Shenzhen Grade-A Office Market Report

Q1 2024

This report focuses on the Grade-A office market in Shenzhen, including information about supply and demand, rents, vacancy rates and the office investment market

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Overview and Outlook

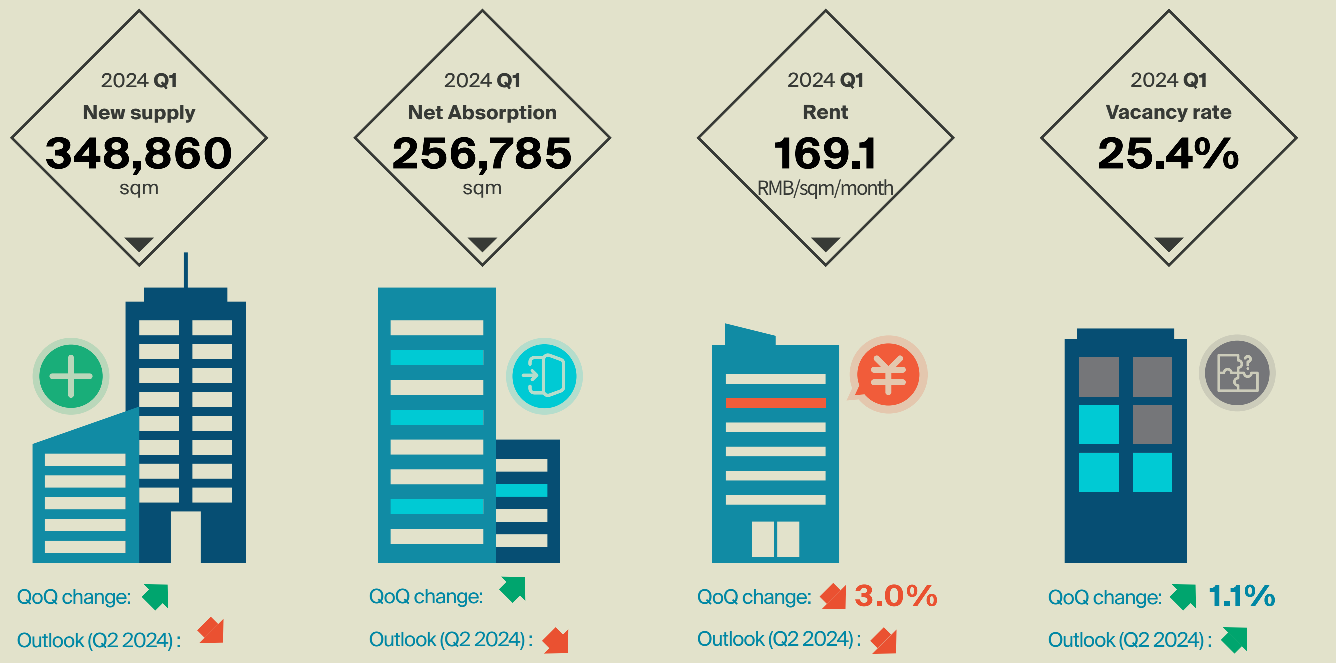
Slow momentum at the base stage to withstand the supply peak

In Q1 2024, net absorption in the Grade A office market in Shenzhen reached a historical high, influenced primarily by the delayed disclosure of transactions and the rapid growth of self-use demand. However, the supply of Grade A office buildings in the city also peaked, resulting in continued pressure on vacancy rates and rental prices. Overall, the market rental rate declined by 3.0% QoQ to RMB169.1 / sqm/month, while the vacancy rate increased by 1.1% QoQ to 25.4%. The supply-demand imbalance has not seen significant improvement.

Leasing demand in Q1 was driven mainly by the professional services and finance sectors. Leasing demand for newly established offices by enterprises ranked at the top in Q1, with out-of-province high-tech companies showing a preference for Shenzhen. Several industry-leading companies significantly contributed to the growth of self-use demand through consolidation activity. Enthusiasm for en-bloc transactions cooled slightly this quarter, with only one en-bloc transaction related to office buildings recorded, for about RMB246 million. En-bloc transaction investors continue to maintain a cautious and observant stance.

