Pazhou	-	96,000	2020
Alibaba South China Headquarters	Pazhou	-	92,000	2020
Vipshop Global Headquarters	Pazhou	-	57,000	2020
GMC Plaza	Pazhou	-	47,000	2020
Ping'an Financial Tower	Financial Town	-	54,000	2021
TCL Building	Pazhou	-	103,000	2021
Fosun International Center	Pazhou	-	67,000	2021
Guangzhou International Commercial Center	Tianhe Sports Center	-	106,000	2021
Vanke Center	Zhujiang New Town	-	85,000	2021

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