CBRE

Focus on cost efficiency constrains office and business park demand; retail leasing activity improves along with new flagship store openings

+4.8%
Shanghai GDP Growth
(Jan to Jun 2024 | y-o-y)

-3.3%
Retail Sales
(Jan to Aug 2024 | y-o-y)

+7.8%
Fixed Asset Investment
(Jan to Aug 2024 | y-o-y)

Source: Shanghai Statistics Bureau, CBRE Research, October 2024

Executive Summary

- **Office:** This quarter saw the completion of two new office buildings providing a combined 158,620 sq. m. of space. The finance sector, led by Insurance firms and funds, continued to take the lead, followed by TMT and consumer product manufacturing. Net absorption slowed over the quarter, pushing up vacancy by 0.4 pps q-o-q to 21.5%.
- **Retail:** One new project, LIVAT mall, came on stream in Q3 2024. Citywide net absorption totalled 153,000 sq. m., while the vacancy rate rose to 8.2%. By category, F&B remained the largest source of demand. The period saw several apparel brands open their first stores in the city, pushing up the fashion sector's share of overall leasing volume.
- **Logistics:** One new project providing 74,181 sq. m. was added in Q3 2024, pushing up y-t-d supply to 1 million sq. m.. 3PLs accounted for 66% of leasing volume, with supply chain & contract logistics; express; freight forwarders; and cold chain firms most active. The addition of new supply pulled down rents over the quarter.
- **Business Park:** The completion of Golden Cycle (Jinqiao) and LabBay (Zhangjiang) provided about 61,913 sq. m. of new stock this quarter. Net absorption reached 42,646 sq. m. and vacancy was largely unchanged. New leasing demand was driven mainly by TMT, industrial manufacturing, and life sciences companies.
- **Investment:** A total of 36 investment transactions worth a combined RMB 21.74 billion were completed in Q3 2024. Investment sentiment strengthened over the quarter, with investment-oriented deals accounting for more than 90% of total transaction volume. Despite their share of overall investment falling over the quarter, office buildings remained the most traded asset class.

Table 1: Quick Figures

Office	q-o-q	y-t-d	y-o-y
Rent	-1.7%	-3.9%	-4.3%
Vacancy Rate	+0.4%	+1.7%	+1.8%
Retail	**q-o-q**	**y-t-d**	**y-o-y**
Rent	-0.2%	-0.3%	-0.2%
Vacancy Rate	+0.3%	+0.2%	+0.2%
Logistics	**q-o-q**	**y-t-d**	**y-o-y**
Rent	-2.6%	-5.0%	-5.0%
Vacancy Rate	-0.5%	+11.6%	+12.1%
Business Park	**q-o-q**	**y-t-d**	**y-o-y**
Rent	-1.1%	-2.3%	-1.9%
Vacancy Rate	0.0%	+2.4%	+2.2%
Investment*	**q-o-q**	**y-t-d**	**y-o-y**
Total volume	+81.5%	-5.7%	-6.1%
Domestic	+10.9%	-2.4%	-4.3%

Source: CBRE Research, Q3 2024
*Transactions include deals above US$10 million in the office, retail, mixed, industrial, hotel and other commercial sectors

Office

Net Absorption 71,227 sq. m.

Vacancy Rate +0.4% q-o-q

Rental Values -1.7% q-o-q

Overall market absorption loses momentum

New supply this quarter was led by the completion of Park Avenue Central in Jing'an District and Zhongyin Plaza on the North Bund in Hongkou District, which provided a combined 158,620 sq. m. of new office space to the market, a decline of 25.8% q-o-q.

Leasing activity slowed over the quarter, with net absorption logging 71,227 sq. m., down 40.3% q-o-q and 38.9% y-o-y. The overall vacancy rate rose by 0.4 pps y-o-y to 21.5%.

