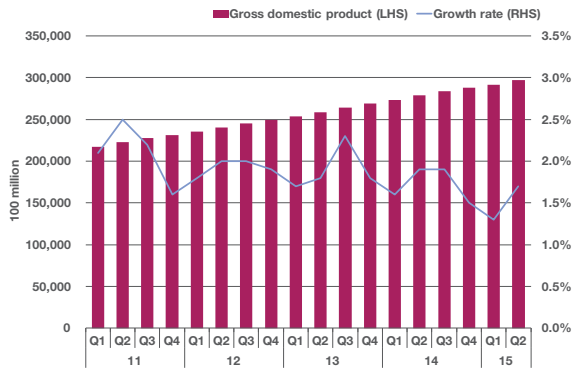


Asian Cities Report **Shenzhen Office**

2H 2015

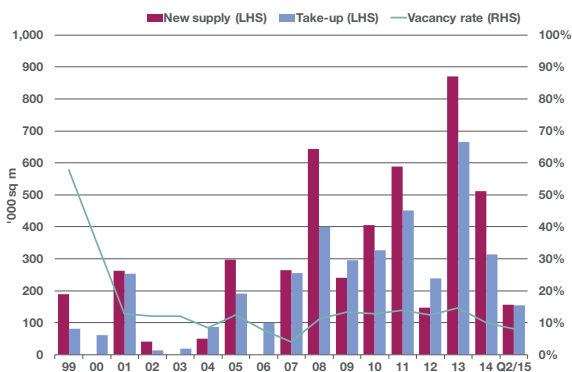


GRAPH 1
Nation-wide GDP, Q1/2011–Q2/2015



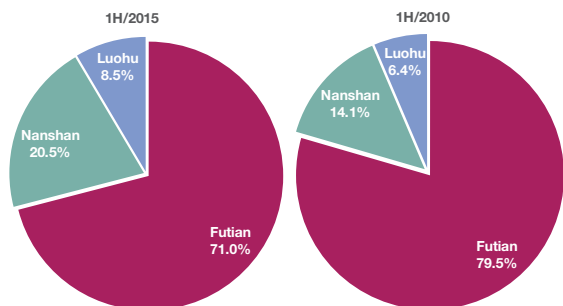
Source: Shenzhen Statistics Bureau, Savills Research & Consultancy

GRAPH 2
Grade A office supply, take-up and vacancy rates, 1999–Q2/2015



Source: Savills Research & Consultancy

GRAPH 3
Grade A office stock proportion by districts, 1H/2010 VS 1H/2015



Source: Savills Research & Consultancy

Economy

Nation-wide GDP continued to increase in Q2/2015, and at a faster rate than in Q1/2015. National fixed assets rose 11.4% year-on-year (YoY), while real estate investment rose 5% YoY. In contrast to the same period last year, the national economy seems to be in a state of recovery.

Shenzhen is a coastal city close to Hong Kong, Zhuhai and Macao. Due to the favourable conditions and the opening of the Free Trade Zone (FTZ) and Houhai enterprise headquarters, Shenzhen is expected to attract a significant number of companies in the high-technology industries looking for office space in the Pearl River Delta.

In 1H/2015, Shenzhen GDP (cumulative value) rose 8.4% YoY to RMB755 billion, surpassing the nation-wide growth rate by nearly 1.4 percentage points (ppts). Its favourable location and increasing GDP both provide a boost to Shenzhen's development.

Office market overview

The Shenzhen office market can be separated into three areas – Luohu, Futian and Nanshan districts. As the city expands further to the west, Nanshan's business status is anticipated to strengthen, attracting more innovative talent to the area.

Futian CBD

Located in the city centre and the most mature CBD in Shenzhen, Futian benefits from a mature commercial atmosphere and infrastructure and provides advantageous conditions for office buildings. However, new supply in Futian district has been limited in 1H/2015, and low demand made absorption of current office space difficult, resulting in a rise in vacancy rates. Rents in Futian district remain the highest in Shenzhen at RMB256 per sq m per month.

Luohu Caiwuwei

Located in eastern Shenzhen, Luohu Caiwuwei is recognised as

a traditional CBD and is home to Kingkey and Finance Centre. As the city developed and more high-end enterprises relocated to different areas, Luohu district became popular for SMEs and traditional enterprises, due to the relatively low rents.

Nanshan Houhai

Located in the west of the city, Nanshan Houhai is an emerging area. Large domestic and overseas or tech-related companies are expected to be drawn to the area, with Alibaba and Baidu already looking to set up offices here. A large number of office buildings are expected to be handed over in 2H/2016 and the beginning of 2017. However, as the majority of buildings are now under construction, current rents and occupancy rates are relatively low.

Qianhai

Established in 2010, Qianhai is a 15 sq km special zone focusing on the financial industry but which also aims to attract logistics, high-tech and IT related companies. The area aims to develop the cooperation between Shenzhen and Hong Kong in terms of focus industries, workforce and construction of the zone. In order to introduce and attract more companies into the zone, the Shenzhen government has released a series of financial policies and talent introduction policies, including income tax privileges and offering 15% corporate tax rates.

