Shenzhen Grade-A Office Market Report

Q3 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

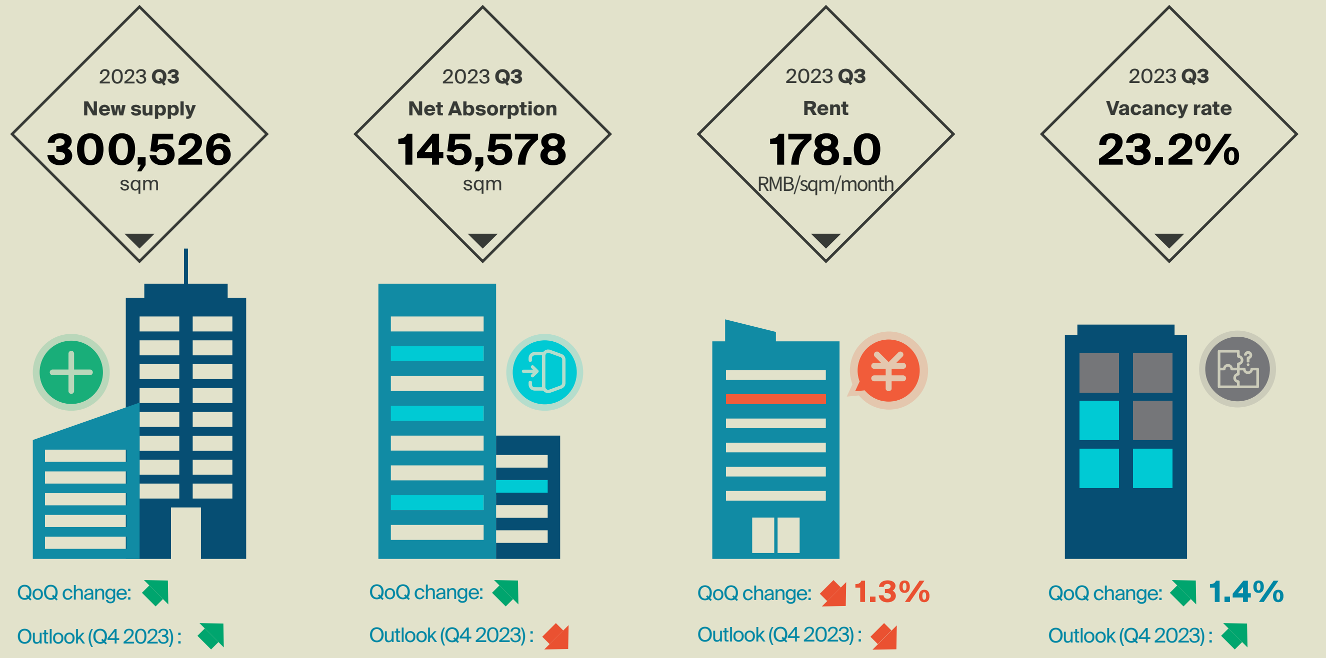
Recovery gathers strength but market confidence still needs a boost

In Q3 2023, property owners continued their strategy of "price for volume", supported by a series of significant policy measures and the release of cyclical market demand. As a result, demand for Grade A office leasing in Shenzhen rebounded to nearly a one-year high. However, the prevailing condition of oversupply in the Grade A office market is expected to continue, maintaining pressure on vacancy rates and rental prices. Rental rates declined by 1.3% QoQ, reaching 178.0 /sqm/month, while the vacancy rate increased by 1.4% QoQ, reaching 23.2%.

The financial and TMT sectors remained the main sources of leasing demand during the quarter, contributing over 53% of customer leasing demand. In terms of investment market activity, owing to the influence of the macroeconomic environment, no en bloc transactions were recorded during the quarter, as potential buyers adopted a rather cautious approach.

