Shenzhen Grade-A Office Market Report

Q3 2024

This report focuses on the Grade-A office market in Shenzhen, including information about supply and demand, rents, vacancy rates and the office investment market

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Overview and Outlook

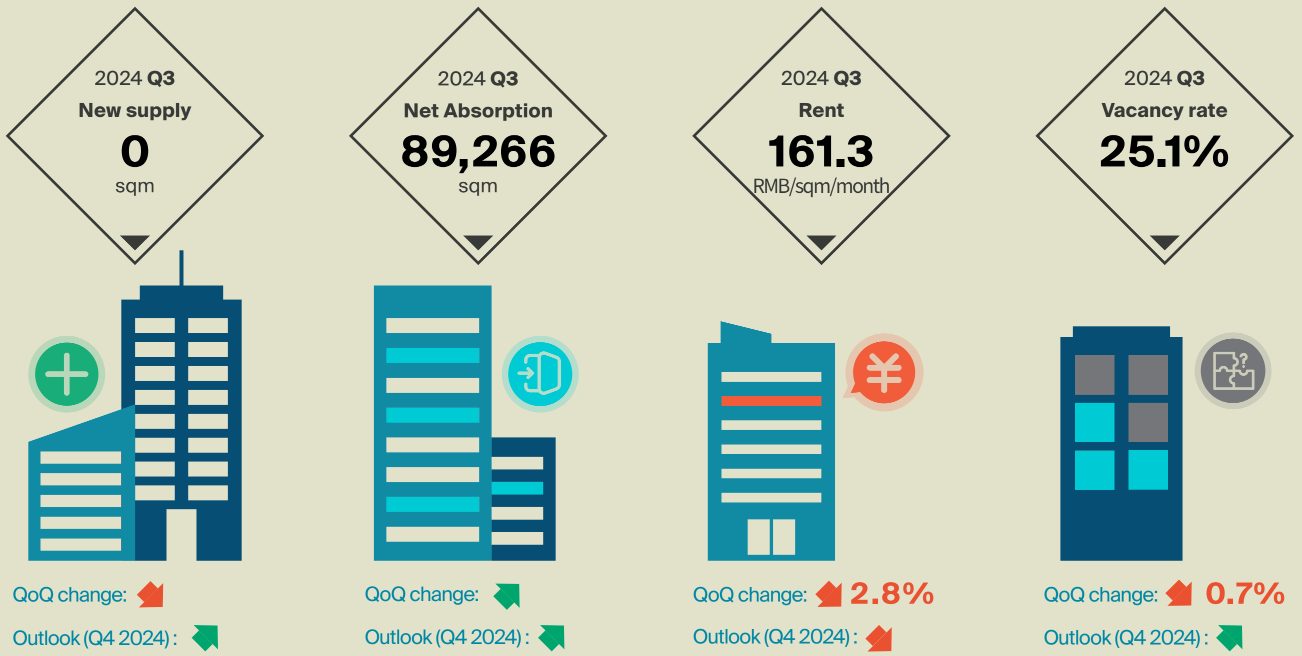
Moderate recovery ahead of the supply and demand peak

In Q3, there was no new supply in the Shenzhen Grade A office market. As leasing activity entered a seasonally active period, the net absorption area increased significantly to 89,000 sqm. Although demand began to show signs of recovery, average rental prices across the city remained under downward pressure, declining by 2.8% QoQ to RMB 161.3 per sqm per month. With the market focusing on destocking, the vacancy rate decreased by 0.7 percentage points QoQ to 25.1%, demonstrating a moderate recovery amid weak market conditions.

An analysis of sectoral demand revealed that leasing interest in Q3 was driven primarily by three key sectors: TMT, accommodation and hospitality, and professional services. The TMT sector, in particular, saw robust growth, with several large transactions exceeding 10,000 sqm. From the investment market perspective, no major transactions were recorded during the quarter. However, as policies aimed at improving capital liquidity start to take effect, the market for large-scale transactions is expected to become more active in the coming months.

