

*Drive by the downward rental level and rent-free period,
the demand sides of the Shenzhen Grade-A office market
recovered obviously*



Shenzhen Grade-A Office Market Report

Q4 2020

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**DRIVEN BY THE POSITIVE FACTORS
SUCH AS SUBSIDY POLICIES AND
INDUSTRIAL AGGLOMERATION,
QIANHAI AREA CONTINUED TO
ATTRACT TENANTS**

In Q4, Shenzhen Bay Innovation and Technology Center, Hongyi Mansion and Shenzhen Guosen Securities Mansion were delivered, bringing 369,300 sqm new supply to the Shenzhen Grade-A office market, which has led to an increase in the overall stock to 8.001 million sqm.

The economy of Shenzhen continued to recover and the growth rate of fixed asset investment picked up. From January to November 2020, the cumulative growth in fixed asset investment increased by 9.2% YoY and the increase was 0.7 percentage points higher than that of the period from January to October. Total retail sales of consumer goods in Shenzhen decreased by 6.1% YoY. The decline was 1.4 percentage points less than that of the period from January to October.

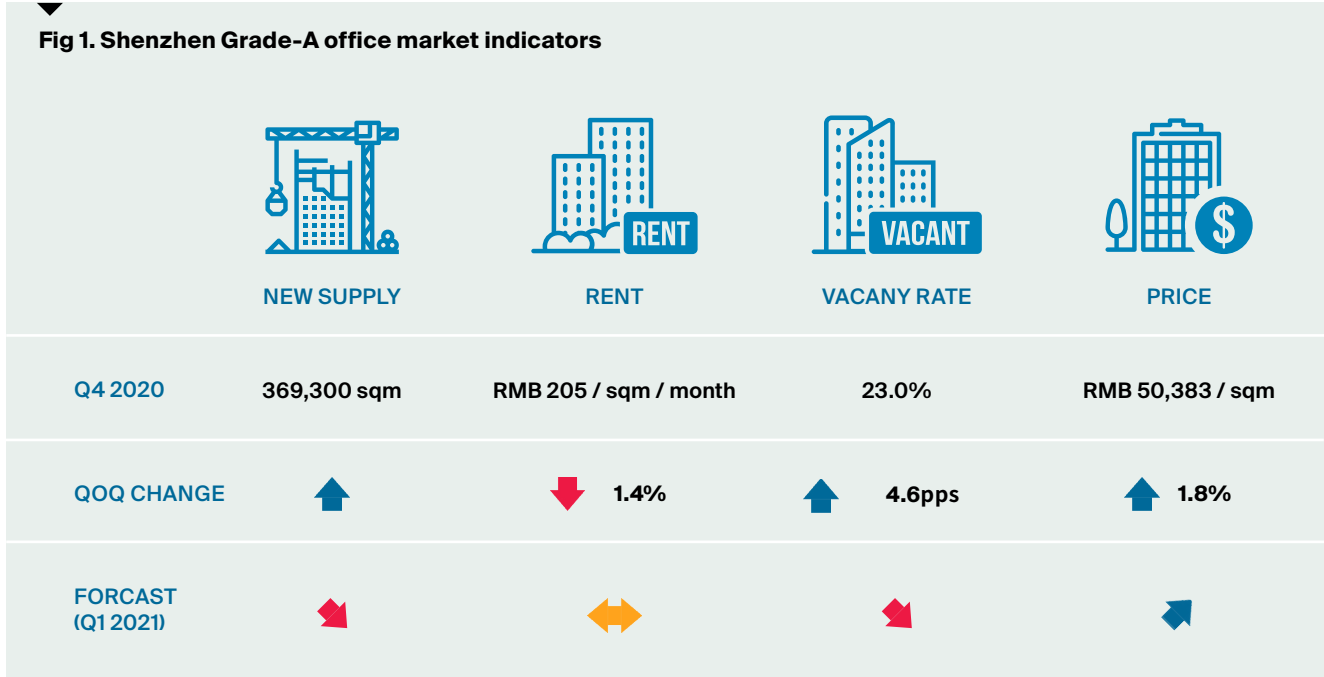
In Q4 2020, as a result of the new supply, the vacancy rate of the Shenzhen Grade-A

office market increased sharply by 4.6 percentage points QoQ to 23%. Due to the new supply, high vacancy rate and other factors including year-end rental concessions, the average rent in the Shenzhen Grade-A office market fell by 1.4% QoQ to RMB 205 per sqm per month.