Office stock by districts

Futian district has the largest volume of Grade A office stock in Shenzhen's central districts, followed by Nanshan and Luohu. By the end of 1H/2015, Futian accounted for 71% of the total office stock in Shenzhen. This can be attributed to Futian district being a mature district with a large number of companies located in the area. Due to a clustering effect, more office buildings have been launched onto the in Futian area in last several years. A significant increase of office stock can be seen in Nanshan since 1H/2010. Nanshan district is an emerging CBD area that is expected

to see high demand for office space going forward. New supply in Nanshan is anticipated to be handed over between 1H/2016 and 2H/2017; however, current stock is expected to fulfil current demand levels.

Supply, demand and vacancy rates

Grade A office building stock is 4.7 million sq m, and take-up reached 52,900 sq m in Q2/2015. The historical peaks of office supply in Shenzhen were recorded in 2008, 2011 and 2013, while the highest level of take-up was recorded in 2013. City-wide vacancy rates were recorded at 7.9%, however, Nanshan district recorded higher rates at 11.6%. The vacancy rates in Futian are much lower than those in Nanshan, showing the demand there is stronger. Although the FTZ has been launched onto the market in Nanshan, the majority of office buildings will be completed during 1H/2016 and 2H/2017. Demand is currently only for the FTZ, not in the surrounding areas. Futian is a mature district, with a relatively better commercial atmosphere, which means it has stronger absorption capabilities.

Rents and prices

Shenzhen office market rents have seen a continued upward trend since 2009, reaching an average of RMB237.3 per sq m per month in June 2015 – nearly double that recorded in June 2009. A significant increase has been seen in Futian district, with rents more than doubling to an average of RMB257.7 per sq m per month since June 2009. Rental growth, however, has begun to slow since the end of 2014.

In 2011, average prices in Shenzhen reached a historic peak of RMB50,000 per sq m. This is mainly due to an influx of higher priced units entering the Futian market that year. Since then, a continuous amount of supply has allowed Futian to mature into the traditional CBD and Nanshan to emerge as the new CBD. At the same time, prices have

remained relatively stable in both districts, allowing them to continue to achieve high prices.

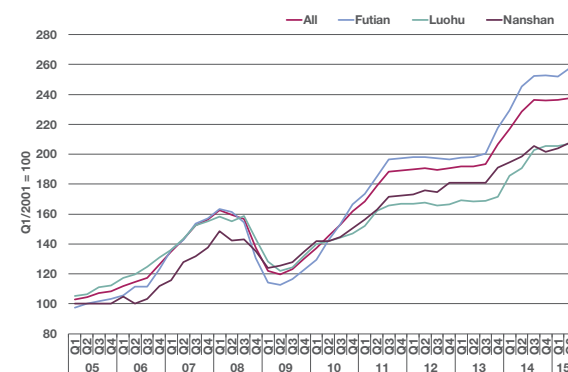
Office yields, however, have remained relatively flat since 2007, hovering around 5%.

Market outlook

After years of development, the office market in Futian district is becoming saturated. By the end of 2015, prime Grade A office supply in the area is expected to reach 3.68 million sq m, accounting for 62.3% of city stock. From the beginning of 2016, market distribution patterns are expected to focus on the western part of the city, with new supply mainly located in the Nanshan district, especially in Houhai, Qianhai and Nanshan central areas. As a result, the Nanshan district is expected to enter a period of rapid development.

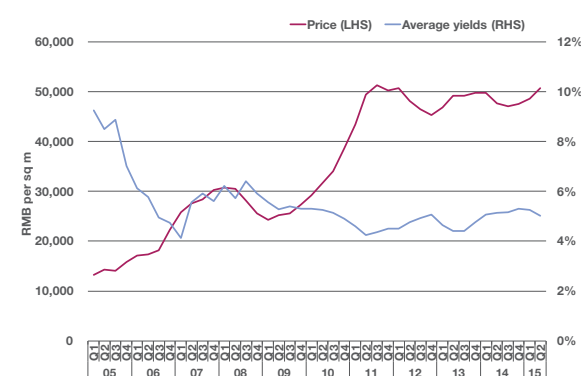
The Shenzhen-Shekou FTZ in Nanshan district will attract a wide variety of companies who will require new, high-quality Grade A office buildings. According to our statistics, the FTZ will begin to receive the influx of new supply during the second half of 2016. ■

GRAPH 4 Office rental indices by district, Q1/2005–Q2/2015



Source: Savills Research & Consultancy

GRAPH 5 Grade A office strata-title prices vs yields, Q1/2005–Q2/2015



Source: Savills Research & Consultancy

TABLE 1 Key future projects, 2015–2017E

Property	Area	GFA (sq m)	Completion date
Excellence Houhai Center	Nanshan	83,360	1H/2015
Merchants Securities	Futian	24,000	2H/2015
Sinosafe Insurance	Futian	120,000	2H/2016
Ping An Insurance	Futian	102,360	1H/2017

Source: Savills Research & Consultancy

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