

Briefing Office sector

August 2014



Image: Kingkey 100, Luohu

SUMMARY

Limited new supply and increased demand due to favourable policies attracting more enterprises to Shenzhen resulted in city-wide rents rising by 5.9% as well as increased occupancy rates.

- The Investment Bank Building (投行大厦) was launched onto the market in the second quarter, adding 24,000 sq m.
- Net take-up reached 65,800 sq m, dropping 37% year-on-year (YoY).
- Given the significant new demand, city-wide vacancy rates dropped 2.2% quarter-on-quarter (QoQ) to 8.3%.
- Rents increased by 5.9% QoQ to an average of RMB232.1 per sq m per month, up 19.9% YoY.
- As no new transactions were recorded in the second quarter, strata-title transaction prices remained stable at an average of RMB52,047 per sq m.
- Due to the divergence in rents and sale prices, gross strata-title yields increased by 66 basis points (bps) to 5.51%.
- Chang Cheng Finance Center is expected to be launched onto the market in the third quarter, totalling 67,980 sq m, pushing Shenzhen's Grade A office stock up 2.2%.

.....
 “Strata-title yields increased as rents rose, while prices were stable with no new transactions recorded in the second quarter.”

Sherry Xu, Savills Research

➔ **Market summary**

The increasing number of companies registering in Shenzhen has resulted in rising occupancy rates and significant rental growth of 5.9%. As no new transactions were recorded in the second quarter, Grade A office strata-title prices remained unchanged.

The Investment Bank Building (投行大厦) was launched in the second quarter, adding 24,000 sq m to the market. Given the limited supply, city-wide vacancy rates dropped 2.2% QoQ to 8.3%.

Vacancy rates in Futian and Nanshan fell during the second quarter, to 8.0% and 13.2% respectively. A significant decrease in vacancy rates was observed in Luohu from 12.3% to 5.7% due to its central location and strong demand from new enterprises registering in Shenzhen.

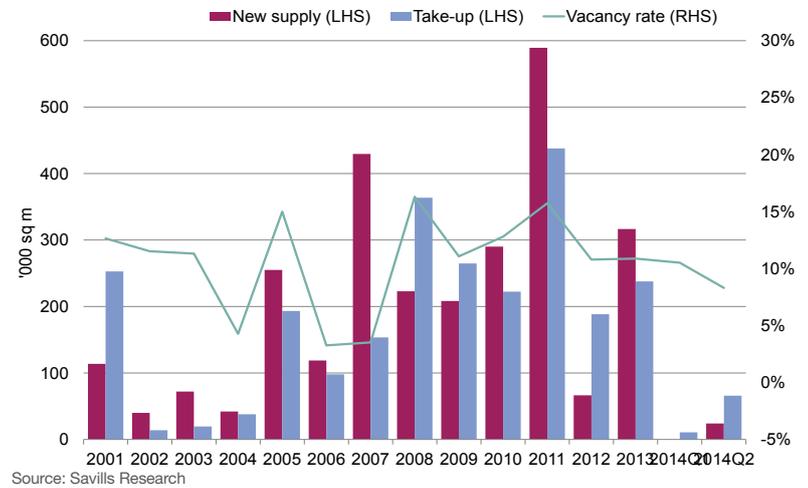
City-wide vacancy rates are anticipated to remain stable in the third quarter, as total stock is only expected to increase by 2.2% with the entry of Chang Cheng Finance Center.

Economic indicators display positive macro economic growth, potentially allowing companies to accelerate their expansion plans. Given the significant demand this quarter, rents increased by 5.9% QoQ to an average of RMB232.1 per sq m per month, up 19.9% YoY.

