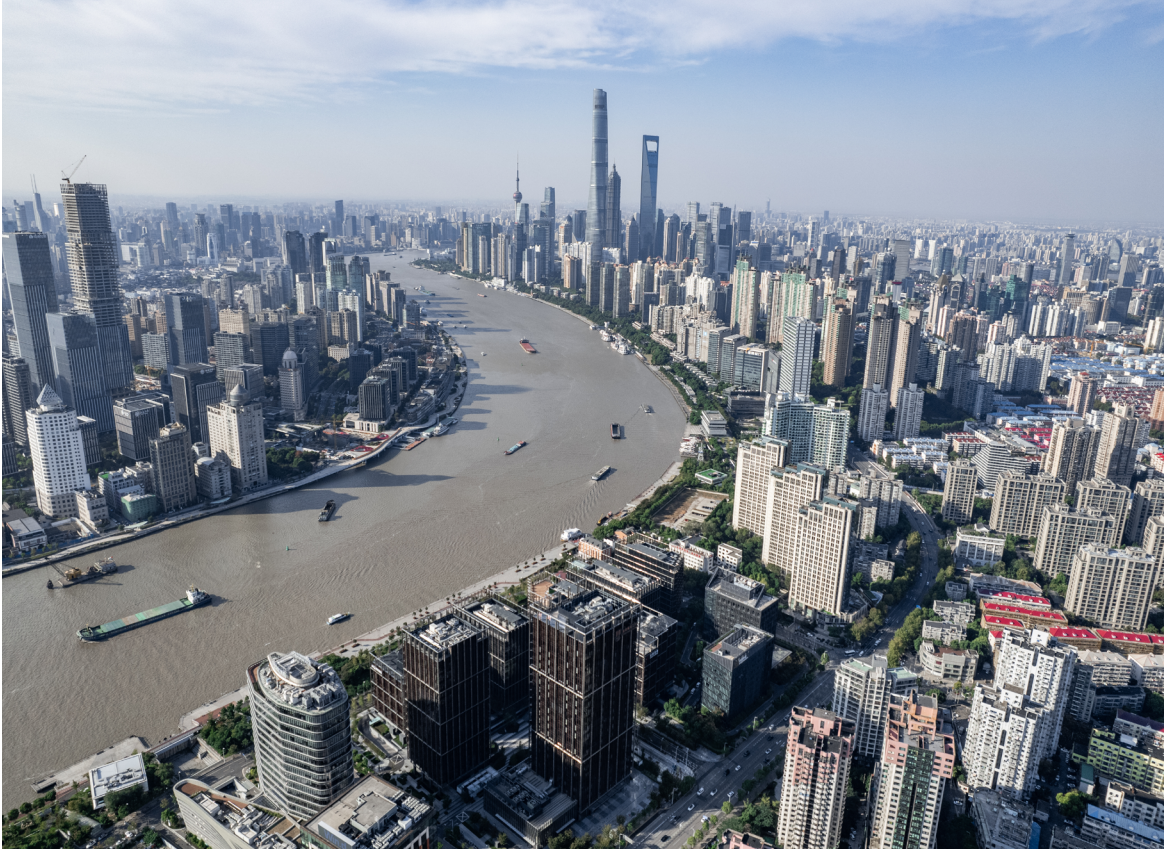


**MARKET  
IN  
MINUTES**

Savills Research

# Office

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第一太平戴维斯

## Net take-up falls to 2020 levels

Vacancy rates top 20% for the first time in over two decades.

- Five projects, or 432,000 sqm, were handed over in Q4/2023, bringing full-year supply to 1.8 mn sqm and overall stock to 18.3 mn sqm.
- New supply and a longer lease-up period meant the citywide vacancy rate increased by 1.2 ppts QoQ to 20.3%.
- Net absorption totalled 57,000 sqm in Q4/2023, bringing full-year net take up to 643,000 sqm in 2023.
- Grade A office rents fell 2.1% on an index basis in Q4/2023 to an average of RMB6.7 psm pday. Prime, non-prime and decentralized rents fell by 1.2%, 2.8%, and 1.9%, respectively.
- Demand from professional services and financial firms remained strong in Q4/2023. Traditional industries will continue to support new demand in the coming year.
- Another 1.9 million supply is scheduled to be handed over in 2024, adding more pressure on rents and occupancy rates given soft demand.

