

IMPROVED TENANT FACILITIES AND SERVICES DRIVE OCCUPANCY

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Insights & Recommendations

Since 1990, business parks (BPs) have driven Guangzhou's economic growth as an essential platforms for tech industries. The government has implemented policies to encourage the growth of BPs and Guangzhou's BP market has grown accordingly.

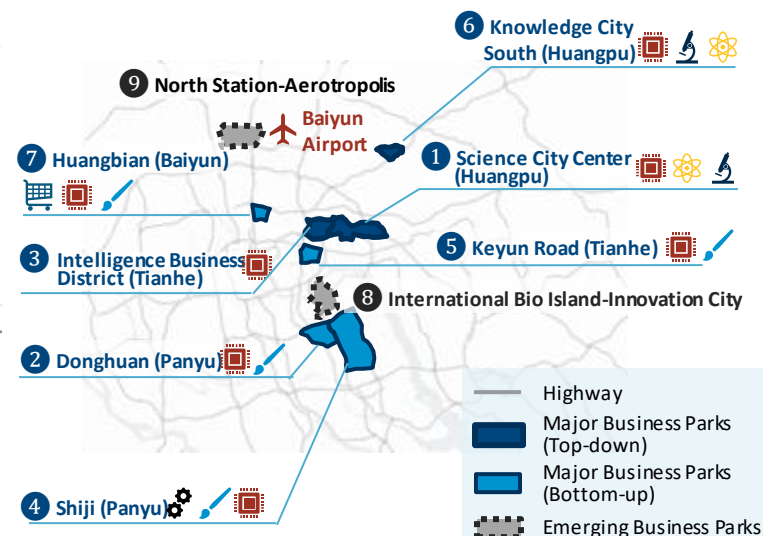
We recommend BP operators improve facilities and services like adding recreational space, using smart tech for property management, providing business advisory and housing incubation programs to meet tenants' needs and maintain high occupancy. Mature BPs can look to be included in a REIT. We recommend tenants in the IAB and NEM* should consider BPs to enjoy investment incentives and subsidies and customize the office space to meet their specific needs like durable flooring for equipment.

Guangzhou business park submarket

	Stock (sq m)	Rent (RMB/sq m/month)	Vacancy (%)
1	1,429,000	65.8	11.6%
2	1,343,000	61.7	29.7%
3	1,207,000	78.2	7.5%
4	915,000	36.2	29.9%
5	654,000	115.2	1.9%
6	357,000	62.1	35.2%
7	296,000	65.7	17%
8	280,000	59	2.7%
9	236,000	47.3	27.7%
Others	2,199,000		N/A
Overall*	8,915,000	71.2	16.8%

Main Industry:

 Information Technology	 E-commerce
 New material	 Advanced manufacturing
 Biotechnology	 Cultural & Creative Industries



Source: Colliers International; *Overall includes major business parks and other single business parks projects

Given the securitization opportunity and occupancy stability during the pandemic, business parks are increasingly being seen by investors and developers as an attractive real estate asset class. In August 2020, the National Development and Reform Commission launched the publicly traded REITs scheme, to encourage the development of infrastructure and business parks projects¹. The IT and biotech industries, which have been growing despite the pandemic, are major BP occupiers and have partially offset small-to-medium firms downsizing. This has supported BP vacancy over H1 2020.

We classified Guangzhou's business parks into two categories: *top-down* and *bottom-up*. For top-down BPs, the government had a clear masterplan and vision when developing the BPs. For instance, Tianhe Software Park was set up in 1999 with the goal of building a tech hub to promote information technology. By 2011, Tianhe Software Park was successful enough that it was expanded into the Intelligence Business District. Bottom-up BPs, like those in Donghuan, have been mainly converted from industrial parks, with the development plan coming from the developers. In these parks, the government provides subsidies and incentives to certain companies to support the BP development.

¹Notice of the Application of Real Estate Investment Trusts (REITs) in the Infrastructure Field. *IAB stands for Information technology, artificial intelligence, biotechnology; and NEM stands for new material and new energy

