MARKET IN MINUTES
Savills Research

Office

savills
第一太平戴维斯

Vacancy rate decrease provide some breathing space

Despite weak leasing sentiment, easing supply pressures have led to a fall in vacancy rates for the first time in two years.

- One new project in a decentralised area was handed over in Q3/2024, adding 69,000 sqm to the office market, pushing the overall stock to 19.4 million sqm by the end of Q3/2024.
- The citywide vacancy rate fell by 0.5 ppt QoQ to 21.8% as new supply pressure eased. Significant take-up was recorded in Huamu and Qiantan, reducing the decentralised area vacancy rate by 1.0 ppt QoQ.
- Net take-up was 147,000 sqm in Q3/2024, bringing year to date to 630,000 sqm, equivalent to FY2023.
- Grade A office rents fell 4.3% in Q3/2024 to an average of RMB 6.1 psm pday. Prime, non-prime, and decentralised market rents fell by 5.0%, 4.2%, and 4.0%, respectively.
- Domestic companies remained active, accounting for 68% of tracked leases. Finance, manufacturing, and retail trading companies were the primary sources of demand, accounting for 45% of leasing deals.
- Despite finance companies still being one of the main sources of demand, a number of small PE fund firms have downsized or closed, pushing vacancy rates up in Lujiazui and Zhuyuan.

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.

> "Increased government support for the economy will take time to impact businesses. However, this support is expected to gradually lead to higher activity levels and increased office demand."
>
> 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

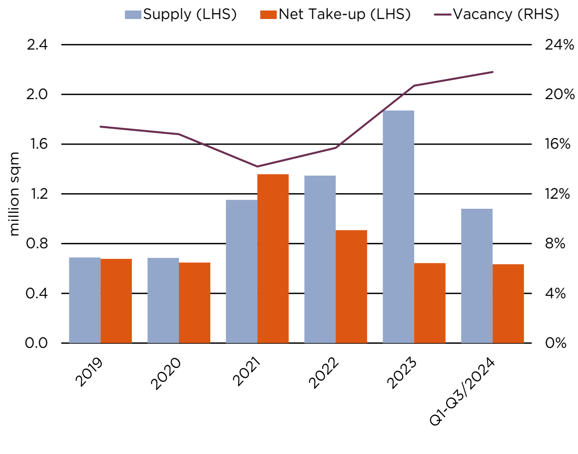
COMMERCIAL TENANT REPRESENTATION

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

TRANSACTION AND ADVISORY

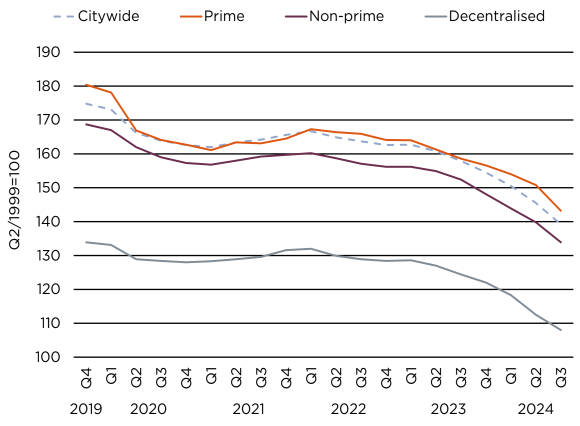
Joey Chio
Senior Director
China
+8621 6391 6688
joey.chio@savills.com.cn

GRAPH 1: Grade A Office Overall Supply, Take-up And Vacancy, 2019 To Q3/2024



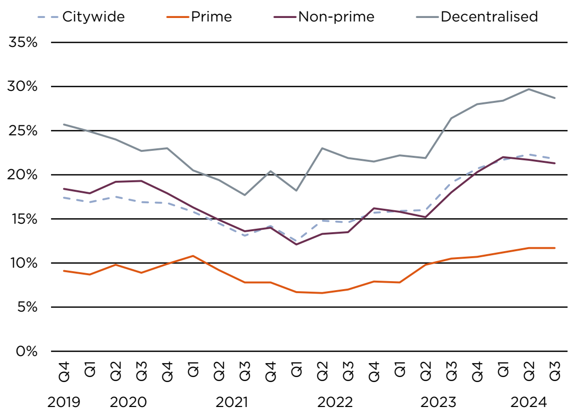
Source Savills Research

GRAPH 2: Grade A Office Rental Indices, Q4/2019 To Q3/2024



Source Savills Research

GRAPH 3: Grade A Office Vacancy, Q4/2019 To Q3/2024



Source Savills Research

MARKET OVERVIEW

New projects continue to enter the market, but many planned developments have seen reduced commercial allocations or complete rezoning, while older properties are being repurposed, including conversions to residential use. This trend is likely to accelerate following the recent clarification of the office renewal plan, potentially benefitting the market in the mid to long term by encouraging upgrades from older stock and reducing new supply.

