



Investment market subdued in Q4

There were no en bloc sales transactions completed during the quarter.

- Shenzhen's economy continued to expand in Q4/2018, but GDP year-on-year (YoY) growth decelerated compared to the last quarter. From January to November 2018, the number of newly registered enterprises in Shenzhen totalled 445,162, of which overseas-funded companies accounted for 3.33%.
- Two new Grade A projects in Nanshan District were completed in Q4/2018, with a combined GFA of approximately 223,095 sq m, pushing the total stock to approximately 8.4 million sq m.
- Leasing demand from the finance, technology, media and telecom (TMT) sectors and co-working office space operators was robust. The city-wide vacancy rate fell by 2.5 percentage points (ppts) quarter-on-quarter (QoQ) to 10.3%.
- The average market rent for the Shenzhen Grade A office property market increased by 2.8% QoQ to RMB243.8 per sq m per month.
- The decelerating economic growth and underperformed stock market during 2018 resulted in a cautious sentiment

among many investors. There were no en bloc sales transactions announced in the investment market during this quarter.

- According to our estimates, seven new projects are scheduled for completion in 2019.
- In Shenzhen's investment market, it is expected that strong sentiment for both investment and divestment will continue into 2019.

“Although there were no en bloc sales transactions in the investment market during the quarter, inquiry volume for many kinds of investment opportunities, including core, core-plus and opportunistic deals, continued to grow.”

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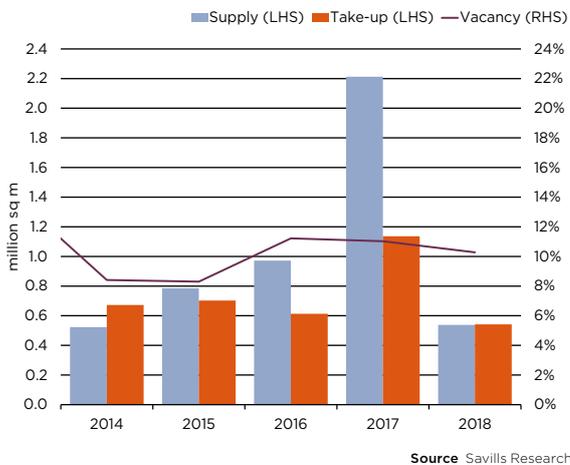
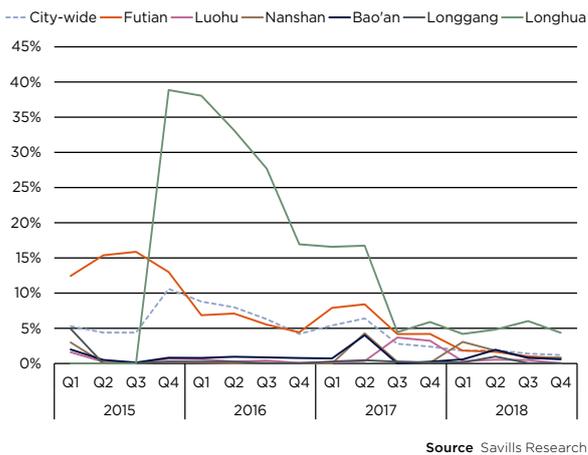
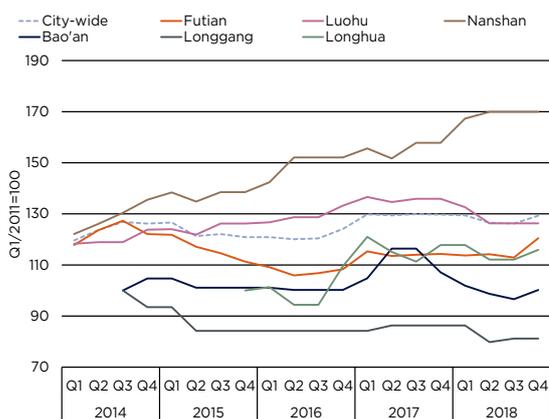
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GRAPH 1: Grade A Office Supply, Take-up and Vacancy Rates, 2014 to 2018**GRAPH 2: Vacancy Rates By Submarket, Q1/2014 to Q4/2018****GRAPH 3: Rental Index By Submarkets, Q1/2014 to Q4/2018****MACRO ENVIRONMENT**

