

# Briefing Office sector

January 2015



Image: Shenzhen Phoenix Building, Futian

## SUMMARY

In 2015, Shenzhen is expected to witness an influx of supply in the office market. Most of the projects are anticipated to be headquarters buildings, concentrated in the Houhai area.

- China Taiping Finance Building was launched onto the market in the fourth quarter, adding 87,000 sq m.
- Net take-up reached 108,000 sq m in the fourth quarter, falling 15% year-on-year (YoY).
- Given the demand from newly moved-in enterprises in Shenzhen, city-wide vacancy rates fell 0.7 of a percentage point (ppt) quarter-on-quarter (QoQ) to 8.3%.
- Rents increased 0.1% in the fourth quarter to an average of RMB222.1 per sq m per month, up 14.2% YoY.
- Strata-title transaction prices increased 0.9%, reaching an average of RMB47,000 per sq m.
- As a result of stable sales prices and rents, gross strata-title yields decreased 1.0 basis point QoQ to 5.55%.
- 18 Grade A office buildings are expected to be launched onto the market in 2015, totalling 1.4 million sq m and pushing Shenzhen's Grade A office stock up 32.2% to 6.0 million sq m.

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 “Rents, vacancy rates and gross profit rates in 2014 have implied a strong upward trend in the Shenzhen market.”  
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Sam He, Savills Research  
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➔ **Market summary**

China Taiping Finance Building was launched onto the market in the fourth quarter, adding 87,000 sq m. Given the demand from newly established enterprises in Shenzhen, city-wide vacancy rates fell 0.7 of a ppt QoQ to 8.3%.

Vacancy rates in all districts fell in Q4/2014, among which Nanshan district recorded the highest fall, decreasing 2.9 ppts to 9.0%. This is mainly as a result of Qianhai being located in Nanshan, bringing more demand to the district, alongside no recent supply offered nearby.

18 Grade A office buildings are expected to be launched onto the market in 2015, totalling 1.4 million sq m and pushing Shenzhen's Grade A office stock up 32.2% to 6.0 million sq m. Given the significant new supply, city-wide vacancy rates are expected to rise in 2015, while rents and sales prices are expected to remain stable or even decrease.

In the last quarter of 2014, the growth rate of rents declined. Rents remained stable, increasing 0.1% to an average of RMB222.1 per sq m per month, up 14.2% YoY.

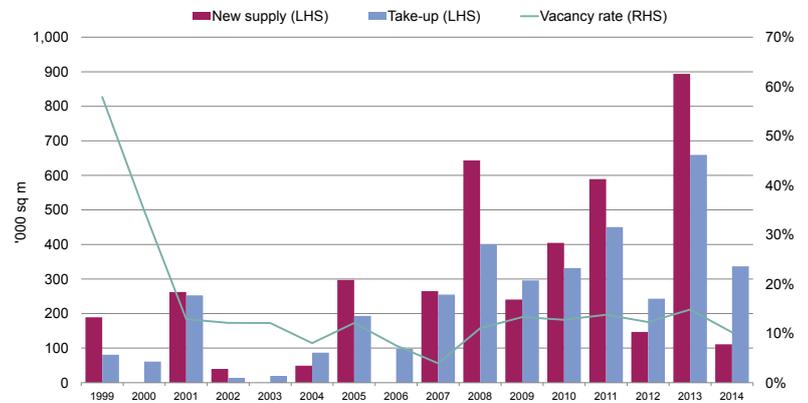
Although Nanshan has recorded a decrease in average rents, rents in Futian and Luohu districts increased 0.5% and 2.3%, QoQ respectively.

Strata-title transaction prices increased 0.9%, reaching an average of RMB47,000 per sq m. As a result of stable sales prices and rents, gross strata-title yields decreased 1.0 basis point QoQ to 5.55%.

