

	YoY Chg
3.2B YTD Investment Volume (RMB)	-83.3%
55,203 Office Capital Value (RMB/sq m)*	-3.7%
5.11% Office Gross Yield*	-41 bps

*Note: refer to Strata-titled Office

ECONOMIC INDICATORS 2019

	YoY Chg	12-Mo. Forecast
6.7% GDP growth (annualized)	▼	▼
3.4% CPI growth	▲	▼
2.6% 10-year government bond rate	▼	▼

Source: Shenzhen Statistics Bureau, China Foreign Exchange Trade System, Oxford Economics

Investment Volume Dropped 80% Y-O-Y in Q1

Investment activity stalled after the Spring Festival period under the impact of the COVID-19 outbreak. Four transactions were completed earlier, amounting to RMB3.2 billion, a drop of 80% y-o-y. The drop was magnified by two significant deals at a combined RMB18 billion recorded last year. Investment decisions slowed and site visits were put on hold during the outbreak, as firms postponed resumption of work and business trips were discouraged. Some prospective deals entered extended timelines. However, prior to the Spring Festival period the market had been active, with investors exhibiting healthy interest. In the mid-to long-term the outlook for the Shenzhen investment market is still positive.

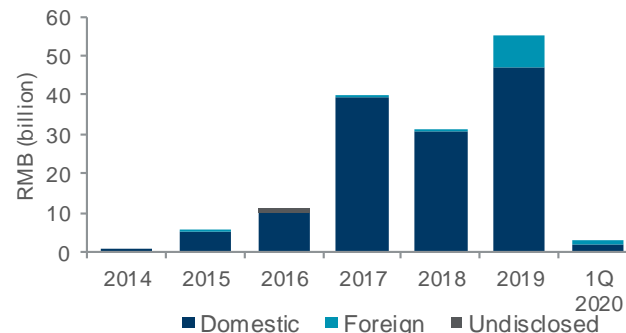
Hong Kong Investors Maintain Weighting

A single foreign investment transaction, from a Hong Kong-based U.S. real estate investment company, took a nearly 40% share of the total consideration. Hong Kong investors maintained their weighting in the market, buoyed by the city's location and GBA initiatives. Domestic investors accounted for 60.9%, including a manufacturer acquiring property for self-use, and a real estate company acquiring an urban renewal project. As the outbreak comes under control domestic buyers will continue to be key players, while foreign investors are expected to maintain their interest in the city.

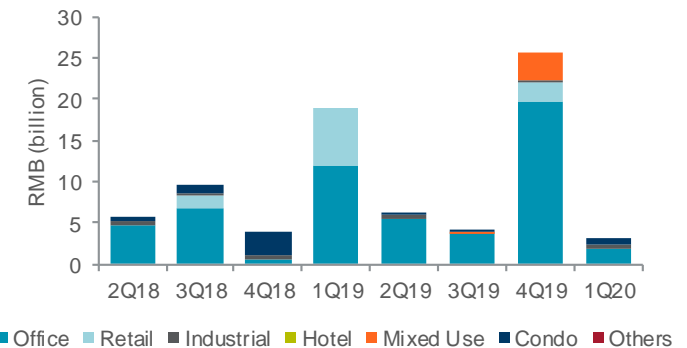
Office Buildings Remain the Most Favored Asset

Transactions in the quarter included offices, R&D premises, factories, and residential units. The office sector has remained the most eye-catching for investors. This is because most land sites for auction in recent years have been mixed-use complexes including office sites. Upon completion, real estate companies would then hold a number of office properties. As en-block office buildings have been offered for sale to ease financial difficulties, the average price has dropped. Office properties are also easier to operate compared to retail properties, and, when permitted, can be sold by strata-title. Hence, office properties have remained the most favored investor asset. In contrast, investors have exercised caution in acquiring industry premises such as factory sites, especially where their objective is for adaptive-reuse purposes.

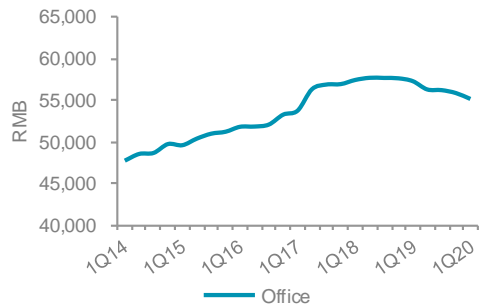
INVESTMENT VOLUME BY CAPITAL SOURCE



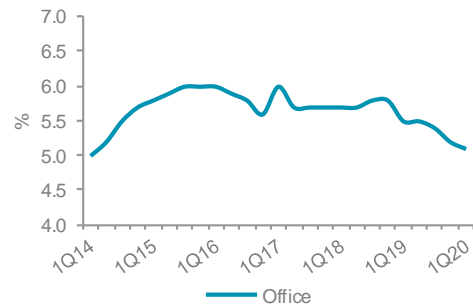
INVESTMENT VOLUME BY SECTOR



Strata-titled Office Capital Value



Strata-titled Office Gross Yields



Rental Declines Compress Gross Yields to 5.1%

Most office leasing transactions took place before the Spring Festival period, with market activities suspended after that. Our rental and price metrics reflect the market movement before the Spring Festival. The high volume of office supply in recent years has pressured the office leasing market, driving down average rentals and compressing gross yields. The gross yield of second-hand strata-titled Grade A office edged down 0.1 percentage points to 5.1%, with prices down 1.25% to RMB55,203 per sq m in Q1.

Annual Transactions Likely Set to Decline Y-O-Y

Temporary shut downs and cessation of operations during the COVID-19 outbreak caused real estate companies financial difficulties. Some firms divested themselves of prime premises or land plots to ease the pressure, raising supply in the market. Insurance companies including government-back companies were significant players and buyers in the market last year, and they are expected to remain as key buyers of commercial properties.

Shenzhen has demonstrated resilience and strong city management in fighting the epidemic, bringing confidence for investors. Nonetheless, considering the uncertainties, the market is now set to see extended transaction periods. Regardless of growing investment in the last few years, we can expect total transactions this year to decline compared with the previous year.

KEY SALE TRANSACTIONS

PROPERTY	LOCATION	PURCHASER	VENDOR	SECTOR	PRICE (RMB BN)
UDC City Center	Nanshan Nanyou	GRGBanking	UDC Group	Research & Development Building (Floor 4-11)	0.57 (~¥51,000 psm)
Prince Bay Business Plaza	Shekou	Starcrest Capital	China Merchants	Office (En-Block)	Undisclosed
Mount Blue	Shekou	Shenzhen New World Group	Minsheng Bank	Residential	0.76 (~¥94,000 psm)

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