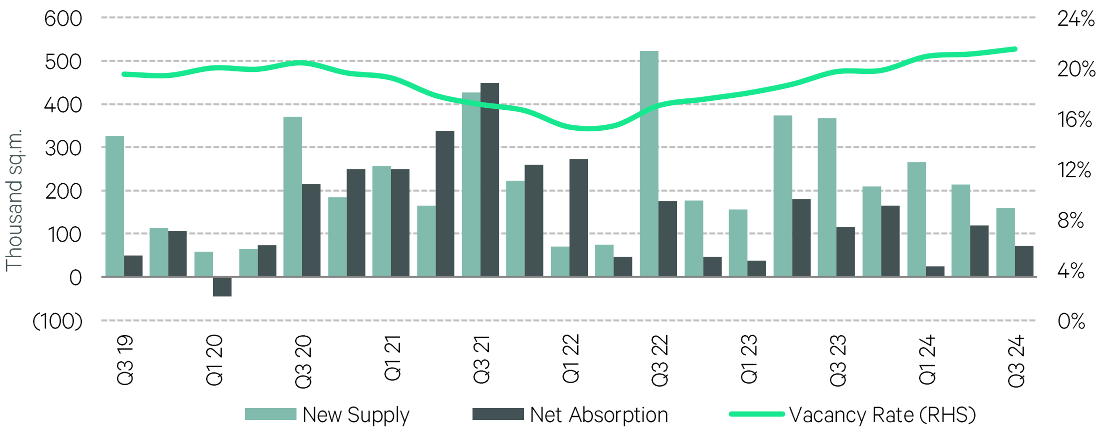
The finance sector, led by Insurance firms and funds, continued to take the lead, followed by TMT, with Internet services (to B) the main driver. Consumer products manufacturing was the third largest source of leasing demand, thanks to solid requirements from automotive and FMCG companies. Business services demand ranked fourth, with office leasing transactions primarily coming from advertising, law and consulting companies. Third-party space providers expanded at a faster rate over the quarter, while demand from the real estate sector remained relatively stable.

Overall asking rents fell by 1.7% q-o-q to RMB 8.5 per sq. m. per day, while effective rents fell by 3.5% q-o-q to RMB 6.1 per sq. m. per day.

Landlords advised to offer more flexible terms

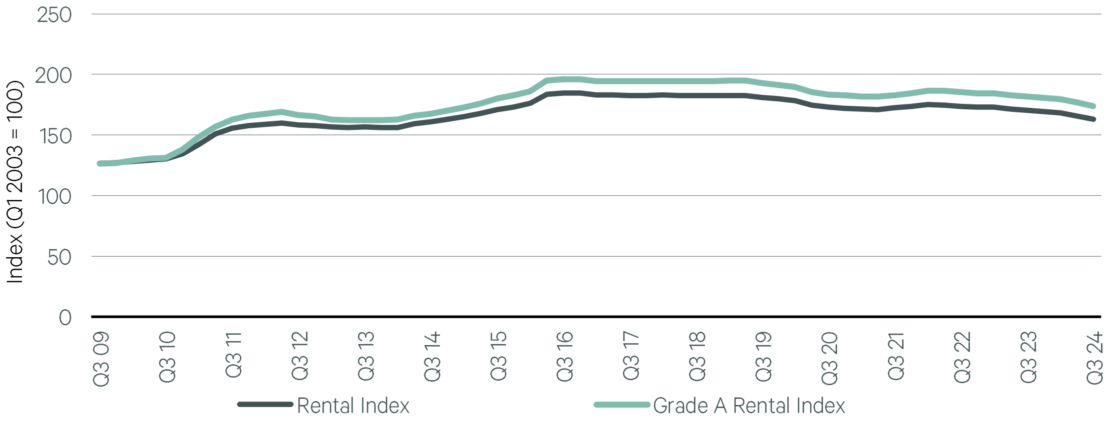
A further 830,000 sq. m. of new office supply is scheduled to come on stream over the next six months. While this will provide tenants with greater choice, it will exacerbate the oversupply situation, especially in areas where new stock is added. Under these market conditions, landlords will need to offer higher incentives and more flexible terms to attract and retain tenants.

