# Shanghai Grade-A Office Market Report

Q2 2023

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

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# Overview and Outlook

## Some areas face the risk of a double dip in rents and occupancies

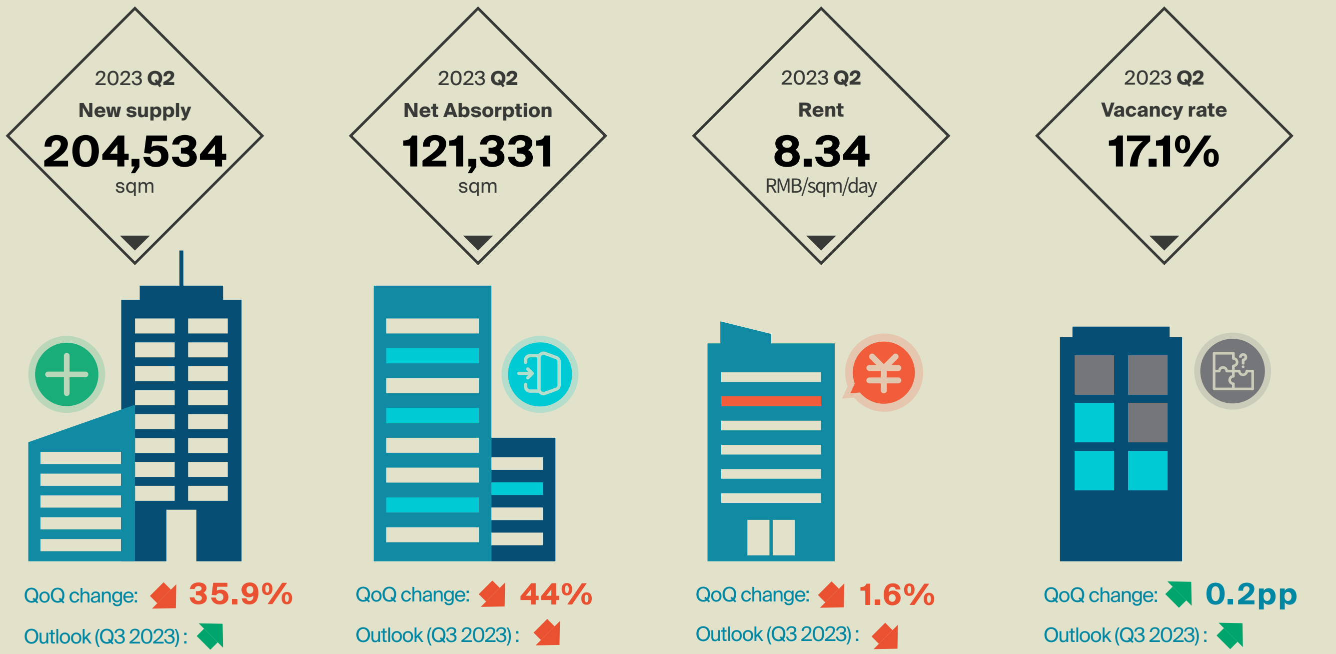
In the second quarter (Q2), four new office projects were completed, adding a total of 204,534 sqm of office space to the market, a decrease of 35.9% QoQ. Total new supply in the first half of 2023 (H1 2023) reached over 500,000 sqm, double the figure for H1 2022.

The average market rent decreased by 1.6% QoQ to RMB8.34 per sqm per day. The average vacancy rate continued to increase slightly by 0.2 percentage point to 17.1% due to the concentration of new supply in the market. The landlords' strategy of reducing rents to take up vacant space continued to be effective, with the market's net absorption of 121,331 sqm in Q2 and 330,000 sqm in H1 2023.

Market-leasing activity came mainly from the financial and professional services sectors, multinational manufacturing companies and foreign retail brands. The stable performance of the domestic consumer market has led to foreign companies considering continued capital investment and business expansion, contributing to the continued growth in the share of office leasing demand from foreign companies.

