

# Shanghai Grade-A Office Market Report



Q2 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

## ► Significant drop in market rents

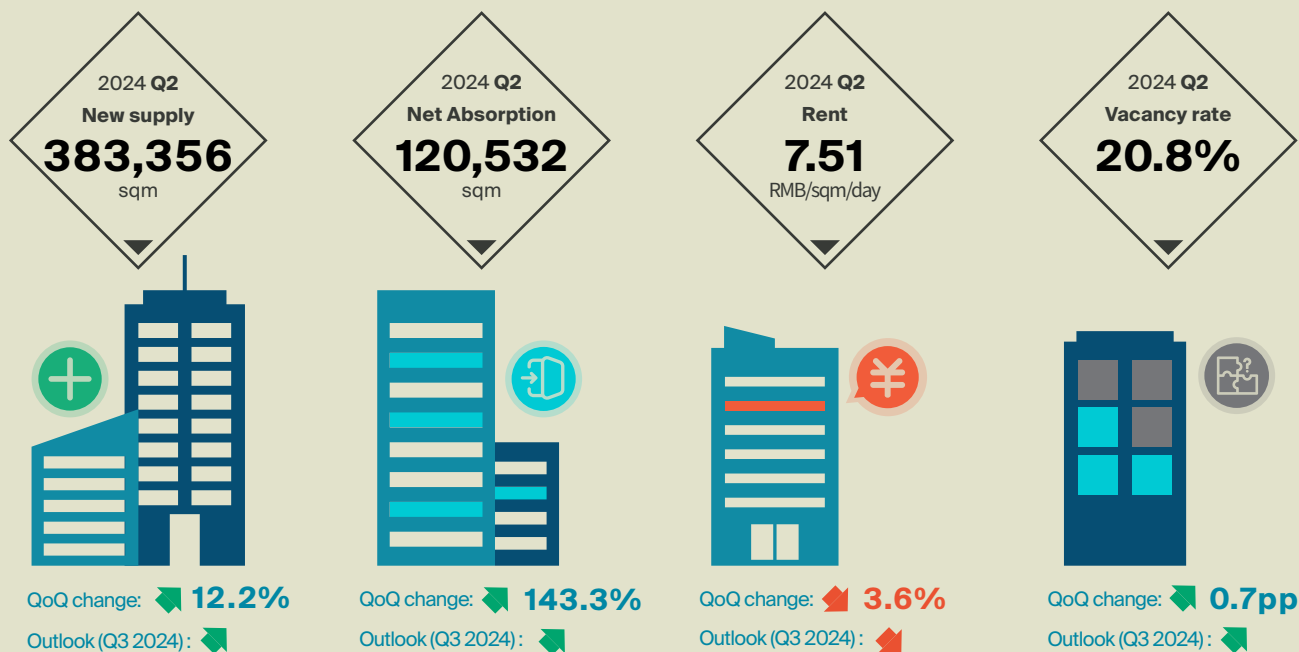
In the second quarter (Q2), the Shanghai Grade-A office market presented a trend of new projects being completed, leading to a decline in both the occupancy rate and average rent. On the supply side, six new projects with a total office area of 383,356 sqm were completed, representing a 12.2% QoQ increase in new supply. Along with the high vacancy rate of new projects entering the market, the overall office market vacancy rate continued

to rise QoQ to 20.8%, an increase of 0.7 percentage points, though the pace of the vacancy rate increase slowed down. In Q2, net absorption reached 120,532 sqm, representing a significant QoQ increase. Grade-A office landlords significantly lowered rents, successfully attracting a number of non-R&D enterprises that were originally located in business parks to move back to Grade-A office buildings in the city centre. This was also an important reason for the

growth in net absorption in Q2.

