Shenzhen Grade-A Office Market Report

Q2 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

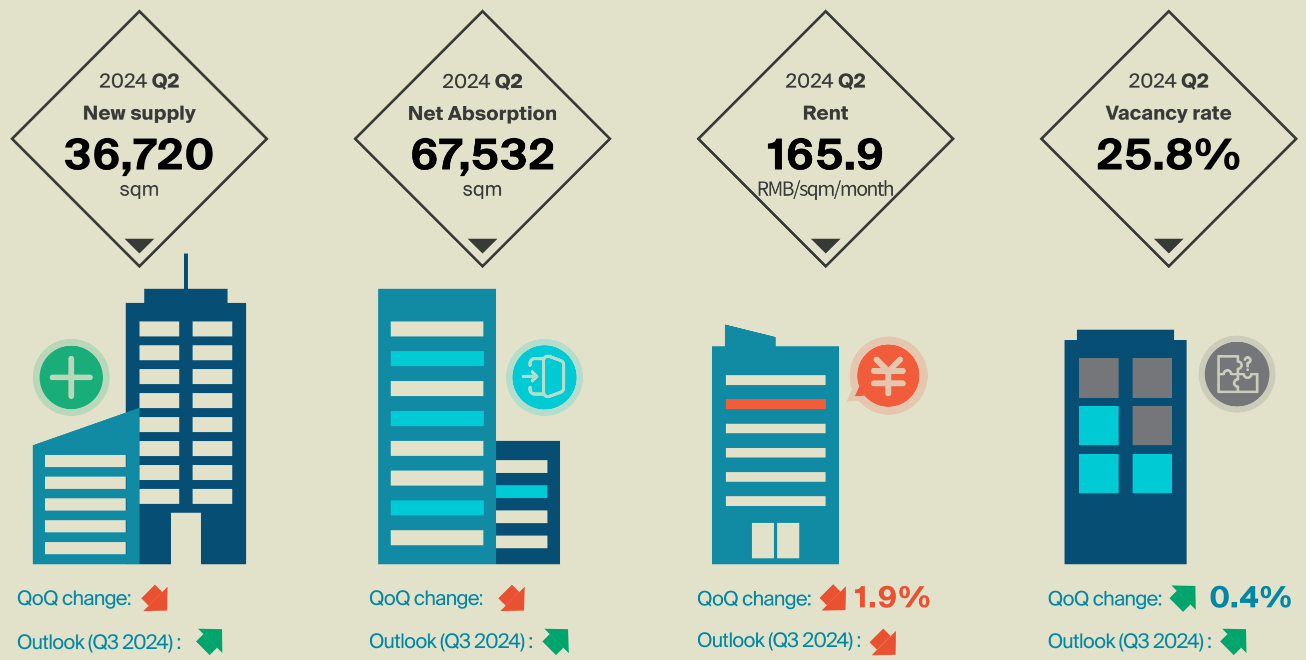
Simultaneous decline in quantity and prices, but some positive signals

In Q2, the Grade A office market in Shenzhen entered a cyclic leasing downturn. New supply fell significantly in the city, plummeting to approximately 37,000 sqm, while net absorption of office space also met its Waterloo, recording only 67,000 sqm. Vacancy rates and rental prices in the overall market continued to face pressure. The overall average rental price declined by 1.9% QoQ to RMB 165.9 /sqm/month, and the vacancy rate increased by 0.4% QoQ to 25.8%. The overall market reflected a simultaneous decline in quantity and prices.

Leasing demand in Q2 was driven primarily by the professional services, TMT and manufacturing sectors. The TMT and manufacturing sectors performed particularly well, benefiting from the rapid recovery of the consumer market. These two sectors accounted for nearly half the total number of transactions exceeding 1,000 sqm in the city. Relocation demand accounted for most of the market demand, exceeding 80%. The pace of entry for out-of-province companies slowed down. In the investment market, en-bloc transactions remained stable in Q2, with only one en-bloc transaction related to office buildings recorded for approximately RMB 1.44 billion. Investors remained cautious about en-bloc transactions and tended to adopt a wait-and-see approach in the short term to assess market trends.

