

Occupier markets experience traditionally quiet period; investment outlook brightens

+5.0%

Shanghai GDP Growth
(2023 | y-o-y)

+1.9%

Retail Sales
(Jan to Feb 2024 | y-o-y)

+9.7%

Fixed Asset Investment
(Jan to Feb 2024 | y-o-y)

Source: Shanghai Statistics Bureau, CBRE Research, April 2024

Executive Summary

- **Office:** Four new office buildings providing a total of 266,136 sq. m. of space were completed this quarter. Consumer products manufacturing (automotive) was the main driver of leasing demand, followed by TMT (Internet services and e-commerce) and finance (other financial services and insurance). The citywide vacancy rate rose further due to increased supply and weaker demand, edging up 1.1 pps. q-o-q to 20.9%.
- **Retail:** No new shopping malls were completed this quarter. Citywide vacancy fell by 0.2 pps. q-o-q to 7.9%, with net absorption logging 22,325 sq. m.. F&B dominated leasing activity while fashion brands remained active. Several new-to-market and flagship stores of international brands opened stores this quarter.
- **Logistics:** Two projects totalling 252,797 sq. m. of space came on stream in Qingpu and Songjiang. Demand mainly came from 3PLs, with container logistics providers expanding their domestic and foreign business. Manufacturing demand was driven by the pharmaceutical sector.
- **Business Park:** Four new assets providing 259,599 sq. m. were added in Q1 2024. Net absorption totalled 47,202 sq. m., pushing up the vacancy rate. Demand was led by the industrial manufacturing, consumer product manufacturing and pharmaceutical & life science sectors. Relocation remained a key trend.
- **Investment:** A total of 19 investment deals worth a combined RMB 14.41 billion were completed in Q1 2024, a decline of 36.6% q-o-q. 58% of transactions involved commercial office buildings. Properties located along the riverside remained keenly sought after by end-users, while real estate funds displayed a stronger appetite for acquisitions, particularly for multifamily assets with conversion potential.

Table 1: Quick Figures

Office	q-o-q	y-t-d	y-o-y
Rent	-0.7%	-0.7%	-3.6%
Vacancy Rate	+1.1%	+1.1%	+2.9%
Retail	q-o-q	y-t-d	y-o-y
Rent	-0.0%	-0.0%	+0.3%
Vacancy Rate	-0.2%	-0.2%	+0.2%
Logistics	q-o-q	y-t-d	y-o-y
Rent	-0.9%	-0.9%	-1.0%
Vacancy Rate	+3.7%	+3.7%	+5.1%
Business Park	q-o-q	y-t-d	y-o-y
Rent	-0.8%	-0.8%	-1.6%
Vacancy Rate	+1.3%	+1.3%	+2.7%
Investment*	q-o-q	y-t-d	y-o-y
Total volume	-36.6%	-36.6%	-23.7%
Domestic	-45.7%	-45.7%	-24.2%

Source: CBRE Research, Q1 2024

*Transactions include deals above US\$10 million in the office, retail, mixed, industrial, hotel and other commercial sectors

Office

Net Absorption
25,084 sq. m.

Vacancy Rate
+1.1% q-o-q

Rental Values
-0.7% q-o-q

Subdued leasing demand ensures rents stay under pressure

This quarter saw the completion of Yi Fung Place, Lujiazui Financial Holding Plaza Phase II , T Center T2 and AXIOM Tower A, providing a combined 266,136 sq. m. of new office space.

While the leasing performance of new projects was slow, this was partly due to the first quarter traditionally being a quiet period for new leases. Overall net absorption fell 84.8% q-o-q to just 25,084 sq. m., pushing up overall vacancy by 1.1% q-o-q to 20.9%.

Consumer products manufacturing (automotive) was the main driver of leasing demand, followed by TMT (Internet services and e-commerce) and finance (other financial services and insurance). Demand from real estate companies picked up over the quarter while other active sectors included industrial manufacturing.

