Hot Property

The growth prospects arising from the ambitious Greater Bay Area initiative have seen increasing foreign capital flow into the commercial property markets in Guangzhou and Shenzhen since its announcement in early 2017. – By Reed Hatcher

A rising tide of real estate investment into the commercial property market in Guangzhou and Shenzhen is being fueled by the Greater Bay Area (GBA) initiative, according to recent findings by Cushman & Wakefield.

Nearly two years after the initial announcement of an ambitious plan to transform the GBA, consisting of two Special Administrative Regions (Hong Kong and Macao) and nine cities in Guangdong Province into a global economic powerhouse, the Chinese Central Government followed through in formally releasing a blueprint for the region in February 2019. While the blueprint did not offer much new detail, it was nonetheless welcomed as a signal of the government's continued commitment to drive economic growth in the area.

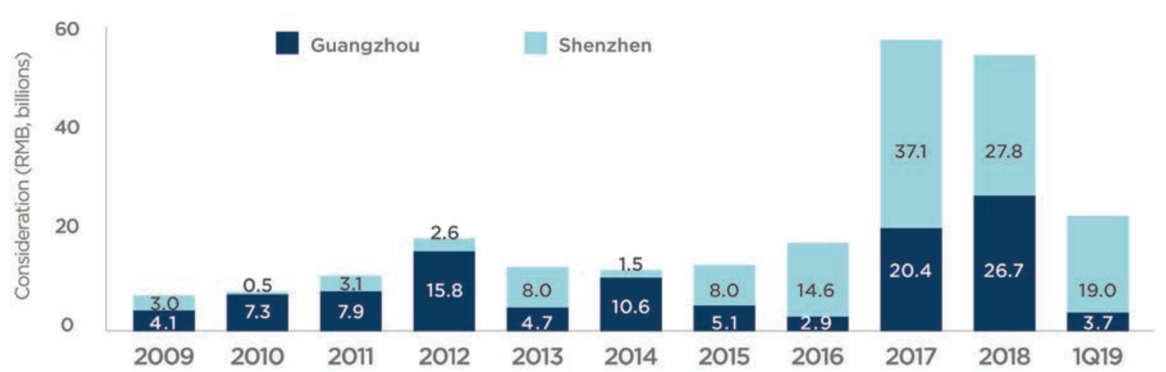
While real estate is not a key feature of the GBA plan, its successful implementation clearly has major implications for the sector, from the creation of commercial nodes supported by new transportation links to growing commercial demand supported by new industries.

The improved growth prospects in the GBA have resulted in an up-tick in investment interest in the area in the period since the announcement of the initiative in early 2017. However, that interest has been narrowly focused in Guangzhou and Shenzhen given the maturity of their economies and proximity to Hong Kong. In 2018 alone, combined transaction volume in the two cities amounted to RMB 54.6 billion, the second highest on record (after 2017) and more than three times the RMB 17.5 billion recorded in 2016.

As the investment market in the GBA has heated up, it has attracted a growing number of foreign investors including many from Hong Kong. Since 2014, foreign investment into properties valued at more than RMB 100 million each in Guangzhou and Shenzhen has more than doubled to RMB 5.2 billion in 2018, from RMB 2.2 billion in 2014. The strong foreign investment demand seen in 2018 continued into the 1Q19 with the combined consideration amounting to RMB 7.5 billion, about a little over half of the record high in 2012.

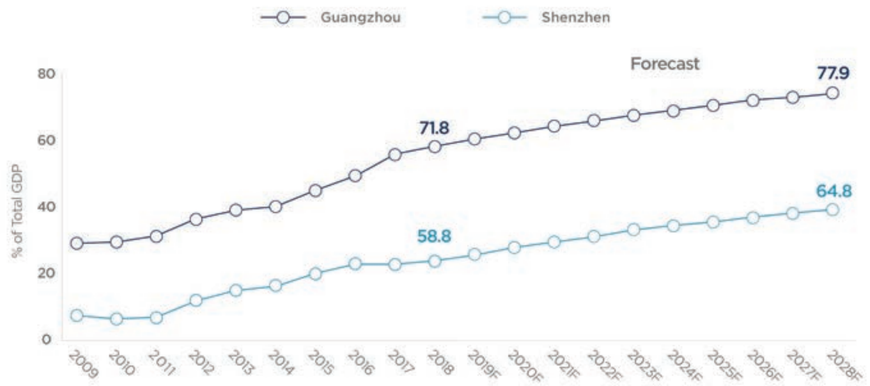
Among all asset classes, office properties are unsurprisingly the most sought after, accounting for 40% of the total number of foreign transactions over the past 10 years. Appetite for exiting office assets has been supported by several underlying fundamentals.

Real Estate Investment in Guangzhou and Shenzhen



Sources: RCA; Cushman & Wakefield

Share of Tertiary Sector to GDP in Guangzhou and Shenzhen



Sources: Guangzhou & Shenzhen Statistics Bureaus; Oxford Economics; Cushman & Wakefield

Mature Grade A office market with solid demand

Driven by upgrading and/or expansion demand for Grade A office space by local enterprises, especially in the tech sector, net absorption in Shenzhen's office market in 2017 and 2018 amounted to a level about 2.9x and 1.7x, respectively, the 10-year historical average of 263,200 sqm.

Meanwhile, robust expansion requirements from co-working operators and TMT tenants helped push the Grade A office vacancy rate in Guangzhou down to the lowest vacancy in a decade, supporting the average monthly rental of the city growing at the fastest pace among all China Tier-1 cities in 1Q19.

Rising tertiary (service) sector

Guangzhou and Shenzhen's GDP have skyrocketed over the past decade, underpinned by a strong service sector growth. Under the GBA master plan, Guangzhou will further develop into a regional private equity trading hub as well as an innovation area in South China, while Shenzhen will establish pilot zones for the development of insurance innovation and special financial products such as green finance. As a result, tertiary sector's share of GDP in Guangzhou and Shenzhen is forecast to increase further to 77.9% and 64.8%, respectively, by 2028, translating into positive demand for office space in the two cities.

A booming technology industry fuelling headquarters requirements

One of the key aims of the GBA plan is to develop the region as a global tech hub. And as core cities with an established technology presence, Guangzhou and Shenzhen are well positioned to lead the way. The two cities are already major hubs for technology unicorns, supported by strong government policy support and funding from industry heavyweights such as Tencent and Alibaba. As the number of unicorns expands in the two cities, they are feeding into a growing technology ecosystem, which in turn, is drawing more start-ups to set up shop there. The rapid growth among unicorns has led to a sharp increase in office demand with some of them buying or developing their own headquarter buildings.

Looking ahead, foreign investment activity in Guangzhou and Shenzhen is expected to increase further, competing directly with domestic players – who have been a dominant force on their home ground – for suitable commercial investment properties. As the GBA initiative continues to take shape, office assets are expected to remain highly sought-after, especially by foreign PERE funds seeking to latch onto China's next major growth story. B

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