

Increasing demand led to an active leasing market



Shanghai Grade-A Office Market Report

Q2 2021

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OVERVIEW AND OUTLOOK

Four new projects with a total of 246,000-sqm office space were completed in the Shanghai Grade-A office market in the second quarter (Q2) of 2021. The total new supply in the first half of 2021 reached over 600,000 sqm.

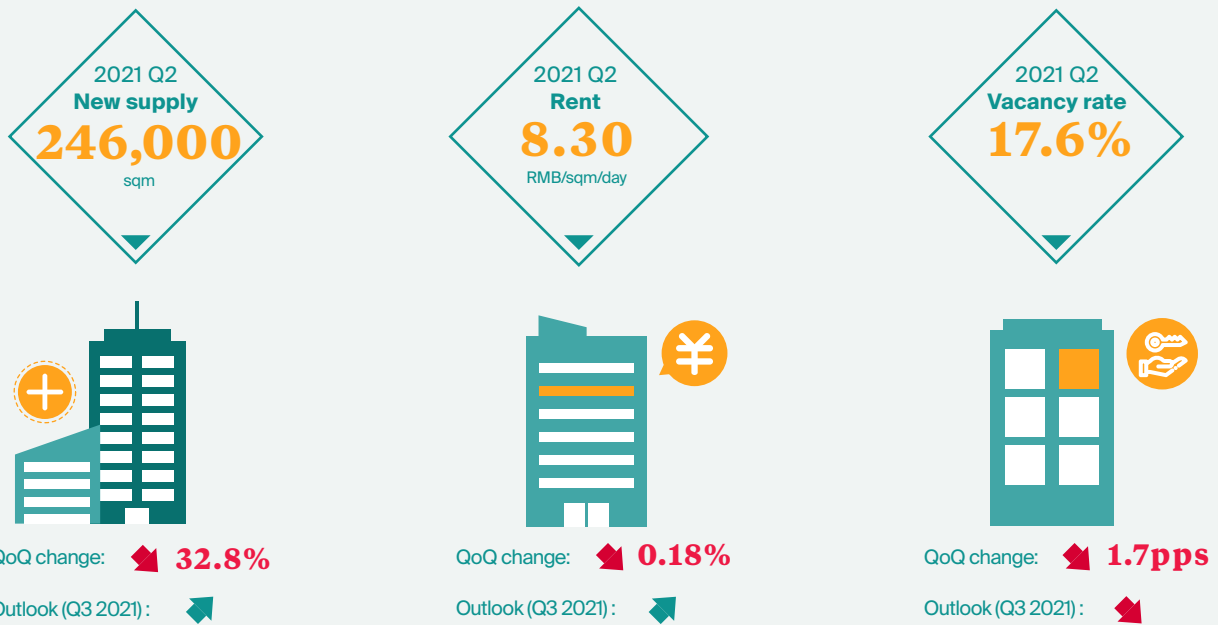
Shanghai continues to be an investment hot spot for foreign-funded companies. In Q2, a total of 30 regional headquarters of multinational companies and 10 foreign R&D centres were approved by the government and they are mainly from key industries including biomedicine, high-end intelligent manufacturing, and high-end

services. The establishment of these new headquarters shows the full confidence of foreign-funded companies in Shanghai's future development.

The constantly increasing leasing demand pushed the average vacancy rate down by 1.7 percentage points QoQ to 17.6%. Leasing demand from financial services companies and retail brands was strong. The net absorption in Q2 was approximately 563,000 sqm, of which net absorption in Core CBDs continued to increase to 69,423 sqm.

