

New Real Estate Hotspots and GBA Implications

Daniel Shih Senior Director | Hong Kong & South China

Xander Gao Analyst | South China

The draft "Guangzhou Master Plan from 2017 to 2035" was released in Q1 2018. With Guangzhou's ambition in developing into an innovation and technology (I&T) based economy, we expect rising demand and favourable investment returns in Pazhou and Huangpu office market from 2018 to 2021. With the aim of becoming an intermodal transport hub serving OBOR markets, the government's sustained construction of airports and ports should further stimulate demand for prime logistics warehouses in Huadu and Nansha for the next five years. Benefiting from new investment in social infrastructure, we foresee that capital values for Nansha's residential property will grow faster than Guangzhou's overall growth rate.

Guangzhou Master Plan, 2017-2035

The Guangzhou Land Resources and Planning Commission released the draft "Guangzhou Master Plan, 2017 to 2035" in Q1 2018. The draft highlighted new initiatives and infrastructure development for Guangzhou, setting a population target of 20.0 million for 2035, and the intention of tightening of future land supply from 2020.

The Master Plan has positioned the capital city of Guangdong Province as a national central city, an international transportation hub, a trade centre, and a scientific and technological industry innovation centre.



From the draft Master Plan, we have noticed the future Guangzhou development will focus on: developing a talent-oriented economic model, enhancing its status as an international transportation hub for OBOR, and a more co-ordinated effort to develop Nansha as the unique sub-centre of Guangzhou.

A Talent-oriented Economic Model

With China moving onto a new phase of economic development focusing on innovation and technology industries (I&T), competition over highly educated talent has intensified across Chinese cities. Several Tier One and Two cities, such as Beijing, Shanghai, Shenzhen, Xi'an and Nanjing, have recently launched new policies to attract highly educated graduates in the past two months. There is no doubt that policies makers have recognised human talent, especially in I&T industries, is the most important resource in a new knowledge-based economy.

Compared to other cities in Southern China, Guangzhou has the advantage of having the most abundant resources of highly educated talent since it has the highest concentration of universities and the largest number of undergraduate students. We expect Guangzhou to launch more policies to attract and to retain its own educated workforce to boost the development of its own I&T industries.

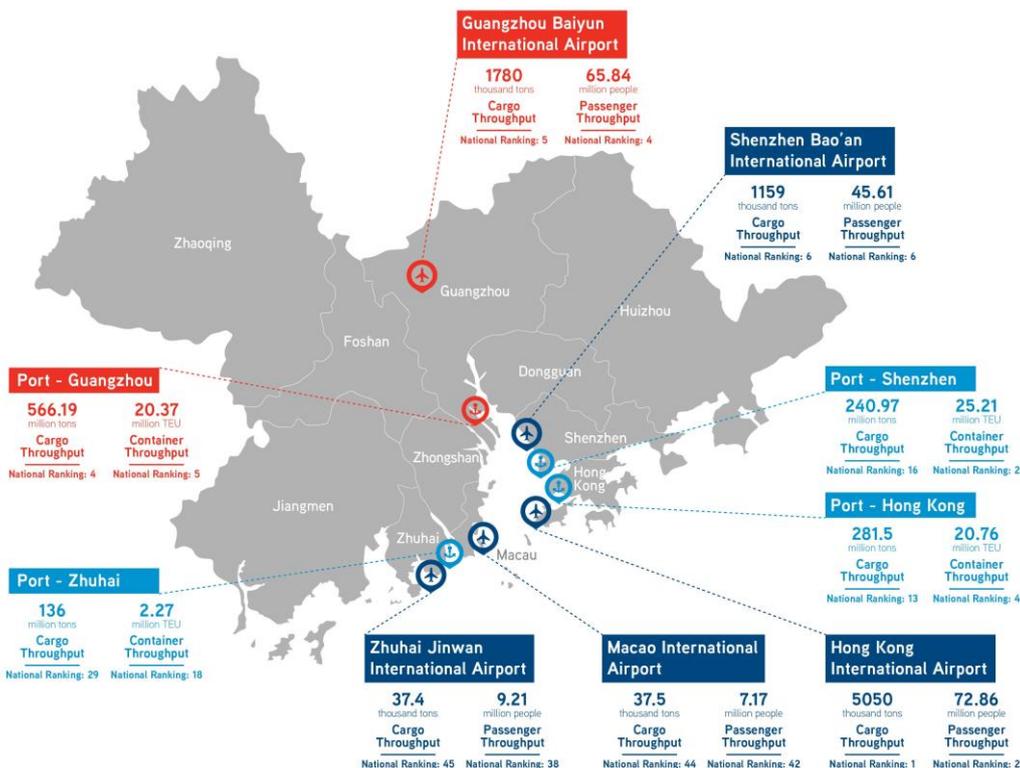
Chart 1: List of top universities in Guangzhou

