Both financial and TMT sectors boost the leasing market

Knight Frank

Shanghai Grade-A Office Market Report

Q1 2021

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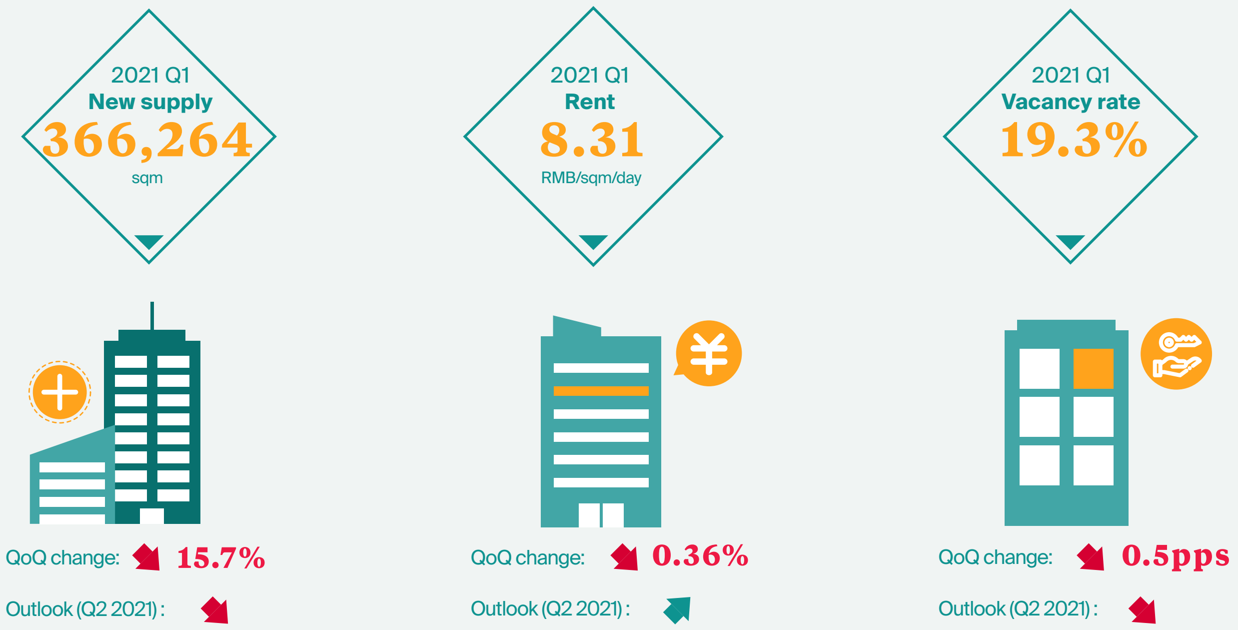
OVERVIEW AND OUTLOOK

Several postponed projects last year were completed in the first quarter (Q1). A total of seven new office projects were launched in Q1, adding 366,264-sqm office space to the Shanghai Grade-A office market. Amongst, 60% of the newly added space is located in the Emerging Business Districts.

The continued economic recovery has boosted the leasing demand in Shanghai's office market. In Q1, the overall vacancy rate decreased by 0.5 percentage point from the previous quarter to 19.3%. Leasing demand from the financial sector including asset management companies and funds has increased continuously in order to accommodate their business expansion needs, whilst TMT sectors, retail and co-working sectors also performed well. The overall net absorption in Q1 reached 342,039 sqm, of which the Core CBDs recorded a positive net absorption of 24,702 sqm.

We expect that there will be over 1.5 million sqm of new office space to be added in the remaining three quarters of 2021, with over half of the space being located in the Emerging Business Districts such as Xuhui Binjiang and Qiantan. In the second quarter (Q2), as the landlords remained positive on the market outlook, the office rents are expected to rebound slightly and the vacancy rate will further decrease.

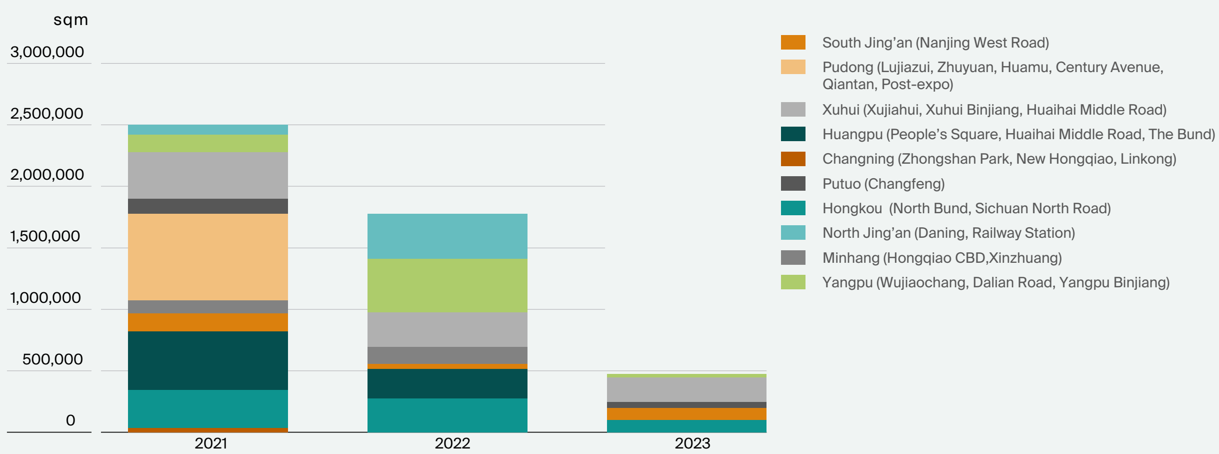
FIGURE 1: Shanghai Grade-A office market indicators[1]



