



Demand recovery slows

Leasing market became more competitive.

- Shenzhen's GDP grew by 6.5% YoY to RMB777.2 billion as of end-Q1/2023. Meanwhile, the output of the tertiary industry grew 7.6% YoY to RMB521.8 billion, accounting for 67.1% of Shenzhen's GDP.
- Five new projects with a combined leasable GFA of 444,462 sqm were completed during Q2/2023, expanding the total stock by 3.8% QoQ to 10.4 million sqm by the end of the quarter.
- The citywide vacancy rate increased by 2.6 ppts QoQ and 4.1 ppts YoY to 27.0% by the end of the quarter.
- The rental rate of the Shenzhen Grade A office property market decreased to an average of RMB178.9 psm pmth by the end of Q2, down 1.1% QoQ and 2.9 YoY on a rental index basis.
- While economic challenges are expected to remain in the remainder of the year, Shenzhen Grade A office market will continue to receive massive new supply of 832,625 sqm in the second half of 2023.

“After a modest rebound in Q1/2023, the Shenzhen Grade A office market faced strong headwinds of in/external economic challenges, abundant new supply, and weak leasing demand. This was reflected in the QoQ decrease in the citywide occupancy and rental rates.”

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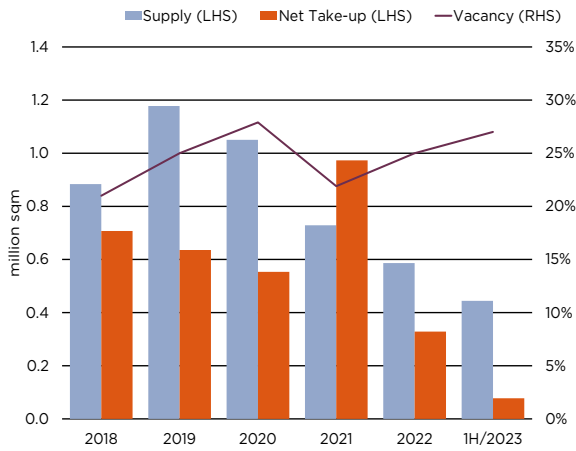
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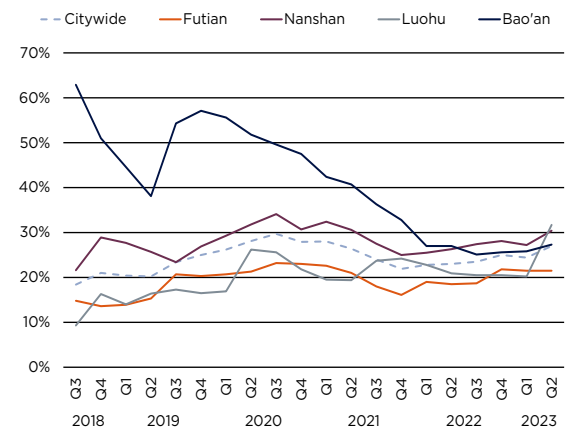
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GRAPH 1: Shenzhen Grade A Office Market New Supply, Net Take-up And Vacancy Rate, 2018 to 1H/2023



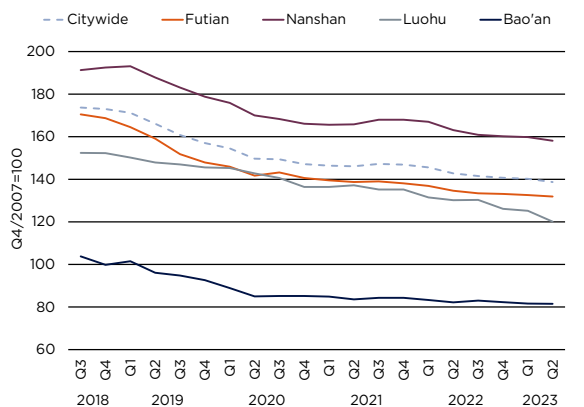
Source Savills Research

GRAPH 2: Shenzhen Grade A Office Market Vacancy Rate, Q3/2018 To Q2/2023



Source Savills Research

GRAPH 3: Shenzhen Grade A Office Market Rental Index, Q3/2018 To Q2/2023



Note Calculation of rental indices for all submarkets starts from Q4/2007 except for: Bao'an—Q1/2018