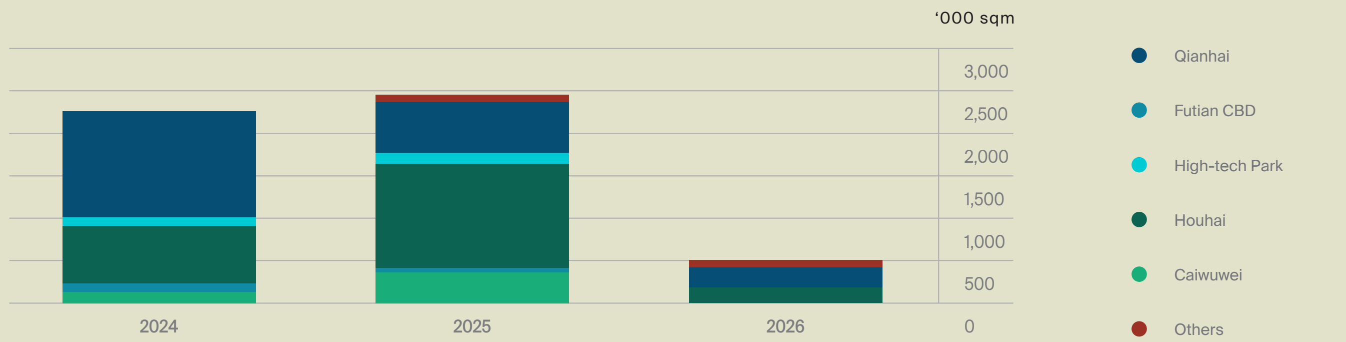
In Q2, over 200,000 sqm of new supply is expected in the Shenzhen office market, resulting in continued pressure on the vacancy rate and rental prices of Grade A office buildings. Against the backdrop of weakening economic recovery expectations, enterprise leasing demand is expected to decline cyclically to a reasonable range.

Fig 1: Shenzhen Grade-A office market reference index[1]



Source: Knight Frank Research
[1] Rent refers to average effective rent

Fig 2: Shenzhen office development pipeline, 2024-2026



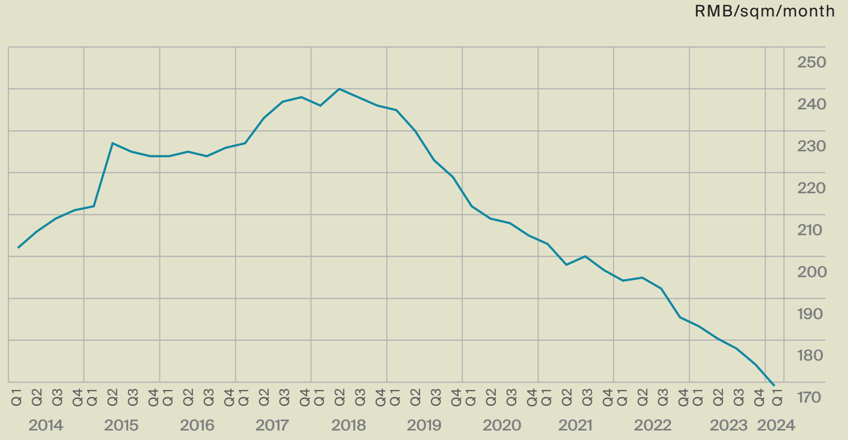
Source: Knight Frank Research
Others include Chegongmiao, Shekou and Bao'an CBD
Projected supply in 2024 includes projects already on the market
Caiwuwei represents Luohu district

Rental Level

Rental prices continue to decline

At the beginning of the new year, to compete for tenants and make a good start to the year, most landlords actively adopted various measures to attract tenants, including lowering rents, offering complimentary renovations, and extending rent-free periods. In Q1, some projects even offered rent-free periods of up to 12 months. As price adjustments have gradually become the primary strategy for office leasing, the average rental price for the city's overall market continued to decline. The average rental price for Grade A office buildings was RMB169.1 /sqm/month, representing a QoQ decrease of 3.0%.

