



Vacancy rates decline

Large-scale office leasing transactions increased during Q2/2024.

- No new supply was added to the market in Q2/2024, and the citywide total stock remained at 11.2 million sqm.
- In Q2/2024, the citywide net take-up increased by 1.4 times to 84,101 sqm.
- The citywide vacancy rate decreased by 0.7 ppt QoQ to 29.8% at the end of the quarter.
- During Q2/2024, IT companies (especially software & services companies) and financial companies (banks, securities and investment companies) dominated the market digestion, as their combined leasing deals accounted for 52.9% of the citywide total.
- The citywide average rent of the Shenzhen Grade A office property market declined by 2.1% QoQ and 7.9% YoY on a rental index basis, to RMB160.4 psm pmth by the end of Q2/2024.
- New supply should remain abundant in 2H/2024 (approximately 315,712 sqm), which should inevitably lead to persistent pressure on market digestion and rental movement in the rest of 2024.

“Driven by corporates’ occupational needs and equally important, landlords’ wish to attract tenants with strong incentives, more leasing demand was unleashed in the market, pushing up the citywide net take-up in this quarter.”

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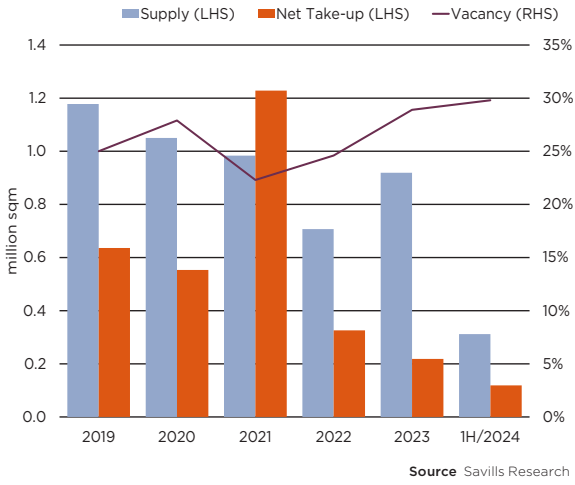
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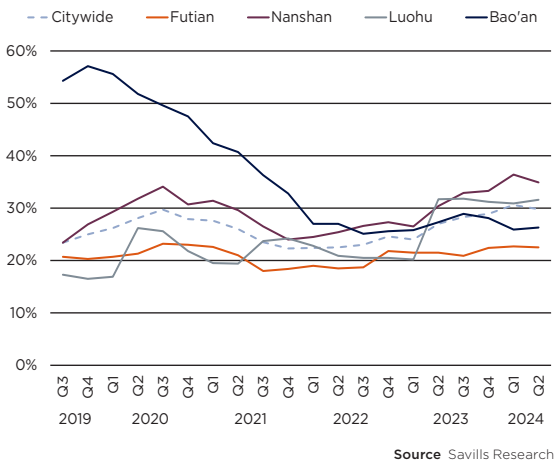
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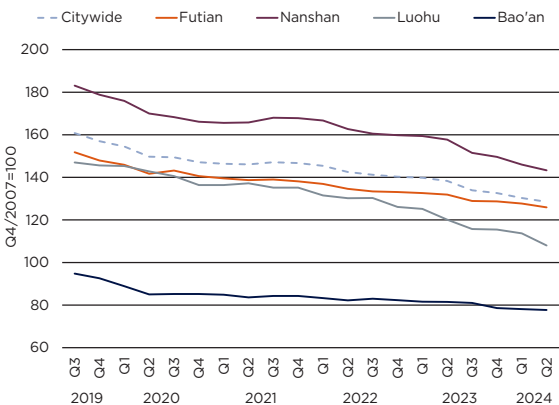
GRAPH 1: Shenzhen Grade A Office Market New Supply, Net Take-up And Vacancy Rate, 2019 To 1H/2024



GRAPH 2: Shenzhen Grade A Office Market Vacancy Rate, Q3/2019 To Q2/2024



GRAPH 3: Shenzhen Grade A Office Market Rental Index, Q3/2019 To Q2/2024



MARKET OVERVIEW

According to the Shenzhen Statistics Bureau, Shenzhen's GDP grew by 6.4% YoY to RMB831.5 billion and the tertiary industry output grew by 4.5% YoY to RMB549.8 billion as of end-Q1/2024. The proportion of the tertiary industry in local GDP reached a historical high of 66.1%. Notably, the strategic emerging industries (SEI) surged by 12.6% YoY to RMB351.5 billion. The relatively positive economy, the absence of new supply and landlords' proactive leasing strategies helped more office leasing demand unleash in the market, resulting in a QoQ decrease in the citywide vacancy rate by the end of Q2/2024.

