

*Investment market remains active despite
weak leasing demand*



Shenzhen Office Market Report

Q3 2022

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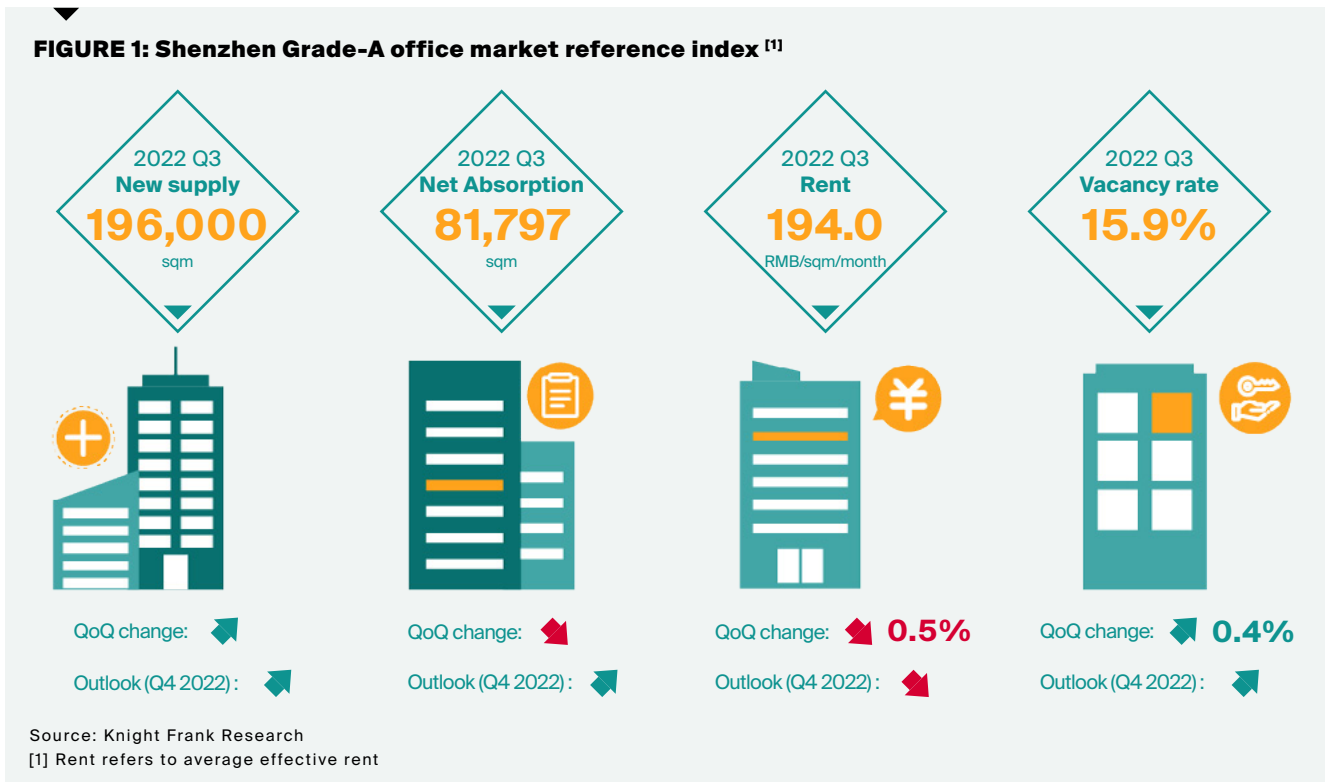
OVERVIEW AND OUTLOOK

With the increasing external uncertainties and the downward pressure on the local economy, the overall leasing demand slowed down, and the demand for new set up has dropped significantly. Various industry sectors generally adopt the strategy of reducing costs. The rents in Shenzhen decreased by 0.5% QoQ to RMB 194.0/sqm/month. Lots of projects

were delayed, and two new projects were delivered. The vacancy rate rose by 0.4% QoQ to 15.9%.