Fig 3: Shenzhen Grade-A office rental trend



Source: Knight Frank Research

Rents in all sub-markets in Shenzhen recorded a decline. The Futian CBD, which has long been the city's leader in rents, met its Waterloo, recording a rental decline of 6.0% during the quarter, and the rental premium between the Futian CBD and other submarkets gradually fell back to a reasonable range as new supply in Longhua, Luohu and Nanshan continued to compete for tenants, and the advantages of the Futian CBD on the policy side gradually weakened.

Looking ahead to the Q2 2024, with expectations of a slow economic recovery, cost-driven relocations will remain the mainstream market strategy, and the city's office rents should continue their downward trend.

Table 1: Major Shenzhen Grade-A office sub-market indicators, Q1 2024

Submarket	Rent (RMB / sqm / month)	Rental % changes (QoQ)	Vacancy Rate	Vacancy rate percentage change (QoQ)
Luohu	129.6	↓3.5%	31.3%	↑7.6%
Futian CBD	202.5	↓6.0%	14.3%	↑0.7%
Futian-Chegongmiao	181.7	↓3.5%	31.6%	↑1.6%
Nanshan- High-tech Park	148.5	↓2.8%	18.2%	↓0.1%
Nanshan- Houhai	195.8	↓0.7%	32.4%	↓3.3%
Nanshan- Shekou	160.4	↓2.1%	41.5%	↑1.2%
Nanshan- Qianhai	154.6	↓0.8%	36.2%	↑2.4%
Bao'an CBD	148.9	↓0.3%	24.4%	↑0.2%

Source: Knight Frank Research

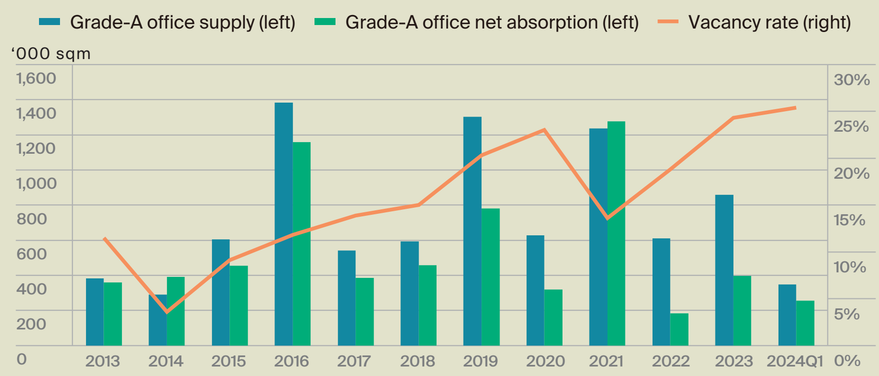
Note: Owing to database adjustments, some data may be different, specific values are based on Q1

Supply and Demand

Supply and net absorption area reach new heights; momentum will be hard to regain

In Q1, the city's new supply rebounded to nearly a two-year high of 348,000 sqm. The new supply was in Huaqiang Financial Building, Kingdee Cloud Building, CITIC City Development and Operation Tower, Citymark Centre and COFCO Asia Pacific Headquarters Building. Owing to year-end closing issues, some of the transaction records were disclosed only in Q1. The delayed disclosure of transactions, coupled with the rapid growth in self-use demand, drove net absorption to nearly a three-year high of approximately 257,000 sqm. However, the city's vacancy rate continued to rise by 1.1% QoQ to 25.4%, influenced by the enormous increase in new supply in Q1.

