Shanghai Grade-A Office Market Report

Q4 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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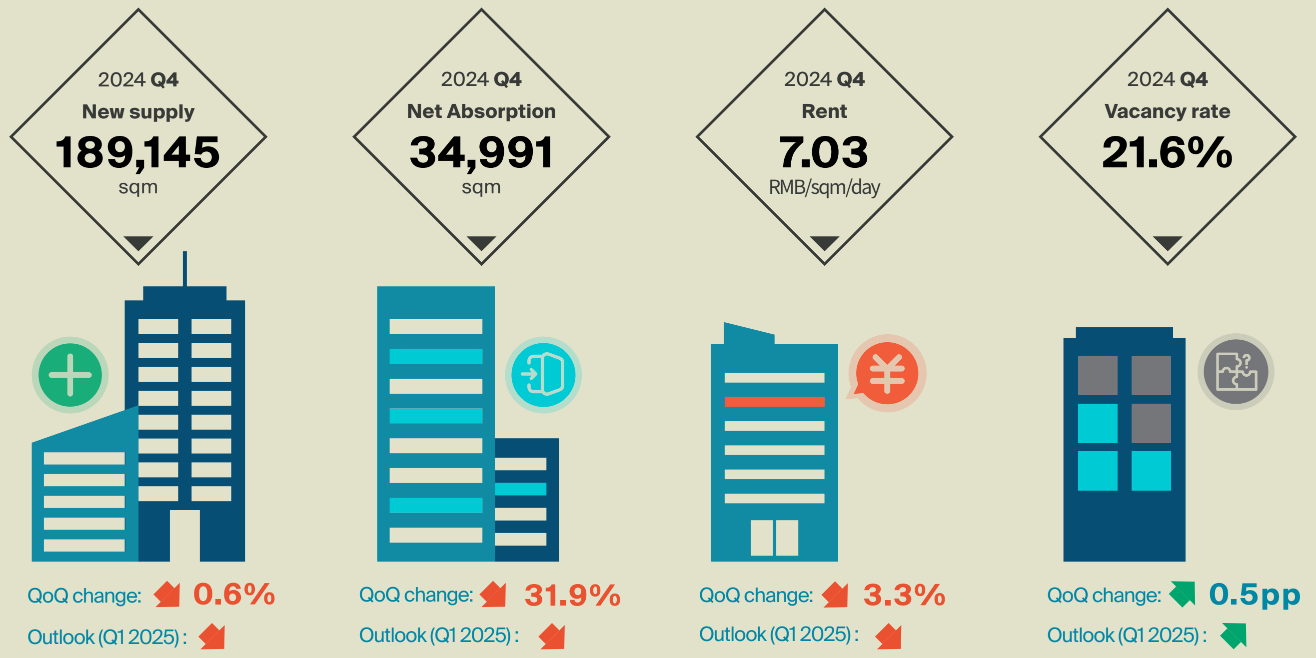
Overview and Outlook

Weak market sentiment continued

In the fourth quarter (Q4), the overall office market in Shanghai continued its downward trend, with average rents continuing to decline and vacancy rates further increasing. In terms of new supply, three new projects were completed and delivered, totalling 189,145 sqm of office space. The market vacancy rate continued to increase to 21.6%, up 0.5 percentage point (pp) QoQ. Weak market demand and landlords' willingness to trade rent for volume led to a continued QoQ decline in the average rent for Grade-A office buildings, which decreased by 3.3% to RMB7.03 per sqm per day. Finance, TMT (Technology, Media and Telecom), retail, and the automotive manufacturing sectors emerged as the main sources of demand in the leasing market in Q4.

