

TMT enterprises were active in the office leasing market



Shenzhen Grade-A Office Market Report

Q1 2021

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LOWERING PRICE TO BOOST VOLUME WAS STILL AN IMPORTANT STRATEGY FOR MOST OFFICE LANDLORDS TO ATTRACT TENANTS

In Q1, Guangdong Financial Centre was delivered, bringing 229,000 sqm new supply to the Shenzhen Grade-A office market. The overall stock increased to 8.23 million sqm.

The fixed asset investment in Shenzhen recovered well, and the consumer market was picking up fast. From January to February 2021, the cumulative growth in fixed asset investment increased by 46.2% YoY while total retail sales of consumer goods in Shenzhen increased by 37.6% YoY.

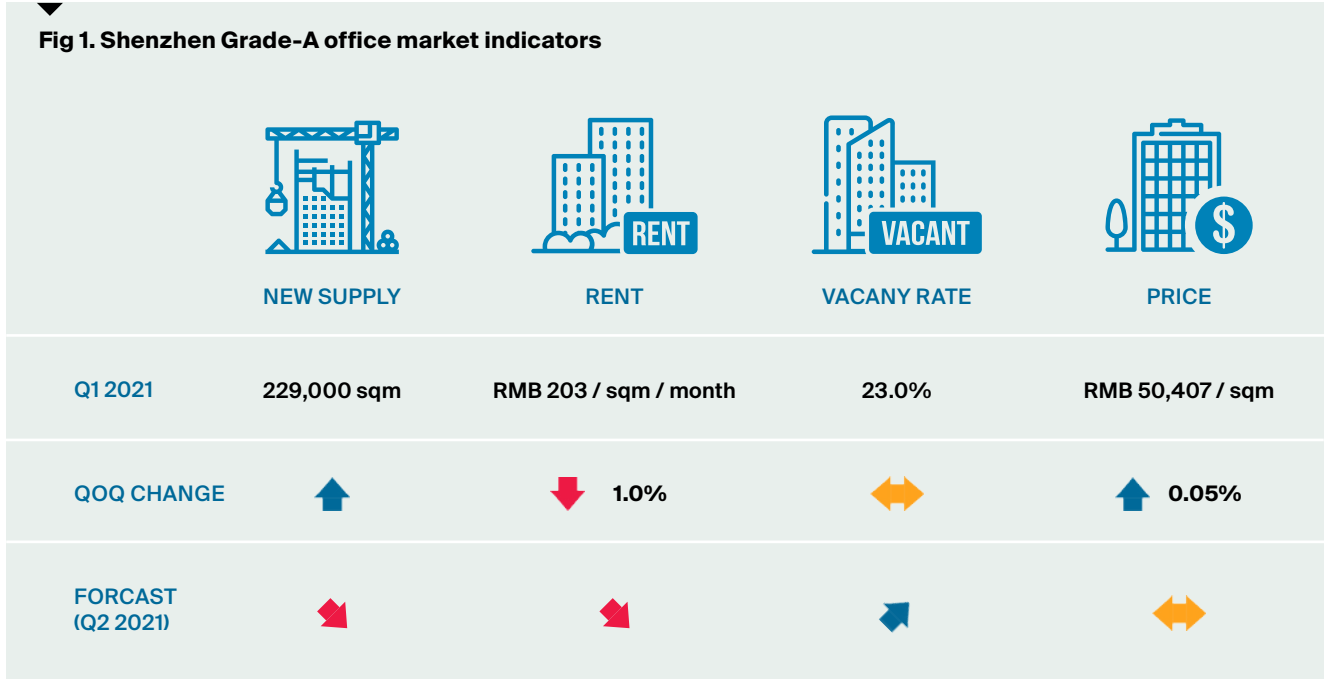
In Q1 2021, the vacancy rate of the Shenzhen Grade-A office market was 23%, remained the same as previous quarter. The average rent of the Shenzhen Grade-A office market fell 1.0% QoQ to RMB 203 per sqm per month, which was a narrower decline compared to the previous quarter.