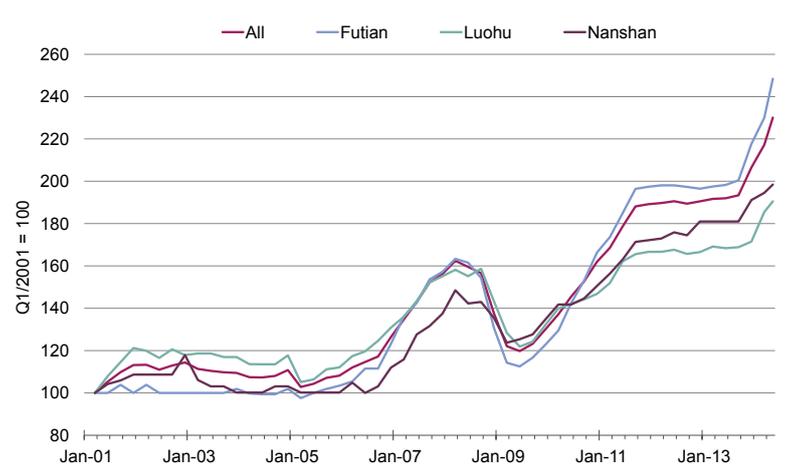
Futian district rents recorded a significant increase of 8.0% to RMB254.2 per sq m per month. Luohu and Nanshan districts recorded increases of 2.7% and 2.0% to RMB201.7 per sq m per month and RMB174.4 per sq m per month respectively.

Since no new transactions were recorded in the second quarter, Grade A office strata-title prices maintain unchanged at RMB52,047 per sq m. The divergence in rents and capital values increased gross strata-title yields by 66 bps to 5.51%. ■

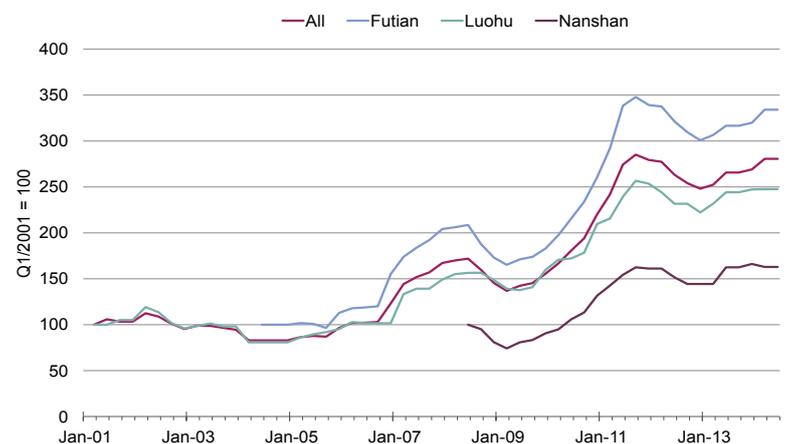
GRAPH 1
Grade A office supply, take-up and vacancy rates, 2001–Q2/2014



GRAPH 2
Grade A office rental indices, Q1/2001–Q2/2014



GRAPH 3
Grade A strata-title office price indices, Q1/2001–Q2/2014



OUTLOOK

Strata-title rents and occupancy rates are both expected to increase in the third quarter of 2014.

■ Chang Cheng Finance Center is expected to be launched onto the market in the third quarter, totalling 67,980 sq m, pushing Shenzhen's Grade A office stock up by 2.2%. Several new office buildings are expected to be launched onto the market before 2016.

■ As of 2 July, 8,350 enterprises had entered Qianhai with a total of RMB523 billion in registered

capital. Forty-seven of the world's top 500 enterprises, 405 enterprises from Hong Kong and 4,920 financial enterprises have registered in this zone. The significant demand for high-end office space will provide powerful support to the market, with the financial, professional and logistics industries being the main drivers of demand for high-quality office leasing.

■ Given the limited new supply and increasing demand from enterprises

registering in Qianhai, city-wide vacancy rates are expected to fall during the third quarter, while rents are expected to rise slightly or remain stable.

Please contact us for further information

Savills Research



James Macdonald
Director, China
+8621 6391 6688
james.macdonald@savills.com.cn

Savills Project Development & Consultancy



Sherry Xu
Director
+86755 8828 6922
sherry.xu@savills.com.cn



Woody Lam
Managing Director
+8620 3892 7108
woody.lam@savills.com.cn



Shirley Huang
Associate Director
+86755 8828 5345
shirley.huang@savills.com.cn

Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 500 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.