Shenzhen Grade-A Office Market Report

Q4 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

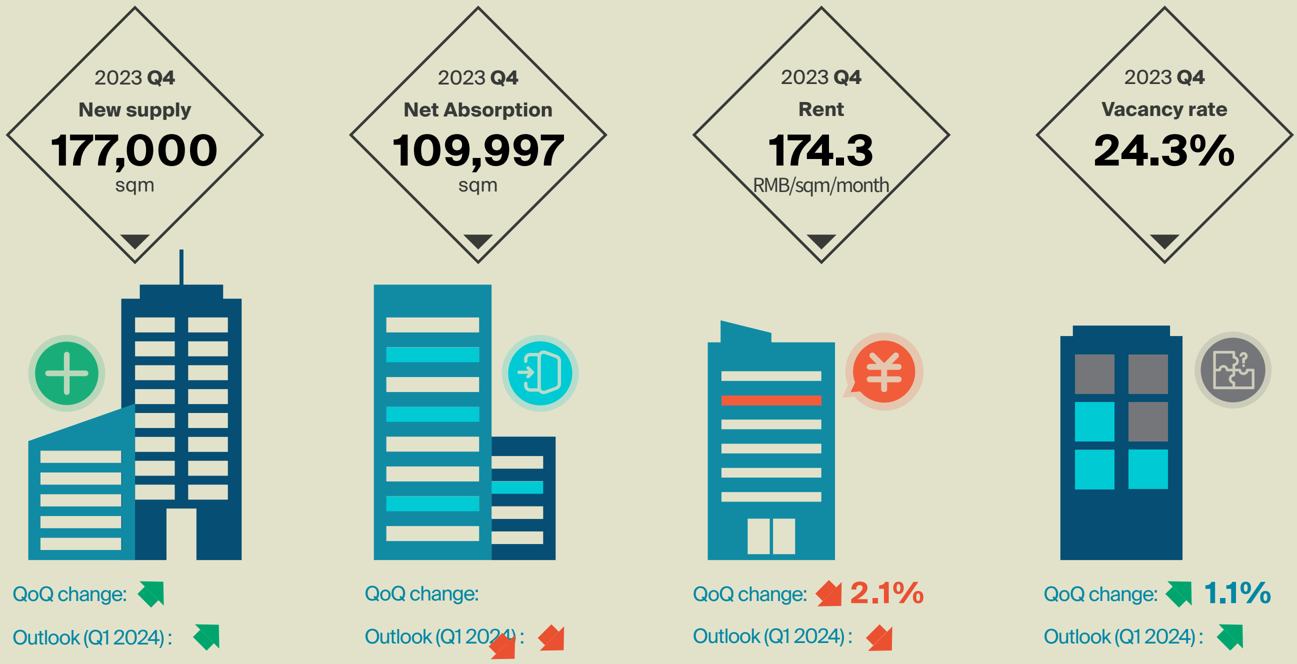
Moderate recovery but still in the bottoming-out phase

In Q4 2023, demand for Grade A office leasing in Shenzhen experienced a downward trend after a significant release in Q3, resulting in continued pressure on vacancy rates and rental prices for Grade A offices in Shenzhen. Rental prices decreased by 2.1% QoQ to RMB 174.3/sqm/month, while the vacancy rate increased by 1.1% QoQ, reaching 24.3%. Throughout the year, there was a moderate recovery in overall market demand, but the oversupply problem remained unresolved, leading to a 5.5% YoY increase in the vacancy rate and a 6% YoY decrease in rental prices.

In full-year 2023, the Technology, Media and Telecom (TMT), finance, and professional services sectors were the three main pillars driving corporate leasing demand in Shenzhen. Among them, TMT ranked first in leasing demand in Q4, followed by the professional services sector. The proportion of leasing demand from newly established and expanding enterprises significantly increased in Q4, reflecting a gradual recovery in market confidence. In terms of the investment market, there was active trading in en-bloc transactions in Q4, with four office building transactions recorded, amounting to approximately RMB 2.308 billion. The total value of en-bloc transactions for the year was RMB 5.305 billion, representing a YoY decrease of over 60%. Despite a gradual increase in transaction inquiries throughout the year, the investment market remained subdued.

