The oversupply situation intensifies

The citywide average vacancy rate spiked to a historical high.

- Zhuhai’s GDP decreased by 2.5% year-on-year (YoY) to RMB159.1 billion in 1H/2020, but its tertiary industry grew by 1.4% YoY to RMB90.5 billion.

- The total stock of the Grade A office market remained unchanged at 1.4 million sq m by the end of 1H/2020 with no new supply entering the market during the period.

- The citywide net absorption was -22,781 sq m – a negative value for the first time in history.

- The citywide average vacancy rate rose by 1.7 percentage points (ppt) half-on-half (HoH) to 43.9%, standing at an all-time high.

- During 1H/2020, the continued oversupply situation, in conjunction with the lingering impact of COVID-19 on leasing demand, caused the citywide average rent to fall to RMB88.2 per sq m per month, down 4.1% HoH on a rental index basis.

- Nine projects with a total GFA of approximately 812,000 sq m are expected to come onto the market in 2H/2020.

- The Hengqin submarket is expected to see a plethora of new supply in the next three years with a total GFA of 1.5 million sq m, bringing greater challenges to market digestion.

“...The market continued to see pressure given the global economic environment and the COVID-19 pandemic. Leasing demand from many small-to-medium-sized enterprises eroded as many tightened their real estate cost, deteriorating the oversupply situation in the locality.”

CARLBY XIE, SAVILLS RESEARCH
MARKET OVERVIEW
Zhuhai’s GDP decreased by 2.5% YoY to RMB79.1 billion in 1H/2020. However, the output of the tertiary industry in the city increased by 1.4% YoY to RMB50.5 billion, with some service industries expanding and bucking the trend during the epidemic and supporting the post-epidemic economic recovery. Notwithstanding, leasing demand from many local small-to-medium-sized enterprises eroded as many tightened their real estate costs. Overall, the oversupply market situation continued and further deteriorated due to COVID-19.

SUPPLY
The double impact of the global economic environment and COVID-19 in 1H/2020 resulted in the postponement of many new projects in Zhuhai. No new supply entered the market during the period, keeping the total stock at 1.4 million sq m. The development pace of the Hengqin submarket was the fastest in Zhuhai’s office market, with its stock growing by 9.1 times compared to 2014; the area has the largest stock in Zhuhai by submarket as of the end of 1H/2020. This was followed by the Jida submarket, which is a traditional business district in the locality, and its stock accounted for 24.2% of the citywide total stock in 1H/2020.

DEMAND
Although the resilience of the local tertiary industry supported the city’s economic recovery, many small- to medium-sized enterprises chose to reduce their corporate real estate costs or to relocate to more economical alternatives instead of Grade A office premises for cost-control purposes. As a result, the citywide net absorption increased by 1.7 ppts HoH to 43.9%, standing at its all-time high. Office leasing demand from the information technology, consumer services and professional services sectors, however, remained stable. Some enterprises from the finance and real estate sectors demonstrated intact interest and requirement for office spaces as their local business continued to grow despite the current economic backdrop.

RENTS
During 1H/2020, the continued oversupply situation in conjunction with the impacts of the COVID-19 on the leasing demand side collectively weakened landlords’ sentiment, causing them to voluntarily lower their rents in a bid to close leasing transactions. By the end of 1H/2020, the citywide average rent fell to RMB88.2 per sq m per month, down 4.1% HoH on a rental index basis.

MARKET OUTLOOK
As projects under construction mostly postponed their completion dates due to the COVID-19 epidemic, the Zhuhai office market is expected to receive nine projects with a total GFA of approximately 812,000 sq m in 2H/2020. The influx of new supply should intensify the oversupply situation in the market. With the work and production resumption facilitating a pick-up in economic activities, leasing demand is expected to edge up. In addition, projects scheduled for completion in 2H/2020 are anticipated to temporarily lower their expectation on asset performance and possibly absorb the relocation demands from enterprises with cost-saving requirements. Given the significant amount of new supply in 2H/2020 and the current market digestion dilemma, the citywide average rent is expected to continue with its downward trend.

### TABLE 1: Selected Future Supply, 2H/2020

<table>
<thead>
<tr>
<th>TENANT</th>
<th>TENANT INDUSTRY</th>
<th>OFFICE GFA (SQ M)</th>
<th>DEVELOPER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hengqin International Financial Center</td>
<td>Hengqin</td>
<td>51,990</td>
<td>Huafa Group</td>
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<tr>
<td>Hengqin Finance Media Center</td>
<td>Hengqin</td>
<td>40,000</td>
<td>Zhuhai Hengqin New Area Southern Jinjiang Real Estate Co., Ltd.</td>
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<tr>
<td>New SOHO Fortune Plaza</td>
<td>Qianshan</td>
<td>65,307</td>
<td>Zhuhai Chenghai Trading Co., Ltd.</td>
</tr>
<tr>
<td>Hengtian International Mansion</td>
<td>Jida</td>
<td>67,061</td>
<td>Zhuhai Qinghua Real Estate Investment Co., Ltd.</td>
</tr>
<tr>
<td>CCC Huitong Hengqin Plaza</td>
<td>Hengqin</td>
<td>125,507</td>
<td>CCC Southern Investment Development Co., Ltd.</td>
</tr>
</tbody>
</table>

Note: Calculation of rental indices for all submarkets starts from 1H/2013 except for: