

High-quality tenants were expected to gain stronger bargaining power for leasing negotiation



Shenzhen Office Market Report

Q2 2021

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MULTINATIONAL ENTERPRISES SET UP THEIR BRANCHES AND RELOCATED IN ADVANCE IN QIANHAI SUB-MARKET

In Q2 2021, the delivery of Chuangyi Technology Building brought 128,000 sqm new supply to Shenzhen Grade-A Office Market, raising the overall stock to 8.35 million sqm.

The economy of Shenzhen continued to recover at a stable pace. In the first half of 2021, the regional GDP in Shenzhen increased by 9.7% YoY, with an average growth rate of 4.8% over two years; the total retail sales of consumer goods in Shenzhen increased by 23.2% YoY, with an average growth rate of 4.8% over two years.

In Q2 2020, the vacancy rate of the Shenzhen Grade-A office market was 18.2%. The average rent of the Shenzhen Grade-A office market was RMB 199 per sqm per month.

The active performance of the office

leasing market in Shenzhen was driven by the economic growth accompanied with the rental downtrend. Benefited from factors such as location and building quality, the leasing activities for some office buildings accelerated. Many office buildings with decent pre-leasing performance will be delivered to the market soon.

Supported by the subsidy policy and the further completion of infrastructures, the Qianhai sub-market attracted renowned enterprises to relocate and set up their branches. In addition, Qianhai's subsidy policy had also attracted companies in

Caiwuwei to relocate their offices to the Qianhai sub-market, stimulating some office landlords in Caiwuwei to reduce the office rents in order to attract potential tenants.

Benefited from positive signals of the market, some office projects had outstanding leasing performances, thus landlords have higher rent expectations. Despite that, such upward momentum on price is expected to be weakened by the massive new supply in Shenzhen Grade-A office market in the second half of 2021, leading more tenants negotiating their price.

FIGURE 1: Shenzhen Grade-A office market indicators



Source: Knight Frank Research

RENTS AND PRICES

In Q2, the rent in the core and secondary business districts continued to fall. Impacted by the loss of tenants, Caiwuwei recorded the largest drop, its average rent decreased by 8.6% QoQ to RMB 169 per sqm per month.

The average rent of Grade-A office buildings in the secondary business districts dropped by 1.3% QoQ to RMB 184 per sqm per month, while which of the emerging business districts was equivalent to the last quarter, remaining RMB 170 per sqm per month.

FIGURE 2. Shenzhen Grade-A office rental



Source: Knight Frank Research

Table 1. Major Shenzhen Grade-A office sub-market indicators, Q2 2021

District	Rent (RMB / sqm / month)	Rent Change (QoQ)	Vacancy Rate	Vacancy Rate Change (QoQ)
Caiwuwei	169	↓8.6%	23.1%	↑5.5
Futian CBD	232	↓2.7%	15.0%	↓ 1.5
Houhai	215	—	11.2%	—
Qianhai	156	↔	28.1%	↓ 15.6
Huaqiang North	175	↔	22.1%	↓ 3.4
Chegongmiao	210	↓0.5%	13.1%	↓ 1.6
Shekou	193	↑0.2%	35.7%	↔
Nanyou	165	↔	4.4%	↔
High-tech Business Park	174	↓2.7%	22.4%	↑3.5

Source: Knight Frank Research

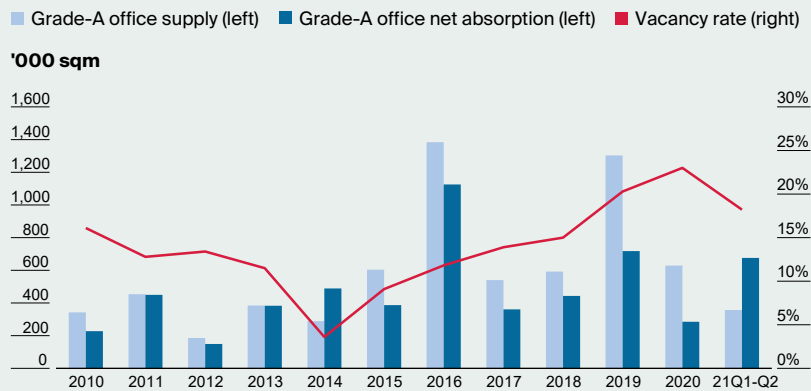
**Due to the database update for Houhai sub-market, the QoQ changes for rent and vacancy rate in Houhai sub-market haven't been demonstrated during Q2.

