

# Leasing demand holds firm but continues to lag 2023 levels; investment demand strengthens for hotels and shopping malls

+5.0%

Shanghai GDP Growth  
(Jan to Mar 2024 | y-o-y)

-0.7%

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

+9.8%

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

Source: Shanghai Statistics Bureau, CBRE Research, July 2024

## Executive Summary

- **Office:** This quarter saw the completion of four new office buildings providing a combined 213,679 sq. m. of space. Leasing demand improved compared to the previous quarter but continued to lag the same period of last year. Finance was the top driver of leasing demand, followed by TMT and business services. Overall vacancy rose by 0.3 pps q-o-q to 21.1%.
- **Retail:** Xuhui Vanke Mall was the only new retail project completed this quarter. Net absorption stood at 70,382 sq. m., while citywide vacancy remained stable. F&B remained the primary source of leasing demand but the proportion of new leases in the retail category increased over the quarter.
- **Logistics:** One new project providing 700,000 sq. m. was added in Q2 2024. Demand mainly originated from 3PLs, with an increase in short-term leasing transactions reflecting stronger demand for cost control and flexible lease terms. Net absorption was -157,035 sq. m. while vacancy increased to 26.5%, largely driven by new supply and lease surrenders.
- **Business Park:** Four new business parks providing 270,888 sq. m. of space were released to the market in Q2 2024. Net absorption totalled 76,168 sq. m., leading to a rise in vacancy. Demand was led by consumer product manufacturing, industrial manufacturing, and TMT. Relocations remained prominent.
- **Investment:** A total of 24 investment transactions worth a combined RMB 11.98 billion were completed in Q2 2024. Offices retained their status as the most popular asset class, closely followed by hotels, with retail in third place. Enterprise buyers accounted for more than 60% of investment volume, with nearly half of transactions being for investment purposes.

Table 1: Quick Figures

Office	q-o-q	y-t-d	y-o-y
Rent	-1.4%	-2.1%	-3.4%
Vacancy Rate	+0.3%	+1.3%	+2.4%
Retail	q-o-q	y-t-d	y-o-y
Rent	-0.0%	-0.0%	+0.3%
Vacancy Rate	0.0%	-0.2%	+0.3%
Logistics	q-o-q	y-t-d	y-o-y
Rent	-1.3%	-2.3%	-2.4%
Vacancy Rate	+8.4%	+12.1%	+12.7%
Business Park	q-o-q	y-t-d	y-o-y
Rent	-0.5%	-1.3%	-1.9%
Vacancy Rate	+1.1%	+2.3%	+2.7%
Investment*	q-o-q	y-t-d	y-o-y
Total volume	-41.2%	-29.6%	-19.6%
Domestic	-31.1%	-16.0%	-16.4%

Source: CBRE Research, Q2 2024

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

Office

▲ Net Absorption  
119,349 sq. m.

▲ Vacancy Rate  
+0.3% q-o-q

▼ Rental Values  
-1.4% q-o-q

**Demand improves from previous quarter but downward rental trend continues**

Four new properties (CPIC Xintiandi Commercial Center T2, Expo Place T1, Origin Plaza and CCCC Riverside Plaza Tower A) providing a combined 213,679 sq. m. of new office space came on stream in Q2 2024.

Demand improved compared to the previous quarter but continued to lag 2023 levels. Net absorption reached 119,000 sq. m., marking an increase of 375.8% q-o-q but a decline of 33.9% y-o-y. Overall vacancy rose by 0.3 pps q-o-q to 21.1%.

