

12-Mo. Forecast

¥219.01
Rent (PSM/MO)



-1.8%
Rental Growth (QOQ)



24.5%
Vacancy Rate



Market Fundamentals Remain Flat, Rental Decline Softens

Shenzhen's Grade A office stock remained at 5,963,502 sq m for the quarter. The boost in leasing demand seen in Q2 gradually fell away in Q3, but the market still outperformed expectations, with absorption amounting to 54,620 sq m for the quarter, compared to 195,111 sq m for the first three quarters combined. Absorption performance was still down 47.2% compared to the same period in 2018, but up 132% y-o-y. With no new supply added, the market continued to digest existing stock. The vacancy rate dropped by 0.92 pp q-o-q to 24.5% at the end of Q3.

With no specific macro policy support, coupled with a volume of supply in the pipeline, landlords have been under pressure. Many have adopted more flexible leasing approaches, including lowering entry requirements, executing pre-leasing plans earlier, adjusting rental levels and offering higher agency commission incentives. Such moves have sparked more interest in expansion and relocation activity, but negotiation periods have stretched on with tenants exhibiting little urgency and holding out for further concessions. In industrial parks, SOE-owned properties have offered competitive rentals to attract quality tenants needing large spaces, and these premises have captured some tenants from Grade A office spaces.

The city's average rent level continued to decline, down 1.75% q-o-q to RMB219.01 per sq m per month. But the fall was substantially softer than last quarter's, and in fact was the most gentle q-o-q drop seen since Q1 2019.

Support for Long-Term Industrial Development, but Short-term Leasing Market to Remain Very Competitive

The market is observing growing numbers of firms considering Shenzhen as their GBA headquarters location, and the city is also attracting expansion interest from financial services firms in Hong Kong. Local authorities are also actively promoting measures to attract new firms. Qianhai district has released several policies setting out subsidies for designated industry start-ups or relocating firms. And the new Shenzhen SEZ Technology and Innovation Regulations, effective from November, are aimed at bringing more technology and innovation companies to the city.

Shenzhen's sound economic and business environment fundamentals are the basis for its long-term industrial development, which in turn is hoped to support a sustained office leasing market. However, in the immediate short-term, the ongoing impact of the global pandemic and macro environment uncertainties mean that many firms remain cautious in their business decision making. With Shenzhen's Grade A office market scheduled for a 500,000 sq m new supply peak in Q4, there is likely to be let-up in competition in the leasing market.

Source: Cushman & Wakefield Research

SHENZHEN ECONOMIC INDICATORS Q1-Q2 2020

0.1%
GDP Growth

2020 Q1: -6.6%
12-Mo. Forecast: ▲

1.7%
Tertiary Sector Growth

-1.8% ▲

4.2%
CPI Growth

5.5% ▼

22%
Real Estate Development & Investment Growth

-11.4% ▲

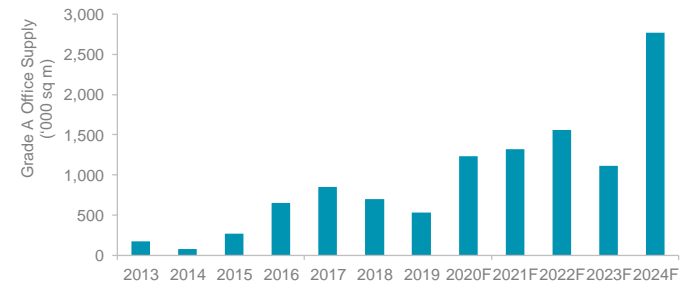
Note: Growth figure is y-o-y growth;
Source: Shenzhen Statistics Bureau; Oxford Economics; Cushman & Wakefield Research

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	19.3%	40,170	¥192.06	US\$2.59	€2.19
Futian	2,861,097	16.4%	722,344	¥244.88	US\$3.29	€2.78
Nanshan	2,292,832	33.4%	6,964,835	¥199.04	US\$2.67	€2.26
Bao'an	267,760	45.8%	267,851	¥166.96	US\$2.94	€1.90
SHENZHEN GRADE A TOTAL	5,963,502	24.5%	7,995,204	¥219.01	US\$2.94	€2.49

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= 0.1445USD=0.1224EUR (2020.8.24)

KEY LEASING TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	TENANT	SQ M	LEASE TYPE
PAFC	Futian	Runlang Lawyer	1,152	New Lease
Platinum Tower	Futian	Rong'an Financing Guarantee	1,450	Relocation
China Resources Tower	Nanshan	Wanfang Invest	1,700	Relocation

SIGNIFICANT PROJECTS PLANNED & UNDER CONSTRUCTION

PROPERTY	SUBMARKET	MAJOR TENANT	SQ M	COMPLETION DATE
Qianhai Holdings	Nanshan	-	98,800	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
China Venture Tower	Nanshan	-	118,850	2024
CITICS Financial Center	Nanshan	-	182,700	2024

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