Some planned new supply has been postponed as landlords seek potential end-use buyers. If prices fall short of seller expectations, these projects may enter the leasing market, intensifying competition in certain areas. Despite weak demand and generally low occupancy in new projects, some standout developments in prime locations have achieved strong pre-leasing performance due to their quality, landlord reputation, and amenities.

The city's Grade A net absorption reached 634,000 sqm in the first three quarters of this year, matching the total take-up for FY2023. Demand was primarily driven by manufacturers, particularly in the automotive sector, and online service providers, such as education firms and e-commerce platforms. Small expansions by larger domestic firms have had a noticeable impact on the market. Leasing activity also picked up as firms sought better deals by relocating to reduce costs or upgrade premises without increasing costs.

SUPPLY AND DEMAND

In Q3/2024, the 69,000 sqm Longhua Vanke Centre in Xuhui Binjiang was completed, featuring five office buildings for sale. Four of the towers have been purchased by Baixiang (白象集团), Wanye (上海万业), SICC Group, and an undisclosed buyer, while Tower 5 remains available for sale. The total Grade A stock reached 19.4 million sqm by the end of Q3/2024.

Grade A office net take-up fell by 21% in Q3/2024 to 147,000 sqm, down 58% YoY. Decentralised areas accounted for 84% of total take-up, with Hongqiao Transportation Hub, Huamu, Qiantan, and Xuhui Binjiang relatively active.

Domestic companies accounted for 68% of leased space in the first three quarters, with financial, manufacturing, and retail trade companies leading demand at 45%. Despite efforts to attract more foreign investment, market conditions remain challenging for international firms. Reports suggest companies like IBM and Hewlett-Packard have scaled back their presence due to shrinking market share, competition from domestic firms, and high operating costs, reducing office demand. In contrast, domestic firms continue to expand.

Standalone office buildings are favoured by occupiers and tend to lease quickly in multi-building developments. Examples this year include Lianjia and Aijian Securities in New Bund Square City, and Renault at Origin Plaza in Xuhui Riverside.

VACANCY AND RENTS

Supported by a pause in new supply, Grade A vacancy rates fell by 0.5 ppt QoQ to 21.8%, though increased by 2.7 ppt YoY. The decline was most notable in decentralised locations, which fell by 1.0 ppt QoQ. However, nearly half of the submarkets recorded increases in vacancy rates.

Despite high occupancy rates in flagship projects allowing landlords to maintain rents, overall high vacancy rates have prompted most landlords to lower rents, with smaller landlords further relaxing commercial terms. Competition continues to intensify. Grade A rents fell by 4.3% in Q3/2024 to RMB 6.1 psm pday, with declines in prime, secondary, and decentralised districts of 5.0%, 4.2%, and 4.0%, respectively.

Large landlords managing multiple projects are considering setting up renovation companies to assist tenants with interior fit-outs, rolling costs into higher rents over the lease term. Nevertheless, tenants are still expected to provide higher upfront deposits.

MARKET OUTLOOK

Four projects totalling 470,000 sqm are planned for delivery in Q4/2024. Without a notable improvement in economic activity, demand is expected to remain weak in the short to mid-term. If new supply proceeds as scheduled, the vacancy rate could rise to 22-23% by year-end, with rents continuing to decline.

The government has increased support for the economy through monetary stimulus, regulatory easing for sectors such as manufacturing, telecoms, healthcare, and education, and potentially increased fiscal stimulus. As these measures filter through, we may see stronger office demand materialise next year.

TABLE 1: Notable Leasing Transactions, Q3/2024

TENANT	TENANT INDUSTRY	PROJECT	BUSINESS DISTRICT	LEASED AREA (SQ M)
Temu	Retail Trade	Yi Fung Place	Hongqiao	11,000
Hansheng Law Firm	Professional services	LJZ Financial Holding Plaza II	Zhuyuan	6,000
Renault Auto	Manufacturing	Origin Plaza	Xuhui Binjiang	4,500
Foresight Fund	Finance	Kerry Parkside	Huamu	3,000
Leekr Technology	Information Technology	Foresea Life Building	HTH	2,200

Source Savills Research