

Briefing Office sector

July 2017

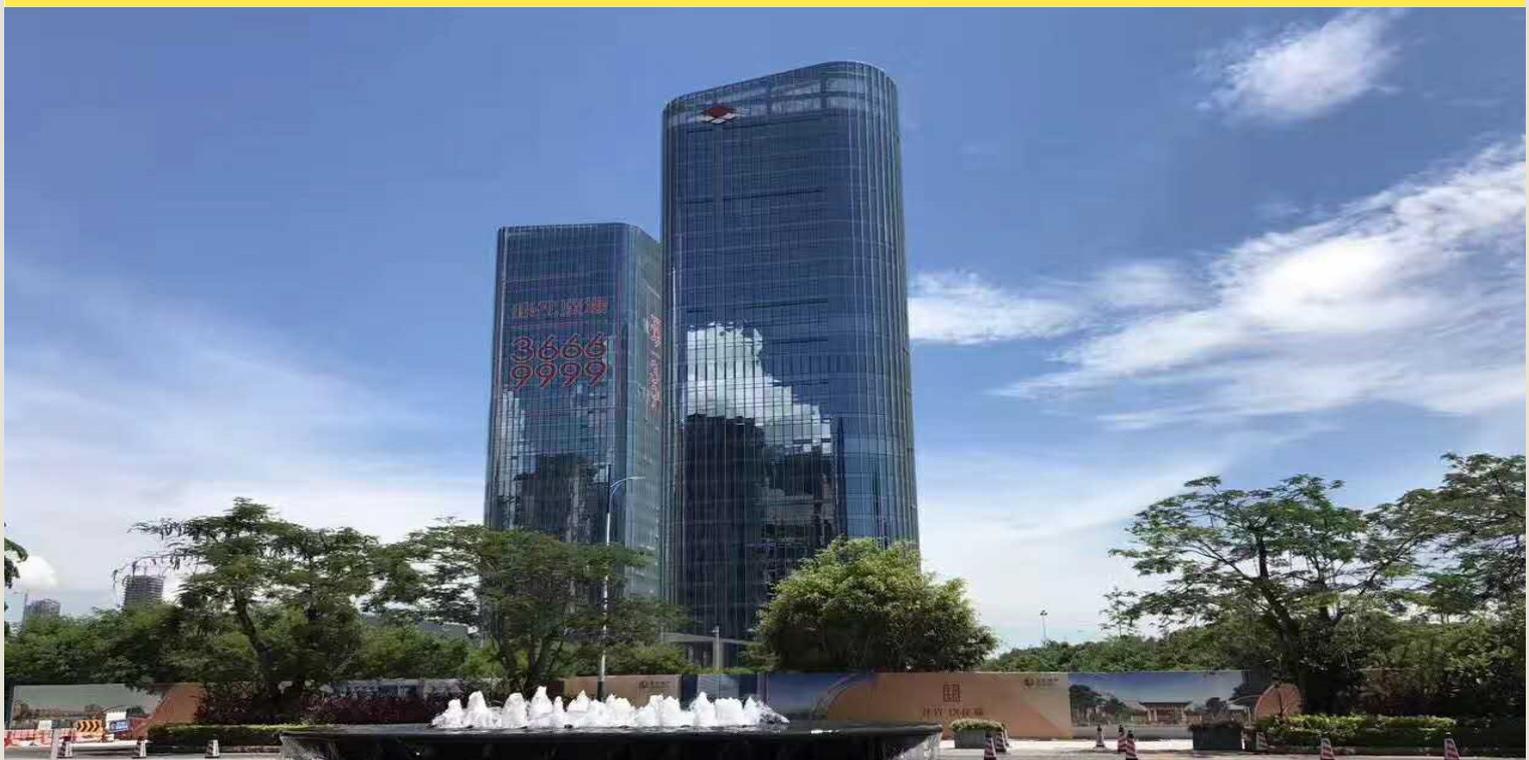


Image: Excellence Times Square Phase I, Bao'an District

SUMMARY

Bao'an's locational synergies with neighbouring Qianhai continue to have a positive effect on short-term demand, despite rising rental prices.

- Two new projects, Wongtee Centre in the Futian district and Times Square Excellence Phase I in the Bao'an district, added 220,550 sq m GFA in Q2/2017.

