

*Market rents bottom out amid growing leasing demand*



# Shanghai Grade-A Office Market Report

Q3 2021

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# OVERVIEW AND OUTLOOK

The new supply in the third quarter (Q3) hit record high in the past year. Seven new office developments with a total of approximately 607,250-sqm office space were added to market, with a significant increase of 146.8% QoQ.

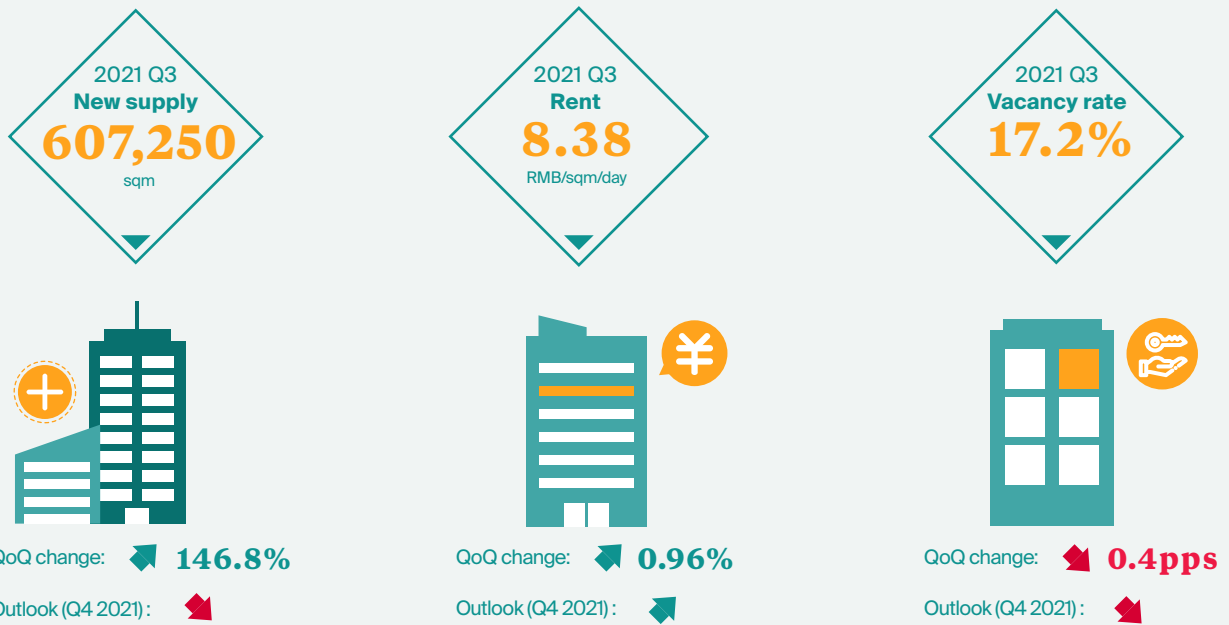
The "double reduction" policy of the education industry in China has imposed a huge impact on the education and training sectors. Many training institutions which used to have ambitious expansion plans are facing the dilemma of closure or transforming their businesses. It is inevitable that the office leasing demand of education and training

enterprises will shrink sharply in a short period of time. However, the current leasing demand for the TMT industry, biomedicine, and traditional financial and professional services sectors is growing steadily, which can roughly absorb the space vacated by training institutions.

The steadily increasing leasing demand led to a decline of 0.4 percentage point QoQ to 17.2% in average vacancy rate. The overall net absorption in Q3 was approximately 597,000 sqm, of which that of the emerging business districts increased significantly to approximately 250,000 sqm.

