During the COVID-19 pandemic, leasing and relocation activities dropped significantly but more renewals occurred

Shanghai Office Market Report

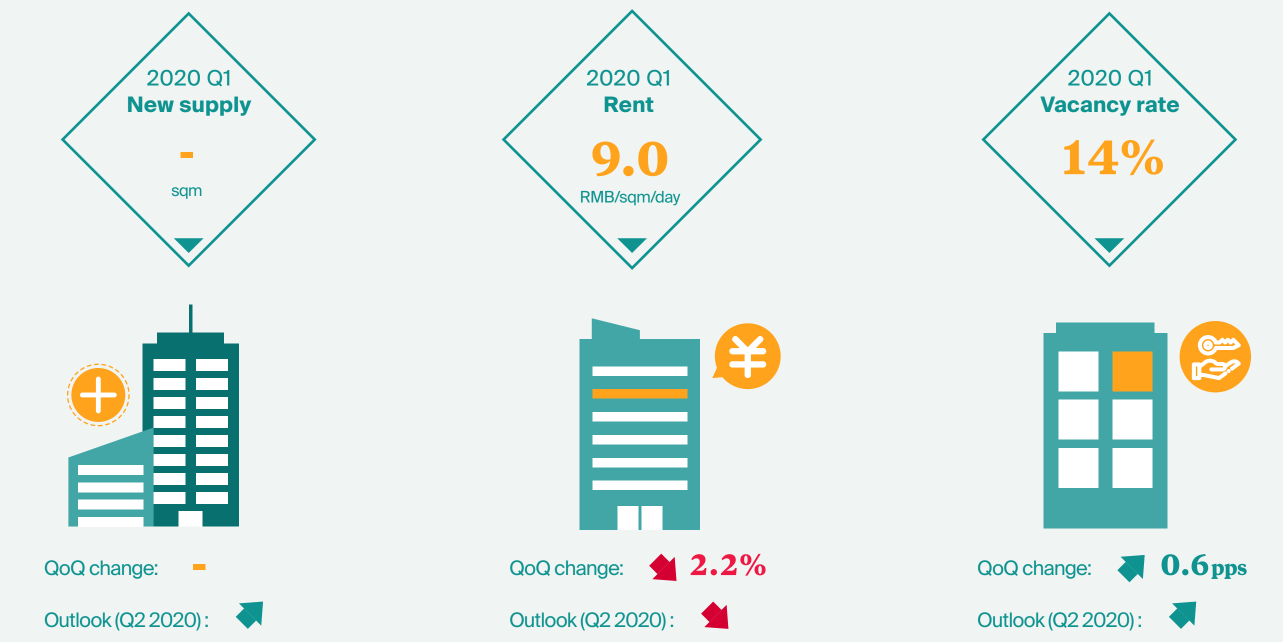
Q1 2020

knightfrank.com.cn

OVERVIEW AND OUTLOOK

Owing to the COVID-19 pandemic, there was no new project completed or delivered in the first quarter (Q1). It is expected that the peak of supply will come in the next twelve months, with no less than 2.2 million new supply launched onto the market due to the current delays in office project completions. Domestic import and export trade and related industries have been seriously affected by the global COVID-19 pandemic, leading to softened demand in the short term. The average vacancy rate will continue to rise, while market rents will maintain a downward trend in the second quarter of 2020.

