Shanghai Grade-A Office Market Report

Q1 2024

This report focuses on the Grade-A office market in Shanghai, with information about supply and demand, rents, vacancy rates and the office investment market

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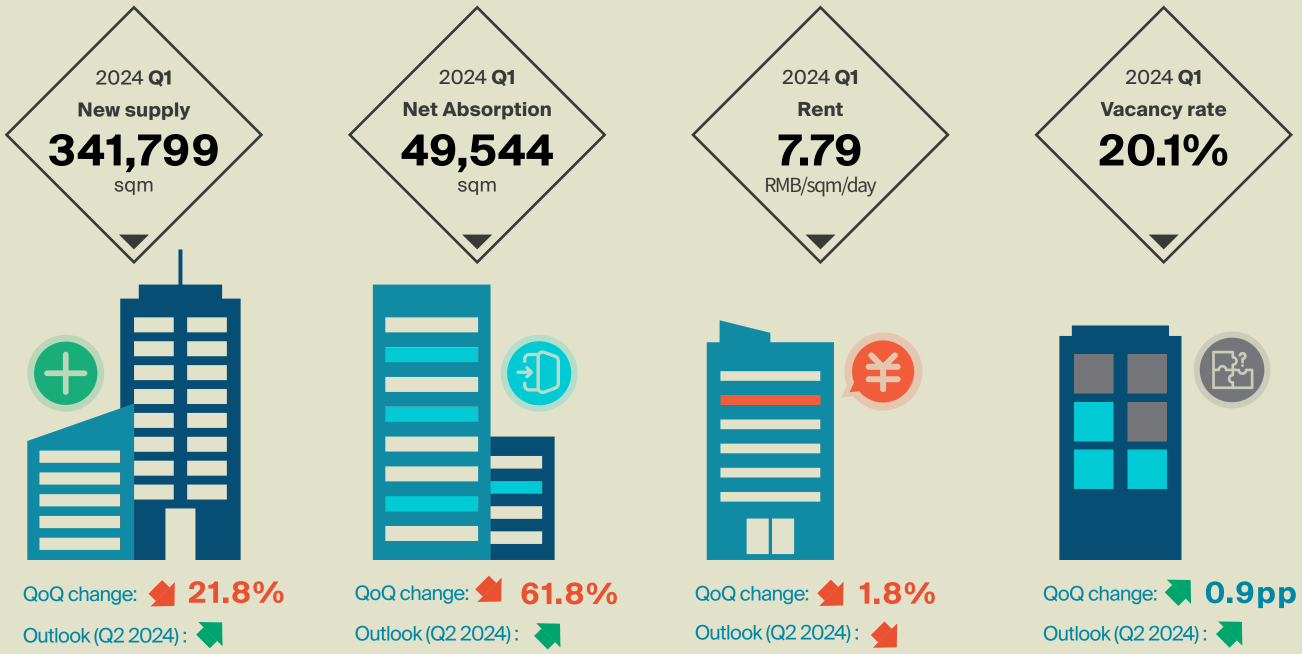
Overview and Outlook

New completions and higher vacancy rates led to a decline in rents

The Shanghai office market continued to perform poorly in the first quarter (Q1). Three new projects were completed in the office market, bringing a total of 341,799 sqm of office space to the market, a decrease of 21.8% QoQ. Net absorption in Q1 was only 49,544 sqm, and sluggish demand was one of the main reasons for the downturn. Rent reductions by landlords led to a further 1.8% decline in the average market rent to RMB7.79 per sqm per day. Under the dual impact of many new completions and more vacant office space, the overall vacancy rate continued to rise to 20.1%, an increase of 0.9 percentage points QoQ. In Q1, leasing demand came mainly from industries such as TMT, finance, biopharmaceuticals, and professional services. Leasing demand from biopharmaceutical companies showed a significant rebound this quarter, with a QoQ increase of 13 percentage points in market share.

