

**MARKET
IN
MINUTES**

Savills Research

Office



Vacancy rates fall to 13.1%

Demand surpasses the five-year annual average as net take-up reaches 952,700 sq m in the first nine months of 2021.

- Three new projects with a combined 169,300 sq m were launched onto the market in Q3/2021, bringing the overall stock to 14.5 million sq m.
- Net office take-up totalled 343,000 sq m in Q3/2021, down 16.5% quarter-on-quarter (QoQ) off a high base of comparison.
- Decentralised areas contributed nearly half of the net take-up, despite having only a third of the total office stock.
- Vacancy rates fell 1.4 percentage points (ppts) in Q3/2021 to 13.1%.
- Domestic firms, especially tech-driven companies, proved active in taking up office space, accounting for 84% of leasing transactions recorded in the first nine months of 2021, up from 51% in 2020.
- Grade A office rents increased 0.5% on an index basis in Q3/2021, with rates averaging RMB7.4 psm pday.
- The office scale and breadth will continue to grow in the coming years with the development of new business districts in master-planned areas like Hongqiao Qianwan [虹桥前湾], Lingang [临港] and the five new cities [五大新城], though this might put pressure on core locations and overall occupancy and rental growth.

“Decentralised locations continue to challenge traditional business centres for tenants from high-growth industries. Nevertheless, as overall demand levels continue to surpass supply, occupancy rates remain high for time being.”

JAMES MACDONALD, SAVILLS RESEARCH

Savills team

Please contact us for further information

RESEARCH

James Macdonald
Senior Director
China
+8621 6391 6688
james.macdonald@savills.com.cn

COMMERCIAL

Cary Zheng
Senior Director
Central China
+8621 6391 6688
cary.zheng@savills.com.cn

Leon Fu

Senior Director
Shanghai
+8621 6391 6688
leon.fu@savills.com.cn

COMMERCIAL TENANT REPRESENTATION

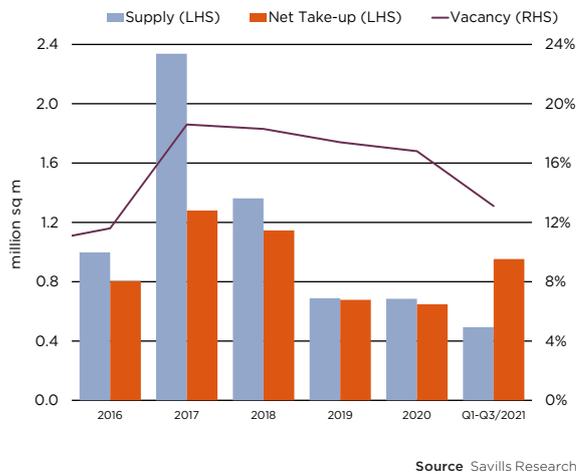
Peter Sheng
Senior Director
Shanghai
+8621 6391 6688
peter.sheng@savills.com.cn

TRANSACTION AND ADVISORY

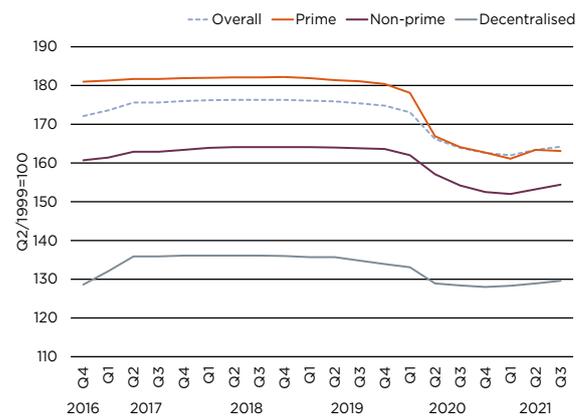
Joey Chio
Senior Director
China
+8621 6391 6688
joey.chio@savills.com.cn

Savills plc
Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 600 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.

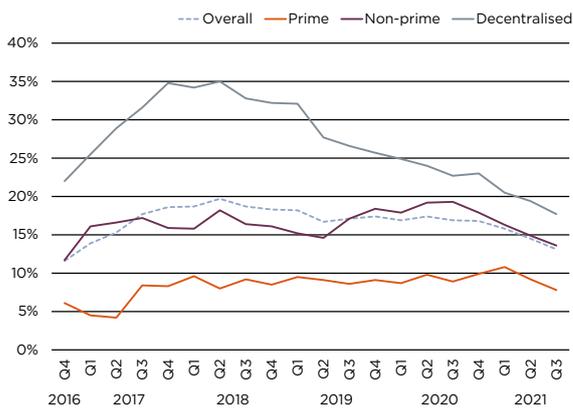
Definitions
Core prime: Nanjing Road (W), Huaihai Road (M), Lujiazui
Core non-prime: Old Huangpu, South Huangpu, Hongqiao, North Station, North Bund, Zhuyuan and Xujiahui.
Decentralised markets: All areas outside of the core markets including Changfeng, Hongqiao Transportation Hub, Xuhui Riverside, Xinzhuang, Zhenru, Wujiaochang, Former Expo, Qiantan, Houtan and Huamu.