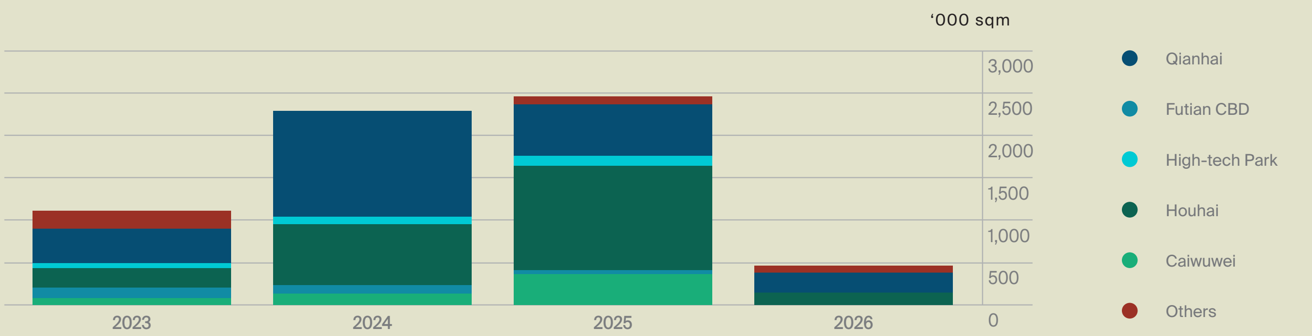
In Q3, the Shenzhen office market is expected to experience a dual rebound in new supply and leasing demand. Since there has not been a substantial improvement in the current macroeconomic fundamentals, however, the issue of weak demand may persist. Therefore, with multiple factors, such as the continuous increase in new supply, sluggish demand growth, and rental price competition, the rental prices of Grade A office buildings in the city are expected to continue to face pressure and the vacancy rate should continue to rise.

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



Source: Knight Frank Research
[1] Rent refers to average effective rent
Owner-occupied office area is based on new supply

Fig 2: Shenzhen office development pipeline, 2023-2026



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

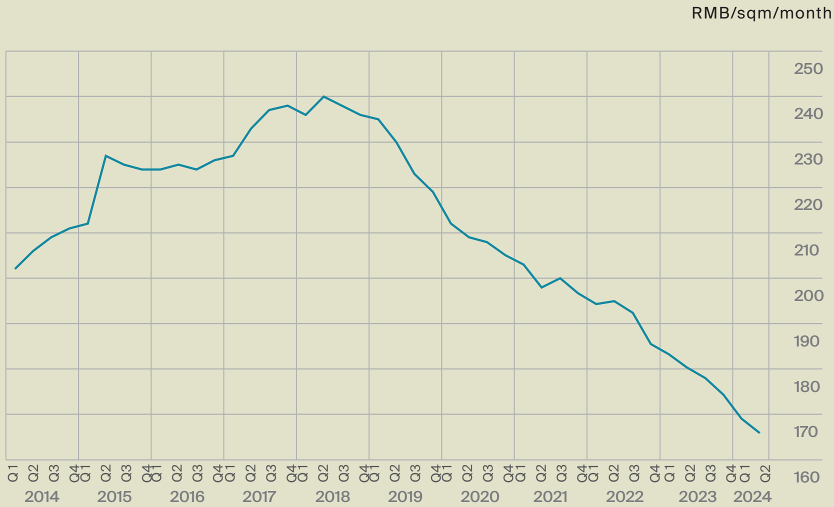
Rents continued to bottom out in the subdued transactional environment

In Q2, the Shenzhen office market entered the traditional leasing off-season. In response to market changes, most landlords continued their strategy of price adjustments, while some office projects strategically transitioned from a no-commission system to offering commissions to agents to accelerate the leasing of the inventory. The average rent for the overall office market in the city declined to RMB 165.9 per sqm per month, showing a slight QoQ decrease of 1.9%, indicating a mitigated decline.