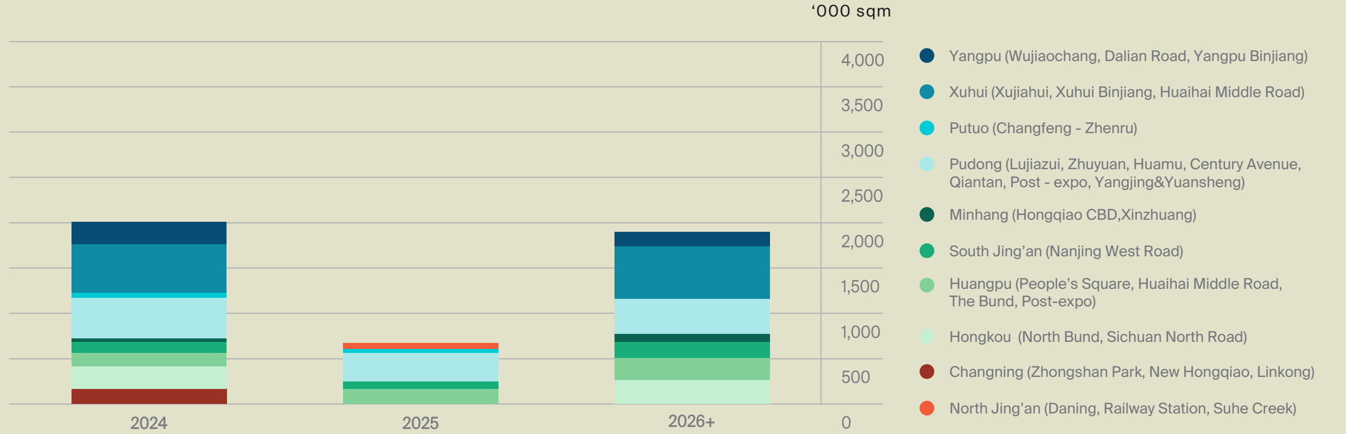
In 2024, over 2 million sqm of new projects are expected to be completed, which will put significant market absorption pressure on landlords. Given the current leasing environment, many landlords are adopting a strategy of offering lower rents in exchange for a higher occupancy rate. For companies with leasing demand and a flexible budget, this undoubtedly presents a rare opportunity. They can get satisfactory office space at a lower leasing cost, thus achieving a high-value configuration of office space.

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



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

Fig 2: Shanghai office development pipeline by district, 2024-2026+



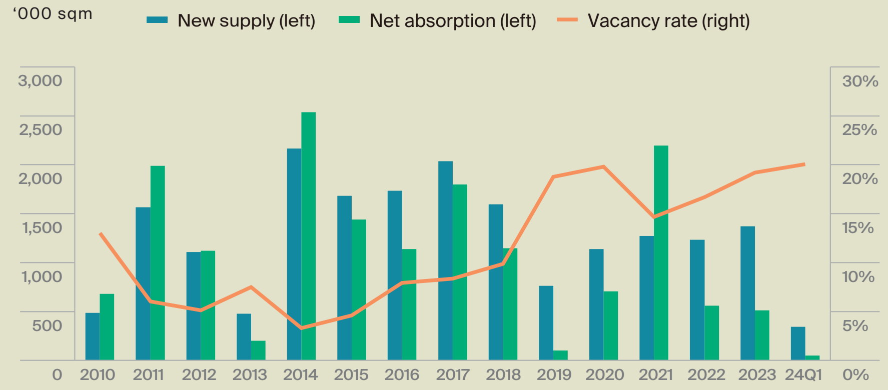
Source: Knight Frank Research

Supply and Demand

Diverse range of industry distribution of new leasing demand

In Q1, three new projects were completed and delivered to the market, providing new supply of 341,799 sqm. Although there was a slight decrease in supply compared to Q4 2023, the YoY growth rate remained at 7.2%. Two of the three new completions were in emerging markets: EXPO Place T1 and T2, in Pudong's Post-expo Area (94,000 sqm in total), and Square City, in Pudong Qiantan (200,000 sqm). Yi Fung Place, in the New Hongqiao Area, operated by Nan Fung Group, was also completed and delivered in Q1, providing additional office area of 47,799 sqm.

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



Source: Knight Frank Research

In Q1, due to the successive completion and delivery of new projects with high vacancy rates, coupled with continued weak demand, the market vacancy rate increased by 0.9 ppts to 20.1% QoQ. As a result, there was a significant decline in net absorption in the market, reaching only 49,544 sqm. Within limited demand, new corporate leases and relocations dominated leasing activity, accounting for over 80% of the market. To attract tenants, landlords have implemented sustained rent reduction strategies and introduced a series of favorable leasing schemes for tenants. These measures have become key factors in facilitating the smooth relocation or establishment of new office space for enterprises with leasing needs.

