

# Shanghai Grade-A Office Market Report



Q1 2023

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

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# Overview and Outlook

## ► Leasing demand from foreign companies picks up

In the first quarter (Q1), four new office projects were completed, adding a total of 318,903-sqm of office space to the market, a 5.6% increase QoQ and a significant increase of 134% YoY.

In Q1, the average market rent decreased slightly by 0.23% QoQ to RMB8.48 per sqm per day. Rents in the core CBDs and CBDs stabilised while rents in the emerging business districts and expanded CBDs continued to decrease. The market vacancy rate continued to rise slightly by 0.2 percentage point to 16.9% on the back

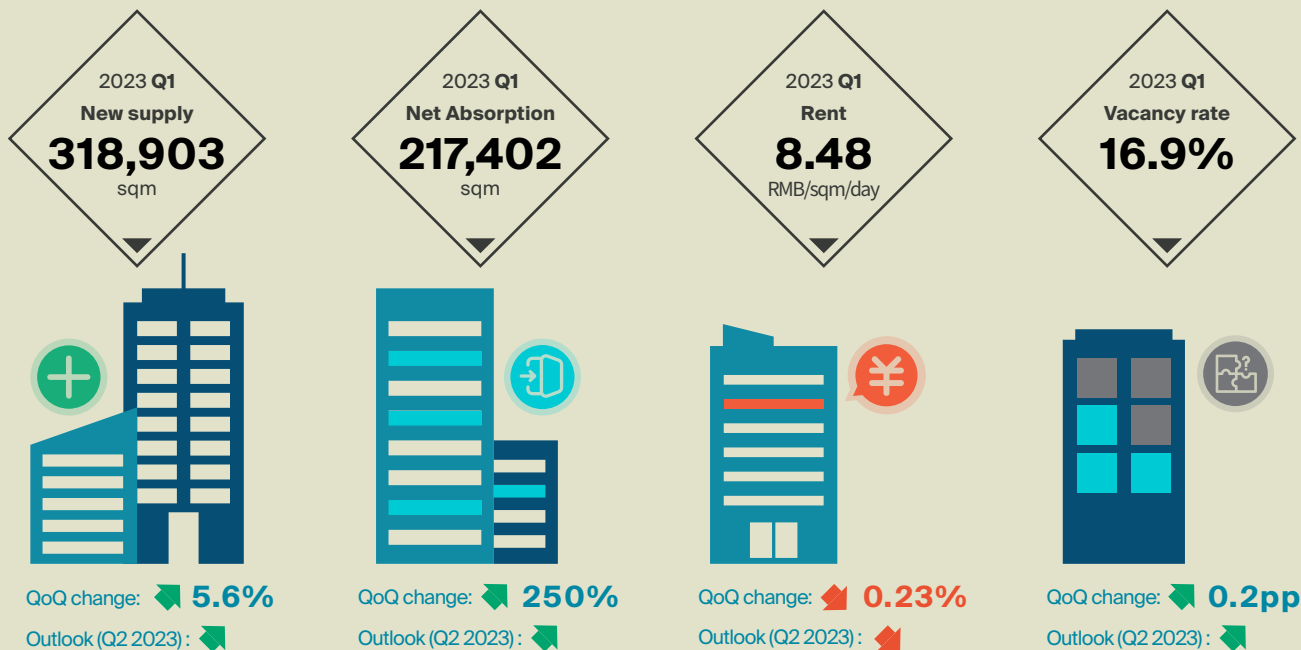
of new projects entering the market. In Q1, the net absorption reached 217,402 sqm, a significant increase QoQ.

In Q1, market leasing activities came mainly from the financial, professional services and TMT sectors. Leasing demand from domestic companies still dominates, although there has been a steady increase in leasing demand from foreign companies, with a markable increase in leasing demand from trading companies.