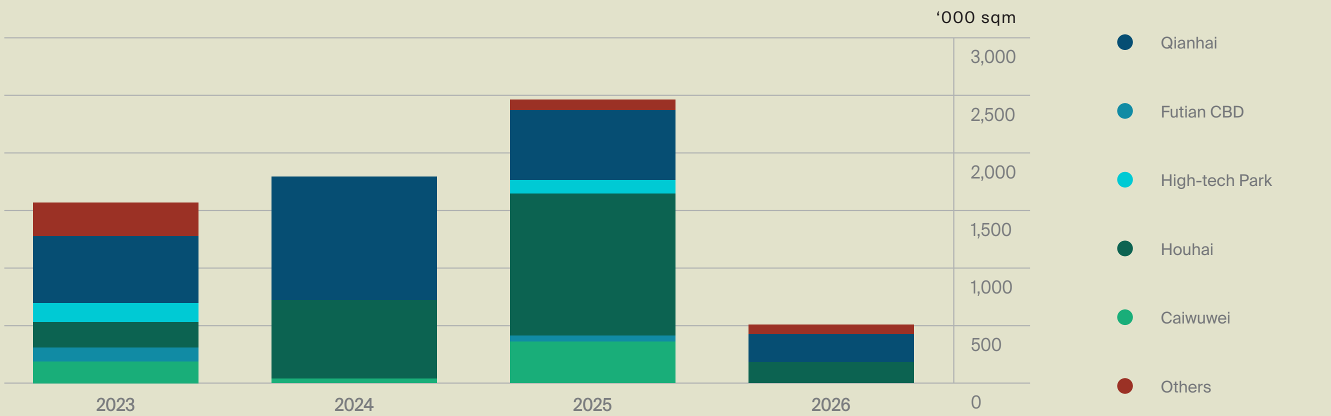
Looking ahead to Q4 2023, the overall vacancy rate of Grade A offices in Shenzhen is projected to continue to rise due to sustained growth of supply. Rental price competition is expected to intensify, putting further downward pressure on rents. However, given the accommodative monetary policy and gradual economic recovery, the decline in rental rates should gradually narrow as demand is released and rents continue to adjust downward in search of support.

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

Fig 2: Shenzhen office development pipeline, 2023-2026



Source: Knight Frank Research
Others including Huaqiang North, Chegongmiao, Shekou, Bao'an CBD
Projected supply in 2023 includes projects already on the market
Caiwuwei represents Luohu district

Rental Level

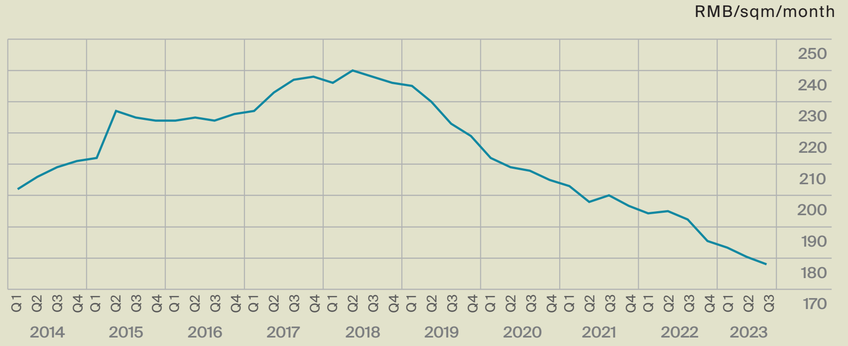
Rents are expected to continued to face downward pressure under the strategy of trading price for volume

In Q3 2023, the strategy of trading“price for volume”became commonly used by property owners in the office leasing market, leading to a continued decline in the overall average rent in Shenzhen. The average rent of a Grade A office in the city was RMB 178.0 /sqm/month, representing a QoQ decrease of 1.3%.

Rents in submarkets such as Qianhai, Houhai, Shekou and Futian Central District remained relatively stable, benefiting from proactive government investment promotion and policy support. However, owing to the influx of new supply and factors such as massive redundancies by leading internet technology companies, High-Tech Park became the only submarket in Nanshan District that saw a decline in rental prices. Submarkets Huaqiangbei and Luohu had the largest decline in rental rates, due mainly to factors such as the enormous supply of older buildings and the slow recovery in core industries.

In Q4 2023, rents for Grade A offices in Shenzhen are expected to continue to be under downward pressure. However, with the macroeconomic recovery and strong policy support, leasing demand in Shenzhen is expected to improve, resulting in a gradual narrowing of the rental rate decline.

Fig 3: Shenzhen Grade-A office rental trend



Source: Knight Frank Research

Table 1: Major Shenzhen Grade-A office sub-market indicators, Q3 2023

Submarket	Rent (RMB / sqm / month)	Rental % changes (QoQ)	Vacancy Rate	Vacancy rate percentage change (QoQ)
Luohu	144.5	↓7.9%	23.5%	↑1.6%
Futian-Huaqiang North	149.0	↓10.6%	19.8%	↑4.8%
Futian CBD	217.3	↑0.7%	13.9%	↓0.5%
Futian-Chegongmiao	197.4	↓0.4%	31.3%	↓6.1%
Nanshan- High-tech Park	153.2	↓4.3%	16.5%	↑2.2%
Nanshan- Houhai	200.5	↑0.2%	23.5%	↑1.6%
Nanshan- Shekou	178.2	↑2.4%	33.6%	↓3.4%
Nanshan- Qianhai	163.6	↑3.0%	28.9%	↓2.8%
Bao'an CBD	160.0	↑7.7%	22.9%	↓4.7%

