

*Office leasing demand from a diversity of industries
rebounds*



Shanghai Grade-A Office Market Report

Q4 2020

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OVERVIEW AND OUTLOOK

In the fourth quarter (Q4), there were several new completions mainly located in emerging and secondary business districts, adding 434,547-sqm office space to the Shanghai Grade-A office market. The new supply in 2020 totalled 1.14 million sqm , a YoY increase of 55%.

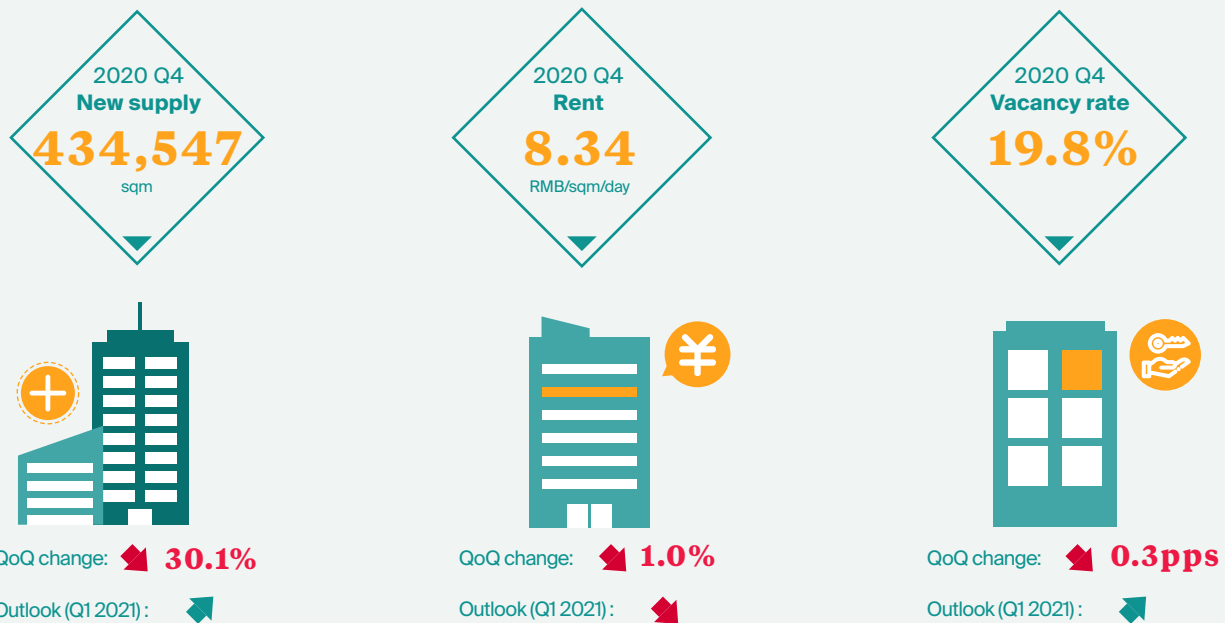
Leasing demand was weak in the first three quarters this year, but rebounded

in Q4 with the overall vacancy rate decreasing by 0.3 percentage point from the previous quarter to 19.8%. Leasing demand from financial enterprises including asset management, securities and professional services, law firms, accounting firms and design companies performed strong.

On condition that the pandemic is under

control, there will be over 500,000-sqm office space to be added to the market in the first quarter of 2021 (Q1 2021). It is expected that the overall vacancy rate will pick up slightly due to high vacancy rates of new completions and the market rent will continue to drop given that the rental budget is strictly controlled by occupiers.