The Luohu and Hi-tech Park submarket recorded moderate rent increases, but the other submarkets continued to experience rent declines. In particular, the Chegongmiao submarket faced significant downward pressure on rents due to persistently high vacancy rates. Landlords in this submarket applied the most flexible price adjustment strategies, resulting in a 7.0% QoQ decline in rents, followed closely by the Bao'an CBD. Against the backdrop of sluggish demand, high vacancy rates loom like the sword of Damocles over the leasing market, intensifying competition and pressure.

Looking ahead to the Q3, the overall market is expected to gradually recover due to the cyclical nature of leasing activity. Most landlords will keenly seize this opportunity and take a series of proactive measures, including flexibly adjusting rental prices, offering more attractive rent-free periods, adjusting the commission structure, providing complimentary renovation upgrades, and enhancing marketing and promotion efforts. These strategies aim to convert potential tenants' property viewings and inquiries into substantial leasing transactions. Although office rents in the city are still expected to continue their downward trend, considering the cumulative net absorption of over one million sqm in 2021 and the upcoming concentration of lease expirations for some tenants, these factor are expected to stimulate new leasing demand, thereby helping to narrow the decline in rents in the latter half of the year.

Fig 3: Shenzhen Grade-A office rental trend



Source: Knight Frank Research

Table 1: Major Shenzhen Grade-A office sub-market indicators, Q2 2024

Submarket	Rent (RMB / sqm / month)	Rental % changes (QoQ)	Vacancy Rate	Vacancy rate percentage change (QoQ)
Luohu	129.8	↑0.2%	33.2%	↑1.9%
Futian CBD	196.6	↓2.9%	15.6%	↑1.3%
Futian-Chegongmiao	169.0	↓7.0%	30.4%	↓1.2%
Nanshan- High-tech Park	148.8	↑0.2%	16.1%	↓2.1%
Nanshan- Houhai	192.8	↓1.5%	35.1%	↑2.7%
Nanshan- Shekou	159.6	↓0.5%	40.4%	↓1.1%
Nanshan- Qianhai	153.0	↓1.0%	34.4%	↓1.8%
Bao'an CBD	138.8	↓6.8%	31.0%	↑6.6%

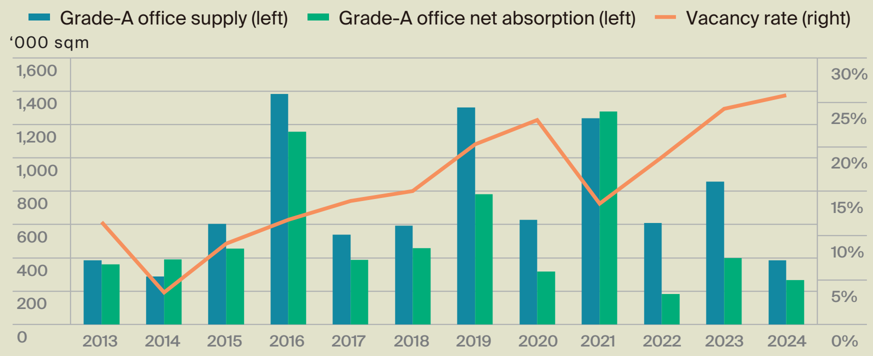
Source: Knight Frank Research
Note: Owing to database adjustments, some data may be different, specific values are based on Q2

Supply and Demand

Weak demand but new demand hotspots emerged

In Q2, the city's office market saw an adjustment trend, with new supply sharply declining to 37,000 sqm. The China Overseas Houhai Headquarters Building was the sole addition to supply. Owing to weak demand and the diminishing marginal utility of price adjustments, the net absorption area dropped significantly to 67,000 sqm, resulting in a 0.4% QoQ increase in the city's vacancy rate to 25.8%.