FIGURE 2: Shanghai Office Supply and Demand



Source: CBRE Research, Q3 2024

FIGURE 3: Shanghai Office Rental Index



Source: CBRE Research, Q3 2024

Retail

Net Absorption
152,692 sq. m.

Vacancy Rate
+0.3% q-o-q

Rental Values
-0.2% q-o-q

Large-scale supply comes on stream in emerging submarkets

This quarter saw the addition of one new project, LIVAT, providing a total GFA of 210,000 sq. m. The property aims to serve as an all-age-friendly lifestyle destination by integrating shopping, catering, entertainment, culture and art, health and wellness, children's and outdoor leisure spaces to meet consumers' diverse offline consumption needs.

Citywide net absorption totalled 153,000 sq. m. and vacancy rose by 0.3 pps q-o-q to 8.2%. The pace of tenant reshuffling exercises in prime projects slowed over the quarter, while several prime properties in secondary and emerging markets continued to experience de-stocking pressure. This ensured that the magnitude of the rental decline diverged across submarkets. Citywide shopping mall G/F average rents fell by 0.2% q-o-q to RMB 32.8 per sq. m. per day.

Numerous retailers open first stores in Shanghai

F&B, led by Chinese restaurants; coffee and tea outlets; and bakeries and desert shops remained the largest source of demand, accounting for 41% of leasing volume in Q3 2024. Local Chinese restaurants were a key driver, with several Hunan brands opening multiple new locations. In the beverage category, Hunjuice opened its first store in the city at HKRI Taikoo Hui followed by several additional shops at other locations.

Fashion retailers continued to increase their share of overall leasing volume, reaching 25%. Several retailers in this category opened their first stores in Shanghai this quarter. At Réel, Italian luxury brand C. P. Company opened its first China store and New York brand R13 launched its first Asia shop. Demand from retailers in the lifestyle and accessory categories was robust, with each sector accounting for 8% of leasing volume. Italian bicycle brand Colnago opened a flagship in Super Brand Mall while Korean accessory brand EMIS launched a pop-up store in Xintiandi Style I.

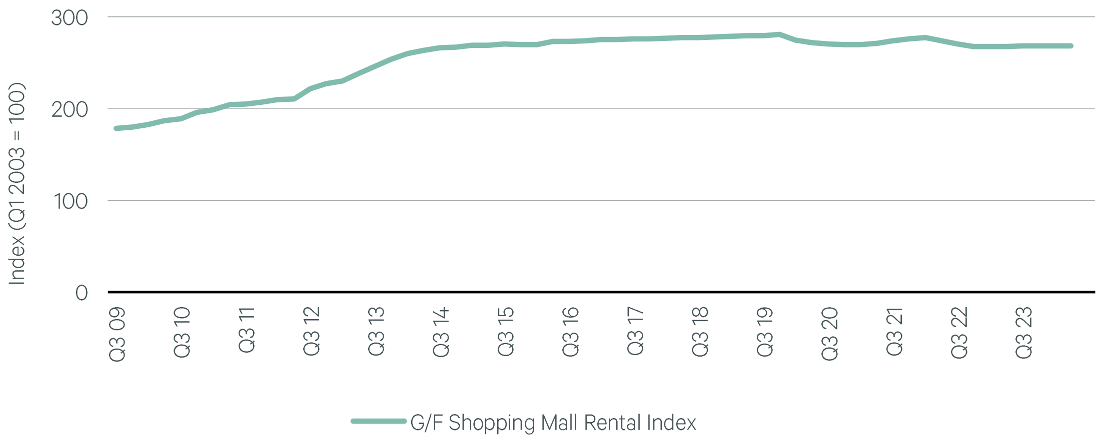
New supply for the next six months is forecasted to total 523,000 sq. m.. This pipeline includes PAC at Nanjing West Road and several high-quality projects in non-core submarkets such as North Bund, Suhewan, and Qiantan.