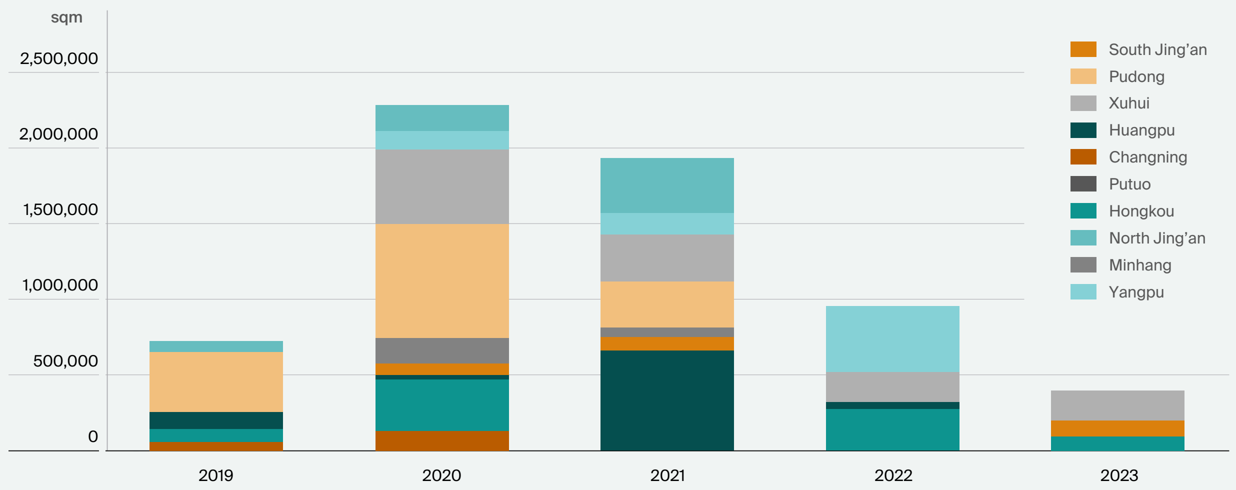
FIGURE 1: Shanghai Grade-A office market indicators[1]



Source: Knight Frank Research

[1] Rent refers to average effective rent

FIGURE 2: Shanghai office development pipeline, 2019-2023



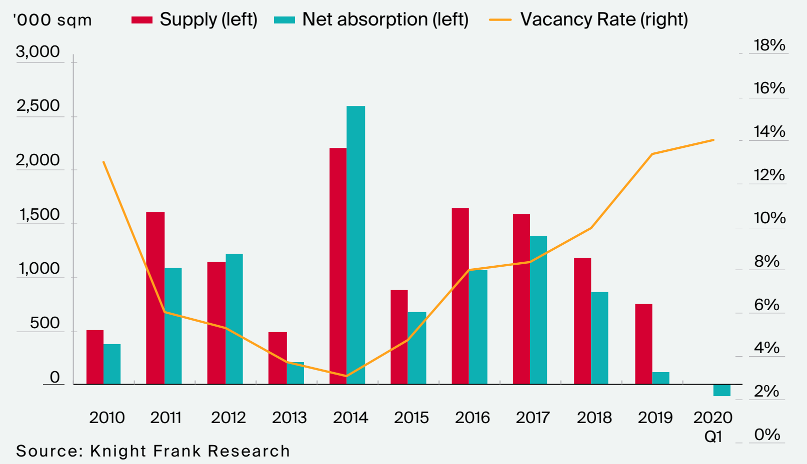
Source: Knight Frank Research

SUPPLY AND DEMAND

In Q1, there was no new projects launched in the Shanghai office market. After our annual research basket adjustment, the inventory of Grade-A office space in Shanghai totalled over 19 million sqm. The inventory of Grade-A office space in Core CBDs (5.04 million sqm) and the emerging business districts (5.33 million sqm) accounted for approximately 54% of the total figure. In 2020 nearly 500,000-sqm new office space is expected to be launched in Xuhui Binjiang.

In Q1, the average vacancy rate in Shanghai Grade-A office market increased 0.6 percentage point QoQ to 14%. Both weak market demand and the decrease of leasing activities were the important reasons for the slight increase in vacancy rates. It is worth noting that the global spread of COVID-19 has led to a shrinking business volume and revenue of related companies in the trade, retail and manufacturing sectors. Companies will have to reduce their office space due to cost savings, and the average vacancy rate will increase significantly in the coming quarters.

