

Average rent continues to rise for three consecutive quarters



Shanghai Office Market Report

Q1 2022

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OVERVIEW AND OUTLOOK

In recent years, Shanghai has strived to attract foreign investment. The office market will benefit from the implementation of 'Notice of Shanghai Municipal People's Government on Issuing the Procedures of Shanghai Municipality on the Administration of Approval and Filing of the Projects with Foreign Investment' in March and the fully carried-out of registration-based IPO system in 2022. We expect financial institutions, funds, asset management companies, valuation & consultancy enterprises will become important demand sources of the leasing market in 2022.

Thanks to the growing leasing demand,

the average vacancy rate in Grade-A office market continued to decrease 0.6 percentage point QoQ or 5.2 percentage points YoY to 14.1% in the first quarter (Q1) of 2022. The net absorption reached approximately 252,200 sqm, a 40% decrease compared with the same period of 2021, but a significant increase compared with that in 2019 and 2020.

Shanghai pressed the pause button at the end of Q1 due to the COVID-19 outbreak in Shanghai. New buildings originally scheduled for completion in the second quarter (Q2) will be delayed. Adversely affected by the pandemic, the leasing and site inspection activities will be significantly reduced in Q2.

Thus, we expect the main indicators in Shanghai Grade-A office market will fall in Q2.

In terms of demand, the office leasing demand of biomedical and consultancy companies remained strong. After lockdown, enterprises will consider cost control and workplace environment to be more important in finding office locations. There will be a significant increase in the demand for technology and environmental friendly buildings and co-working space with flexible lease terms.

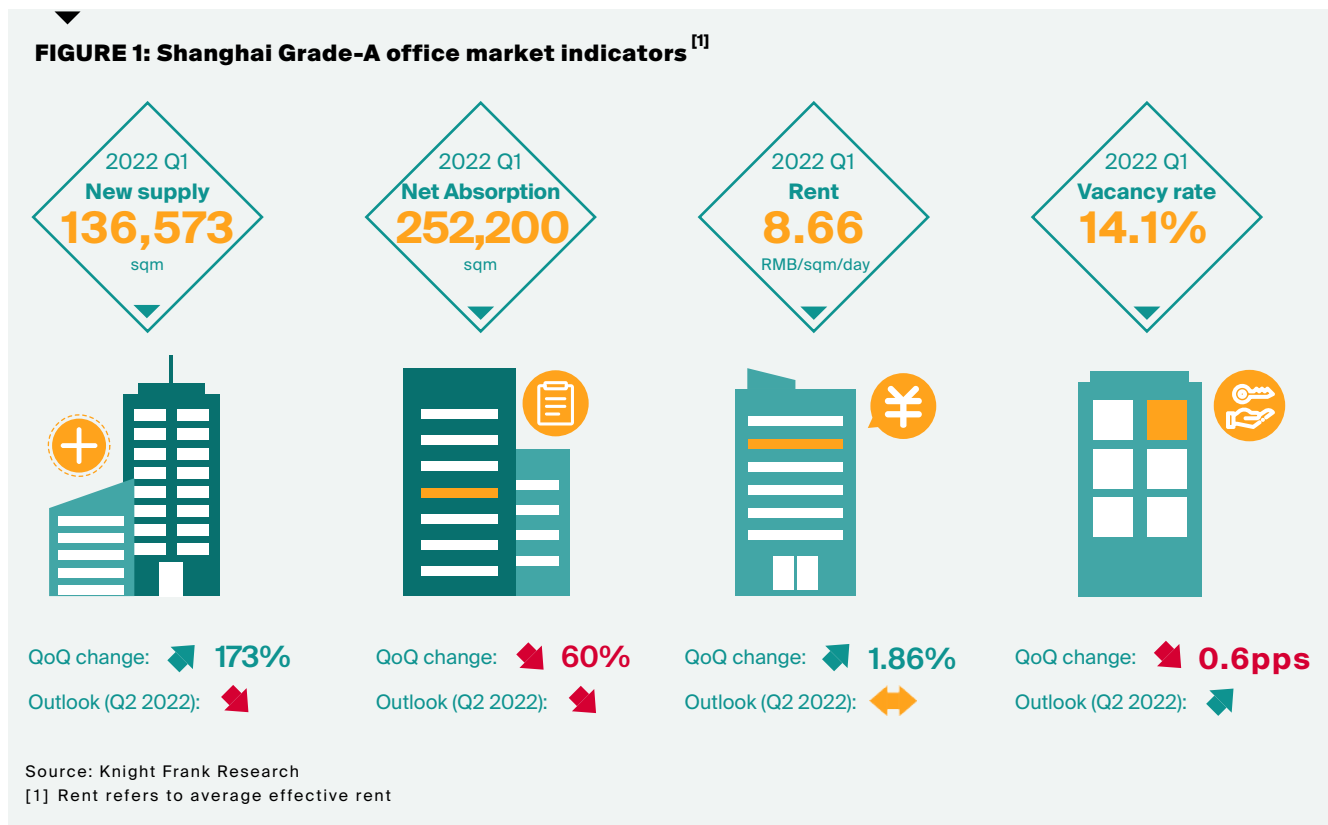
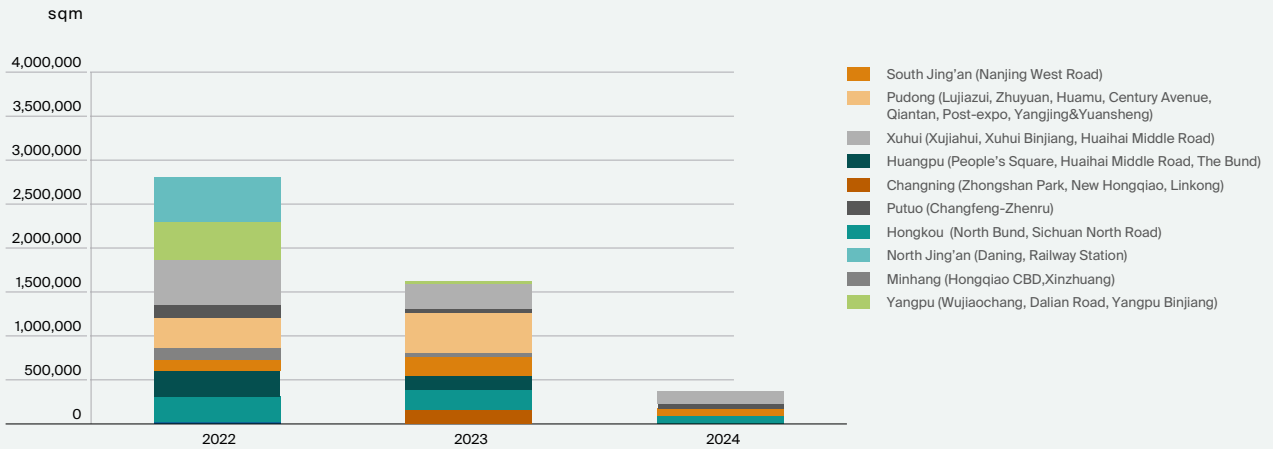