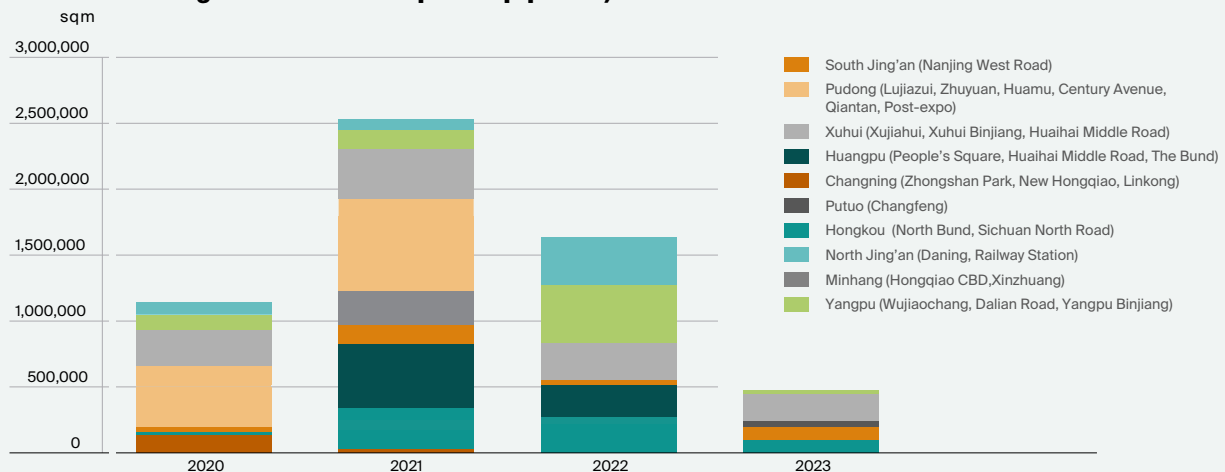
FIGURE 1: Shanghai Grade-A office market indicators^[1]



Source: Knight Frank Research

[1] Rent refers to average effective rent

FIGURE 2: Shanghai office development pipeline, 2020-2023



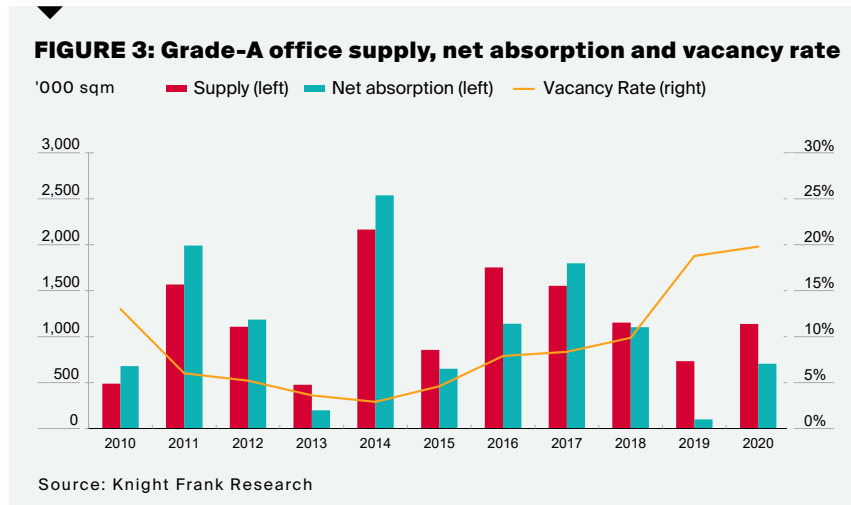
Source: Knight Frank Research

SUPPLY AND DEMAND

Located in Railway Station area of Jing'an District and jointly developed by Financial Street Holdings and Phoenix Property, the IFS was completed in Q4, adding 70,000 sqm office space to the market. Sunshine Riverside Building in Xuhui Binjiang was completed in Q4, bringing approximately 115,000-sqm office space to the market. Located adjacent to Hongqiao Road Metro Station and developed by Anar Group, IM Shanghai was completed with a total GFA of 140,000 sqm in Q4.

In Q4, the overall vacancy rate in Shanghai's Grade-A office market decreased by 0.3 percentage point from the previous quarter to 19.8%. The total net absorption in 2020 increased significantly to 704,000 sqm due to a full recovery in demand.

Of new leases transactions in Q4, over 60% of the leasing demand came from domestic companies. Domestic companies were still the major players in the market. However, office requirements tended to become more diversified in terms of sectors. Besides financial, biopharmaceutical and on-line



education sectors, leasing demand from other sectors such as IT, manufacture, real estate, culture & entertainment and trade picked up but in different degrees. In the financial and professional services sectors, domestic occupiers had a high market share whilst multinational

companies' demand in real estate, culture and entertainment, retail and education sectors was strong in Q4.