FIGURE 4: Selected Leasing Transactions in Q3 2024

Property	Submarket	Tenant	Sector
Reel	Nanjing Rd W	C. P. Company	Fashion
Reel	Nanjing Rd W	R13	Fashion
Xintiandi Style Ph1	Huaihai	EMIS	Accessories
K11	Huaihai	Banza	F&B
HKRI Taikoo Hui	Nanjing Rd W	Hun Juice	F&B
Super Brand Mall	Lujiazui	Colnago	Gifts, Toys & Grocery

Source: CBRE Research, Q3 2024

FIGURE 5: Shanghai Retail Rental Index



Source: CBRE Research, Q3 2024

Logistics

Net Absorption **92,331** sq. m.

Vacancy Rate **-0.5%** q-o-q

Rental Values **-2.6%** q-o-q

Demand picks up slightly

One new logistics project, Hilltop Songjiang Logistics Park, was completed in Q3 2024, providing 74,181 sq. m. of space for lease. This brought total market supply up to more than 1 million sq. m.. Leasing activity gained momentum from the previous quarter, with a significant reduction in consolidation and contraction activity. Rental adjustments helped push up net absorption to 92,331 sq. m. and pull down the vacancy rate by 0.5 pps to 26%.

3PLs remained the main driver of demand, accounting for 66% of overall leasing volume. The emphasis on timeliness continued to be a key factor behind tenants' selecting Shanghai as a base of operations. Within the 3PL segment, active industries included supply chain & contract logistics; express; freight forwarders; and cold chain. Major transactions included a leading cold chain operator expanding by 10,000 sq. m. in Qingpu, and a major express company renewing its lease on a 10,000 sq. m. unit in Fengxian. Elsewhere, a domestic freight forwarder committed to a short-term lease of 7,000 sq. m. in Fengxian.

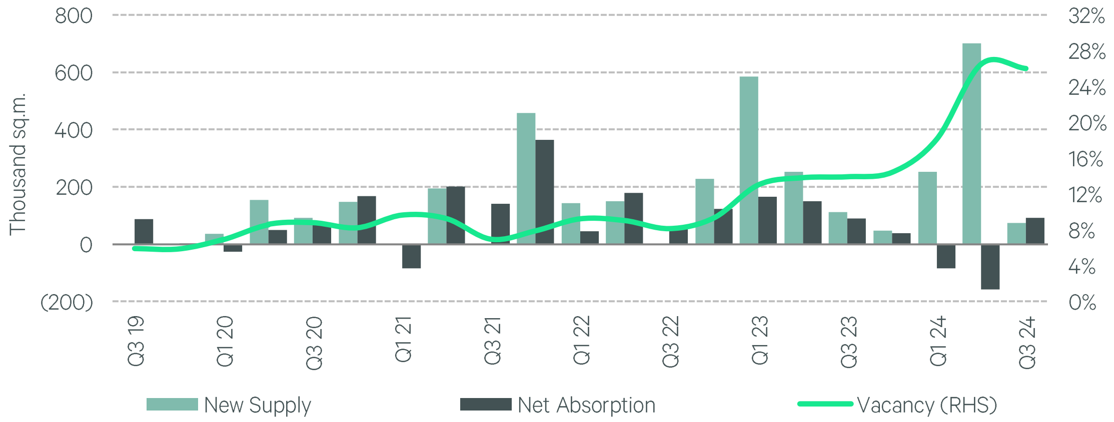
Manufacturing accounted for the second highest share of overall leasing volume. Highlights included a plastic particle company leasing 18,000 sq. m. in Baoshan. Companies in the sector were especially active in Jinshan, Songjiang, and Qingpu over the quarter, but core areas such as Minhang and Putuo saw lease terminations of 10,000 to 20,000 sq. m..