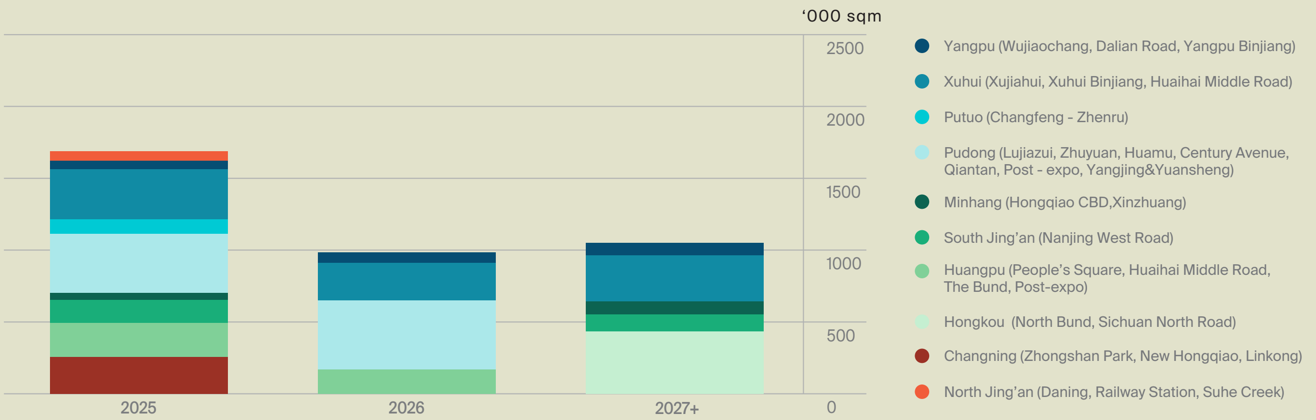
In 2025, approximately 1.7 million sqm of office space is expected to be released in the market. The significant amount of new space, along with the existing market inventory, presents significant challenges for landlords in terms of absorption. We anticipate that market rents could still decline by 6% to 8% in 2025, with vacancy rates expected to range between 23% and 26%. The low-altitude economy, driven by capital investment and policy incentives, is expected to become a new growth point for leasing demand in the future.

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, 2025-2027+



Source: Knight Frank Research

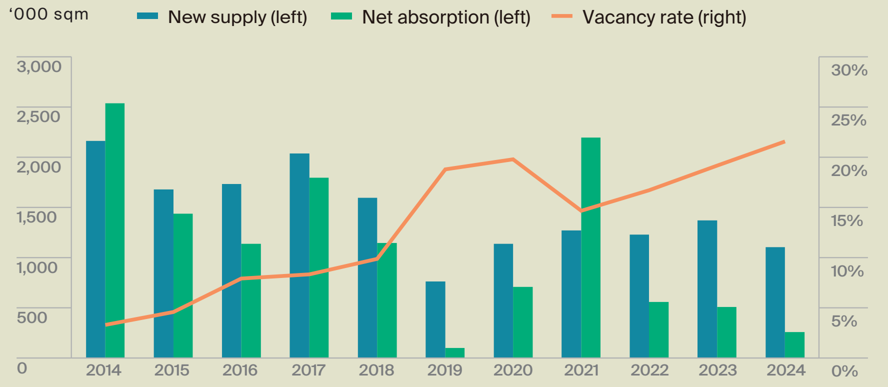
Supply and Demand

Annual net absorption decreased by 50% YoY

In Q4, three new projects were completed and delivered in the Shanghai Grade-A office market, adding a total of 189,145 sqm of new supply to the market. In Q4, the distribution of new projects was relatively scattered, including Chi Fu Building (18,000 sqm) in the Pudong Post-expo area, Cloud Valley (48,731 sqm) in Yangpu Zhoujiazui Road, and CPIC Xintiandi Commercial Centre T1 (122,414 sqm) in Huaihai Middle Road, Huangpu District.

Weak market demand led many landlords to adjust the completion and delivery schedules of new projects, resulting in a YoY decline of 19.3% in new supply, totalling 1,104,521 sqm for the year. There was only 34,991 sqm of net absorption due to weak demand and slow absorption of new projects, bringing total net absorption for full year 2024 to 256,413 sqm, for a YoY decline of 50%. Among the newly delivered projects, more than half of the new office space is located in emerging markets, indicating that leasing activity in the emerging markets is expected to increase in the future.

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



Source: Knight Frank Research

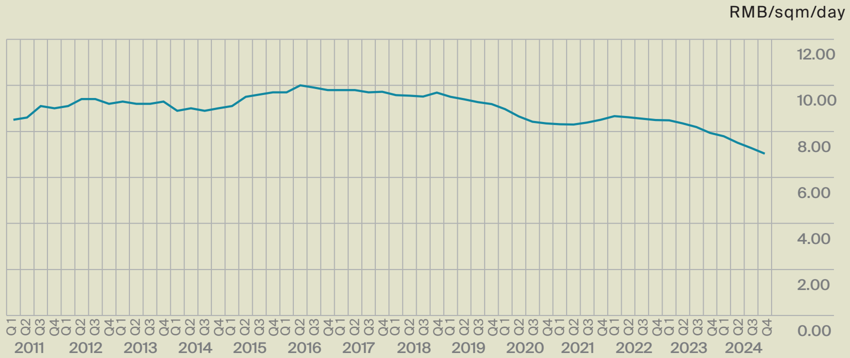
In Q4, over 65% of lease transactions came from corporate relocations, showing an increase compared to Q3. Owing to the overall decline in market rents, domestic financial and pharmaceutical companies with stronger budgets have been frequently relocating from non-central buildings to core urban areas to enhance their corporate image and improve employee commuting convenience. For instance, pharmaceutical company Edding Pharmaceutical relocated from Daning Central Square to Plaza 66. Amid limited market demand, over 60% of market leasing transactions came from the financial, TMT, retail and automotive manufacturing sectors. Leasing activity among TMT and manufacturing companies from Europe and the United States, as well as retail trading companies from Japan and South Korea, was quite active, leading to a rebound in the share of leasing transactions by foreign enterprises in the market. In the context of tightening leasing budgets, newly delivered buildings in emerging markets were favoured by foreign companies. Many foreign automotive companies have been relocating to these emerging markets, resulting in increased leasing activity among foreign automotive manufacturers in Q4.

