

Office leasing demand from financial institutions has increased significantly



Shanghai Grade-A Office Market Report

Q2 2020

knightfrank.com.cn



OVERVIEW AND OUTLOOK

In the second quarter(Q2), three new projects totaling 82,286 sqm were completed in Shanghai's Grade A office market. Major leasing demand came from financial, biomedicine and professional services sectors. The leasing activities of

financial enterprises and institutions in Pudong have improved significantly, which was largely due to Pudong's favorable financial business environment.

In the second half of 2020, there will be

more than 2 million sqm of new office space adding to the market. It can be expected that the average vacancy rate will continue to rise but the downward adjustment of market rent will slow down.

FIGURE 1: Shanghai Grade-A office market indicators^{[1] [2]}

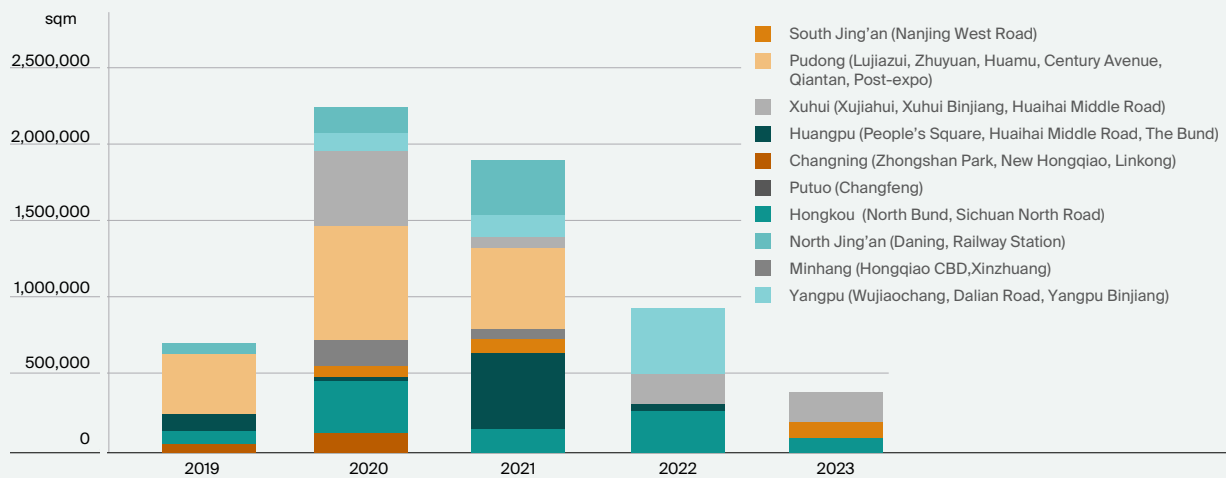


Source: Knight Frank Research

[1] Rent refers to average effective rent

[2] The office sample database in Q2 has been adjusted and cannot be directly compared with the previous quarterly report figures