**2014 Office market overview**

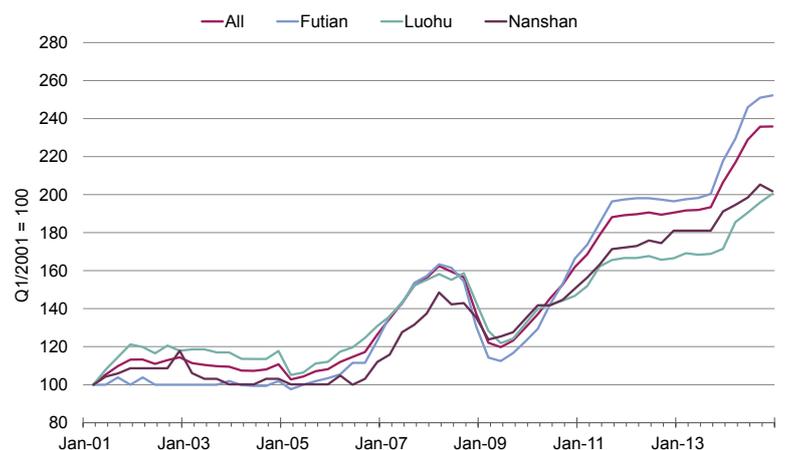
- In 2014, office rents in Shenzhen maintained an upward trend, reaching an average of RMB 221.1 per sq m per month in Q4, up 13.5% from the first quarter to the fourth quarter.

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



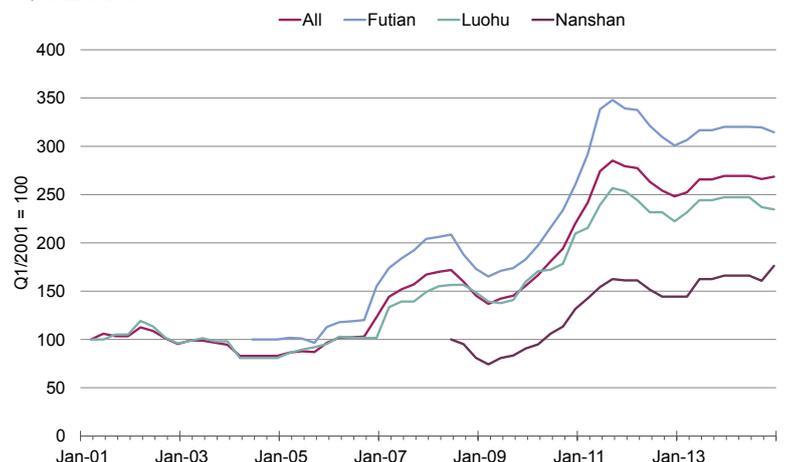
Source: Savills Research

GRAPH 2 **Grade A office rental indices, Q1/2001–Q4/2014**



Source: Savills Research

GRAPH 3 **Grade A strata-title office price indices, Q1/2001–Q4/2014**



Source: Savills Research

- In 2014, office vacancy rate in Shenzhen maintained a downward trend, reaching an average of 8.3% in Q4, down 4.5 ppts from the first quarter to the fourth quarter.

- In 2014, the gross profit rate in Shenzhen was 5.33%, up 0.77% YoY. During the first three quarters of 2014, gross profit rates maintained an upward trend, while in the fourth quarter the rate remained stable.

In conclusion, this reflected an upward trend in the Shenzhen office market. The Qianhai-Hong Kong-Shenzhen cooperation zone has played an important role in the market. The government released preferential policies for enterprises registered in the Qianhai area, attracting more enterprises to enter Shenzhen and thus increase demand for office buildings. On the

other hand, as no office buildings in the Qianhai area were completed, the imbalance between demand and supply has boosted the Shenzhen office market. However, these enterprises prefer to lease temporary office spaces, rather than purchase office buildings, until the Qianhai area is completed. As the result, the average sales price of office buildings in Shenzhen declined to RMB47,819 per sq m, down 1.8% YoY.

### Market outlook

Eighteen Grade A office buildings are expected to be launched onto the market in 2015, totalling 1.4 million sq m and pushing Shenzhen's Grade A office stock up 32.2% to 6.0 million sq m.

Nearly half of the new supply is expected to be headquarters

buildings, concentrated in the Houhai area. As the government has limited the ratio of leasable area within office buildings in the Houhai area (less than 30% of total GFA of these buildings can be leased to other enterprises), the impact of new projects entering the market will be reduced.

Nevertheless, given the significant new supply, which is the highest recorded in recent years, city-wide vacancy rates are expected to rise in 2015 while rents and sales prices are expected to remain stable or even decrease. ■

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