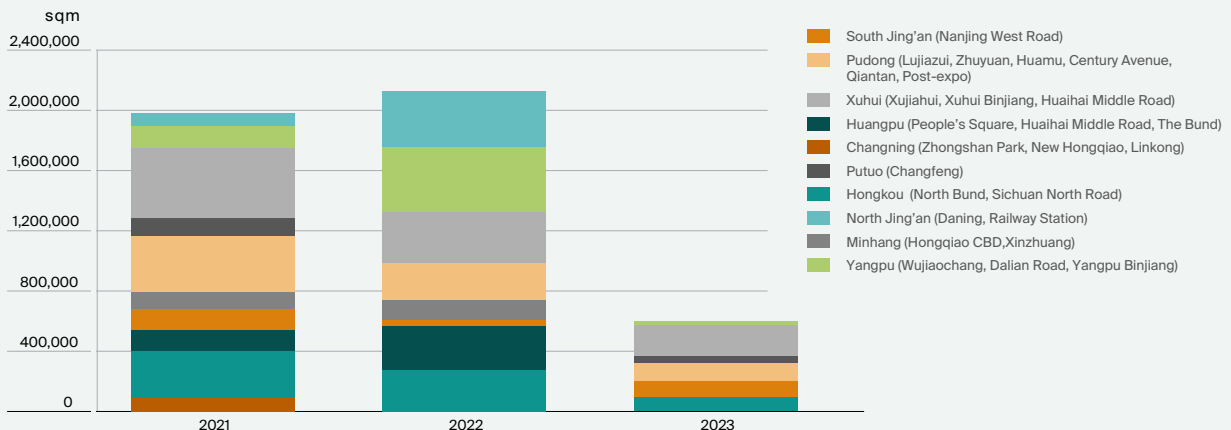
We expect that there will be more than 500,000 sqm of office new completions to launch in Q4 2021, and the new projects will be mainly in Pudong Qiantan, post-Expo and Puxi Xuhui Binjiang areas. With the announcement of new plan for Pudong as a leading pilot zone, more foreign investments were attracted to Pudong. New companies and new capitals will help to absorb the vacant space at a faster pace and drive up the rents in Pudong. In the overall market, the release of leasing demand is expected to cause a further reduction in vacancy rates, and market rents will continue to rise.

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



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

**FIGURE 2: Shanghai office development pipeline, 2021-2023**



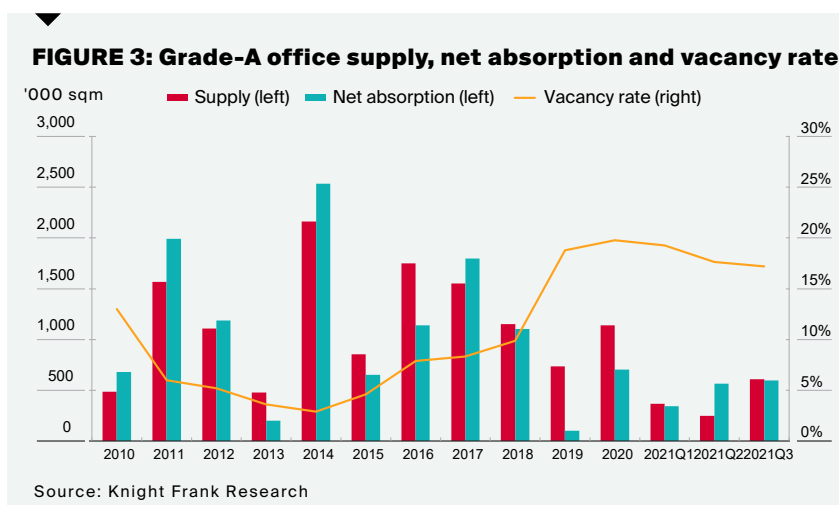
Source: Knight Frank Research

## SUPPLY AND DEMAND

In Q3, more than half of the newly-completed projects were located in the emerging business districts. Mango Building and Binjiang Zhongteng Building, located in Xuhui Binjiang were completed, providing 56,300 sqm and 33,000 sqm of office space to the market respectively. Hongqiao EBA Centre in Hongqiao CBD, developed and managed by EBA Investments, was completed and added 56,200 sqm of office space to the market. Hongkou Ruihong Xincheng area and Putuo Changfeng area also witnessed new completions including 140,000-sqm Corporate Avenue Ruihong and 85,000-sqm Guoco Changfeng City.

From new leasing transactions in Q3, we could see a more diverse range of occupiers. The leasing demand of financial institutions and professional services firms increased steadily. The new round of the expansion of biomedical enterprises continued to boost their demand for office space. The leasing demand of TMT industry, including games, financial payment platforms and media, also increased significantly.

It is worth noticing that, benefited from the needs of new setup and business expansion



of enterprises, the leasing activities of new lease, relocation and expansion increased a lot compared with the first half of the year. The higher requirements of enterprises for the location and building quality have driven up leasing activity level in the core CBDs.