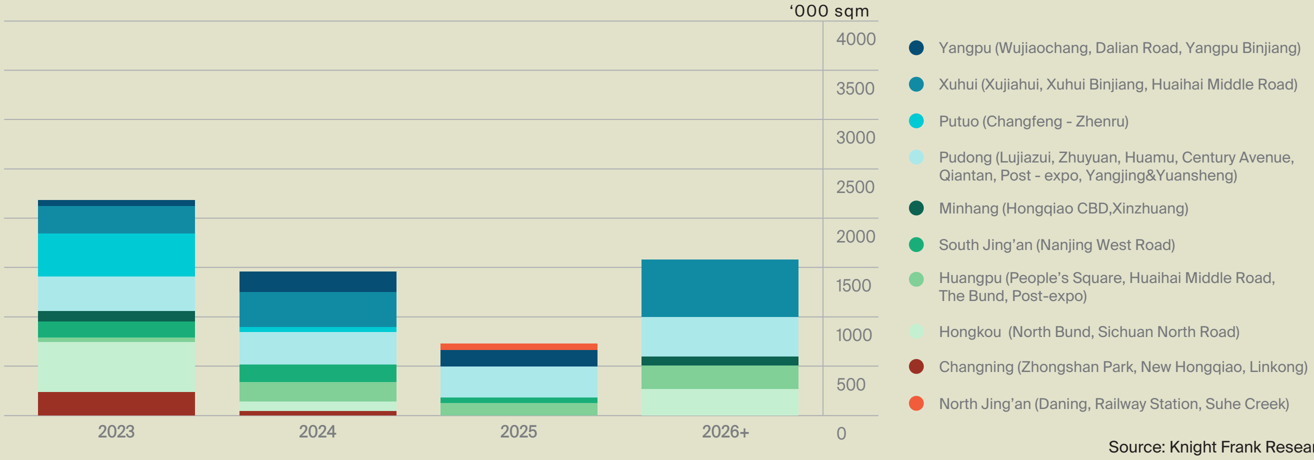
Market absorption is expected to be under pressure due to newly launched projects, with over one million sqm of office space added to the market in H2 2023. Besides showing their product strengths to attract tenants, landlords will also need to offer better leasing packages and pricing strategies to succeed amid the fierce competition. We believe that under the current economic environment, the market will become more differentiated, and that areas with more vacant office space will continue to face the risk of declines in both rents and occupancy rates.

**Fig 1: Shanghai Grade-A office market indicators[1]**




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

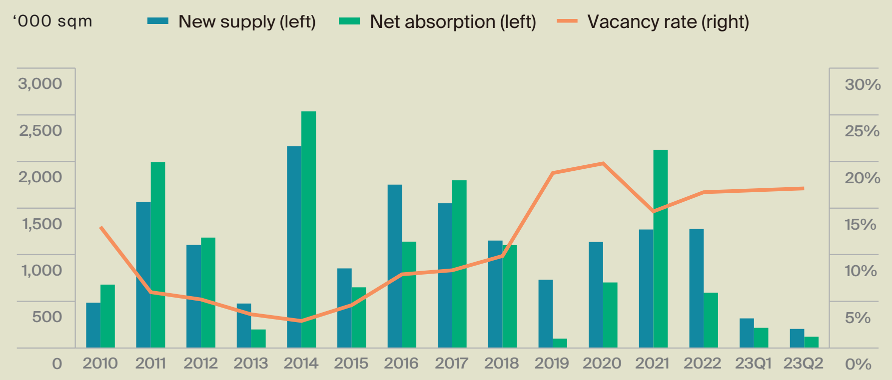
# Supply and Demand

## Strong willingness to renew leases in the market

Four new office projects are located in Puxi, adding 204,534 sqm to the market. Among them, Hongqi Centre, previously known as China Overseas Centre Tower C (51,478 sqm), is located in the Zhenru area of Putuo District, and Guosheng Tower (57,056 sqm) is located in the Xuhui Binjiang area. Haisu Culture Plaza, in the Zhongshan Park area of Changning District, and Golden Square, in the Nanjing West Road area of Jing'an District, were completed in Q2, adding 50,000 sqm and 46,000 sqm of office space to the market, respectively.

As a result of the slow global economic recovery, enterprises are more cautious about decisions on office relocation and are more willing to renew leases owing to cost control considerations. In Q2, demand for new leases and relocations for upgrading purposes decreased significantly from the previous quarter, while the proportion of demand for lease renewals increased significantly by 13 percentage points QoQ.

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




Source: Knight Frank Research

In terms of new leasing transactions, financial institutions, including fund, securities and asset-management companies and professional services companies, including law firms, and consulting and advisory companies, became the main source of leasing demand. In Q2, the core CBDs took up more than 30% of leasing demand, and financial and professional services companies and retail brands accounted for more than half of overall demand.

