

*In Q2, TMT enterprises became significant tenants for the leasing transactions with large area in the Shenzhen Grade-A office market*



# Shenzhen Office Market Report

Q2 2020

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# DEMAND OF GRADE-A OFFICE MARKET IN SHENZHEN GRADUALLY RECOVERED, AND VACANCY RATE DECLINED SLIGHTLY

*In Q2 2020, there was no new supply in the Shenzhen Grade-A office and the stock remained at 7.41 million sqm.*

*Many office landlords continued to offer leasing concessions to retain and attract tenants with the concern of oversupply of office space in the market.*

With the acceleration of the resumption of work and production, in the first half of 2020, regional GDP in Shenzhen increased by 0.1% YoY, making it the only one among the four first-tier cities that maintained positive growth in the first half year. Beyond that, the growth rate increased 6.7 percentage points compared to Q1. The Cumulative Growth in Fixed Asset Investment increased by 7.8% YoY, and the increase was 23.9 percentage points more than Q1. The total retail sales of consumer





goods in Shenzhen decreased by 14.8% YoY, the decline was 8.1 percentage points less than Q1.

Affected by the epidemic, the delivery and listing time of some office buildings have been delayed. Meanwhile, the production and business activities in Shenzhen have been gradually recovered, resulting in the slight decrease of vacancy rate of the Shenzhen Grade-A office market by 0.8 percentage points QoQ to 18.7%.

Despite the gradual recovery in leasing demand, the average rent of the Shenzhen Grade-A office market still dropped by 1.4% QoQ to RMB 209 per sqm per month in Q2 due to the pressure from future new supply.

As office rents continued to be under pressure, many tenants chose to move to the Grade-A office buildings with better location and quality at lower rental level.

**Fig 1. Shenzhen Grade-A office market indicators**

	 NEW SUPPLY	 RENT	 VACANY RATE	 PRICE
Q1 2020	None	RMB 209 / sqm / month	18.7%	RMB 50,853 / sqm
QOQ CHANGE	↓	↓ 1.4%	↓ 0.8pps	↓ 5.8%
FORCAST (Q3 2020)	↗	↓	↗	↓

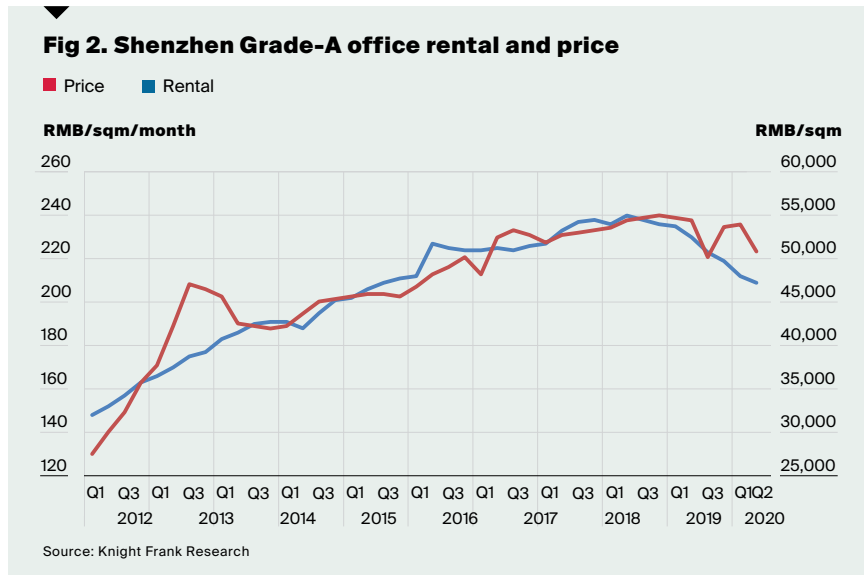
Source: Knight Frank Research

## RENTS AND PRICES

In Q2, the average rent for Grade-A office space in Shenzhen was RMB 209 per sqm per month, down 1.4% QoQ. The decline was 1.4 percentage points less than Q1. The average rent is expected to continue the downward trend throughout the year, given the impact of future new supply. In order to maintain the stable cash flow income for the office properties, owners continued to improve the attractiveness of office property to tenants in terms of rent preferential policies, rent-free period, property facilities upgrading.