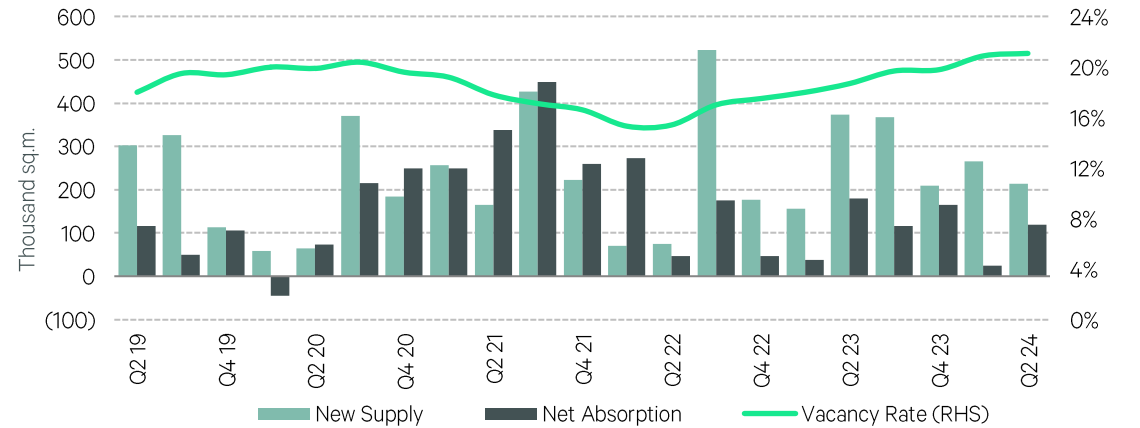
The finance sector (includes securities, other financial services and banks) was the leading source of demand this quarter, followed by TMT (includes internet services and e-commerce). Demand in the business services sector (law, consulting, and advertising) rebounded in Q2 2024, ensuring this was the third largest source of demand. Activity in the consumer products manufacturing sector was driven by automotive firms and their upstream and downstream businesses. Consumer services and education also displayed significant increases in leasing activity, led by education and arts training companies.

Overall asking rents fell by 1.4% q-o-q to RMB 8.6 per sq. m. per day, while effective rents fell by 2.7% q-o-q to RMB 6.3 per sq. m. per day.

**Large development pipeline to exacerbate supply-demand imbalance**

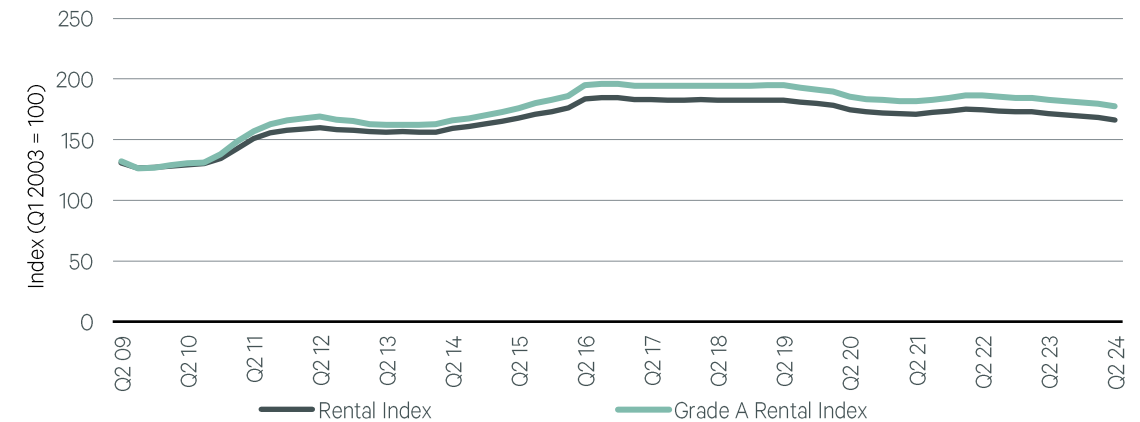
While leasing demand in Shanghai improved on a q-o-q basis in Q2 2024, performance in H1 2024 fell short of the same period of last year. Rents continued to follow a downward trend. New supply is forecasted to peak in the next six months, with around 780,000 sq. m. of high-quality office space due to come on stream. While this will increase tenant options and create cost-saving opportunities, it will exacerbate the overall supply-demand imbalance as the market gradually absorbs new supply.

