

14 October 2011

Contents

Executive summary	1
Economic overview	2
Offices	3
Retail	4
Industrial	5
Key statistics	6
Residential	7
Definitions	8
Contacts	9

Author

Zhang Xiao-duan

Head of South China Research
+86 755 2151 8116
xd.zhang@dtz.com

Contacts

David Ji

Head of Greater China Research
+852 2507 0779
david.yx.ji@dtz.com

Tony McGough

Global Head of Forecasting
and Strategy Research
+44 (0)20 3296 2314
tony.mcgough@dtz.com

Hans Vrensen

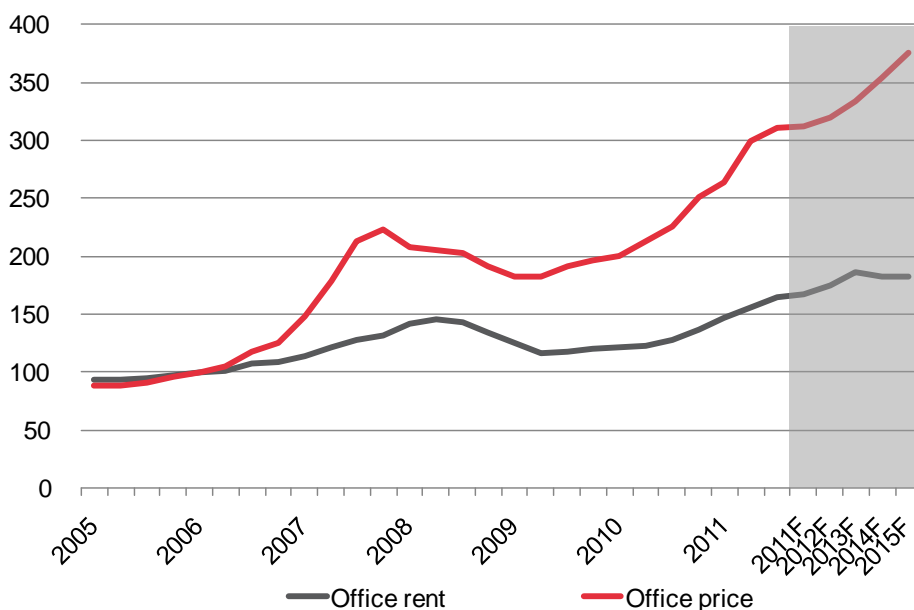
Global Head of Research
+44 (0)20 3296 2159
hans.vrensen@dtz.com

- In Q3, prime office rents in Shenzhen continued to rise 5.2% from last quarter to reach an average of RMB 171.9 (US\$26.86) per sq m per month. Meanwhile, the citywide availability ratio went down 4.13 percentage points to 9% quarter-on-quarter (q-o-q) (Figure 2).
- Sales market of retail premises remained active. In Q3, a total of 174,100 sq m of presale retail spaces was approved, a 122% growth q-o-q. In the meantime, the transaction volume kept going up. From January to August, transactions in the primary market were up 9.24% year-on-year (y-o-y) while the secondary market witnessed a rise of 25.1%.
- Driven by robust growth in industrial production, in this quarter, the vacancy rate of factories of the inner zone was down to 2%, whilst the outer zone witnessed a 2 percentage points q-o-q fell to 6%.
- Decreasing transaction volume brought pressures on price, together with the influence of the price-fixing policy. As a result, new home prices in the first nine months fall 10.5% y-o-y to RMB 18,418(US\$2,878) per sq m.

Figure 1

DTZ grade A office index (Q1 2005 – 2015F)

Index (Q1 2006=100)



Source: DTZ Research

Economic overview

- In first half of 2011, Shenzhen's GDP rose to RMB 501.52 billion (US\$78.36bn), a y-o-y growth of 10.6%. From January to August, the Shenzhen economy kept growing steadily, bolstered by the major economic indicators (Table 1).
- Into the second half of 2011, growth rate of fixed asset investment decreased because of the tightening policy. From January to August, the fixed asset investment was RMB 117.43 billion (US\$18.35bn), and the growth rate was 1 percentage point lower than that in the first seven months. Real estate investment reached RMB 31.42 billion (US\$4.91bn), up 17.4% y-o-y (Table 1).
- Shenzhen's import and export value in the first eight months amounted to USD 271.01 billion with a yearly growth of 31.6%. (Table 1). The export value reached USD 159.63 billion, up 32.8% y-o-y while the import value increased 29.8% y-o-y to USD 111.38 billion.
- Inflation kept high in 2011. In the first seven months, Shenzhen CPI climbed 5.6% y-o-y. In July, the growth rate grew 5.9% y-o-y (Table 1).

