Office leasing demand picks up

Knight Frank

Shanghai Grade-A Office Market Report

Q3 2020

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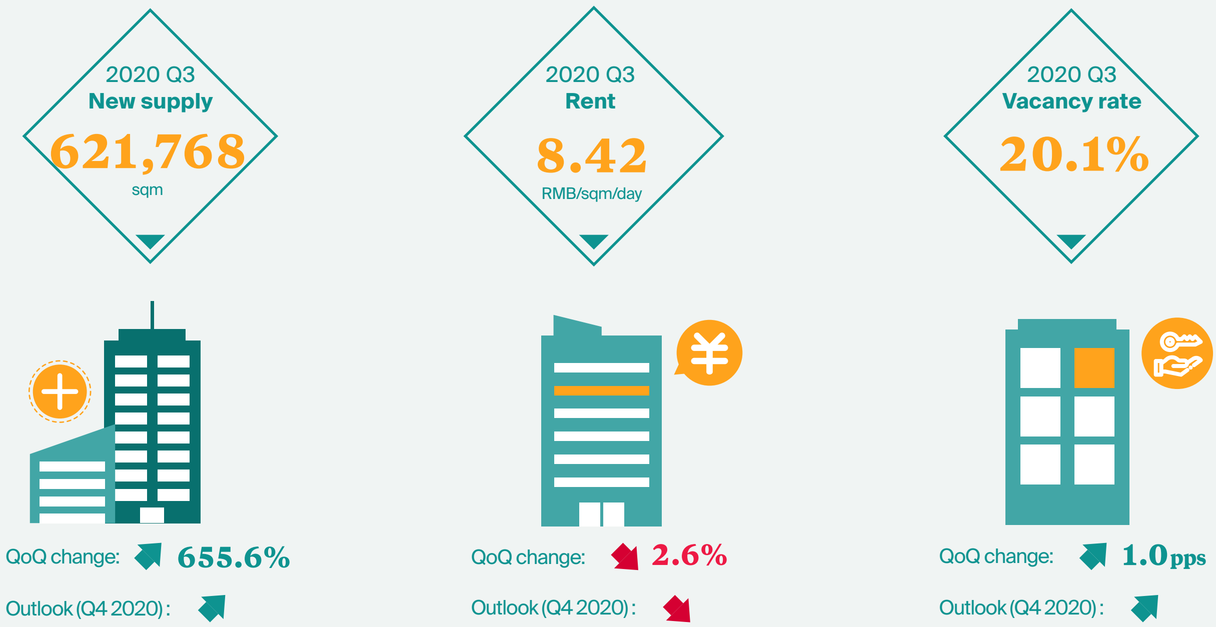
OVERVIEW AND OUTLOOK

In the third quarter (Q3), new projects totaling 621,768 sqm were completed in Shanghai's Grade A office market, of which 70% of the new office space is located in emerging and secondary business districts. The major leasing demand came from traditional financial and professional services sectors, and the leasing demand of foreign-invested manufacturing enterprises, retail companies and trading companies picked up. The rental deline in Core CBDs has narrowed, and rents in emerging business districts started to fall due to the huge amount of new supply and the softend demand in recent years.

In the fourth quarter, as scheduled, a total of approximately 700,000 sqm of new supply will be completed. It is expected that the average vacancy rate will continue to rise and the market rent remains in a downtrend.