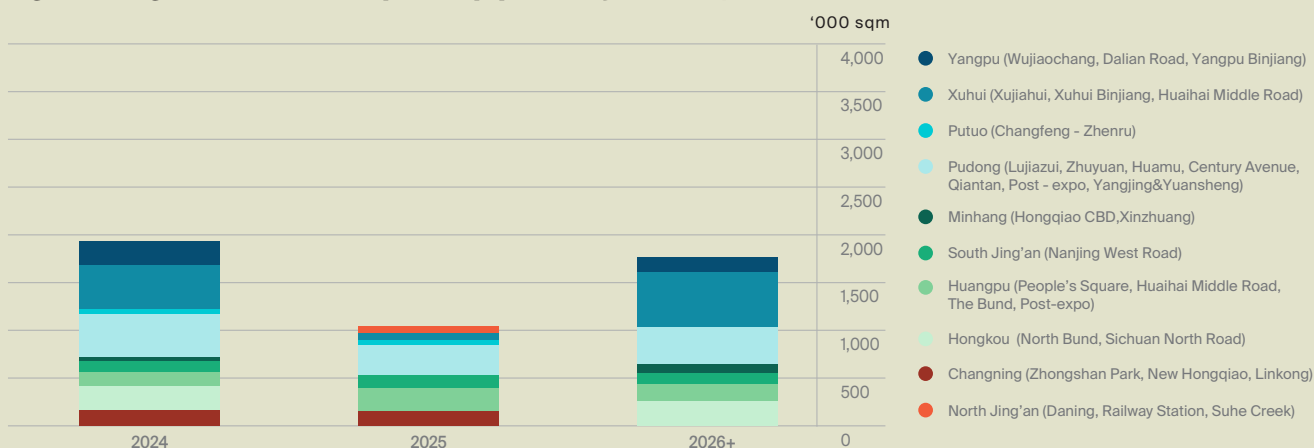
In the second half of 2024, the Shanghai office market is expected to face pressure from the concentrated delivery of new projects, with over 1 million sqm of new supply entering the overall office leasing market. We expect landlords to continue to lower rents and offer more favourable leasing terms to strive for a larger market share amid the fierce market competition.

**Fig 1: Shanghai Grade-A office market indicators<sup>[1]</sup>**



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

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



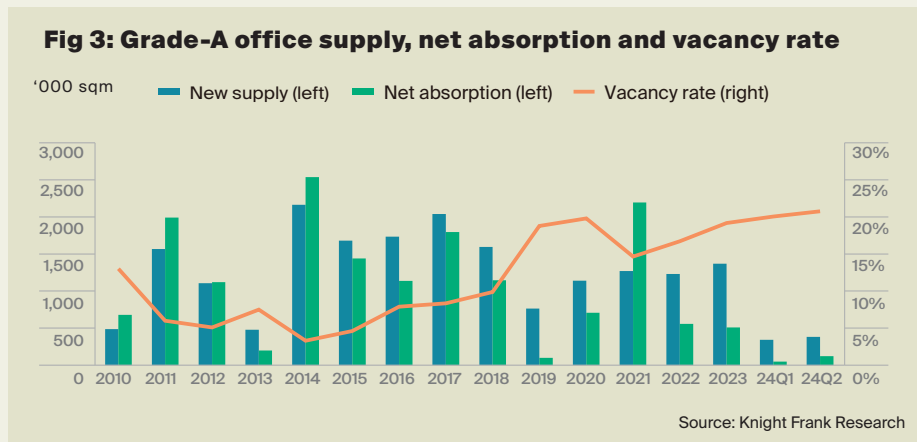
Source: Knight Frank Research

# Supply and Demand

## ► Company relocations drive over half of leasing activities

In Q2, six new projects were completed in the Shanghai Grade-A office market, bringing 383,356 sqm of new supply to the market. The market's new supply in the first half of 2024 reached 725,155 sqm, for a 39% YoY increase. In Q2, over 55% of new supply was in emerging business districts, including Expo Place V1 & V2 (10,600 sqm) in Pudong's post-Expo area, Yuandian Plaza (100,000 sqm) in Puxi's Xuhui Binjiang area, and The Riverside Plaza (100,000 sqm for leasing, sales and self-use) in Puxi's Yangpu Binjiang area. The core CBDs also saw the completion and delivery of new projects, with the CPIC Xintiandi Commercial Centre Tower 2 in the Huaihai Middle Road business district bringing 30,098 sqm of office space to the market. Park Avenue Central, developed by Keppel, in Jing'an District, covering an area of 100,000 sqm, was also completed in Q2.

In Q2, the market's main leasing activities were dominated by lease renewals and company relocations, with more than half of the activity coming from company relocations. Many companies whose leases were expiring chose to renew with lower rents or relocate to less expensive buildings, driven by the need to reduce costs and improve efficiency.



Companies with higher leasing budgets, on the other hand, seized the opportunity when landlords were generally willing to offer discounts, and chose office buildings with better locations and quality. The newly completed projects in the emerging business districts and quality office buildings in downtown areas became the top choices for companies with higher leasing budgets, especially those with new office setups or in need of upgrades. It is worth noting that for non-R&D companies, the rental advantage of business parks has diminished, as Grade-A office rents in downtown areas dropped significantly, so more of these companies chose to relocate to newly

completed Grade-A office buildings downtown in Q2.