FIGURE 2: Shanghai Office Supply and Demand



Source: CBRE Research, Q2 2024

FIGURE 3: Shanghai Office Rental Index



Source: CBRE Research, Q2 2024

## Retail

Net Absorption  
70,382 sq. m.

Vacancy Rate  
Flat q-o-q

Rental Values  
Flat q-o-q

### Steady supply-demand balance underpins rental stability

Xuhui Vanke Mall, providing a total GFA of 100,000 sq. m., was the only new retail project to come on stream in Q2 2024. Citywide vacancy remained stable q-o-q, while the launch of new supply pushed up net absorption to 70,382 sq. m. Rents in both prime and secondary areas remained flat. Citywide shopping mall G/F average rents maintained a stable trend at RMB 33.2 per sq. m. per day.

### Leasing demand gains momentum

F&B, led by Chinese restaurants, Asian cuisine, and coffee and tea beverage shops remained the single largest source of demand, accounting for 35% of leasing volume this quarter. Chinese restaurants were a key driver, with Yunnan hotpot venues opening multiple new stores this quarter. Café formats remained in expansion mode, with CP CAFE opening its first store in East China at CR Times Square. The new store features an innovative integration of coffee and puzzles.

The proportion of new leases signed by retailers increased over the quarter, with the category accounting for 23%. Active sub-categories in Q2 2024 included outdoor sports brands, trendy women's clothing brands as well as up-and-coming designer brands. During the quarter, WTAPS opened its first China store at Xintiandi, while Réel Mall saw brands including KKRIZIA, American Vintage and ANINE BING open their first stores in Shanghai. Lifestyle and accessory brands accounted for 11% and 9%, respectively, of leasing demand from retailers this quarter. Highlights included the opening of accessory brand Amywrong's first China store at Global Harbor.

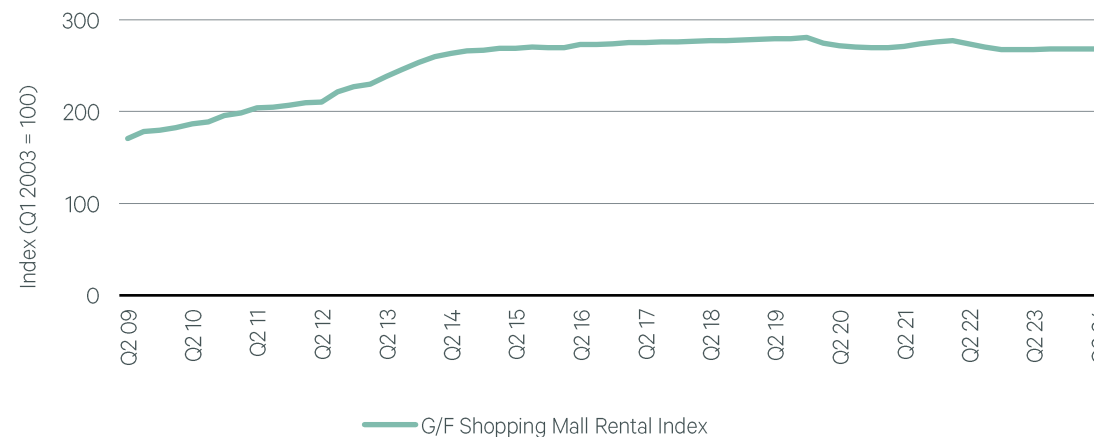
New supply for H2 2024 is forecasted to reach 800,000 sq. m., primarily in non-core districts such as Suhewan, North Bund, and Zhenru. Since the start of the year, the domestic holiday economy and the recovery of inbound tourism have underpinned consumption demand. Leasing demand is forecasted to remain stable over the remainder of the year, with retail brands and operators set to focus on creating more innovative and unique consumer experiences.

