

LEASING SENTIMENT STABILISES

Shanghai Business Park Market Update Q4 2018

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Summary & Recommendations

In H2 2018, due to a subdued economy, new set-up and expansion activities slowed, leading to softened demand. As a result, in Q4 landlords were more inclined to provide favorable rent to attract potential clients, thus pushing down the average rent of by 0.2 pps QOQ.

The outlook is positive for 2019 and beyond as the Central Government has issued multiple stimulus packages to stabilize economic growth. The boom of manufacturing and technology R&D in next three to five years should support a robust demand for Shanghai business parks.

We recommend tenants negotiate new leases with more favorable terms, as landlords may give out incentives to retain quality tenants and attract potential clients.

	Q4 2018	Full Year 2019	2019-23 Annual Average
 Demand <p>> To counter a possible slowdown, the government announced multiple incentives to stimulate investment and boost confidence, which should improve leasing sentiment.</p>	43,522 sq m	515,000 sq m	488,000 sq m
 Supply <p>> New supply should surge to 778,000 sq m (8.37 million sq ft) over 2019, expanding the total stock by 8.1%. Supply should peak in 2020, then decline over 2021-2023.</p>	30,000 sq m	778,000 sq m	489,000 sq m
	QOQ / End Q4	YOY / End 2019	Annual Average Growth 2019-23 / End 2023
 Rent <p>> The stable demand coupled with adequate high quality new supply should push up the average rent moderately.</p>	-0.3% RMB4.26	+1.6% RMB4.33	2.0% RMB4.69
 Vacancy <p>> The overall vacancy rate would climb to 17.8% by the end of 2019, peak in 2020 due to the influx of new supply, then see sequential improvements, reaching 15.5% by the end of 2023.</p>	-0.2pps 16.5%	+1.3pps 17.8%	-0.6pps 15.5%

Source: Colliers International

Note: USD1 to RMB6.86 as of end-2018. 1 sq m = 10.76 sq ft

VACANCY EDGED DOWN

New supply further declined

Only one new project, Sandhill Central, was completed in Q4 2018. The property is located in Zhangjiang submarket with an office area of 30,000 sq m (322,920 sq ft).

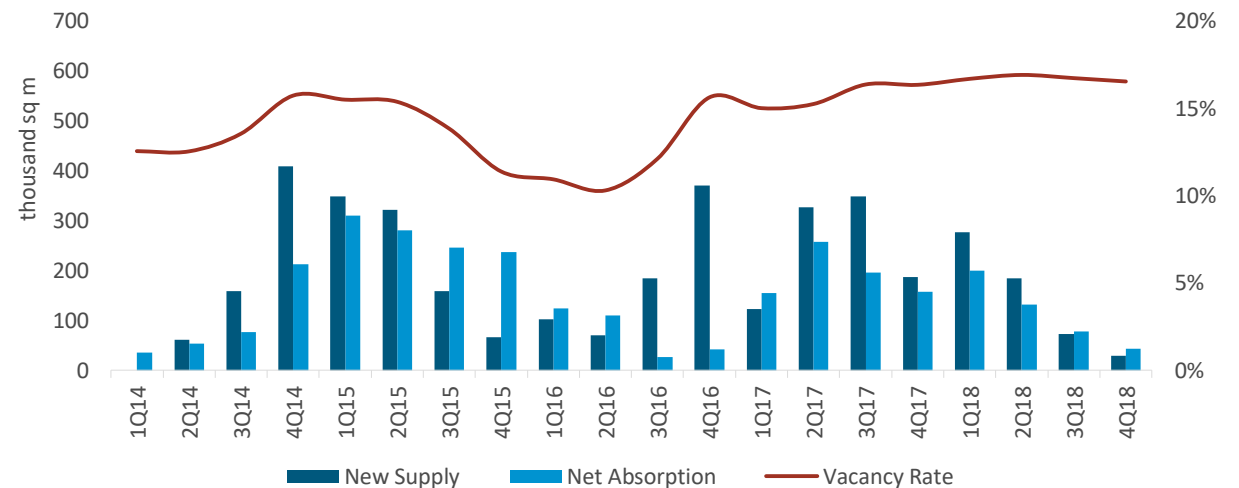
Vacancy edged down amidst limited supply

The leasing market was quiet during Q4 2018, as reflected in a contraction of net absorption of 43,522 sq m (468,297 sq ft), which was less than half the average level from the past four quarters. This was primarily an affect of weakened confidence on the slowing economy, leading to delays in expansions and relocation plans.