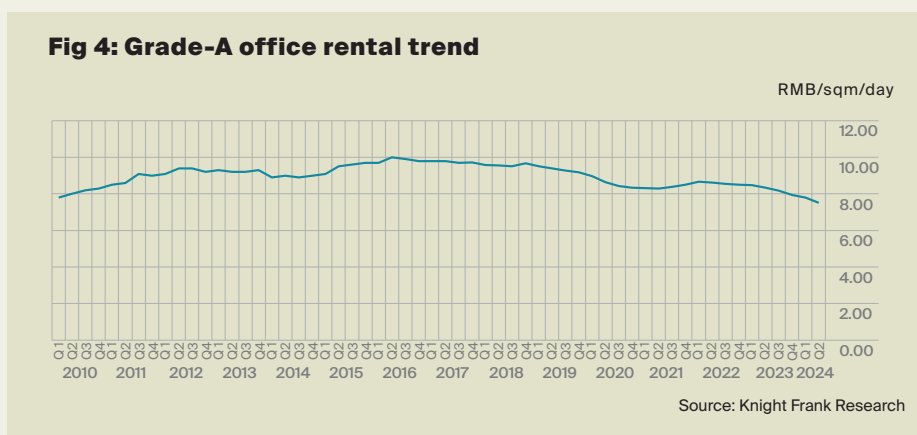
Regarding the industry distribution of new leasing demand in Q2, TMT, finance, professional services and retail brands remained the main sources of leasing demand, collectively contributing about 80% of leasing demand. Domestic companies remained the main players in the leasing market, but in Q2, the share of leasing demand from foreign companies increased by 8 percentage points, driven by Asian companies, especially those from Japan and Korea.

# Rents

## ► Rental gap narrows further between emerging business districts and CBDs

In Q2, the average rent of Grade-A office buildings across the city plummeted 3.6% to RMB7.51 per sqm per day. In order to increase occupancy rate, landlords adopted a strategy of exchanging lower rents for higher occupancy, leading to a significant rental decline this quarter.

In Q2, the average rent in the core CBDs continued to decline to an average of RMB10.31 per sqm per day, for a QoQ decrease of 3.1%. The rent in Little Lujiazui decreased for two consecutive quarters, falling



to RMB10.49 per sqm per day, but recorded the lowest rental decline of 2.5% in the core market.

The rental gap between the core CBDs and emerging business districts, as well as the rental gap between the CBDs and emerging business districts, narrowed QoQ. The two rental gaps have decreased by about 5% and 10%, respectively, since the beginning of the year. As leasing demand is increasingly circulating within these areas, landlords in the expanded CBDs, such as Zhongshan Park and Sichuan North Road, have had to offer deeper discounts to attract tenants. This is the main reason for the largest rental decline of 4.9% QoQ to RMB5.77 per sqm per day in the expanded CBDs in Q2.

**Table 1: Major Grade-A office leasing transactions, Q2 2024**

Submarket	Building	Tenant	Area (sqm)	Type
Xuhui Binjiang	Lumina Shanghai	Broadex Technologies	1,600	Relocation
Zhuyuan	The Summit T1	Willis Towers Watson	2,500	Relocation
Huaihai Middle Road	CPIC Xintiandi Commercial Centre T2	Cisco	2,500	Relocation
Qiantan	New Bund Centre	Qimao	7,000	Renewal
Huamu	Kerry Parkside	Danone	12,000	Renewal
Jing'an others	Lee Gardens	Manulife-Sinochem	15,000	New Lease

Source: Knight Frank Research

Note: All transactions are subject to confirmation

# Investment Market

## ► Positive performance in the office investment market in Q2

In Q2 2024, the Shanghai office investment market remained buoyant, recording 20 en-bloc transactions with a total value exceeding RMB13 billion. Total investment volume in the office

market for the first half of the year exceeded RMB20 billion.

In Q2, in addition to insurance funds, securities firms and asset management companies showed

strong enthusiasm for office property acquisitions. Owner-occupier buyers such as tech companies, real estate developers and religious institutions also continued to increase their investments in the office market.