The addition of new supply dragged down rents by 2.6% q-o-q to RMB 46.2 per sq. m. per month.

Government policies boost consumer recovery

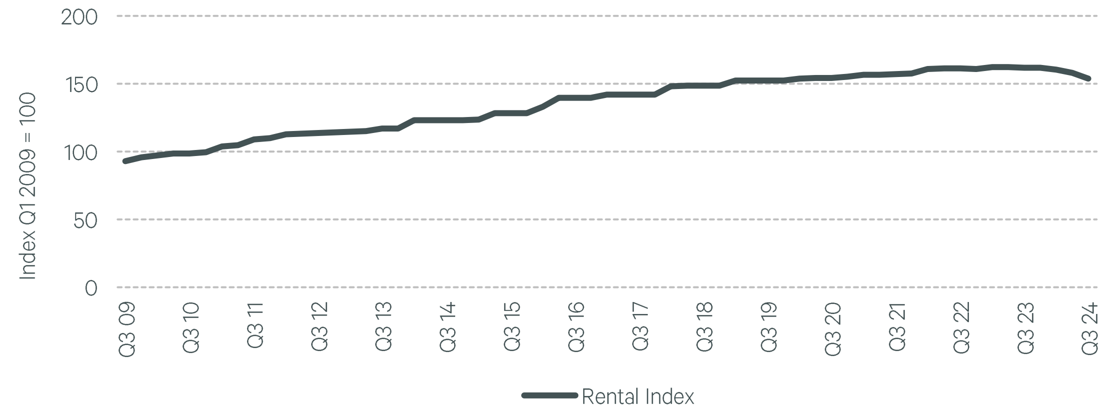
Over the next six months, Shanghai will witness the delivery of 747,274 sq. m. of high-quality warehousing space, distributed across submarkets such as Lingang, Fengxian, Putuo, and Qingpu. New stock will help industrial enterprises achieve multiregional coverage and promote industrial upgrading. At the end of September, the central government launched a series of policies to support consumption. These policies, together with investment by financial funds, are expected to promote the recovery of the consumer market; support an increase in product sales; and generate greater demand for logistics space.

FIGURE 6: Logistics Supply and Demand



Source: CBRE Research, Q3 2024.

FIGURE 7: Logistics Rental Index



Source: CBRE Research, Q3 2024.

Business Park

Net Absorption 42,646 sq. m.

Vacancy Rate +0.0% q-o-q

Rental Values -1.1% q-o-q

Lease terminations and consolidations impact absorption

Two new business park projects, Jinhuan·Jinyao in Jinqiao and Chuanglan Bay in Zhangjiang, providing a total of 61,913 sq. m. of new space came on stream in Q3 2024. While new supply for the first three quarters reached 592,000 sq. m., roughly unchanged on a y-o-y basis, the full-year total will fall to 850,000 sq. m. due to construction delays.

Net absorption for Q3 2024 was down by 42,646 sq. m, compared to the same period of last year, with the cumulative total reaching 166,000 sq. m, a 12% decline. The vacancy rate was 20.7%, unchanged from the previous quarter, but up 2.2 pps y-o-y. Demand was mainly driven by the TMT (33%), industrial manufacturing (25%), and life sciences (17%) sectors. By origin, local enterprises (63%), domestic companies (27%), and foreign firms (11%), comprised demand, with the bulk of activity concentrated in Zhangjiang, Caohejing, and Jinqiao.

