In 2019, Guangzhou will probably be affected by global economic turbulence, with slower GDP growth, even though South China overall should remain China’s fastest-growing region.

We expect rental growth will face pressure, with the vacancy rate rising moderately for both the office and warehouse markets.

We think the investment market in 2019 will remain affected by deleveraging policies, pushing transaction volumes down from 2018’s level. However, improved amenities and transport links are positives.

Due to the limited availability of quality offices for sale in core areas, emerging business districts should continue to dominate the investment market. We suggest investors keep track of these opportunities in new business districts and in business parks.

### Summary & Recommendations

<table>
<thead>
<tr>
<th></th>
<th>Rent</th>
<th>Vacancy Rate</th>
<th>Capital Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office</td>
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<td>2.5pps</td>
<td>2.5%</td>
</tr>
<tr>
<td>Industrial</td>
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<td>4.0pps</td>
<td>3.0%</td>
</tr>
<tr>
<td>Investment</td>
<td>N/A</td>
<td></td>
<td>3.0%</td>
</tr>
</tbody>
</table>

> We believe office tenants will take a wait and see attitude, showing less willingness to move and expand. The office market should record slower rental growth and moderately rising vacancy.

> A greater level of new supply is scheduled in the warehouse market in 2019, resulting in rising vacancy over the next half year, accompanied by weaker rental growth.

> In 2019, we expect institutional investors and owner-occupiers to focus on offices in emerging business districts, but investment activity will probably be more subdued than in previous years.

### 2019 FORECAST FOR GUANGZHOU

#### Office

Given that over 825,000 sq metres (8.9 million sq feet) of new Grade A supply is scheduled in 2019, we expect the vacancy rate of the Guangzhou Grade A market to rise from 4.5% to 7.0%. By our estimate, 38% of the new supply will be launched in Pazhou. Leasing transactions will likely slow with a slowing global economy, and this factor, coupled with the impact of long-standing deleveraging policies, will probably reduce tenants’ willingness to move and expand. In 2019, we believe Guangzhou’s average Grade A office rental growth will face pressure and reach 1% YOY. We have lowered our forecast from rental growth of about 3% after average rent in the city fell by 0.6% QOQ in Q4 2018.

Source: Colliers International. Note: US$1 to RMB6.88 as of end-Q4. 1 sq m = 10.76 sq ft
Investment

We expect lower investment volumes and an increase in owner-occupiers and institutional investors taking a wait-and-see attitude. Opportunities in the office market will probably be concentrated in emerging business districts, and our expectation is that Guangzhou office capital values should increase by 2.5% on average in 2019.

In addition, we expect the government to keep restricting new supply for warehouse land and we foresee the opportunity to shift to second-hand warehouse projects. In 2019, the capital values of warehouses should witness a 3% YOY increase.

2018 OUTCOME: WEAKER ECONOMIC GROWTH FOR GUANGZHOU

Guangzhou reported 6.3% growth in real GDP for the first nine months of 2018 – a strong performance in absolute terms. Nevertheless, in 2018, Guangzhou’s total export values to Asia, Europe and Africa all recorded negative growth. The US-China trade dispute had an impact as well, as the US accounts for Guangzhou’s largest export value. Additionally the slower export trade and national deleveraging policies slowed corporate expansion and dragged down Guangzhou’s economic growth. As a consequence of this slowdown, companies in the finance, manufacturing, trading and related industries showed less willingness to move or expand, leading to weaker office demand.

**Industrial/logistics**

In 2019, we project new supply of over 460,000 sq metres (4.9 million sq feet) to enter the Guangzhou non-bonded warehouse market, consisting of 84,000 sq metres (903,800 sq feet) in the core submarket of Huangpu, with the remainder in emerging submarkets such as Huadu, Panyu and Conghua.

In Huangpu, we foresee a rapid take-up of new supply and steady rental growth in 2019. With other new projects located in emerging submarkets, totalling 378,000 sq metres (4.1 million sq feet), we expect slower take up and rental growth. Since e-commerce and large retailers will likely hit a temporary plateau in 2019, we estimate weaker demand for large-scale warehouses. With new supply in 2019 equivalent to 4.6x the average annual supply of the last decade, we believe the vacancy rate will rise while average rent will grow by a moderate 3.0% YOY.

Only one new project, located at Nansha, is scheduled in 2020. This is planned to bring over 100,000 sq metres (1.1 million sq feet) of new supply to the Guangzhou non-bonded quality warehouse market. Leasing activity in emerging submarkets will likely be steady, resulting in falling vacancy and moderate rental growth. No new supply is planned in the core submarket of Huangpu, so we expect vacancy to decline slightly and remain low, along with steady rental growth. We believe the vacancy rate will decline and average rent will grow by 4% YOY in 2020. From 2021 to 2023, we expect robust demand and declining vacancy for quality warehouse space. Average rents should record an average annual increase of about 5% over the same period.

