

**¥242.53**  
Rent (PSM/MO)

12-Mo.  
Forecast



**-3.9%**  
Rental Growth (QOQ)



**22.0%**  
Vacancy Rate



Source: Cushman & Wakefield Research

## SHENZHEN ECONOMIC INDICATORS Q1-Q3 2019

**6.6%**  
GDP Growth

Q1-Q2  
2019  
**7.4%**

12-Mo.  
Forecast



**7.4%**  
Tertiary Sector  
Growth

**7.5%**



**3.0%**  
CPI Growth

**2.9%**



**11.9%**  
Real Estate Development  
& Investment Growth

**11.3%**



Note: Growth figure is y-o-y growth;  
Source: Shenzhen Statistics Bureau; Oxford Economics;  
Cushman & Wakefield Research

## Rent Falls as Vacancy Climbs and Relocation Demand is Stimulated

Three Grade A office buildings were completed in Q4, pushing new supply for the year to 535,600 sq m. Absorption was weak, recording only 17,634 sq m for the quarter. Annual absorption amounted to 101,745 sq m, down 70% on 2018. A softening economy impacted company expansion strategies and weakened office space demand. Although leasing transactions were active in Q4 compared with the prior quarter, demand came mainly from the needs of relocations towards smaller office spaces and lower rents. Overall market absorption was sluggish.

In Futian some finance sector companies defaulted due to tightened financial regulations, pushing the vacancy rate up 1.2 percentage points q-o-q to 16.2%. Amid softened demand landlords adjusted rents, driving down Futian's average rent to RMB267.99 per sq m per month, a drop of 12.9% y-o-y. In Nanshan, five Grade A office buildings were added in 2019. The vacancy rate rose to 29.1% by the end of the year. The TMT sector remained active in leasing, but less so than in previous years. Amid fierce market competition landlords relaxed rents, dropping Nanshan's average rent 8.4% y-o-y to RMB220.75 per sq m per month. As development advances westward the Luohu office market has become less active due to limited new supply. Luohu's net absorption fell into negative territory for five consecutive quarters, while the vacancy rate rose to 12.8% at the end of Q4 and average rent dropped to RMB208.95 per sq m per month. In Bao'an, new completions offered competitive rentals in Q4, driving average rent down 11.6% y-o-y to RMB189.14 per sq m per month and pushing the overall vacancy rate to 54.0%. In contrast, the investment market was active. Domestic owner-occupier buyers and investment institutions were the main players. Hong Kong institutions demonstrated continuing interest and acquired prime properties for self-use or for investment purpose. Despite falling rentals investors actively looked for opportunities, with asset prices relaxed whilst the overall future market outlook remains positive.

## Softening Demand Ahead While Completion Delays Could Ease Market Competition

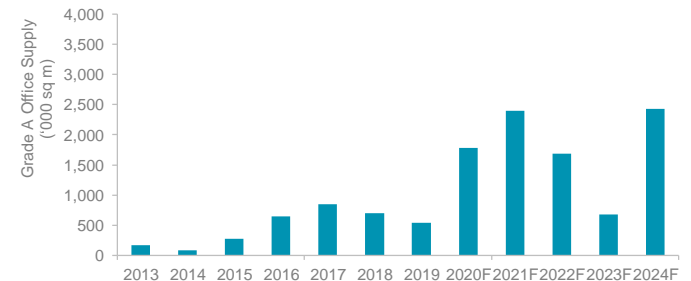
Approximately 1,780,000 sq m of new supply is forecast for completion through 2020. Some projects may postpone due to construction delays and the market downturn, yet the foreseeable large volume of future supply will still intensify market competition between landlords amid softened demand in the short term. The citywide average rent is likely to drop while the vacancy rate is expected to climb. However, an improved economic environment may help in bringing in new tenants and provide a lift to the market.

### GRADE A RENT & VACANCY RATE



Source: Cushman & Wakefield Research

### GRADE A SUPPLY PIPELINE



Source: Cushman & Wakefield Research

SUBMARKET	INVENTORY (sq m)	VACANCY RATE	PLANNED & UNDER CONSTRUCTION (sq m)	GRADE A FACE RENT		
				RMB/SQ M/MO	US\$/SF/MO	EUR/SF/MO
Luohu	541,813	12.8%	190,170	¥208.95	US\$2.76	€2.50
Futian	2,861,097	16.2%	1,042,544	¥267.99	US\$3.54	€3.20
Nanshan	1,853,175	29.1%	7,024,512	¥220.75	US\$2.92	€2.64
Bao'an	267,760	54.0%	276,700	¥189.14	US\$2.5	€2.26
<b>SHENZHEN GRADE A TOTAL</b>	<b>5,523,845</b>	<b>22.0%</b>	<b>8,533,926</b>	<b>¥242.53</b>	<b>US\$3.20</b>	<b>€2.90</b>

Face Rent is calculated based on gross floor area and assuming a letting of mid floors for a typical three year lease term with VAT and rent free periods factored in.  
Exchange Rate: 1USD= 0.903898 EUR=7.03146 RMB (2019.11.22)

### KEY LEASING TRANSACTIONS 4Q19

PROPERTY	SUBMARKET	TENANT	SQ M	LEASE TYPE
One Shenzhen Bay	Nanshan	China Dive Co	2,500	Relocation
One Excellence Qianhai	Nanshan	Grant Thornton	2,000	Relocation
China Resources Tower	Nanshan	Ruixinguohua	1,500	Relocation

### SIGNIFICANT PROJECTS PLANNED & UNDER CONSTRUCTION

PROPERTY	SUBMARKET	MAJOR TENANT	SQ M	COMPLETION DATE
Shenzhen Media Finance Center	Futian	-	160,000	2020
Kerry Centre Qianhai	Nanshan	-	120,000	2020
Hanking Center	Nanshan	-	63,000	2020
Shenzhen Metro Fin-tech Tower	Nanshan	-	43,000	2020
China Merchants Qianhai Center	Nanshan	-	100,800	2021
China Venture Tower	Nanshan	-	118,850	2022
Kaisa Headquarter	Futian	-	207,000	2023

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