FIGURE 2: Shanghai office development pipeline, 2019-2023

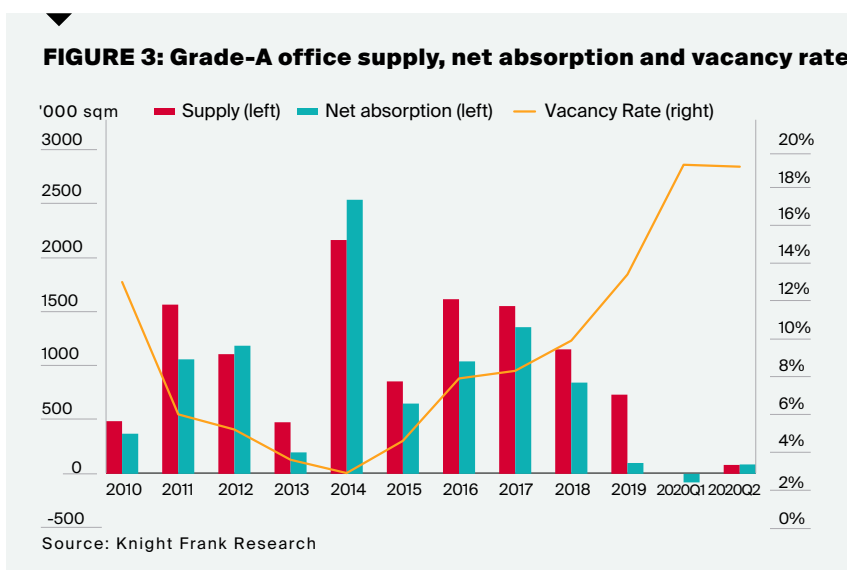


Source: Knight Frank Research

SUPPLY AND DEMAND

Of the three newly completed projects in Q2, two are located in Puxi and one is located in Pudong. Jing'an Baohua Centre in Nanjing West Road area added approximately 31,000 sqm of office space to the market. The Edge located near to Joy City in Jing'an District was also completed this quarter. The project was jointly developed by K. Wah Group and Suhewan Holdings, with an office space of approximately 14,450 sqm. Pudong Huamu submarket recorded the new completion of Kaisa Financial Centre, bringing 37,000 sqm of office space to the market.

In Q2, the average vacancy rate in Shanghai's Grade A office market decreased by 0.1 percentage point from the previous quarter to 19.1%. The market net absorption returned to a positive value of 87,300 sqm. The leasing demand in the Grade A office market still mainly came from the traditional financial, professional services and biopharmaceutical sectors, which accounted for more than 60%



of the newly signed leases. Domestic securities companies Yongxing Securities and GF Securities leased 6,000 and 5,000 sqm of office space respectively in Taikang Insurance Tower.

Biopharmaceutical companies were also active in Q2, particularly Japanese pharmaceutical companies preferred moving to emerging business districts.

RENTS

In Q2, the average rent for Grade A office market continued to drop by 3.8% from the previous quarter to RMB8.65 per sqm per day. Some office buildings with relatively high vacant space in the core CBDs and emerging business districts attracted tenants by drastically reducing rents. As a result, the average rents in these business districts fell by 1.2% and 4.1% respectively from the previous quarter to RMB 11 per sqm per day and RMB 7.1 per sqm per day. Many landlords gave tenants more subsidies for fitting out and longer rent-free fitting out periods, attracting many tenants with pent-up demand but limited budgets. Through these preferential leasing measures, not only did the landlord ensure the effective absorption of vacant space, but also avoided sharp drops in the rents.

