MARKETBEAT

SHENZHEN

Capital Markets Q4 2019

	YoY Chg
55.0B YTD Investment Volume (RMB)	75.5%
55,903 Office Capital Value (RMB/sq m)*	-3%
5.21% Office Gross Yield*	-55 bps

Note: refer to Strata-titled Office

ECONOMIC INDICATORS Q1-Q3 2019

	YoY Chg	12-Mo. Forecast
6.6% GDP growth (annualized)	▼	▼
3.0% CPI growth	▲	▼
3.0% 5-year government bond rate	▼	▼

Source: Shenzhen Statistics Bureau; Oxford Economics; Cushman & Wakefield Research

Total Investment Volume Increased 75.5% Y-O-Y

The investment market continued to be active in Q4 with total consideration of RMB25.6 billion for the quarter, pushing the total for the year to RMB55.0 billion -- an increase of 75.5% y-o-y. The Central Walk and OCT Tower transactions contributed 33.8% of the total, while other transactions above RMB1 billion contributed 54.0%. The remaining 12.2% was accounted for by transactions below the RMB1 billion mark.

Domestic Buyers Dominated the Market

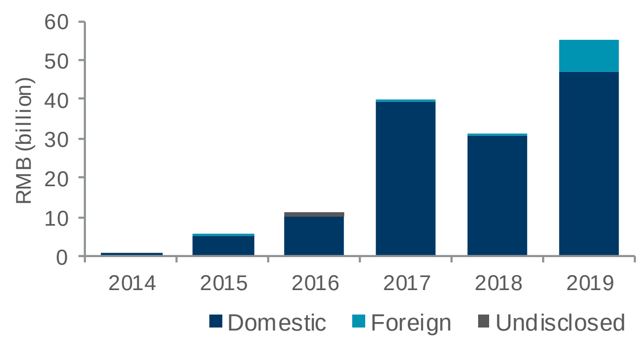
According to capital source records domestic buyers took 85.5% of the total consideration, compared with MNC buyers at 14.5%. The Link REIT's acquisition of Central Walk case strengthened MNC confidence in the Shenzhen market and the share of foreign investment grew. In particular, Hong Kong investors displayed stronger interest in Shenzhen's property market, with confidence supported by the GBA initiatives, allocating RMB 8 billion to the investment market for the year. Significant buyers were from REIT institutions, the real estate industry, and manufacturers. In contrast, for domestic buyers, insurance companies took up 43.1% of total investment, followed by institutional buyers at 25.1%. In addition to the China Life and OCT tower partnership case, we also saw insurance investors actively seeking and acquiring prime property in core submarkets.

Office Buildings the Most Favored Asset

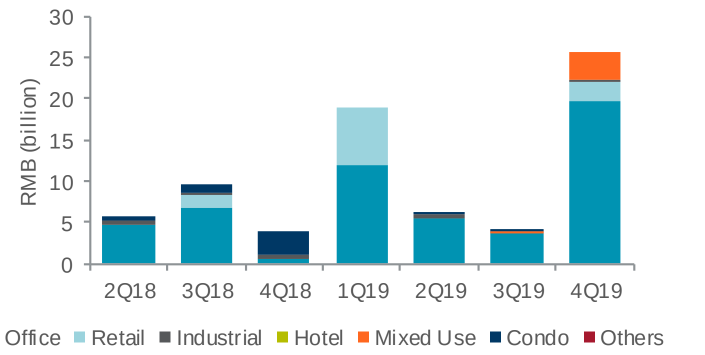
Office buildings remained the most favored assets for investors, constituting 74.1% of the total consideration. By office building transaction numbers, 60% were acquired for owner-occupation. Buyers were more focused more on the quality of the asset, especially high-grade office buildings and ready-to-sell buildings.

Shenzhen will see a high volume of new supply entering the office market ahead, while rent and vacancy levels will experience pressure amid market competition. Office properties with stable tenancies resilient to market risks are expected to be most favored by investors. At the same time, retail property recorded a historical high of RMB9.4 billion for the year, constituting 17.0% of total investment volume.