- Net take-up totalled 129,201 sq m in the second quarter, while occupancy rates rose 125% quarter-on-quarter (QoQ).

- Citywide vacancy rates increased 1.06% QoQ to 12.8%, due to new market supply.

- Grade A office rents increased 0.5% QoQ to an average of

RMB230.5 per sq m per month, decreasing 0.1% year-on-year (YoY).

- Strata-title transaction prices increased 1.2% QoQ to RMB56,000 per sq m, decreasing 0.6% YoY.

- Strata-title rentals continue to grow; average gross yields increased by 4 basis points (bps) QoQ to 4.65%.

- Eight new projects are expected to launch in Q3/2017, adding 653,813 sq m to the market and pushing total stock up 10% to 7.15 million sq m.

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 "Citywide rents increased quarter-on-quarter, due to strong demand. However, significant supply is planned for the next 12 months, which should put downward pressure on Grade A office rents and occupancy rates in Shenzhen." Robert Ritacca, Savills Research

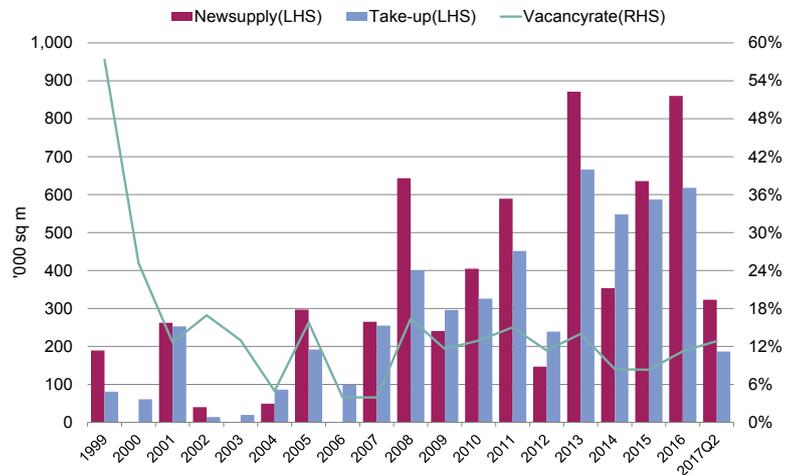
➔ **Market summary**

Two Grade A office buildings debuted in Q2/2017, adding 220,500 sq m GFA to the leasing market. Despite the addition of Grade A leasing space, prime office rents steadily rose 0.5% QoQ to RMB230.5 per sq m per month, down 0.1% YoY.

Following the new supply, vacancy rates increased 1.06% QoQ to 12.8%. However, net absorption also rose 125.4% QoQ and 1.5% YoY, reaching 129,201 sq m in Q2/2017 (slightly under 200,000 sq m in 1H/2017).

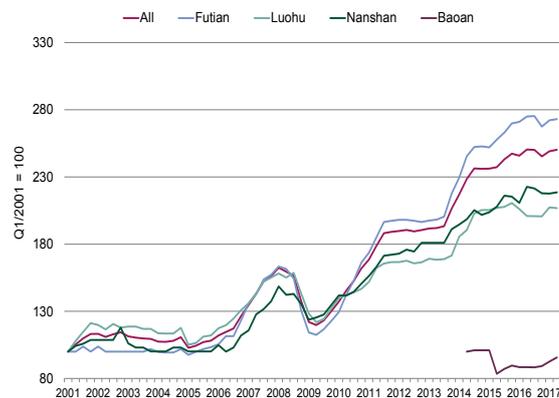
Eight new projects are expected to launch in Q3/2017, adding 653,000 sq m to the market. All new

GRAPH 1 **Grade A office supply, take-up and vacancy rates, 1999–Q2/2017**



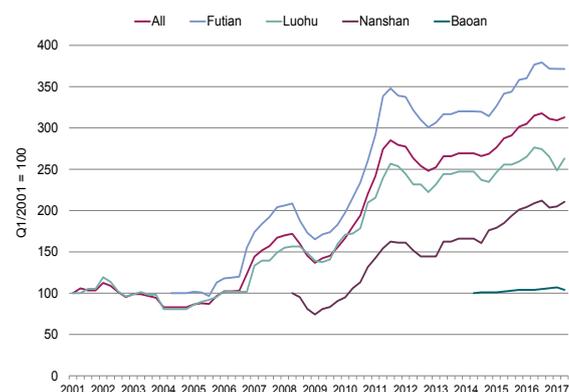
Source: Savills Research

GRAPH 2 **Grade A office rental indices, Q1/2001–Q1/2017**



Source: Savills Research

GRAPH 3 **Grade A strata-title office price indices, Q1/2001–Q1/2017**



Source: Savills Research

buildings will be located in “the three central districts”, Futian, Luohu and Nanshan. Rents in these areas are expected to endure some downward pressure in the short-term.

