

Shenzhen Grade-A Office Market Report



Q2 2023

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

► Leasing demand slowly picked up, but remained weak

In Q2, leasing demand continued its positive momentum but remained weak. The over-supply issue put upward pressure on the vacancy rate and downward pressure on rents. As a result, the vacancy rate increased by 1.6% QoQ to 21.8% while the average rents in Shenzhen declined by 1.6% QoQ to 180.4/sqm/month.

Law firms and the financial

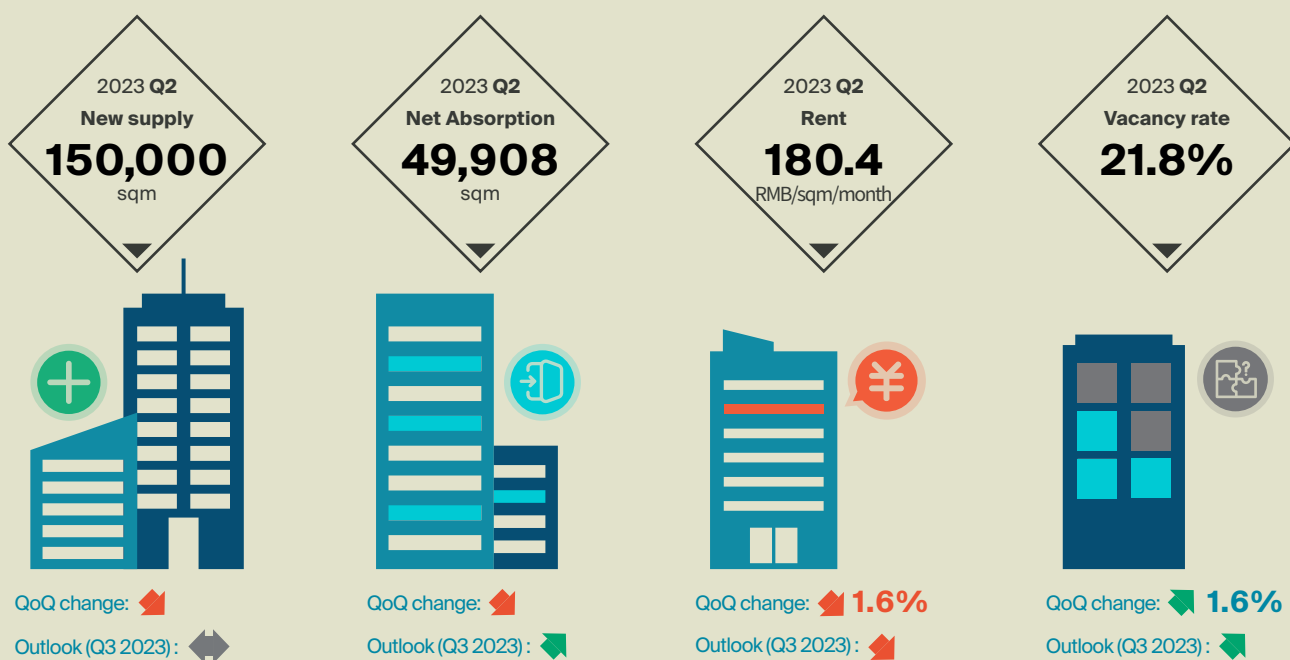
companies were the main supporters of leasing demand in Q2, indicating strong resilience, with multiple rental transactions exceeding 10,000 sqm. In terms of the investment market, the buyers were mainly from self-use financial companies.

Looking ahead to Q3 2023, the macroeconomic situation and leasing demand should regain momentum,

supported by the combined force of cyclical and policy factors.

However, the continued increase in new supply should continue to drive up the city's vacancy rate, and rents should continue to decline until demand rebounds.