**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 East Bund, Changfeng, Hongqiao Transportation Hub, Xuhui Riverside, Xinzhuang, Zhenru, Wujiaochang, Former Expo, Qiantan, Houtan and Huamu.

“While reducing operational costs is a top priority for many companies, there are often costs associated with relocation as well as tax considerations, employee retention, client relations, corporate reputation and operational efficiencies.”

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

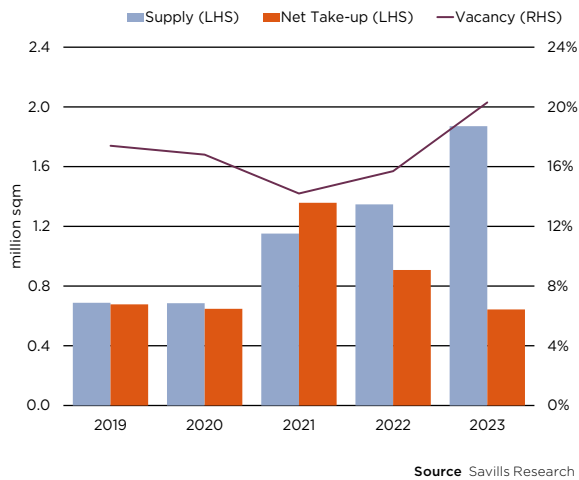
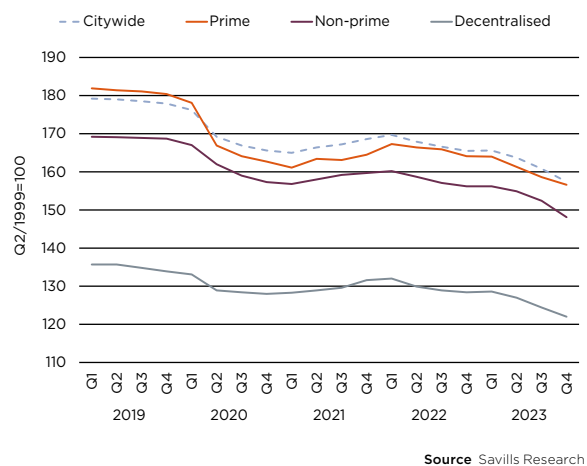
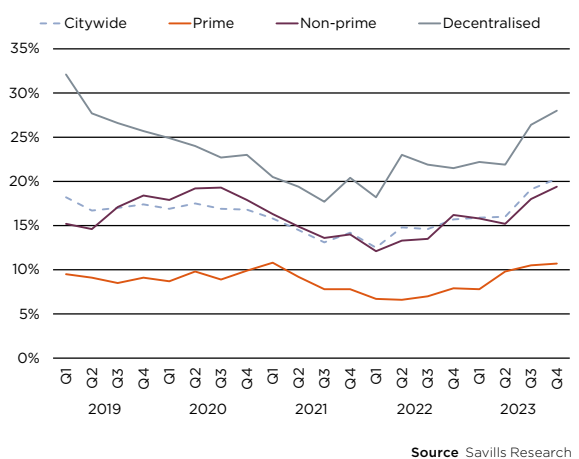
**COMMERCIAL TENANT REPRESENTATION**

**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

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**GRAPH 1: Grade A Office Overall Supply, Take-up And Vacancy, 2019 To 2023****GRAPH 2: Grade A Office Rental Indices, Q1/2019 To Q4/2023****GRAPH 3: Grade A Office Vacancy, Q1/2019 To Q4/2023****MARKET OVERVIEW**

Landlords start negotiating renewal contracts with high-profile tenants earlier than before (typically 3-6 months ahead of lease termination), offering often generous discounts to maintain occupancy. In select cases, renewal prices were as much as 30% lower than the peak of the market three years ago.