Several new projects are expected

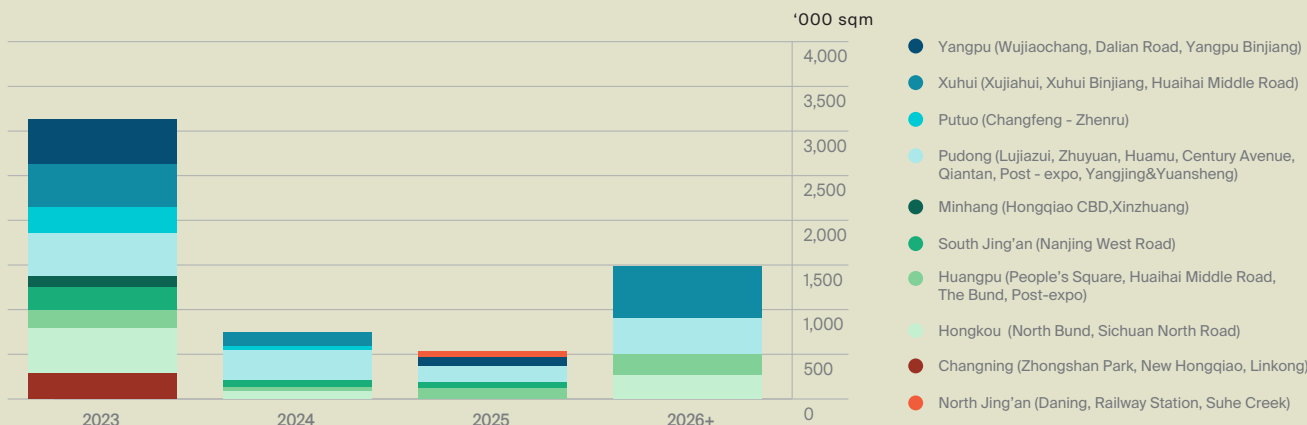
to be completed this year, adding over 2 million sqm of office space to the market. The pressure to rent out space from the large number of new projects coming onto the market will result in landlords offering more competitive leasing packages and pricing strategies to tenants. We expect the market to become more differentiated, with occupancy rates and market rents rising in the core CBDs and CBDs, and downward pressure on rents and occupancy rates in emerging business districts and expanded CBDs.

**Fig 1: Shanghai Grade-A office market indicators<sup>[1]</sup>**



Source: Knight Frank Research  
[1] Rent refers to average effective rent

**Fig 2: Shanghai office development pipeline by district, 2023-2026+**



Source: Knight Frank Research

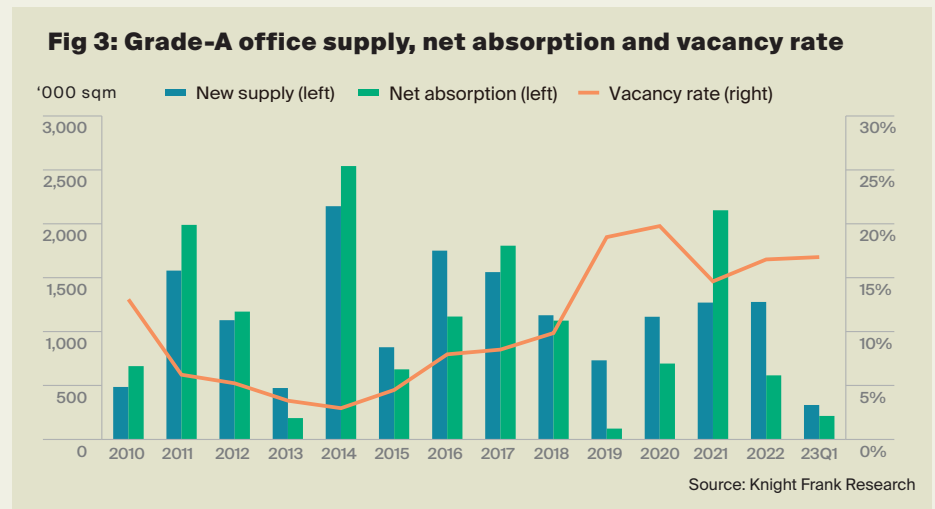
# Supply and Demand

## ► Strong leasing demand from high rent paying sectors in the core CBDs

The four new office projects completed in Q1 are in the core CBDs, CBDs and emerging business districts. Among them, LuOne is in the south expanded area of Huaihai Middle Road, the core CBD area, with a total office gross floor area of approximately 49,207 sqm. United Centre is in the New Hongqiao Area, one of the CBD areas, with an office area of approximately 94,130 sqm. T Centre (146,000 sqm) and Dream Voice (29,566 sqm) are in the emerging business districts of Putuo Zhenru-Changfeng and Xuhui Binjiang respectively.

The impact of market events such as the full implementation of the registration system for stock issuance, the easing of financing for real estate enterprises and the promotion of infrastructure Reits has led to a significant increase in business volume for financial institutions and professional services firms such as law firms, consulting and valuations, generating demand for office space upgrades and expansion.

The wave of economic globalisation has led to closer ties between



economies, and optimism about domestic economic growth has led foreign companies to continue to invest more in China, with foreign manufacturing companies, trading companies and professional services firms were active in the leasing market in Q1.