Co-working brands played an active role in the market. Distrii rented 4,200-sqm office space in One East in Q4.

RENTS

In Q4, the average Grade-A office rent of Shanghai continued to drop by 1.0% QoQ to RMB8.34 per sqm per day or a YoY decrease of 9.2%. Although the market rent continued to decrease in Q4, the QoQ decline narrowed by approximately 1.6 percentage points.

The average rent in Core CBDs decreased slightly by 0.2% QoQ to RMB10.83 per sqm per day. The rent in Little Lujiazui stayed at the same level of Q3, and in Nanjing West Road and Huaihai Middle Road areas, their rents edged down slightly. Given the frequent leasing activity of financial institutions and professional service enterprises in the core area, the landlords had a high level of confidence. Except for offering rent-free period, they were unwilling to lower the asking rents, which constituted an important reason why the market rents in Core CBDs did not see a sharp decline.

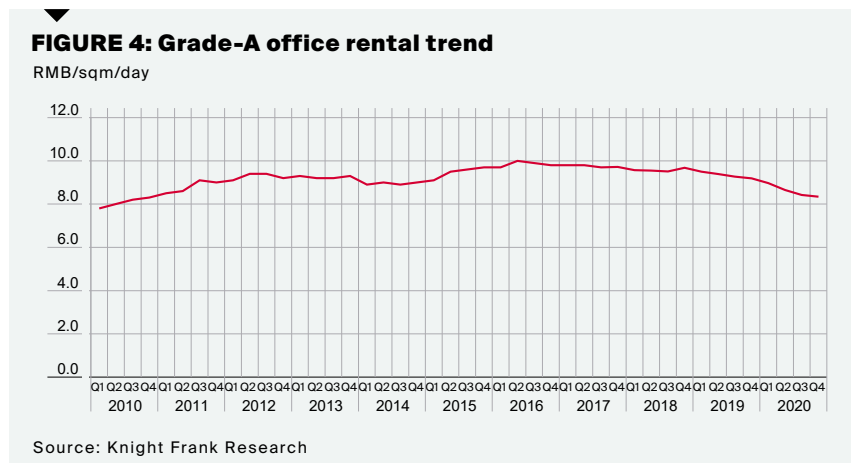


TABLE 1: Major Grade-A office leasing transactions, Q4 2020

Area	Building	Tenant	Area (sqm)	Type
North Bund	Raffles City the Bund	China Renaissance Securities	4,200	New Lease
Huangpu Riverside	One East	Distrii	4,200	New Lease
Qiantan	New Bund Centre	Rosefinch Investment	2,900	New Lease
Huaihai Middle Road	ICC One	Valentino	1,000	New Lease
Qiantan	Crystal Plaza	Shanghai Fengjing Technology	700	New Lease
Little Lujiazui	Jinmao Tower	Probquant	664	New Lease

