MARKETBEAT

Office Snapshot Q2 2017

Shanghai

CUSHMAN & WAKEFIELD 戴德梁行

CELEBRATING 100 YEARS

SHANGHAI OFFICE

Economic Indicators

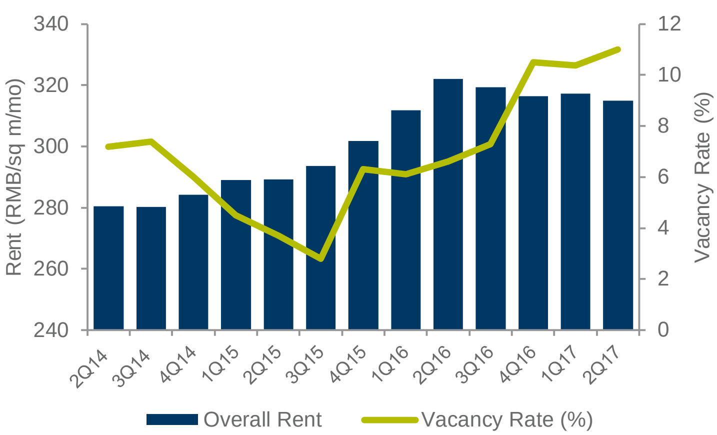
	Q4 16	Q1 17	Past 12-Month Growth
GDP Growth	6.8%	6.8%	▲
Service Sector GDP Growth	9.5%	7.5%	▼
CPI Growth	3.2%	2.2%	▼

Source: Shanghai Statistics Bureau
Note: Growth figure is y-o-y growth

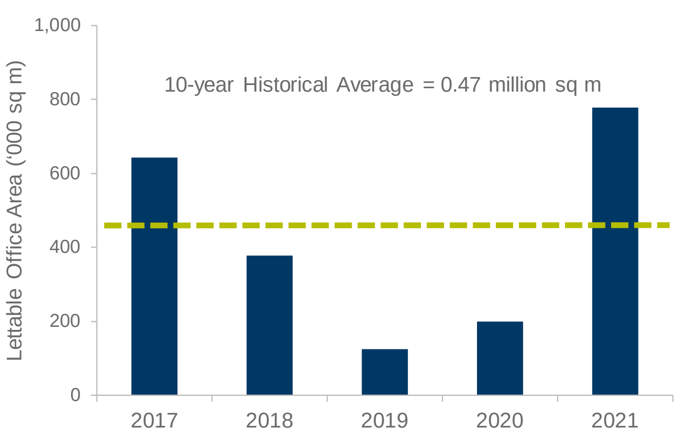
Grade A CBD Market Indicators

	Q1 17	Q2 17	12-Month Forecast
Average Face Rent* (RMB/sq m/mo)	317.2	315.0	▼
Vacancy Rate	10.4%	11.0%	▲

Grade A CBD Rent & Vacancy Rate



CBD Supply Pipeline



Economy

Shanghai's economy expanded 6.8% y-o-y in Q1, remaining on par with last year's growth rate. Service Sector GDP slid back to 7.5% y-o-y growth in Q1, while CPI cooled to 2.2%.

Market Overview

In Q2, Shanghai added China Life Financial Centre, Century Link T2, HKRI Centre Two and Xuhui T20. New Grade A office supply doubled from the previous quarter to 234,918 sq m, raising central CBD stock to approximately 6.58 million sq m at the end of Q2. Despite robust demand for office space, the sheer volume of new supply drove up the vacancy rate to 11.0%, from 10.4% in Q1. Core Xuhui recorded the lowest vacancy rate among CBD submarkets at 4.2%.

Strong leasing demand continued from the previous quarter. In Q2, Shanghai central CBD recorded absorption of 168,973 sq m net, up 37,000 sq m from the previous quarter by comparison. Co-working has become increasingly popular, accounting for a sizeable amount of Grade A office leases in Puxi CBD in Q2. Across the river in Pudong, insurance and fund companies remained the major sources of occupier demand. On the whole, take-up in Q2 was well above the same period from one year ago when net absorption amounted to less than 30,000 sq m due to a number of lease surrenders by P2P companies.