In terms of new leasing transactions, over a third of the market's leasing

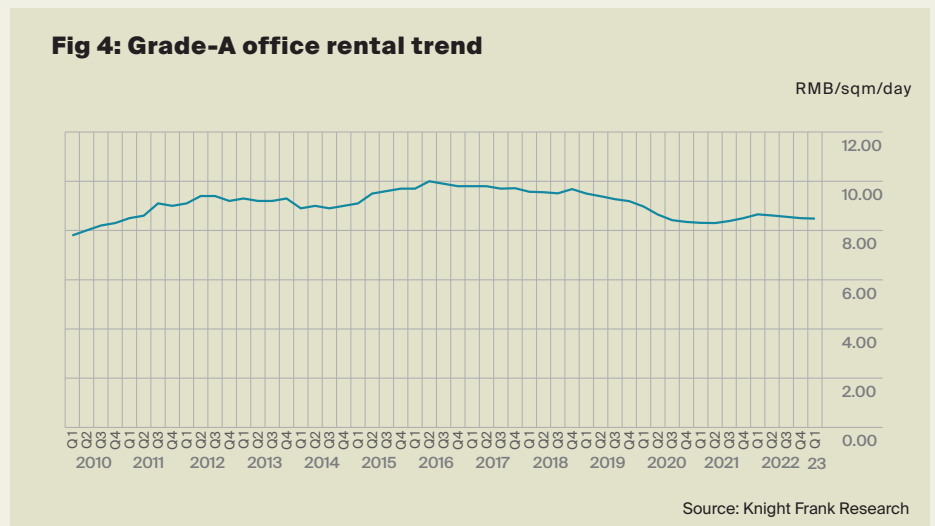
transactions came from the core CBDs, which is closely related to the location preferences of financial institutions, professional services, and foreign-owned trade and retail brands that were active during the quarter. Among them, Little Lujiazui was the sub-market with the highest leasing activity in all the core CBDs, contributing to over half of the market's lease renewal and relocations.

# Rents

## ► Rents in the core CBDs and CBDs stop falling and rebound

In Q1, the average Grade-A office rent continued to drop to RMB8.48 per sqm per day, a slight decrease of 0.23% QoQ. Market rents in the core CBDs and CBDs stopped falling and rebounded, driven by the continued release of leasing demand from high-rent paying sectors. Average rent in the core CBDs increased by 0.62% QoQ to RMB11.45 per sqm per day, with the average rent in Little Lujiazui increasing by 1.84% QoQ to RMB12.06 per sqm per day.

Market rents in the emerging business districts and expanded CBDs continued to decline, with YoY declines of 1.2% and 0.7% respectively, as landlords adjusted rents to achieve



better market take-up in a competitive leasing environment. It is worth noting that the Bund area recorded a QoQ rental increase during the quarter, with rents jumping 5.17% to RMB10.16 per sqm per day, benefiting from the spillover of demand from high-rent companies such as financial and professional services companies in Little Lujiazui.

**Table 1: Major Grade-A office leasing transactions, Q1 2023**

Submarket	Building	Tenant	Area (sqm)	Type
Little Lujiazui	ICBC Tower	Hongta Securities	5,400	Expansion
Qiantan	Crystal Plaza	Kaixiang Industrial	2,942	New Lease
Nanjing West Road	JC Plaza	FoutainVest	2,100	New Lease
Little Lujiazui	BEA Finance Tower	X-GIANTS	2,000	Renewal
Suhe Creek	Lonsen Fuxin Hui	Qitian Technologies	1,850	Expansion

Source: Knight Frank Research

Note: All transactions are subject to confirmation

# Investment Market

## ► Insurers active in buying properties, owner-occupier buyers dominate market

In Q1 2023, there were eight en-bloc transactions in the Shanghai office market, involving a total value of over RMB8.0 billion. Insurance companies, state-owned enterprises and technology companies for their own use were the main types of buyers in the market during the quarter. The slow recovery of the global economy and the uncertain future after the epidemic has led financial institutions, including banks, insurance and funds, to buy property to preserve its value. Office buildings have remained one of the most sought-after property types in the market.