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



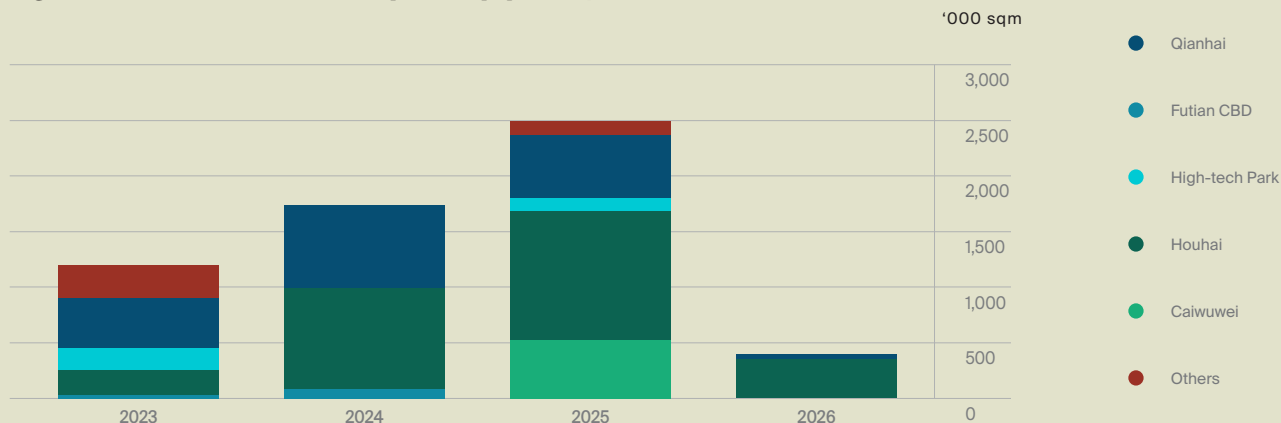
Source: Knight Frank Research

[1] Rent refers to average effective rent

Note: Only lettable area is calculated in the new supply, i.e., owner-occupied office area is not included

Projected supply in 2023 includes projects already on the market

Fig 2: Shenzhen office development pipeline, 2023-2026



Source: Knight Frank Research

Others including Huaqiang North, Chegongmiao, Shekou, Bao'an CBD

Rental Level

► Rents continued to decline, given the over-supply pressure

Rents in Shenzhen continued to decline, given the over-supply pressure, recording an average rent of 180.4/sqm/month, for a 1.6% QoQ decrease.

Rents in four submarkets remained stable, while five recorded a decrease. The submarkets with declining rents in descending order of magnitude were Shekou, Houhai, High-tech Park, Futian CBD, and Qianhai.

Rents in Shenzhen are expected to remain under pressure for the rest of 2023, but the range of decline should slowly narrow as demand gradually recovers.

Fig 3: Shenzhen Grade-A office rental trend

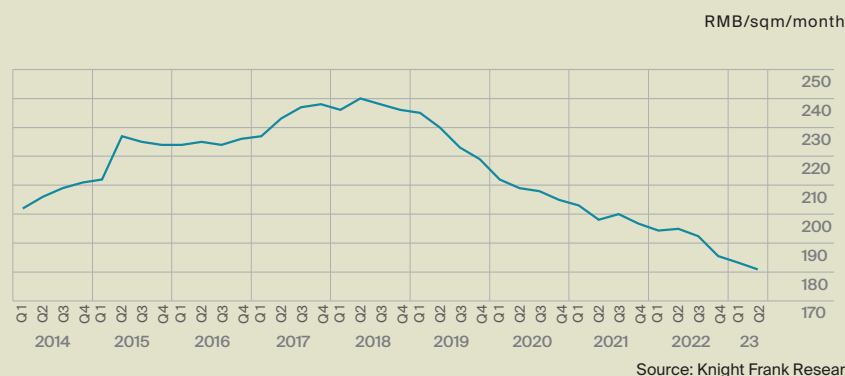


Table 1: Major Shenzhen Grade-A office sub-market indicators, Q2 2023

Submarket	Rent (RMB / sqm / month)	Rental % changes (QoQ)	Vacancy Rate	Vacancy rate percentage change (QoQ)
Luohu	156.9	↔	21.9%	↑1.5%
Futian-Huaqiang North	166.7	↔	15.0%	↓3.1%
Futian CBD	215.7	↓2.0%	14.4%	↑2.3%
Futian-Chegongmiao	198.1	↔	37.4%	↓1.2%
Nanshan- High-tech Park	160.0	↓2.7%	14.3%	↑1.0%
Nanshan- Houhai	200.0	↓3.1%	21.9%	↑0.2%
Nanshan- Shekou	174.0	↓4.7%	37.0%	↓0.9%
Nanshan- Qianhai	158.9	↓0.4%	31.7%	↑6.3%
Bao'an CBD	148.6	↔	27.6%	↓1.5%