Office rent in Grade A central CBD buildings edged down 0.7% q-o-q to average RMB315.0 per sq m per month in Q2. The flood of new supply caused competition among CBD submarkets to increase and added short-term pressure on rent. Elsewhere, some emerging areas, including the Hongqiao Hub and North Bund, are becoming more attractive thanks to a multifaceted, interconnected transportation network and close proximity to CBD areas. The decentralization trend is adding pressure on landlords in CBD buildings to adjust their rent to attract tenants.

Capital values in Grade A central CBD office buildings increased 0.2% q-o-q to average RMB82,527 per sq m in Q2. Major buyers were Chinese insurance and fund companies seeking capital appreciation. Market yields remained at 4.6% at the end of Q2.

Outlook

Ahead, approximately 290,000 sq m of new Grade A office buildings is planned to launch in CBD areas in 2H. Office vacancies are projected to rise further on the new supply. The market should see average rent continue to adjust on pressure from fast maturing emerging submarkets and high levels of new supply. Given slightly lower yields, investment sentiment is expected to stabilize within the year.

*Note: Xuhui submarket was divided into Core Xuhui & Fringe Xuhui submarkets from Q1 2017.

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SUBMARKET	INVENTORY (SQ M)	VACANCY RATE	NEW COMPLETIONS YEAR-TO-DATE (SQ M)	UNDER CONSTRUCTION (SQ M)	GRADE A FACE RENT		
					RMB/SQ M/MO	US$/SF/MO	EUR/SF/MO
Core Jing'an	1,029,920	6.8%	71,400	230,952	¥343.1	US$4.69	€4.18
New Huangpu	1,456,434	11.7%	-	745,125	¥302.3	US$4.13	€3.68
Lujiazui	1,846,402	13.1%	88,000	373,527	¥385.6	US$5.27	€4.70
Zhuyuan	824,583	11.3%	93,736	40,000	¥291.8	US$3.99	€3.56
Changning	906,435	14.1%	72,000	183,029	¥231.4	US$3.17	€2.82
*Core Xuhui	518,960	4.2%	27,316	350,384	¥313.9	US$4.29	€3.82
SHANGHAI CBD Grade A Total	6,582,734	11.0%	352,452	1,923,017	¥315.0	US$4.31	€3.84
Shanghai Suburban Grade A	3,310,228	25.5%	872,919	4,761,747	¥206.3	US$2.82	€2.51

* Rental equals "Gross Transacted Face Rental"
1 USD = 6.7948 RMB = 0.8909 EUR
* Note: Xuhui submarket was divided into Core Xuhui & Fringe Xuhui submarkets from Q1 2017.

Key Leasing Transactions Q2 2017

PROPERTY	SUBMARKET	TENANT	SQ M	LEASE TYPE
Maxdo Center	Changning	3M	20,000	Expansion
Sinar Mas Plaza	Hongkou	YKK	4,600	Relocation
Capita Square	Fringe Jing'an	Google	2,000	Relocation
HKRI Centre One	Core Jing'an	Clifford Chance	1,800	Relocation
Gopher Center	New Huangpu	Yanmar	1,700	Relocation

Significant Projects Under Construction

PROPERTY	SUBMARKET	MAJOR TENANT	SQ M	COMPLETION DATE
Taikang Finance Center	Lujiazui	-	90,000	2017
The Gate I	Minhang	-	73,722	2017
Qiantan World Trade Centre II	Qiantian	-	71,600	2017
Raffles City Changning T1	Changning	-	76,629	2017
One Museum Place	Core Jing'an	-	132,000	2018
CapitaMall LuOne	New Huangpu	-	44,125	2018
Qiantan Crystal Plaza	Qiantian	-	200,000	2018
Qiantan Centre	Qiantian	-	168,000	2019
Park Avenue Central	Core Jing'an	-	98,952	2020
Henderson Centre	Fringe Xuhui	-	169,943	2021

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