FIGURE 2: Shanghai office development pipeline, 2022-2024



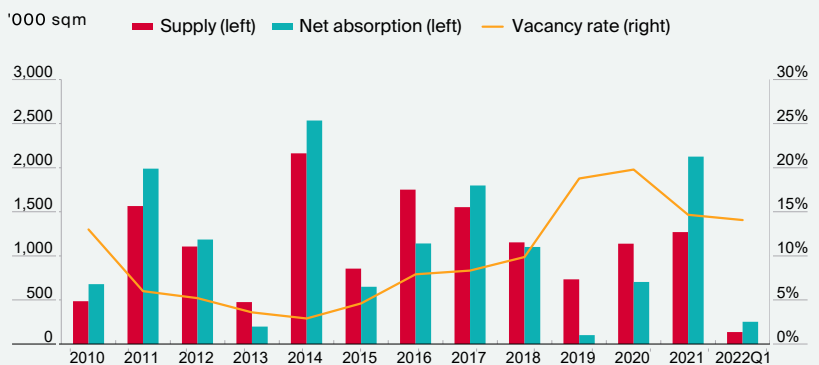
Source: Knight Frank Research

SUPPLY AND DEMAND

In Q1, several new Grade-A office buildings were completed in Shanghai, adding 136,573-sqm office space to the market, a QoQ increase of 173% and a YoY decrease of 63%. A new Grade-A office, CPIC Xintiandi Commercial Centre Tower 3, was completed in the Core CBD area of Puxi. Located in the South Extension area of Huaihai Middle Road, it brings an additional 44,573-sqm office space to the market. Located in Pudong Qiantan, New Bund 31 was completed in Q1 as well, adding 70,000 sqm of office space to the market and pushing up the office inventory of Qiantan to 830,000 sqm.