Citywide rents increased 0.5% QoQ, but edged lower 0.1% YoY, to RMB230.5 per sq m per month in Q2/2017.

The Futian district is one of Shenzhen’s most mature central business districts. It maintained the highest average rental price in the city at RMB266.3 per sq m per month, decreasing 0.7% YoY. Rents in Luohu, Shenzhen’s other mature business district, dropped 0.3% QoQ, to RMB208.1 per sq m per month, but rose 2.9% YoY. Rents in Nanshan increased 0.4% QoQ, but decreased 1.8% YoY. The emerging Bao’an district saw rents rise 3.3% QoQ and 8.2% YoY. The Bao’an district ranked first in both QoQ and YoY rental price growth, primarily due to its proximity to Qianhai (in Nanshan).

Given Nanshan’s YoY rent decrease and the upcoming 2.14 million sq m of office supply planned by the end of 2018, Nanshan is expected to experience some rental price pressures in the short-term. While Nanshan faces market pressure, Bao’an should continue to evolve

as a geographic substitute area for the higher-priced Nanshan/Qianhai areas. In the mid- to long-term, Qianhai will become the future central business district of Shenzhen; it is tagged as a free trade zone and will more efficiently connect Shenzhen (and other Guangdong cities) to the rest of the world.

Shenzhen Grade A office prices increased 2.8% QoQ to RMB 56,000 per sq m per month, but decreased 0.6% YoY in Q2/2017. Nanshan is exhibiting relatively faster growth; it maintained the highest average transaction price and the single highest transaction price in Q2/2017. Although Luohu prices dropped 4.8% YoY, the district witnessed a strong recovery in Q2/2017, as prices grew 5.8% QoQ to RMB39,625 per sq m per month. Luohu’s price growth is largely due to newly-completed Grade A office buildings and the relatively higher average prices they command, compared to several older office buildings in the area.

Strata-title gross yields grew 4 bps QoQ, but decreased 12 ppts YoY, to 4.65%. The mature central business districts, Futian and Luohu, showed declining gross yields, while emerging Nanshan and Bao’an showed modest gross yield increases in Q2/2017.

Market outlook

There will be 653,000 sq m of Shenzhen Grade A office supply added to the market in Q3/2017. All supply will be located in the core CBD areas; Nanshan will account for 59% of total new supply. Nanshan total office stock will increase 21%, which should create downward pressure on rents and occupancy rates. Three new projects will debut in the Futian office market; the combined GFA will account for 36% of new office supply. Total Grade A office stock will increase 10%, to 7.15 million sq m by the end of 2017.

As rental prices continue to outperform that of average transaction prices, Nanshan and Bao'an will generate relatively more attractive rental yields. In the near-term, Shenzhen Grade A office supply will outpace demand. In the longer-term, the broader office market should move toward supply/demand equilibrium as Shenzhen total land supply further contracts. Thus, vacancy rates are expected to increase in the near-term, but rebalance in the long-term. ■

Project Information

Wongtee Centre

Wongtee Centre, located in the Futian district, was developed by the Wongtee Group. It is a lease-only project with office GFA of 166,150 sq m. The office area is located on floors 7 to 59 (nominal), with a typical floor plate of 2,000 sq m. Average asking rents are RMB370 per sq m per month, and property management fees are RMB33 per sq m per month.

Project	Wongtee Centre
	
Location	Futian district
Owner	Wongtee Group
Handover date	Q2/2017
Office GFA	166,150 sq m
No. of storeys	7-59 F
Typical floor plate	2,000 sq m
Ceiling height	4.3 -4.5 m
Asking rent	RMB370 per sq m per month
Management fee	RMB33 per sq m per month

Source: Savills China Research

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