FIGURE 4: Selected Leasing Transactions in Q2 2024

Property	Submarket	Tenant	Sector
Xintiandi	Huaihai	WTAPS	Fashion
Reel	Nanjing Rd W	American Vintage	Fashion
Grand Gateway 66	Xujiahui	MARCO BICEGO	Accessories
MixC Mall	Qibao	Mayidong	F&B
Jing'an Kerry Centre	Nanjing Rd W	nodi	F&B
Global Harbor	Changfeng	Amywrong	Gifts, Toys & Grocery

Source: CBRE Research, Q2 2024

FIGURE 5: Shanghai Retail Rental Index



Source: CBRE Research, Q2 2024

## Logistics

Net Absorption  
-157,035 sq. m.

Vacancy Rate  
+8.4% q-o-q

Rental Values  
-1.3% q-o-q

### Growing demand for short-term leases

One new logistics project, DNE Jinshan Galaxy No. 1-A, was completed in Q2 2024, providing a total GFA of 700,000 sq. m. for lease.

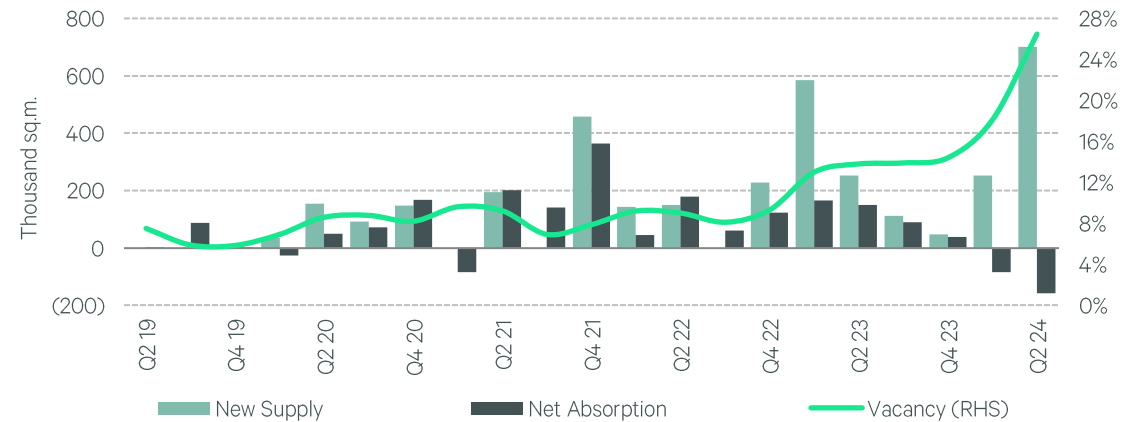
3PLs dominated leasing demand this quarter. Tenants exhibited a strong preference for cost control and flexible lease terms, as reflected by a rise in short-term leasing transactions. Major transactions included a chemical company expanding by 8,000 sq. m. in Jinshan and one 3PL committing to a short-term lease of 5,000 sq. m.. Other highlights this quarter included several relocations to Baoshan by 3PLs, spurred by the demolition of a logistics park in Northwest. Net absorption registered -157,035 sq. m. in Q2 2024, pushing up the vacancy rate to 26.5%. Higher vacancy was driven by a combination of factors, including new supply and lease surrenders, and consolidation across various industries such as food, home furnishing and express deliveries. A decline in imports and exports as well as relocations by NEV-related companies also contributed to the rise in vacancy.

### Rents hold firm in mature markets

Rents in areas with limited supply, such as Minhang, PVG and Northwest, remained stable this quarter. Fengxian, Songjiang and Jiading, where short-term lease surrenders have been concentrated, saw rents fluctuate during the period. Overall rents fell by 1.3% q-o-q to RMB 47.4 per sq. m. per month.