Table 1

Economic indicators				
Indicator	Period	Unit	Value	Change y-o-y (%)
GDP	1H 2011	RMB 100 million	5,015.22	10.6
Added value of above-scale industries	Jan-Aug	RMB 100 million	3,229.64	13.2
Total import and export value	Jan-Aug	USD 100 million	2,710.08	31.6
FDI utilised	Jan-Jul	USD 10 thousand	248,936	10.2
Fixed asset investment	Jan-Aug	RMB 100 million	1,174.25	12.4
Consumer price index	Jan-Jul	-	105.6	5.6

Source: Shenzhen Statistics Bureau

- In Q3 2011, as occupier demand remained active, overall net absorption of the grade A office market reached 80,729 sq m. With no new supply, the citywide availability ratio went down 4.13 percentage points q-o-q to 9%. In particular, Futian district saw the biggest quarterly drop from 17.5% to 11.8% (Table 2).
- With the largest inventory pool, the Futian submarket posted 78,119 sq m of net absorption in Q3 (Table 2). Tenants from technology industry were especially active and mostly rented large office space. Take-up rate in NEO Tower A, which came on stream in Q2, reached 60%. Most tenants of it were technology companies, and some were logistics companies moving in from Futian CBD.
- Landlords still have high expectations on rental growth. In consequence, prime rents continued to rise 5.2% from last quarter to reach an average of RMB 171.9 (US\$26.86) per sq m per month (Figure 2). Futian district recorded the highest rental level at RMB 181.9 (US\$28.4) per sq m per month (Table 2).
- Sales market finally saw new supply of high quality in the second half of 2011. IFC in Gangxia area offered its Tower A to sell in Q3 at an average price of RMB 65,000 (US\$10,156.3) per sq m. Main buyers were domestic enterprises, mostly for own-use. By the end of Q3, IFC Tower A has sold over 50% of its office space, and sales price for the rest has reached RMB 70,000 (US\$10,937.5) per sq m.
- Average price of grade A offices grew 3.7% q-o-q to RMB 44,643 (US\$6,975.5). 5% and 5.9% growth was respectively seen in Nanshan and Luohu districts, where price level was usually lower. However, as price kept high and landlords were reluctant to sell, transaction volume of secondary grade A offices was small under the tightening policy. But some landlords lowered down the price to make the deal, which may indicate larger negotiation space in the future.
- Looking forward, we believe office rents will grow steadily because of continuous demand. Since several office projects have put off their construction, future supply in the next few years will not be as large as it was forecasted (Figure 3).

Recent transactions

- ZIM rented 1,300 sq m of space in NEO.
- Tencent rented 30,000 sq m of space in Longguang Century Center.

Table 2

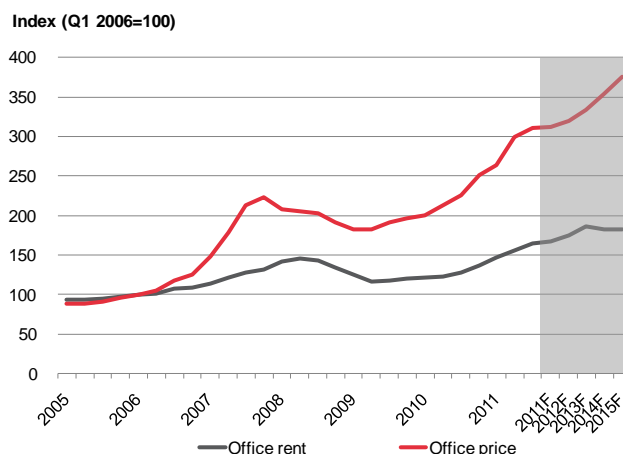
Grade A office market statistics

District	Total stock (sq m)	Availability ratio (%)	Rent (RMB/sq m/month)	Rent change q-o-q (%)
Luohu	366,813	3.2	156.0	3.2
Futian	1,363,410	11.8	181.9	11.8
Nanshan	243,658	1.9	139.8	1.9
Overall	1,973,881	9.0	171.9	5.2