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 accumulated
The 2024 vacancy rate is for Q2

The professional services sector demonstrated strong demand resilience, maintaining its position as the top leasing demand category in the city. Its share of total demand surged to 36.3%. Co-working space-related enterprises continued to show strong demand in previous quarters by aligning with cost-saving needs. Following closely, the TMT industry rose to second place in leasing demand. IT services, software development, and media & broadcasting companies were the main engine of leasing demand in TMT, particularly those involved in cyber security and IoT software platforms, presenting exceptional adaptability. Notably, the manufacturing industry performed well in Q2, becoming the top category for transactions exceeding 1,000 sqm. Benefiting from the positive impact of consumption recovery, manufacturing demand surpassed that of the financial sector, ranking third in leasing demand. Companies related to home appliance R&D and manufacturing, new energy vehicle components, and chip production engaged in frequent leasing activity, often driven by dual office and marketing needs. Newly established leasing demand cooled down significantly in Q2, with relocation accounting for over 80% of demand. The pace of external companies setting up offices in Shenzhen noticeably slowed as well.

Although there is traditionally a leasing downturn in Q2, the recovery in consumption has begun to benefit the office leasing market. Manufacturing and TMT-related enterprises closely tied to consumption-side activity performed exceptionally well.

However, the macroeconomic recovery has been slightly below expectations, and support from the consumption recovery on office leasing demand may weaken because of the slower pace. The continued expansion of co-working space reflects a cautious attitude among businesses toward the future leasing environment, as market demand for cost-saving measures and business expansion diverges. In Q3, while the cyclical recovery in leasing activity is expected to drive moderate overall demand growth, the launch of multiple office projects will probably result in a further increase in the city's vacancy rate.

Table 2: Major Shenzhen Grade-A office leasing transactions, Q2 2024

District	Building	Tenant	Area (sqm)	Transaction Type
Nanshan	China Resource Building	Boss Zhipin	4,000	Relocation
Futian	Vanke Innovation Cloud Centre	China soft International	3,500	Relocation
Qianhai	Qianhai CTK Finance Tower	Meland	2,800	Relocation
Futian	Huaqiang Science & Innovation Plaza	Sprocomm Technologies	2,000	Relocation
Futian	CITIC Urban Development and Operation Tower	Caihuoxia	3,200	Relocation
Qianhai	Qianhai Kerry Centre	Lightup Toys	1,500	Relocation
Qianhai	Qianhai Yidu Building	Jupiter Satellites	1,000	Renewal
Futian	Ping'an Finance Tower	Ushio	483	Relocation

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

Investment Market

Continued cautious wait-and-see attitude

In Q2 2024, the Shenzhen office investment market remained stable, with only one en-bloc transaction recorded, totalling approximately RMB 1.44 billion.