In terms of new lease transactions, professional services, biomedical, financial and retail sectors have been at the forefront of the leasing demand. Professional services and biomedical sectors performed well in Q1. Professional services companies prefer the new buildings situated in Core CBDs. The premium Grade-A and Grade-A office buildings in Nanjing West Road, The Bund and Little Lujiazui-The

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



Source: Knight Frank Research

Century Avenue areas have become popular among financial companies such as securities and asset management companies. The retail brands also performed well in Q1, in particular the expansion of catering, trendy apparel and sportswear.

In terms of submarkets, the three Core CBDs and surrounding submarkets (for

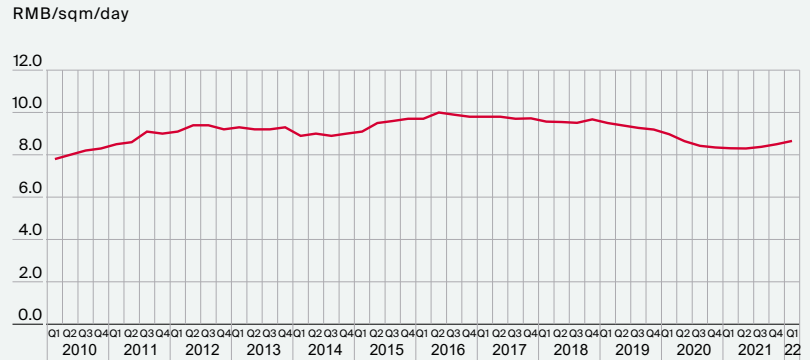
example, The Century Avenue, The Bund and Xujiahui) as well as the submarkets attracting spilled-over demand (for example, Qiantan, Post-expo and North Bund) performed actively, dominating over 70% of leasing transactions. Qiantan and North Bund are favored by the manufacturing industry and pharmaceutical enterprises.

RENTS

In Q1, the average rent of Grade-A office market in Shanghai continued to rise to RMB 8.66 per sqm per day, with an increase of 1.86% QoQ. The negotiation space on rents between landlords and tenants has been decreasing gradually, especially in core areas and hot markets, the narrowing negotiation space became one of the reasons to push up the market rents. However, due to recurring epidemic and slowing leasing activities, landlords may offer more competitive asking rents when facing absorption pressure in the second half of this year while tenants will have more bargaining power in negotiation.

The average rent in Core CBDs continued to increase to RMB11.33 per sqm per day, a QoQ increase of 1.74%. Industries with high rent-paying ability such as professional services, biomedicine and finance are the main drivers pushing up the market rents in Core CBDs in Q1. The rents in the non-Core CBDs markets all increased significantly. The rents in North Bund, Sichuan North Road, Century Avenue and Qiantan increased by over 3% QoQ in Q1.

FIGURE 4: Grade-A office rental trend



Source: Knight Frank Research

TABLE 1: Major Grade-A office leasing transactions, Q1 2022

Submarket	Building	Tenant	Area (sqm)	Type
Nanjing West Road	JC Plaza	Ji Xing Pharmaceuticals	2,100	New Lease
South Jing'an other areas	One Museum Place	VanEck	2,000	New Lease
Danang	Baohua Centre	Arvato	2,000	New Lease
Little Lujiazui	One Lujiazui	Zhonggang Law Firm	2,000	New Lease
North Bund	Sinar Mas Plaza	Volvo	1,000	New Lease

Source: Knight Frank Research

Note: All transactions are subject to confirmation

INVESTMENT MARKET

In Q1 2022, the Shanghai's investment market recorded seven en-bloc office transactions for a total consideration of over RMB6 billion. The major buyers in the market in Q1 were still self-occupation buyers. The trend of leading-edge technology industries and enterprises of the internet to rent office space, buy land to build or buy office buildings for their own use has continued.