Rents

Largest rent reductions observed in the core CBDs

In Q4, the average rent for Grade-A offices continued to decline, dropping by 3.3% QoQ to RMB7.03 per sqm per day. The cost-cutting and efficiency-enhancing strategies of companies in the core CBDs, along with the higher cost-performance ratio of newly constructed office buildings in emerging business districts, have led to a strong willingness among expiring tenants to relocate. In Q4, landlords in the core CBDs continued to reduce rents in an effort to retain tenants, resulting in a further narrowing of the rental gap between the core CBDs and emerging business districts to RMB3.66 per sqm per day. In Q4,

Fig 4: Grade-A office rental trend



Source: Knight Frank Research

the rent in the core CBDs saw the largest decrease, falling by 3.8% QoQ to RMB9.56 per sqm per day. Among these, the rental decline in Little Lujiazui and Huaihai Middle Road reached 4.2% and 4.7%, respectively. Although there were tenant relocations in the Nanjing West Road area, the rental decline narrowed to 2.2% due to the support of high-budget leasing demand from sectors such as pharmaceuticals, foreign retail brands, technology and finance.

Although the emerging business districts have accommodated considerable leasing demand from companies in the core CBDs and CBDs, the large amount of vacant space and significant annual new supply in the emerging business districts have led landlords in these areas to offer even lower rents amidst the fierce market competition. In Q4, rents in the emerging business districts decreased by 1.8% QoQ to RMB5.90 per sqm per day. Qiantan, one of the hotspot markets in the emerging sector, attracted a variety of business and was one of the few sub-markets in Q4 where the vacancy rate decreased. The continuous addition of office space in Qiantan, however, prompted landlords to continue their rental reduction strategies, resulting in an average rental decline of 2.3% QoQ to RMB7.02 per sqm per day.

Table 1: Major Grade-A office leasing transactions, Q4 2024

Submarket	Building	Tenant	Area (sqm)	Type
New Hongqiao	L'Avenue	Trane	6,000	Renewal
Dalian Road	Anlian	Invista	5,000	Renewal
The Bund	BFC	Ping An Insurance	4,000	New Lease
Xuhui Binjiang	Yuandian Plaza	Renault	3,000	Relocation
Nanjing West Road	Jing'an Kerry Centre	Presto Labs	2,000	Relocation
Railway Station	Lai Fung Skyline Centre	Instron	1,600	Relocation

Source: Knight Frank Research

Note: All transactions are subject to confirmation

Investment Market

40% of market transactions were from domestic financial institutions and high-tech enterprises

In Q4 2024, the Shanghai office investment market recorded 12 en-bloc transactions, for a total amount exceeding RMB5.5 billion. The total transaction amount for the year approached RMB40 billion. The allocation of office properties by investment buyers continued to increase, with investment buyers and owner-occupiers each accounting for half the transactions in Q4. We observed that while many foreign funds were divesting themselves of their Shanghai office properties, domestic insurance funds and emerging high-tech enterprises accelerated their asset allocations. In particular, high-tech companies that recently went public demonstrated strong demand to purchase office space for self-use. Throughout 2024, 40% of market transactions in Shanghai's office investment sector came from domestic financial institutions and high-tech enterprises.