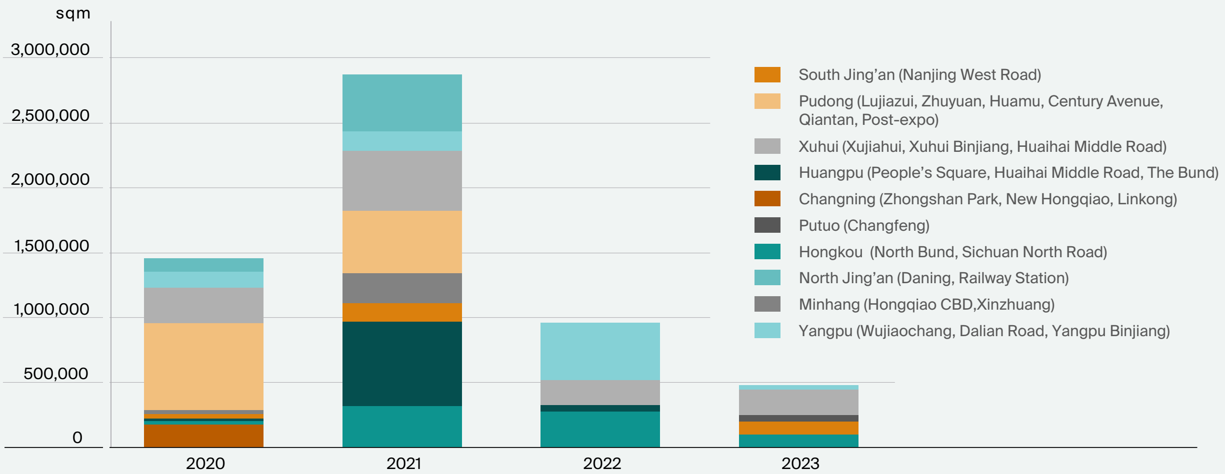
FIGURE 1: Shanghai Grade-A office market indicators[1]



Source: Knight Frank Research

[1] Rent refers to average effective rent

FIGURE 2: Shanghai office development pipeline, 2020-2023



Source: Knight Frank Research

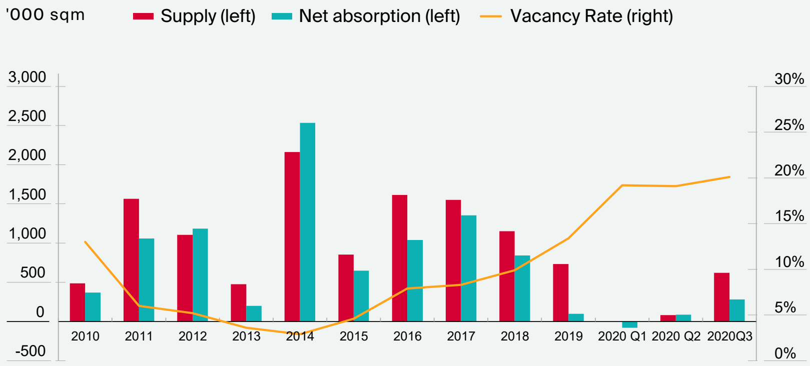
SUPPLY AND DEMAND

The New Bund Centre, jointly developed by Swire Properties and Lujiazui Group, was completed in Q3, adding approximately 163,000 sqm office space to the market. This is the second mixed-use project developed by Tishman Speyer in Qiantan after their first project, Crystal Plaza. Located in Puxi Yangpu Wujiaochang area, Guohua Plaza was completed in Q3, bringing approximately 80,000 sqm office space to the market. This is also one of the few standard office projects in Wujiaochang in recent years.

In Q3, the average vacancy rate in Shanghai's Grade A office market increased by 1.0 percentage point from the previous quarter to 20.1%. The newly launched projects with high vacancy rates accounted for the major increase in average vacancy rate in Q3. The net market absorption maintained a positive value of approximately 282,000 sqm, a significant increase over the previous quarter.

Over 50% of leasing transactions in Q3 came from local financial companies and professional service companies, of which over 60% were concentrated in Core CBDs. Little Lujiazui and some submarkets, focusing on undertaking the overflow demand from the financial sector, are the most-preferred locations for traditional financial companies. Many insurance companies with better performance this year have moved or plan to move to buildings with higher quality and better locations. Leasing demand from manufacturing, trading and retail sectors has also picked up the momentum. In Q3, the leasing transactions from the above-mentioned sectors accounted for nearly 30% of the total transactions, 10 percentage points higher from the previous quarter. Amongst, nearly half of them are foreign-funded enterprises.

