

Office Q3 2022

**¥207.3**

Rent (PSM/MO)

12-Mo.  
Forecast**-0.9%**

Rental Growth (QOQ)

**22.7%**

Vacancy Rate

Source: Cushman &amp; Wakefield Research

## SHENZHEN ECONOMIC INDICATORS

1H 2022

**3.0%**  
GDP Growth

2022 Q1: **2.0%** 12-Mo. Forecast: ▲

**2.3%**  
Tertiary Sector Growth

2022 Q1: **1.9%** 12-Mo. Forecast: ▲

**2.3%**  
CPI Growth

2022 Q1: **2.1%** 12-Mo. Forecast: ▲

**10.5%**  
Real Estate Development & Investment Growth

2022 Q1: **6.1%** 12-Mo. Forecast: ▼

Note: Growth figure is y-o-y growth;

Source: Shenzhen Statistics Bureau; Moody's Analytics; Cushman &amp; Wakefield Research

## Demand Weakens as Tenants Enhance Cost Controls

No new Grade A office supply entered the Shenzhen market in Q3, and the city's total stock remained at 7.13 million sq m. A series of extreme weather and climatic events across China in Q3, combined with the recurrence of the pandemic in Shenzhen, brought challenges to the economic recovery. The general economic uncertainty softened new demand for Grade A office space, with an increasing number of companies choosing to reduce their leasing space or relocate to non-Grade A office buildings. Subsequently, net absorption in the quarter dropped to -21,000 sq m. The overall vacancy rate increased by 0.3 percentage points q-o-q to 22.7%. Cumulative net absorption for the Q1-Q3 period is now recorded at 145,000 sq m, accounting for just 22% of last year's full-year level.

By submarket, the Grade A office vacancy rate in Nanshan rose by 0.9 percentage points q-o-q to 27.0%, with the average rent dropping by 1.4% q-o-q to RMB195.8 per sq m per month. Traditional core areas such as Luohu and Futian were more stable, with vacancy rates changing only slightly and average rents dipping just 0.4% and 0.5% q-o-q, respectively. The citywide average rental level was recorded at RMB207.3 per sq m per month, down 0.9% q-o-q and down 2.1% y-o-y.

The financial industry remained the major contributor to Grade A office demand in Shenzhen, although the average leased area shrunk in Q3. With enhanced cost control becoming the main theme of the market, some leasing demand turned to Grade B office space or R&D properties to reduce costs. This demand shift to non-Grade A office space is more evident in the technology and commerce industries.

## Market Demand Reinvigoration Tied to Improved Economic Outlook

The international market is suffering from high inflationary pressure and geopolitical tensions, while the domestic market continues to face the risk of COVID-19 curbs and a higher frequency of other unexpected negative factors, casting a shadow over economic expectations.

Three major new office projects are slated to launch in Q4, bringing approximately 400,000 sq m of new supply to Shenzhen's Grade A office market. Barring completion delays, the influx will structurally raise citywide vacancy. In the short term, tenants are expected to maintain a cautious attitude, while owners are likely to adopt more aggressive leasing strategies, further widening room for negotiation, and leading to a modest decline in the overall average rental level.

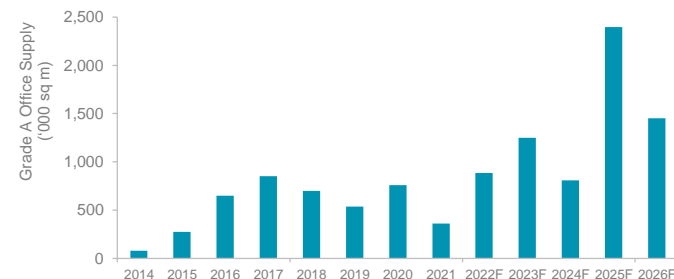
The Shenzhen government has introduced a series of policies to restabilize the economy and alleviate companies' difficulties. The effectiveness of these measures, and improvement in economic expectations and business confidence, will be key to reinvigorate office market demand.

## GRADE A RENT &amp; VACANCY RATE



Source: Cushman &amp; Wakefield Research

## GRADE A SUPPLY PIPELINE



Source: Cushman &amp; 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	19.8%	350,000	¥171.26	US\$2.28	€2.29
Futian	3,254,097	18.5%	359,364	¥226.58	US\$3.02	€3.03
Nanshan	3,066,525	27.0%	5,040,014	¥195.84	US\$2.61	€2.62
Bao'an	267,760	29.5%	558,224	¥176.61	US\$2.35	€2.36
SHENZHEN GRADE A TOTAL	7,130,195	22.7%	6,307,602	¥207.28	US\$2.76	€2.77

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= 0.1435USD=0.1440EUR (2022.9.15)

## KEY LEASING TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	TENANT	SQ M	LEASE TYPE
One Excellence	Nanshan	ZEGO	6,000	Expansion
Dinghe Tower	Futian	FunDe Sino Life Insurance	3,000	Relocation
CR Land Building	Nanshan	Thoughtworks	2,400	Renewal

## SIGNIFICANT PROJECTS PLANNED &amp; UNDER CONSTRUCTION

PROPERTY	SUBMARKET	MAJOR TENANT	SQ M	COMPLETION DATE
CITIC Urban Development & Operation Tower	Futian	-	95,344	2023
Super International Center	Nanshan	-	93,000	2023
Qianhai CTF Finance Tower	Nanshan	-	99,650	2023
Qianhai Exchange Plaza /South	Nanshan	-	129,304	2024

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