

Briefing Office sector

January 2016

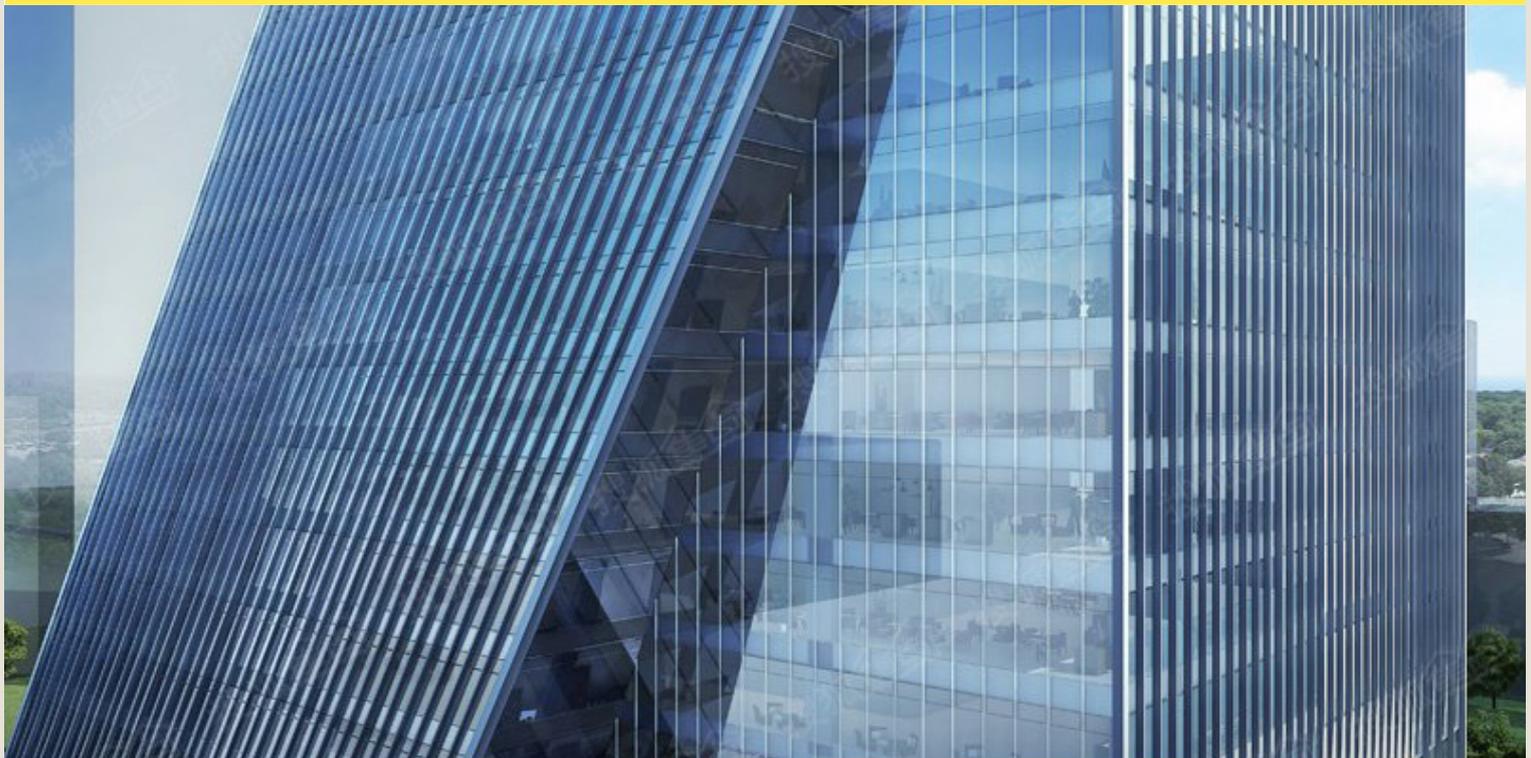


Image: Excellent Centre, Nanshan district

SUMMARY

A large amount of new supply is expected to launch in the Houhai area of Nanshan in 2016, putting pressure on the absorption of stock in the Shenzhen office market.