Source: Knight Frank Research
Note: Owing to database adjustments, some data may be different, specific values are based on Q3

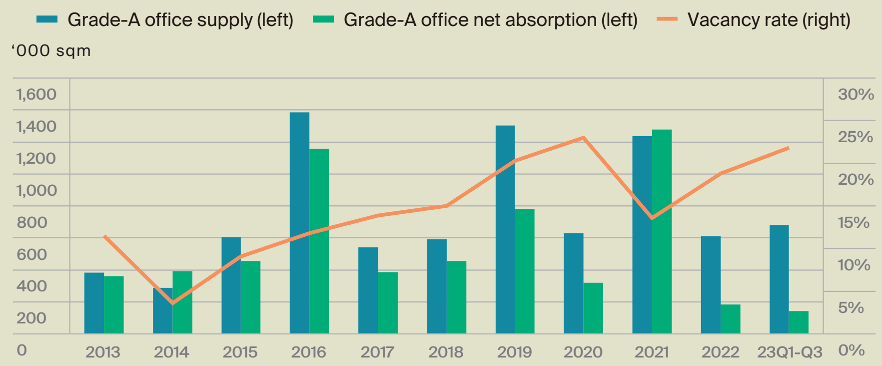
Supply and Demand

▶ The financial and TMT sectors have emerged as the main driving forces behind a significant rebound in leasing demand

In Q3, Shenzhen witnessed a significant increase in new supply, reaching 300,000 sqm, marking a high point in the past year. The new supply includes the Qianhai Chow Tai Fook Financial Tower, Shenzhen Bay Intelligence Center and Kangtai Innovation Square. The proactive price adjustments of property owners yielded significant results, with a net take-up area of approximately 146,000 sqm, also a high for almost the past year. However, the city's vacancy rate still increased by 1.4% QoQ to 23.2%.

The financial and TMT sectors accounted for over 53% of the total transaction area in the city this quarter. The financial industry topped the demand list, accounting for 27.1% of the take-up area, driven primarily by subcategories such as internet finance, financing guarantees and financial leasing, with a lot of demand stemming from relocation needs. The TMT sector passed professional services, ranking second in leasing demand in the city, driven mainly by industries such as software development, artificial intelligence, and R&D of electronic components. However, despite the rapid growth in net absorption this quarter, only one en bloc transaction exceeding 10,000 sqm was recorded.

Fig 4: Shenzhen Grade-A office supply, take-up and vacancy rate



Source: Knight Frank Research
Notes: Accumulated new supply and net take-up area in Q1–Q3 2023 in the Shenzhen office market
The Q3 2023 vacancy rate is the same as the Q1–Q3 2023 vacancy rate

In contrast, small leasing transactions below 600 sqm accounted for over 34% of the total, with tenants focusing predominantly on downsizing and lease renewals, reflecting a continued emphasis on cost reduction and efficiency optimization as the primary strategy for tenants.

In Q4 2023, Shenzhen is expected to see abundant new supply of over 540,000 sqm. However, as the marginal effects of favorable factors, such as policy support and price adjustments, gradually diminish, the stimulating impact on leasing demand will weaken. The market will continue to face significant pressure in terms of absorption, with a high probability of a further increase in the overall vacancy rate in the city.

Table 2: Major Shenzhen Grade-A office leasing transactions, Q3 2023

District	Building	Tenant	Area (sqm)	Transaction Type
Nanshan-High Tech Park	Gemdale Visseen Tower	JinJiang Inn	12,000	Relocation
Nanshan-Qianhai	Qianhai Chow Tai Fook Financial Tower	Tencent Wesure	8,000	Relocation
Longgang	Galaxy World Ecological Tower	Test Rite Trading	6,631	Relocation
Futian CBD	Galaxy Center	CIMC Capital	4,200	Relocation
Luohu	KK100 Tower A	Murata Manufacturing	3,500	Renewal
Nanshan-Qianhai	Qianhai HFCC Tower A	Shenzhen Tenways	2,500	Relocation
Futian-Chegongmiao	The Platinum Towers Tower A	Zhongzheng Capital Investment	2,000	New lease
Nanshan-High Tech Park	Gemdale Visseen Tower	GEELY	1,300	New lease