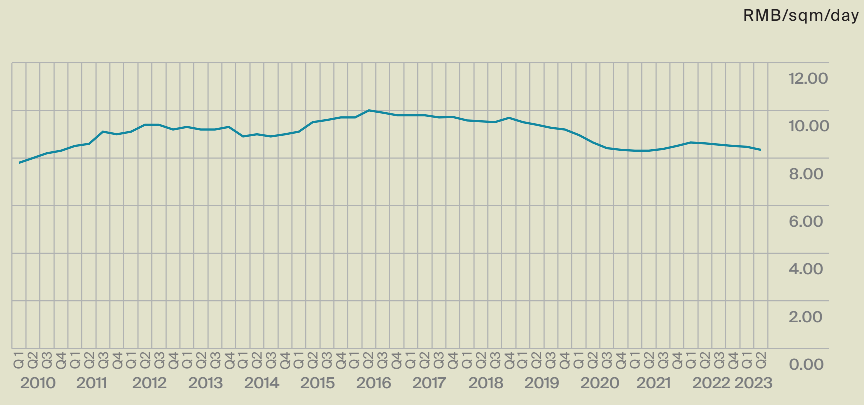
# Rents

## Rents in the core CBDs showed strong resilience

In Q2, the average Grade-A office rent continued to drop to RMB8.34 per sqm per day, a decrease of 1.6% QoQ. Further cuts in leasing budgets led landlords to lower asking rents and offer more favorable lease discounts in the new round of lease negotiations, which was the main reason for the further decline in market rents.

In Q2, leasing activity in the core CBDs was relatively high, with asking rents stabilising or decreasing slightly. Landlords in emerging markets, however, had weaker market expectations in the current economic environment and lowered their asking rents, which led to a further widening of the rental gap between the two sub-markets. The rental gap between the core CBDs and emerging business districts widened from RMB3.9 in the second quarter of 2019 to the current

**Fig 4: Grade-A office rental trend**




Source: Knight Frank Research

RMB4.5.

Benefiting from leasing demand in the high rental payment sectors, the average rents of the core CBDs of Little Lujiazui and Nanjing West Road fell by 1.1% and 0.9% QoQ to RMB11.94 and RMB11.38 per sqm per day, respectively. In some emerging markets where more new projects have recently been completed and where market absorption slowed down, the decline in market rents was more pronounced in Q2. For example, rents in the Zhenru-Changfeng submarket fell by 3.3% QoQ to RMB6.27 per sqm per day.

**Table 1: Major Grade-A office leasing transactions, Q2 2023**

| Submarket | Building | Tenant | Area (sqm) | Type |
|---|---|---|---|---|
| The Bund | BFC | W&H Law Firm | 5,000 | Expansion |
| Zhongshan Park | Changning Raffles City | Yusen Logistics | 4,000 | Renewal |
| Little Lujiazui | HSBC Building | Bloomberg News | 3,300 | Renewal |
| Qiantan | New Bund World Trade Centre Phase 4 | Shenzhirun Industry | 2,700 | New Lease |
| Huamu | Century333 | Yinhua Fund | 2,300 | Relocation |
| Dalian Road | Baoland Plaza | Hettich | 540 | Renewal |