Source: Knight Frank Research

[1] Rent refers to average effective rent

FIGURE 2: Shanghai office development pipeline, 2021-2023



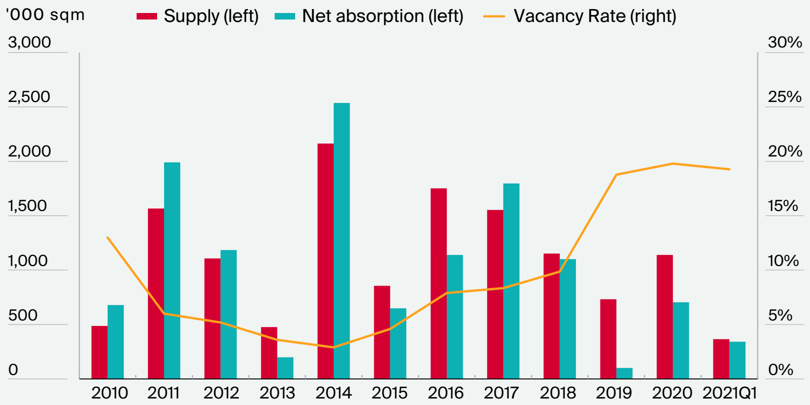
Source: Knight Frank Research

SUPPLY AND DEMAND

In Q1, three new projects in Emerging Business Districts with a total office space of 221,232 sqm were completed, including SK Tower(134,138 sqm) in Post-expo area, the renovated MAGLINK(70,000 sqm) in Pudong Huamu and IGC Shanghai Building 3 (19,000 sqm) in Hongqiao CBD. The Core CBDs and CBDs also witnessed some new completions. The Roof, located in the expanded area of Huaihai Middle Road area and Oriental Pearl Triumph Centre in New Hongqiao area were completed in Q1, adding approximately 23,000-sqm and 34,000-sqm office space to the market respectively.

In terms of the new leasing transactions in Q1, the majority of the demand came from domestic companies, whilst multinational companies picked up with a quarterly increase of over 10 percentage points. In the TMT sector, the demand from financial technology companies focusing on building up data platforms for financial institutions and telecom companies that provide data services has increased significantly. In addition, a rapid recovery in the domestic retail market has also driven the leasing demand from retailers and logistics companies.

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

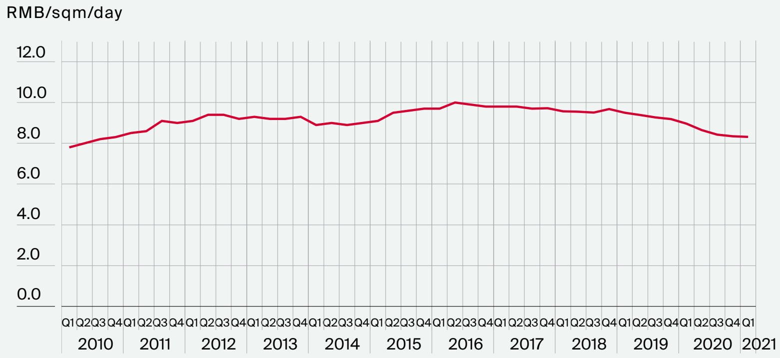


Source: Knight Frank Research

RENTS

In Q1, the average Grade-A office rent in Shanghai fell slightly by 0.36% QoQ to RMB8.31 per sqm per day. The average rent of Core CBDs edged down by 0.14% to RMB10.81 per sqm per day. The performance on submarkets in the Core CBDs varied. Rents in Little Lujiazui and Nanjing West Road dropped by 0.37% and 0.34% QoQ respectively, whilst rents in Huaihai Middle Road increased by 0.67%. Driven by the entry of a number of financial institutions and IT companies into the market, the rents in some Emerging Business Districts increased significantly. The rents in North Bund, the Bund and Qiantan rose by 1.7%, 4.67% and 5.83% QoQ respectively. Landlords' optimistic view about the market outlook has been reflected in the higher asking rents and shorter rent-free periods for fitting-out. The room for negotiation between landlords and tenants in some submarkets has been further narrowed down.

