Shenzhen Grade-A Office Market Report

Q4 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

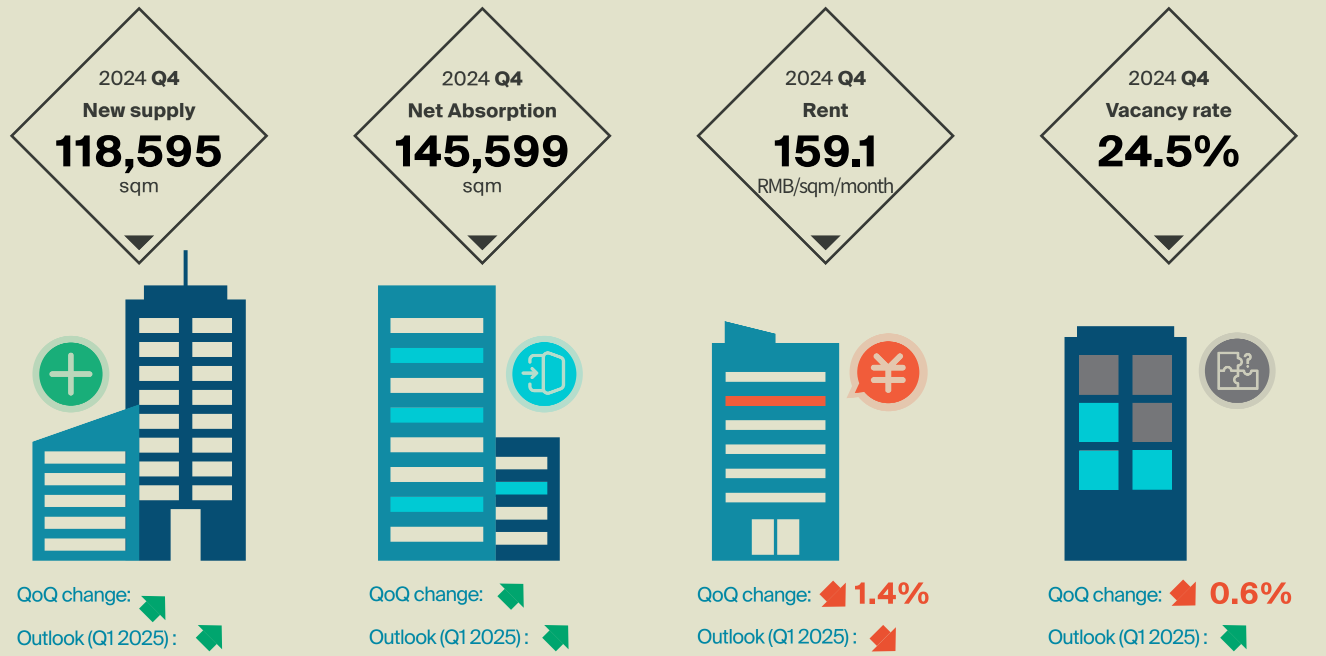
The phenomenon of rising supply and falling rents is expected to persist into the next quarter

In Q4, Shenzhen's Grade A office market experienced simultaneous surges in supply and demand, following two quarters of subdued leasing activity. During this period, the market saw approximately 119,000 sqm of new supply, pushing the total inventory of Grade A office space in the city past 10 million sqm for the first time. Meanwhile, net absorption reached approximately 146,000 sqm, marking a significant improvement. Despite these cyclical positive drivers, the market continued to face notable destocking pressure, with average rents declining by 1.4% to RMB 159.1 per sqm per month. However, robust leasing demand helped the citywide vacancy rate decrease by 0.6 percentage points QoQ to 24.5%, indicating a modest recovery trend.

Looking back over the year, the TMT sector, professional services and financial industries remained the three primary drivers of leasing demand in Shenzhen's Grade A office market. Among these, the TMT and professional services sectors demonstrated strong demand stability, consistently leading leasing transactions citywide. From the perspective of demand type, relocation continued to dominate, while demand for new office setups accounted for 32.4% of total leased space. Notably, among lease transactions involving non-local enterprises, those from other cities in the Greater Bay Area represented 41.8% of the total, and Beijing was the top source of demand from outside the province. On the investment front, no en-bloc transactions were recorded in Q4, as institutional buyers maintained a cautious, wait-and-see approach.