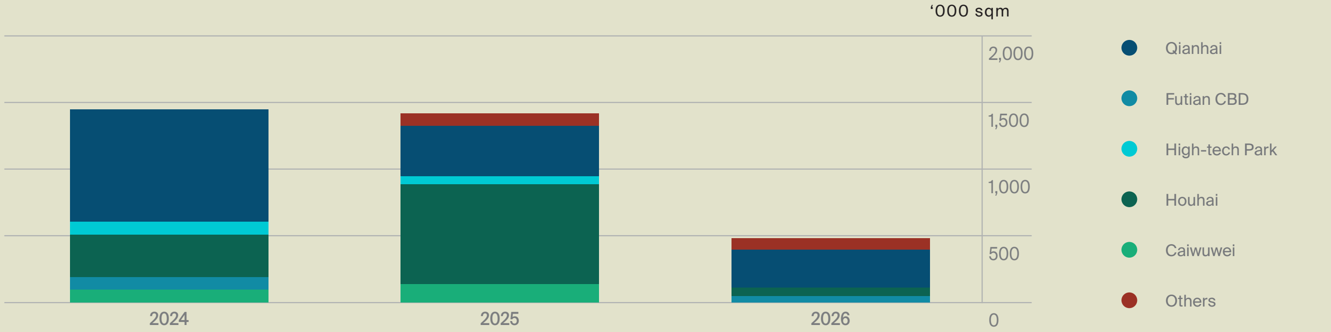
Looking ahead to Q4 2024, the economic recovery is expected to gain momentum, fuelled by several key stimulus measures. The pent-up leasing demand accumulated over the year is likely to be released during this period. However, more than 200,000 sqm of new office space is expected to be launched, posing challenges for landlords. To take advantage of the peak leasing season, many landlords may adopt more competitive pricing strategies to attract and retain tenants. In this context, rental prices across the city are likely to remain under pressure, and vacancy rates may continue to rise.

Fig 1: Shenzhen Grade-A office market reference index[1]



Source: Knight Frank Research
[1] Rent refers to average effective rent
Owner-occupied office area is based on new supply

Fig 2: Shenzhen office development pipeline, 2024-2026



Source: Knight Frank Research
Others include Chegongmiao, Shekou and Bao'an CBD
Projected supply in 2024 includes projects already on the market
Caiwuwei represents Luohu district

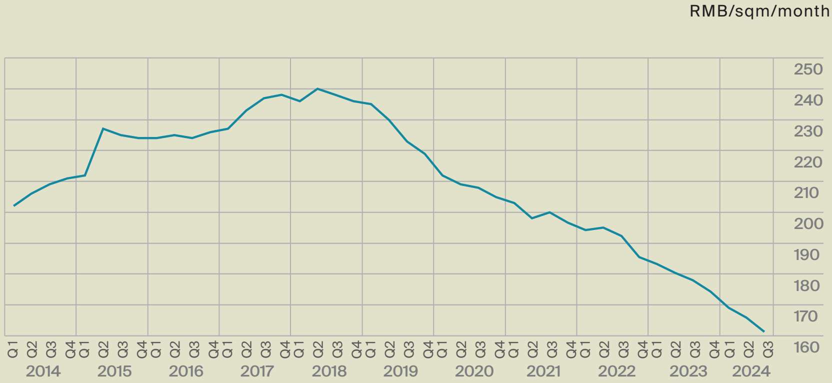
Rental Level

Leasing activity picked up, but rental rates continued to decline

In Q3, the Shenzhen Grade-A office market gradually entered a more active leasing phase, with an uptick in both property viewings and inquiries. However, leadership in leasing negotiations remained firmly in the hands of tenants. After a sluggish Q2, many landlords sought to seize the opportunity to lease vacant space by adopting more competitive pricing strategies to attract tenants. As a result, the city's average office rent fell to RMB 161.3 per sqm per month, down 2.8% QoQ, with an accelerating rate of decline.

Across submarkets, the most significant rental declines were in Futian CBD, Chegongmiao, High-Tech Park and Houhai, with average drops of 5.0%. In Futian, the decline was driven by two key factors: the westward migration of tenants and the ongoing trend of decentralization across Shenzhen's traditional business districts. To retain and attract tenants, landlords in the area adopted more aggressive leasing strategies. In High-tech Park and Houhai, the relocation of several large tenants—especially leading enterprises from the TMT sector—led to a marked increase in vacancy rates, compelling landlords to implement steep rental adjustments to fill vacant space.

Fig 3: Shenzhen Grade-A office rental trend



Source: Knight Frank Research

Looking ahead to Q4 2024, the overall market is expected to enter the peak leasing period, with accumulated leasing demand likely to be released substantially by the end of the year. A noteworthy trend is the accelerating westward migration of tenants, with Qianhai emerging as a key destination. This shift is drawing tenants away from supply-centralized areas, such as the Futian CBD, High-Tech Park and Houhai, Nanshan, exerting additional pressure on these districts. In response, landlords in these areas may adopt further rental adjustments to navigate the changing market dynamics. While rental rates across the city are expected to remain under pressure, the anticipated release of demand is likely to slow the pace of decline.