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



Source: Knight Frank Research

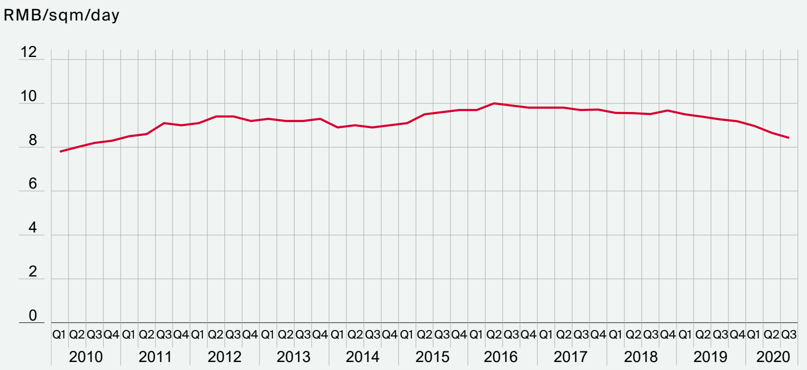
RENTS

In Q3, the average rent of Shanghai's Grade A office market continued to drop by 2.6% QoQ to RMB8.42 per sqm per day.

The average rent in Core CBDs decreased to RMB10.9 per sqm per day, a decrease of 1.4% QoQ, of which rent in Little Lujiazui dropped 2.0% QoQ to RMB11.5 per sqm per day. The landlord continues to attract companies with potential leasing demand by lowering the quotation, providing customised fitting-out services and exemption of subsidies to cope with the rising vacant space as a result of existing tenants' moving out.

In Q3, the average rents in emerging business districts continued to decline to RMB 6.9 per sqm per day, a decrease of 2.3% from the previous quarter. The rapidly increasing supply in recent years and the sustained weak leasing demand are substantial factors leading to the recent declines in market rents in emerging business districts.

FIGURE 4: Grade-A office rental trend



Source: Knight Frank Research

TABLE 1: Major Grade-A office leasing transactions, Q3 2020

District	Building	Tenant	Area (sqm)	Type
Little Lujiazui	Shanghai Tower	Zhong Ou AMC	5,000	New Lease
Little Lujiazui	HSBC Buidling	AIG Insurance	3,000	New Lease
Qiantan	Crystal Plaza	Zhong An Insurance	2,100	New Lease
Nanjing West Road	Plaza 66 Phase Two	Beijing Wanhuida	1,000	New Lease
Huaihai Middle Road	K11	Kobelco	800	New Lease
Nanjing West Road	Plaza 66 Phase Two	Zhenhuan Investment	720	New Lease