In terms of business district, the average rent in emerging business district remained relatively stable during the quarter, while the rent in both core and secondary business district showed a downward trend. The average rent of Grade-A office buildings in the core business district decreased by 1.4% QoQ to RMB 222 per sqm per month, while that in the secondary business district fell by 2.1% QoQ to RMB 189 per sqm per month.

**Fig 2. Shenzhen Grade-A office rental and price**



For the strata-title market, the average selling price of office buildings in Shenzhen during the quarter was RMB 50,853 per sqm, decreased significantly 5.8% QoQ. Against the backdrop of a low market, office properties in Nanshan District, the research center

of Shenzhen, have been favoured by the buyers. For instance, Phase 2 of Taiziwan Office Project, recorded the transactions of 20,031 sqm in this quarter.

**Table 1. Shenzhen Major Grade-A office sub-market indicators, Q2 2020**

Submarket	Rent (RMB / sqm / month)	Rent Change QoQ	Vacancy Rate	Vacancy Rate Change QoQ
Caiwuwei	200	↓3.8%	15.0%	↔
Futian CBD	244	↓1.2%	13.3%	↓0.2
Houhai	223	↓0.4%	12.7%	↔
Qianhai	153	↓0.6%	28.9%	↓3.3
Huaqiang North	175	↓6.9%	30.7%	↓1.8
Chegongmiao	219	↓0.9%	21.5%	↓5.0
Shekou	200	↔	43.3%	↑1.1
Nanyou	165	↓2.9%	4.4%	↔
High-tech Business Park	179	↓2.2%	23.8%	↑0.7

Source: Knight Frank Research

**Table 2. Shenzhen Major Grade-A office strata-title sales transactions, Q2 2020**

District	Building	Area (sq m)
Shekou	Phase 2 of Taiziwan Office Project	20,031

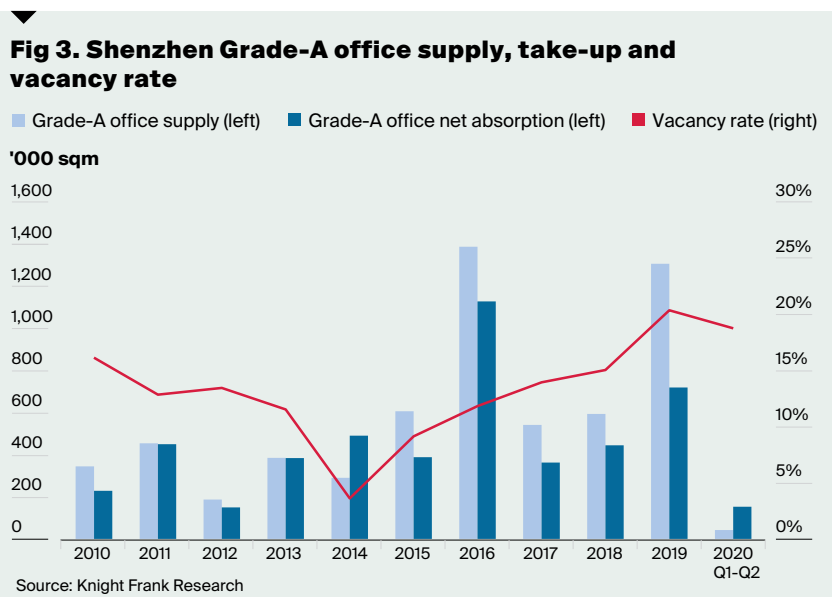
Source: Knight Frank Research  
Note: all transactions are subject to confirmation

## SUPPLY AND DEMAND

In Q2 2020, no new Grade-A office project was completed in Shenzhen. Therefore, the stock of Grade-A office market in Shenzhen remained at 7.41 million sqm with the net absorption of 59,330 sqm.

