

Investment



Office assets continue to change hands

The office/business park sector recorded 23 en-bloc transactions totalling RMB13.3 billion, up 13% QoQ and 31% YoY.

- A total of 35 investment transactions were completed in Q2/2024, with a total transaction amount of RMB18.1 billion, down 1% QoQ and up 35% YoY.
- The office/business park sector was particularly active during the quarter, accounting for 74% of transactions. There were 23 deals recorded, totalling RMB13.29 billion, up 13% QoQ and 31% YoY. Most of the deals were concluded by domestic financial and insurance institution end-user buyers.
- Investment appetite for the residential leasing/serviced apartment sector subsided in the second quarter, with investors exploring more niche market opportunities, with several deals completed over the past year.
- Other key asset classes, including the retail, hotel, and industrial sectors, experienced a decline in transaction volumes given the lack of support from institutional buyers.
- High-quality office buildings in core locations remain attractive investment targets despite challenging economic conditions. This quarter, Zhong'an Insurance purchased two office buildings for self-use, from Rockefeller Group in Shanghai for a unit price of RMB 90,000 psm with a total price of RMB1.44 billion.
- Land transaction volume totalled RMB25.3 billion in Q2/2024, up 9% QoQ, with residential plots accounting for 80% of the total consideration.

“Shanghai’s investment market remains more active than many other parts of the country with strong end-user demand and confident private domestic investors driving the majority of deal flow.”

JAMES MACDONALD, SAVILLS RESEARCH

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RESEARCH

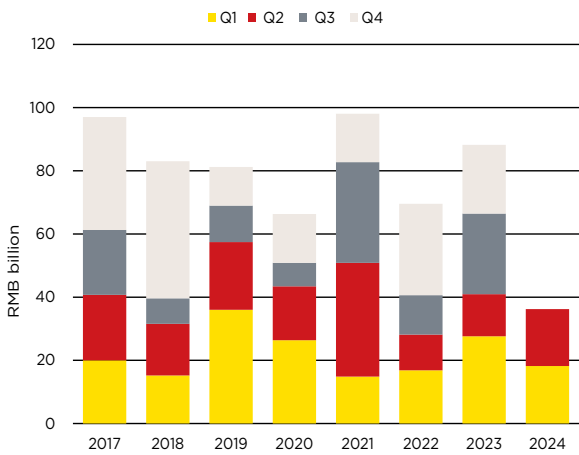
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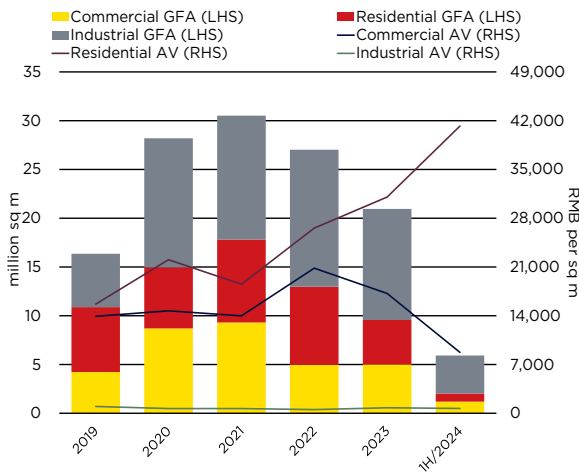
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GRAPH 1: Shanghai En-Bloc Transaction Volume By Quarter, 2019-2024



Source: Savills Research

GRAPH 2: Land Transaction Area And AVs, 2019-1H/2024



Source: CREIS, Savills Research

MARKET COMMENTARY

Although the total value of transactions in the first half of the year fell compared to last year, small-value transactions remained numerous. Various enterprises with significant capital reserves have purchased office assets for their own use. Domestic enterprises dominate demand in the en-bloc market, while overseas investors remain cautious.

With the slowdown in economic growth and weak leasing demand, asset values have softened. Owners are accelerating the asset disposal and capital recovery, with asset prices slowly adjusting in response. Investors' reduced appetite has made more space for corporate buyers to acquire small, stand-alone office properties for their own use or investment.

The office sector was relatively active in the first half of the year. Office transaction value increased 36% QoQ, significantly outpacing other sectors. Domestic self-use buyers remain the main force supporting office asset transactions, and the buyers are relatively diversified this quarter, with small-value en-bloc transactions also remaining relatively active. High-quality office buildings in core locations continue to be attractive investment targets despite challenging economic conditions.

Other sectors, including the retail, hotel, and industrial sectors, experienced a decline in transaction volume because of the lack of institutional buyers.