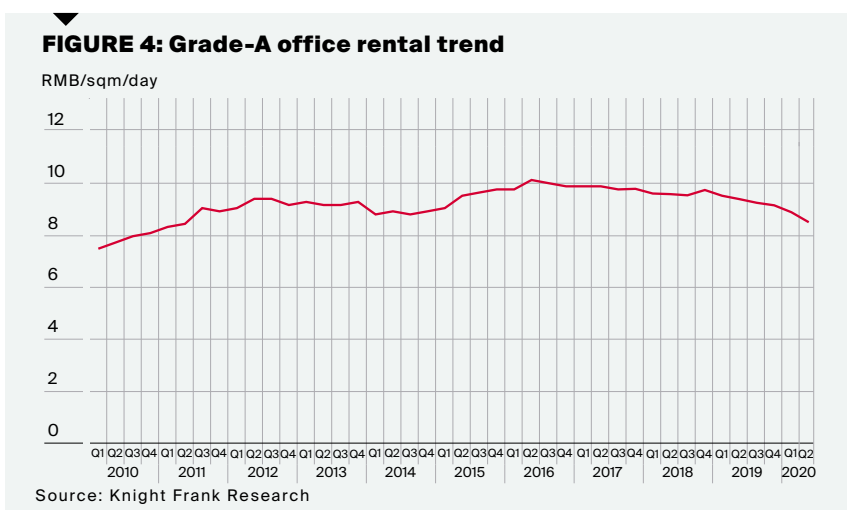


TABLE 1: Major Grade-A office leasing transactions, Q2 2020

District	Building	Tenant	Area (sqm)	Type
Little Lujiazui	Ruiming Tower	AXA Insurance	3,600	New Lease
The Century Avenue	Taikang Insurance Tower	Yongxing Securities	6,000	New Lease
Little Lujiazui	Foxconn Building	Hiways Law Firm	5,200	New Lease
Little Lujiazui	Taikang Insurance Tower	GF Securities	5,000	New Lease
Huamu	Kaisa Financial Centre	CSCEC Shanghai Architectural Design Institute	3,400	New Lease
Wujiaochang	Shanghai Hopson International Plaza	Distrii	6,000	New Lease

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

INVESTMENT MARKET

In Q2 2020, the investment market was active, with a total of ten office transactions recorded or a total sales over RMB20 billion. The transactions in Q2 showed that there was increasing demand from traditional financial institutions, such as domestic banks, securities and insurance companies, to acquire office assets either for self-occupation or investment purposes.

In May, Bank of Shanghai announced its acquisition of Greenland Bund Centre Tower 2 office building and the

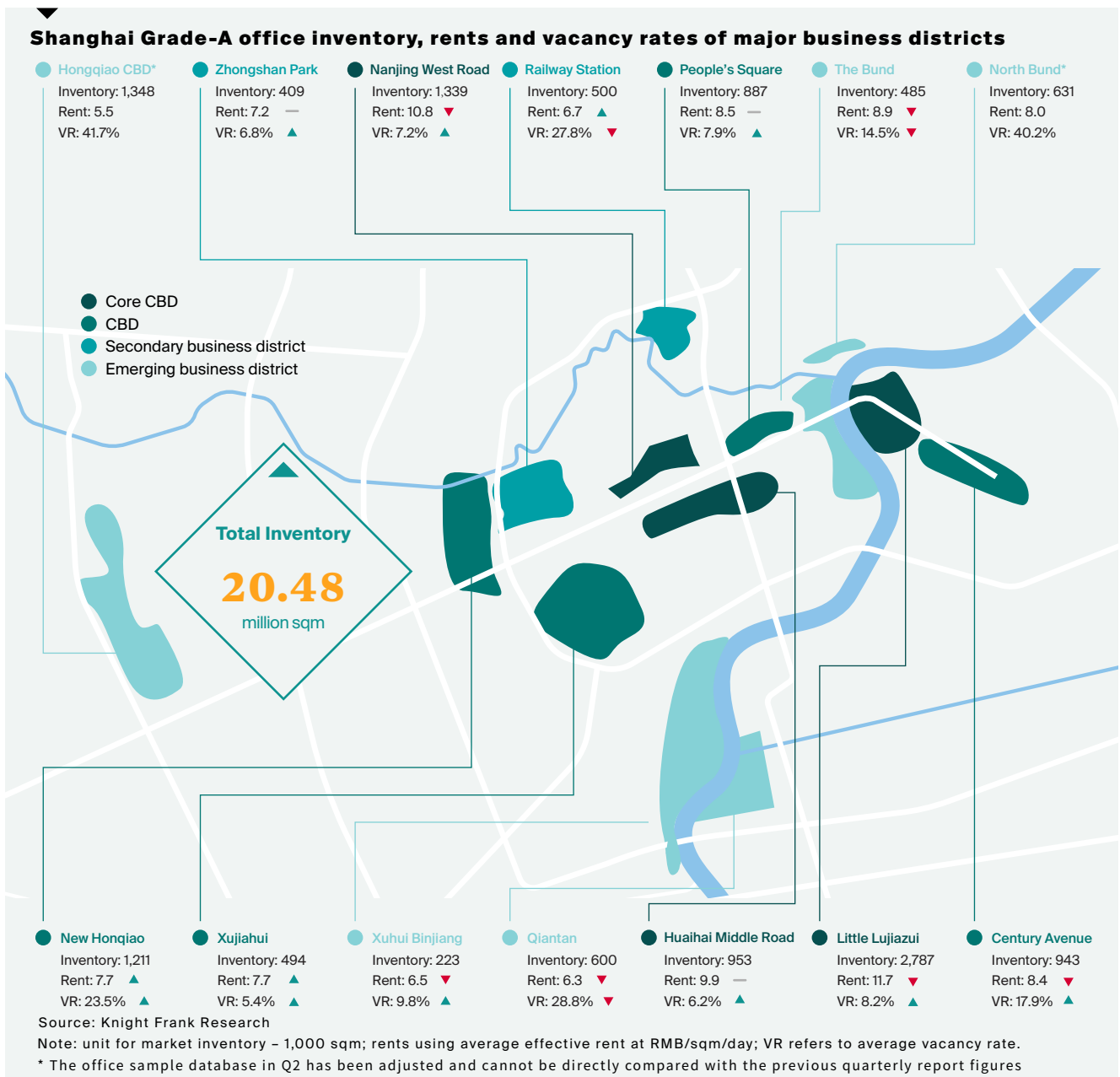
underground parking spaces that jointly developed by Greenland Group, Anxin Trust and Shanghai Bund Investment Group for approximately RMB4.854 billion. The total gross floor area (GFA) is 52,896 sqm, and the final transaction price exceeds RMB90,000 per sqm.