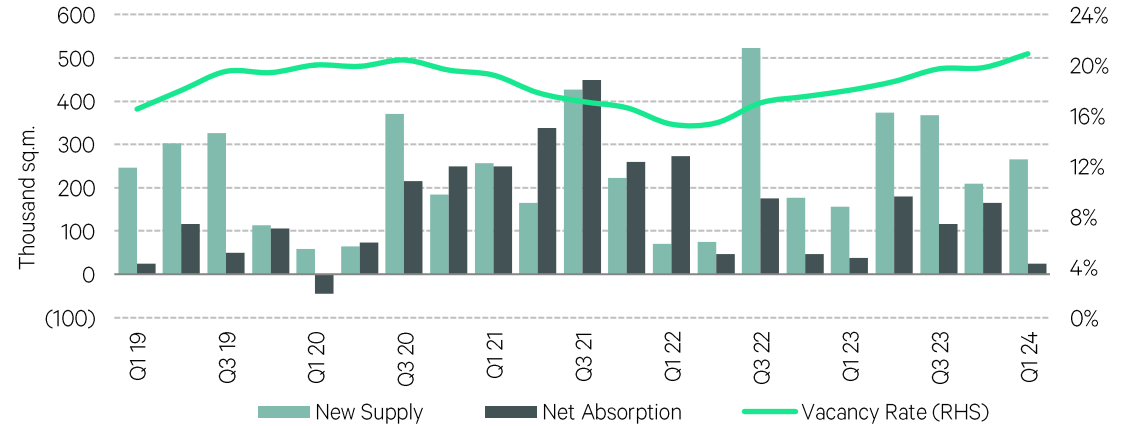
Overall asking rents declined by 0.7% q-o-q to RMB 266 per sq. m. per day, while effective rents fell by 1.5% q-o-q to RMB 197 per sq. m. per day.

Policy support set to underpin steady recovery in demand

New supply totalling approximately 960,000 sq. m. is scheduled to be completed in the next six months, the highest level on record for the same period, with the Core CBD set to see the addition of several Premium Grade A projects. Competition for tenants is therefore expected to intensify as supply continues to climb and companies look to capitalise on falling rents.

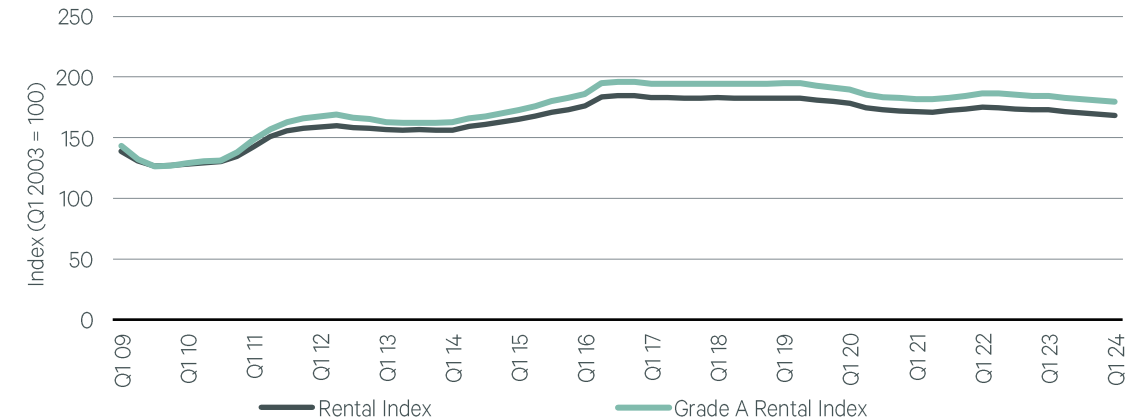
During the quarter, the National People's Congress and the National People's Political Consultative Conference conveyed the message of "accelerating the development of new quality productive forces" and "continuing to relax foreign investment access in manufacturing, medical and telecommunication services". CBRE expects related policy measures to support office leasing demand from the finance, TMT and pharmaceutical sectors in H2 2024, helping the market emerge from its present subdued state.

FIGURE 2: Shanghai Office Supply and Demand



Source: CBRE Research, Q1 2024

FIGURE 3: Shanghai Office Rental Index



Source: CBRE Research, Q1 2024

Retail

Net Absorption
22,325 sq. m.

Vacancy Rate
-0.2% q-o-q

Rental Values
-0.0% q-o-q

Rents remain stable

No new shopping malls were completed this quarter, bringing down the citywide vacancy rate by 0.2 pps. q-o-q but up 0.2 pps. y-o-y to 7.9%. Net absorption fell by 84.1% q-o-q and 34.1% y-o-y to 22,325 sq. m.. The rental performance of submarkets continued to diverge, with rents in prime and secondary submarkets remaining stable, but those in decentralised submarkets continuing to decline, albeit at a slower rate. Citywide average G/F shopping mall rents were stable at RMB 33.5 per sq. m. per day.