Under the circumstances of tenant market characteristics, many tenants have taken the advantage of the window period of a downward rent to upgrade or expand office spaces, leading to a further increase in office leasing inquiries and the recovery of demand. However, the high vacancy

rate in the Shenzhen Grade-A office market still brought fierce competition to the landlords. In order to attract tenants and stabilize the annual income of the project, many landlords offered more incentives such as longer rent-free period, exemption of property management fee and prominent decoration. In addition, some landlords have transformed part of the office into co-working spaces for diversifying the tenant mix of the building, so as to attract different types of tenants for stabilizing the cash flow.

Fig 1. Shenzhen Grade-A office market indicators



Source: Knight Frank Research

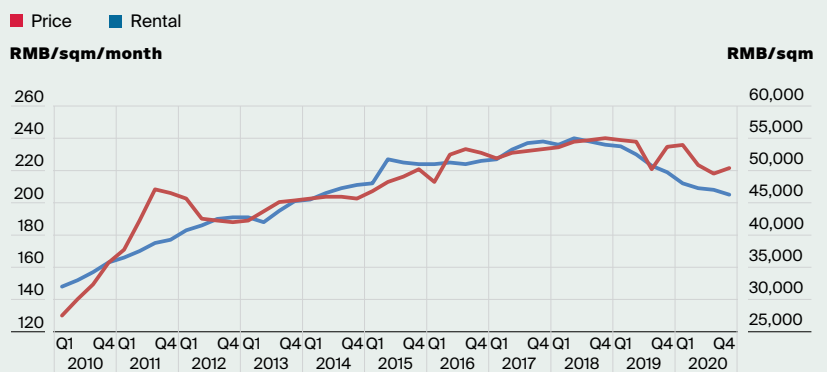
RENTS AND PRICES

In Q4, the average rent for Grade-A office space in Shenzhen was RMB 205 per sqm per month, down 1.4% QoQ and the decline expanded 0.9 percentage points.

In terms of business district, the average rent in emerging business districts remained stable during the quarter, while the rent in the core and secondary business districts went down slightly. The average rent of Grade-A office buildings in the core business districts decreased by 1.1% QoQ to RMB 218 per sqm per month, while the average rent of Grade-A office buildings in the secondary business districts decreased by 0.5% QoQ to RMB 188 per sqm per month.

In the strata-title market, the average price of office buildings in Shenzhen during the quarter was RMB 50,383 per sqm, increased by 1.8% QoQ.

Fig 2. Shenzhen Grade-A office rental and price



Source: Knight Frank Research

Table 1. Major Grade-A office sub-market indicators Q4 2020

Submarket	Rent (RMB / sqm / month)	Rent Change (QoQ)	Vacancy Rate	Vacancy rate change (QoQ)
Caiwuwei	193	↓1.5%	14.6%	↔
Futian CBD	241	↔	13.5%	↓0.1
Houhai	217	↓2.3%	13.3%	↑0.3
Qianhai	157	↑1.3%	45.6%	↑16.3
Huaqiang North	175	↔	30.7%	↔
Chegongmiao	216	↓1.4%	16.9%	↓1.1
Shekou	200	↔	35.7%	↔
Nanyou	165	↔	4.4%	↔
High-tech Business Park	179	↔	21.9%	↓0.4