Despite sizeable renewal discounts, some tenants are lured away to newer projects with affordable rents, rent-free incentives, higher industry concentration, and convenient transportation.

**SUPPLY AND DEMAND**

Five new projects or a total of 423,900 sqm were launched in Q4/2023, bringing full-year supply to 1.8 mn sqm (18 projects). Decentralized areas supply account for 60% of overall, totalling 1.07 mn sqm. New projects in Q4/2023 include: AIA Financial Centre (North Bund), Huineng Joy Centre (North Station), The Summit T1 & T2 (Huamu), Yaohua Quarter (Houtan), CPIC Life Centre (Huaihai Road (M), self-use).

Net take-up recorded 57,300 sqm in Q4/2023, primarily contributed by the North Bund, North Station, and Huaihai Road (M) areas. Net take-up in the second half of the year was higher than in the first half as companies started to execute decisions. Disregarding self-use space, the three submarkets that recorded the largest take-up in 2023 were North Station (142,000 sqm), Zhenru (79,000 sqm) and North Bund (77,000 sqm).

Professional services firms were the most active sector in Q4/2023 accounting for 37% of leasing activity, while financial firms accounted for 25%. Law firms in particular still require quality office space in the city centre, recent examples including deals by Grandall Law Firm and Zhiheng Law Firm. Also earlier in the year, CIIC HR Consulting

acquired a 40,000 sqm office building for self-use, displaying its commitment to the Shanghai market. Looking at 2023 as a whole, there were several deals concluded also by retail & trading firms. Traditional industries will continue to be the mainstay of the market in 2024. Domestic firms accounted for 65% of recorded leases in 2023 with a larger share being smaller tenants (below 2,000 sqm) than 2-3 years ago.

**VACANCY AND RENTS**

The citywide vacancy rate increased 1.2 ppts in Q4/2023 to 20.3%, up 4.6 ppts YoY. New supply and weak demand resulted in longer lease-up periods with half of the city's submarkets recording increases in vacancy rates. Due to new supply, Huamu (+25.6 ppts) and Zhenru (+30.7 ppts) recorded significant vacancy rate increases in 2023.

Grade A office rents fell 2.1% on an index basis in Q4/2023, with rates averaging RMB6.7 psm pday. The rental decline for FY2023 was 5.0%, with prime, non-prime and decentralised markets falling 4.6%, 5.2% and 5.0%, respectively.

**MARKET OUTLOOK**

Another 1.9 mn sqm of new supply (22 projects) is scheduled to launch in 2024. This, combined with weak demand, will add further pressure on rents and occupancy levels. Grade A office stock is expected to exceed 20 mn sqm by the end of 2024.

Although local authorities have released some economic stimulus measures, they have had limited influence on the overall business confidence and market vitality. Greater support, especially in emerging industries and SME businesses, is needed to meaningfully boost business confidence.

2024 will remain another challenging year for the office market. Landlords, as a result, should better meet tenants' needs, add more value-added services and increase lease flexibility.

**TABLE 1: Notable Leasing Transactions, Q4/2023**

TENANT	TENANT INDUSTRY	PROJECT	BUSINESS DISTRICT	LEASED AREA (SQ M)
Grandall Law Firm	Professional Services	Suhe Centre	North Station	10,000
Changjiang United Financial Leasing	Finance	SK Tower	Houtan	5,000
Rhenus Logistics	Transportation	Raffles City The Bund	North Bund	3,500
Mega Gravity Communication	Media & Entertainment	Hong Shou Fang Corporate Avenue	Caojiadu	3,500
Zhiheng Law Firm	Professional Services	One Lujiazui	Lujiazui	2,300

Source: Savills Research