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

Investment Market

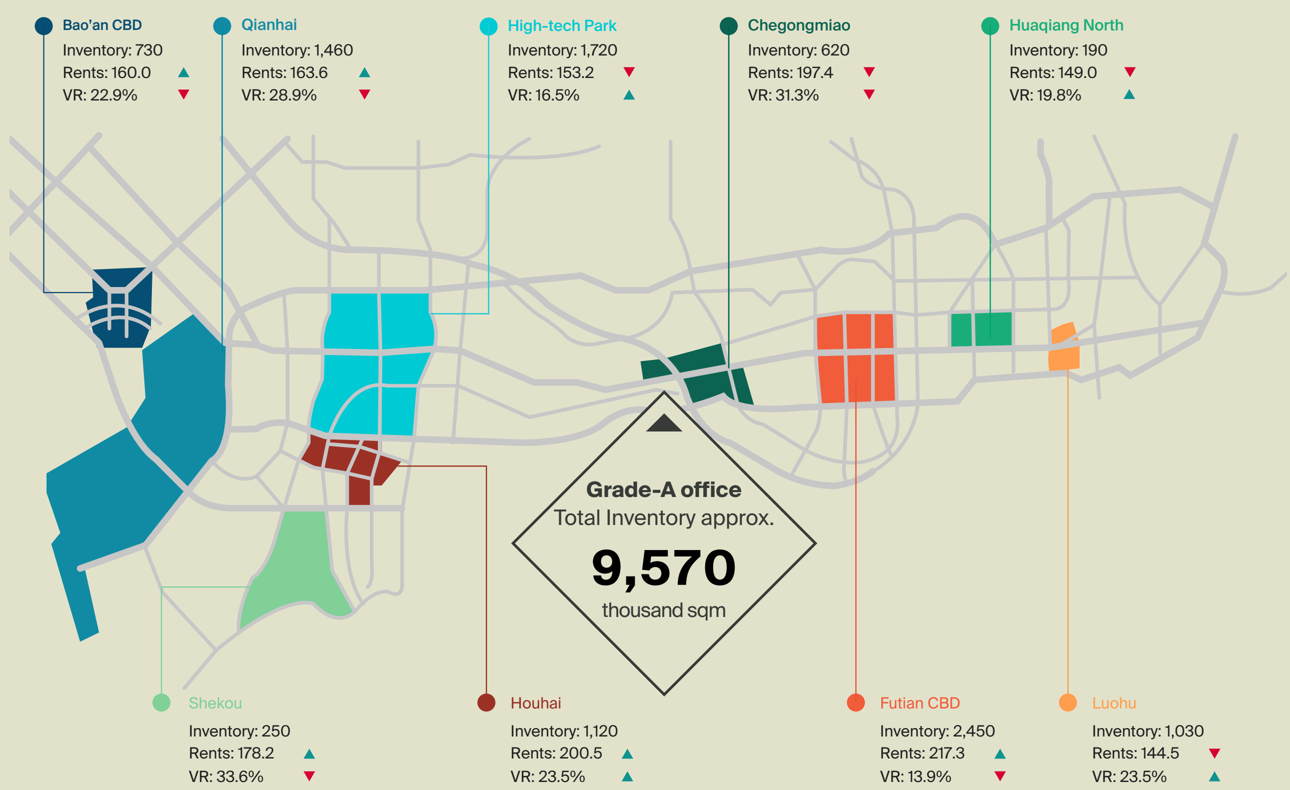
Weak interest by buyers in en bloc transactions until market confidence is restored

In the Q3 2023, there were no en bloc transactions in the Shenzhen office investment market. Despite several significant government support measures during the quarter, potential buyers of en bloc transactions remained cautious about the short-term outlook for property values owing to factors such as geopolitical tensions, excessive deflation, driven by the US Federal Reserve, and the long-term risk of stagflation in developed economies. As a result, there was a lack of strong willingness to engage in property transactions.

Taking the Q3 auction market as an example, the Tiangu Building project, owned by Huaxun Fangzhou Technology Co., Ltd., located in Bao'an District, Shenzhen, with a total floor area of 227,640.00 sqm, underwent two unsuccessful auctions. The first auction took place on 20 September 2023, with an initial bidding price of approximately RMB 1.637 billion, equivalent to a unit price of RMB 7,189.13 /sqm. The second auction was held on 8 October 2023, with a 20% reduction in the starting price to RMB 1.309 billion, but it still ended without a successful bid. Currently, the property is scheduled for a third auction, set to commence on 24 October 2023, with the starting price further lowered to about RMB 1.047 billion, equivalent to a unit price of RMB 4,601.04 /sqm, representing a 36% decrease from the initial auction price.

Shenzhen Grade-A office market dashboard Q3 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 Q3

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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