

# Briefing Office sector

May 2015



Image: SCC Centre, Nanshan

## SUMMARY

After several years of construction, the office market in the Futian district has become saturated, yet the majority of new supply is also expected to be located in the area.

- SCC Centre, located in the Nanshan district, launched onto the market in the first quarter, adding 108,940 sq m.

- Net take-up reached 102,024 sq m in the first quarter, falling 4.6% quarter-on-quarter (QoQ).

- Given the limited new supply in Shenzhen, city-wide vacancy rates fell 0.1 of a percentage point (ppt) QoQ to 8.1%.

- Rents increased 0.1% in the first quarter to an average of RMB218.3 per sq m per month, up 8.9% YoY.

- Strata-title transaction prices increased 2.8%, reaching an average of RMB48,585 per sq m.

- As a result of stable sales prices and rents, gross strata-title yields decreased 4 basis points (bps) QoQ, to 5.26%.

- One Grade A office building is expected to be launched onto the market in the second quarter, totalling 47,000 sq m and pushing Shenzhen's Grade A office stock up to 4.69 million sq m. Although supply is looking very limited during the first two quarters, 2H/2015 is expected to receive more

than one million sq m of office space, half of which will be in the Futian district, with the remainder in the Nanshan district.

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 “As the first half of 2015 will see limited new supply, rents and sales prices are expected to continue an upward trend.”

Sam He, Savills Research  
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➔ **Market summary**

China The Shenzhen Grade A office market witnessed a stable start to 2015, due to limited supply and flat levels of demand. As a result, both rents and sales prices rose, while the vacancy rates decreased slightly. Current office market stock is concentrated within three central districts, along with Futian. Although Futian is expected to continue to receive a large amount of supply over the next year, non-central areas, such as Longgang, Longhua, Bao'an and Yantian, are beginning to receive a limited number of Grade A office buildings. As a result, these areas look set to become new industry centres in Shenzhen in the future.

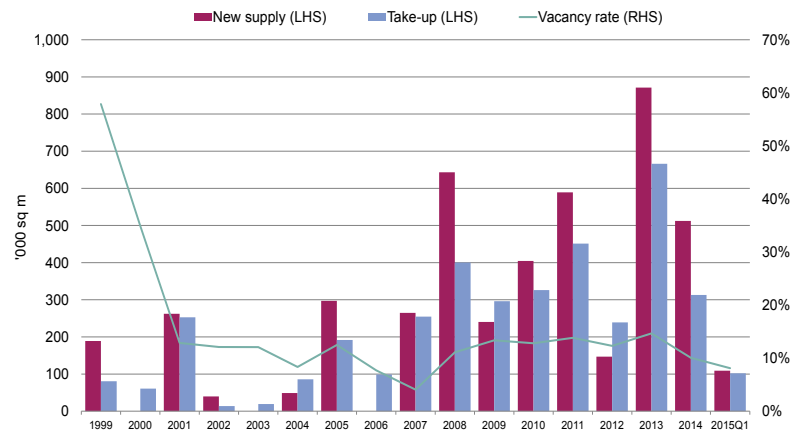
The SCC Centre, located near one of the most important shopping mall, Coastal City, in the Nanshan district, was launched onto the market in the first quarter, adding 108,940 sq m. Due to the high specifications of this office building, the project is likely to upgrade both the commercial and residential maturity of the area.

The remainder of 2015 is expected to witness a peak in supply levels with 14 projects, totalling over one million sq m, entering the market. The majority of these projects will be located in the Futian and Nanshan areas, as a result of urban planning.

All districts excluding Nanshan witnessed a decrease in vacancy rates this quarter, with city-wide vacancy rates falling 0.1 of a ppt to 8.1%. Bao'an district recorded the highest fall, decreasing 2.5 ppts to 12.5%, mainly as a result of both Qianhai and Shenzhen airport being located nearby where rents are relatively lower than those in central districts. The low rents attract logistics and trading companies looking for cost effective office space near the airport.

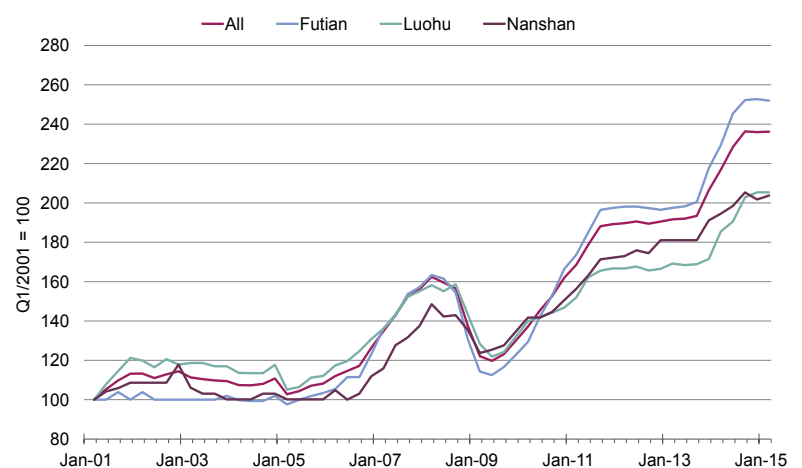
Net take-up reached 102,024 sq m in the first quarter, close to that of last quarter, which can be attributed