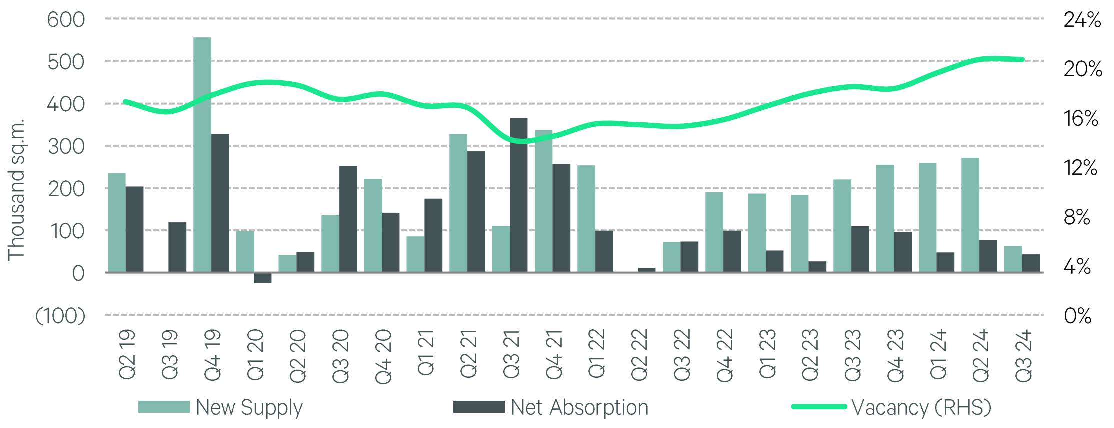
Submarket performance diverges substantially

Zhangjiang recorded net absorption of about 48,000 sq. m. this quarter, primarily due to brisk leasing activity in the Science Gateway project. The landlord of this property has implemented flexible rent-free policies, enabling it to attract several tenants from the tech industry. Also during the quarter, the T1-T5 projects in the central area launched Model Community, an ecosystem hub focused on large model applications. The scheme has lured related upstream and downstream enterprises and generated significant TMT demand.

Caohejing reported several lease terminations by companies in the consumer products manufacturing; TMT; and medical technology sectors, resulting in net absorption of -6,071 sq. m. Similarly, in Jinqiao, several major tenants vacated space due to relocation to self-owned buildings. This, combined with the completion of new supply, significantly increased the vacancy rate and intensified market competition, exerting downward pressure on rents.

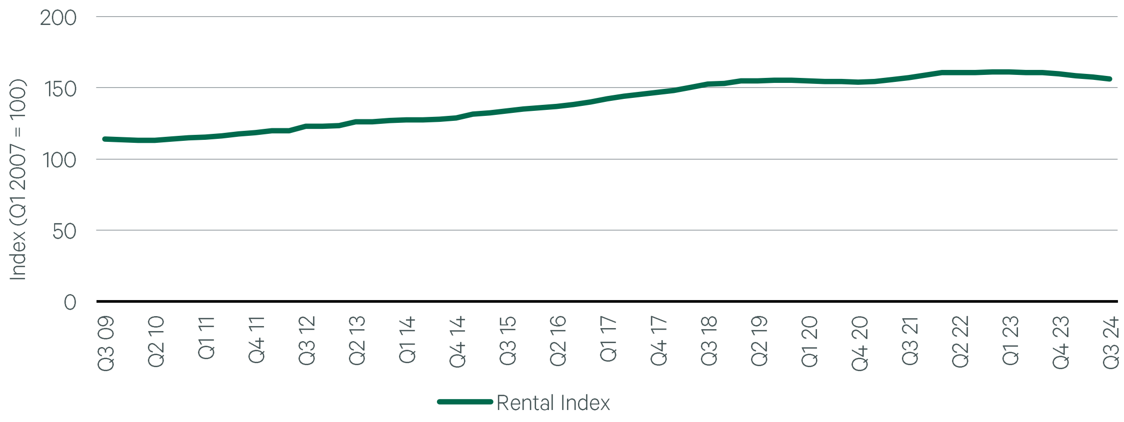
Over the next six months, the market will see approximately 650,000 sq. m. of new supply, primarily concentrated in Zhangjiang, Caohejing, Pujiang, and Lin Kong areas. This influx of new supply is expected to drive up the vacancy rate and exert downward pressure on rents.