Office/Business Park Market

Six new projects totalling 374,000 sqm were handed over in Q2/2024, bringing the cumulative total for H1/2024 to 1 mn sqm and the overall stock to 19.3 mn sqm by the end of Q2/2024. Despite half of the submarkets experiencing vacancy rate decreases, the citywide vacancy rate increased by 0.6 ppt QoQ to 22.3% due to the influx of new supply. Significant take-up was recorded in North Bund, North Station, and Old Huangpu, reducing the non-prime area vacancy rate by 0.3 ppt.

The office/business park sector was particularly active during the quarter, accounting for 74% of transactions, with 23 en-bloc deals recorded totalling RMB13.29 billion, up 13% QoQ and 31% YoY. Most of the en-bloc transactions were conducted by end-use buyers from domestic financial and insurance institutions.

Domestic self-use buyers are still the main force supporting office asset transactions, and buyers were more diversified in the quarter, with small-value en-bloc transactions also relatively active. High-quality office buildings in core locations remain attractive investment targets despite challenging economic conditions. This quarter, Zhong'an Insurance purchased two office buildings for self-use, from Rockefeller Group in Shanghai for a unit price of RMB90,000 psm with a total price of RMB1.44 billion.

Retail Market

Only one new project within the Outer Ring Road was launched in Q2/2024. Xuhui Vanke Plaza, located at Shanghai South Railway Station, added 98,000 sqm of new supply to the market. The citywide vacancy rate increased by 0.1 ppt in Q2/2024, reaching 11.7%, but 1.0 ppt YoY. Meanwhile, prime retail area fell 0.2 ppt QoQ to 9.4%, down 1.7 ppts YoY. Landlords adjusted rents to secure the best tenants and first-floor rents fell by 0.6% in Q2/2024 to an average of RMB25.7 psm pday, down 0.7% YoY.

Transactions in Q2/2024 focused on smaller-scale community retail projects. One larger transaction that fell into Q3/2024 was the sale of 48% of Shanghai Nanxiang Impression City MEGA's by Vanke to GIC. The project is reported to have generated RMB4.6 billion of sales in 2023, making it one of the ten best malls in Shanghai. The project boasts a GFA of 340,000 sqm and the transaction price is rumoured to be in the region of RMB2 billion.

INDUSTRIAL AND LOGISTICS MARKET

800,000 sqm of new warehouse space

TABLE 1: Yields And Capital Values By Sector¹, Q2/2024

	GRADE A OFFICE	BUSINESS PARK	PRIME SHOPPING MALL	PRIME RETAIL STREET STORE	HIGH-END SERVICED APARTMENTS	LONG-TERM LEASING APARTMENTS	5-STAR HOTEL	LOGISTICS
APPROX. GROSS TO NET RATIO ²	70-80%	75-85%	55-65%	70-80%	50-60%	70-80%	35-45%	80-85%
NOI	4.25-4.75%	4.75-5.25%	4.5-5.0%	4.0-4.50%	4.00-4.50%	4.50-5.00%	3.50-4.00%	5.00-5.50%
APPROX. VALUE (RMB PER SQ M)	35-60,000	15-35,000	40-60,000	75-120,000	50-80,000	20-40,000	45-70,000	7-10,000

¹Yields refer to stabilised assets in downtown locations free of any impediments with a clean holding structure owning 100% of the building, and assuming 100% occupancy. Capital values refers to the average for the building on an aboveground GFA basis – retail assets will have higher capital values for lower floors.

²Takes into consideration the costs, including taxes, fees, and other miscellanaries.

Source: Savills Research

was added to the market in the second quarter, bringing the citywide stock to over 8 million sqm. The new supply combined with demand leaking to neighbouring cities resulted in the city-wide vacancy rate rising to 27.9%. Landlords increased concessions to stabilise occupancy rates, resulting in rents falling 0.9% QoQ to RMB 48.1 psm pmth.

On February 19, 2024, the Shanghai Municipal Bureau of Planning and Natural Resources, the Shanghai Municipal Bureau of Market Supervision and Administration, and the Shanghai Municipal Commission of Economy and Information Technology jointly issued the "Notice on Strengthening the Joint Supervision over the Alteration of Equities of Industry-Related Land Enterprises in Shanghai (Document No. 51 [2024]). This document aims to strengthen the regulation of equity changes in enterprises involved in industrial land use, including equity transfers, non-proportional capital increases, and capital reductions that alter shareholders and capital contribution ratios. It enforces existing regulations on the transfer of industrial land projects, prompting more prudent assessment and compliance from buyers. The implementation aims to enhance transparency and regulatory adherence in Shanghai's industrial land market.