Table 1: Major Shenzhen Grade-A office sub-market indicators, Q3 2024

Submarket	Rent (RMB / sqm / month)	Rental % changes (QoQ)	Vacancy Rate	Vacancy rate percentage change (QoQ)
Luohu	130.6	↑0.6%	32.1%	↓1.1%
Futian CBD	188.8	↓4.0%	17.4%	↑1.8%
Futian-Chegongmiao	157.7	↓6.7%	28.6%	↓1.8%
Nanshan- High-tech Park	142.2	↓4.4%	15.4%	↓0.7%
Nanshan- Houhai	183.7	↓4.7%	34.8%	↓0.3%
Nanshan- Shekou	159.6	0.0%	37.2%	↓3.2%
Nanshan- Qianhai	151.9	↓0.7%	30.8%	↓3.6%
Bao'an CBD	142.1	↑2.4%	32.1%	↑1.1%

Source: Knight Frank Research

Note: Owing to database adjustments, some data may be different, specific values are based on Q3

Supply and Demand

Entering the initial destocking phase

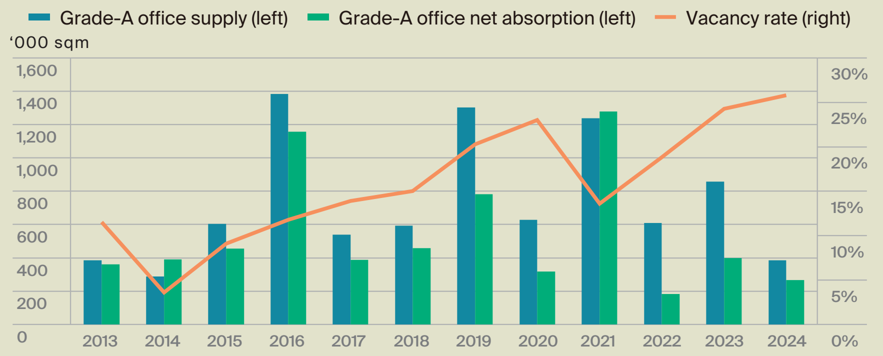
In Q3, there was no new supply in the Shenzhen office market, so leasing activity focused on the absorption of existing inventory. As the market moved further into the peak leasing season, demand became noticeably more active, driving rapid growth in net absorption area, which reached 89,000 sqm, for a QoQ increase of over 30%. This surge in net absorption area contributed to a 0.7 percentage point drop in the citywide vacancy rate to 25.1%.

From an industry perspective, the TMT sector once again led leasing demand, accounting for 57% of the city's total leasing demand. Notably, artificial intelligence software development and cultural media stood out, securing large-scale leases of 50,000 sqm and 20,000 sqm respectively, driving most of the growth in TMT demand. The accommodation and hospitality sector was the second-largest source of leasing demand, rising sharply. This growth was fuelled by the continuous expansion plans of hotels and franchised serviced apartments, which have shown a strong preference for office properties, especially in a market environment in which rents continue to decline. The professional services sector ranked third in leasing demand, with law firms and human resource consultancies demonstrating resilience throughout the year. However, the influx of new tenants from outside the city remained low in Q3.

At the end of Q3, the State Council introduced a series of comprehensive economic stimulus measures aimed at gradually improving the macroeconomic environment. While these measures have shown initial signs of improving economic conditions, restoring full market confidence will take time. For example, the financial sector, a key beneficiary of the "Swap Facility" policy, has yet to exhibit strong leasing demand.

Looking ahead to Q4 2024, Shenzhen's office market is expected to face a significant supply surge, with over 200,000 sqm of new office space entering the market. Although demand is likely to see substantial growth during the same period, the concentrated influx of new supply is expected to push the city's overall vacancy rate higher.

Fig 4: Shenzhen Grade-A office supply, take-up and vacancy rate



Source: Knight Frank Research
The supply and net absorption of Grade A office space in 2024 is accumulated
The 2024 vacancy rate is for Q3

Table 2: Major Shenzhen Grade-A office leasing transactions, Q3 2024

District	Building	Tenant	Area (sqm)	Transaction Type
Nanshan	Shenzhen Bay Innovation and Technology Centre	BFace'Mon	55,500	Relocation
Futian	Shenzhen KAIFA Plaza	STCN	20,000	Relocation
Qianhai	COFCO Qianhai Innovation Centre	Klook	9,000	Relocation
Nanshan	Gemdale Viseen Tower	Xiaohongshu	5,000	New Setup
Futian	NEO Building	Caihuoxia	3,500	Relocation
Nanshan	Aerospace Science and Technology Building	GalaxyCore	3,166	Relocation
Qianhai	Qianhai Horoy Centre	Seventh Impression Entertainment	3,000	Relocation
Qianhai	Qianhai Kerry Centre	ABET	2,400	Relocation

Source: Knight Frank Research
Note: all transactions are subject to confirmation

Investment Market

Favourable factors fuel momentum in en-bloc transactions

Although no en-bloc transactions were recorded in Shenzhen's office investment market during Q3 2024, there was a notable increase in market inquiries, reflecting rising interest. This shift was driven primarily driven by policy factors that stimulated activity in the en-bloc transaction sector.

