

Rents stay on the downward trend but in a narrow YoY decline



Shenzhen Office Market Report

Q4 2022

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OVERVIEW AND OUTLOOK

Leasing demand continued to be weak in Q4, but finance, professional services and TMT sectors remained active in terms of enquiries. The average rents in Shenzhen continued to decline, fell by 2.2% YoY to 192.4/sqm/month, with a narrowing annual decline. Intensive supply and weak demand were the main reasons for the rising vacancy rate, which rose to

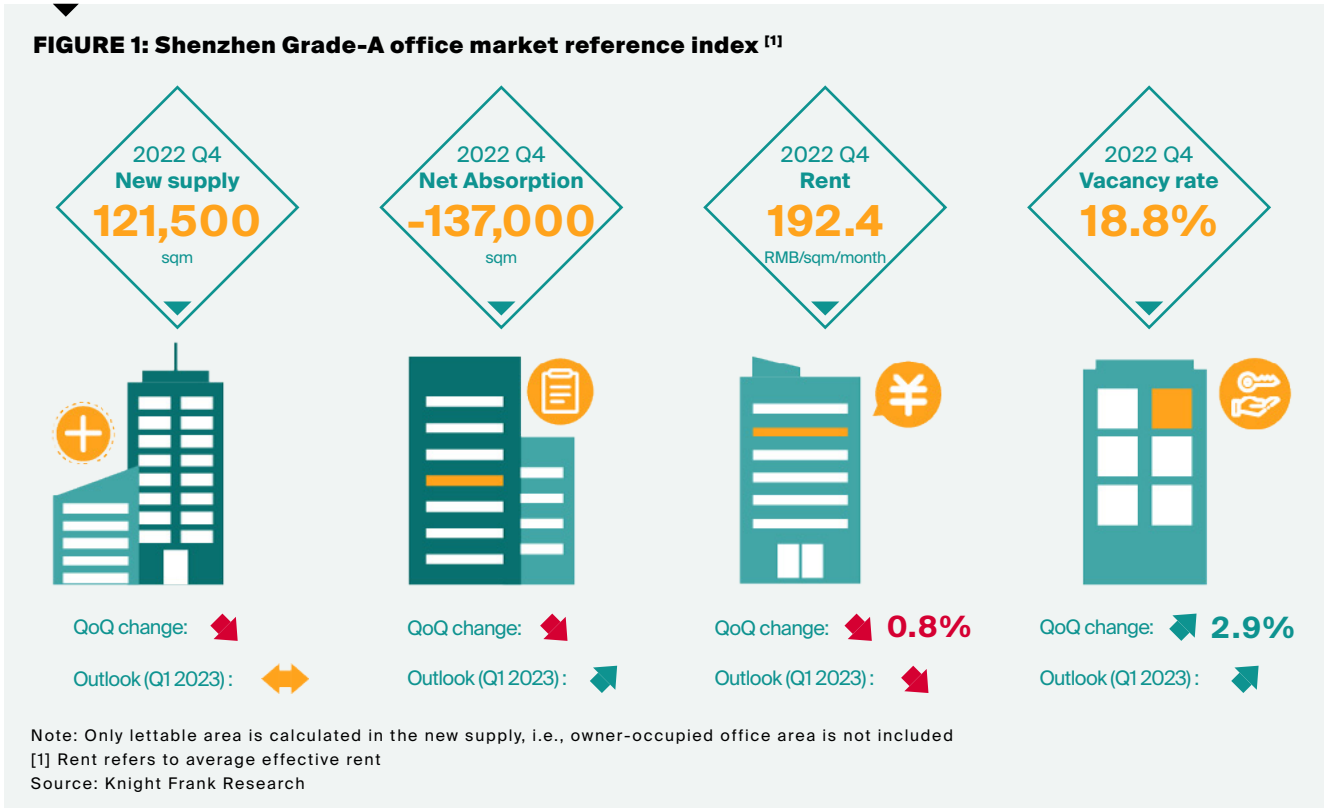
18.8%.

Domestic owner-occupied buyers dominated the investment market in Q4, with 4 deals and the total transaction price was approximately RMB4.19 billion.