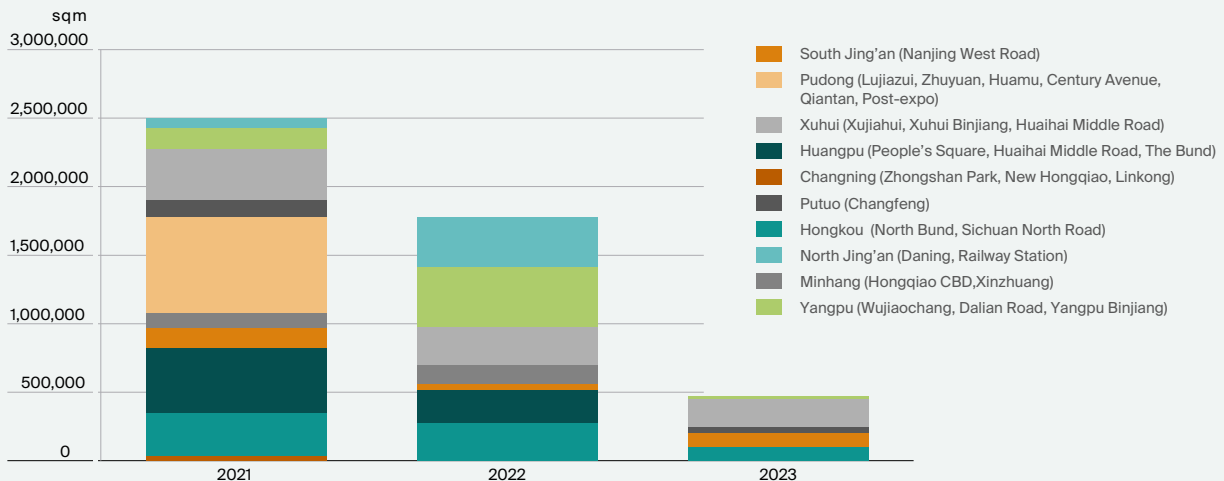
We expect that the Grade-A office market in Shanghai will be more active in the second half of 2021. There will be no less than 1 million sqm of Grade-A office space to be completed, and new office projects will be mainly in Qiantan and Xuhui Binjiang areas. In the third quarter, as the domestic economy continues to improve, leasing demand will be further released. As both landlords and tenants are becoming active, the market rents are expected to stop falling and start to rebound, while the average vacancy rate will continue to decline.

FIGURE 1: Shanghai Grade-A office market indicators^[1]



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

FIGURE 2: Shanghai office development pipeline, 2021-2023



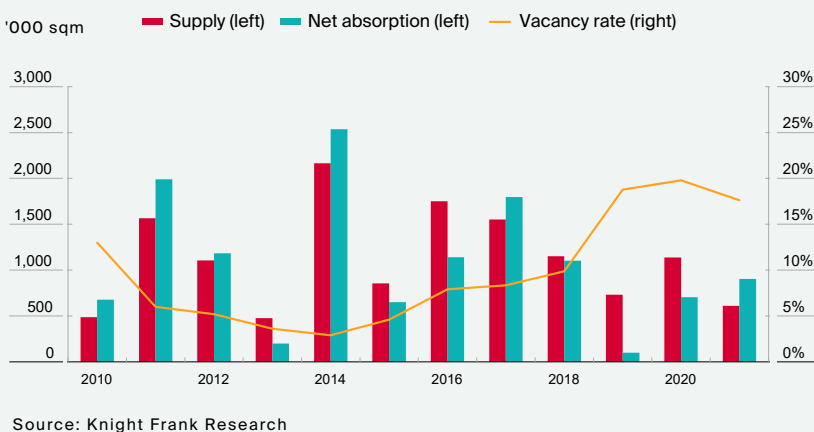
Source: Knight Frank Research

SUPPLY AND DEMAND

JC Plaza, a hotel renovation project located on Nanjing West Road, one of the Core CBDs, was completed in Q2, bringing 50,000 sqm of office space to the market. Expanded CBDs and Emerging Business Districts also witnessed new completions including the Sino-American T.&F. Tower on Sichuan North Road and Lifestyle International Centre in Daning with a total office GFA of 80,000 sqm.

In terms of new leasing transactions in Q2, the majority of the leasing demand still came from the financial service sector such as asset management, PE and securities, and professional service sector such as law firms and education companies. In addition, the demand of the foreign retail brands from apparel, cosmetics and furniture sectors, has also increased. Local enterprises were still the dominant source of leasing demand,

FIGURE 3: Grade-A office supply, net absorption and vacancy rate



accounting for 70% of the overall demand while the multinational companies accounted for approximately

30%. Multinational companies with more active leasing activities came from biomedical, financial and retail sectors.