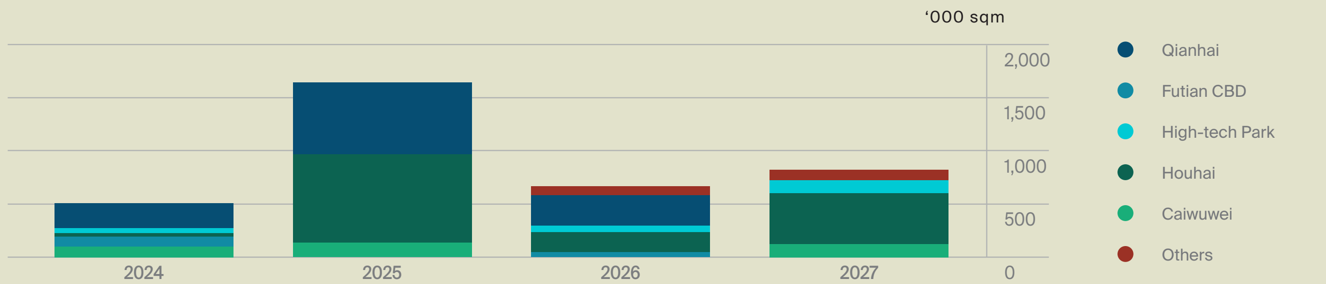
Looking ahead to Q1 2025, both supply and demand in Shenzhen's Grade A office market are expected to continue to expand. On the supply side, growth will stem primarily from projects delayed in 2024, while demand is expected to benefit from delayed transaction disclosures from year-end and landlords' more aggressive leasing strategies to get a good start to the year. However, with new supply entering the market and existing inventory piling up, citywide rents are expected to remain on a downward trend. The vacancy rate is likely to fluctuate within a cyclically reasonable range.

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

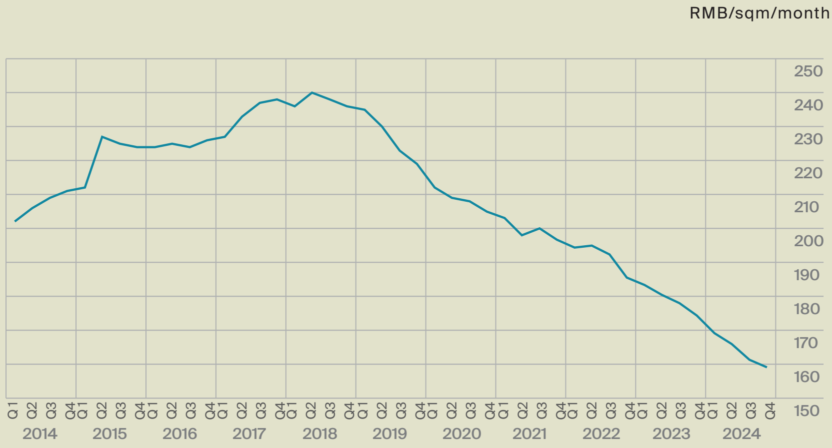
Rental Level

Rents continue to seek a support level

In Q4, the average rent in Shenzhen's office market declined to RMB 159.1 per sqm per month, representing a 1.4% QoQ decrease. While the rate of decline noticeably narrowed, rents in the Grade A office market have yet to bottom out. They have now fallen for 10 consecutive quarters, with the cumulative annual decline exceeding that of the previous year, indicating that the market is still searching for a support level amid ongoing adjustments.

From a submarket perspective, Futian CBD and Chegongmiao saw modest rebounds in Q4, following three quarters of significant adjustments, with rents increasing by 1.1% and 2.7% QoQ, respectively. However, other submarkets continued to see declines in rents, with Qianhai recording the steepest drop of 6.3%, owing to the impact of new supply. Notably, in submarkets such as the High-tech Park and Bao'an CBD, landlords with diversified industry backgrounds began adopting integration strategies. These include relocating upstream and downstream enterprises or related departments into their own properties to alleviate destocking pressure.

Fig 3: Shenzhen Grade-A office rental trend



Source: Knight Frank Research

Looking ahead to Q1 2025, no clear drivers are expected to significantly boost leasing demand, and several projects delayed from 2024 are set to enter the market simultaneously. As a result, downward pressure on average rents in Shenzhen's Grade A office market is likely to persist. However, the first quarter traditionally marks the peak season for Shenzhen's office leasing market, with the transition between fiscal years potentially stimulating demand. This could help moderate the rate of decline, with the pace of rent drops expected to narrow further.