- Three new projects, the Excellence Centre located in Nanshan district, and Dream City and China Front Centre located in the Futian district, were launched in the fourth quarter of 2015, adding 267,905 sq m to the market.
- Net take-up reached 252,600 sq m in the first quarter, increasing 73.1% quarter-on-quarter (QoQ).
- Given the considerable amount of new supply, city-wide vacancy rates fell 0.2 of a percentage point (ppt) to 8.7%.

- Rents increased 1.7% to an average of RMB228.5 per sq m per month, up 4.7% year-on-year (YoY).
- Strata-title transaction prices increased 3.6% QoQ to RMB53,042 per sq m, up 12.7% YoY.
- Due to strata-title rents increasing less than prices, gross average yields decreased 12 basis points (bps) QoQ to 5.0%.
- Six new projects are expected to be handed over in Q1/2016, adding around 394,175 sq m onto the market, pushing stock up to 5.5 million sq m.

“As an influx of new supply is expected in the first quarter of 2016, the office stock of Shenzhen will rise to an historical peak. Downward pressure is expected on rents, while in the short term, occupancy rates are expected to increase.”

Sam He, Savills Research

➔ **Market summary**

Three new projects were handed over in good pre-rental condition, thus ensuring a relatively strong ability of absorption.

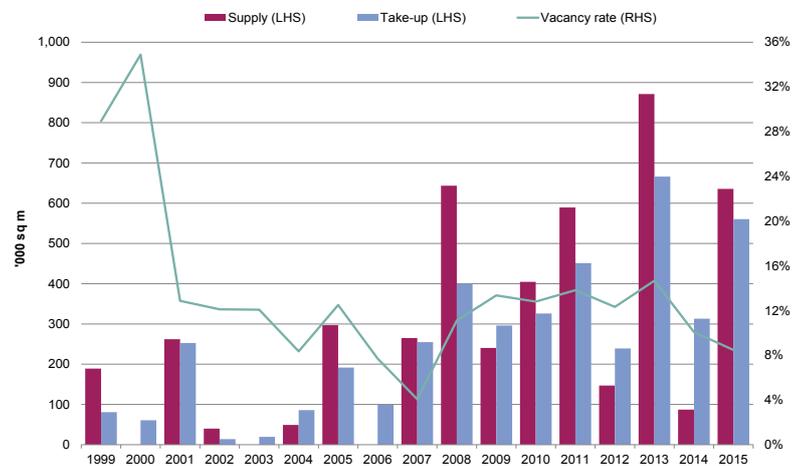
Q4/2015 showed stock in the Futian and Luohu districts absorbed faster than in other districts. Rents went up while vacancy rates went down. The Shenzhen office market showed strong demand in the Futian and Luohu districts in the last quarter. Due to the new supply in the Nanshan district, vacancy rates increased slightly. Both rents and vacancy rates remained stable in the Baoan district in Q4/2015.

Six projects are expected to be launched onto the market in Q1/2016. Four of these are in the Futian district, which will cause a decrease in rents while pushing the vacancy rate up. The remaining two are in the Nanshan district. As the Nanshan office market showed great digestion in the fourth quarter, new supply is expected to push up rents and prices as well as show an increase in vacancy rates.

City-wide rents increased 1.7% in the third quarter to an average of RMB228.5 per sq m per month, up 4.7% YoY.

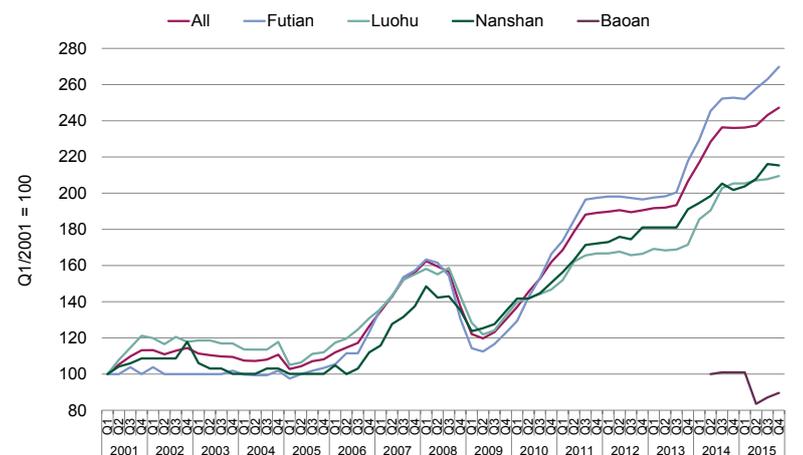
Due to new supply in the Nanshan district, the average rent was down in the fourth quarter. Rents in the Futian and Luohu districts increased 2.6% and 0.8% QoQ respectively and