RENTS

In Q2, the average Grade-A office rent in Shanghai continued to drop slightly by 0.16% QoQ to RMB8.30 per sqm per day. The average rent of Core CBDs edged up by 0.84% to RMB10.9 per sqm per day. With the recovery in leasing demand, many landlords of Grade-A and Premium Grade-A office buildings have increased the asking rents, pushing up the average rent in Core CBDs. Leasing demand from financial service companies, retailers and law firms with high rent paying ability continued to increase, boosting the market rents in the related areas. The office rents in the submarkets such as Nanjing West Road, the Bund and Qiantan areas all increased to varying degrees in Q2. At present, the market performance in Shanghai varied greatly among different submarkets. The room for negotiation between landlords and tenants in some major industry clusters has narrowed whilst landlords continued to offer more decoration exemptions and rent-free periods for fitting-out in some other submarkets.

FIGURE 4: Grade-A office rental trend

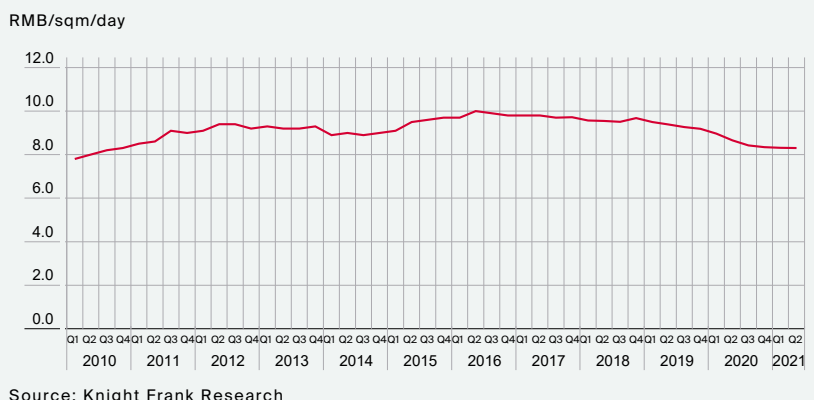


TABLE 1: Major Grade-A office leasing transactions, Q2 2021

Area	Building	Tenant	Area (sqm)	Type
North Bund	Raffles City the Bund	Huawei	26,000	New Lease
North Bund	Raffles City the Bund	SPDB Financial Leasing	20,000	New Lease
Hongqiao CBD	The Gate	Zhongchuangwei Quantum	4,500	New Lease
New Hongqiao	L'Avenue	Guantao Law Firm	4,000	New Lease
Qiantan	New Bund Centre	Ivolution Capital	3,500	New Lease
Nanjing West Road	Wheelock Square	Bohe&Hansen	2,140	New Lease

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

INVESTMENT MARKET

In Q2 2021, four en-bloc office transactions were recorded in the office investment market, with a total consideration of over RMB3 billion. The total amount of en-bloc office sales in the first half of 2021 reached approximately RMB10 billion, accounting for nearly 60% of the total figure. Overseas funds and local owner-occupiers were the major buyers in Q2.