 Top Universities	 No. of Undergraduates
Sun Yat-sen University	32,000
South China University of Technology	25,000
Jinan University	26,000
Guangzhou University of Chinese Medicine	12,000
South China Normal University	25,000

Source: Colliers International

On top of city level policies, district level governments have promulgated their own versions of policy to

Figure 2: Cargo and Passenger Throughputs at Major Ports in the Greater Bay Area



Source: Compiled by Colliers based on statistical publications

accelerate the development of IAB industries (Information Technology, Artificial Intelligence & Biological Medicine). For example, Huangpu District has launched new policies to attract IAB companies and talent. It has set an ambitious goal for IAB industry output to exceed RMB800 billion (USD125 billion) by 2022. The District wants to attract more IAB companies to settle in Guangzhou Science City and Sino-Singapore Guangzhou Knowledge City, the two major IAB industrial clusters within its jurisdiction. Without a rising number of educated workers, it will be difficult to attain these goals.

While Shenzhen has been ahead of Guangzhou in terms of innovation and R&D activity, we believe Guangzhou

has its own advantages due to the presence of multiple higher education institutes and a well-developed heavy industry base, including auto making and ship building. With growing opportunities in the I&T or IAB industries, more local graduates should choose to settle in Guangzhou.

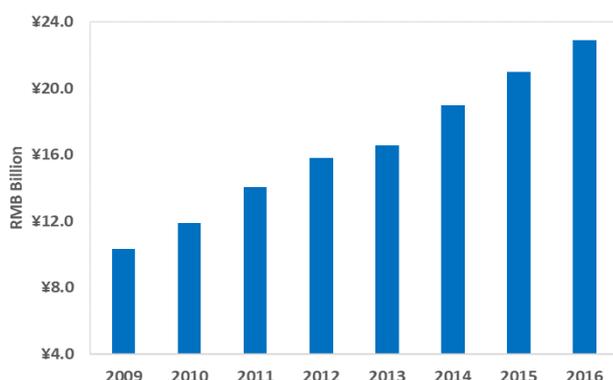
An Intermodal Hub for OBOR

Guangzhou has been known as a major transportation hub, and a key trade centre of South China. Both the port and airport of Guangzhou are currently among the busiest in China. Looking forward, Guangzhou wants to become an intermodal transport & logistics hub to serve the greater OBOR region.

Guangzhou's Baiyun International Airport has become a key international passenger transit point in South China. China Southern Airlines, based in Guangzhou, is one of China's three largest airlines which have been driving Guangzhou's growth in air passenger and cargo throughput and will be instrumental for Guangzhou's rise as a transit hub for international air traffic.

Terminal 2 of Baiyun Airport commenced operation on 26th April, and will increase its passenger capacity to 80.0 million per year, from 65.8 million by end of 2017. Phase III expansion, including the fourth and fifth runways, a new Terminal 3, and auxiliary facilities will cost RMB 52 billion (USD8.1 billion), and is scheduled to

Figure 1: Guangzhou R&D Expenditure of Industrial Enterprises above Designated Scale



Source: Guangzhou Statistical Bureau

be completed in 2022. Complementary investment worth RMB100 billion (USD15.6 billion) will be deployed to enhance the airport's accessibility to adjacent cities through new highways and railways.

