Activity levels rebound

Q4/2020 saw net take-up more than double as pre-committed projects were handed over and tenants get back to business.

- Actual foreign direct investment in Shanghai increased by 6.8% YoY in the first eleven months of 2020 as the city continues to draw interest from overseas corporates.
- Several landlords delayed launches due to unsatisfactory pre-lease rates.
- Nanjing Road (W) recorded 42,200 sq m of net take-up in 2020, up from just 2,400 sq m in 2019, while Qiantan saw 119,400 sq m versus 89,600 sq m. Demand was largely driven by the retail sector and MNCs.
- New projects in Q4/2020 included the Shanghai Financial Exchange Plaza in Zhuyuan, the Embankment Square (Main Tower) in Tangqiao and the New Bund Centre in Qiantan.
- Despite the addition of new projects, citywide Grade A office vacancy rate fell 0.6 of a percentage point (ppt) in 2020 to 16.8% on the back of the recovered demand.

- Effective rents fell 7.0% in 2020 to an average of RMB7.3 per sq m per day. Decentralised rental discount compared to prime locations narrowed to 43% in 2020 from 50% five years ago.
- Corporates and employees are increasingly prioritising physical and mental wellness, generating increasing demand for suitably accredited buildings.

“Companies are seizing the opportunity to lock in favourable rates and secure ideal premises on their terms.”

JAMES MACDONALD, SAVILLS RESEARCH
MARKET OVERVIEW

Due to the pandemic and weakening leasing sentiment, several projects were postponed to 2021. Only three new projects launched onto the city’s Grade A office market in Q4/2020. New office space totalled 474,400 sq m, bringing the full-year supply to 684,900 sq m, versus the previously forecast figure of 1.7 million sq m at the beginning of 2020. The overall Grade A office stock increased by 6% in 2020 to 14.3 million sq m. New projects in Q4/2020 included the Shanghai Financial Exchange Plaza in Zhuyuan, the Embankment Square (Main Tower) in Tangqiao, and the New Bund Centre in Qiantan.

The Shanghai Financial Exchange Plaza consists of three office buildings which are mostly self-use for China Financial Futures Exchange, China Securities Depository & Clearing Company and Shanghai Stock Exchange, leaving a small proportion of office space leased out to domestic financial institutions. The project provides advanced hardware support (e.g. advanced loudspeakers, digital conference system, infrared language and audio distribution system) for financial activities while also acting as a focal point for more financial enterprises and upstream and downstream industries companies.

The 166,200 sq m New Bund Centre in Qiantan achieved a pre-commitment rate of over 50% despite challenging market conditions. Major tenants include international companies of PwC, Texas Instruments, Hilto and Takeda Pharmaceutical as well as domestic companies like Rosefinch Investment. Qiantan has been able to attract tenants from across the city given the quality office projects, attractive rents, strong connectivity and government support. While some of the larger companies have tended to be from the industrial sector or back-end operations, more services companies with higher affordability are expected to move to Qiantan as the area matures.

Net take-up more than doubled to 394,100 sq m in Q4/2020, bringing the total for the year to 647,900 sq m, down just 4.3% compared to 2019 (though also down compared to the five year average of 1.1 million sq m). Prime areas saw 173,300 sq m of office space handed back to the market in 2020, though Nanjing Road (W) bucked the trend with demand boosted by the luxury consumer sector. Even in prime locations, companies are looking for opportunities to save costs, eying recently completed developments. For example, a luxury fashion house, currently occupying about 4,000 sq m in Plaza 66, recently signed a lease with JC Mandarin Plaza for 6,000 sq m for relocation, consolidation and expansion.

The next few years are likely to see international firms focus more attention on China, given its increasing market share and continued economic growth. Additionally, more companies could relocate their Greater China or Asia-Pacific (AP) headquarters (HQ) closer to their most important market—particularly firms in the financial and retail sectors. Asset manager Vanguard Group recently relocated its AP HQ to Shanghai from Hong Kong while L’Oréal is planning to downsize its Hong Kong regional office and move positions to China and Singapore. Apparel and footwear company VF Corp is said to be eyeing recently completed developments to move their AP HQ to Shanghai from Hong Kong.

The significant pick up in market absorption in Q4/2020 meant the citywide vacancy rate declined 0.6 of a ppt to 2020 to 16.8%. As cost-saving continued to drive demand, decentralised areas recorded a 2.7% drop in vacancy rates to 23% in 2020, its third consecutive annual decline. Grade A office rents continued to fall but at a slower rate of 0.8% in Q4/2020 on an index basis, bringing the full-year rental decline to 7.0% and the average rent to RMB7.1 per sq m per day. Prime rents stood at RMB9.5 psmd, non-prime at RMB7.1 psmd and decentralised at RMB5.5 psmd.

MARKET OUTLOOK

With several project handovers delayed, about 1.4 million sq m of new office space is scheduled to launch in 2021. Furthermore, some owner-occupied stock has now been added to the leasing market, adding extra availability and thus continuing to increase competition for tenants further, though given the higher starting rent. While rents are unlikely to spring back in the short term, landlords for projects in highly sought-after locations might reduce rental incentives as occupancy rates improve with examples possibly including areas like Huaihai Road (M) or Qiantan.

The healthcare sector is likely to be one of the key growth markets in 2021 with healthcare providers such as AstraZeneca recording strong business growth. Tech companies are also exploring opportunities, including Alibaba (Alibaba Health), Tencent (WellDoctor) and ByteDance (Xiaohoe).