

Briefing Office sector

December 2014



Image: International Exchange Square, Futian

SUMMARY

An influx of office supply is expected to enter the Shenzhen market, especially in the Nanshan district, over the next three years, with many larger, high quality buildings expected to be launched in 2015.

- No new Grade A office buildings were launched onto the market in the third quarter.
- Net take-up increased 32% quarter-on-quarter(QoQ), reaching 71,300 sq m, down 1.8% year-on-year (YoY).
- Due to a boost in demand, city-wide vacancy rates fell 1.7 percentage points (pts) QoQ to 9.0%.
- Rents increased 3.0% QoQ to an average of RMB223.5 per sq m per month, up 21.9% YoY.
- Strata-title transaction prices decreased 1.2% QoQ, reaching an average of RMB47,000 per sq m.
- As a result of the divergence in sales prices and rents, gross strata-title yields increased 57 basis points (bps) QoQ to 4.82%.
- SCC building (SCC中洲控股中心) and Songde International (颂德国际) are expected to be launched in Q4/2014, adding 138,000 sq m to the market and bringing Shenzhen's Grade A office stock up by 3.4% to 4.0 million sq m.

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 “Rents increased significantly in Q3/2014. Demand for temporary office space increased, restraining demand of office space for sale.”

Sherry Xu, Savills Research

➔ **Market summary**

No new Grade A office buildings were launched onto the market in Q3/2014. Due to a boost in demand, city-wide vacancy rates fell 1.7 ppts% QoQ to 9.0%. Average rents increased by 3.0% to RMB223.5 per sq m per month.

Vacancy rates in Futian and Bao'an fell in Q3/2014, to 8.0% and 15.0% respectively. However, a slight increase in vacancy rates was observed in Luohu and Nanshan, to 6.6% and 11.9%.

City-wide vacancy rates are expected to rise in the fourth quarter as total stock is expected to increase by 3.4% with the entry of SCC building and Songde International.

Following the augmentation of enterprises registered in the Qianhai area, and the fact the first project in the area is expected in 2015, demand for temporary office space within the city centre increased. This demand pushed average rents up 3.0% QoQ to an average of RMB223.5 per sq m per month, up 21.9% YoY..

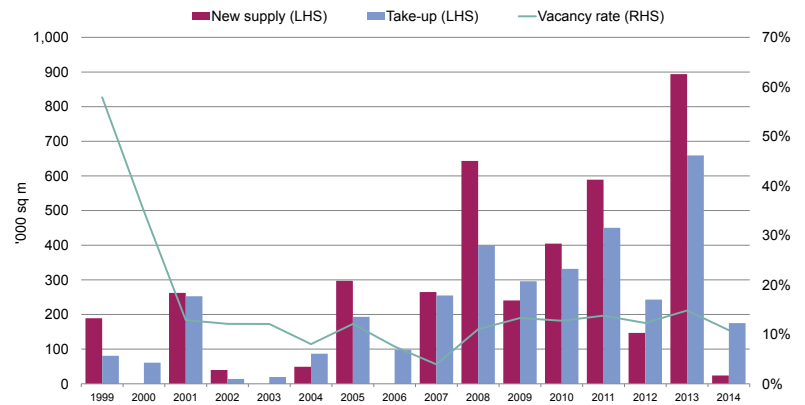
All districts in Shenzhen have recorded increasing rents. Rents rose 2.0% in Futian, 2.8% in Luohu and 1.0% in Bao'an, QoQ. The highest increase was recorded in the Nanshan district, up 3.5% QoQ to an average of RMB205.3 per sq m per month.

Strata-title transaction prices decreased 1.2%, reaching an average of RMB47,000 per sq m. The divergence in sales prices and rents lead to an increase in gross strata-title yields of 57 bps QoQ to 4.82%.