Fig 4: Shenzhen Grade-A office supply, take-up and vacancy rate



Source: Knight Frank Research
The supply and net absorption of Grade A office space in 2024 is the supply and net absorption in the first quarter
The 2024 vacancy rate is for the first quarter

The professional services sector surged to the top of leasing demand in Q1, accounting for 21.1% of demand area, leading the entire industry. The demand sub-categories were mainly management consultancy, tax consultancy and medical services, with nearly 82.0% of the transaction types newly established. The financial sector ranked second in the city's leasing demand in Q1, driven by demand in the securities and futures subcategories. The city's overall market for newly established demand topped the list of leasing demand in Q1, accounting for a remarkable 45.2% of total leasing demand. Out-of-province companies accounted for a 46.2% share of the newly established demand, mainly from Xi'an, Shanghai and Xiamen. Most of them were high-tech companies, reflecting Shenzhen's highly favorable environment for innovative technology companies.

Self-use demand contributed approximately 30% of net absorption area in the city in Q1, significantly boosting the city's net absorption. For example, nearly 20,000 sqm of Lenovo Houhai Centre was converted from leasing to self-use, and half the office space in the newly listed Citymark Centre in Luohu District was for self-use.

In Q1, the delayed disclosure of leasing transactions and the enormous self-use demand drove a nominal surge in net absorption throughout the city. However, in Q2 2024, the economic recovery is still projected to be weaker than expected. Corporate leasing demand is estimated to cyclically fall back to a reasonable range, and the worsening imbalance between supply and demand will further push up the city's vacancy rate.

Table 2: Major Shenzhen Grade-A office leasing transactions, Q1 2024

District	Building	Tenant	Area (sqm)	Transaction Type
Qianhai	Kerry Center	Yintai Securities	3,000	Relocation
Nanshan	Haofang Skyline Plaza	Gurobot	2,148	Relocation
High-tech Park	DAS Intelllitech Building	ShuangnmaTBS	2,000	New lease
Qianhai	Kerry Center	AVIC Securities	2,000	Relocation
High-tech Park	Kexing Sciencec Park	FUTU	2,000	Renewal
High-tech Park	China Resource Building	Huafa Properties	2,000	New lease
Qianhai	Horoy Center	Uni-tax	1,300	Expansion
Qianhai	Horoy Center	Kingdomway	1,200	New lease

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

Investment Market

▶ En-bloc transactions buyers remain cautious and observant

In Q1 2024, the office investment market in Shenzhen cooled down slightly, with only one en-bloc transaction recorded for a transaction amount of approximately RMB246 million.