F&B was the main driver of demand, accounting for 46% of leasing volume this quarter. Demand for Chinese cuisine and bakery & dessert accelerated but expansion by the coffee & beverage sector slowed. New demand was mainly driven by yogurt and tea retailers. Fashion accounted for 19% of the total, with more active demand seen from the outdoor sports and womenswear categories. Although poor financial results reported by some brands and negative macroeconomic news weighed on market sentiment, Shanghai remains a preferred destination for international brands, who retain a healthy appetite for opening large sized and flagship stores. New openings this quarter included Arc'teryx Museum, Apple Jing'an, and Supreme China's first store.

New supply to inject new vitality into market

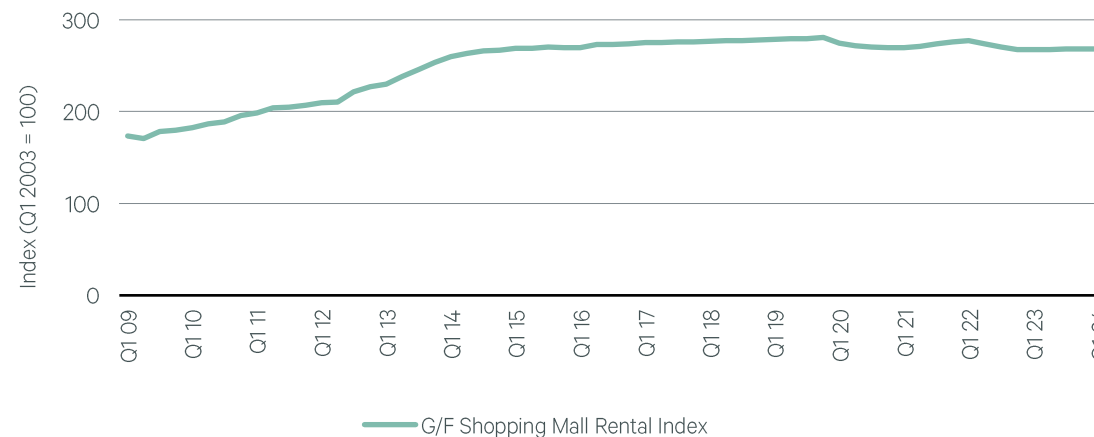
Some 500,000 sq. m. of new shopping mall supply is due to come on stream over the next six months, primarily in submarkets such as North Bund, Zhenru, and Qiantan. All new projects are helmed by experienced commercial developers, which will ensure timely delivery and high quality. With consumer needs continuing to evolve, developers and retailers will focus on strengthening innovation, cultural and cross-border elements to create unique commercial projects and drive differentiation.

FIGURE 4: Selected Leasing Transactions in Q1 2024

Property	Submarket	Tenant	Sector
Global Harbor	Changfeng	Heytea Pure	F&B
Taikoo Li Qiantan	Qiantan	WenTinG	F&B
Hall of the Sun	North Bund	Kokyo Sushi	F&B
Jing'an Kerry Centre	Nanjing Rd W	MOSCHINO	Fashion
Vanke Mall	Qibao	KSSS	Fashion
Metro City	Xujiahui	LINE FRIENDS	Gifts, Toys & Grocery

Source: CBRE Research, Q1 2024

FIGURE 5: Shanghai Retail Rental Index



Source: CBRE Research, Q1 2024

Logistics

Net Absorption
-84,359 sq. m.

Vacancy Rate
+3.7% q-o-q

Rental Values
-0.9% q-o-q

Growing demand from healthcare and pharmaceutical sectors

Two three-storey projects adding a combined 252,797 sq. m. of logistics space were delivered in Qingpu and Songjiang in Q1 2024, bring total logistics supply to over 8 million sq. m..