GRAPH 1: Grade A Office Overall Supply, Take-up And Vacancy, 2016 to Q3/2021

Source Savills Research

GRAPH 2: Grade A Office Rental Indices, Q4/2016 to Q3/2021

Source Savills Research

GRAPH 3: Grade A Office Vacancy, Q4/2016 to Q3/2021

Source Savills Research

MARKET OVERVIEW

Three new projects were handed over in Q3/2021, namely: Sino-American Finance Centre in North Bund, MagLink in Huamu and Junkang Financial Plaza in Houtan. No projects were handed over in prime areas.

While many small and medium-sized enterprises (SMEs) have opted for renewing their current premises, blue-chip firms continue to upgrade, expand or consolidate their office spaces, especially those in high-growth sectors. The media and entertainment (M&E) sector (comprising film, television, advertising, literature, art, gaming, interactive media and services) has seen explosive growth on the back of an increasingly affluent and connected populace that is willing to spend disposable income on experiences and entertainment. This, combined with a thriving content creation industry and government support, has meant that the sector has outperformed the broader economy, with revenues growing at 22% for the first eight months of the year.

M&E firms accounted for 23% of leasing transactions recorded in the first nine months, up from just 3% in 2020. Recent notable transactions included: China Literature (backed by Tencent), leasing 18,000 sq m in Embankment Square, Pudong; Bilibili leasing 10,000 sq m in Guohua Plaza, Yangpu, after having previously expanded 4,700 sq m in Innov Centre. Meanwhile, Tencent is rumoured to take the sole possession of the 46,000 sq m Norbu Centre, Xuhui Riverside.

Overall net office take-up totalled 343,000 sq m in Q3/2021, bringing net absorption level in the first nine months to 952,700 sq m, surpassing the previous five-year average of 910,900 sq m. Vacancy rates, as a result, fell 1.4 ppts in Q3/2021 to 13.1%, the lowest since 2017 when ample supply in decentralised locations (HTH, Pudong Expo) pushed up vacancy rates. Despite improved occupancy levels in core markets, some landlords remain concerned about losing tenants to decentralised areas due to limited expansion space or cost-saving. Decentralised markets, on the other hand, have been benefiting, with submarkets such as Qiantan seeing their vacancy rate fall to just 5.2% in Q3/2021, the lowest since 2017 when its first Grade A project was launched.

Improving occupancy rates encouraged landlords to adjust up rates or reduce incentives. Grade A office rents increased 0.5% on an index basis in Q3/2021, with rates averaging RMB7.4 psm pday. The rental increase was mainly driven by non-prime (+0.8%) and decentralised locations

(+0.6%), underpinned by stronger absorption levels. Currently, prime office rents stood at RMB9.6 psm pday, non-prime at RMB7.2 and decentralised at RMB5.5.

TRENDS

Despite regulatory tightening (double reduction [双减], anti-trust and data security protection), demand from key sectors has remained robust to date, quickly absorbing vacated spaces. Puxi market continued to outperform Pudong in net take-up (Puxi: 227,300 sq m; Pudong: 115,700 sq m) supporting higher rental growth (Puxi: 0.6%; Pudong: 0.2%) in Q3/2021.

Domestic self-use buyers, particularly tech companies such as ByteDance and 51 Job, concluded a series of investment deals. Investment targets include both development opportunities and newly completed projects. While this may steer some demand away from the leasing market, it is also removing stock from the market, and the acquisition of HQ space doesn't negate supplementary leasing needs.

While several large flexible office operators increased their footprint, more domestic and local players are entering the secondary landlord market, aiming to gain market share. Welcomed by landlords with high vacancy rates, operators need to differentiate their offering, flexibility, professionalism, and services to attract tenants in this competitive environment.

MARKET OUTLOOK

Developers plan to launch around one million sq m in Q4/2021 as well as a further three million sq m over the subsequent two years. Of the space to be handed over later this year, roughly a quarter will be for self-use, primarily the Greenland Bund Centre, Huangpu, which has sold towers to multiple financial institutions, including Bank of Shanghai, CCB Life and Zhongtai Securities. At the same time, several projects may miss their completion deadlines, pushing handover dates into 2022. Assuming demand levels remain stable for the final quarter, the vacancy rate could reach 14.3% by the end of the year, down 2.5 ppts from the end of 2020.

Smaller office blocks (10,000-15,000 sq m) remain popular with companies seeking privacy, signage rights, private entrances and a smaller lump sum purchase. New developments are increasingly comprised of a mixture of high-rise towers plus smaller HQ blocks in order to diversify offerings and meet this demand.

TABLE 1: Notable Leasing Transactions, Q3/2021

TENANT	TENANT INDUSTRY	PROJECT	BUSINESS DISTRICT	LEASED AREA (SQ M)
China Literature	Media & Entertainment	Embankment Square	Tangqiao	18,000
Diageo	Retail & Trade	One Museum Place	Nanjing Road (W)	2,700
Shenyin Wanguo Securities	Finance	The Centre	Huaihai Road (M)	2,300
Venture Space	Business Centres & Co-working Spaces	Taiping Finance Tower	Lujiazui	2,000
Everest Medicines	Healthcare	CITIC Square	Nanjing Road (W)	2,000

Source Savills Research