FIGURE 8: Shanghai Business Park Supply and Demand



Source: CBRE Research, Q3 2024

FIGURE 9: Shanghai Business Park Rental Index



Source: CBRE Research, Q3 2024

Investment

Total Turnover
+81.5% q-o-q

Number of Transactions
36

Investment sentiment begins to improve

A total of 36 investment transactions worth a combined RMB 21.74 billion were completed in Q3 2024, marking a q-o-q increase of 81.5%. Transactions for investment purposes accounted for more than 90% of deals, indicating a pickup in investment sentiment.

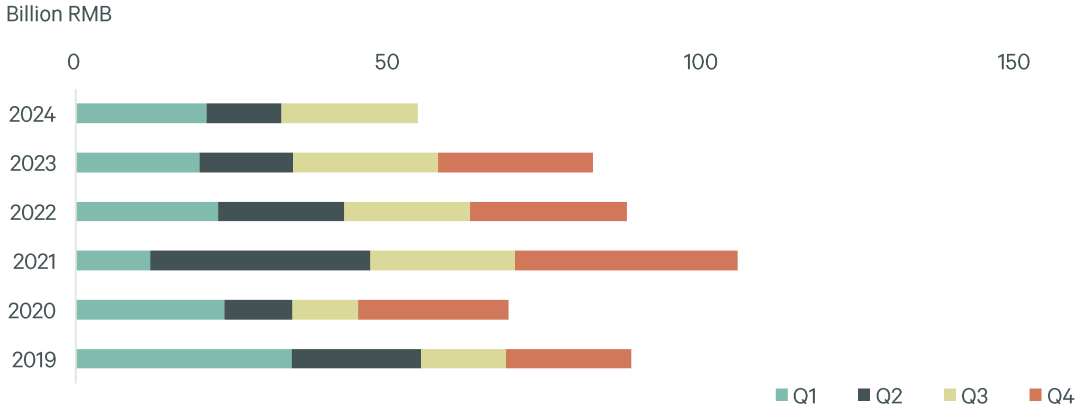
While office buildings remained the most traded asset type, the sector's proportion of investment volume dropped to 39%. Grade A offices remained keenly sought after, especially by end-users from consumer goods manufacturing industries such as automobiles and apparel; non-Shanghai based government platforms; and local religious associations. The retail and rental housing sectors were tied for second place, each accounting for 14% of investment volume. Community malls and shopping centres in non-core areas are the most popular retail assets at present, while in the rental housing sector, investors are targeting properties located near industrial clusters.

Buyer types gradually diversify

Corporate buyers were active in Q3 2024, accounting for more than half of investment volume. Private investors followed with 16%, with community malls and small-sized composite format properties remaining their preferred acquisitions. Property companies, represented by rental housing operators and institutional investors, turned more active, each accounting for 11%. Major deals by this cohort of buyers included a foreign sovereign wealth funds' acquisition of a 48% share in retail properties in Nanxiang and Songjiang from SCP Group. This transaction pushed up foreign buyers' proportion of overall investment volume to 37% in Q3 2024.

As asset prices return to a reasonable range, investment activity is expected to remain steady over the remainder of the year. Institutional investors will return to traditional asset types such as office and retail properties, while local enterprises and government platforms will target core assets.

FIGURE 10: Shanghai En-bloc Transaction Volume



Source: CBRE Research, Q3 2024

FIGURE 11: : Yield by Sector

	Core	Six-month Outlook	Decentralized	Six-month Outlook
Grade A Office	4.75-5.25%	▲	5.25-6.5%	▲
Retail	4.5-5.75%	◀▶	5-6.5%	▲
Logistics	5-6%	▲	--	--

Source: CBRE Research, Q3 2024

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