SUPPLY AND DEMAND

In Q2 2021, the delivery of Chuangyi Technology Building increased the overall stock of Shenzhen Grade-A office market to 8.35 million sqm, raised 1.6% QoQ.

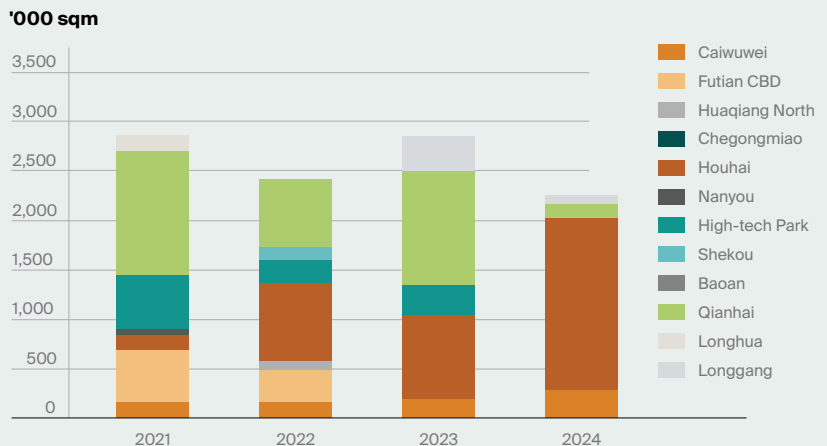
Nanshan District continued to attract TMT enterprises. Notable examples include a lease of a 30,000-sqm-office space in Tongfang Information Harbor by Tencent; and a 1,300-sqm-office space in Zhuoyue Qianhai No.1 by Quant-Cloud.

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



Source: Knight Frank Research

FIGURE 4. Shenzhen Grade-A Office Market Future Supply Forecast



Source: Knight Frank Research

Table 2. Major Shenzhen Grade-A office strata-title sales transactions, Q2 2021

District	Building	Tenant	Area (sq m)	Transaction Type
High-tech Park	Tongfang Information Harbor	Tencent	30,000	New Lease
Futian CBD	Huanggang Business Center	AFIONA	2,500	New Lease
Futian CBD	Hon Kwok Center	Honor Smartphones	1,700	New Lease
Qianhai	Zhuoyue Qianhai No.1	Quant-Cloud	1,300	New Lease

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

Table 3. Upcoming New Supplies of Grade-A Office, Q3 2021

District	Building	Area (sq m)
High-tech Park	Gemdale Weixin Center	200,000
High-tech Park	Guangqi Future Centre	75,000

Source: Knight Frank Research

INVESTMENT MARKET

The massive new supply in core districts provided abundant purchase opportunities for self-use buyers. TPV Vision Innovator intended to purchase 41/F-43/F of Shenzhen Bay Innovation and Technology Centre Tower 2A with

its funds, for research, development, and office use. The transacted area was 7,711.2 sqm with a transaction price of no more than RMB 438 million.

Investment buyers in Shenzhen office

investment market were less active compared to self-use buyers, mainly due to the uncertainties of project revenue with the rental downtrend caused by new supplies.

MARKET OUTLOOK

In June 2021, the “Outline of the 14th Five-Year Plan for National Economic and Social Development of Shenzhen and the Long-Range Objectives Through the Year 2035” (the “14th Five-Year Plan”) was officially implemented. The “14th Five-Year Plan” has highlighted Shenzhen’s further integration of whole-process innovation eco-chain and build a highland of technology and innovation industry. The plan also reinforced the development of a whole process eco-chain for “Fundamental Research + Tech Breakthrough + Industrialized Outcome + FinTech + Talent Support”, creating the most advantageous environment for innovations.