Source: Knight Frank Research

Note: All transactions are subject to confirmation

# Investment Market

## Owner-occupier buyers continued to dominate the market

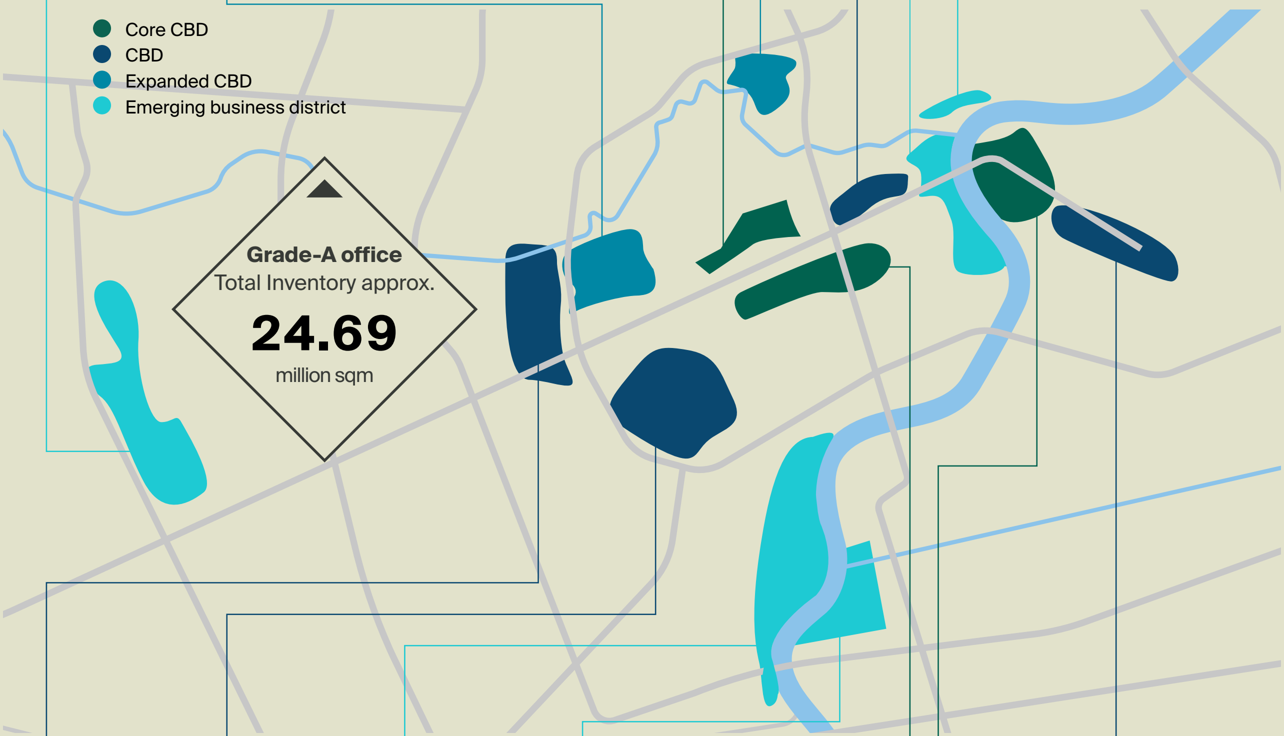
In Q2 2023, the Shanghai office market recorded a total of 13 en-bloc transactions in the Shanghai office market, involving a total value of over RMB5 billion. In Q2, investment funds, state-owned enterprises and domestic private enterprises were the main buyers, with owner-occupiers accounting for more than half of the total.

On 18 April, the D1 building of Shanghai Hongqiao World Centre was sold through an auction for a price of RMB510 million to Ningbo state-owned enterprise Ningbo Haichuang Group. The D1 building of Hongqiao World Centre, with a total gross floor area of approximately 20,349 sqm above ground, was formerly the corporate headquarters of BRC.

In June, on-line apparel retail company Rumere acquired U Centre Building 4 in Minhang District from Shanghai Urban Development for RMB270 million, with an acquired area of approximately 4,968 sqm.

# Shanghai Grade-A office market dashboard Q2 2023

**Shanghai Grade-A office inventory, rents and vacancy rates of major business districts**




| District | Inventory | Rent | VR |
|---|---|---|---|
| Hongqiao CBD | 1,422 | 5.44 ▼ | 22.3% ▲ |
| Zhongshan Park | 459 | 7.38 ▼ | 11.2% ▲ |
| Nanjing West Road | 1,435 | 11.38 ▼ | 9.3% ▲ |
| Railway Station | 784 | 7.15 ▼ | 21.4% ▼ |
| People's Square | 887 | 8.38 ▼ | 11.1% ▲ |
| The Bund | 700 | 9.91 ▼ | 10.9% ▼ |
| North Bund | 770 | 8.08 ▼ | 25.9% ▲ |
| New Hongqiao | 1,506 | 7.13 ▼ | 12.1% ▼ |
| Xujiahui | 601 | 8.22 ▼ | 24.6% ▲ |
| Xuhui Binjiang | 1,019 | 6.05 ▼ | 30.7% ▼ |
| Qiantan | 833 | 8.55 ▼ | 3.3% ▼ |
| Huaihai Middle Road | 1,069 | 10.11 ▼ | 10.6% ▲ |
| Little Lujiazui | 2,787 | 11.94 ▼ | 5.4% ▲ |
| Century Avenue | 943 | 8.80 ▼ | 6.9% ▲ |

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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