Table 1: Major Shenzhen Grade-A office sub-market indicators, Q4 2024

Submarket	Rent (RMB / sqm / month)	Rental % changes (QoQ)	Vacancy Rate	Vacancy rate percentage change (QoQ)
Luohu	129.3	↓1.0%	31.6%	↓0.5%
Futian CBD	190.9	↑1.1%	16.3%	↓1.1%
Futian-Chegongmiao	162.0	↑2.7%	24.2%	↓4.4%
Nanshan- High-tech Park	139.3	↓2.0%	13.7%	↓1.7%
Nanshan- Houhai	180.8	↓1.6%	35.7%	↑0.9%
Nanshan- Shekou	159.6	0.0%	37.2%	0.0%
Nanshan- Qianhai	142.3	↓6.3%	34.6%	↑3.8%
Bao'an CBD	138.7	↓2.4%	30.0%	↓2.1%

Source: Knight Frank Research
Note: Owing to database adjustments, some data may be different, specific values are based on Q4

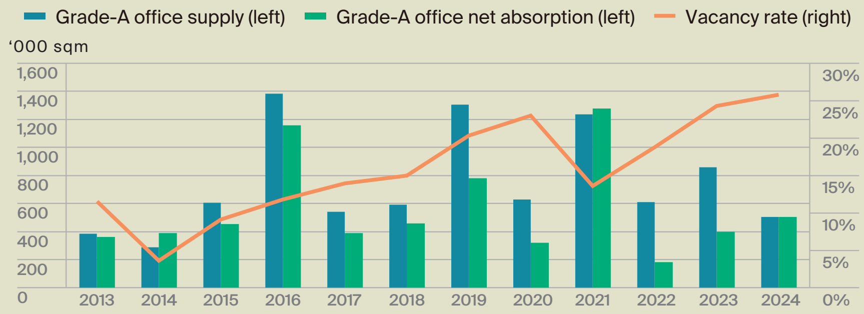
Supply and Demand

Supply and demand recover as expected, but destocking pressure remains significant

In Q4, the launch of the China Venture Capital Building added over 110,000 sqm of new supply to Shenzhen's Grade A office market, pushing the city's total inventory above 10 million sqm for the first time. Following two consecutive quarters of sluggish leasing activity, pent-up demand from earlier in the year finally surged, with quarterly net absorption of 145,000 sqm, showing significant growth both QoQ and YoY. On an annual basis, however, net absorption in Shenzhen's Grade A office market stood at approximately 502,000 sqm, reflecting a slight YoY decline. Owing to multiple project delays, total new supply for the year reached only 504,000 sqm, with both new supply and net absorption falling below the decade-long average, indicating weaker market confidence.

By industry, the manufacturing, professional services and TMT sectors were the top three sources of leasing demand in Q4. TMT led the way with a 29.3% share, driven by demand from fields such as autonomous driving, gaming, sports technology and software development. Professional services demonstrated strong resilience, accounting for 22.2% of demand, with human resources and law firms the primary contributors. Manufacturing, at 18.7%, ranked third, supported by office demand from companies in new energy equipment, instrumentation, and beauty products R&D and production. However, demand for newly established offices declined slightly, representing 22.3% of total leasing transactions. Expansion demand continued to outpace contraction demand, with TMT serving as the main expansion driver.

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 Q4

Looking back over the year, the TMT, professional services and financial sectors remained the core pillars supporting Shenzhen's Grade A office leasing market, with financial sector demand concentrated in securities services. In terms of transaction types, relocations dominated leasing activity across the city. Apart from intra-district relocations, Qianhai emerged as the preferred destination for tenants moving from other regions. Among relocations from Luohu, Futian and Nanshan, leases in Qianhai accounted for 63.3%, 11.8% and 17.6%, respectively. New office setups constituted 32.4% of annual leasing transactions, with demand from non-Shenzhen cities in the Greater Bay Area representing 41.8% of all external corporate leasing demand. Beijing was the primary source of demand from outside the province.

Looking ahead to 2025, total new supply is expected to reach 1.6 million sqm, resulting in continued high supply-side pressure. However, as many future new supplies are positioned as headquarters, with a higher proportion of self-use, the volume of publicly available market supply may be lower than expected. Nevertheless, with the overall economic outlook showing limited improvement and market confidence yet to recover, demand growth momentum is expected to remain weak, resulting in persistent destocking pressure. Specifically, in Q1 2025, the concentrated launch of projects delayed from 2024 and those scheduled for 2025 will likely drive the citywide vacancy rate higher, as the influx of new supply continues to weigh on the market.