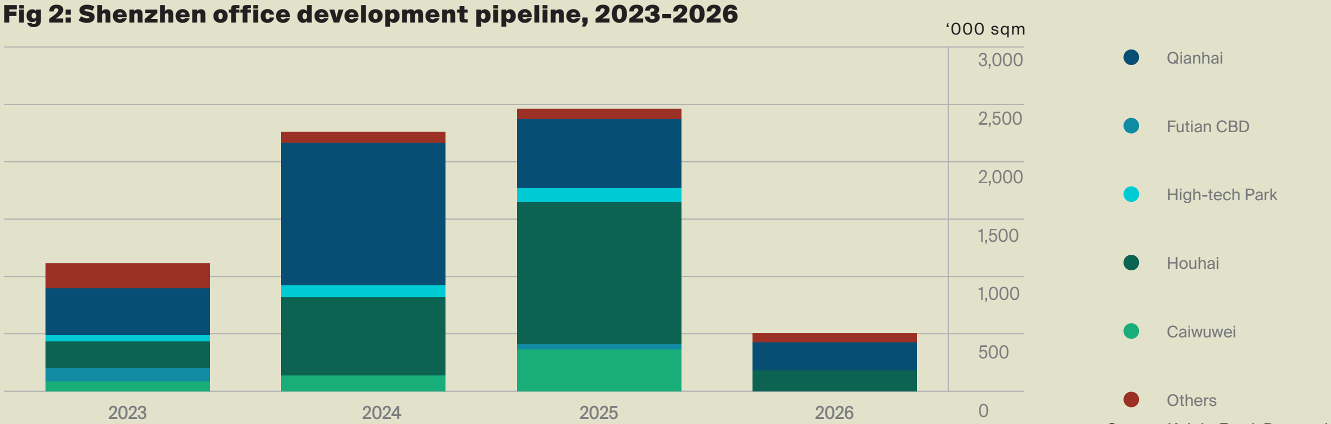
In Q1 2024, the overall vacancy rate of Grade A office buildings in Shenzhen is projected to continue to rise due to a significant increase in supply. The strategy of owners to prioritize quantity over price is expected to persist in the long term, leading to a continued downward trend in rental rates. With no structural improvements in the macroeconomic environment and a lack of sufficient endogenous economic momentum, overall market demand for leasing is expected to remain relatively weak. As a result, the overall rental rates in the city are expected to continue to decline.

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



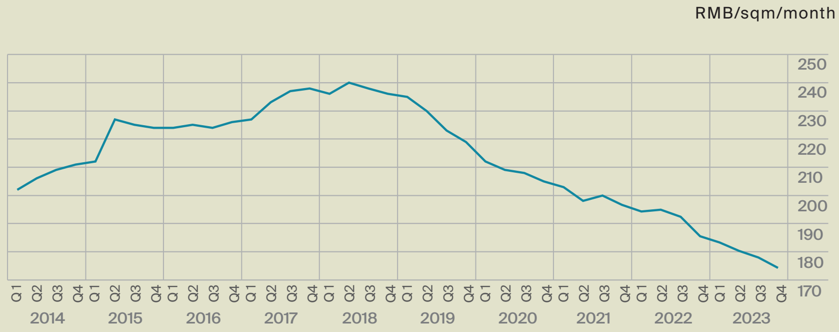
Source: Knight Frank Research
Others include Huaqiang North, Chegongmiao, Shekou and Bao'an CBD
Projected supply in 2023 includes projects already on the market
Caiwuwei represents Luohu district

Rental Level

Rents are expected to continue their downward trend

In Q4 2023, as the year-end approached, nearly 90% of property owners continued to implement the “price for volume” strategy to stimulate leasing demand. As a result, the average rental prices in the overall Shenzhen market continued to decline. The rental price for Grade A office buildings in the city reached RMB 174.3/sqm/month, representing a quarterly decrease of 2.1%. By the end of Q4, rental prices for Grade A office buildings in the entire city had continuously declined for six consecutive quarters, with a further decrease by 6.0% YoY.