The investment market was active, with two en-block transactions, with a total area of over 140,000 sqm. One of them was the largest transaction in Shenzhen of the year.

In Q4, we expect demand will remain weak. The issue of oversupply and growing pessimism are still the most serious problem in Shenzhen. The market will remain in favor of tenants and reduce rental levels. The vacancy rate is expected to increase in a narrow range.



RENTS LEVEL

In Q3, the rents in Shenzhen continued the downward trend since 2018. The rent fell by 0.5% QoQ and 3.0% YoY to RMB 194.0 / sqm/month. Basically, the current rental level has fallen back to the level of H1 2013.

Some state-owned offices introduced rent reduction or exemption policies, so tenants preferred to relocate or lease in those offices. Non-state-owned offices landlords had to follow up, for example, reducing rents and delivering customized decoration to attract tenants.

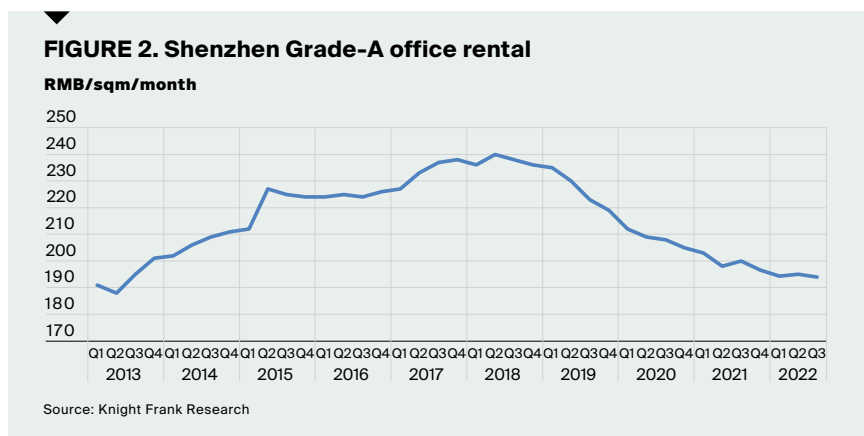


Table 1. Major Shenzhen Grade-A office sub-market indicators, Q3 2022

District	Rent (RMB / sqm / month)	Rental % changes (QoQ)	Vacancy Rate	Vacancy rate percentage change (QoQ)
Luohu	162.1	↑2.7%	15.8%	↑0.5
Futian-Huaqiang North	192.5	↑1.3%	12.7%	↓1.8
Futian CBD	218.8	↓1.7%	14.2%	↔
Futian - Chegongmiao	217.5	↑1.2%	8.0%	↓1.2
Nanshan - High-tech Park	170.0	↓0.7%	11.6%	↓2.4
Nanshan - Houhai	209.4	↓0.3%	14.0%	↓1.0
Nanshan - Shekou	188.3	↑1.8%	14.1%	↓3.3
Nanshan - Qianhai	175.6	↓0.2%	22.9%	↓0.3
Bao'an CBD	154.0	↓2.5%	14.5%	↓1.2

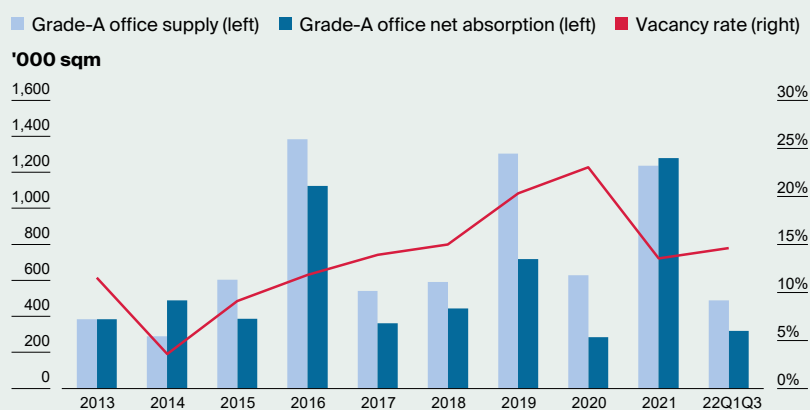
Source: Knight Frank Research

SUPPLY AND DEMAND

In Q3, several projects were postponed to next year. Two new projects were delivered, pushing up the total stock of Shenzhen to 10.05 million sqm. Leasing demand slowed down, with a net absorption down 49% QoQ and 67% YoY.

