MARKET IN MINUTES
Savills Research

Office

Vacancy rates decline further

Limited supply allowed vacancy rates to slide an additional 1.0 ppt in Q3/2024.

- No new Grade A supply was handed over in Q3/2024, leaving the total stock at 2.7 mn sqm.
- Net take-up increased 14.2% in Q3/2024 to 27,500 sqm, pushing take-up in the first three quarters of 2024 to 58,200 sqm, less than 40% of FY2023.
- Huanglong and Qianjiang New City contributed 80% of the net absorption in the first three quarters of 2024. Meanwhile, Qingchun Road and Future Sci-tech City recorded office space being handed back to the market.
- New demand continued to absorb the existing stock, with the citywide vacancy rate falling 1.0 ppt in Q3/2024 to 25.8%. This represents the fourth consecutive quarterly decline, totalling 5.2 ppts YoY.
- Grade A office rents fell 1.6% in Q3/2024 to an average of RMB4.3 psm pday, with the smallest declines (-0.7%) in primary locations and the largest fall (-4.1%) in emerging areas.
- Leasing activity has been driven by service companies, particularly law firms among the professional services and education institutions among consumer services.
- An influx of new projects in 2025 is likely to boost upgrading demand from older developments.

"Amidst market adjustments, proactive strategies from both landlords and tenants are shaping the future of the office sector. While some tenants leverage early lease negotiations to secure better terms, others lock in quality space well in advance."

JAMES MACDONALD, SAVILLS RESEARCH

Savills team

Please contact us for further information

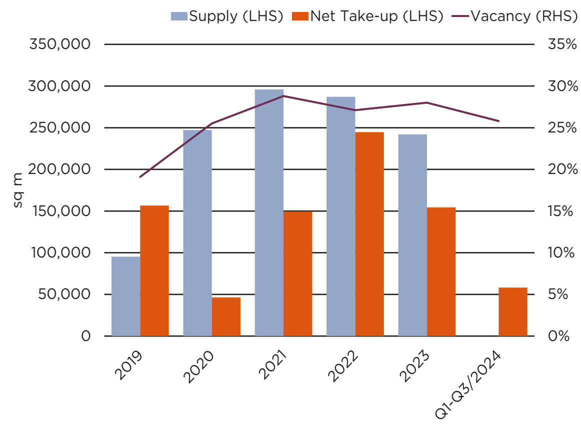
RESEARCH

James Macdonald
Senior Director
China
+8621 6391 6688
james.macdonald@savills.com.cn

COMMERCIAL

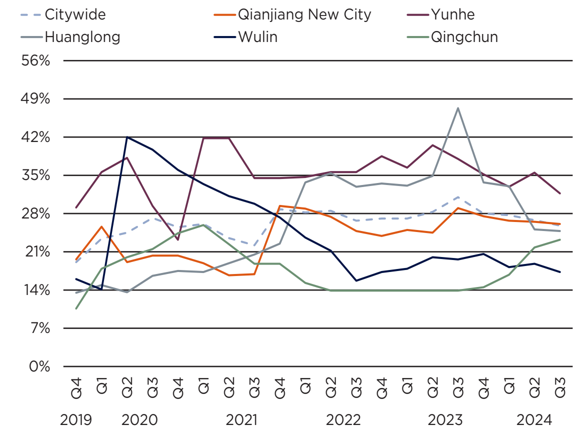
Cary Zheng
Senior Director
Central China
+8621 6391 6688
cary.zheng@savills.com.cn