Shenzhen's economy continued to grow during 2018. During the first three quarters, the local GDP increased by 8.1% YoY to RMB1.8 trillion, according to the Shenzhen Statistics Bureau. Meanwhile, the output of the tertiary industry expanded by 7.8% YoY to RMB1.04 trillion. According to the Market and Quality Supervision Commission of Shenzhen Municipality, 445,162 new enterprises registered in Shenzhen from January to November, including 14,843 overseas-funded companies. The positive economic metrics and an increasing amount of business activity supported the fast development of the Shenzhen office property market during Q4/2018.

SUPPLY

Two new Grade A office properties, China Resources Land Building Tower D and China Resource Tower, with a total GFA of 223,095 sq m were completed in Q4/2018, pushing the total stock to approximately 8.4 million sq m.

DEMAND

Overall, leasing demand for Shenzhen Grade A office space in Q4/2018 slowed compared to Q3. However, the demand from the finance and TMT sectors and co-working office space operators continued to be robust, as it has been for some time. By the end of 2018, the average vacancy rate for the Shenzhen Grade A Office property market decreased by 2.5 ppts QoQ to 10.3%.

RENT

The average rent for the Shenzhen Grade A office property market increased by 2.8% QoQ to RMB234.78 per sq m per month by the end of Q4/2018. By submarket, the average rent for Grade A office space in Nanshan decreased by 0.3% QoQ to RMB202 per sq m per month. The average rent for Bao'an increased by 0.1% QoQ to RMB166.93 per sq m per month. With short supply across the board, Futian district remained one of the most preferred office submarkets for many MNCs and large-scale enterprises, owing to its sophisticated business environment and highly-developed facilities. As a result, rentals remained the highest among the peers,

resting at RMB273.91 per sq m per month by the end of 2018.

INVESTMENT

Despite the continued expansion of the local economy, slowing YoY growth and an underperforming stock market during 2018 brought about a cautious sentiment among many investors. Although the continued fermentation of the Greater Bay Area and the successful completion of a number of infrastructure projects triggered an increase in inquiry volume about the Shenzhen office market from many domestic and overseas investors, the transaction cycle for deals has increased. During Q4/2018, there were no en bloc sales transactions in the Grade A office property market.

MARKET OUTLOOK

Looking forward, business collaborations among the major cities within the Greater Bay Area will be strengthened, underpinned by structural improvements and related economic activities. Meanwhile, large-scale infrastructure developments will provide more impetus to grow the regional economy. These include the Guangzhou-Shenzhen-Hong Kong High-Speed Railway and Hong Kong-Zhuhai-Macau Bridge, completed during 2018, which should bring more investment demand to Shenzhen from a growing number of reputable enterprises. Thus, it is expected that the outlook for the Shenzhen office property market will be positive in the long term. By estimation, seven new projects with a combined total GFA of approximately 577,691 sq m are scheduled for completion in 2019. Tenants will have more choice and enjoy more bargaining power as they negotiate leases. This, in turn, should result in a decline in rents in 2019. In the investment market, it is expected that strong sentiment for both investment and divestment will continue into 2019.

DEFINITIONS

Prime areas: Futian, Luohu and Nanshan districts.
Sub-prime Areas: Bao'an.

Rent: Achievable effective rents for a 500 sq m unit in the mid-zone of an office building signed for a three-year lease.

Rental/Price Index: A reflection of rental/price movement calculated upon basket of projects.

TABLE 1: Notable leasing transactions, Q4/2018

TENANT	TENANT INDUSTRY	PROJECT	SUBMARKET	LEASING AREA (sq m)
OPPO	Information Technology	China Resource Tower	Nanshan District	15,000
Thought Works	Information Technology	China Resources Land Building Tower D	Nanshan District	1000
Jizhunfangzhong	Architecture	China Resources Land Building Tower D	Nanshan District	1000
PICC	Insurance	East Pacific Centre	Futian District	1000

Source: Savills Research