Table 2: Major Shenzhen Grade-A office leasing transactions, Q4 2024

District	Building	Tenant	Area (sqm)	Transaction Type
Futian	Ping'an Finance Centre	Apple	18,000	New Setup
Futian	C Future City West Tower	MINIEYE	4,000	Expansion
Futian	Upper Hill	ZIM	3,000	Relocation
Nanshan	Gemdale Viseen Tower	Speediance	3,166	Relocation
Qianhai	Kexing Science Park	Tencent Games	3,000	Relocation
Qianhai	One Excellence Qianhai	Meta-spacetime	2,700	Relocation
Nanshan	Ali Center	Rayvision	2,400	Relocation
Qianhai	Foresea Life Center	China Coal Research Institute	2,200	Relocation

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

Investment Market

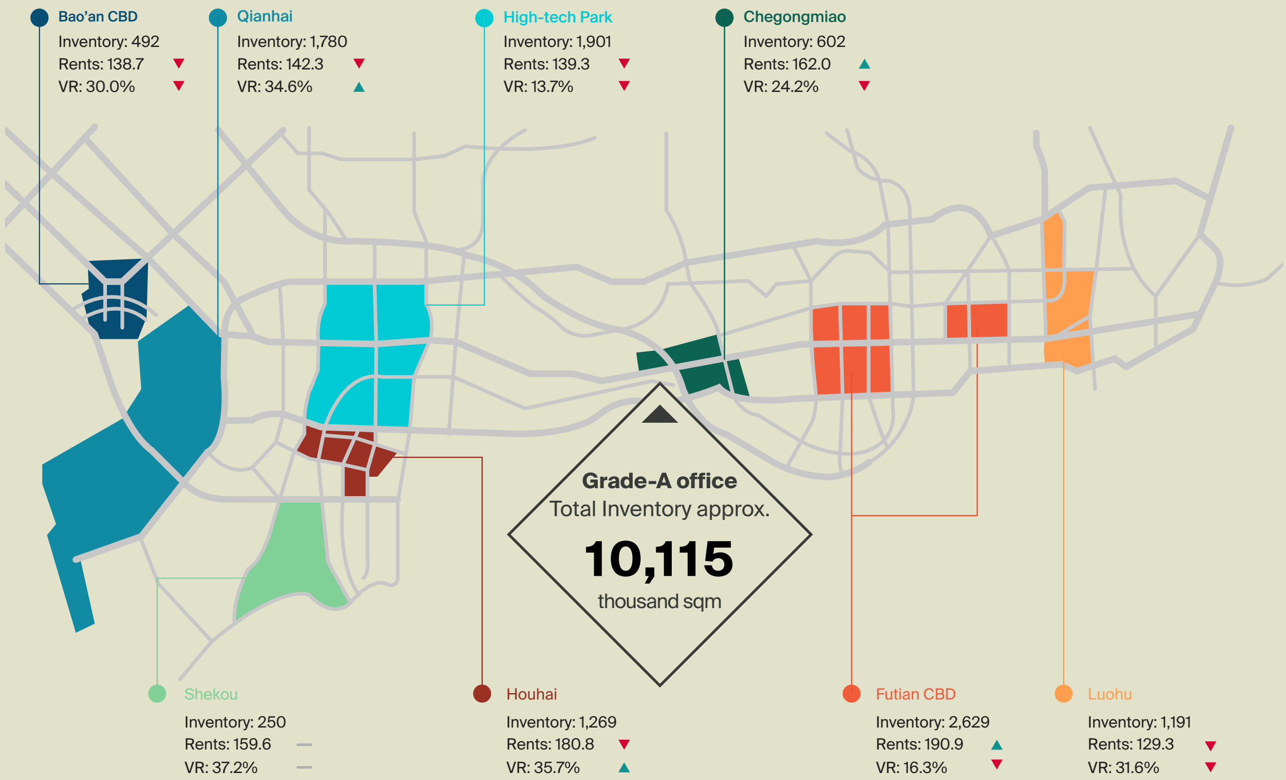
A More Cautious Approach in the Post-Boom Investment Market

In Q4 2024, Shenzhen's large-scale office investment market recorded no en-bloc transactions. Following a surge in inquiries in Q4, market activity saw a cyclical decline. For full-year 2024, the total transaction value of en-bloc office investments in Shenzhen reached approximately RMB 2.7 billion, representing a YoY decline of over 50%. This reflects a continued cautious and wait-and-see attitude among institutional buyers.

In response to three consecutive interest rate cuts by the U.S. Federal Reserve, China implemented a series of economic policies aimed at enhancing liquidity and stimulating growth. Among these, the introduction of a real estate "white list" provided critical relief to some domestic property developers facing financial pressure. While the overall debt-servicing risk for commercial real estate bond issuers remains manageable, many sellers are under significant pressure to repay debt, resulting in frequent discounted asset transactions. Under the dual pressures of declining interest rates and falling rental incomes, asset devaluation risks have intensified further. These factors have made en-bloc transaction buyers increasingly cautious, so they are opting to stay on the sidelines in anticipation of more favourable entry opportunities.

Shenzhen Grade-A office market dashboard Q4 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 Q4

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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