NEW BUSINESS PARK POLICIES

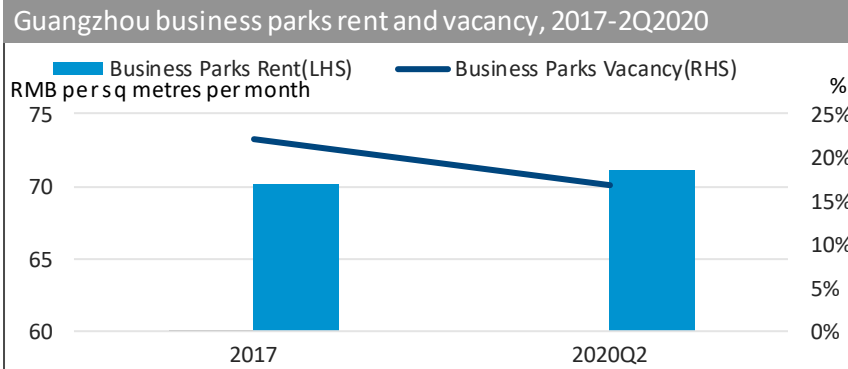
Research and development (R&D) expenditure reveals the development potential of high-tech industries, which lead to high economic productivity. Guangzhou’s R&D spending in 2018, at 2.6% of GDP, lags that of Shenzhen, China’s epicenter of high-tech companies, which spent 4.8% of GDP on. Guangzhou’s BP supply, a hotbed for tech firms, also lagged Shenzhen.

In 2018, the government released a three-year plan for innovation business parks² and industrial land usage guidelines,³ and in 2019 the government issued another three-year plan to promote technology sector, targeting to raise the R&D spending to 3.1% of GDP by 2021.⁴

Learning from Shenzhen’s M0⁵, a new industrial zoning that used for R&D and cleaner production, Guangzhou adopted a high-tech industrial land (M0) policy⁶ to upgrade industrial parks.

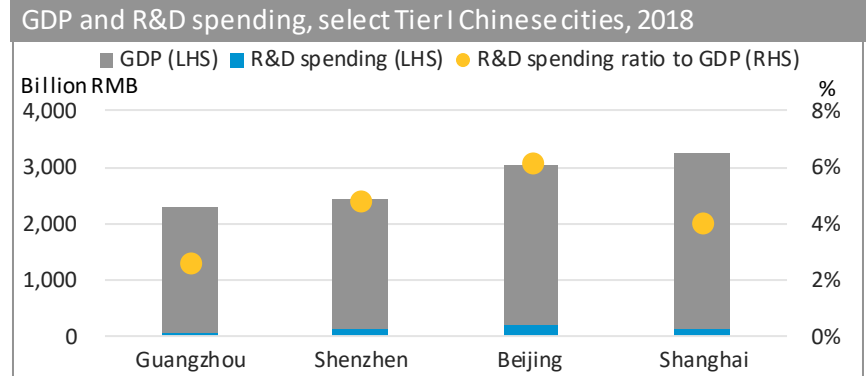
THE BUSINESS PARK MARKET

From 2017 to 2019, the rent of business parks gradually grew 3.3% from RMB70.2 (USD10.1) to RMB72.5 (USD10.4) per sq metre per month. Affected by the economic slowdown in H1 2020, the rent dropped 1.9% HOH to RMB71.2 (USD10.2) per sq metres per month. Vacancy dropped from 22% in 2017 to 16.8% in H1 2020. This is a decline of 5.2 pps HOH, as some tenants moved from Grade B office buildings to business parks for a more favorable rent and a larger office floorplate to maintain social distancing.



Source: Colliers International

Source: ²Guangzhou Innovation Business Park Three-Year Plan, ³Guangzhou Industrial Land Instruction, ⁴Guangzhou Promote Technology and Innovation to Strengthen The City Three-Year Plan, ⁵Shenzhen Urban Planning Standards and Guidelines, ⁶Improve The Efficiency of Industrial Land in Guangzhou. Note: USD1 to RMB6.97 as of 8 Aug 2020. 1 sq m = 10.76 sq ft.



Source: Guangdong Bureau of Statistics, Beijing Bureau of Statistics, Shanghai Bureau of Statistics

Guangzhou business park definition criteria

- Developers' Objective**
 - > There is a lead entity controlling most of the development and planning
 - > There is a lead entity that has the motivation for the continuous improvement of the public facilities/services of the area
- Occupiers' Considerations**
 - > Align location strategy with landlords offering suitable industry preferences and favorable lease terms based on tax output.
 - > The BP has well defined and achievable tax incentives and industry subsidies
- Real Estate and Supporting Amenities**
 - > There are supporting retail and restaurants in the area
 - > The BP has good site access and is located near major highways
 - > The BP can provide space for clean production and laboratory research.
- Location and Size**
 - > Located in mature development areas with clear masterplans or upgraded industrial parks.
 - > A sizable development cluster of at least 30,000 sq m.

Source: Colliers International

The information technology sector is the major demand driver for business parks in Guangzhou. Technology companies like Zuzuche in Herely Park and Baidu in Helenbergh Creative Park need large office space and have specific requirements like H.V.A.C⁷ to fit their work culture. These type of tenants have relatively high occupancy stickiness in the business park space, as it is not feasible for them to occupy space in the traditional office buildings given the much higher rental costs and smaller floor plates.