Source: DTZ Research

Figure 2

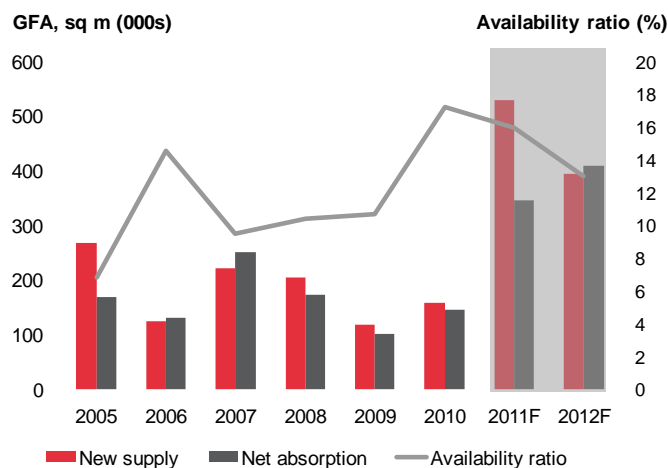
DTZ Grade A office index (2005 - 2015F)



Source: DTZ Research

Figure 3

Supply, net absorption and availability ratio (2005 - 2012F)



Source: DTZ Research

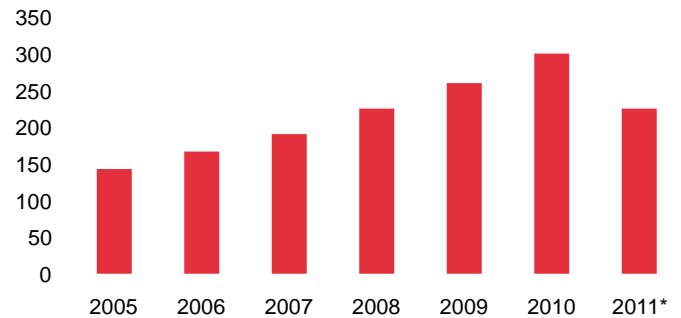
- From January to August, total retail sales in Shenzhen grew 17.6% y-o-y to reach RMB 2,261.88 billion (US\$35.34bn) (Figure 4).
- Benefited by the growing private consumption, Shenzhen's retail market experienced a strong performance in Q3. Demand for retail premises became buoyant, especially for the catering and retailing industries (Table 4). Shanghai Spring's first branch and the fifth branch of South Beauty opened in OCT Bay, and Tao Heung will soon open its fourth branch in Coastal City.
- A number of shopping malls adjusted their tenant mix during early 2011. Thus, we did not see big changes on the retailer profiles of shopping malls in Q3. On one hand, most shopping malls were fully occupied, and lifted up the rental level. On the other, retailers now have more choices regarding expansion as new large retail premises continues to enter the market with competitive location and professional management. By Q3, the east section of OCT Bay was all leased out, mostly catering and entertainment based.
- Overall retail rents rose steadily this quarter, especially in the core commercial area. The average rent of COCO Park in Futian CBD was 10% higher than a year earlier due to its uniqueness, the highest rent of fashion shop reached RMB 1,500 (US\$234.4) per sq m per month (Table 4).
- Sales market of retail premises remained active. In Q3, a total of 174,100 sq m of presale retail space was approved, a 122% growth q-o-q. In the meantime, transaction volume kept going up. From January to August, transactions in the primary market were up 9.24% y-o-y while the secondary market witnessed a yearly rise of 25.1%. Average price of new retail premises rose to RMB 30,329 (US\$4,738.9) per sq m, a y-o-y growth of 37.3%.
- The traditional peak season in the retail sector will come next quarter. We predict that rentals will steadily grow while demand for retail premise will remain stable.

Because of the land resource constraints, especially the scarcity of commercial land among the city centre, we expect to see an increasing trend of urban renewal projects for commercial properties.

Figure 4

Total retail sales of consumer goods (2005 – 2011*)

RMB billion



* Data for 2011 is as of August 2011.

Source: DTZ Research

Table 3

Shopping mall statistics

District	Total stock (sq m)	New supply (sq m)	Rental range (RMB/sq m/month)
Luohu	417,829	0	500 – 1,400
Futian	444,800	0	400 – 1,500
Nanshan	555,500	0	400 – 1,000

* Rental is based on the net area.

Source: DTZ Research

Table 4

Prime projects rental as of Q3 2011

Retail hubs	Project	Asking rental (RMB/sq m/month)
Huaqiangbei	MOI Department Store	600 - 1,500
Shennanzhong Road	CITIC City Plaza	300 - 1,000
Caiwuwei	The Mixc I	800 - 1,500
Nanshan Commercial Center	Coastal City	350 - 1,000

* Rental is based on the net area.