A number of tenants in the manufacturing and supply chain management sectors have opted to shift operations to Shanghai's neighbouring cities where rents are more affordable in an attempt to reduce costs. Meanwhile, investors have become more cautious given the market uncertainties.

RESIDENTIAL

No new serviced apartments were handed over in Q2/2024. The citywide serviced apartment vacancy rate fell by 0.9 ppt to 19.0%, up 0.6 ppts YoY. Meanwhile, rents fell 0.4% QoQ to an average of RMB267 psm pmth, up 0.3% YoY. Mid- to high-end occupancy rates picked up in Q2/2024, thanks to

the recent recovery in international tourism and business travel.

The Chinese government's support for the development of more affordable rental housing makes this sector more attractive to investors. Additionally, as more long-term rental apartment projects are included in the C-REITs program, liquidity expectations are improved, providing investors with new exit routes and capital allocation opportunities. The long-term rental apartment REITs market is expected to continue expanding, with investors exploring opportunities in niche subsectors to achieve significant returns.

KEY DEALS

- Huatai Asset Management acquired a 70% stake in Shanghai Sinochem International Plaza from Sinochem for RMB1.52 billion. Sinochem Group originally acquired the Expo site for RMB543 million in 2011. The property has 28,900 sqm of office space equating to a unit price of RMB75,000 psm.
- Caitong Securities purchased two office buildings in Fuhui Plaza (B & C) from Shanghai Lujiazui Group for RMB1.33 billion and RMB1.26 billion respectively. The GFA of the two towers is 16,000 and 15,000 sqm respectively equating to a unit price of RMB84,000 psm.
- China Cinda purchased the 38,000 sqm office tower, Sanhe Building in Jing'an District, at auction for RMB 1.13 billion. The unit price equates to RMB30,000 psm. The original creditor for the former owners was also China Cinda.
- Tongji Technology acquired the 180,000 sqm Yitian Holiday Plaza, an office and retail development, for RMB1.12 billion, equivalent to a unit price of RMB8,737 psm. Tongji Technology is of the view that the acquisition through detailed bankruptcy proceedings should reduce potential risks.

LAND MARKET

RMB25.3 billion of land sales were recorded in Q2/2024, up 9% QoQ. Commodity residential and commercial land transaction values accounted for 80% and 13% respectively. The average residential accommodation value was RMB45,300 per sqm, while the commercial land plots were RMB5,300 per sqm.

A total of 10 residential land auctions were completed in Q2/2024. Six plots were sold in April, with a total buildable area of 349,530 sqm and a total transaction price of RMB11.89 billion, of which four were sold at a premium. Private developers Dahua and Longhu won a plot in Minhang and Fengxian respectively.

OUTLOOK

Weak short-term prospects for the leasing market and a sizeable gap between buyers' and sellers' expectations continue to thwart the investment market. Increased investment activity in 2024 will depend on the leasing market signalling bottoming out and better price discovery as more arm's length deals are concluded.

The second half of 2024 is likely to continue to be dominated by smaller deals, as witnessed in the first half. The pool of small end-use buyers remains diverse and deep, with the current market downturn giving them the first pick on opportunities.

Asset owners facing softer valuations will increasingly be faced with the question of whether to accelerate the asset disposal and cut their losses or hold on to assets and hope they can cover their costs and hold out until the market improves.

TABLE 2: Key Land Deals, Q2/2024

PLOT	DISTRICT	USE	GFA (SQ M)	CONSIDERATION (Million RMB)	AV (RMB PER SQ M)	BUYER
静安区中兴社区 C070201单元151b-19地块	Jingan	Residential	20,421	1.6	78,197	Yuexiu Property
杨浦区长海社区 016-02地块(长海街道337街坊)	Yangpu	Residential	8,527	0.5	58,404	Beijing Urban Construction
浦东新区上钢街道 Z00-0101单元37-12地块	Pudong	Residential	24,965	1.3	53,042	China Railway Construction Corporation, ITG
闵行区梅陇社区 03单元01-26-01地块	Minhang	Residential	112,867	5.5	48,407	High-speed Real Estate Group, Anhui Communications Holdings
普陀区桃浦科技智慧城 (W06-1401单元)024A-01地块	Putuo	Residential	60,170	2.7	44,042	Shanghai Central Group
闵行区浦锦街道 MHPO-1302单元35-5地块	Minhang	Residential	60,353	2.6	42,350	Dahua Group

Source CREIS, Savills Research