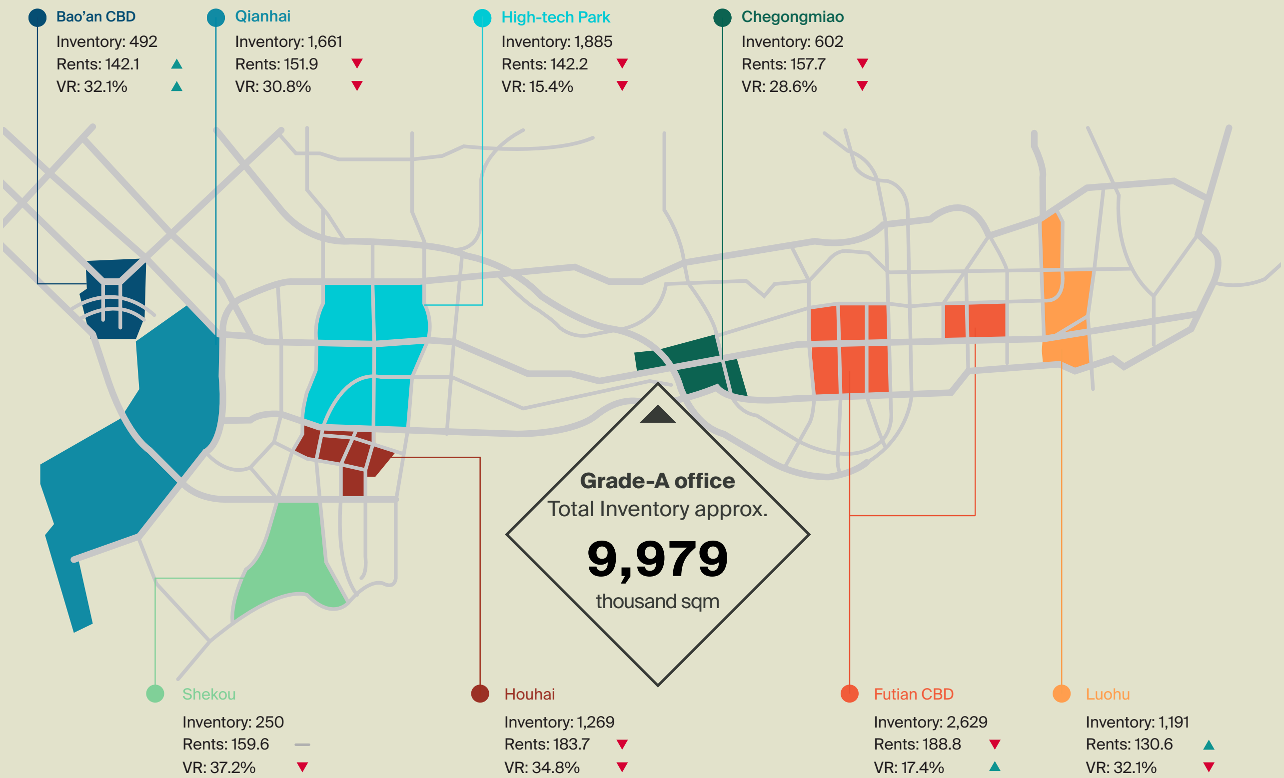
On 18 September, the U.S. Federal Reserve announced a 50-basis-point cut to the federal funds rate. Shortly afterward, on 24 September, China's State Council responded with a package of more than 10 key monetary measures, including monetary relaxing, fiscal stimulus, targeted support for the real estate sector, and incentives for the stock market—marking a milestone in both scope and impact.

This policy package not only helped stabilize and boost the domestic economy, but also accelerated the inflow of foreign capital. As a result, domestic real estate assets, particularly commercial properties, are increasingly attracting the interest of both domestic and international investors.

Looking ahead to Q4, market participants broadly expect the U.S. Federal Reserve to implement further rate cuts to enhance financial market liquidity. This move could reshape global capital flows and create more opportunities for foreign capital to enter Shenzhen's office investment market, further stimulating market activity and growth.

Shenzhen Grade-A office market dashboard Q3 2024

Shenzhen Grade-A office inventory, rents and vacancy rates of major business districts



Source: Knight Frank Research

Note: unit for market inventory – 1,000 sqm; rents using average effective rent at RMB/sqm/month; VR refers to average vacancy rate

Owing to database adjustments, some data may be different, specific values are based on Q3

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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