Source: DTZ Research

- In the year to August, aggregate output value contributed by all above-scale industries grew 13.2% y-o-y to reach RMB 322.96 billion (US\$50.46bn). Communications equipment, computers and other electronic equipment manufacturing industry developed rapidly, increased by 17.6% y-o-y to RMB 167 billion (US\$26.09bn).
- Driven by the growing industrial manufacture, the vacancy rate of factories in the inner zone was down to 2%, while fell 2 percentage points q-o-q to 6% in the outer zone. The brisk demand for industrial premises, especially in the north area of Hi-Tech Park, had pull up rentals in the inner zone to grow 1.3% q-o-q to reach RMB39.3 (US\$6.14) per sq m per month, and rentals out of town increased to RMB19.7 (US\$3.08) per sq m per month (Table 5 & Figure 5).
- Availability ratio in the Hi-tech Park declined slightly as new supply gradually was absorbed. By Q3 2011, TCL International E City I and Finance Base I in Hi-Tech Park were basically full rent. Rentals of R&D premises in the inner zone up 4.04% q-o-q to reach RMB 77.3 (US\$12.08) per sq m per month; and rentals out of town increased 4.5% q-o-q to RMB 38.3 (US\$5.98) per sq m per month (Table 5 & Figure 5).
- Demand for logistics properties is recovering after the global financial crisis, and the vacancy rate of ProLogis -Yantian Port Logistics Park fell to 3% by the end of Q3. The steadily growing demand for warehouse premises in Shenzhen led to decline in the availability ratio, which was 3% in the inner zone and fell 2 percentage points q-o-q to 6% out of town. Rents in the inner zone increased 2% q-o-q to reach RMB 41.4 (US\$6.47) per sq m per month; and rentals out of town made a growth of 4.5% q-o-q to RMB 31.3 (US\$4.89) per sq m per month (Table 5).
- In the recent years, thanks to the development of urban construction, land value in the outer town has been improved obviously, especially the areas near the center city, namely Buji and Longhua area. We expect more industrial premises, like technology parks, business parks and innovation parks, will come on stream. It is because that not only robust development of R&D industry in Shenzhen led to a growing demand for R&D premises, but also the landowners want higher rental income by changing the practical use of the factories to commercial office properties.

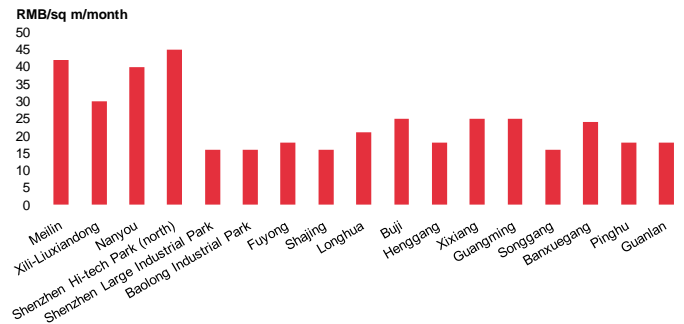
Table 5

Industrial market statistics			
		Availability ratio (%)	Rent (RMB/sq m/month)
Factories	inner zone	2	39.3
	outer zone	6	19.7
Warehouses	inner zone	3	41.4
	outer zone	6	31.3
R&D properties	inner zone	6	77.3
	outer zone	6	38.3

* Inner zone refers to Luohu, Futian and Nanshan districts, while outer zone refers to Bao'an and Longgang districts.
Source: DTZ Research

