

SHENZHEN

Capital Markets Q4 2020



QoQ Chg 3-Mo. Forecast

10.24 B

Q4 Investment Volume (RMB)



4.1%

Grade A Office Cap Rate



4.0%

Retail Cap Rate



Source: Cushman & Wakefield

ECONOMIC INDICATORS

JAN - SEP 2020

QoQ Chg 12-Mo. Forecast

2.6%

GDP growth



3.4%

CPI growth



3.3%

10-year government bond rate*



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

*10-year government bond rate is as of 18th Dec 2020.

Annual Transaction Volume Drops 50% in Wake of Pandemic's Impact

The market recorded investment transactions totaling RMB10.24 billion in Q4, down 60.0% y-o-y. The full-year transaction volume for 2020 slumped 48.7% y-o-y to RMB28.24 billion, heavily impacted by pandemic-related travel restrictions. Foreign investment's share of the total consideration dropped 8 pp to 6.5%, although this should rebound in 2021 given the advantages of foreign financing costs.

Buyers Target Diverse Assets, Industrial Properties Attract Rising Interest

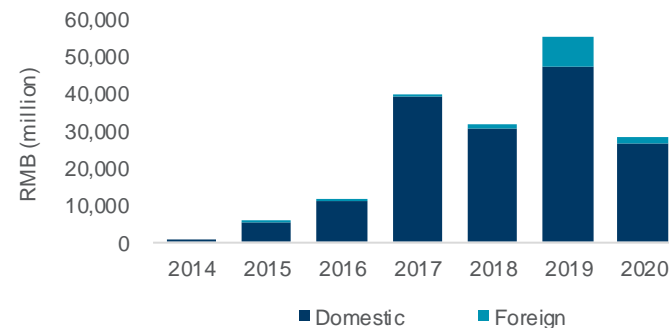
Office and R&D properties dominated the market, accounting for 76.4% of the total consideration. Approximately 70% office premises transactions were for self-use, with the GBA initiative prompting firms to acquire Shenzhen assets. Industrial property such as data centers, logistics premises and warehouses offering stable returns are also attracting investor interest, with the post-pandemic rise of the digital and stay-at-home economies requiring physical and data storage.

In addition to technology companies acquiring factories for self-use, the quarter also saw renewed interest in the opportunities afforded by adaptive reuse of industrial land. This was brought into focus by the issue of the *Comprehensive Pilot Reforms Plan to Build Shenzhen into a Pilot Demonstration Zone for Socialism with Chinese Characteristics* guidelines in mid-October, which advocates revitalization of the industrial land stock.

Three Red Lines Controls Set to Bring More Properties to Market

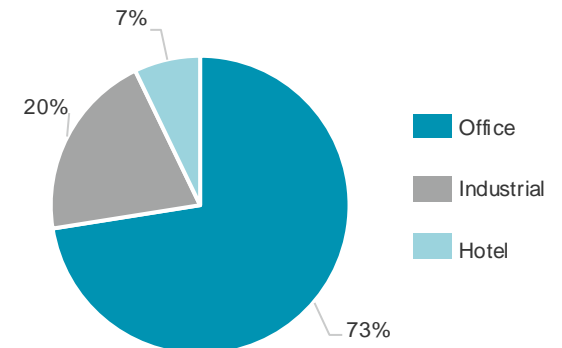
Under the strict "Three Red Lines" finance control regulations, some real estate firms may now struggle to secure funding via CMBS or REITs. We believe a small wave of assets from such firms may be coming to the market in the period ahead, possibly depressing prices. Combined with asset sales from other firms facing financial challenges, this will provide new opportunities for deep-pocketed institutional investors.

TRANSACTION VOLUME BY INVESTOR TYPE



Source: Cushman & Wakefield

TRANSACTION VOLUME BY SECTOR (Q4 2020)



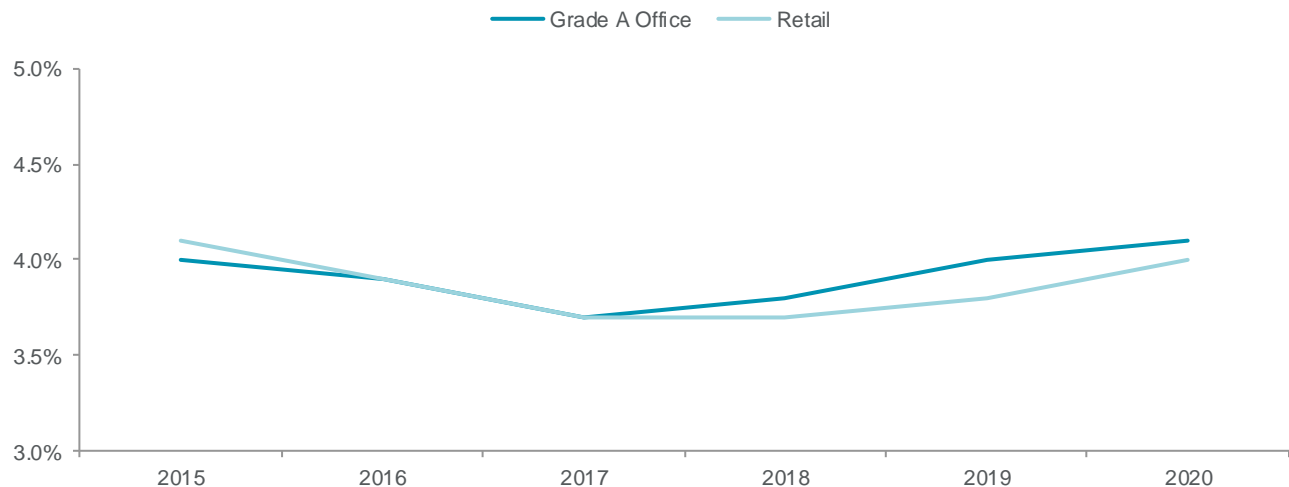
Source: Cushman & Wakefield

KEY SALE TRANSACTIONS (2020 Q4)

PROPERTY	LOCATION	SECTOR	PRICE (RMB MN)	VENDOR	PURCHASER	TYPE
YITAO Building*	Nanshan Hi-Tech Park	R&D Premise	600	Shenzhen E-Shine Digital Technology	Shenzhen Invengo Technology	Owner Occupation
Cheung Kei Tower*	Luohu Dongmen	Hotel	430	Cheung Kei Group	Yifang Group	Investment
Creative City	Nanshan Liuxiangdong	R&D Premise	430	Shenzhen Special Zone Construction and Development Group	Pow erchina	Owner Occupation
Friends International Hotel	Longgang Center	Hotel	300	Shenzhen Zhilianjia	Unknown	Investment

* YITAO Building is 80% equity transaction; Cheung Kei Tower is 51% equity transaction.

CAP RATE TREND

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