Source Savills Research

MARKET OVERVIEW

According to the Shenzhen Statistics Bureau, Shenzhen's GDP grew by 6.5% YoY to RMB777.2 billion as of end-Q1/2023. Meanwhile, the tertiary industry output grew by 7.6% YoY to RMB521.8 billion, accounting for 67.1% of Shenzhen's GDP. Despite these growths, the recovery of Shenzhen Grade A office market remained slow on the back of in/external macroeconomic challenges, abundant new supply and weak leasing demand. This was reflected in the QoQ decrease in both citywide occupancy and rental rates.

SUPPLY

Five new projects with a combined leasable GFA of 444,462 sqm were completed during Q2/2023, expanding the total stock by 3.8% QoQ to 10.4 million sqm by the end of the quarter.

DEMAND

Transactional activities declined in Q2/2023 compared to last quarter, against the current economic and business development backdrops, leading to a YoY decrease of 71.9% in the quarterly net take-up compared to the same period of 2022. Some occupiers with persistent financial burdens and operational pressures appeared to be more cautious about their corporate real estate strategies, continually downsizing or relocating office spaces. Due mainly to the aforementioned factors along with the sluggish pre-leasing activities of new projects, the citywide vacancy rate increased by 2.6 ppts QoQ and 4.1 ppts YoY to 27.0% at the end of the quarter.

Meanwhile, financial companies such as banks, securities and insurance companies, appeared to be more active than those from the IT industry during this quarter as their combined leasing area accounted for 47.3% of the total office transaction area during Q2/2023. Notable leasing transactions included Great Wall Securities' lease of 17,800 sqm at International Recourses Tower, Guosen Securities' commitment of 4,200 sqm at Dinghe Insurance Building, and Pingan Life Insurance's take-up of 4,000 sqm at C Future City. Simultaneously,

leasing activities sourcing from the professional services and IT sectors were also recorded. For instance, Qiancheng Law Firm leased 1,686 sqm at Pingan International Finance Centre, and Shenzhen Zhuoyi Network Technology leased 2,550 sqm at Shimao Qianhai Building.

RENTS

Most landlords continued to feel the pinch of the slow economic and office property leasing demand recovery and were willing to attract and secure tenants by all means, broadly adopting more aggressive leasing tactics and offering greater rental concessions to tenants. Correspondingly, the rental rate of the Shenzhen Grade A office market decreased to an average of RMB178.9 psm pmth by the end of 2023Q2, down 1.1% QoQ and 2.9% YoY on a rental index basis.

INVESTMENT

Investor sentiment and market confidence remained at a low level in Shenzhen's Grade A office investment market during this quarter. As a result of macroeconomic uncertainties and the underperforming leasing market, there has continued to be a significant price gap between sellers and buyers since the beginning of 2023. In the strata-title sales market however, there were a few transactions concluded by domestic end-users, financial companies and state-owned companies. For example, China Zhesang Bank acquired C Future City West Tower (Floor 1-21) with a total GFA of 41,187 sqm in Futian district at an estimated price of RMB2.3 billion for owner-occupancy.

MARKET OUTLOOK

While economic challenges are expected to remain in the rest of the year, the Shenzhen Grade A office property market will continue to receive a massive new supply of 832,625 sqm in the second half of 2023. Upon completion, the market stock is forecast to expand to 11.3 million sqm by the end of the year. Inevitably, the continued new supply coupled with the weakened leasing demand should weigh on the market performance again, leading to a further decrease in both citywide occupancy and rental rates by end-2023.

TABLE 1: Selected Leasing Transactions, Q2/2023

TENANT	TENANT INDUSTRY	PROJECT	SUBMARKET	LEASING AREA (APPROX. SQ M)
Great Wall Securities	Finance	International Recourses Tower	Futian	17,800
Guosen Securities	Finance	Dinghe Insurance Building	Futian	4,200
Pingan Life Insurance	Finance	C Future City Tower	Futian	4,000
Qiancheng Law Firm	Professional Services	Pingan International Finance Centre	Futian	1,686

Source Savills Research