Figure 5

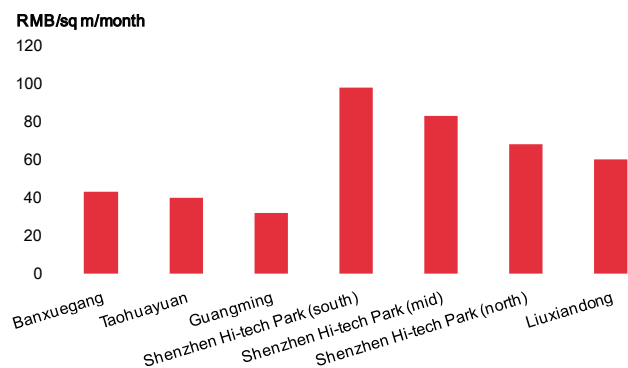
Rental of factories



Source: DTZ Research

Figure 6

Rental of R&D premises



Source: DTZ Research

Key statistics – occupier market

Table 6

Occupier market								
	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	q-o-q change (%)	y-o-y change (%)	Directional outlook
Shenzhen office								
Net absorption* (GFA, sq m)	121,536	151,463	103,828	174,268	254,997	-	-	▲
Availability (GFA, sq m)	204,585	174,659	232,831	257,881	177,152	-31.30	-13.41	▼
Availability ratio (%)	11.90	10.20	12.40	13.1	8.97	-413 bps	-293 bps	▼
New supply* (GFA, sq m)	159,500	159,500	162,000	257,490	257,490	-	-	▲
Prime rents (RMB/sq m/month)	134.02	142.92	152.79	162.84	171.88	5.55	28.25	▲
Market yield (%)	4.94	4.88	4.83	4.54	4.62	8 bps	-32 bps	-

* Please note that net absorption and new supply are cumulative (i.e. the total net absorption and new supply for the entire calendar year).
Source: DTZ Research

Table 7

Leasing transactions				
Property name	Submarket	Size (sq m)	Tenant	Sector
Longguang Century Center	Bao'an	30,000	Tencent.	Office
NEO	Futian	1,300	ZIM	Office
NEO	Futian	1,980	Fairchild	Office
NH E-Cool	Nanshan	7,100	Hasbro	Industry
Tongfang Information Harbor	Futian	6,000	JDSU	Industry

Source: DTZ Research

- In addition to the regulatory policies, the performance of Shenzhen's residential market is closely related to the launch of new supply. In Q3, a 993,226 sq m additional supply remained low and limited the transaction. Longgang and Bao'an districts took up 60% of the total new supply. Accordingly, more than 80% of the transactions were done in the two districts and reached 1,706,632 sq m.
- From January to September, transaction volume in the primary market was only 2,110,281 sq m, slightly up 1% y-o-y. In Q3, transaction volume increased 19.9% q-o-q to reach 697,181 sq m.
- The nationwide regulation policy showed a more evident effect on the transaction volume of secondary market. Moreover, Shenzhen's new tax policy which came into force since 11 July lists up the transaction cost of second-hand homes. From July 11 to the end of August, transaction volume went down obviously and kept at 70 units per day. As the new tax policy was gradually accepted, transacted second-hand homes had risen steadily to 110 units per day in September. Consequently, transaction volume in the secondary market was only 898,439 sq m, down 160.6% y-o-y.
- Decreasing transaction volume brought pressures on price, with the influence of the price-fixing policy. New home prices in the first nine months fall 10.5% y-o-y to RMB 18,418(US\$2,878) per sq m. As DTZ residential index shows, medium and high end homes recorded a small drop of 0.6% q-o-q.

Accompanied by the stagnant transaction volume in the primary market, under the tight financial pressure, most of the developers will promote actively under the capital pressure. As a result, we expect that promotion activities will be common during the National Day holiday, and transaction volume will go up due to the increasing new supply and the lower prices. However, the shadow over the market caused built-up stress by the macro-control will not be easily casted away in Q4.

Table 8

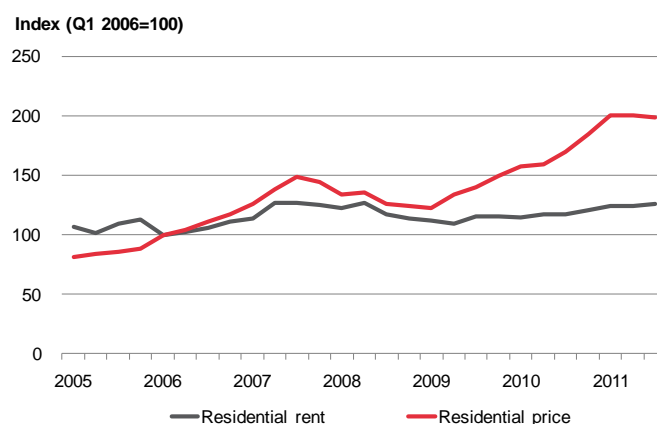
Residential market statistics (Jan - Sep 2011)

District	New supply (sq m)	Transaction volume (sq m)	Price (RMB/sq m)	Price change y-o-y (%)
Luohu	0	27,655	24,660	7.20
Futian	107,335	63,760	30,347	6.83
Nanshan	245,501	230,888	29,819	-0.39
Yantian	129,128	81,346	18,889	-56.19
Bao'an	799,599	677,240	18,645	-8.85
Longgang	853,086	1,029,392	14,767	9.40
Total	2,134,650	2,110,281	18,418	-10.50

