

*Active leasing demand from financial and professional services sectors*



# Shanghai Grade-A Office Market Report

Q4 2022

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# OVERVIEW AND OUTLOOK

In 2022, Shanghai amended the approval criteria for headquarters enterprises to attract more foreign companies to invest in China. There were 60 regional headquarters and 25 R&D centres of multinational enterprises being approved in 2022, reaching a total of 891 regional headquarters of multinational enterprises and 531 foreign R&D centres. According to the data, Shanghai is still the first choice for foreign companies to startup their businesses in China, and foreign companies are optimistic about China's economic growth.

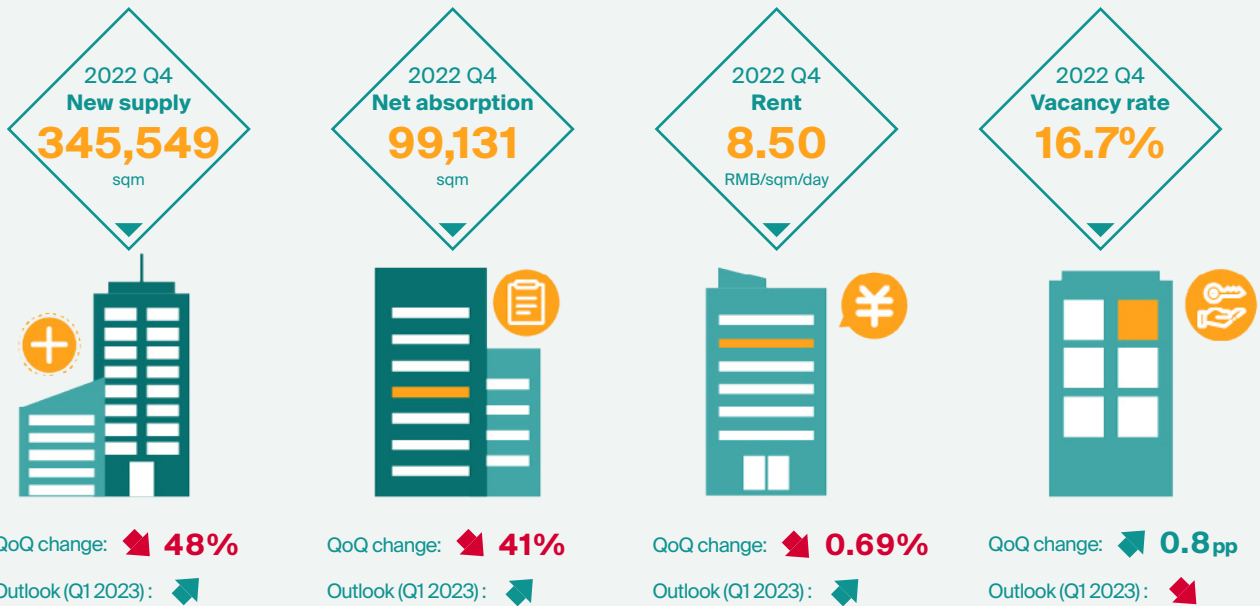
In the fourth quarter (Q4), six new office projects were completed. These office projects are mainly located in Qiantan, the Bund and post-Expo area, adding a total of 345,549-sqm of office space to

the market, a 48% decline QoQ and a significant increase of 591% YoY. In 2022, the annual new supply reached 1.2753 million sqm, up 77.7% compared to 2019.

In Q4, as companies' leasing strategies were to reduce operating costs, a further decline in market rent to RMB8.50 per sqm per day was recorded, down 0.69% QoQ and a mild decrease of 0.02% YoY. The market vacancy rate rose to 16.7% amidst a large number of newly launched projects in the market, up 0.8 percentage point QoQ and 2 percentage points YoY. The market net absorption in 2022 reached 594,419 sqm, down around 70% compared with the previous year. In Q4, the leasing demand was mainly from the hot sectors such as financial, professional services and TMT.

We believe with the easing of pandemic rules and China's Covid reopening, Shanghai's economic development will rebound and the office market will therefore regain its momentum. The market is expecting more than 2.5 million sqm of new completions over the next two years. We believe the leasing market will stabilise in 2023, with market rents and occupancy rising steadily in line with the increase in leasing activity brought by the economic upturn. It is worth noting that since the epidemic, companies have continued to increase their concerns about the health of their staff and the green elements of their buildings. In the future, landlords will consider investing more in upgrading the technological and green content of their buildings to meet the needs of their tenants.