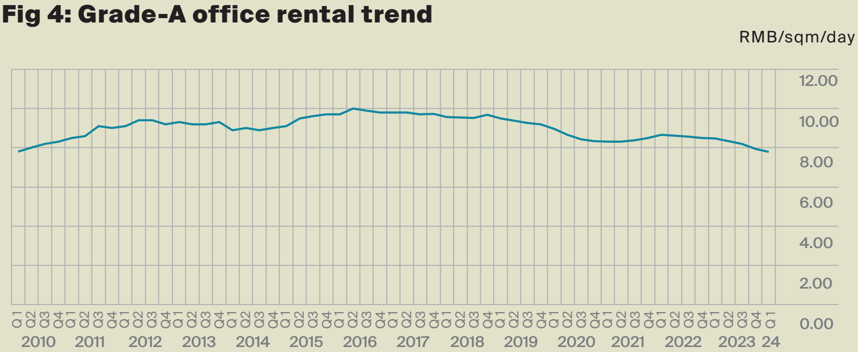
Industry distribution of new leasing demand in Q1 appears to have been more diversified than in Q4 2023. TMT, finance, biopharmaceutical, and professional services companies were at the forefront of market demand, accounting for nearly 70% of the total leasing demand. Leasing demand from domestic enterprises continued to increase, mainly in the TMT, finance, biopharmaceutical, and professional services industries. Leasing demand from foreign enterprises came mainly from the finance, biopharmaceutical, and manufacturing sectors.

Rents

Rents in Core CBDs continued to decline

In Q1, the average rent for Grade A office space continued to decline by 1.8% QoQ to RMB7.79 per sqm per day, representing a 10% decrease from the recent peak in Q1 2022. Owing to limited leasing demand in the market and the continual release of new projects, market supply has increased. As a result, landlords have been forced to lower asking rents to attract tenants and achieve higher occupancy.

Fig 4: Grade-A office rental trend



Source: Knight Frank Research

In Q1, the average rent in the core CBDs continued to decline by 2.1% QoQ, reaching RMB10.64 per sqm per day. Little Lujiazui remained the submarket with the largest rental decline in core CBDs, decreasing by 3.5% QoQ to RMB10.75 per sqm per day.

Landlords in emerging markets are also facing an imbalance between huge supply, numerous new projects, and limited demand. Therefore, reducing rents remains the preferred solution for landlords in emerging markets to address leasing issues. In Q1, the average rent in emerging business districts dropped to RMB6.34 per sqm per day, representing a QoQ decrease of 1.7%.

Table 1: Major Grade-A office leasing transactions, Q1 2024

Submarket	Building	Tenant	Area (sqm)	Type
Huaihai Middle Road	Shui On Plaza	Kimberly-Clark	6,600	Relocation
Zhuyuan	LJZ Financial Holdings Plaza T1	Huatai Futures	3,200	Renewal
North Bund	AIA Financial Centre	PATEO	3,000	Relocation
Huamu	Century 333	AMEDAC	2,000	Relocation
Little Lujiazui	BEA Finance Tower	BOA Max	1,200	New Lease
New Hongqiao	IM Shanghai T4	Shisheng Winery	1,000	New Lease

Source: Knight Frank Research

Note: All transactions are subject to confirmation

Investment Market

High-quality office and retail properties continue to be favored by insurance funds