Looking ahead to 2023, we expect that the market sentiment will be restored

as the epidemic prevention measures relaxed and the integration of the Greater Bay Area accelerated. The market will remain in favor of tenants to stabilize the occupancy rate. Moreover, the vacancy rate is expected to increase because of intensive supply.

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



RENTS LEVEL

In Q4, rents in Shenzhen continued to decline, down by 0.8% QoQ to RMB192.4 / sqm/month.

The submarkets with large rent decline mainly were Nanshan-Qianhai and Nanshan- High-tech Park, where TMT industry was relatively concentrated. On the contrary, the rents of Futian CBD, Chegongmiao and Bao'an CBD recorded an increase.

It is noteworthy that rents in Shenzhen was on a downward trend since 2018, but the annual decline has narrowed for three consecutive years. Thus, the rent is expected to gradually stabilize.

FIGURE 2. Shenzhen Grade-A office rental

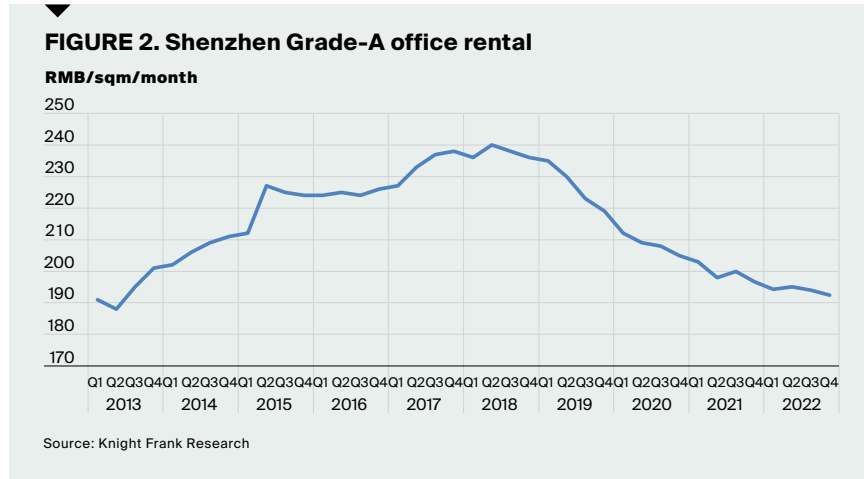


Table 1. Major Shenzhen Grade-A office sub-market indicators, Q4 2022

District	Rent (RMB / sqm / month)	Rental % changes (QoQ)	Vacancy Rate	Vacancy rate percentage change (QoQ)
Luohu	162.1	↔	17.6%	↑1.9
Futian-Huaqiang North	192.5	↔	15.4%	↑2.7
Futian CBD	226.8	↑3.7%	16.3%	↑2.1
Futian - Chegongmiao	221.4	↑1.8%	11.1%	↑3.1
Nanshan - High-tech Park	166.2	↓2.2%	15.4%	↑3.7
Nanshan - Houhai	206.3	↓1.5%	16.8%	↑2.8
Nanshan - Shekou	188.3	↔	12.7%	↓1.4
Nanshan - Qianhai	170.7	↓2.8%	26.1%	↑3.2
Bao'an CBD	156.0	↑1.3%	14.4%	↓0.2

Note: Due to database adjustment, some data may be different, specific values are based on this quarter
Source: Knight Frank Research

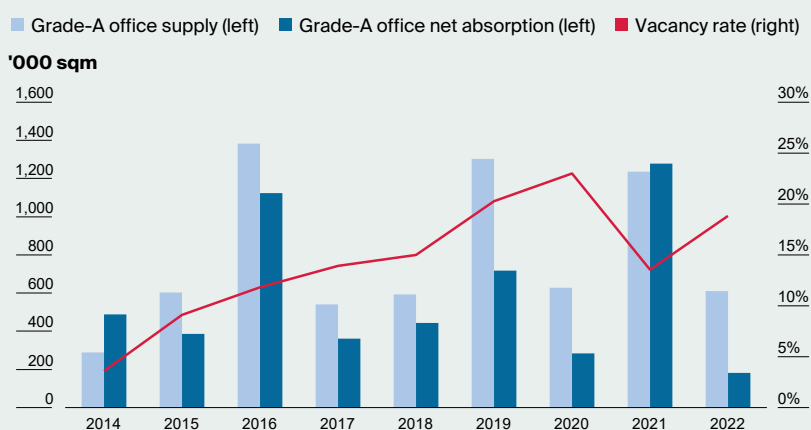
SUPPLY AND DEMAND

In Q4, several projects were delayed, only two projects were launched.