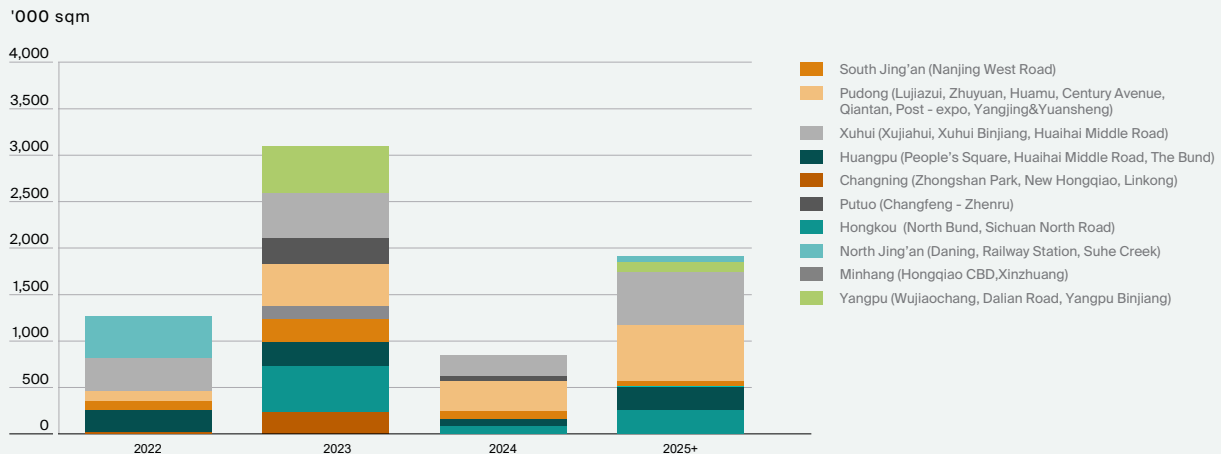
**FIGURE 1: Shanghai Grade-A office market indicators <sup>[1]</sup>**



Source: Knight Frank Research

[1] Rent refers to average effective rent

**FIGURE 2: Shanghai office development pipeline by district, 2022-2025+**



Source: Knight Frank Research

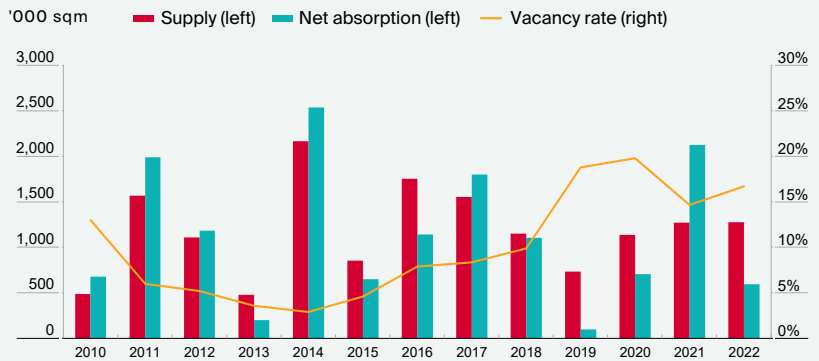
## SUPPLY AND DEMAND

The office market saw a number of new completions in Q4, including New Bund International Square (44,000 sqm) in Qiantan, Greenland Bund Centre T3 (110,000 sqm) in the Bund and the renovated project Lai Fung Skyline Centre (65,000 sqm) in the Railway Station area.

In terms of new leasing transactions, financial institutions, professional services firms and TMT companies saw more leasing activity than other sectors in Q4, taking up nearly 60% of the market's leasing demand. There was a strong demand from fund companies and law firms for Grade-A office space in central locations. For example, Galaxy Asset leased 5,000 sqm of office space in Aurora Plaza. Dahui Lawyers leased 1,000 sqm of office space in Jing'an Kerry Centre T1. Black Sesame Technologies, a self-driving chip research and development company, leased 3,400 sqm of office space in New Bund Centre.