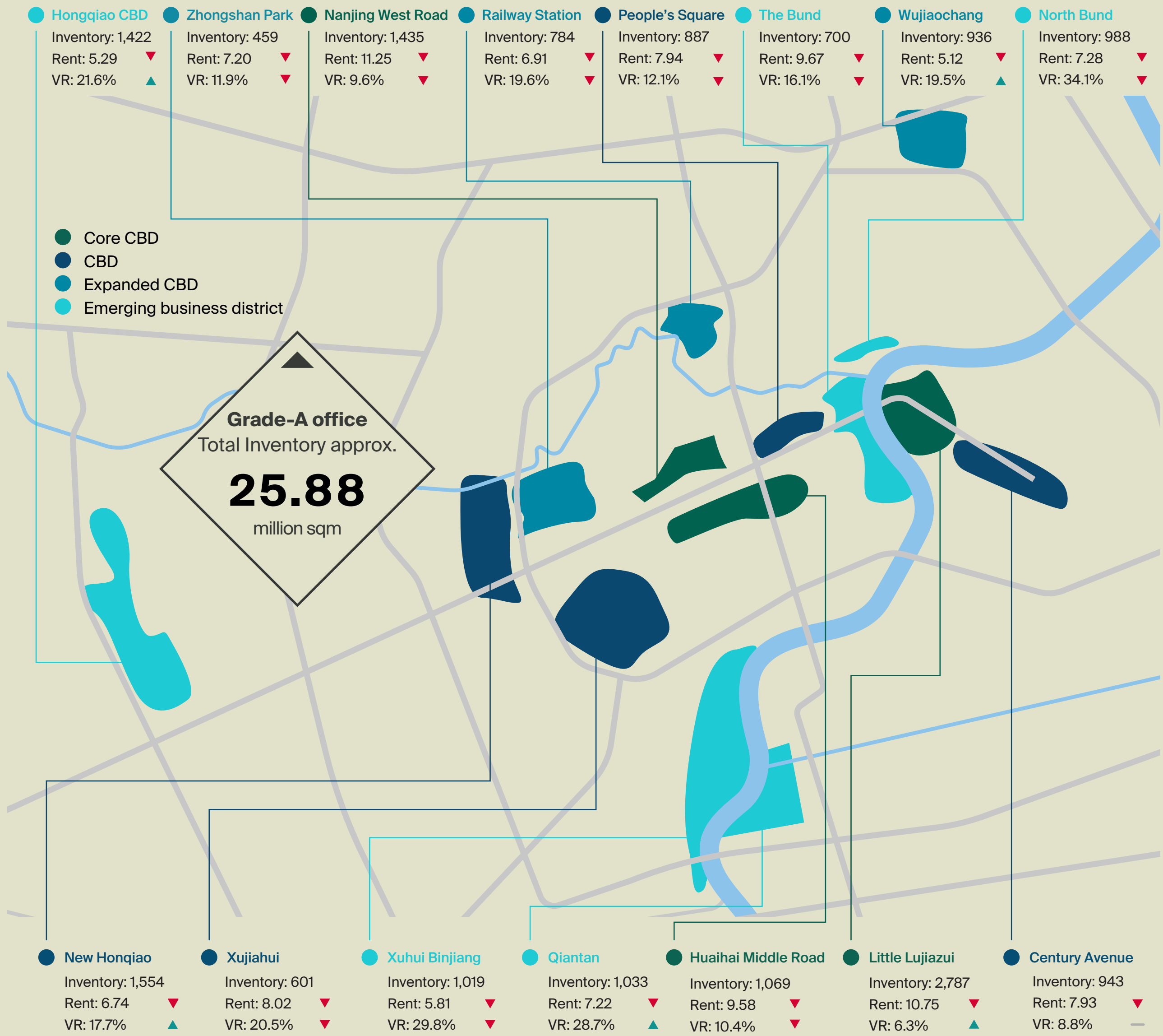
In Q1 2024, 15 major transactions for a total value exceeding RMB8 billion were recorded in the Shanghai office investment market. Transactions involving entire floors and properties valued below RMB1 billion were particularly active. In addition to the purchasing demand from owner-occupiers, insurance funds continue to show interest in acquiring high-quality office buildings and retail properties. Reasonably priced properties with stable future returns still attract the attention of insurance funds seeking asset allocation opportunities.

On 17 January, Shanghai CCB Housing Service Co., Ltd., a subsidiary of China Construction Bank, and a fund company established by a foreign enterprise, jointly acquired Shanghai Light Industrial International Tower, located on Siping Road in Hongkou District, for RMB370 million.

In January, Shui On Land sold a 65% equity stake in Shanghai Jiuzhe Property to Hongrui Shouyuan Partnership, a subsidiary of Dajia Insurance Holdings, for an initial consideration of approximately RMB1.206 billion. After the acquisition, Dajia Insurance collaborated with Shui On Land to invest in and develop the Hongshoufang project on Changshou Road in Putuo District. This transaction was part of Shui On Land's light-asset strategy, while Dajia Insurance achieved asset allocation in high-quality office and retail properties.

Shanghai Grade-A office market dashboard Q1 2024

Shanghai Grade-A 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/month; 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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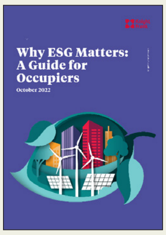

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