As Shenzhen continues to strengthen its

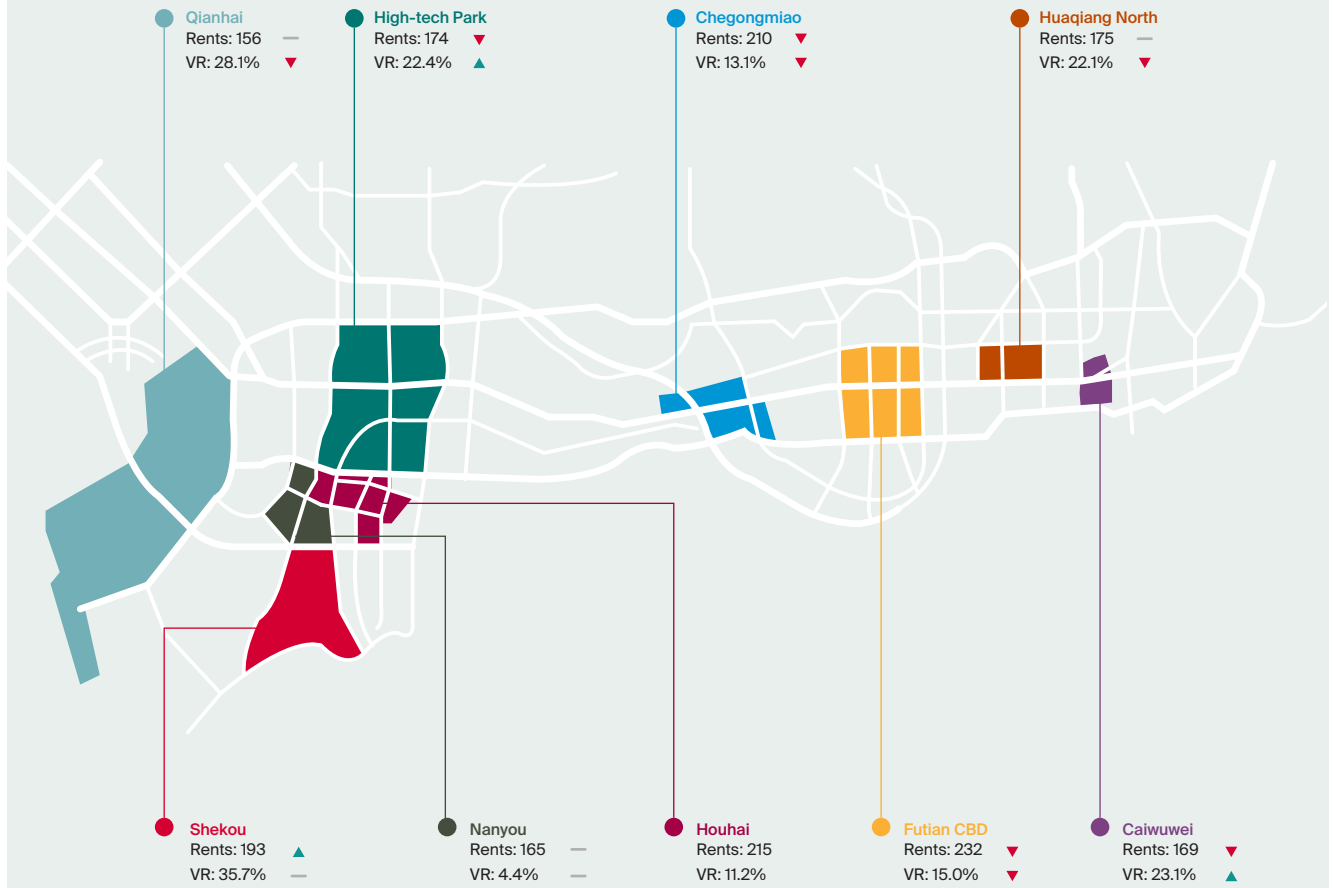
position as an “innovation highland”, it is expected that Shenzhen will continue to receive talent and technical resources. In this regard, Shenzhen has also planned in advance for the acceptance of various resources.

In May 2021, the Development and Reform Commission of Shenzhen Municipality officially released the “Shenzhen 2021 Major Project Plan”, with a total of 536 projects on the list and with a total investment value of RMB2,826.49 billion. The scope of the project involves transportation, energy, industry, education, medical treatment, urban renewal, cultural facilities, and headquarters. Self-use office projects, such as

China Merchants Bank Global Headquarters Building, Vanke Headquarters, Xiaomi International Headquarters, Vivo Headquarters, DJI Innovation Headquarters Base, O-Film R&D Headquarters Center, TP-Link Global R&D Center, Appotronics Headquarters, and Byte Dance Houhai Center, were included on the list. Being the first choice for most well-known companies to set up their new branch in South China, Shenzhen’s attractiveness to enterprises will continue to increase with promotion of various policies. It is expected to stimulate the demand in the Shenzhen Grade-A office market.

SHENZHEN GRADE-A OFFICE MARKET DASHBOARD Q2 2021

FIGURE 5. Shenzhen office rents and vacancy rates of major business districts



Source: Knight Frank Research

Note: rents using average effective rent at RMB/sqm/month; VR refers to average vacancy rate.

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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