**Table 2: Major Grade-A office en-bloc transactions, Q2 2024**

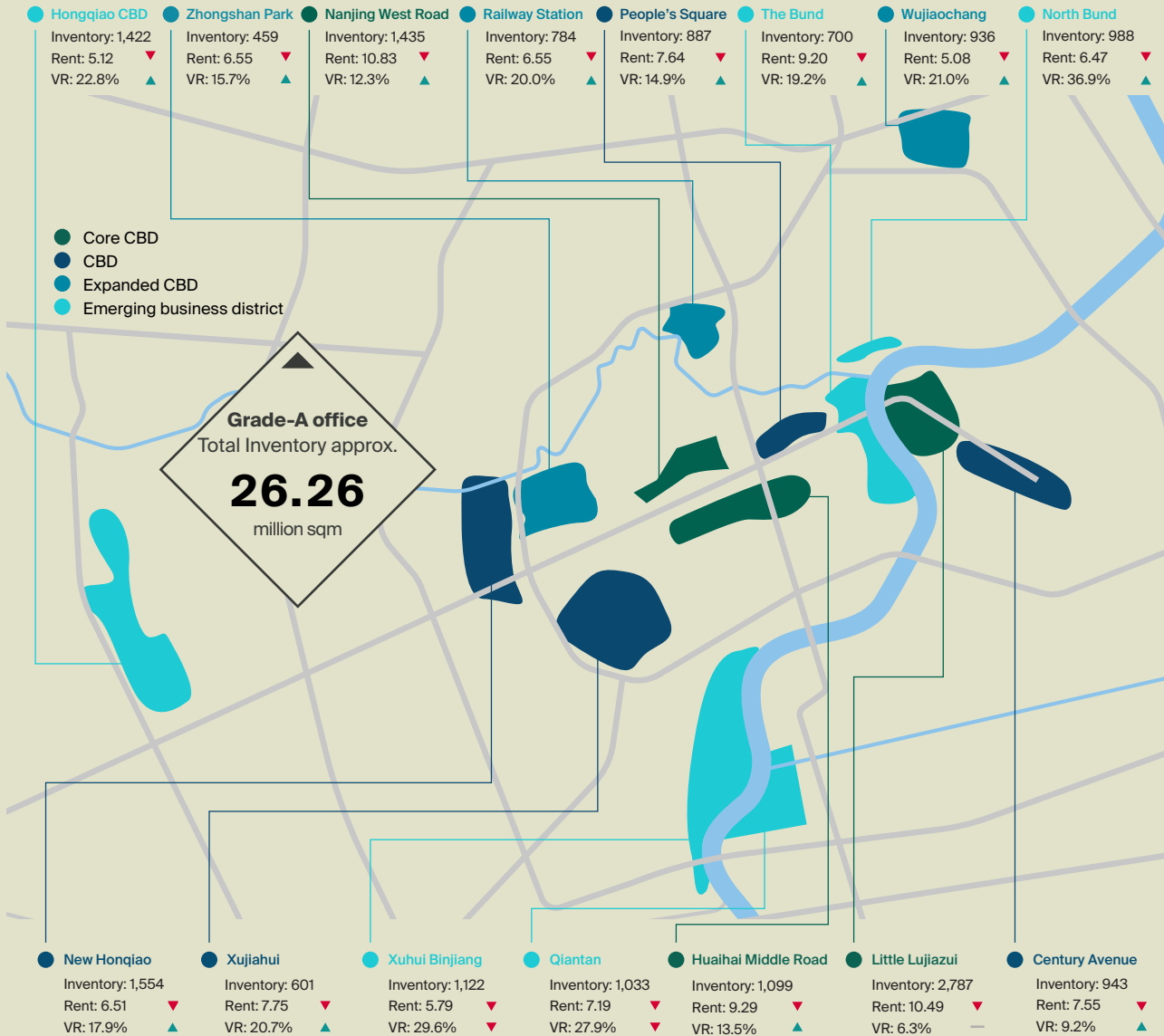
Property	Purchaser	Seller	District	Transacted GFA (sqm)	Acquisition Structure
ROCKBUND Project Building No.219	Zhong An Insurance	Rockefeller Group/Sinolink	Huangpu	6,563	Domestic equity
ROCKBUND Project Building No.27	Zhong An Insurance	Rockefeller Group/Sinolink	Huangpu	9,381	Domestic equity
Sinochem International Plaza	Huatai Securities	Sinochem International	Pudong	27,000	Domestic equity
Hongqi Centre	Hongqi Village Committee	China Overseas L&I/Shanghai Zhonghuan Investment Development/Shanghai Xinchangzheng	Putuo	49,999	Domestic equity
Meicheng Building	Young Men's Catholic Association	/	Xuhui	15,000	Asset Transaction
Fuhui Plaza B & C	Caitong Securities	Lujiazui Group	Pudong	31,977	Asset Transaction
Sanhe Tower	China Cinda	/	Jing'an	45,180	Asset Transaction

Source: Knight Frank Research

Note: All transactions are subject to confirmation

# Shanghai Grade-A office market dashboard Q2 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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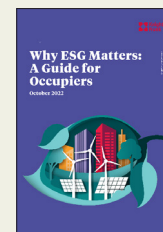
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