The Shenzhen Grade-A office leasing market was active in this quarter. Although the negative impact of the epidemic on Shenzhen Grade-A office market has been gradually eliminated, it is expected that competition in the Shenzhen Grade-A office market will remain fierce due to the large amount of new supply in the future. In the short to medium term, most office building developers will continue to bear great pressure on leasing, and lowering prices to boost volume will be still an important leasing strategy for most landlords. Despite the abundant new supply, some prominent office

projects achieved high occupancy due to the high-quality building specifications, well-equipped commercial facilities, and relatively few supplies in the surrounding areas.

Quality companies were still actively seeking opportunities to upgrade or expand office spaces. The occupancy of many leading companies in emerging business districts has also driven their upstream and downstream affiliated companies to lease office space in the surrounding areas.

Fig 1. Shenzhen Grade-A office market indicators



Source: Knight Frank Research

RENTS AND PRICES

In Q1, the average rent for Grade-A office space in Shenzhen was RMB 203 per sqm per month, down 1.0% QoQ and the decline narrowed 0.4 percentage points.

In terms of business district, the average rent in emerging business districts remained stable during the quarter, while the average rent in the core and secondary business districts went down. The average rent of Grade-A office buildings in the core business districts decreased by 2.9% QoQ to RMB 212 per sqm per month, while the average rent of Grade-A office buildings in the secondary business districts decreased by 0.8% QoQ to RMB 186 per sqm per month.

In the strata-title market, the average price of office buildings in Shenzhen during the quarter was RMB 50,407 per sqm, increased slightly by 0.05% QoQ.

Fig 2. Shenzhen Grade-A office rental and price

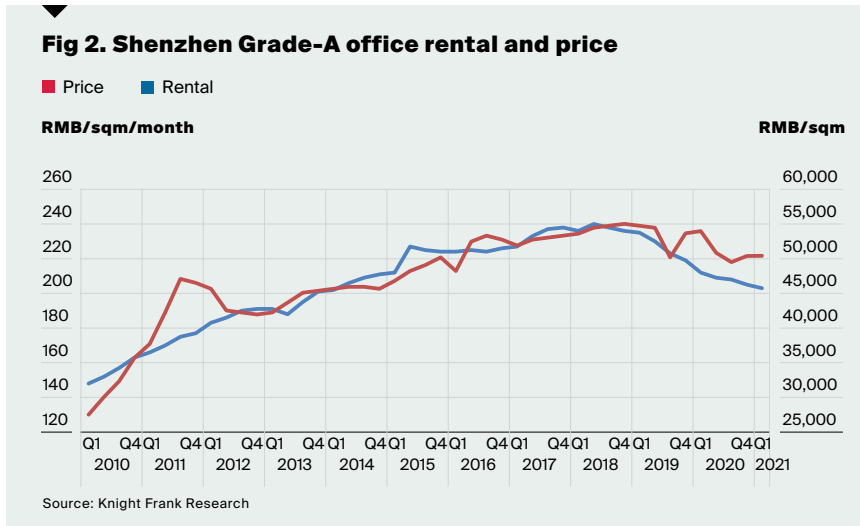


Table 1. Major Grade-A office sub-market indicators, Q1 2021

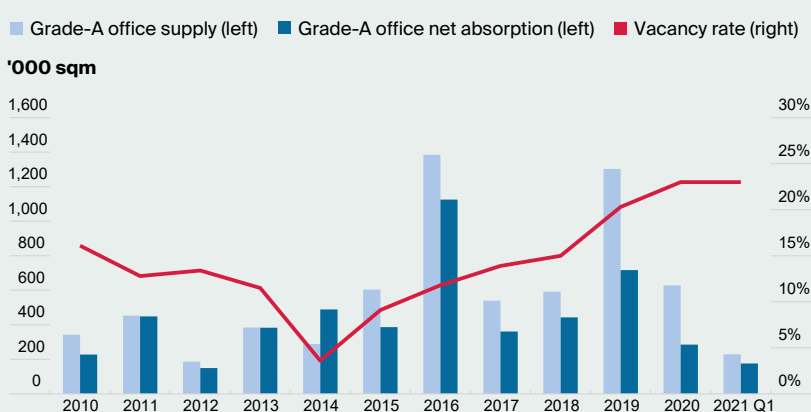
Submarket	Rent (RMB / sqm / month)	Rent Change (QoQ)	Vacancy Rate	Vacancy rate change (QoQ)
Caiwuwei	185	↓4.2%	17.6%	↑3.0
Futian CBD	238	↓1.2%	16.5%	↑3.0
Houhai	211	↓2.8%	30.9%	↑0.8
Qianhai	156	↓0.6%	43.7%	↓1.9
Huaqiang North	175	↔	25.5%	↓5.2
Chegongmiao	211	↓2.3%	14.7%	↓2.2
Shekou	193	↓3.5%	35.7%	↔
Nanyou	165	↔	4.4%	↔
High-tech Business Park	179	↔	18.9%	↓3.0