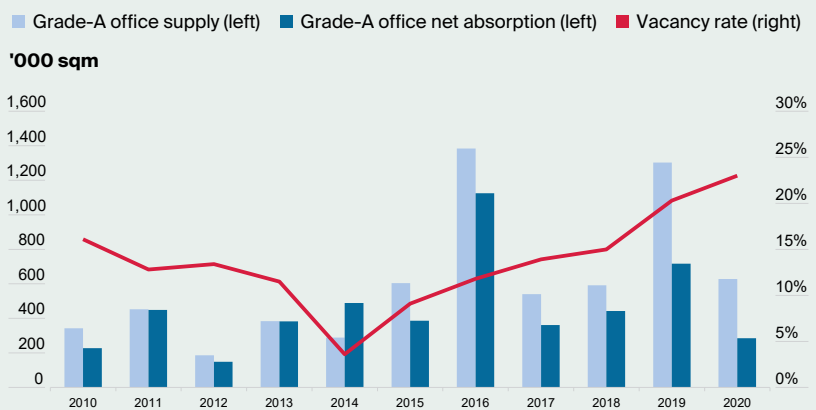
Source: Knight Frank Research

SUPPLY AND DEMAND

In Q4 2020, Shenzhen Bay Innovation and Technology Center, Hongyi Mansion and Shenzhen Guosen Securities Mansion were delivered, bringing 369,300 sqm new supply to the Shenzhen Grade-A office market, which has led to an increase in the overall stock to 8.001 million sqm. The net absorption of the Shenzhen Grade-A office market in 2020 was 284,000 sqm.

In this quarter, driven by positive factors such as enterprise subsidies and industrial agglomeration, several major leasing transactions by TMT enterprises were recorded in the Qianhai sub-market. Some examples include ZEGO renting a 8,100 sqm of office space in One Excellence, Tuya renting a 8,000 sqm of office space in Qianhai Kerry Center, CODEMAO taking up a 5,400 sqm of office space in Shimao Qianhai Center.

Besides, the strategic position of the Houhai sub-market as a “Super Headquarters Base” has also attracted professional service enterprises. Some examples include Chong Hing Bank renting a 3,200 sqm of office space in China Resources HQ Mansion, Cedar Asset Management renting a 1,300 sqm of office space in Excellence Houhai Center.

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

Source: Knight Frank Research

Table 2. Major Grade-A office future new supply Q1 2021

District	Building	Area (sqm)
Futian CBD	Guangdian Finance Center	229,000

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

Table 3. Major Grade-A office leasing transactions, Q4 2020

District	Building	Tenant	Area (sqm)
Qianhai	One Excellence	ZEGO	8,100
Qianhai	Qianhai Kerry Center	Tuya	8,000
Qianhai	Shimao Qianhai Center	CODEMAO	5,400
Qianhai	One Excellence	Farben	2,700
Qianhai	Qianhai Kerry Center	HBA	300
Houhai	China Resources HQ Mansion	Chong Hing Bank	3,200
Houhai	Excellence Houhai Center	Cedar Asset Management	1,300
Chegongmiao	Bojin Business Center	Huahao Law Firm	2,000
Futian CBD	Guangdian Finance Center	Rongcheng Law Firm	1,000

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

INVESTMENT MARKET

In Q4, there were two en-bloc transactions recorded in the investment market of office buildings in Shenzhen.

Sungang Center, originally owned by China Resources, was purchased by Kasikorn Bank as its headquarters in China. Sungang Center is located in Shenzhen Hongling financial industry belt. The industrial zone covers an area of 2.03 sq km and is planned to be a hub and development area for large licensed financial institutions such as banks,

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securities firms, insurance companies and fund enterprises.

Landsea Green Properties Co., Ltd. announced that its indirect wholly-owned subsidiaries, China Information Industry Co., Ltd. and Nanjing Langming Real Estate Group Co., Ltd. signed an agreement with Shenzhen Kefa Industry and Trade Group Co., Ltd. and Shuguang Information Industry (Shenzhen) Co., Ltd to sell the equity for an initial price of RMB 500 million. Shuguang holds Shuguang Building in Nanshan District.