Nansha Container Port Phase IV, a joint venture between companies from Guangzhou, Foshan and Zhongshan, should commence service in 2021. The project should further improve the handling capacity of shipping and logistics services in southern Guangzhou and the west bank of the Pearl River. We foresee increasing demand for quality warehouses on the west bank and rising rents in Nansha.
2018: new office supply fell short of demand amid steady growing rent

In 2018, the real estate, TMT and retail & trading sectors accounted for 66% of new leasing activity. The finance sector, impacted by global economic rebalancing and national deleveraging policies, showed weaker demand accounting for 15% of new leasing space, a decline of 11 ppts compared to 2017.

In 2018, flexible workspace operators started leasing in lower-grade office buildings, in addition to their continuing strategy of taking space in prime buildings. Despite being generally older facilities, these offices are in prime locations, offering a mature business neighbourhood. In our view, this represents a win-win situation, since flexible workspace operators add sites to their networks and landlords see revitalised older offices.

Pearl River New City dominated leasing activity, accounting for 42% of newly leased area.

2018: rising warehouse market on the west bank of the Pearl River

For the Guangzhou non-bonded warehouse market, both supply and demand were robust in 2018. Demand from e-commerce-related express delivery and large retailers remained firm. Despite new supply in emerging submarkets, leasing activity was rapid, resulting in a falling vacancy rate and moderately rising rents.

For the Greater Bay Area, cities on the east bank of the Pearl River like Dongguan and Huizhou tended to improve their land use efficiency, which led to a reduction in available land for warehouses. On the other hand, cities on the west bank showed an increased supply of logistics warehouses. The firm development of the warehouse market on the west bank of the Pearl River should not only better serve the flourishing manufacturing industry and local consumer market, but also take up the overflowing demand from Guangzhou.
INVESTMENT

Emerging business districts likely to dominate market transactions

In 2019, we believe investment opportunities in offices will remain concentrated in emerging business districts while new opportunities in core areas will remain limited.

Guangzhou South Railway Station: rising transportation hub should benefit surrounding property

In September 2018, the Guangzhou-Shenzhen-Hong Kong Express Rail Link commenced service, shortening the travelling time from Guangzhou South Railway Station to West Kowloon in Hong Kong to 48 minutes. This improved transport connection ought to accelerate the development of the high-end commerce, trading and exhibition industries in the Guangzhou South business district.

Also in September, Guangzhou’s government approved the Planning for Surrounding Area of Guangzhou South Railway Station, emphasising the development of the information technology, artificial intelligence and biological medicine industries (aka IAB). Guangzhou South Railway Station is close to China’s city of home appliances, Shunde in Foshan. Shunde provides a platform for a transition to a R&D to Production manufacturing strategy, which will likely draw talent from Guangzhou, Shenzhen and Hong Kong. The maturation of the amenities in this area should steadily push up office rents and values over the next five years.

The Guangzhou Comprehensive Transportation Hub Master Planning (2018-2035) details the plan to expand the network into the urban area, aiming to connect three existing railway stations: Guangzhou South, Guangzhou and Guangzhou East. As Guangzhou South Railway Station is far from the core business district, the future expansion of the high speed rail network should ease the attraction of capital and talent.

Rising business parks: targeting high-end industries, optimistic vision

The government plan Supporting Planning for Accelerating Manufacturing and Information Industries, stresses automobile manufacturing, IAB, new energy and new material (NEM), high-end manufacturing among other related sectors. The various policies aim to support Guangzhou’s twin economic engines in the future, modern professional services and advanced manufacturing sector. As such, Guangzhou’s business park market is developing at a steady pace.

As of the end of 2018, companies are able to lease offices and R&D sites cheaper than in business parks. Not only can qualified companies receive allowances for offices and talent rewards from different levels of government, but they also enjoy preferential tax policies.

Besides science & research and commercially zoned land, some existing projects are built on industrial land. Not only are business parks accelerating the clustering of high-tech industries, but they also revitalising several previously occupied industrial districts and significantly improving land use efficiency. We expect business parks to continue strengthening their attractiveness to quality talent and enterprises. This should result in steady growth in rents and values.
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Primary Authors:

Xander Gao
Analyst | Research | South China
+86 20 3819 3930
Xander.Gao@colliers.com

For further information, please contact:

Alan Fung
Managing Director | South China
+86 20 3819 3998
Alan.Fung@colliers.com

Andrew Haskins
Executive Director | Research | Asia
+852 2822 0521
Andrew.Haskins@colliers.com

Daniel Shih
Senior Director | Research | South China & Hong Kong
+ 852 2822 0654
Daniel.Shih@colliers.com