Due to the anti-monopoly policies and industry consolidation, the Internet industry sector, which was most active in the past, the activity has declined slightly. Generally, it adopts the strategy of reducing costs, so it shrinks the leasing area or relocates to the office with lower quality and rent, for example, Shenzhen Transsion Holdings Co Ltd leased Haofang Tianji Square with 21,000 sqm. While Banks sector was the relatively active in Q3, but most transactions are dominated by the relocation of small offices.

In Q4, 4 projects of around 490,000 sqm would be delivered. In the short term, the oversupply issues in Shenzhen is expected to continue or even intensify, and the demand recovery seems to be unclear, the vacancy rate would be pushed up, and the rent will continue to decline.

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

Source: Knight Frank Research

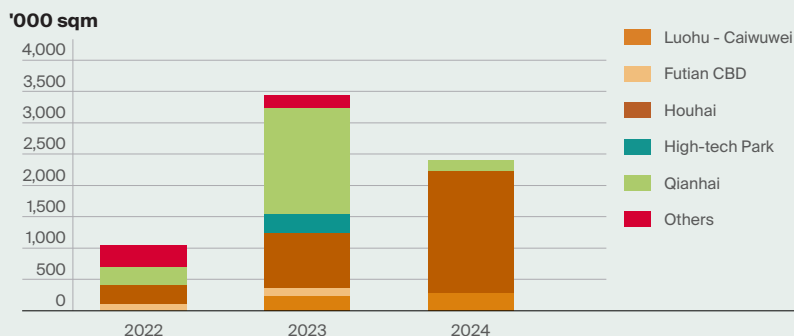
FIGURE 4. Shenzhen Grade-A Office Market Future Supply ForecastOthers: Huaqiang North, Chegongmiao, Shekou, Bao'an CBD
Source: Knight Frank Research

Table 2. Major Shenzhen Grade-A office leasing transactions, Q3 2022

District	Building	Tenant	Area (sqm)	Transaction Type
Houhai	Haofang Tianji Square	Transsion	21,000	New Lease
Houhai	One Shenzhen Bay	ANTA College	1,000	New Lease
Houhai	One Shenzhen Bay	Caihou Capital	1,000	New Lease
Chegongmiao	NEO Building	Bozhong Technology	2,000	Expand
Huaqiang North	Hon Kwok Center	Nestle	1,200	New Lease