FIGURE 4: Grade-A office rental trend



Source: Knight Frank Research

TABLE 1: Major Grade-A office leasing transactions, Q1 2021

Area	Building	Tenant	Area (sqm)	Type
Sichuan North Road	Trinity Tower	Apogee Crewstudio	900	New Lease
Post-Expo	SK Tower	HD Fund	1,800	New Lease
People's Square	Ocean Towers	Yuntong Logistics	2,000	New Lease
Huaihai Middle Road	The Roof	Hyundai KIA	4,500	New Lease
Huaihai Middle Road	The Roof	Pernod Ricard	5,000	New Lease
Huaihai Middle Road	ICC One	King&Wood Mallesons	6,000	Renew& Expansion

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

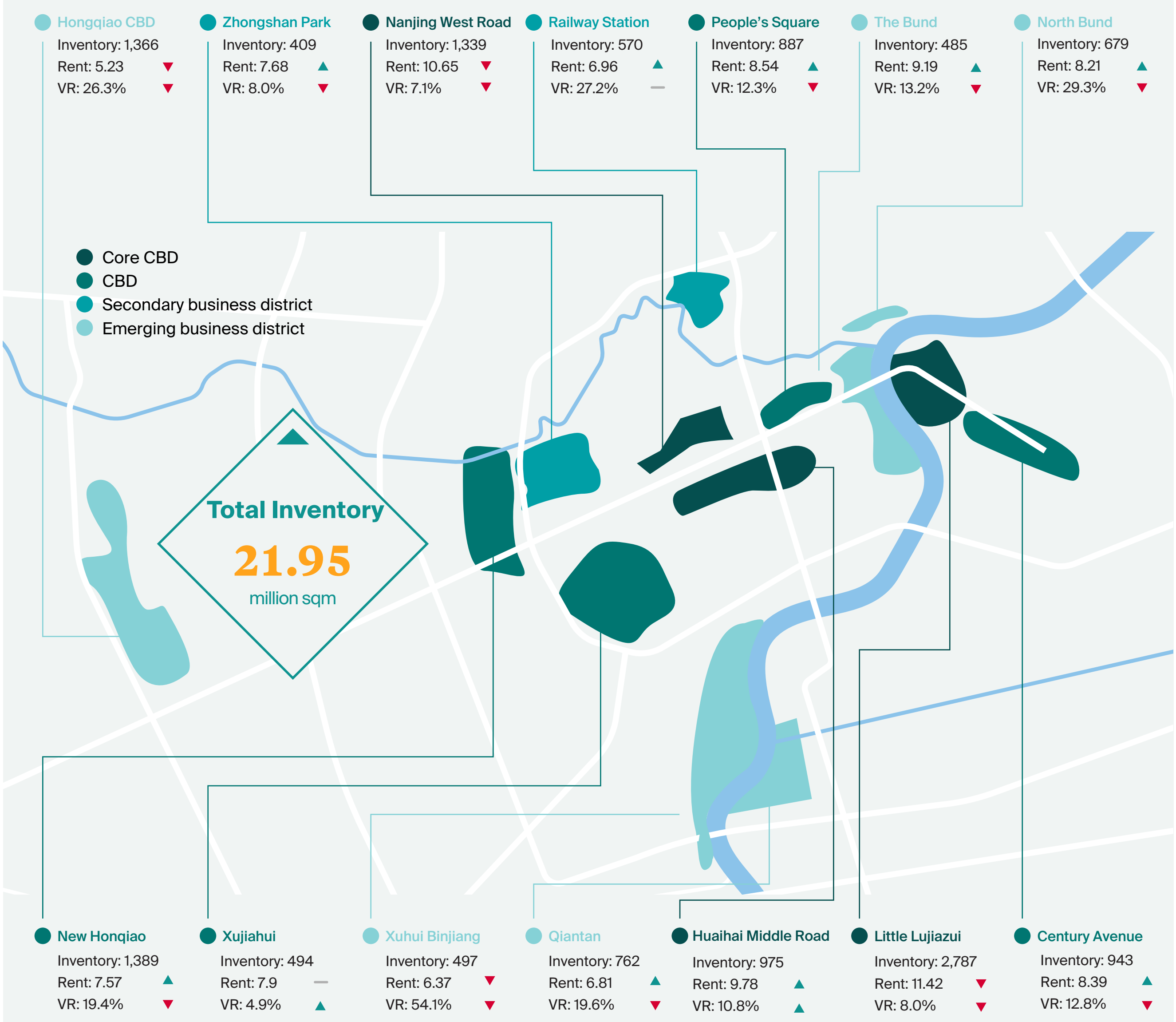
INVESTMENT MARKET

In Q1 2021, four en-bloc transactions were recorded in the office market, contributing over RMB6 billion to the investment market. The securities institutions, foreign funds and domestic retailers were the major players in Q1.

Greenland Bund continued to receive attentions from financial institutions. Zhongtai Securities acquired office space in Greenland Bund for no more than RMB2.735 billion through its wholly-owned subsidiary, Qilu Zhongtai Property Company. The sport retailer Xtep purchased Building E on the land Plot 19-02 in Qibao Eco-commercial Park of Minhang from Wenhui Xinmin United Press Group for RMB464 million through its wholly-owned subsidiary. Building E has a total GFA of approximately 10,990 sqm. The office building will be used for Xtep Group's Shanghai operational centre after the acquisition is completed.

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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