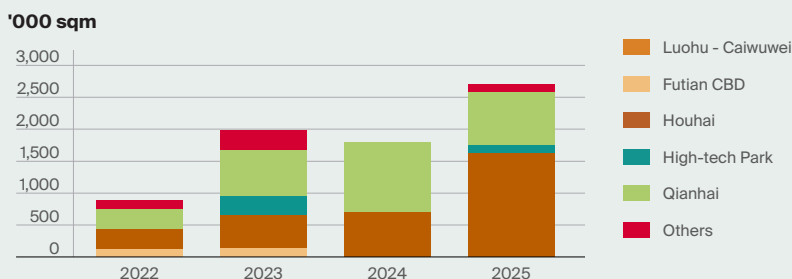
For the whole year of 2022, the supply was about 600,000 sqm while the absorption was only about 180,000 sqm, which was more than three times the supply and demand ratio. Hence, the vacancy rate was pushed by 5.3% YoY to 18.8%. In addition, the net absorption of 2022 was the lowest point in the past decade, only a quarter of that in 2019 before epidemic, again reflecting the weak leasing demand in 2022.

In terms of leasing transactions, enquiries from TMT and consulting companies remained active, with the financial sector support the rental demand in Q4. For example, China Securities Jinshi Investment Holdings leased 4,000 sqm of office space in Galaxy Center, Autochips leased 3,000 sqm in Qianhai Horoy Center and CITIC Prudential Life leased 1,000 sqm in HainaBaichuan Headquarters Building.

With the gradual customs clearance of Hong Kong and the Chinese mainland, the construction of the Greater Bay Area will return to the fast track. In addition, the uncertainty caught by the pandemic has gradually diminished. All these factors will give momentum into the recovery of rental demand. However, the large number of new supplies is still the most serious issue in the Shenzhen. The rents may recover slowly, and the vacancy rate will rise further.

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

Source: Knight Frank Research

FIGURE 4. Shenzhen office development pipeline, 2022-2025

Others: Huaqiang North, Chegongmiao, Shekou, Bao'an CBD
Source: Knight Frank Research

Table 2. Major Shenzhen Grade-A office leasing transactions, Q4 2022

District	Building	Tenant	Area (sqm)	Transaction Type
Futian CBD	Galaxy Center	China Securities Jinshi Investment Holdings	4,000	New Lease
Qianhai	Qianhai Horoy Center	Autochips	3,000	New Lease
High-tech Park	Hanjing Center	AI Speech	2,000	New Lease
Futian CBD	Kerry Plaza	Fusion Worldwide Electronics Trading (Shenzhen) Co Ltd.	1,000	New Lease
Bao'an CBD	HainaBaichuan Headquarters Building	CITIC Prudential Life	1,000	New Lease

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

INVESTMENT MARKET

In Q4 2022, there were four en-bloc transactions, all of which were led by domestic owner-occupiers, with a total transaction amount of RMB4.19 billion.