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

INVESTMENT MARKET

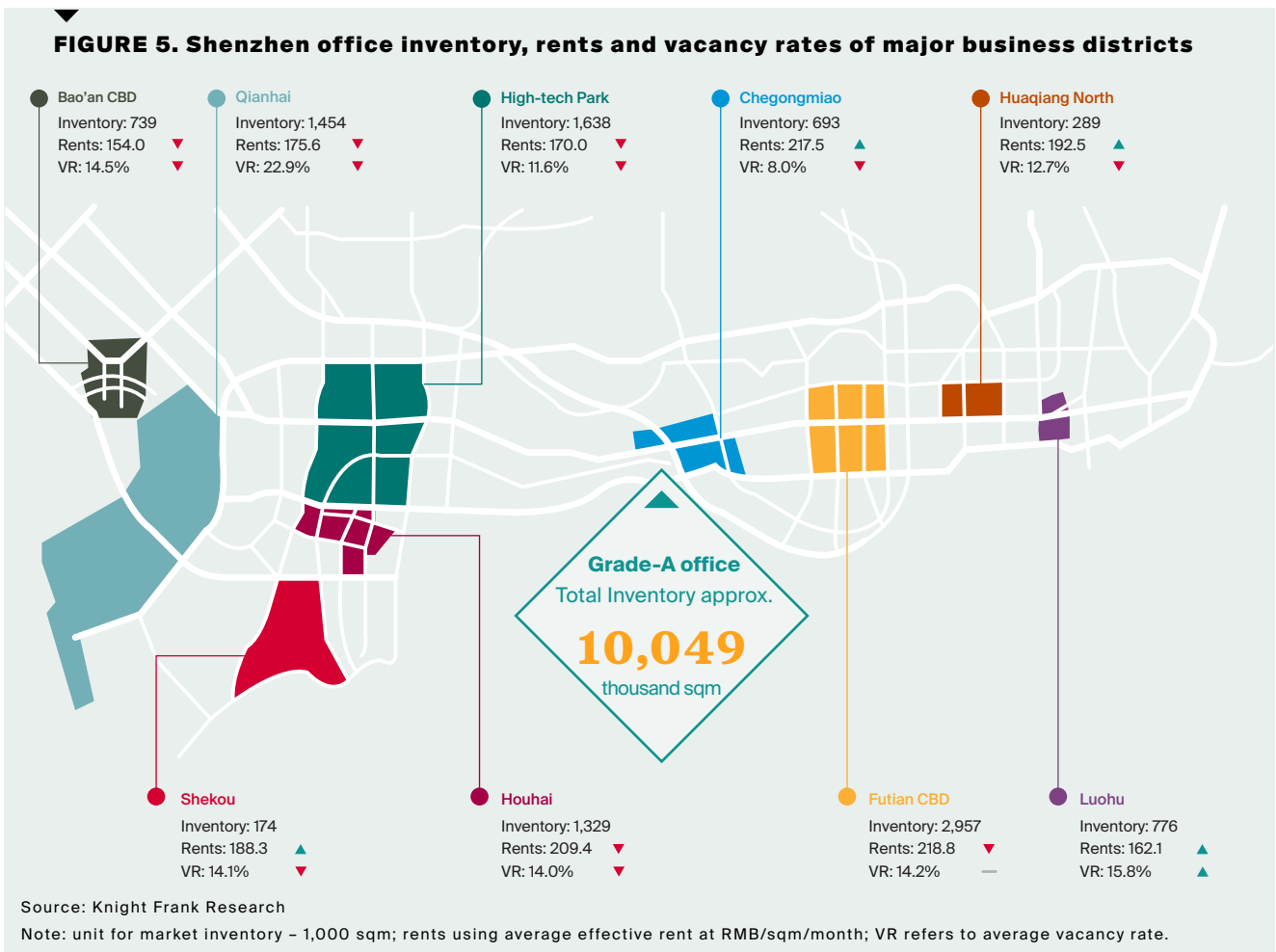
In Q3, there were two en-bloc office transactions. One of them was the estimated largest annual transaction in Shenzhen.

One was that Shenzhen Shenhuitong Investment Holding Co Ltd purchased UDC City Center T2 from China Union Holdings Ltd, with a total floorage of

43,861 sqm at a price of RMB 1.886 billion. The other was that CITIC City Development and Operation Co Ltd purchased CITIC Chengkai Tower from Kaisa Group Holdings, with a floorage of 99,998 sqm. The transaction amount was not disclosed, but the value of the goods was RMB 8.0 billion approximately. In general, since the “Three Red Lines”

regulators have tightened the financing of real estate companies, and the revenue was decreasing dramatically this year, more and more real estate developers are facing liquidity risks. As result, assets that were originally self-owned and operated have been added to the pending-sale list.

SHENZHEN GRADE-A OFFICE MARKET DASHBOARD Q3 2022



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



Stephen He
Analyst, Research & Consultancy
Guangzhou
+86 20 3877 1477
stephen.he@cn.knightfrank.com

Shenzhen Office Services



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

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