In the post-epidemic era, Grade-A office leasing market in Shenzhen has been more active compared to the previous quarter. However, due to the high uncertainty of the domestic and overseas economic condition, most enterprises made the relocation plans mainly for cost saving.

TMT and professional service enterprises were the two types of most active tenants in the Shenzhen Grade-A office market during this quarter. In addition, the development potential of Nanshan district further attracted tenants. Some examples included



Toutiao rented 70,000 sqm of office space in Shenzhen Bay Science and Innovation Centre, Amazon rented 12,000 sqm of office space in Futian

Technology and Innovation Centre, Fubon Bank rented 1,800 sqm of office space in Hongyi Mansion.

**Table 3. Shenzhen Major Grade-A office leasing transactions, Q2 2020**

District	Building	Tenant	Area (sq m)
High-tech Business Park	Shenzhen Bay Science and Innovation Centre	Toutiao	70,000
Futian	Futian Technology and Innovation Centre	Amazon	12,000
Qianhai	Qianhai Shimaomansion	Zhenai.com	6,500
Qianhai	Hongyi Mansion	Fubon Bank	1,800
Houhai	Excellence Houhai Centre	Cedar Finance	1,300

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

## INVESTMENT MARKET

In Q2 2020, no en-bloc transactions were recorded in the investment market of Grade-A office building in Shenzhen.

Affected by the epidemic, global monetary policies have become looser, and many countries have entered the era with low interest rates, boosting the demand of capital preservation to be more obvious. Although the en-bloc transaction activity has slowed down, due to the demand for

capital preservation, investors still paid attention to the office investment market, and the inquiries also increased. At the same time, self-use buyers in the market have been more active. Properties that are less affected by the new supply with relatively stable rental income are expected to be favoured by more buyers through helping them less affected by the cycle.

In the short and medium term, the office

rental level in Shenzhen will continue to decrease due to the pressure of abundant new supply in the future. But in the long run, as the central city of the Guangdong-Hong Kong-Macao Greater Bay Area and the first demonstration area of socialism, the value of high-quality office buildings in Shenzhen will continue to improve due to the acceleration of urban development, and the promising prospect.

## MARKET OUTLOOK

Despite the great uncertainty of overseas demand and the impact on the global supply chain, a series of macro-control policies are expected to more effectively support the recovery of Shenzhen Grade-A office market.

In May 2020, Premier Li Keqiang pointed out in the government work report, "Promote the upgrading of manufacturing and the development of emerging industries; develop the Industry of Internet and promote intelligent manufacturing; new business formats such as e-commerce and online services have played an important role in the face of COVID-19 epidemic. It is necessary to continue to introduce supportive policies, comprehensively promote the "Internet Plus" strategy, and create new advantages for the digital economy."

As one of the most innovative and dynamic cities in China, the development pace of Shenzhen has also attracted many enterprises for emerging industries to choose to settle here, thus expanding the demand of Shenzhen office market. At the same time, under the guidance of the policy, professional service enterprises are also developing actively.

In May 2020, the People's Bank of China, China Banking and Insurance Regulatory Commission (CBIRC), China Securities Regulatory Commission (CSRC) and State Administration of Foreign Exchange (SAFE) jointly issued the "Opinions on Financial Support for the Development of the Guangdong-Hong Kong-Macao Greater Bay Area". The policies put forward 26 specific measures from the following five aspects: Within the

Guangdong-Hong Kong-Macao Greater Bay Area, promoting and facilitating the cross-border trade and investment; expanding and opening up the financial industry to the world; promoting the interconnection of financial markets and financial infrastructure; enhancing the financial service innovation; and effectively preventing the cross-border financial risks.

As impact caused by COVID-19 on the Shenzhen office market has faded gradually, coupled with the support of macro policies, it is expected that more emerging technology enterprises and professional service enterprises will choose to settle in Shenzhen at the right time or upgrade their office space in Shenzhen, so as to further support the development of Shenzhen office market.

**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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