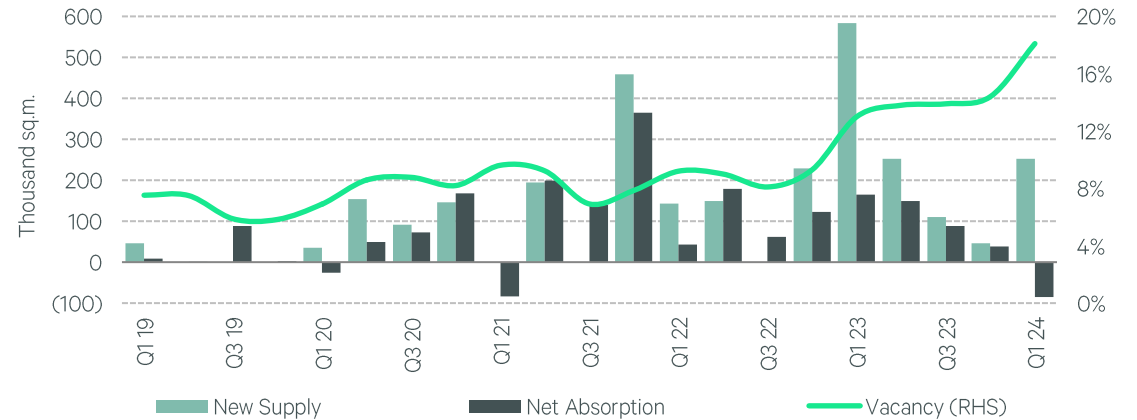
3PLs dominated leasing demand. Major transactions included a container supplier leasing more than 10,000 sq. m. in Fengxian to expand its domestic and foreign shipping services; another 3PL committing to a large new lease in Fengxian; and leading 3PLs upgrading to PVG to undertake express delivery. Manufacturing ranked second, driven by demand from healthcare and pharmaceuticals. Highlights included a leading pharmaceutical company setting up a new retail business in PVG and a medical device company leasing 8,000 sq. m. in Baoshan for equipment storage. Small household appliance demand increased, with a major electronics company taking up a total of 13,000 sq. m. in Baoshan. Cost control led several companies to choose satellite cities near Shanghai or consolidate multiple locations. Net absorption was -84,359 sq. m., with the vacancy rate rising by 3.7 pps. to 18.1%.

Rents in submarkets such as Minhang, PVG, and Lingang were stable, while the addition of new supply led to a slight decrease in rents in southern areas, Jinshan, Fengxian, and Qingpu. Overall rents decreased by 0.9% q-o-q to RMB 48.8 per sq. m. per month.

Diverse demands boost market vitality

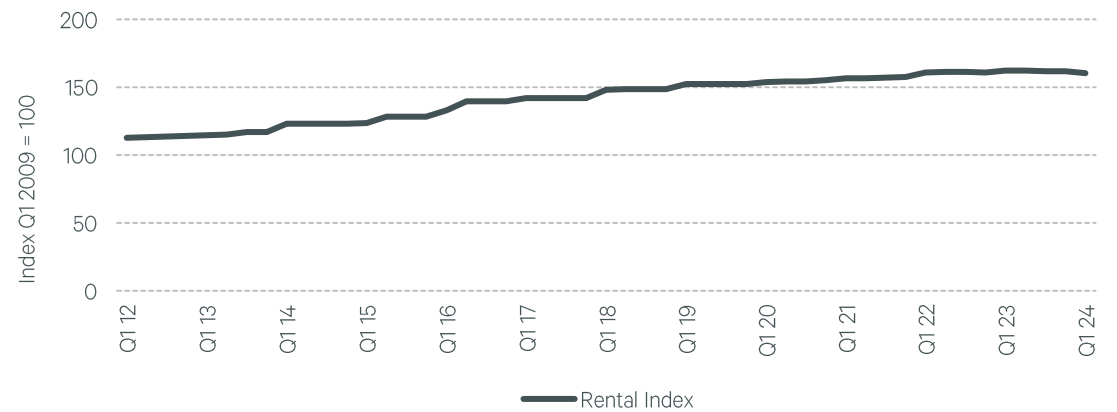
1.22 million sq. m. of new logistics space is slated for delivery over the next six months, providing tenants with a variety of options, especially in Jinshan, Songjiang, Lingang, and Jiading. New stock will make it easier for companies to make site selection and relocation decisions while improving supply chain efficiency. In the long term, new business models, a continuous increase in e-commerce penetration, and growth of supply chain demand in high-end manufacturing will remain important growth engines. The importance of intelligent efficiency, cold chain, and ESG will become increasingly prominent, while the advent of AI will usher in a new era for Shanghai's logistics market.

FIGURE 6: Logistics Supply and Demand



Source: CBRE Research, Q1 2024.

FIGURE 7: Logistics Rental Index



Source: CBRE Research, Q1 2024.

Business Park

Net Absorption
47,202 sq. m.