Source: Knight Frank Research

SUPPLY AND DEMAND

In Q1 2020, Guandong Financial Centre was delivered, bringing 229,000 sqm new supply to the Shenzhen Grade-A office market. The overall stock increased to 8.23 million sqm, raised 2.9% YoY.

In this quarter, TMT companies still dominated the leasing transactions. Notable examples include the lease of a 3,100-sqm-office space in Baidu Mansion by TRANSSNET; the expansion of a 1,500-sqm-office space in Neptune Galaxy Technology Building by EXC-LED.

Fig 3. Shenzhen Grade-A office supply, take up and vacancy rate

Source: Knight Frank Research

Table 2. Major Grade-A office leasing transactions, Q1 2021

District	Building	Tenant	Area(sqm)	Leasing Type
High-tech Business Park	Baidu Mansion	TRANSSNET	3,100	New Lease
High-tech Business Park	Neptune Galaxy Technology Building	EXC-LED	1,500	Expansion

Source: Knight Frank Research
Note: all transactions are subject to confirmation

INVESTMENT MARKET

In March 2021, Shenzhen Expressway and Shenzhen International jointly announced that Shenzhen Expressway agreed to purchase office properties from Loren-Sebo with a transaction value of RMB 1.559 billion. The property is a first-hand office property on 35 to 48 floors of Hanking Financial Center, with a transaction area of approximately 23,000 sqm. Shenzhen Expressway

stated that the purchase of new office properties can meet the office needs of Shenzhen Expressway and its many subsidiaries.

The rapidly expanding and well-funded corporate buyers have gradually become an important demand side of the Shenzhen office investment market to meet the needs of their own

development. In the development environment of Shenzhen's industry agglomeration effect and talent gathering effect, it is expected that more cooperate buyers will become the major demand side for office en-bloc transaction in the future, thereby enhancing the company's image and promoting the benefits of corporate development.

MARKET OUTLOOK

Starting in 2021, the development of Shenzhen's "headquarters economy" has been accelerated. On February 22, Wumart Southern Technology Co., Ltd. acquired a commercial land in Futian District for RMB 1.257 billion, with a land area of 4,499.95 sqm. After the land was acquired, Wumart would sign a headquarter project industry development supervision agreement with Shenzhen Futian District Industry and Information Technology Bureau, promising that the acquired land can only be used for the construction of the headquarters for Digital Distribution Supply Chain, Futian District.

In order to further promote Shenzhen into a competitive and international metropolis, Shenzhen was repeatedly mentioned in the "The Fourteenth Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Outline of Vision Goals for 2035", which was released in March. The outline proposes to support Shenzhen to become a pioneering demonstration zone for socialism with Chinese characteristics; improve the Guangzhou-Shenzhen-Hong Kong, Guangzhou-Zhuhai-Macao Science and Technology Innovation Corridor, Shenzhen-Hong Kong Loop, and "Two Corridors and Two Points" framework system for Guangdong-Macao-Hengqin Science

and Technology Innovation Pole, to promote integration while stimulate the construction of a national science center; promote the construction of major cooperation platforms among Guangdong, Hong Kong and Macao, such as Qianhai District, Shenzhen, Hengqin District, Zhuhai, Nansha District, Guangzhou, and Shenzhen-Hong Kong Loop.

As an important area of the "Shenzhen Strategy", Qianhai had a brilliant performance in attracting foreign direct investment. In 2020, the foreign direct investment in actual use in Qianhai Shenzhen-Hong Kong Cooperation Zone was USD 4.305 billion, an increase of 11.7%, accounting for 49.6% of the city and 3% of the country. There was a total of 11,300 registered Hong Kong-funded enterprises, and the direct investment in actual use from Hong Kong accounted for about 88.3% of the total foreign investment in Qianhai.