GRAPH 1 **Grade A office supply, take-up and vacancy rates, 1999–Q1/2015**



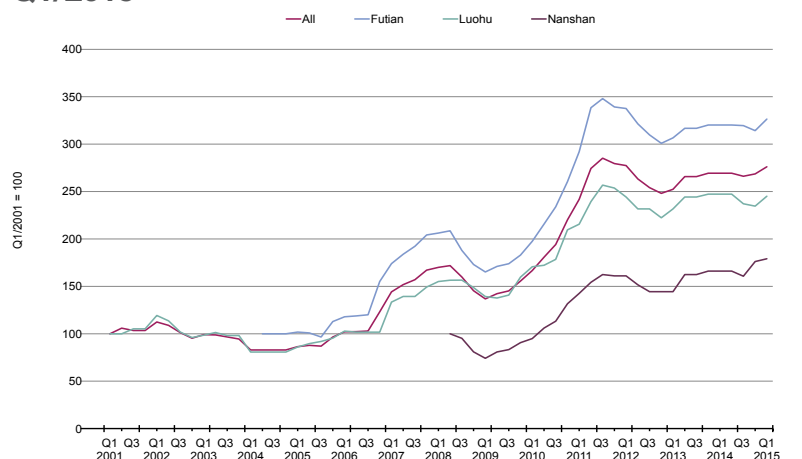
Source: Savills Research

GRAPH 2 **Grade A office rental indices, Q1/2001–Q1/2015**



Source: Savills Research

GRAPH 3 **Grade A strata-title office price indices, Q1/2001–Q1/2015**



Source: Savills Research

to the absorption of new supply in Nanshan. The main demand drivers of the market were technology and trading MNCs.

City-wide rents increased 0.1% in the first quarter to an average of RMB218.3 per sq m per month, up 8.9% YoY. Nanshan district average rents recorded a slight increase of 1.0%, while rents in Futian, Luohu and Bao'an remained stable. The highest rents were recorded in the Futian district due to its mature business atmosphere and infrastructure, alongside high-quality projects.

The influx of supply during 2015 is expected to place a downward pressure on rental growth, especially in the Futian and Nanshan districts where a larger portion of the new supply is expected.

City-wide strata-title transaction prices increased slightly by 2.8%, reaching an average of RMB48,585 per sq m. As a result of stable sales prices and rents, gross strata-title yields decreased 4 basis points QoQ, to 5.26%. The main demand of buyers is for self-use.

### Project Information

The SCC Center was developed by Centralcon Holdings Ltd and consists of two Grade A office buildings, a five-star Marriott hotel and a high-end shopping centre. SCC benefits from its proximity to the Houhai metro station (line 2). The building has a GFA of 108,000 sq m, with 61 floors above ground and three floors underground. Asking rents start from RMB220 per sq m per month.

As the project is located in close proximity to the Nanshan High-tech Zone, its main tenants include technology, financial, trade and high-end service companies, such as Samsung. Due to the higher quality of the SCC Center, it is expected to increase competition in the area.

### Market outlook

One Grade A office building is expected to be launched onto the market in the next quarter, totalling 47,000 sq m and pushing Shenzhen's Grade A office stock up to 4.69 million sq m. Given the limited new supply expected in

Q2/2015, city-wide vacancy rates are expected to remain stable in the second quarter, while rents and sales prices are expected to maintain a slow increasing trend. However, in the second half of the year, a supply peak is expected with over one million sq m entering the market. As a result of this new supply, vacancy rates are expected to rise, resulting in both sales prices and rents decreasing. This is also expected to continue into 2016 as a large amount of supply is expected in the Nanshan district.

After years of development, the office market in the most central Futian district is becoming saturated. At the end of 2015, prime Grade A office supply in the Futian district is expected to reach 3.68 million sq m, accounting for 62.3% of city stock. After 2015, the market distribution pattern is 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 area. As a result, the Nanshan district is expected to enter a period of rapid development. ■

## Please contact us for further information

### Savills Research



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



**Sam He**  
Senior Manager  
+8620 3892 7350  
sam.he@savills.com.cn



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



**Sunny Poon**  
Director  
+86755 8828 5345  
sunny.poon@savills.com.cn

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