Vacancy Rate
+1.3% q-o-q

Rental Values
-0.8% q-o-q

Strategic emerging industries seek relocation opportunities

Four new projects providing 259,599 sq. m. of new supply were completed in Q1 2024, including No. 1 Curie Road project in Zhangjiang, Plot 21-02 project in Shibei, Golden Bridge Master Club 12-01 and Yunjin project in Jinqiao. Demand weakened over the quarter, with net absorption logging 47,202 sq. m. Overall vacancy was 19.6%, representing increases of 1.3 pps. q-o-q and 2.7-pps. y-o-y.

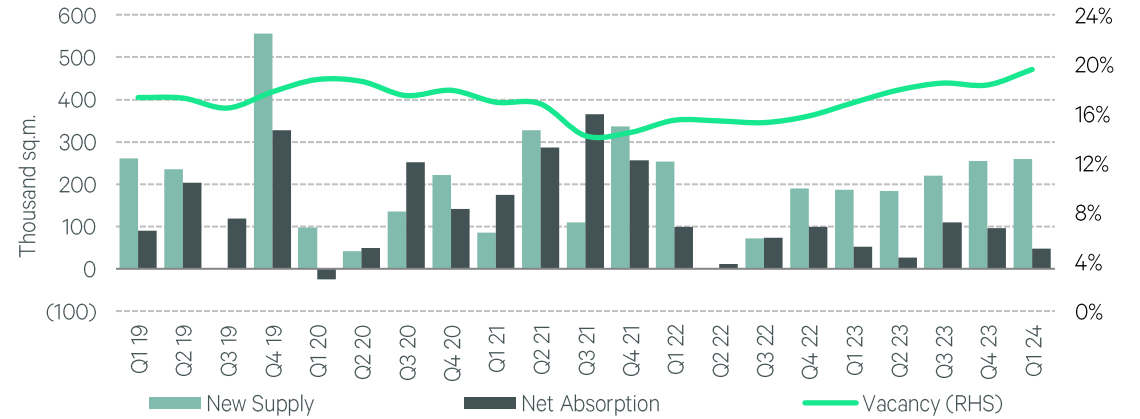
Relocation demand continued to dominate, accounting for 60% of leasing volume this quarter. By industry, demand was led by industrial manufacturing, which accounted for 24% of leasing volume, mainly due to the upgrading and relocation of chip design companies and semiconductor component companies in Zhangjiang. Supportive government policies and stronger consumption underpinned a further increase in leasing demand from the automotive sector, with automobile companies and parts enterprises especially active. This ensured the consumer product manufacturing sector ranked second in terms of demand, with 24%. The addition of new life science parks providing pharmaceutical companies with more high-quality space meant the pharmaceutical & life science sector followed with 17%.

Rents remain under pressure

Zhangjiang attracted upgrading and relocation demand this quarter, led by pharmaceutical R&D, chip design, big data, and telecom companies. However, intensified competition among landlords to attract tenants caused rents in some projects to fall and rent-free periods to increase. Jinqiao continues to cater to the automotive sector, but continued supply pressure caused rents to decline this quarter. Many companies in Caohejing renewed large-sized leases this quarter, while the district also attracted firms in sectors such as auto parts, AI models, and retail digitalisation relocating from other areas. Overall rents averaged RMB 138.4 per sq. m. per month, representing a decrease of 0.8% q-o-q and 1.6% y-o-y.

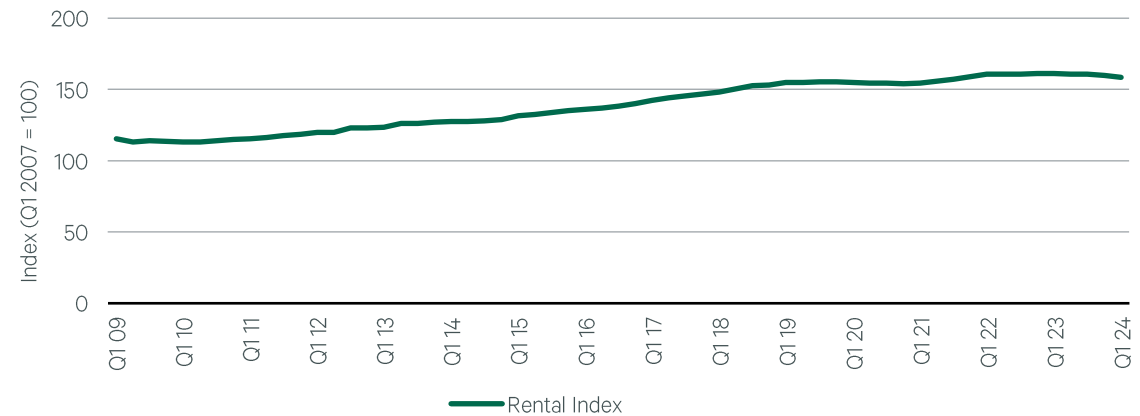
About 600,000 sq. m. of new business park space is expected to enter the market in the next six months, primarily in Zhangjiang Middle Zone, and also in Linkong, Pujiang, Qingpu and Nanda. Along with the addition of high-quality and substantial new supply, competition among projects and sectors will intensify, although this will be somewhat offset by an increase in demand as the economy picks up.