INVESTMENT VOLUME BY CAPITAL SOURCE



INVESTMENT VOLUME BY SECTOR



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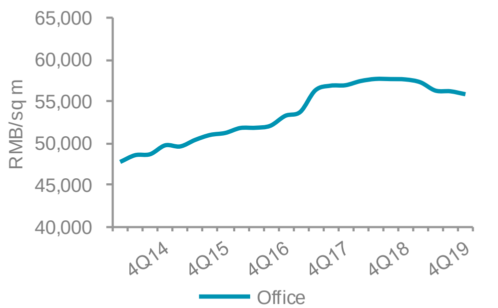
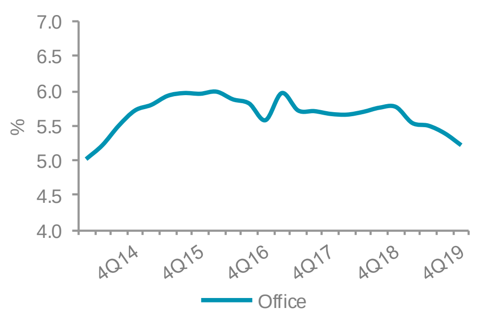
Capital Markets Q4 2019

Strata-titled Office Capital Value



Strata-titled Office Gross Yields



Yields Expected to Grow as Prices Soften

The economic downturn impacted office leasing demand. As rents declined and the vacancy rate rose, landlords softened asset prices. The average price of second-hand strata-titled Grade A office stock was RMB55,930 per sq m, falling now for six consecutive quarters. On a y-o-y basis the average price dropped 3%, while average rent for Grade A office stock dropped by 12.3% in Q4. The rental decline drove the average gross yield of strata-titled Grade A offices down by 55 bps to 5.21% at the end of 2019. Increasing numbers of new completed en-bloc office buildings were available to sell in the market, especially from developers. The rent decline prompted landlords to lower asset prices to attract buyers, and consequently the gross yields from en-block buildings grew.

Buyers' Market Ahead Amid Supply Increase

Ahead, Shenzhen's office market will face a supply peak with softening leasing demand. More assets are expected to put up for sale, especially where properties are experiencing operational difficulties amid softening demand and fierce market competition. Tightened financing measures are also pushing developers to consider to divest themselves of property assets to ease financial difficulties. However, the underperforming leasing market will negatively impact prices of new completions and the market will be beneficial for buyers for the moment.

We forecast the investment market to maintain its activity in 2020, with diverse players in the market. The office sector will remain the key source of asset supply. Specifically, properties with stable rents will be favoured by investment institutions, while the high quality of new buildings in the core areas will be favoured by enterprises for self-use. Elsewhere, Link REITs are likely to initiate further mall transactions ahead. Finally, we expect the urban renewal market to rebound, with the high requirements of entering land acquisition auctions continuing to drive developers to focus intensively on renewal schemes.

Key Sale Transactions

PROPERTY	LOCATION	PURCHASER	VENDOR	SECTOR	PRICE (RMB BN)
OCT Tower	OCT	China Life	OCT	Office (En-bloc)	12.0 (~¥79,000 psm)
Central Walk	Futian CBD	Link REITs	Yijing Group	Retail Shopping mall	6.6 (~¥78,000 psm)
Yisibo Software Tower	Hi-tech Park	Infore Group	New Seaunion	R&D Premise (95% Equity)	~1.9 (~¥40,021 psm)
One Majesty	Bao'an	Power China	COFCO	Office (Strata-titled)	0.16 (~¥40,021 psm)
Central Times China Merchants	Sungang	China Gas	China Merchants	Office (En-bloc)	Undisclosed

Zhang Xiao-duan
Head of Research, South and West China
+86 0755 21518116 / xiaoduan.zhang@cushwake.com

Jacob Chen
Head of Capital Market, South China
+86 0755 2151 8396 / jacob.chen@cushwake.com

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