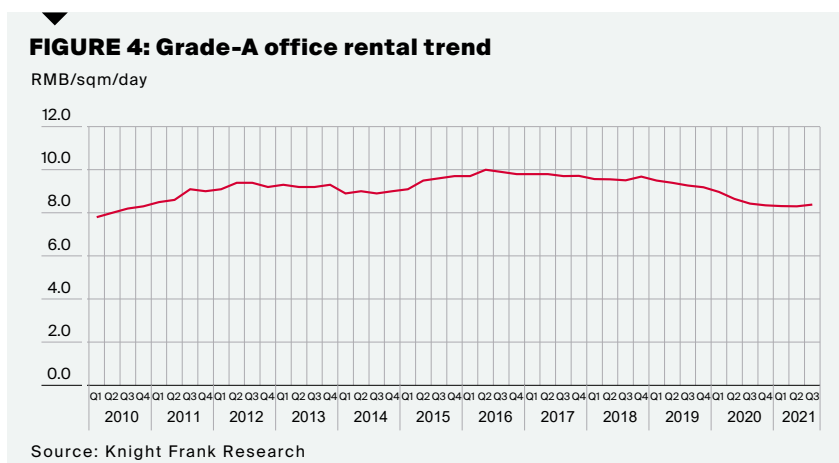
With the further opening up of China's capital markets to foreign investors, the

foreign-funded enterprises have greater confidence in the business environment in Shanghai. In Q3, the leasing demand of multinational enterprises accounted for over 40% of the total demand, which was significantly higher than that in the first half of the year. Moreover, the market has witnessed a more diversified range of occupiers involving professional services, retail and TMT sectors.

## RENTS

In Q3, the average rent of Grade-A office stopped falling and rebounded to RMB8.38 per sqm per day, increasing by 0.96% QoQ. Besides the factors that landlords raised asking rents and reduced the fitting-out subsidy, the active performance of those sectors with higher rent budgets in Q3 was the key reason to push up the overall market rent from the lowest level. For example, the high-quality buildings in core CBDs and some hotspots have become the focus of financial asset management institutions, foreign law firms, architectural design firms and biomedical enterprises.

In Q3, the overall rent of core CBDs increased slightly. The market rents of hot areas such as Century Avenue and Qiantan increased significantly in Q3, especially in Qiantan area. As the new completions with higher rents were well received by the market, the rent achieved a double-digit growth of 11.9% QoQ in Qiantan to RMB8.09 per sqm per day.



**TABLE 1: Major Grade-A office leasing transactions, Q3 2021**

Area	Building	Tenant	Area (sqm)	Type
Huaihai Middle Road	K11	Qianhu Pharmaceutical	1,900	New Lease
North Bund	Raffles City the Bund	Minghong Investment	2,000	New Lease
Hongkou Other Area	Corporate Avenue Ruihong	L'Oréal	2,200	New Lease
Qiantan	Qiantan Times Square	Pantos Logistics	2,300	New Lease
Huaihai Middle Road	ICC One	Sephora	5,600	New Lease

Source: Knight Frank Research

Note: all transactions are subject to confirmation

# INVESTMENT MARKET

In Q3 2021, the Shanghai en-bloc sales market was active, recording eight en-bloc office transactions for a total consideration of over RMB7 billion. The main buyers were domestic enterprises which expanded their office space due to the company's business growth.

On 6 July, Tishman Speyer announced to sell a 195,000 sqm of office space which is under development at The Springs in the north expansion area of Wujiaochang in Yangpu District to ByteDance. ByteDance will establish its regional headquarters in

