



## Destocking driven by existing tenants

Leasing demand from IT and services continue to tick up.

- In Q2/2024, no new supply was launched onto the Wuhan Grade A office market. By quarter-end, citywide office volume remained at 2.92 million sqm.
- By demand side, quarterly new absorption was 5,700 sqm, down 25.9% QoQ. Accumulated take-up in H1/2024 reached 13,000 square meters, down over 70% YoY. The service industry continued upgrade and opening activities. Also, non-academic education showed signs of recovery.
- Leasing activities were driven by upgrade and relocation activities, which accounted for 52.6% and 16.7% respectively, and 66.9% in total during H1/2024.
- By the end of Q2/2024, the average vacancy rate of Grade A office decrease by 0.2 ppts QoQ and 0.6 ppts YoY to 38.8%. The average Grade A office rent remained in the downward trend, recorded at RMB 86.4 psm pmth, down 8.5% YoY and 1.3% QoQ. Accumulated decrease ticked up to 2.9% in H1/2024.
- Looking forward to H2/2024, the new supply of Grade A office is anticipated to reach 104,000 sqm. This year may still be a favourable time to destock due to limited supply, but it is still difficult to turn down the market vacancy level, and rents will still be on a downward path.

“Q2/2024, no new supply was launched onto the Wuhan Grade A Office market for three consecutive quarters. Service sector remained active in the leasing market, pushing the vacancy rate down to 38.8%. Limited new supply present destocking opportunities, but the rental decline is expected to persist.”

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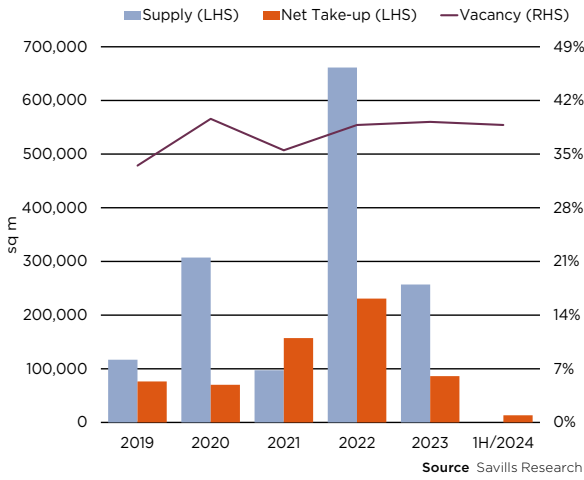
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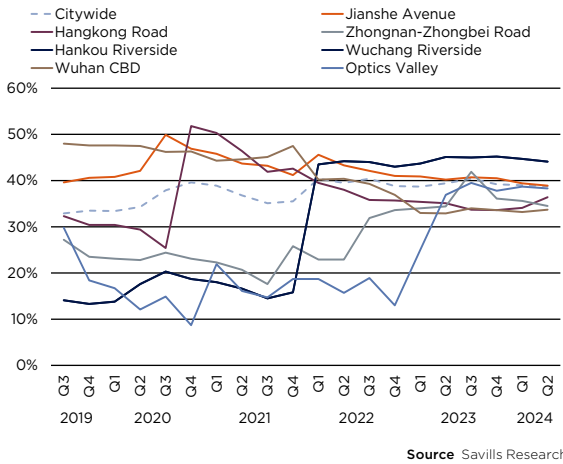
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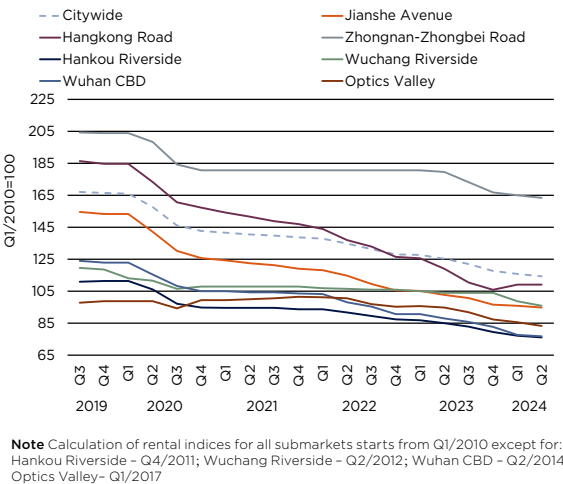
**GRAPH 1: Grade A Office Supply, Take-Up And Vacancy Rates, 2019 to 1H/2024**



**GRAPH 2: Submarket Vacancy Rates, Q3/2019 To Q2/2024**



**GRAPH 3: Submarket Rental Indices, Q3/2019 To Q2/2024**



**Note** Calculation of rental indices for all submarkets starts from Q1/2010 except for: Hankou Riverside - Q4/2011; Wuchang Riverside - Q2/2012; Wuhan CBD - Q2/2014; Optics Valley - Q1/2017

**SUPPLY AND DEMAND**

In Q2/2024, no new supply was launched onto the Wuhan Grade A office market, same as the previous two quarters. By quarter-end, the citywide office remained at 2.92 million sqm.

By demand side, quarterly new absorption was 5,700 square meters, with a 25.9% QoQ decrease. Total take-up in H1/2024 reached 13,000 square meters, down over 70% YoY. Without the contribution of the headquarter economy, the leasing market has had a weak performance since H1/2021. Without new leasing demand, upgrading and relocation activities from exiting tenants drove occupancy rate improvement. Due to cost control, average leasing area continued to shrink, and fell lower than the average withdrawal level. The destocking impetus was further weakened.

The service industry continued upgrade and opening activities and contributed the most demand, accounting for 22.3% during Q2/2024, and 28.5% in H1/2024. Non-academic education also showed signs of recovery. Consumer manufacturing industry's upgrade demand gradually released. At the same time, owners have maintained a high degree of flexibility in the leasing strategy in order to boost the occupancy rates.

Leasing activities were driven by the upgrade and relocation activities, which

accounted for 52.6% and 16.7% respectively, and 66.9% in total during H1/2024. By the area of new lease, the number of the companies with less than 300 sqm accounted for 63.4%, up over 10.0 ppts YoY during H1/2024. Meanwhile, the contribution of over 1,000 sqm decreased.

**RENTS AND VACANCY RATES**

By the end of Q2/2024, the average vacancy rate of Grade A office decrease by 0.2 ppts QoQ and 0.6 ppts YoY to 38.8%. The average Grade A office rent remained the downward trend at RMB 86.4 psm pmth, down 8.5% YoY and 1.3% QoQ. The decline extended to 2.9% in H1/2024.

**MARKET OUTLOOK**

Looking forward to H2/2024, the new supply of Grade A office is anticipated to reach 104,000 sqm. This year may still be a favourable time to destock due to limited supply, but it is still difficult to turn down the market vacancy level, and rents will still be on a downward path. An annual decrease of 6-8% is expected in 2024.

**TABLE 1: Selection Of Leasing Transactions, Q2/2024**

TENANT	INDUSTRY	PROJECT	BUSINESS AREA	GROSS FLOOR AREA (SQ M)
Wonderjck	Service	Wuhan Poly Plaza	Zhongnan Zhongbei Road	2,000
Yiwu Zhongying Daily Necessities	Retail	mTower	Optics Valley	2,000
Honor	IT	1 Corporate Avenue	Hankou Riverside	1,000
CCSI	Service	China Overseas Center	Jianshe Avenue	850

Source Savills Research