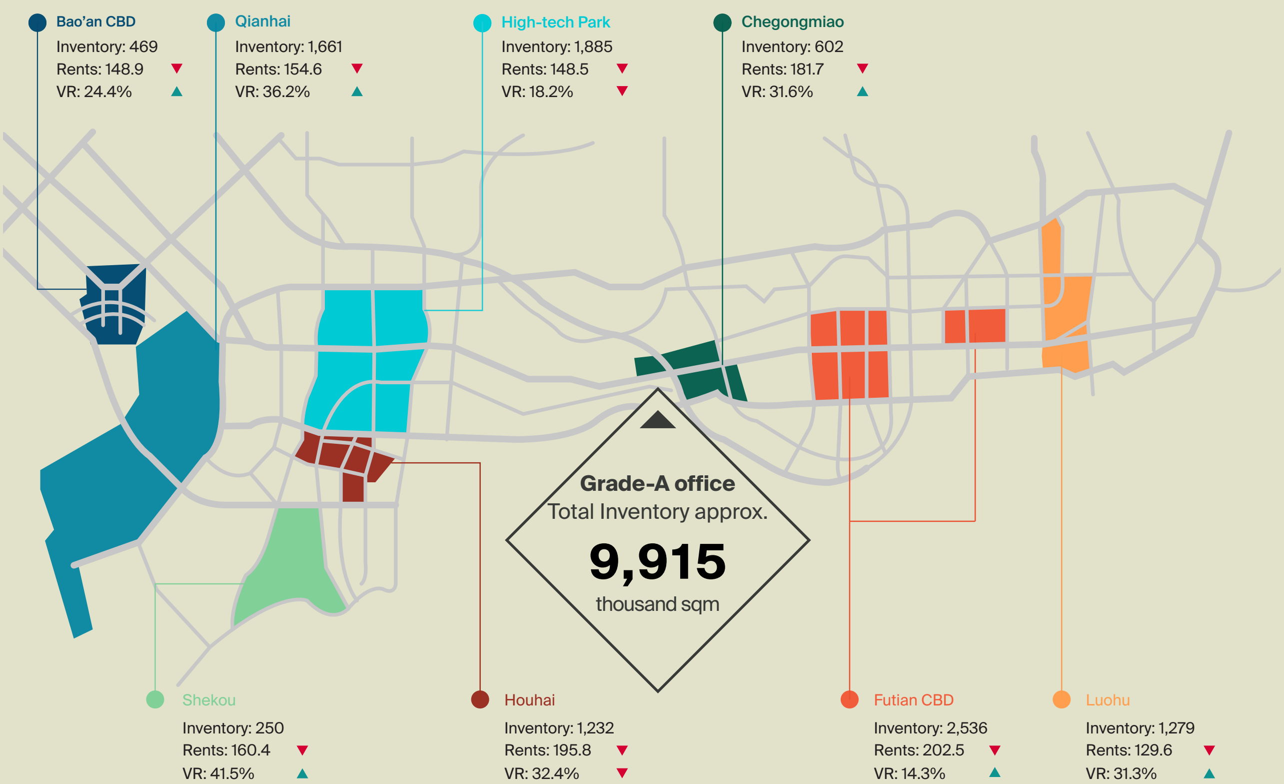
The transaction was the acquisition of the Pingshan Shimao Plaza project by Shenzhen Pingshan City Investment Co., Ltd. by means of equity and debt for a total consideration of RMB246 million. The project has a planned gross floor area of 294,500 sqm, including 227 completed units, as well as approximately 110,000 sqm of office space and a 36,900 sqm retail complex under construction.

With news of liquidation petitions, restructuring and debt extensions once again from several large real estate developers, a number of state-owned developers and urban investment companies have been actively raising funds to participate in project mergers and acquisitions. With the “Real Estate Project Financing Whitelist” and Consumer Infrastructure Reits, the overall debt crisis in the real estate industry has eased a bit, but the overall situation remains grim. In the Shenzhen Grade A office market, where the vacancy rate continues to rise, there is significant room for price adjustments in en-bloc transaction targets, with opportunities for some tenants to shift from leasing to buying.

In the short term, en-bloc transaction investors are still expected to maintain a cautious wait-and-see attitude. The decision-making process for investments is relatively prolonged, and the required investment return rates will gradually increase. There is a preference for targets in core areas that offer stable income.

Shenzhen Grade-A office market dashboard Q1 2024

Shenzhen Grade-A office inventory, rents and vacancy rates of major business districts



Source: Knight Frank Research

Note: unit for market inventory – 1,000 sqm; rents using average effective rent at RMB/sqm/month; VR refers to average vacancy rate

Owing to database adjustments, some data may be different, specific values are based on Q1

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

Research & Consultancy

Laurence Zhu
Senior Director,
Head of Research & Consultancy, China
+86 21 6032 1769
laurence.zhu@cn.knightfrank.com

Regina Yang
Director, Head of Research & Consultancy,
Shanghai & Beijing
+86 21 6032 1728
regina.yang@cn.knightfrank.com

Martin Wong
Director, Head of Research & Consultancy,
Greater China
+852 2846 7184
martin.wong@hk.knightfrank.com

Henry Chen
Analyst, Research & Consultancy,
Shenzhen
+86 136 4231 4481
henry.chen@cn.knightfrank.com

Shenzhen Office Strategy & Solutions

Ken Kan
Managing Director,
Head of South China Office Services,
Shenzhen
+86 755 6661 3141
ken.kan@cn.knightfrank.com

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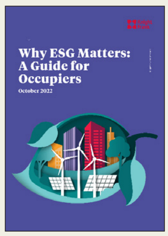

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Quantifying ESG in Real Estate

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