Rent declined marginally

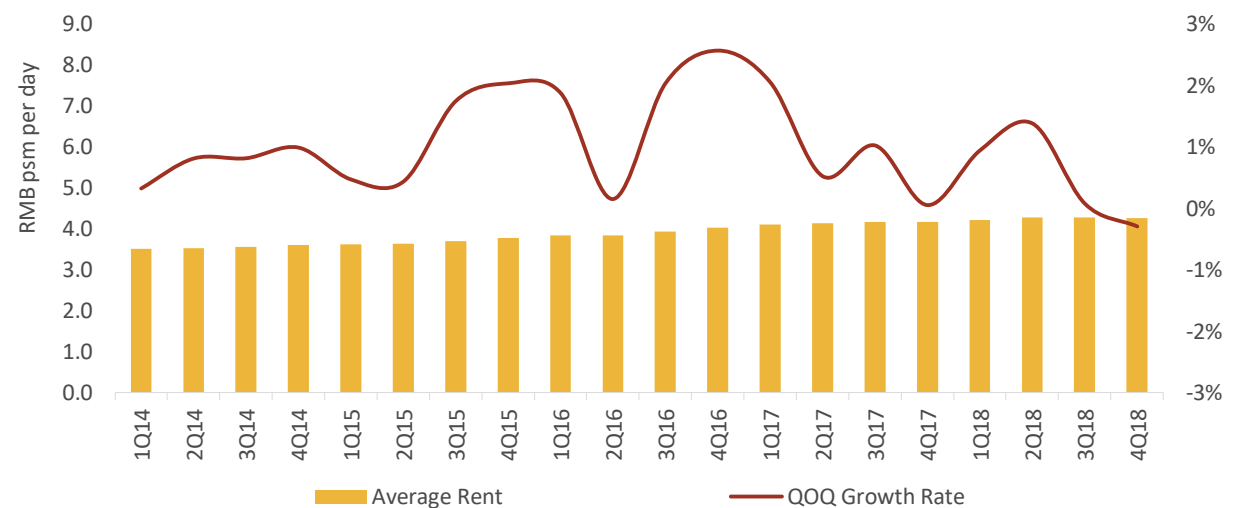
The slowdown of leasing sentiment has lowered landlords' expectations on rents, and some landlords have started to provide attractive terms and rents to increase occupancy rate. Therefore, the average rent of Shanghai's business parks edged down 0.3 pps QOQ to RMB4.26 (USD0.40) psm per day in Q4 2018.

Figure 1: Shanghai business park quarterly new supply, net absorption and vacancy rate