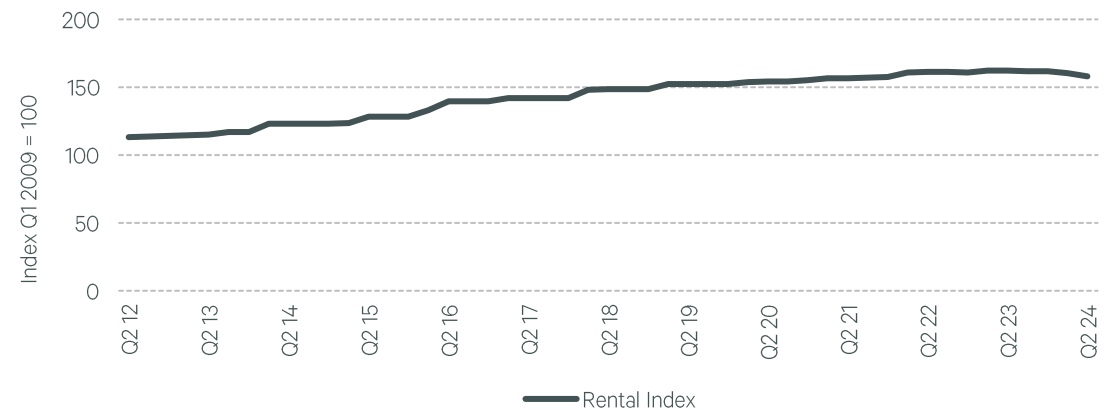
Approximately 670,455 sq. m. of new logistics space is due to come on stream over the next six months, with a focus on areas such as Songjiang, Lingang and Jiading. Abundant supply will provide a wide range of options for companies' industrial upgrading and site selection. Strong demand is expected to be seen from the biopharmaceutical field, with technological innovation and industrial development through optimisation of policy and industrial chain set to attract domestic and foreign medical device enterprises. At the same time, the accelerated recovery of Shanghai's air transport throughput will provide more efficient shipping services for global enterprises. Logistics leasing demand will therefore continue to grow in the long term, providing strong support for related industries.

FIGURE 6: Logistics Supply and Demand



Source: CBRE Research, Q2 2024.

FIGURE 7: Logistics Rental Index



Source: CBRE Research, Q2 2024.

## Business Park

**Net Absorption**  
76,168 sq. m.

**Vacancy Rate**  
+1.1% q-o-q

**Rental Values**  
-0.5% q-o-q

### Relocations continue to drive demand

Four new business park projects providing 270,888 sq. m. were completed in Q2 2024. These included Shanghai Science Investment Tower and Gate of Science T1-T5 in Zhangjiang; the 1851 project in Jinqiao; and Livat Office Project in Linkong. Demand strengthened over the quarter, with net absorption logging 76,168 sq. m. Overall vacancy was 20.7%, representing increases of 1.1-pps. q-o-q and 2.7-pps. y-o-y.