Guangzhou Port handled more than 20 million TEUs in 2017, making it the world's seventh busiest container port. Guangzhou Port also ranked first nationally in container throughput handled for domestic market, benefiting from a strong industrial hinterland in the Greater Bay Area.

Nansha Port, south of Guangzhou City, accounts for 68.2% of container throughputs and 56.8% of cargo throughputs of Guangzhou Port in 2017.¹ Also, Phase IV expansion of the Port, a new RMB5.6 billion (USD875 million) investment for container berths, is expected to begin in 2018. New plans to connect Nansha Port with different European cities are currently on the drawing board.

With the completion of new transport infrastructure Guangzhou should be able to expand its trade service area and become a key inter-modal transportation hub for OBOR markets.

Rise of Nansha as a Centre

While Nansha New District was first built as an international seaport, its importance to Guangzhou goes beyond trade and logistics. Nansha New District Masterplan 2025 has defined the future role of Nansha as a Free Trade Zone, a national level New District, and the newly designated urban sub-centre of Guangzhou. Nansha Masterplan expects Nansha's population will reach 2.3-2.7 million by 2025, from 725,000 at end-2017.

Guangdong Free Trade Zone was established in 2014 and Nansha is one of the three designated areas covered by the Zone. Since then, more than 50,000 new companies with an accumulated registered capital of RMB960 billion (USD150 billion), representing a six-fold increase, have been established in Nansha. A total of 85 Fortune-500 companies have established a presence and the goal for Nansha is to become a modern manufacturing bases with a focus on shipping/logistics, finance, international trade, high-end manufacturing and other manufacturing services activities.

However, to fulfil its potential as a regional centre, Nansha needs to improve its connectivity with neighbouring cities and districts and to increase investment in social infrastructure. As a result of a lack of hospital, schools, and other community amenities, many Guangzhou residents are not considering Nansha as an ideal community to raise their families.

Figure 3: Travelling time from Nansha on XRL



Source: <https://www.fliggy.com/>

Over the next few years, new transit lines will connect Nansha with Guangzhou. More importantly, the scheduled opening of the Hong Kong-Shenzhen-Guangzhou Express Rail Link (XRL) link in Q3 2018 will greatly enhance Nansha's accessibility via QingSheng Station. Travelling times between Nansha, Dongguan, Shenzhen and Hong Kong will all be greatly cut.

The Masterplan 2025 has reserved land for new schools and higher education institutes. Three new AAA grade hospitals and new sports, cultural and recreational facilities will be built across the district, greatly enhancing Nansha's attractiveness.

Guangzhou Property Hotspots

The implementation of the new Masterplan for Guangzhou will also bring new momentum to the local property market. Emerging opportunities for offices, residential and logistics are:

Office

With the development of a knowledge-based economy, we think office markets covered by the "Guangzhou-

¹ Container throughputs and cargo throughputs for Nansha port in 2017 were 13.9 million TEUs and 335 million tons.

Container throughputs and cargo throughputs for Guangzhou port in 2017 were 20.37 million TEUs and 566.2 million tons.

For the details please refer to: <http://www.ufsoo.com/news/detail-80d08103-85de-47f8-b0bf-c31e2b890be1.html>;

<http://www.nbd.com.cn/articles/2018-02-25/1193943.html>; http://www.weiyun001.com/news/news_content?id=3751;

http://www.weiyun001.com/news/news_content?id=3801

Shenzhen Scientific and Technological Innovation Corridor", including Pazhou E-commerce Zone in Haizhu District, Guangzhou Science City and Sino-Singapore Guangzhou Knowledge City in Huangpu District, will benefit from demand for new offices.

New large enterprises, like Tencent, Alibaba and Vipshop, will move into Pazhou, which will further consolidate Pazhou as a new cluster for I&T companies and talent. Office rent in Pazhou increased more than 3.6% QOQ to RMB135 per sq m per month (USD2.0 per sq ft per month) in Q1 2018. Although over 1.64 million sq m (17.65 million sq ft) of new offices will enter Pazhou between 2018 and 2021, we expect the inflow of I&T companies will be able to absorb future new supply.