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



Source: Knight Frank Research

RENTS

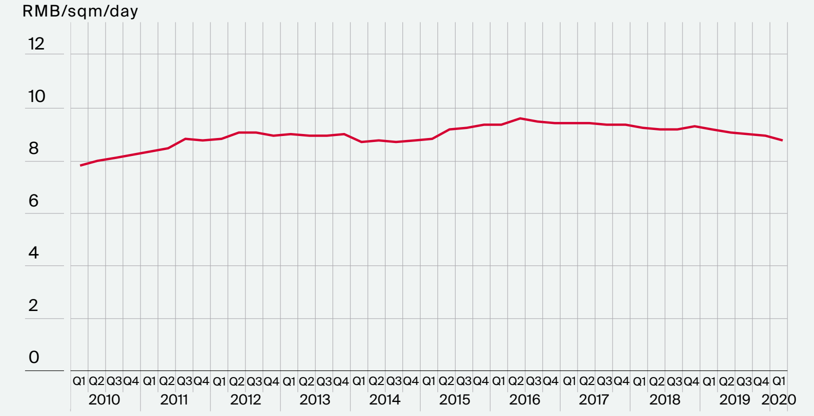
Given the weakening economy and the impact of COVID-19, the average rent conintued to decline in Q1. The average rent of Grade-A office market decreased by 2.2% QoQ to RMB9.0 per sqm per day.

Rents in emerging and secondary business districts dropped significantly with a QoQ decrease of 5.6%.

The rent in the Core CBDs dropped slightly to RMB11.1 per sqm per day. Many tenants chose to renew their leases upon expiry and landlords agreed on an unchanged or a downward rent, avoiding a sharp drop in rents in the Core CBDs. The average rents of Nanjing West Road and Huaihai Middle Road remained at RMB10.9 and RMB9.9 per sqm per day respectively. The average rent of Little Lujiazui decreased slightly by 0.8% QoQ to RMB11.9 per sqm per day.

More than 80% of the state-owned landlords provided two months rent relief from Feburary to March in 2020 to small and medium-sized companies, relieving their operating pressure due to the outbreak of COVID-19.

FIGURE 4: Grade-A office rental trend



Source: Knight Frank Research

TABLE 1: Major Grade-A office leasing transactions, Q1 2020

District	Building	Tenant	Area (sqm)	Type
Railway Station	1FS	Atlas	4,800	New Lease
Xujiahui	Ascendas Plaza	International Paper	1,033	New Lease
Nanjing West Road	Plaza 66 Tower 2	Jixing Pharma	700	New Lease
North Bund	North Bund Plaza	Galaxy Derivatives	1,503	New Lease
Qiantan	New Bund Centre	Veolia Water Technology	4,500	New Lease
Little Lujiazui	Ruiming Tower	Jiahe Fund	2,400	New Lease