Fig 3: Shenzhen Grade-A office rental trend



Source: Knight Frank Research

Apart from Huaqiang North, Futian CBD, High-tech Park, and Houhai, where rental prices remained relatively stable, rents in the remaining five submarkets recorded an average QoQ decline of over 4% in Q4. As vacancy rates remained high and demand from core enterprises weakened, coupled with competition from new supplies in the surrounding areas of Houhai and Qianhai, landlords in the Shekou area lowered rents significantly to accelerate leasing, overtaking Luohu as the submarket with the largest average rental decline in Q4. In terms of the annual performance, Luohu recorded the largest decline in rental prices, reaching 17.15%, while Futian CBD and Bao’an CBD recorded relatively stable rental performance, with a rate of decline lower than the city average.

In Q1 2024, with no structural improvements in the macroeconomic environment, new leasing demand is expected to remain relatively weak. However, the supply side will continue to increase, providing tenants a stronger position in rent negotiations. Under pressure to turn over inventory, owners will offer more flexible leasing price options. As a result, the overall rental rate in the city is expected to continue to decline.

Table 1: Major Shenzhen Grade-A office sub-market indicators, Q4 2023

Submarket	Rent (RMB / sqm / month)	Rental % changes (QoQ)	Vacancy Rate	Vacancy rate percentage change (QoQ)
Luohu	134.3	↓7.1%	23.7%	↑0.2%
Futian-Huaqiang North	150.7	↑1.1%	22.4%	↑0.5%
Futian CBD	215.4	↓0.9%	13.6%	↓1.3%
Futian-Chegongmiao	188.3	↓4.6%	30.0%	↓2.3%
Nanshan- High-tech Park	152.7	↓0.3%	18.3%	↑2.3%
Nanshan- Houhai	197.1	↓1.7%	35.7%	↑11.7%
Nanshan- Shekou	163.9	↓8.0%	40.3%	↑6.7%
Nanshan- Qianhai	155.8	↓4.8%	33.8%	↑5.5%
Bao’an CBD	149.3	↓6.7%	24.2%	↓2.7%

Source: Knight Frank Research

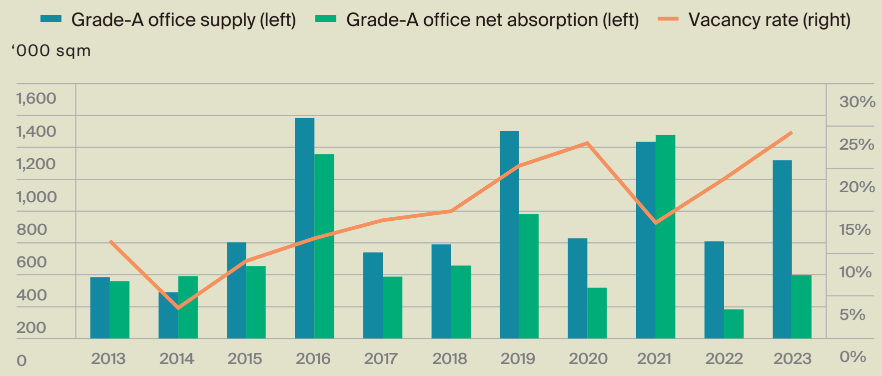
Note: Owing to database adjustments, some data may be different, specific values are based on Q4

Supply and Demand

Slowing demand and a further worsening of the supply–demand imbalance

In Q4, the city's new supply dropped significantly to 177,000 sqm. New supply was from Aviva-Cofco Life Insurance Company Tower and Digital China International Innovation Center. Owners took the initiative to implement price adjustments, but due to the impact of new supply and slowing demand, net absorption was only about 110,000 sqm in Q4, for a QoQ decline of more than 25%. The city's vacancy rate continued to rise by 1.1% to 24.3%. Throughout the year, new supply exceeded 1.1 million sqm, while the average annual net absorption over the past 10 years was only 570,000 sqm. The price scissors gap between supply and demand in Shenzhen's overall market further widened, and the conflict between supply and demand remained severe.