MARKET OUTLOOK

In December 2020, the notable “14th Five-Year Plan” of Guangdong Province was formally issued, in which “Shenzhen” is frequently mentioned. The establishment of the Guangdong-Hong Kong-Macao Greater Bay Area and the Shenzhen Pilot Demonstration Zone will be promoted and the establishment of a modernized economic system will be accelerated. Meanwhile, a strategic hub of a new development pattern will be created. An action plan will be formulated to strengthen the development of the province through science and technology innovation. The development of the Guangdong-Hong Kong-Macao Greater Bay Area, as a comprehensive national science center and a world-class cluster of major science and technology infrastructure, will start with the development of the Shenzhen Pilot Zone. With the Shenzhen Stock Exchange as the core, capital raising, futures and other factors will be promoted while the quality of listed companies and the proportion of direct financing will be improved.

The strategic position of Shenzhen has been further highlighted in the 14th Five-Year Plan of Guangdong Province. Many leading enterprises have already planned to set up their bases in Shenzhen to seek further development. In October 2020, Shenzhen Xiaomi Information Technology Co., Ltd., a subsidiary of Xiaomi Group, bought the land plot T107-0092 in Houhai central area, Nanshan District, Shenzhen at a price of RMB 531 million, in which the international headquarters of Xiaomi will be built. Xiaomi



Although the epidemic in 2020 had certain disturbance to the Grade-A office market in Shenzhen, the prospect of the Grade-A office market in Shenzhen will be still positive in the medium to long term, driven by positive factors such as policy preference and industrial agglomeration.



Group plans to invest more than RMB 7.5 billion in Shenzhen to develop three major businesses, mainly including smart phone and artificial intelligence center, business development center and Internet service center, implementing the strategic planning of headquarters economy.

In addition, in order to attract more high-quality enterprises to set up their headquarters, the Shenzhen government has launched more favourable policies. As long as the enterprise headquarters have reached relevant standards and are able to

achieve the goals set within a commitment period, they will be eligible to receive RMB 10 million as settlement rewards. For headquarter enterprises without owning office space in Shenzhen, the annual subsidy is equivalent to 50% of their office rent, with a cap of RMB 1.5 million per year. For those who have purchased office space for their own headquarters-use in the first time while without owning other office space in Shenzhen, an one-time subsidy of 10% of the purchase price will be granted, with a cap of RMB 50 million.

In 2019, the “Measures for Subsidizing the Rent of Enterprises Returning to Office Space in Shenzhen Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone” released by Qianhai Administration Bureau has attracted many high-quality enterprises to settle in the Qianhai area. Although the original rent subsidy scheme expired at the end of 2020, we expect that the Qianhai Administration Bureau might issue a series of new policies in the future. In the context of the urgent need for continuous development of the Qianhai Area, we will continue to pay attention to the supporting policies that the Qianhai area will bring to the enterprises in the future.

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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



Timothy Chen
Senior Director,
Head of Research & Consultancy, China
+86 21 6032 1769
timothy.chen@cn.knightfrank.com



Regina Yang
Director, Head of Research & Consultancy,
Shanghai & Beijing
+86 21 6032 1728
regina.yang@cn.knightfrank.com



Martin Wong
Associate Director,
Research & Consultancy, Greater China
+852 2846 7184
martin.wong@hk.knightfrank.com



Omega Ou
Analyst, Research & Consultancy,
Guangzhou
+86 20 3877 1477
omega.ou@cn.knightfrank.com

Shenzhen Office Services



Ken Kan
Managing Director,
Head of South China Office Services, Shenzhen
+86 755 3394 7001
ken.kan@cn.knightfrank.com



Carol Wu
Director, Head of Office Services,
Shenzhen
+86 755 3394 7002
carol.wu@cn.knightfrank.com

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