On 7 January, Sinochem Capital's Zhonghui Investment, together with Jinmao Capital and Dajia Baoxian, officially signed an acquisition

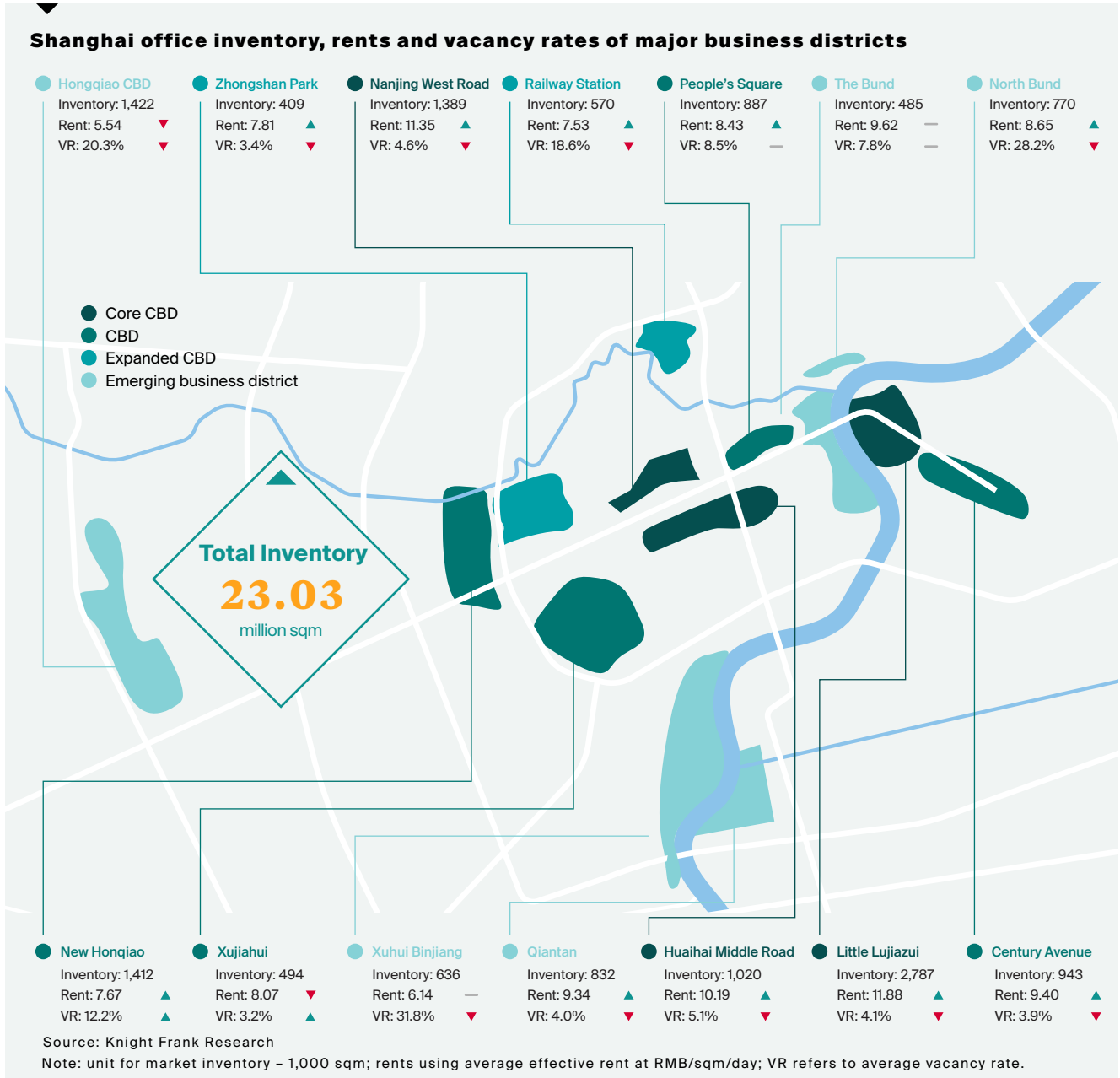
agreement with Morgan Stanley and Sandhill Group to acquire the office building of Shanghai Sandhill Central for approximately RMB1.3 billion. Located in Zhangjiang Demonstration Zone, Pudong New Area, Shanghai, Sandhill Central has a total GFA of approximately 42,673 sqm.

In January, the domestic leading technology enterprise Sensetime Technology bought office units from 4th to 26th floor in AI Tower West Tower for approximately RMB3.328 billion with a total GFA of approximately 53,000 sqm.

Located in Xuhui Binjiang, AI Tower is the landmark building of AI industry highland.

In addition, there are several en-bloc transactions in the market that are in the process of modifying the sale and purchase agreements. In January, Shanghai Fudan Microelectronics Group Co., Ltd. planned to buy 12 office units in Building 12 and Building 15 of Bay Valley with a total GFA of 6,772.27 sqm, at a total price of approximately RMB222 million.

SHANGHAI GRADE-A OFFICE MARKET DASHBOARD (Q1 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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