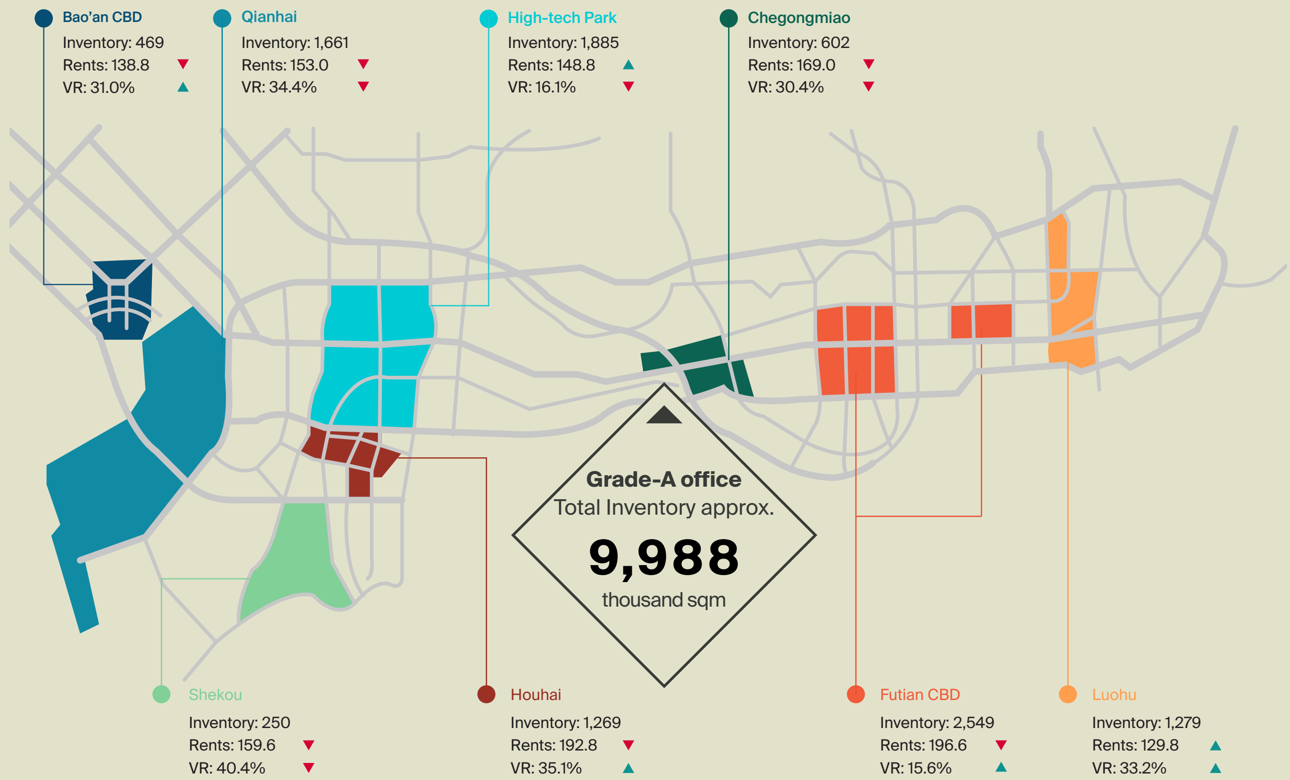
The transaction involved a wholly owned subsidiary of Chow Tai Fook Enterprises acquiring a 30% equity interest in Tian De Development Limited from New World Development Company Limited. The transaction was valued at RMB 1.44 billion and included the purchase and assumption of the subsidiary's available shares and loans. Tian De Development's main asset is the Chow Tai Fook Financial Building (North Tower), located in Qianhai, with an office area of approximately 100,000 sqm and a five-story shopping center.

Despite the persistent debt crisis in the real estate industry, which has prompted several real estate companies to sell properties to improve liquidity, notable transactions in Q2 involved companies such as Vanke, Overseas Chinese Town and Lvgem Group. However, state-owned enterprises (SOEs) and insurance capital bucked the trend and showed strong interest in en-bloc commercial properties. This was due mainly to the solid financial foundation and political mission of SOEs, as well as the preference of insurance capital for long-term stable returns. In the context of declining domestic interest rates, insurance capital tends to invest in high-quality assets located in core areas with a favourable fundamental outlook to achieve higher and more stable returns.

Looking ahead, en-bloc transaction investors are likely to maintain a cautious stance in the short term, given market uncertainty. The investment return rate threshold will be raised, and purchasers will focus on core areas and projects with stable revenue. As the market gradually adjusts and standardizes, more high-quality assets are expected to emerge, providing investors with opportunities to enter at the bottom. Stricter selection criteria will need to be applied, however, including in-depth considerations of project location, quality and profit potential.

Shenzhen Grade-A office market dashboard Q2 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 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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