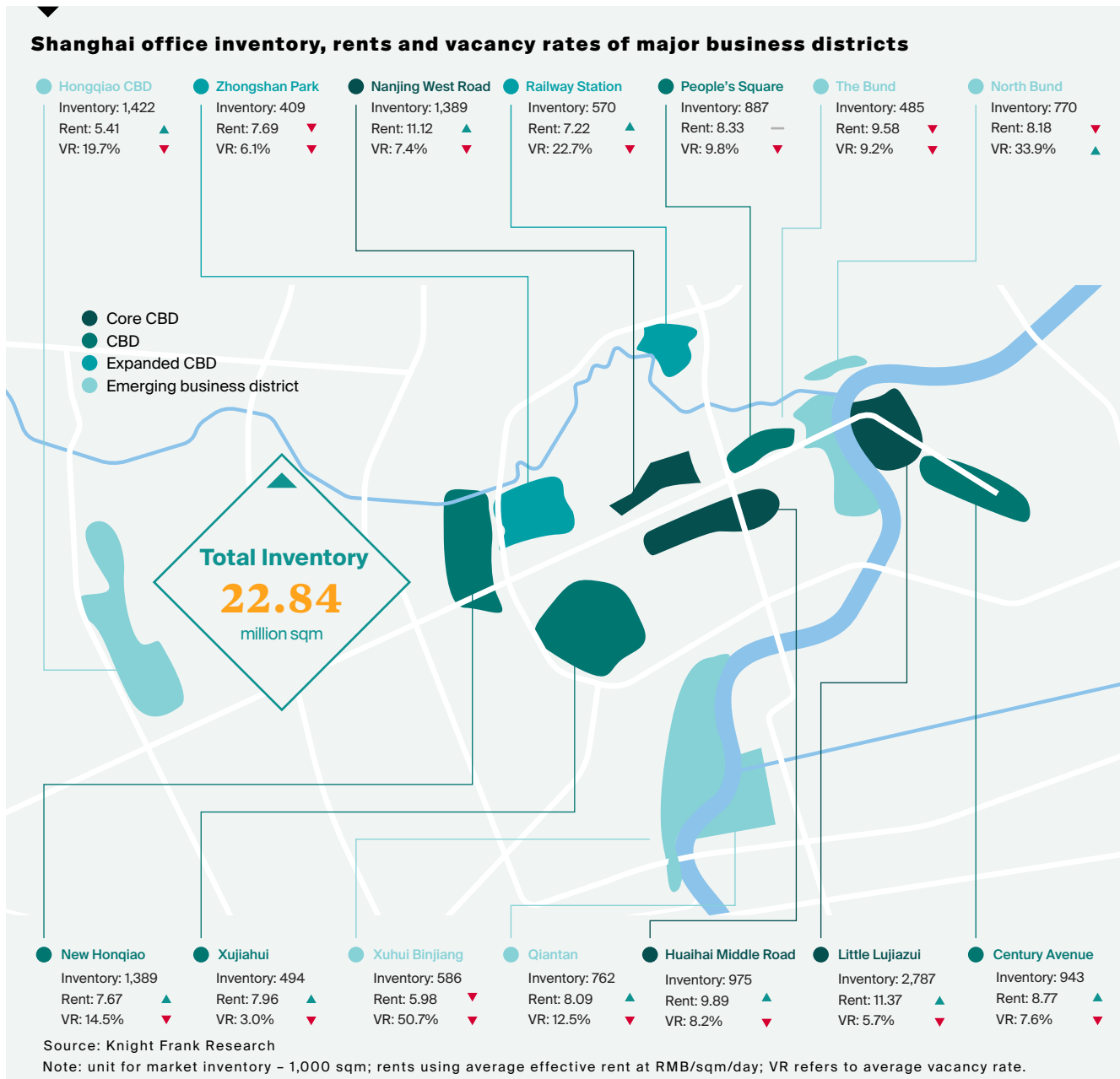
four new buildings there, which range in size from 4 to 29 stories.

On 22 July, 51job announced its purchase of new headquarters office building for RMB2.07 billion. The office building located in Pudong Qiantan is part of Crystal Plaza with the floor area of approximately 32,400 sqm. 51job expected to move into the new premises in 2022.

In addition, there are several en-bloc transactions in the market that are in the process of modifying the sale and

purchase agreements. On 17 September, Hysan Development Company announced that it would acquire "City Link", a commercial property under the name of CK Asset, at a price of RMB3.5 billion. The property is located at Xinzha Road, Shanghai, with a total gross floor area of approximately 86,500 sqm, including a 24-storey building and a 3-storey basement. It is currently vacant and is intended to be used as a mixed-use project including office and retail space with approximately 320 parking lots.

# SHANGHAI GRADE-A OFFICE MARKET DASHBOARD (Q3 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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