In Huangpu District, we estimate capital values of offices have risen by 50% over the past four years. Given the District's emphasis on Information Technology, Artificial Intelligence and Biological Medicine industries (IAB industries), it should be a popular destination for high-tech companies. We foresee that rent and capital values of offices in Huangpu will rise faster than in the more established office markets in Guangzhou.

Residential

The Masterplan has set the population target for Guangzhou at 20.0 million by 2035, adding 5.5 million of people in the next 18 years. We see greater value appreciation potential for areas which enjoys growing economic activities, along new transit lines and new investment in social infrastructure.

Nansha, being the focus of Guangzhou's Masterplan, will benefit from new rail and road links and new investment in social infrastructure. Sun Hung Kai Properties, a leading Hong Kong developer, has secured its first land parcel of 37,800 sq m (340,000 sq ft) in Nanshan near the Qingsheng Station transportation hub. This will be an iconic project with 66,700 sq m (600,000 sq ft) GFA for Phase One of the development². The commencement of XRL services should spur real estate development around the station. Property prices in Nansha have increased 29% since 2014, and we believe they will continue to grow faster than Guangzhou's overall growth rate.

Logistics

New logistics opportunities should emerge near the aviation hub in Huadu and container port in Nansha. Guangzhou will accelerate the development of aviation

related logistics and cross-border e-commerce, which should lead to increasing demand for warehouses. An additional 200,000 sq m (2.15 million sq ft) of new supply will be available by end-2018, representing a 50% increase in Huadu. The new supply will mainly cater for cross-border e-commerce.

The total GFA of existing bonded warehouses in Nansha is amount to 550,000 sq m (5.92 million sq ft). We expect over 600,000 sq m (6.46 million sq ft) of bonded warehouses to enter the market from 2018 to 2021. As the total volume of external trade in Nansha increased by 15.2% YOY in 2017, we foresee rising demand for quality warehouses.

Implications for other GBA cities

While other cities in the Greater Bay Area (GBA) are not mentioned, investors looking for opportunities in GBA shall take note of this Masterplan and be aware of its implications:

Follow the inflow of I&T talent

Competition for the best talent is getting fiercer among Chinese cities. The GBA should be attractive to talent from other regions. Many top tier and secondary cities in GBA have announced preferential policies and benefits to attract talent in I&T industries, including Hong Kong. In the future, we believe that the ability of a city to attract and retain the best talent will have a direct relationship to the value of its property, since high net-worth individuals from I&T industries will put some of their newly gained wealth in bricks and mortar.

Tap in new rail station developments

We see greater gains outside the core-urban districts of Guangzhou. A limited land supply in older area and new development initiatives in suburban districts will shift the economic dynamics to favour less developed areas. Mr. Fred Ma, the Chairman of MTR Corp of Hong Kong, has expressed a strong interest in developing new transit-oriented development (TOD) projects in GBA³. We foresee investment opportunities at new large communities adjacent to major transit stations.

Capture multiplier benefits in nearby cities

New investment to improve connections between the airport and port and the adjacent cities will benefit areas of Foshan, Zhongshan, and Zhaoqing near the border of Guangzhou. In addition, Dongguan, an integrated part of Guangzhou-Shenzhen Scientific and Technological

² The details please refer to: http://house.southcn.com/lskb/content/2018-05/10/content_181819529.htm

³ The details please refer to: <http://www.scmp.com/news/hong-kong/politics/article/2143140/mtr-chief-frederick-ma-unveils-plans-help-solve-hong-kongs>

Innovation Corridor, should see the number of high-tech groups grow further.

For more information:

Alan Fung

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

Andrew Haskins

Executive Director |
Research | Asia
+852 2822 0511
Andrew.Haskins@colliers.com

Daniel Shih

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

Copyright © 2018 Colliers International.

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.



Accelerating success.