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



Source: Knight Frank Research
Accumulated new supply and net take-up area in Q1–Q4 2023 in the Shenzhen office market
The full-year 2023 vacancy rate was the same as the Q4 2023 vacancy rate

TMT, finance and professional services were the core engines driving Shenzhen's citywide corporate leasing demand in 2023. In Q4, TMT jumped to the top of leasing demand, leading the whole industry with a 31.7% share of the city's overall net absorption area. The demand subcategories were mainly software development, internet, and electronic components production companies, mostly for relocation and renewal. Ranking second in leasing demand in the city in Q4 were law firms and e-commerce enterprises,. Confidence in the city's overall market saw a recovery in Q4. Despite the sharp decline in net absorption in Q4, the leasing area of enterprises expanding their leases and newly enterprises has grown significantly, amounting to a 36% share of transacted area and a 27% share of transacted cases, with the average transaction area of a single deal amounting to 2,600 sqm.

Throughout the year, the haze of uncertainty surrounding the macroeconomic recovery did not completely fade, and the restoration of business confidence will require more time. In Q1 2024, over 500,000 sqm of new supply is expected to enter the Shenzhen market. However, the demand side is experiencing a slow recovery, with corporate leasing demand expected to remain relatively weak. The intensifying supply–demand imbalance is likely to result in a continued rise in the city's vacancy rate.

Table 2: Major Shenzhen Grade-A office leasing transactions, Q4 2023

District	Building	Tenant	Area (sqm)	Transaction Type
Qianhai	HFCC	Imiracle	23,000	Relocation
Shekou	Net Valley	Zepp Health	4,000	Renewal
Qianhai	Chow Tai Fook Finance Tower	Huajin Law firm	2,910	New lease
High-tech Park	China Resources Building	ECCOM Network System	2,358	In-house Expansion
Qianhai	Kerry Center	Keurig Dr Pepper	2,158	Relocation
Qianhai	China Merchants International Center Tower	CECport	2,000	Expansion
Nanshan	Haofang Skyline Plaza	AutoX	2,000	Relocation
Qianhai	Horoy Center	Terminus	1,400	New lease

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

Investment Market

En-bloc transaction buyers are expected to maintain a cautious attitude

In Q4 2023, the Shenzhen office investment market saw a significant increase in activity, with a total of four en-bloc transactions recorded, all for self-use, with a total transaction value of RMB 2.308 billion. Throughout the year, Shenzhen's citywide office en-bloc transaction value shrank significantly, totaling RMB 5.305 billion, for a YoY decline of over 60%. Despite a gradual increase in transaction inquiries during the year, the investment market remained predominantly cautious.

The first transaction was the acquisition of the 20th to 27th floors of SIC Super Headquarter Center, by Shenzhen Dashahe Construction Investment Company Limited, with a total of approximately 19,400 sqm, a transaction amount of approximately RMB 990 million, and a unit price of approximately RMB 51,031 per sqm.

The second transaction was the acquisition of approximately 30,000 sqm of office space in Block T1 of Runhong Tower by Shenzhen Luohu Investment Holding Company Limited, for a transaction amount of approximately RMB 600 million and a unit price of RMB 20,000 per sqm, representing a discount of nearly 50% from the previous bulk sale price.