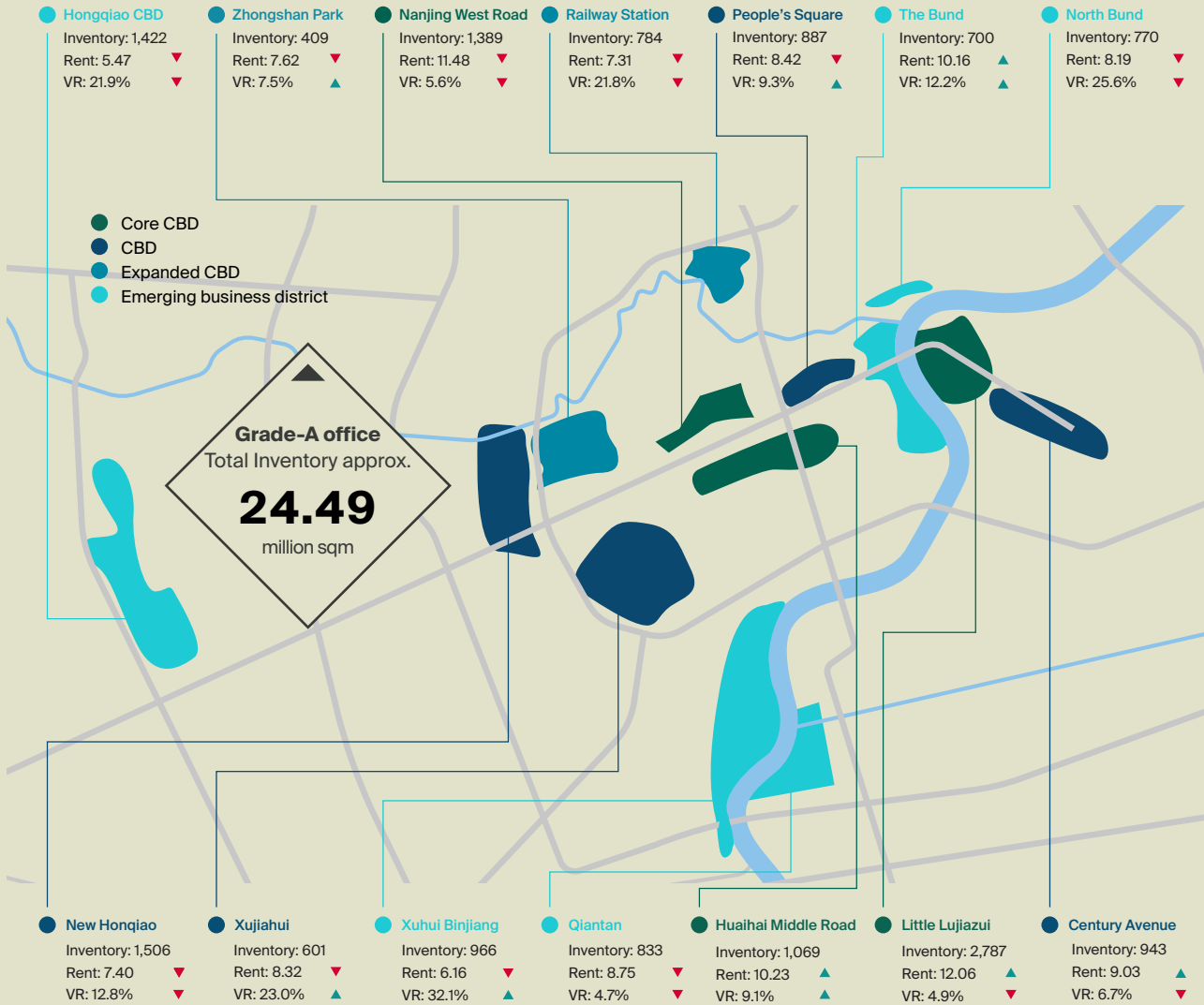
On 28 February, following the acquisition of SRE Centre on the North Bund, AIA invested approximately RMB3.2 billion in DNE Jinchuang Project Fund, whose core asset is a portfolio of four properties in Shanghai Jinchuang Plaza in the middle zone of Zhangjiang. Jinchuang Plaza has a total gross floor area of approximately 119,800 sqm, of which approximately 88,600 sqm is above ground for R&D purposes.

In March, another major transaction took place at Greenland Bund Centre, with Donghao Lansheng

Group and Shanghai Foreign Service Holdings contributing approximately RMB560 million and RMB1.38 billion respectively to purchase the 13th-14th floors and the 6th, 7th, 9th, 10th and 12th floors of Tower 3 Greenland Bund Centre, with a total area of 5,549 and 13,870 sqm. With a total gross floor area of approximately 1.2 million sqm, Greenland Bund Centre is currently the largest commercial complex along the riverfront in Shanghai's central area.

# Shanghai Grade-A office market dashboard Q1 2023

## Shanghai 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.

**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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