Compared to the Grade A office market, business parks in Guangzhou show higher rental stability due to their different tenant-mix. Sectors like real estate, retail/trading, and professional services, which occupy a large portion of Grade A space, are sensitive to the economic cycle. In an economic upturn like in 2017 and 2018, business park rent grew less than 3% YOY while Grade A office rent increased over 6.0% YOY. However, in an economic slowdown like in H1 2020, business park rent only dropped 1.9% HOH while Grade A office rent declined 2.9% HOH.

Market transactions of business parks

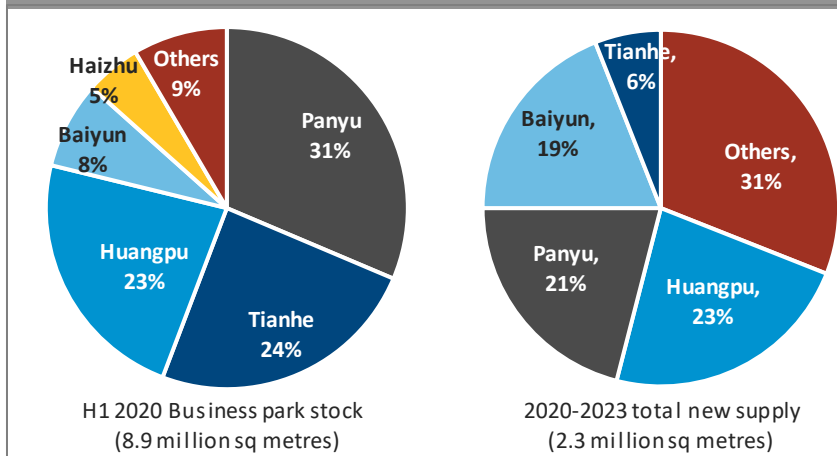
Whilst the business park market in Guangzhou is still in the early stage of development, the majority of property transactions are for self-use instead of investment. From 2019 to H1 2020, Guangzhou business parks recorded seven en-bloc transactions. Two of the buyers are state-own companies, who are likely to lease out after purchase, while five are private enterprise buying for self-use. Companies in manufacturing and the culture & creative industries would like to buy property in business parks to lock in the long-term occupancy cost. The average price for business parks available for sale was about RMB15,900 (USD2,282) per sq metre, mostly in Huangpu, Panyu, and Huadu.

The prospect of business parks

In H1 2020, the largest BPs in Guangzhou by stock were Panyu District, Tianhe District, and Huangpu District. Cisco Smart City (Panyu District) located in International Bio Island-Innovation City, and Shenshan Rail Manufacturing Park (Baiyun District) located in North Station-Aerotropolis, are scheduled to account for around 34% of the total new supply from 2020 to 2023. Both emerging submarkets are promoted by the government with a clear master plan. We believe these two areas will become the key business parks for the city in the five years as supporting amenities mature.

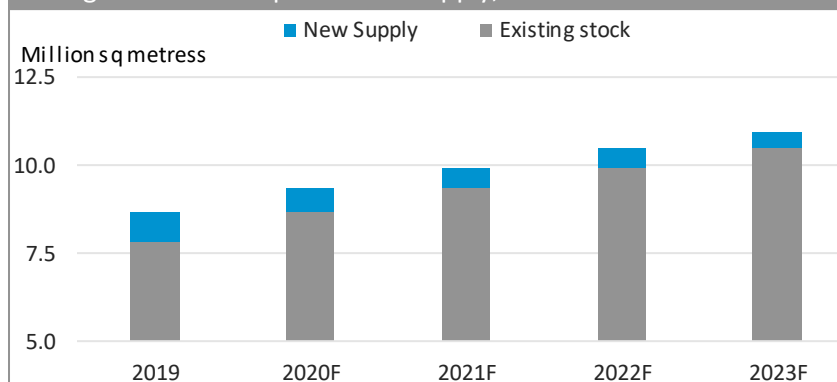
⁷ H.V.A.C. stands for Heating, Ventilation and Air Conditioning

Guangzhou business parks by district



Source: Colliers International

Guangzhou business park future supply, 2019-2023



Source: Colliers International

From 2020 to 2023, the new supply of business parks is planned to be over 400,000 sq metres (4.3 million sq feet) per year. Except International Bio Island-Innovation City near Pazhou, we forecast the vacancy of other emerging submarkets and single business parks projects will rise in next three years before the infrastructure matures in these areas. For major business parks markets, we expect the rent will grow steadily due to the increasing demand from high-tech firms and the cluster effect.

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