In Q4, most submarkets continued to face shrinking market demand. Leasing demand was still mainly from the popular tracks and traditional industries. Little Lujiazui, Xuhui Binjiang and Suhe Creek were the submarkets with higher leasing activities. Increased leasing demand from financial institutions and professional

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



Source: Knight Frank Research

services pushed down the market vacancy rates in these submarkets by 6 percentage points, 3.5 percentage points and 7.8 percentage points QoQ respectively.

Although overall market demand was weak in 2022 due to the impact of the pandemic as well as economic uncertainty, there are still new demand growth points within the market,

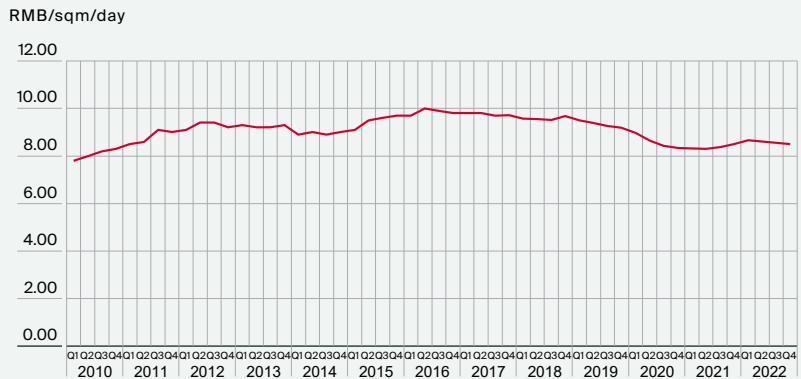
with biomedical, chip technology, new energy vehicles and other policy-enhanced industries all seeing significant increase in demand. Meanwhile, retail demand remained in the country under the epidemic, resulting in improved performance of retail brands, with many of them creating the need to upgrade their office space and relocate in 2022.

## RENTS

In Q4, the average Grade-A office rent continued to drop to RMB8.50 per sqm per day, down 0.69% QoQ. The market rent in 2022 decreased slightly by 0.02% compared to 2021. Average rents in core CBDs continued to fall to RMB11.38 per sqm per day, although they still represented an increase of 2.14% compared to 2021. Driven by growing demand from high rent-paying sectors such as financial professional services and high-tech enterprises in the TMT sector, rents in the core CBDs of Nanjing West Road and Little Lujiazui increased by 3.05% and 2.21% YoY respectively.

In 2022, against the backdrop of most companies controlling their operating costs, this round of rent adjustments by office landlords to meet the needs of companies with leasing needs but limited budgets have led to continued downward adjustments in market rents in most submarkets compared to 2021. In addition, as rents are currently at a relatively low point in the market, some companies with limited business lines affected by the epidemic have seized the opportunity to complete lease expansions and upgrades in 2022.

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



Source: Knight Frank Research

**TABLE 1: Major Grade-A office leasing transactions, Q4 2022**

Area	Building	Tenant	Area (sqm)	Type
Nanjing West Road	1788 Square	Gucci	7,000	Expansion
Little Lujiazui	Aurora Plaza	Galaxy Asset	5,000	New Lease
Qiantan	New Bund Centre	Black Sesame Technologies	3,400	New Lease
Hongqiao CBD	LIHPAO Plaza	Magna	3,000	Renewal
Nanjing West Road	Jing'an Kerry Centre T1	Dahui Lawyers	1,000	Renewal

Source: Knight Frank Research

Note: all transactions are subject to confirmation

# INVESTMENT MARKET

The Shanghai office en-bloc transaction market saw a total transaction volume of RMB50.6 billion in 2022, an increase in transaction value compared to both 2020 and 2021. The owner-occupier buyers remain one of the key buyers in the market, accounting for nearly 50% of the total. The three-year closure of the pandemic has left investment values of office properties to a period of low point, stimulating the entry of owner-occupier buyers in the technology and energy sectors, as well as opportunistic and risk-averse buyers looking for market value

opportunity.