FIGURE 8: Shanghai Business Park Supply and Demand



Source: CBRE Research, Q1 2024

FIGURE 9: Shanghai Business Park Rental Index



Source: CBRE Research, Q1 2024

Investment

Total Turnover
-36.6% y-o-y

Number of Transactions
19

Growing interest in core assets

A total of 19 investment transactions worth a combined RMB 14.41 billion were completed in Q1 2024, marking a q-o-q decrease of 36.6%. Investment activity was dominated by small-ticket deals, with transactions of more than RMB 1 billion accounting for just 21% of deal volume. The price gap between buyers and sellers expanded over the quarter, while investors gradually shifted focus to core sectors. More than 40% of assets changing hands this quarter were located within the inner ring road, a significant increase compared from the past two years.

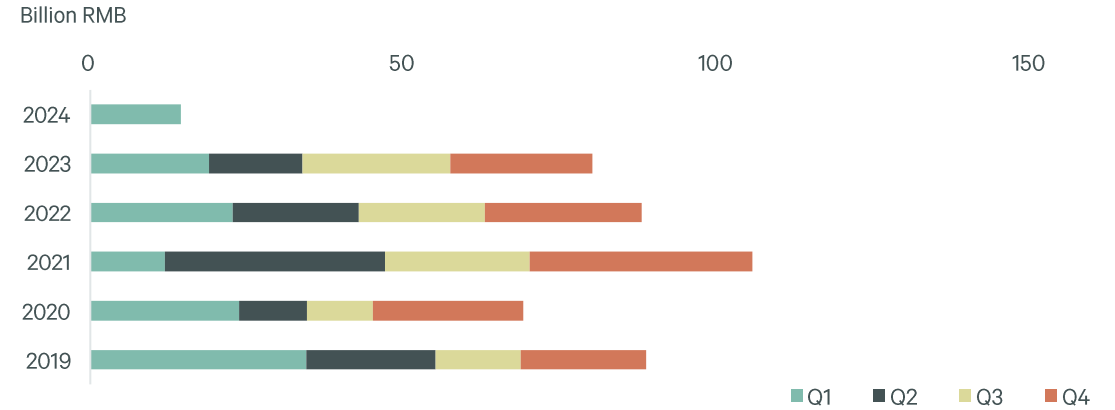
58% of total transactions involved commercial office buildings. Properties along the riverside remained a favourite among end-users; financial institutions with strong purchasing power acquired several large-scale en-bloc properties; and enterprises from the manufacturing and transportation industries displayed a healthy appetite for quality assets. Other activity included corporations purchasing whole-floor office assets for investment purposes. Retail investment remained stable, with Link REIT completing the remaining equity acquisition of Qibao Vanke Plaza, and several retail podiums and street shops changing hands. Hotel and multifamily assets remained keenly sought after, while a few industrial and logistics properties were transacted through foreclosure.

Property funds target multifamily assets

Corporates witnessed an active quarter, with most deals for self-use. Real estate funds turned slightly more acquisitive, with their preferred property type primarily being multifamily assets with conversion potential. Appetite among institutional investors and real estate companies declined this quarter, completing just one retail and hotel transaction, respectively. Nearly 90% of transactions this quarter were accounted for by domestic buyers, with overseas investors staying quiet.

With the continuous adjustment of asset prices and further reduction of financing costs sending a positive signal to the market, CBRE expects investment sentiment to steadily improve in the coming quarters, leading to improved purchasing activity.

FIGURE 10: Shanghai En-bloc Transaction Volume



Source: CBRE Research, Q1 2024

FIGURE 11: Yield by Sector

	Core	Six-month Outlook	Decentralized	Six-month Outlook
Grade A Office	4.25-5.05%	◄►	4.75-6%	▲
Retail	4.25-5.5%	◄►	4.5-6.0%	◄►
Logistics	4.75-5.25%	▲	--	--

Source: CBRE Research, Q1 2024

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