GRAPH 1: Supply, Net Take-up And Vacancy Rates, 2019 to Q3/2024



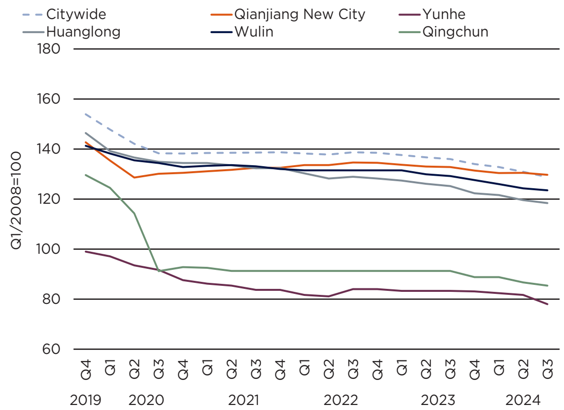
Source Savills Research

GRAPH 2: Grade A Office Vacancy Rates, Q4/2019 to Q3/2024



Source Savills Research

GRAPH 3: Grade A Office Rental Indices, Q4/2019 to Q3/2024



Source Savills Research

MARKET COMMENTARY

Local authorities continue to roll out a series of measures to create a healthier business environment. Notable measures include the expanded eligibility of headquarter firm subsidies (city-level), encouragement of commercial-to-residential land conversions (city-level), the establishment of more robust policy frameworks for fast-growing industries such as live-streaming and service industries (city-level), and the termination of district corporate tax rebates (national level).

Leading developers of projects completing next year have been aggressively proactive in signing up tenants earlier than normal (12 months before lease expiry) to ensure healthy occupancy rates during these challenging times. Other tenants meanwhile are engaging with their existing landlords to secure more preferential rates, while most landlords are unwilling to reduce/adjust the terms of the existing contract, some are willing to offer very attractive incentives if tenants agree to early extensions of their existing leases.

SUPPLY AND STOCK

No new supply entered the market in Q3/2024, keeping total stock steady at 2.66 million sqm. Wulin, Huanglong, and Qianjiang New City remain the primary office markets, accounting for 63% of total stock.

Net absorption reached 27,500 sqm in Q3/2024, up 14.2% QoQ but down 50.3% YoY. The 58,200 sqm take-up in the first three quarters of the year represents less than 40% of FY2023, underscoring the lack of demand. Even financially stable companies remain cautious in the short term, with office inspections in some projects down 30% compared to 2023.

Nevertheless, demand from service companies, especially in the legal and educational sectors, remains positive. The increasing number of legal cases has driven demand for lawyers, subsequently expanding office requirements. According to the Bureau of Justice, the number of legal cases, including litigation, non-litigation, and legal aid in Hangzhou, totalled 220,400 in 1H/2024, a 69% increase from 2H/2023.

The education and training sector also continues to grow, with companies like New Channel, Xueersi, and New Oriental actively leasing new space. Typically, 20-30% of leased space is used for business administration, while 70-80% is for training. Mixed-use projects and proximity to schools are preferred locations for parents' convenience, synergies/partnerships and enhanced marketing opportunities.

RENTS AND VACANCY RATES

With no new supply in Q3/2024, the market focused on absorbing existing stock. The citywide office vacancy rate fell 1.0 ppt in Q3/2024 to 25.8%, down 5.2 ppts YoY. However, this reduction is expected to be short-lived due to a wave of new supply in Q4/2024 and 2025, comprising eight projects totalling 565,000 sqm.

Grade A office rents fell by 1.6% QoQ to an average of RMB4.3 psm per day, down 5.3% YoY. Landlords now offer deeper discounts and longer rent-free periods.

Citywide Grade A office rents have fallen by 7% over the past three years and 17% over the past five years. Many tenants are still negotiating lease renewals, aiming to align their rents with current market averages, often renewing in their current premises in exchange for more rent-free periods.

MARKET OUTLOOK

Only one project, the 26,000-sqm New World China Front Tower, is scheduled for launch in Q4/2024. This project is located southwest of the Qianjiang New City area (or known as Wangjiang New Town), with a second phase, the 48,000-sqm K11 Atelier, planned for completion in 2027.

In 2024, Hangzhou has seen over 500 mu (333,000 sqm) of commercial-zoned land converted into residential use, to increase housing supply and ease the oversupplied office market. Other cities, such as Shanghai, Shenzhen, Changsha, and Wanning, are also doing the same. This should reassure developers and investors that while the market is going through a period of adjustment at the moment, it should eventually stabilize and find a new equilibrium point as supply-side pressures ease.

TABLE 1: Notable Leasing Transactions, Q3/2024

TENANT	INDUSTRY	PROJECT	SUBMARKET	GFA (SQM)
Kuaishou	Media & Entertainment	The Starry Centre	Binjiang	15,000
ICBC Trust	Finance	Taiping Financial Tower	Qianjiang New City	6,000
New Channel	Consumer Services	GDA Plaza	Wulin	1,800

Source Savills Research