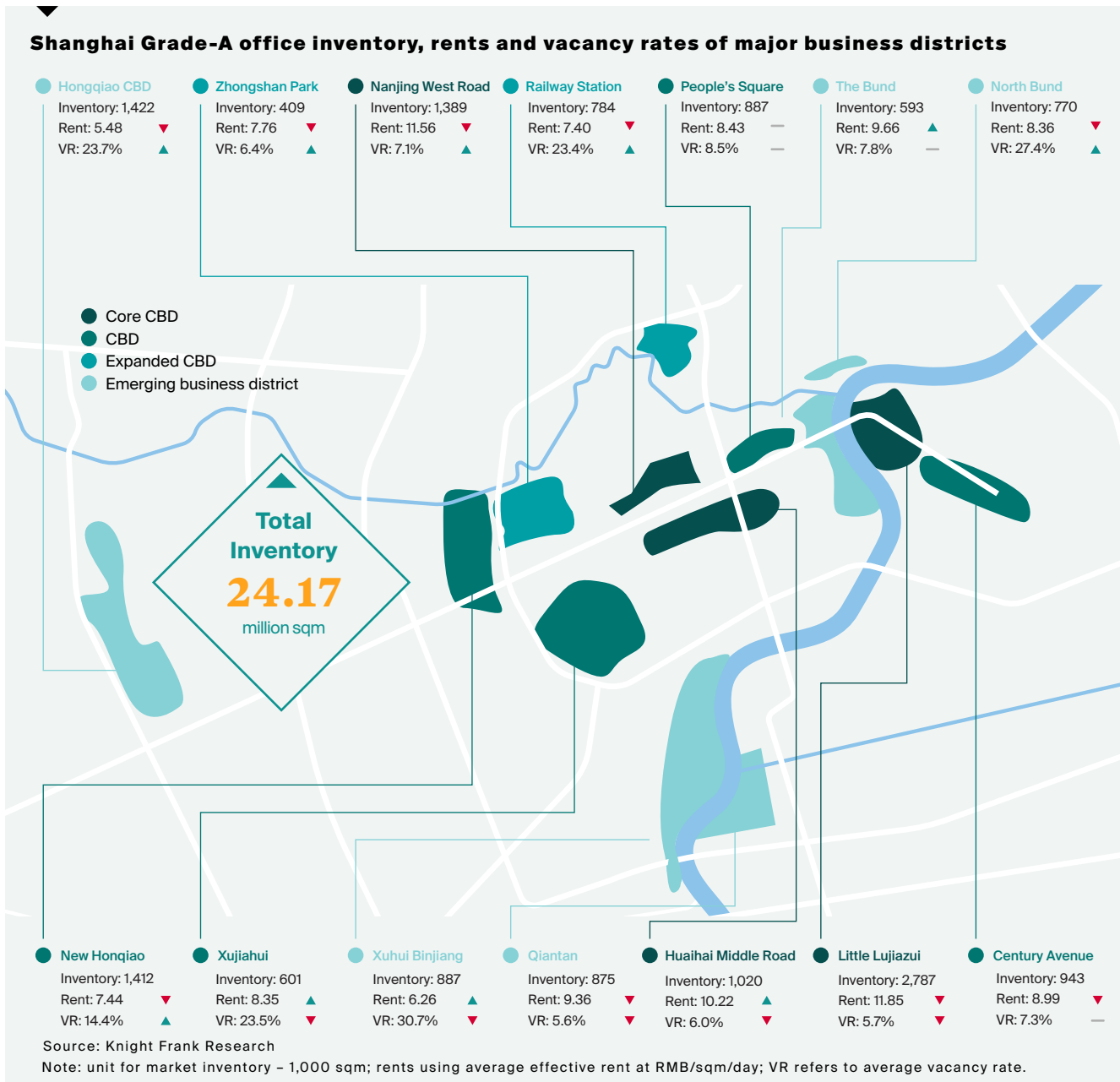
Foreign investors were confident in the domestic investment market, especially with the steady progress of asset securitisation, and foreign investors increased their efforts to acquire high-quality projects at the end of the year, with insurers, fund companies and real estate companies performing positively.

On 19 December, AIA has successfully acquired a controlling stake in Shanghai Shisen Real Estate for approximately

RMB5.03 billion, thereby acquiring the Block 89 project, an office, retail and cultural mixed-use project in North Bund in Hongkou, known as SIIC Centre, which is currently under construction.

On 22 November, Jinko Solar acquired the entire office building of T3 Shanghai Hongqiao R&F Centre for RMB707 million. Developed by R&F Properties, Shanghai Hongqiao R&F Centre is located in the core area of Hongqiao CBD, with a total gross floor area of 330,000 sqm.

# SHANGHAI GRADE-A OFFICE MARKET DASHBOARD (Q4 2022)



**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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