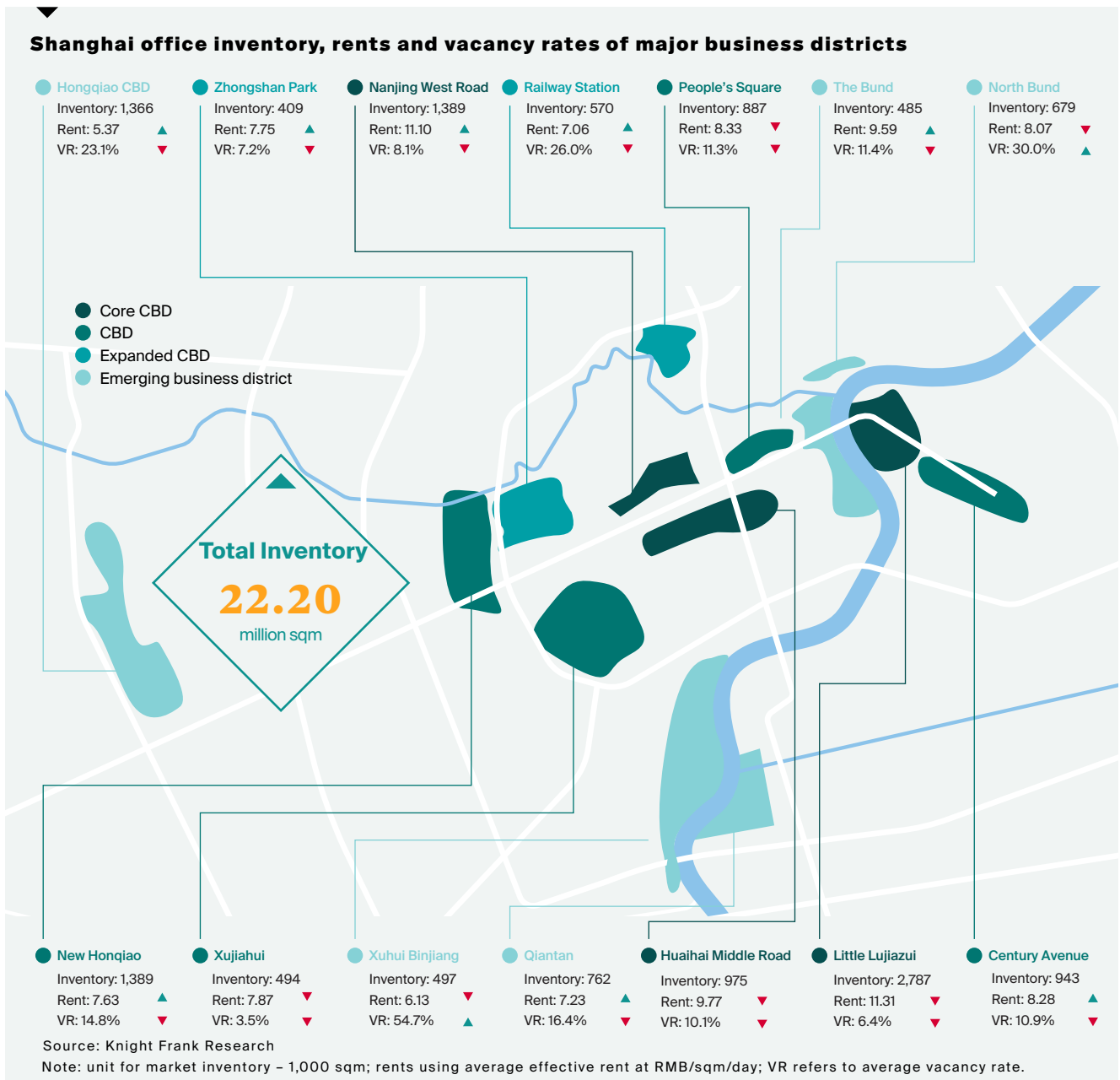
On 9 May, Noah signed with Sunny Group through its several subsidiaries and planned to acquire approximately 72,000-sqm office space in Hongqiao Sunny World Centre in Hongqiao CBD.

Noah will use the office space as its headquarter after the acquisition is completed. Shanghai Quetcel Technology acquired approximately 5,431 sqm of office space in Building 5 of Shanghai Business Park Phase 3 (Zone B) in Caohejing from Lingang Holdings for RMB250 million.

In addition, there are several en-bloc transactions in the market that are in the process of modifying the sale and purchase agreement. CapitaLand entered into the cooperative agreement with Ping An Life Insurance to sell partial stakes in the portfolio of China Raffles

City development including Raffles City Shanghai, Raffles City Beijing, Raffles City Ningbo, Raffles City Chengdu, Raffles City Changning and Raffles City Hangzhou to Ping An Life Insurance. SOHO China announced that Goldman Sachs on behalf of Blackstone made the offer by cash to acquire 54.93% equity in SOHO China, with the maximum cash consideration of HKD23.658 billion (approximately USD3.048 billion). After the acquisition, Blackstone will have the rights and interests of the projects in the core areas of Beijing and Shanghai.

SHANGHAI GRADE-A OFFICE MARKET DASHBOARD (Q2 2021)



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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