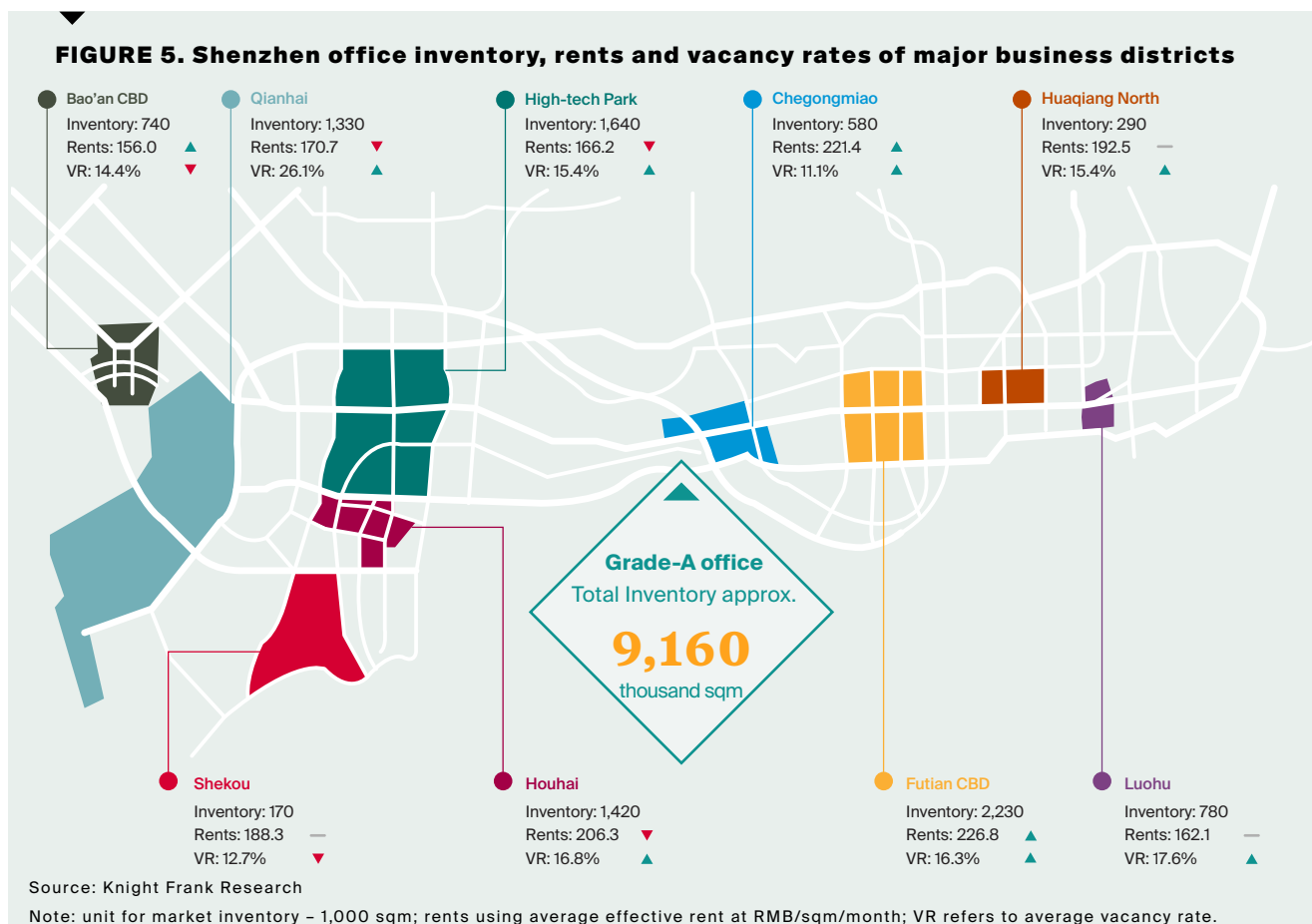
The four transactions in Q4 included – Guotai Jun'an Securities would acquire 39-44 floors in Shenzhen Shangcheng Phase III, with the estimated transaction amount not more than RMB1.16 billion; Kingkey Smart Agricultural purchased 4, 5 and 6 houses in the “Jingji Smart Science Park” in Longgang District, with a total floor area of about 59,000 sqm and

a total price of approximately RMB890 million; Luzhou Laojiao purchased about 10,000 sqm of Shenzhen Railway Real Estate Building, with a total price of approximately RMB600 million; Anker Innovation acquired the property from Shenzhen Runxue Industrial Co., Ltd., with a floor area of about 51,000 sqm and a price of about RMB1.54 billion.

At the end of 2022, the Central Economic Work Conference once again mentioned that real estate was not speculative and that real estate was a pillar industry

of the national economy. Besides, the conference clearly put forward the “three guarantees” policy of ensuring the delivery of buildings, people’s livelihood and stability for the priority. It is expected that the real estate industry will gradually stabilize in 2023, and the transactions led by owner-occupied buyers, state-owned enterprises and government will continue to remain active. Investment buyers are expected to return when the overall market environment improves.

SHENZHEN GRADE-A OFFICE MARKET DASHBOARD Q4 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.

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