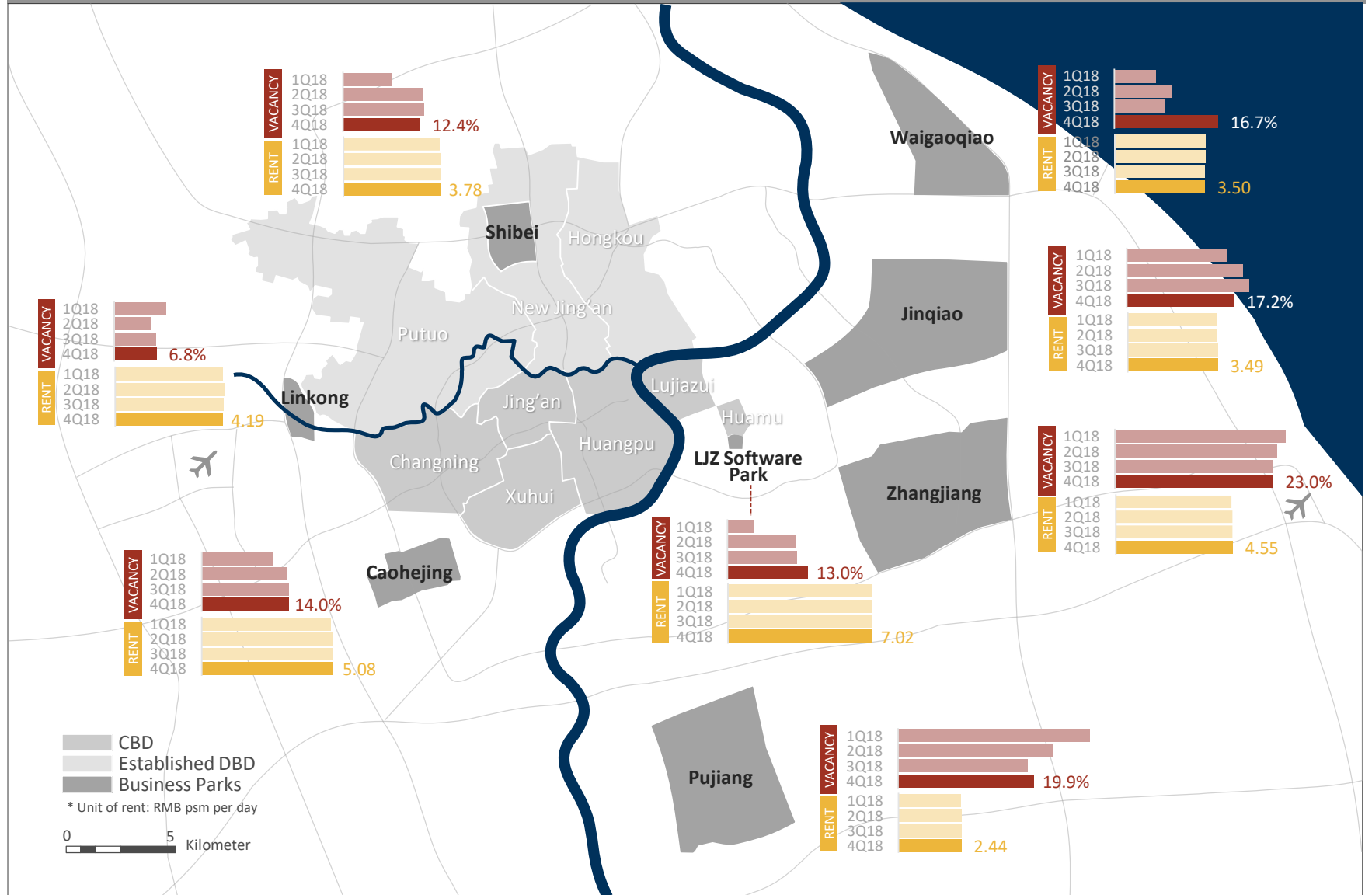
Source: Colliers International

Figure 2: Shanghai business park average rent and QOQ change



Source: Colliers International

Figure 3: Shanghai business park vacancy rate and average rent by submarket



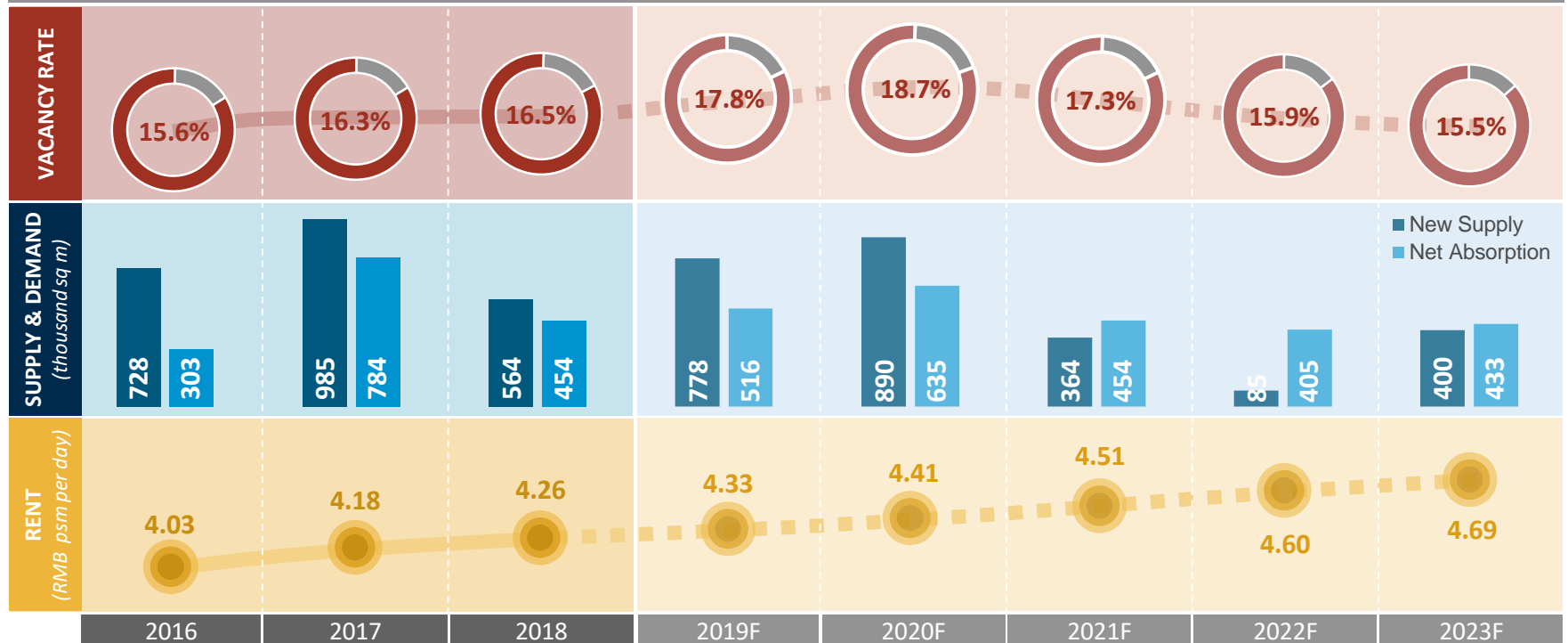
Source: Colliers International

INCENTIVE POLICIES TO SUPPORT DEMAND

Recently, the Central Government issued multiple stimulus packages which include corporate tax cuts, reduction of reserve requirements, and policies and measures to support the private sector to enhance liquidity and boost domestic investment. Backed by government support and higher confidence, the leasing sentiment of business parks should respond positively, relieving landlords' leasing pressure amidst the influx of new supply in 2019-2020.

Looking ahead, the heavy new supply through 2019-2020 is likely to weigh on the leasing market. Since nearly 70% of the new supply is planned in mature submarkets such as Zhangjiang, Jinqiao and Shibe, where demand was historically strong, Colliers expects vacancy to raise moderately to 17.8% by the end of 2019. Supported by increasingly improved accessibility and higher-than-average rent from new completions, the rent of business parks should grow at a pace of about 1.5-2.5% over 2019-2023.

Figure 4: Shanghai business park market trends (2016-2023F)



Source: Colliers International

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