Source: DTZ Research

Figure 7

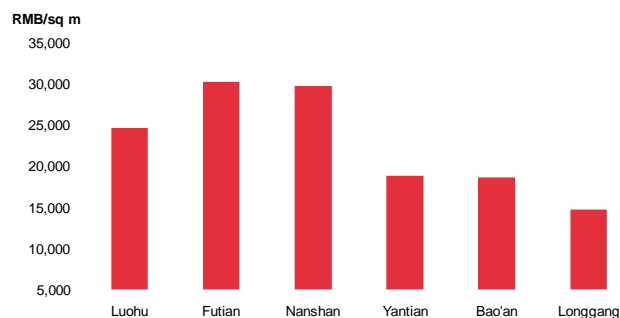
DTZ residential index (Q1 2005 – Q3 2011)



Source: DTZ Research

Figure 8

Primary residential price by district (Jan - Sep 2011)



Source: DTZ Research

Definitions

Availability

Total floorspace in properties marketed as available to let, whether physically vacant or occupied, and ready for occupation immediately.

Availability Ratio

Total space currently available as a percentage of the total stock of floorspace.

Development Pipeline

Comprises two elements:

1. Floorspace in course of development, defined as buildings being constructed or comprehensively refurbished to grade A standard.
2. Schemes with the potential to be built in the future, through having secured planning permission/development certification.

Net Absorption

The change in the total of occupied floorspace over a specified period of time, either positive or negative.

New Supply

Total marketed grade A floorspace which is ready for occupation now. Ready for occupation means practical completion, where either the building has been issued with an occupancy permit, where required, or where only fit-out is lacking.

Prelet

A development leased or sold prior to completion.

Prime Rent

The highest rent that could be achieved for a typical building/unit of the highest quality and specification in the best location to a tenant with a good (i.e. secure) covenant.

(NB. This is a net rent, excluding service charge or tax, and is based on a standard lease, excluding exceptional deals for that particular market.)

Rent

Gross transacted rental (unless otherwise specified), which excludes management fees and other outgoings.

Prime Yield

The best (i.e. lowest) yield which could be expected for a typical building/unit of the highest quality and specification in the best location leased to a tenant with a good (i.e. secure) covenant.

(NB. This is a net yield, which uses net income, after deducting all non-recoverable expenditure, divided by the purchase cost, excluding transaction costs and taxes.)

Market Yield

Annual transacted rent as a percentage of the capital value of the property.

Stock

Total accommodation in the commercial and public sectors both occupied and vacant.

Take-up

Floorspace acquired for occupation, including the following:

- (i) offices let/sold to an eventual occupier;
- (ii) developments pre-let/sold to an occupier;
- (iii) owner occupier purchase of a freehold or long leasehold.

(NB. This includes subleases but excludes lease renewals.)

Vacancy

Floorspace that is empty, i.e. not occupied. It may be being marketed, or it may not (whether because a lessee is not occupying, it is being refurbished or it is deliberately being left empty by the landlord).

Contacts

Consultancy

Cheng Jia-long +86 755 2151 8188 jl.cheng@dtz.com

Facility & property management

Chan Tan Tat +86 755 2151 8168 tt.chan@dtz.com

Industrial

Lynson Yan +86 755 2151 8132 lynson.qf.yan@dtz.com

Investment

Stephen Qiu +86 755 2151 8119 stephen.h.qiu@dtz.com

Office space

Andy Law +86 755 2151 8201 andy.cl.law@dtz.com

Project & building consultancy

Apple Pan +86 755 2151 8160 apple.ym.pan@dtz.com

Residential

Jacob Wu +86 755 2151 8288 jacob.j.wu@dtz.com

Retail

Alan Wong +86 755 2151 8200 alan.wl.wong@dtz.com

Valuation & advisory services

Fei Jin-biao +86 755 2151 8001 jb.fe@dtz.com

Disclaimer

This report should not be relied upon as a basis for entering into transactions without seeking specific, qualified, professional advice. Whilst facts have been rigorously checked, DTZ can take no responsibility for any damage or loss suffered as a result of any inadvertent inaccuracy within this report. Information contained herein should not, in whole or part, be published, reproduced or referred to without prior approval. Any such reproduction should be credited to DTZ.

© DTZ 2011