

¥222.91
Rent (PSM/MO)

12-Mo.
Forecast



-5.2%
Rental Growth (QOQ)



25.4%
Vacancy Rate



Source: Cushman & Wakefield Research

SHENZHEN ECONOMIC INDICATORS Q1 2019

2019 12-Mo.
Forecast

-6.6% GDP Growth **6.7%**

-1.8% Tertiary Sector Growth **8.1%**

5.5% CPI Growth **3.4%**

-11.4% Real Estate Development & Investment Growth **15.9%**

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

Rental Drop Stimulates Activity, 1H 2020 Absorption Surpasses 2019 Annual Volume

Two new completions at Nanshan Hi-Tech Park added a combined 140,000 sq m of new Grade A office supply in Q2, boosting citywide total office stock to 5,963,502 sq m. Leasing activity has begun to recover following the standstill during the pandemic containment period. Supported by the pent-up leasing demand, net absorption was 55,000 sq m for Q2, to reach 140,000 sq m for 1H, surpassing the full-year figure for 2019. The new supply, coupled with the impact of the pandemic, has exerted further pressure on rental levels, and citywide overall average rent dropped 5.2% q-o-q, finishing at RMB222.91 per sq m per month. This correction has provided opportunities for firms to relocate or expand.

Despite continuing new supply in recent years, and an uptick in the vacancy rate, landlords had remained bullish on price, counting on new projects' effect on the market and demand from fast-growing industry sectors. Landlords had preferred incentives such as fit-out subsidies ahead of rental adjustments. Now though, the volume of supply in the pipeline, coupled with the hit from the pandemic, has caused a reassessment. Landlords are now looking to boost occupancy through more competitive rents and rent-free periods to quality tenants.

In Qianhai district, new completions have helped accelerate the submarket's maturity. Benefiting from its advantages of rental subsidy policies and space availability, Qianhai experienced notable take-up from firms needing large-scale space or seeking to integrate existing office spaces.

By sector, large technology companies and the traditional financial industries were the key drivers of large-scale leasing transactions in the quarter. Professional services firms including law and accounting firms were also active. Less positively, some smaller technology companies and start-ups surrendered leases early. Citywide, the vacancy rate rose 0.84 percentage points q-o-q to reach 25.4% at the end of Q2.

Price Competition May Bring Forward Future Demand, New Supply Likely to Raise Vacancy

More competitive rentals may prompt potential future leasing demand to be brought forward. Compared with the peak of 2018, the overall rent level has dropped 19.4% so far, although this is expected to narrow ahead. However, given the economic headwinds, small-medium sized enterprises will still face challenges and leasing demand may well soften in 2H.

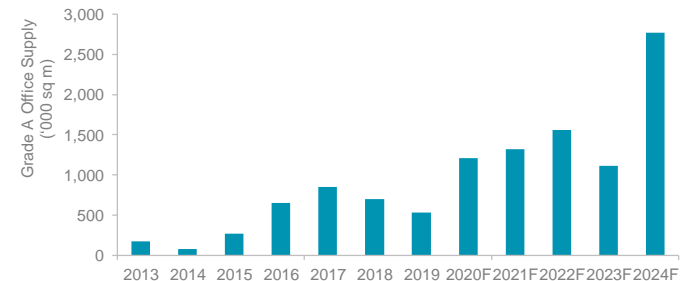
Approximately 770,000 sq m of new Grade A office supply is in the pipeline through the remainder of 2020, with most slated for Nanshan submarket. The continuing surplus of space will likely lead to rising vacancy rates for new project completions.

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	17.6%	40,170	¥199.02	US\$2.59	€2.33
Futian	2,861,097	16.2%	722,344	¥248.99	US\$3.24	€2.92
Nanshan	2,292,832	35.9%	6,950,371	¥202.18	US\$2.63	€2.37
Bao'an	267,760	50.8%	267,851	¥170.16	US\$2.22	€1.99
SHENZHEN GRADE A TOTAL	5,963,502	25.4%	7,980,736	¥222.91	US\$2.90	€2.61

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.
Exchange Rate: 1RMB= 0.1402USD=0.1261 (2020.6.1)

KEY LEASING TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	TENANT	SQ M	LEASE TYPE
PAFC	Futian	DOLBY	5,000	Relocation
PAFC	Futian	An insurance company	6,000	New Lease
One Shenzhen Bay	Nanshan	Ping An Bank	1,200	New Lease

SIGNIFICANT PROJECTS PLANNED & UNDER CONSTRUCTION

PROPERTY	SUBMARKET	MAJOR TENANT	SQ M	COMPLETION DATE
Kerry Centre Qianhai Phrase I	Nanshan	-	120,000	2020
Qianhai Holdings	Nanshan	-	98,800	2021
Future City	Futian	-	214,000	2021
Kerry Centre Qianhai Phrase II	Nanshan	-	74,500	2021
Dabaihui Plaza	Futian	-	150,000	2021
WeBank Tower	Nanshan	-	102,000	2022
iCarbonX	Nanshan	-	80,000	2023

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