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

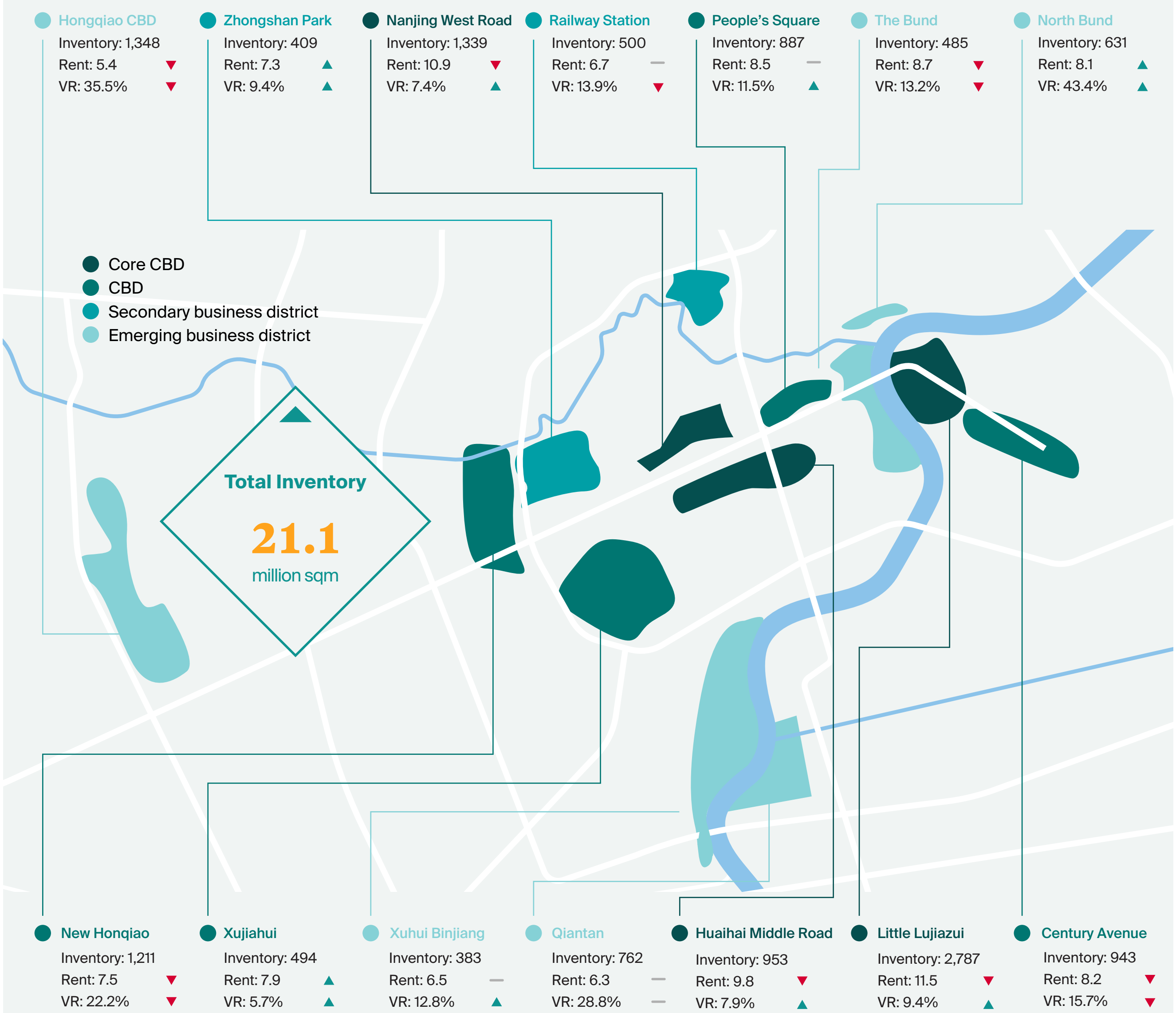
INVESTMENT MARKET

In Q3 2020, there were four en-bloc office transactions recorded in the investment market, with a total consideration of over RMB2 billion. Most owner-occupied office buildings were acquired by local financial institutions. Office properties have attracted these buyers due to stable returns and relatively reasonable prices.

Three of the four office en-bloc transactions were announced in August. Sealand Securites announced its plan to acquire Building C1 in Greenland Bund Centre jointly developed by Greenland Group, Anxin Trust and Shanghai Bund Investment Group for no more than RMB1.38 billion. The total gross floor area(GFA) of Building C1 is of 15,209 sqm and the final transaction price exceeded RMB90,000 per sqm. The building will be occupied by Sealand Securities as their office location. DCL Investment successfully sold Gaozi Building located in the core area of Huangpu District, Puxi. The 11-storey building has a total GFA of approximately 3,902 sqm. Golden Union announced its acquisition of a property at No. 20 Chaling North Road in Xuhui District of Puxi for RMB188 miliion through its wholly subsidiary, Shanghai Shuyu Industry Management. The acquired property has a total GFA of approximately 12,000 sqm and now is leased to Yuejie X2 Creative Space operated by Golden Union.

SHANGHAI GRADE-A OFFICE MARKET DASHBOARD

Shanghai 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/day; 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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