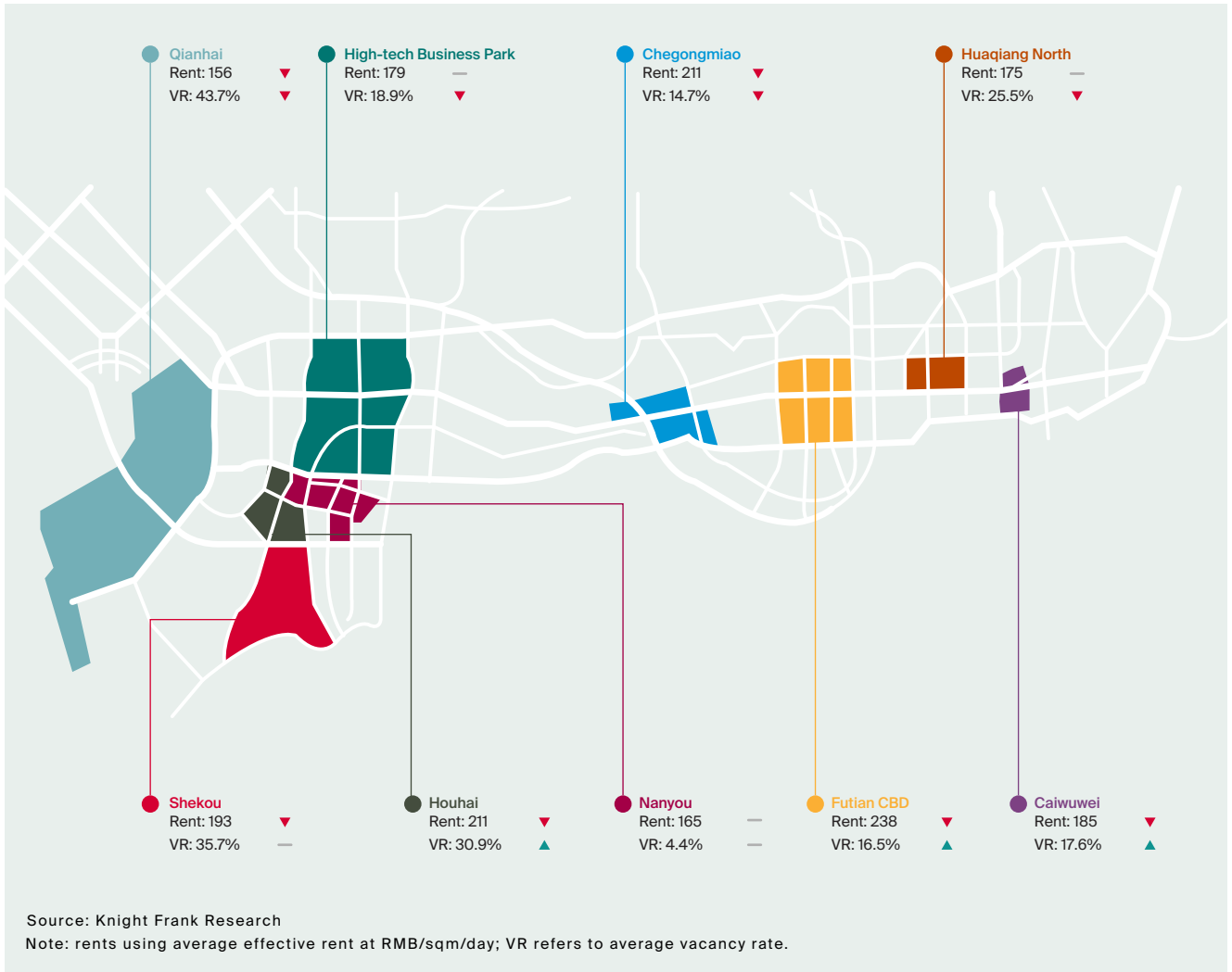
Driven by the macro policy orientation, the inflow of capital and other factors, it is expected to effectively promote the development of professional services, TMT and other industries in Shenzhen, conforming to Shenzhen's strategic positioning, thereby further promoting the development of Shenzhen office leasing market, especially the demands in Qianhai sub-market.

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SHENZHEN GRADE-A OFFICE MARKET DASHBOARD Q1 2020



We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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