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

INVESTMENT MARKET

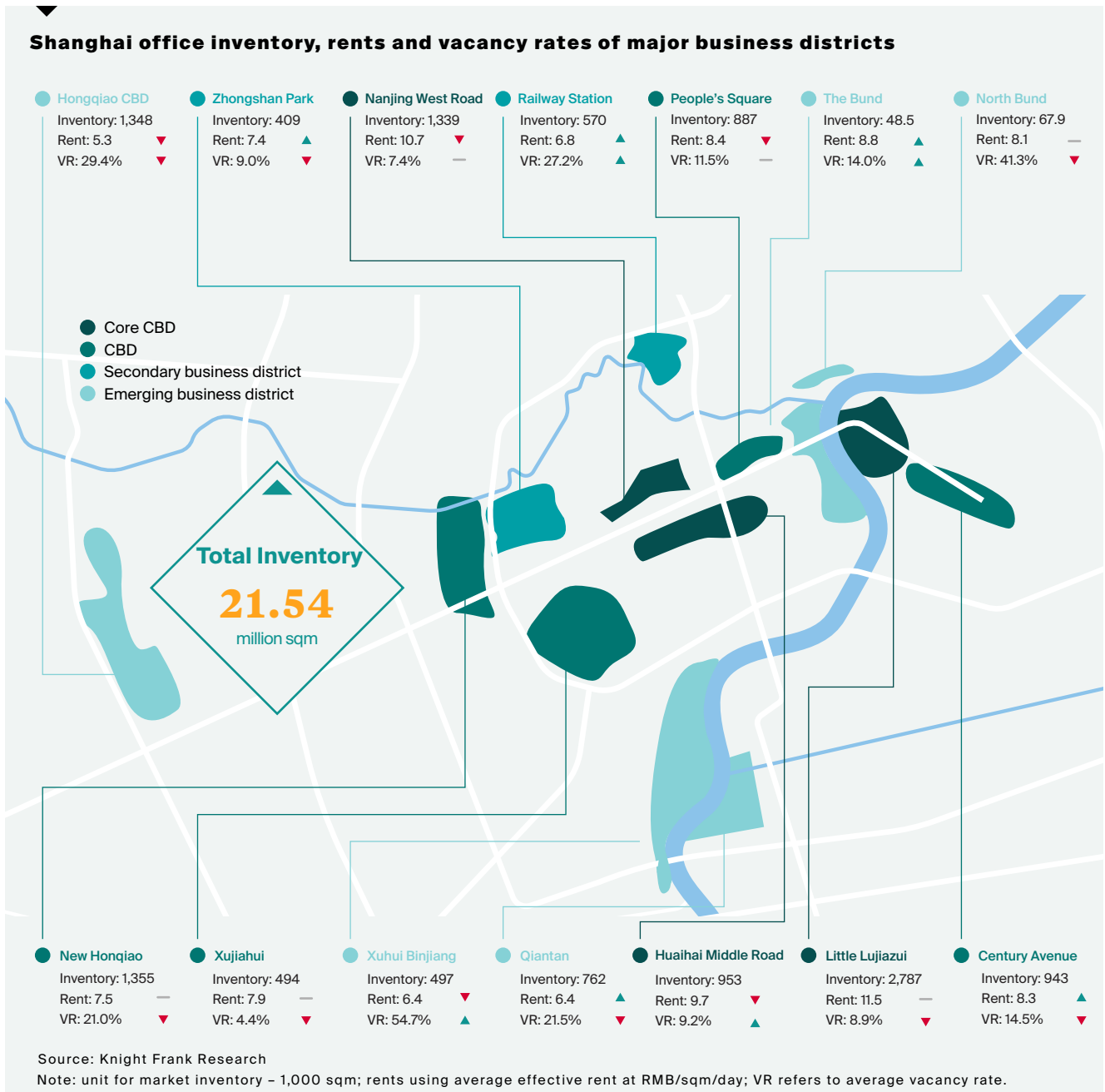
In Q4 2020, there were four en-bloc office transactions recorded in the investment market, for a total consideration of over RMB8 billion. The total amount of en-bloc office sales reached over RMB32 billion in 2020 with a slight increase compared with the previous year. The COVID-19 pandemic in 2020 did not curb investors' enthusiasm for office assets and owner-occupiers were the major players in the market. Of all en-bloc transactions in 2020, the number of traditional financial institutions including local banks, insurance and security companies accounted for over

65% of buyers. It is also a trend for some technology enterprises and pharmaceutical enterprises with abundant funds to purchase R&D buildings for their own use.

Of all the en-bloc transactions in Q4, CCB Life, a subsidiary of China Construction Bank acquired Greenland Bund Tower 4 with 58,800-sqm Grade-A office and ancillary spaces for RMB5.55 billion. This was another large-scaled financial institution settled down in Greenland Bund after Bank of Shanghai and Sealand Securities. The 7th to 23rd floors of

Shanghai's Tomorrow Square was finally sold through auction for RMB1.9907 billion with a total GFA of 36,500 sqm. Shanghai Zhangjiang Hi-tech Park Development Company Limited sold the partial asset owned by its wholly subsidiary to Hansen (Shanghai) Health Technology Company Limited for approximately RMB900 million. The sold asset includes the commercial properties located at No.287 on Xiangke Road and No.1158 on Haike Road in Pudong of Shanghai with a total GFA of 21,900 sqm.

SHANGHAI GRADE-A OFFICE MARKET DASHBOARD



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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