Office building operation model research—MFG

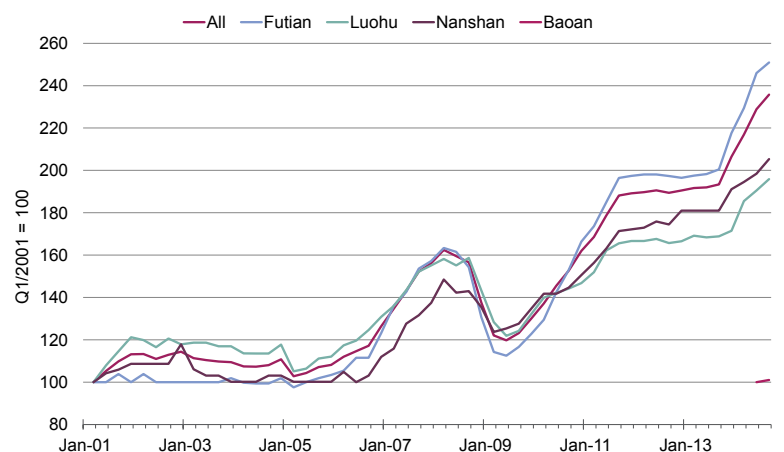
MFG, an asset-light office investment and services company, rented nine floors totalling 30,000 sq m in Kingkey 100 in March 2012, becoming the largest tenant of this landmark building. One of the main selling points of their office space

GRAPH 1 **Grade A office supply, take-up and vacancy rates, 2001–Q3/2014**



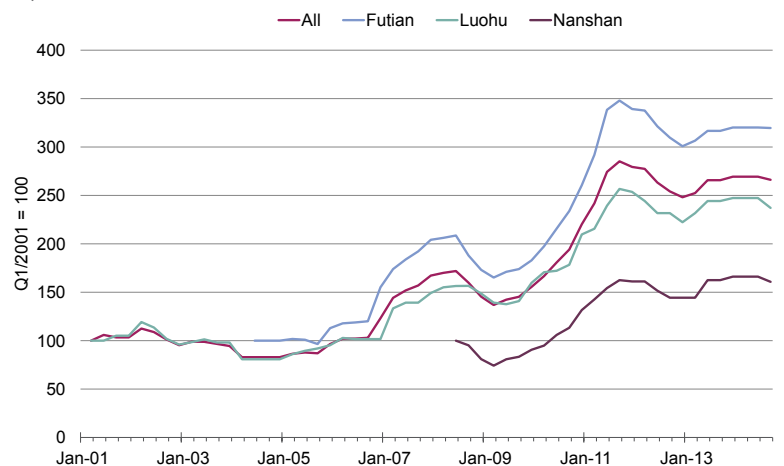
Source: Savills Research

GRAPH 2 **Grade A office rental indices, Q1/2001–Q3/2014**



Source: Savills Research

GRAPH 3 **Grade A strata-title office price indices, Q1/2001–Q3/2014**



Source: Savills Research

is the MFG "cloud" intelligence business platform, available to tenants in Kingkey 100.

MFG provides services by integrating outsourcing and other resources, which can not only help small and medium enterprises settle down and save operation costs, but also provide effective value-added services for their development. Each floor has space allocated

for communal use, including a business service centre, leisure area, international conference hall and multi-functional training areas, alongside two to three senior executive secretaries and free Wi-Fi. In addition to administration services, MFG also cooperates with other organisations to offer services such as industrial and commercial registration, HR services, financial auditing, legal advice, supplies

procurement, florist services and car rental.

At present, more than 90 enterprises (60% of which are financial companies) have signed with MFG, pushing the occupancy rate up to nearly 100%. Other tenants include China Development Bank Securities, Aston Martin, Bao Steel Group and Daton securities. ■

OUTLOOK

SCC and Songde International are expected to be launched in the fourth quarter of 2014, adding 138,000 sq m to the market and pushing Shenzhen's Grade A office stock up by 3.4%.

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At present, the construction of the Qianhai area is still in its initial stages, while Houhai is expected to reach high expectation two

years from now. Houhai not only has natural resources such as a Coastal Promenade Park and Shenzhen Mangrove Protection Zone, but also complete transportation networks. Many affluent individuals are also attracted to the area due to the high-end residential stock, Coastal City and Tai Koo shopping mall. As a result of the construction of more than 20 headquarters, including

Alibaba, China Railway South and Aerospace International, this area is expected to become a new area for economic growth and development within Shenzhen. Given the abundant new supply in the fourth quarter and over the next few years, city-wide vacancy rates are expected to rise, while rents are expected to remain stable.

Please contact us for further information

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