Source: Knight Frank Research

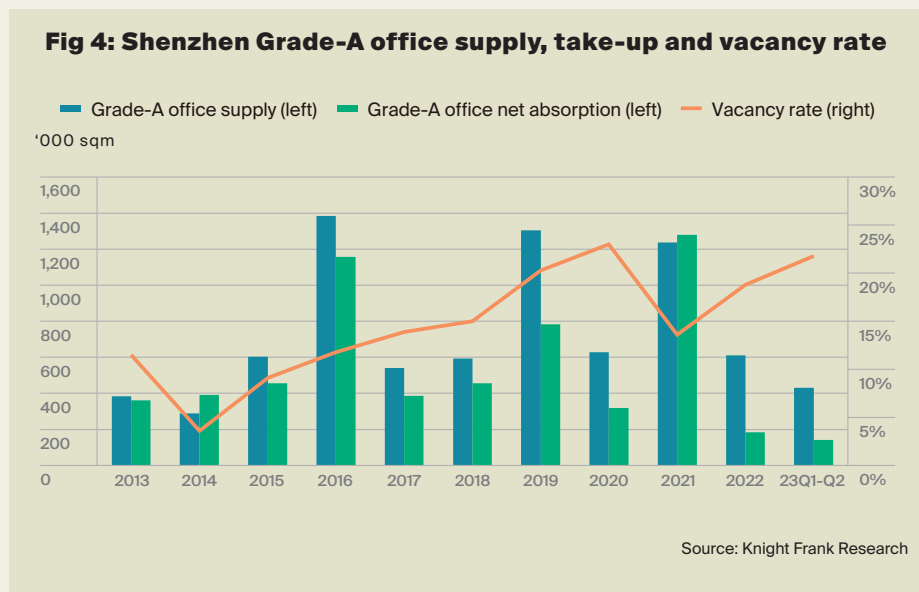
Note: Owing to database adjustments, some data may be different, specific values are based on Q2

Supply and Demand

► The slow recovery of demand

In Q2, 150,000 sqm of new supply were launched in Shenzhen, including two projects, Block B of Shenzhen Science and Technology City in Futian CBD and HFCC in Qianhai. The new supply in Q2 was not significantly different from that in Q1, but the net take-up was approximately 50,000 sqm, decreasing by about 40,000 sqm. The vacancy rate in Shenzhen increased by 1.6% QoQ to 21.8%. On the one hand, that was because leasing demand in Q1 came mainly from the backlog of inventory during the Covid outbreaks. Besides, it reflects the slow recovery of demand and the longer negotiation cycle.

In terms of leasing transactions, law firms and financial companies were the most active, with multiple rental transactions recorded exceeding 10,000 sqm. For example, ZHONG LUN LAW FIRM and ZHONG YIN LAW FIRM rented 10,000 sqm and 6,000 sqm, respectively, in Ping An International Finance Centre; supply chain financial technology SaaS enterprise Linklogics leased 10,000 sqm in Qianhai's K11



Building; and Shenwan Hongyuan Securities leased 8,000 sqm in Ping An International Finance Centre.

In H2 2023, new supply in Shenzhen is expected to exceed 700,000 sqm.

Since leasing demand is less likely to see explosive growth, and the rental market still faces over-supply issues, there is a high probability that the vacancy rate in Shenzhen will continue to rise.

Table 2: Major Shenzhen Grade-A office leasing transactions, Q2 2023

District	Building	Tenant	Area (sqm)	Transaction Type
Futian CBD	Ping An Finance Centre	ZHONG LUN LAW FIRM	10,000	New Lease
Futian CBD	Ping An Finance Centre	Shenwan Hongyuan Securities	8,000	New Lease
Futian CBD	Ping An Finance Centre	ZHONG YIN LAW FIRM	6,000	New Lease
Nanshan- Qianhai	Qianhai Chow Tai Fook Financial Building	Linklogics	10,000	New Lease
Nanshan- Qianhai	Qianhai HFCC	CENTURY SECURITIES	6,000	New Lease
Nanshan- Qianhai	Qianhai Kerry Centre	Texas Instruments	5,000	New Lease

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

Investment Market

► Buyers mainly came from the financial sector

In Q2 2023, there were two en bloc transactions, both in Futian District, for a total transaction amount of approximately RMB2.4 billion.