SUPPLY

No new supply was added to the market in Q2/2024, and the citywide total stock remained at 11.2 million sqm.

DEMAND

Leasing inquiries and transactional activities picked up in Q2/2024, catalysed by the positive economy, government's constant efforts in attracting investment work and landlords' flexible and strong incentives. The quarterly net take-up increased by 1.4 times to 84,101 sqm as a result. As the market remained tenant-favoured, occupiers with financial and operational pressures chose to look for relocation opportunities that meet their shrinking CRE budgets. This explained as to why relocation demand continued to be prevalent as it has been since the beginning of the year, and in Q2/2024 alone, the number of the leasing cases from the sector accounted for 58.6% of the citywide total new leases. Coupled with the absence of new supply in Q2/2024, citywide vacancy rate declined 0.7 ppt QoQ to 29.8% by the end of the quarter.

During Q2/2024, IT companies (especially software & services companies) and financial companies (banks, securities and investment companies) dominated the market digestion, as their combined leasing deals accounted for 52.9% of the citywide total. Notable leasing transactions included Yue Shi SCF's commitment of 3,800 sqm at COFCO Asia Pacific Center, Xinlicheng' take-up of 3,500 sqm at Hon Kwok City Commercial Center, AVIC Securities' take-up of 2,000 sqm at Qianhai Kerry Centre and FTLife Insurance's lease of 1,500 sqm at Qianhai Chow Tai Fook Financial Building. Simultaneously, leasing demand from professional services, retail & trade and consumer services companies

remained relatively active, exemplified by BOSS Zhipin's lease of 3,800 sqm at China Resource Tower, Caihuoxia's lease of 3,200 sqm at CITIC International Tower, Xianjie Law Firm and LEDI CULTURE's relocation to Qianhai Chow Tai Fook Financial Building.

RENTS

Most landlords still faced with mounting pressures in keeping and securing tenants, and thus became more proactive in adjusting leasing terms and attracting tenants with relocation needs. Shenzhen's citywide average rent of the Grade A office market declined by 2.1% QoQ and 7.9% YoY on a rental index basis, to RMB160.4 psm pmth by the end of Q2/2024.

INVESTMENT

No en-bloc sales transaction was announced in the Shenzhen Grade A office investment market during the quarter. Despite a mild recovery in the leasing demand in Q2/2024, challenges persisted within the office investment sector given the continuous decrease of rental rates and substantial future supply. While landlords and/or developers agreed to lower their price expectations further to expedite asset disposals, investors remained extremely cautious in deal scrutinising and capital deployment. Meanwhile, some SOEs, end-users, and Hong Kong individual investors with strong cashflows have shown interest in strata-titled projects with core location advantages and higher hurdle rates.

MARKET OUTLOOK

During the first half of 2024, the Shenzhen government continued to carry out a series of policies (such as 2024 Work Plan on Optimising the International Business Environment, Measures for the Special Funds Management of Promoting High-quality Industrial Development in Nanshan District, etc.) to create a more open environment for trade and investment, making the city more cost-effective for industrial development and strengthening the market vitality while encouraging high-quality development. These should help boost economic growth and office demand in 2024. Nevertheless, new supply in the Shenzhen Grade A office market should remain abundant in the second half of the year (approximately 315,712 sqm), which should inevitably lead to a persistent pressure on market digestion and rental movement in the rest of 2024.

TABLE 1: Selected Leasing Transactions, Q2/2024

TENANT	TENANT INDUSTRY	PROJECT	SUBMARKET	LEASING AREA (APPROX. SQ M)
BOSS Zhipin	Professional Services	China Resource Tower	Nanshan	3,800
Yue Shi SCF	IT	COFCO Asia Pacific Center	Nanshan	3,800
Xinlicheng	IT	Hon Kwok City Commercial Center	Futian	3,500
Caihuoxia	Retail & Trade	CITIC International Tower	Futian	3,200
Xianjie Law Firm	Professional Services	Qianhai Chow Tai Fook Financial Building	Nanshan	2,800

Source: Savills Research