In June, E-commerce brand TST purchased the No.2 office building of Crystal Plaza in core area of Qiantan for RMB1.76 billion or a transacted price of approximately RMB67,000 per sqm. Before

this acquisition, the No. 3 office building in Crystal Plaza was sold to Shaanxi Energy for RMB1.517 billion.

In June, Shanghai Great Wall Financial Centre located in Dapujiao, Huangpu District sold for nearly RMB3.1 billion to Hong Kong Shanghai Alliance Holdings Limited and Apollo Global RE. Shanghai Great Wall Financial Centre is a hotel and office complex with a total GFA of 99,600 sqm. Amongst, the 51,100-sqm hotel portion is operated by French AccorHotels.

SHANGHAI GRADE-A OFFICE MARKET DASHBOARD (2020 Q2)



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,
Head of Research & Consultancy, 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



Jonathan Rideout

Head of Office Services,
Shanghai
+86 21 6032 1713
jonathan.rideout@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, Shanghai
+86 21 6032 1730
mars.yin@cn.knightfrank.com

RECENT MARKET - LEADING RESEARCH PUBLICATIONS



China Commercial
Real Estate
Investment
Market



Beijing Office
Market Report
Q2 2020



Guangzhou Office
Market Report
Q2 2020



Shanghai Office
Market Report
Q1 2020



Shanghai Industrial
Market Report
Q1 2020



Shenzhen Office
Market Report
Q1 2020

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



Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs. Important Notice: ©Knight Frank 2020: This document and the material contained in it is general information only and is subject to change without notice. All images are for illustration only. No representations or warranties of any nature whatsoever are given, intended or implied. Knight Frank will not be liable for negligence, or for any direct or indirect consequential losses or damages arising from the use of this information. You should satisfy yourself about the completeness or accuracy of any information or materials and seek professional advice in regard to all the information contained herein. This document and the material contained in it is the property of Knight Frank and is given to you on the understanding that such material and the ideas, concepts and proposals expressed in it are the intellectual property of Knight Frank and protected by copyright. It is understood that you may not use this material or any part of it for any reason other than the evaluation of the document unless we have entered into a further agreement for its use. This document is provided to you in confidence on the understanding it is not disclosed to anyone other than to your employees who need to evaluate it. members' names.