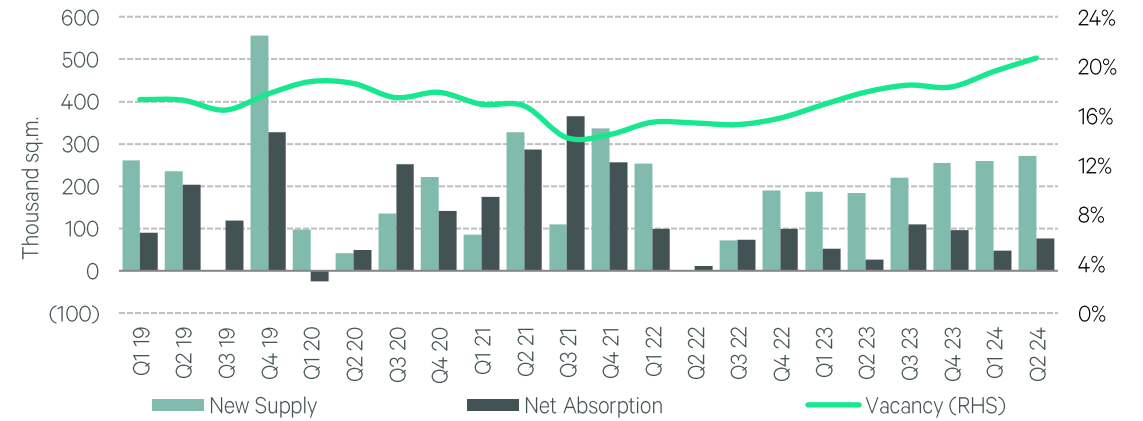
Relocations continued to dominate. By industry, demand was led by consumer product manufacturing, which accounted for 38% of leasing volume. This was mainly due to large-scale leasing deals by automotive and consumer-goods enterprises. Solid equity investment drove activity by the semiconductor industry, with Q2 2024 witnessing relocations by companies in this sector in Zhangjiang and Jinqiao. This helped the industrial manufacturing industry rank second, with a 35% share of investment volume. TMT comprised 20% of investment volume, backed by emerging enterprises in AI and software system development displaying steady expansion, upgrading, and relocation demand.

### Surge in supply intensifies downward pressure on rents

Zhangjiang attracted upgrading and relocation demand this quarter, with chip design companies especially prominent. The addition of new supply in Q2 2024 intensified competition among landlords to attract tenants, forcing projects to increase rent-free periods and resulting in a significant decline in effective rents. Jinqiao continues to cater to firms in the automotive and intelligent manufacturing sectors, while Caohejing is deepening its exposure to the TMT industry by attracting related AI, software development and gaming companies. Overall rents averaged RMB 138.3 per sq. m. per month, representing declines of 0.5% q-o-q and 1.9% y-o-y.

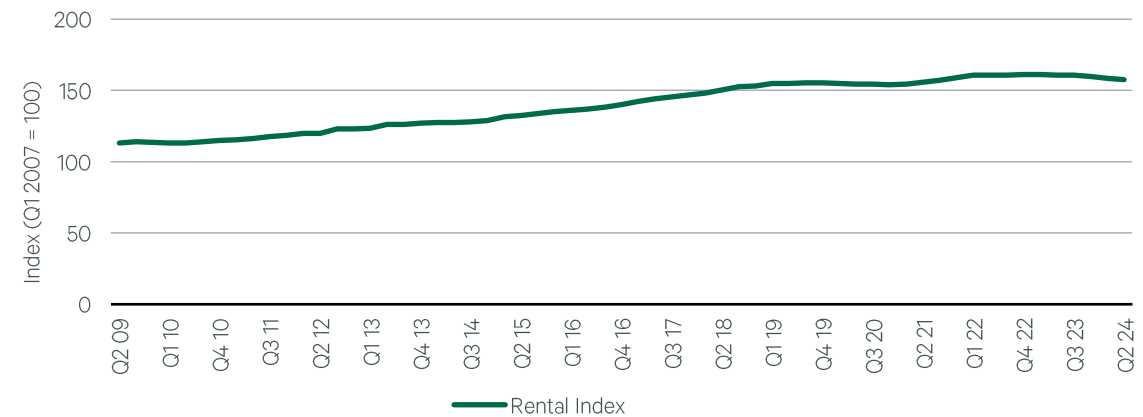
About 980,000 sq. m. of new business park space is expected to enter the market in the next six months, primarily in Zhangjiang, Caohejing, Pujiang, Qingpu, Waigaoqiao and Nanda, bringing annual supply to a new high of 1.5 million. The addition of large-scale supply accompanied by a lack of new demand will heighten competition to attract and retain tenants and continue to weigh on rents.