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

INVESTMENT MARKET

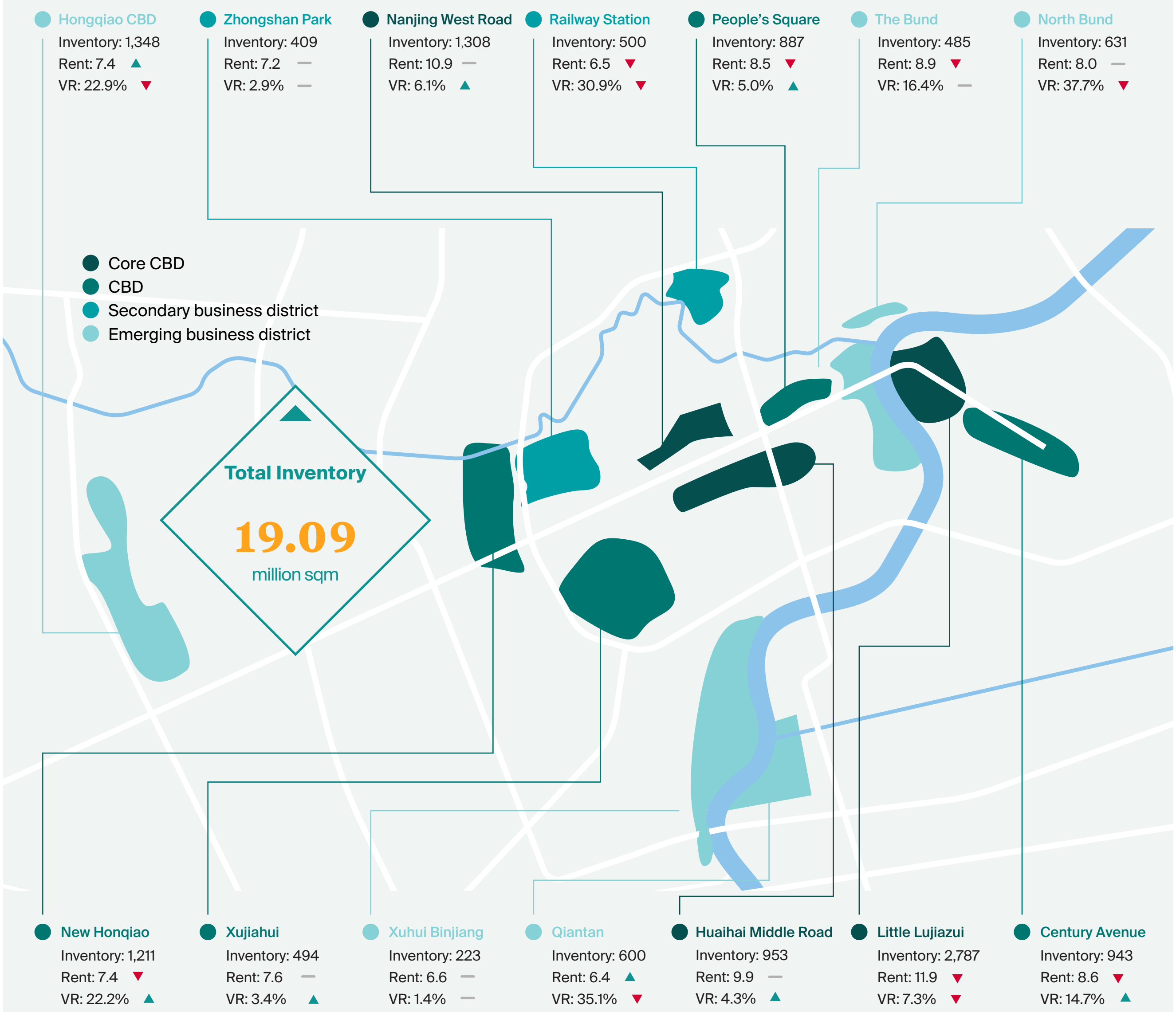
In Q1 2020, the Shanghai property investment market recorded four office en-bloc sales for a total investment amount of RMB3.5 billion. The major buyers are investment funds, insurance funds and developers.

In January, HNA Group sold Shanghai HNA Tower Project to China Cinda Asset Management. Located in Pudong New Area, Shanghai HNA Tower has a total gross floor area of 87,395 sqm. HNA Group holds office floors from level 1 to 5 and level 12 to 20 as well as the whole retail portion of 5,895 sqm.

In Feburuary, Keppel Land China Limited has entered into an equity transfer agreement to acquire 100% equity in several wholly-owned subsidiaries of The9 Limited in China which collectively owned Zhangjiang Micro-Electronic Port Block Three for RMB493 million. Located in the core area of Zhangjiang Hi-Tech Park, the four-storey R&D office building has a total gross floor area of approximately 14,518 sqm.

SHANGHAI OFFICE MARKET DASHBOARD (2020 Q1)

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.

Research & Consultancy

Timothy Chen
Senior Director, Strategic Advisory, China
+86 21 6032 1769
timothy.chen@cn.knightfrank.com

Regina Yang
Director, Head of Research & Consultancy, Shanghai & Beijing
+86 21 6032 1728
regina.yang@cn.knightfrank.com

Martin Wong
Associate Director,
Research & Consultancy, Greater China
+852 2846 7184
martin.wong@hk.knightfrank.com

Mars Yin
Senior Manager
Research & Consultancy
+86 21 6032 1730
mars.yin@cn.knightfrank.com

Shanghai Office Services

Peter Zhang
Senior Director, Head of Office Services, Shanghai
+86 21 6032 1713
peter.zhang@cn.knightfrank.com

RECENT MARKET - LEADING RESEARCH PUBLICATIONS

Supportive policies for businesses in China during COVID-19

Greater Bay Area Retail Repot

Beijing Office Market Report Q1 2020

Shanghai Office Market Report Q4 2019

Guangzhou Office Market Report Q1 2020

Shenzhen Office Market Report Q4 2019

Knight Frank Research Reports are available at knightfrank.com.cn

Knight Frank