Table 2: Major Grade-A office en-bloc transactions, Q4 2024

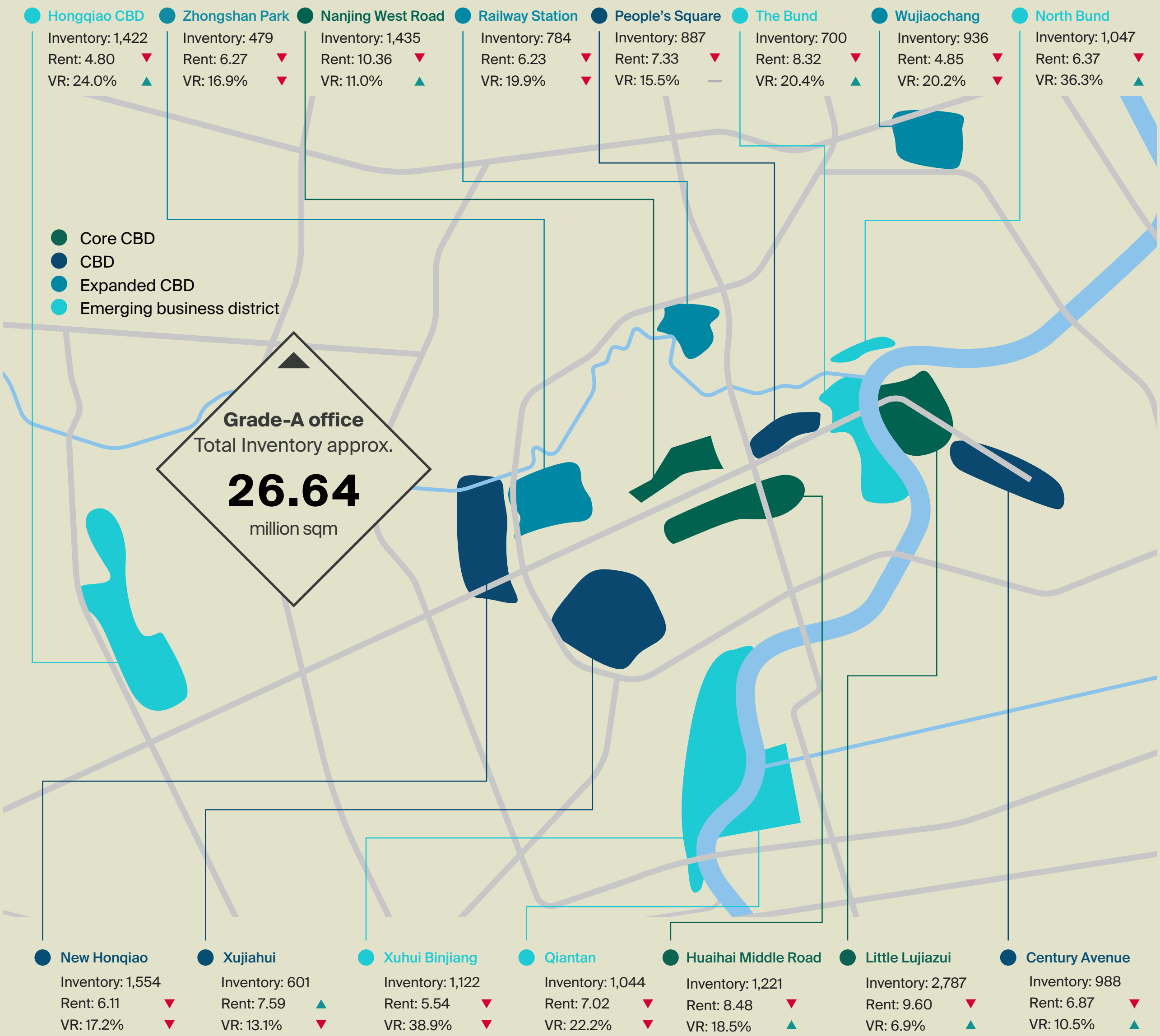
Property	Purchaser	Seller	District	Transacted GFA (sqm)	Acquisition Structure
Vanke Centre Riverside & Lite (45% equity)	Onewo	Vanke	Pudong	54,228	Domestic equity
Lippo Plaza (excluding 4 floors)	Prime Golden Capital	OUE Real Estate Investment Trust	Huangpu	39,187	Domestic equity
Lujiazui Fund Tower	Jiayin Technology	Lujiazui Group	Pudong	32,549	Asset Transaction
Z-Park Hongqiao Innovation Centre N8	Baring Private Equity Asia	Linkong Management Committee	Changning	32,000	Domestic equity
Xinsi Building	Linfang/Shanghai Trust	Lingang Group	Xuhui	23,600	Domestic equity
Galaxy Midtown A5	Shanghai Jingwen Investment	Vanke/HK Land/ China Fortune	Xuhui	3,603	Asset Transaction
Shanghai City Point 28F	/	Schroder Pamfleet	Changning	1,659	Asset Transaction

Source: Knight Frank Research

Note: All transactions are subject to confirmation

Shanghai Grade-A office market dashboard Q4 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/day; 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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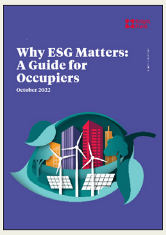

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