On June 25, CZBank announced its intention to purchase properties located on the 1st to 21st floors of the West Tower of Shenzhen Zhongzhou Binhai Commercial Center, with a total construction area of 41,186 sqm, and other complimentary interests (including the free exclusive use of 100 parking spaces on the 3rd and 4th floors underground, and the free

exclusive use of advertising spots on the north side of the top of the West Tower). The total asset acquisition cost is approximately RMB2.334 billion. The transaction is still in progress. The total transaction amount was second only to HSBC's purchase of Qianhai Chow Tai Fook Financial Building in 2021.

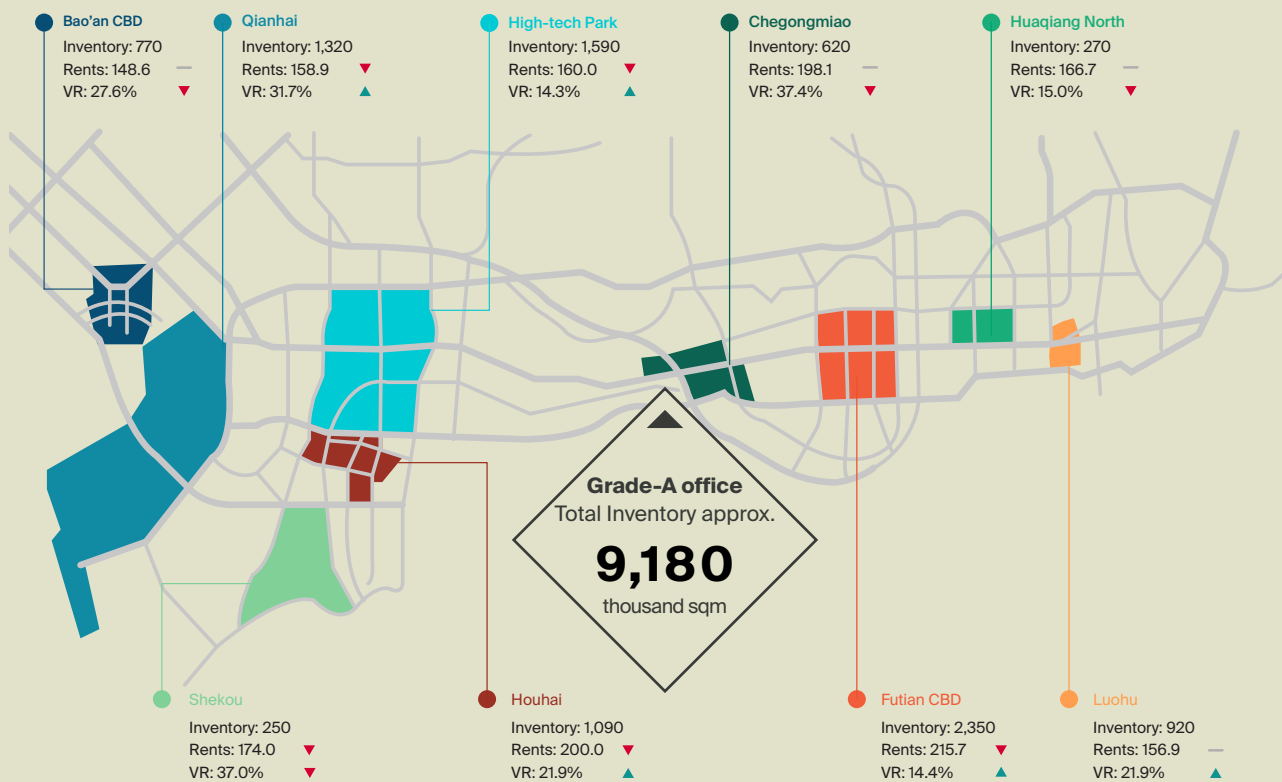
On April 27, Baoxin Financial, a Hong Kong-listed company, announced that Shenzhen Jiali Xingye Electronic Technology Co., Ltd., an indirect wholly owned subsidiary of the company, purchased a total of 2,125

sqm in Oriental Xintiandi Plaza from Shenzhen Dongzhi Energy Co., Ltd for approximately RMB70 million.

In general, companies from the financial sector purchasing for self-use dominated the Shenzhen office investment market, providing proof of steady leasing demand from the financial sector. To cope with future personnel growth and to avoid the risk of rent increases, they purchased office space in advance. In H2 2023, buyers of office space for self-use are expected to continue to be active.

Shenzhen Grade-A office market dashboard Q2 2023

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 Q2

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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