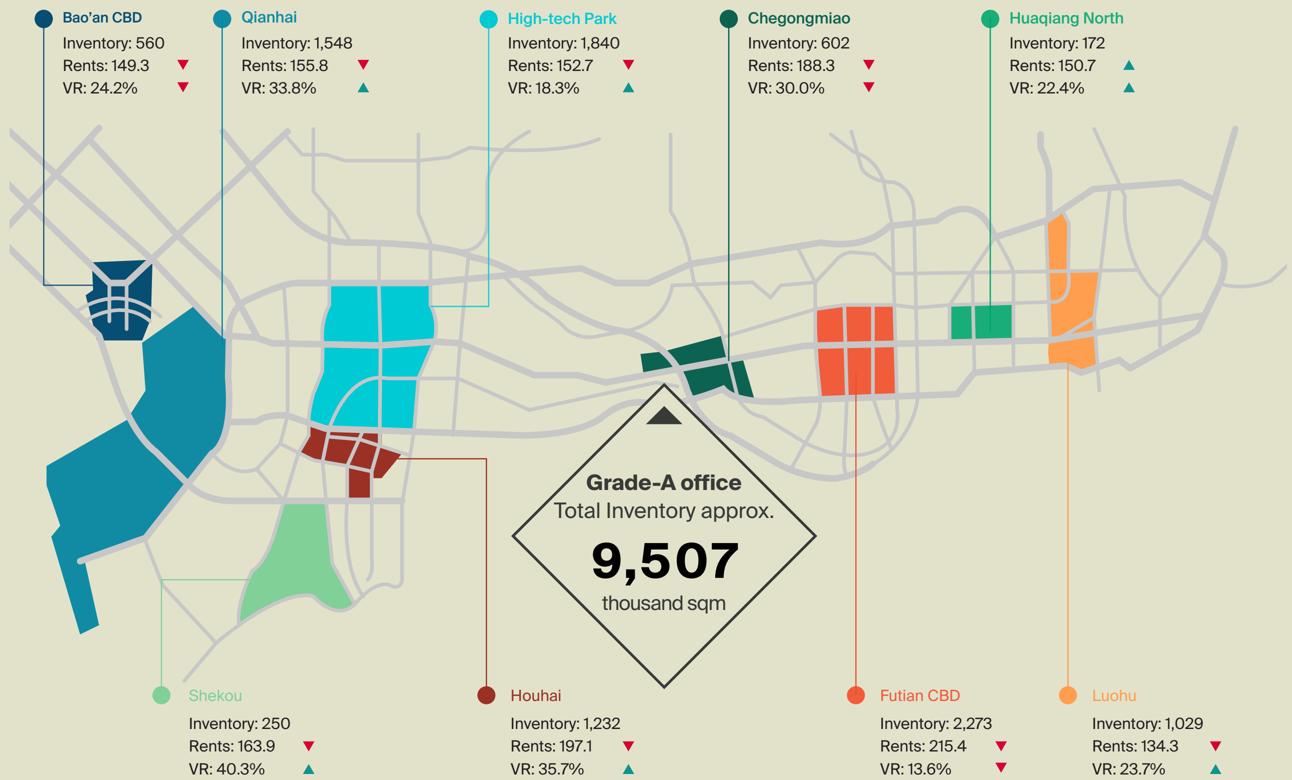
The third transaction was the purchase of approximately 2,328 sqm of office space in Block T5 of China Resources Qianhai Building by a technology company in Futian, for a total transaction amount of approximately RMB 158 million and a unit price of about RMB 68,000 sqm.

The last transaction was the acquisition of a total of 18,211 sqm of office space on the 29th-32nd and 34th-38th floors of COFCO Grand Joy Plaza, by Shenzhen Yuhetian Intelligent City Operation Group, for a total transaction amount of approximately RMB 560 million and a unit price of about RMB 31,080 per sqm.

As global economic expectations of a downturn continue to strengthen and central bank interest rates in various countries approach the peak in the current tightening cycle, the next easing cycle is expected in 2024. China is expected to further enhance its quantitative easing monetary policy. As a result, the capitalization rate requirements for properties in the investment market will increase. En-bloc transaction buyers will continue to maintain a cautious attitude. Assets with stable income will continue to receive sustained attention from buyers in the investment market.

Shenzhen Grade-A office market dashboard Q4 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 Q4

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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