GRAPH 1 **Grade A office supply, take-up and vacancy rates, 1999–Q4/2015**



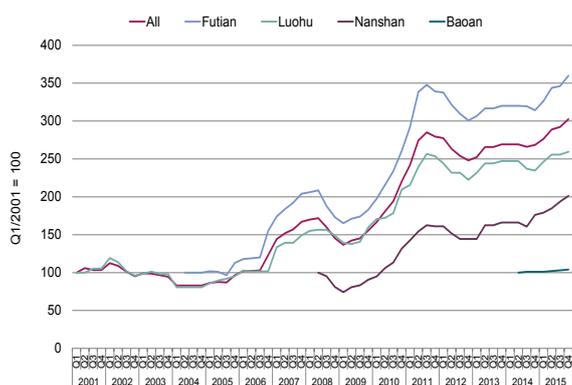
Source: Savills Research

GRAPH 2 **Grade A office rental indices, Q1/2001–Q4/2015**



Source: Savills Research

GRAPH 3 **Grade A strata-title office price indices, Q1/2001–Q4/2015**



Source: Savills Research

rents in the Baoan district saw a large increase from last quarter, up 2.9% QoQ to an average of RMB139.3 per sq per month. Qianhai FTZ and Houhai headquarter base have witnessed a number of preferential policies recently; when combined with the current developments in these areas it has resulted in a strong demand in these two districts. However, the majority of office buildings in Qianhai and Houhai are currently under construction, which will result in a lengthy readjustment period for the market while businesses re-enter the area. Different from other districts, the market in both Qianhai and Houhai have difficulties in absorbing the

effects brought on by new supply as they are not popular districts within the business sector. However, the market in Futian is more mature and experiences great demand, therefore enabling it to handle the effects of an influx of new supply, keeping the rent and vacancy rates stable.

City-wide average prices increased 3.6% QoQ, reaching an average of RMB53,042 per sq m, up 12.7% YoY. In addition, city-wide average prices in all districts remained on an upward trend. Prices in the Nanshan district rose 3.9% to an average of RMB54,200 per sq m – the second highest in the city after the Futian district at RMB55,977. As a growing

number of companies registered in the Qianhai FTZ, the Nanshan district is expected to receive a strong demand for office buildings in the near future.

Gross strata-title yields decreased 12 bps QoQ to 5.00%. The Luohu district average yield is 6.0%, the highest of all districts, followed by Futian, Nanshan and Baoan districts, with 5.5%, 3.6% and 3.2% respectively.

Market outlook

The Nanshan district is expected to see an influx of new supply in 2016, resulting in an upward pressure on rents and vacancy rates.

A large amount of supply is expected to launch during the next quarter, increasing Grade A office stock to 5.56 million sq m. City-wide vacancy rates are expected to increase slightly in the first quarter, while average rents and prices are expected to decrease.

The majority of Grade A office buildings in Qianhai, and some Grade A office buildings in Houhai, are expected to be launched onto the market, pushing up the stock in Nanshan to an historical peak. The number of companies registered in Qianhai has now reached 68,000. A large number of companies require

Project Information

Excellent Centre

The Excellent Centre, located in the Nanshan district, was developed by Excellence Property. The project was launched in October 2015, adding nearly 83,360 sq m onto the market. The project is for lease only, with starting asking rents set at RMB240 per sq m per month. The office space within the tower covers floors 3 to 43 (nominal). Typical floorplate is 1,900–2,900 sq m. The property management fee is expected to be RMB20 per sq m per month.

TABLE 1
Dachong Business Centre

Location	Nanshan district	
Owner	Excellence Property	
Handover date	Q4/2015	
GFA	83,360 sq m	
No. of storeys	3-43F	
Typical floor plate	1,900–2,900 sq m	
Ceiling height	4.2 m	
Starting asking rent	RMB240 per sq m per month	
Management fee	RMB20 per sq m per month	

Source: Savills China Research

large-scale office space, resulting in rents increasing in Nanshan in the near future. Qianhai and Houhai, as newly developing districts with

a low stake in the business sector, are expected to bear the pressure of absorbing the stock, pushing vacancy rates up in the short term. ■

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