FIGURE 8: Shanghai Business Park Supply and Demand



Source: CBRE Research, Q2 2024


FIGURE 9: Shanghai Business Park Rental Index



Source: CBRE Research, Q2 2024

## Investment

 Total Turnover  
-41.2% q-o-q

 Number of Transactions  
24

### Stronger interest in hotel and retail properties

A total of 24 investment transactions worth a combined RMB 11.98 billion were completed in Q2 2024, a decrease of 41.2% q-o-q. This brought the half-yearly total to RMB 32.33 billion, a decline of 6.6% y-o-y. Market sentiment continued to recover slowly, with asset prices approaching the bottom. Investors demonstrated a strong preference for core assets, with around 12% of transactions located in core CBD areas such as Lujiazui and West Nanjing Road.

50% of total transactions involved office buildings. The recent adjustment of regulations regarding share purchases of industrial land-titled properties, dented interest in business parks this quarter. Strata-title office deals remained popular, driven by a trend for corporations to acquire whole floors of commercial office buildings for investment purposes. Buyers' enthusiasm for hotel properties continued to rise, with this sector accounting for 21% of transactions.

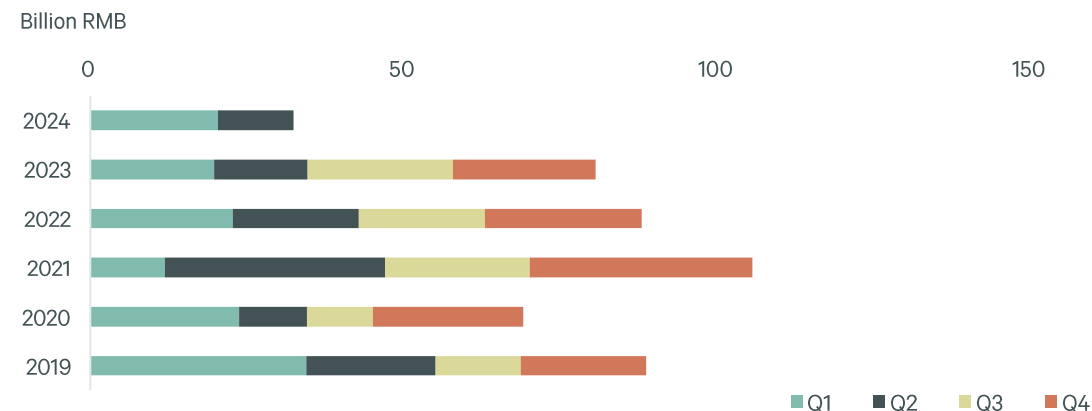
In addition to property companies, private investors and corporations were among the buyers of hotels or serviced apartments this quarter. In the retail sector, purchasing street shops or shopping centres via foreclosure has become the preferred route for enterprise buyers.

### Corporations show healthy appetite for acquisitions

Enterprise buyers accounted for more than 60% of transactions this quarter. Of these, nearly half of transactions were for investment purposes. In contrast, traditional investors such as property companies, institutional investors, and real estate funds adopted a more cautious attitude, accounting for a combined 25% of transactions. These buyers' preferred assets include rental housing, hotels and retail properties.

The transition in Shanghai's economic growth drivers is driving stronger interest in asset types such as hotels and retail properties, with demand for office properties also witnessing a gradual resurgence. Although activity by traditional investors has slowed, CBRE expects to see institutional investors complete several major transactions in H2 2024.

FIGURE 10: Shanghai En-bloc Transaction Volume



Source: CBRE Research, Q2 2024

FIGURE 11: Yield by Sector

	Core	Six-month Outlook	Decentralized	Six-month Outlook
Grade A Office	4.5-5.05%	◀▶	5.25-6.5%	▲
Retail	4.5-5.5%	◀▶	5-6.5%	◀▶
Logistics	4.75-5.75%	▲	--	--

Source: CBRE Research, Q2 2024

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