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SOFTENING RENTS TO BENEFIT OCCUPIERS

Shanghai Grade A Office Market Update Q4 2018

Summary & Recommendations

Shanghai's office market (CBD and DBD) should see softer demand from subdued economic growth; 2.68 million sq m of new supply is planned in 2019. We foresee that:

- > The vacancy rate will leap in 2019 and hover around the same level in 2020, but should then decline during 2021-2023 to 19.8%. Rent will likely drop by 4.4% YOY during 2019 and stabilise in 2020, before rising steadily over 2021-2023.
- > Landlords' competition for tenants should increase in 2019, driving tenants' relocations. New projects with high quality, decent accessibility and lower rents should remain competitive in the market.
- > Tenants should take this opportunity and negotiate new leases with landlords in the upcoming quarters as the high volume of supply is released.



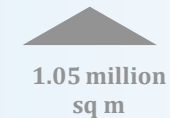
Demand

- > Colliers predicts that net absorption will slow due to a subdued economy in 2019 comparing to 2018 and 2017, it should then stabilise from 2020 to 2023.

Q4 2018



Full Year 2019



2018-23
Annual Average



Supply

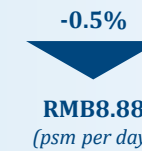
- > 7.37 million sq m (79.3 million sq feet) GFA of new supply is scheduled to be completed over 2019-2023. Colliers expects over one-third of the supply to come in 2019.



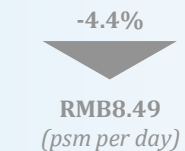
Rent

- > Rents will probably drop in 2019 and flatten in 2020, before rising gradually over 2021-2023 as demand stabilises.

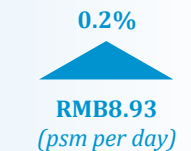
End Q4/QOQ



End 2019/YOY

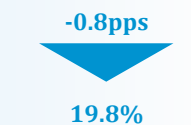
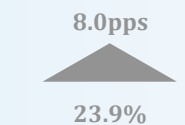
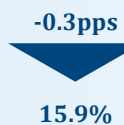


End 2023/
Annual Average
Growth 2018-23



Vacancy

- > Vacancy should leap to 23.9% by end-2019 due to a supply influx and softened demand and hover around the same level in 2020. It should then show a steady decline to 19.8% at end-2023.



Source: Colliers International
Note: USD1 to RMB6.86 as of end-2018. 1 sq metre = 10.76 sq feet

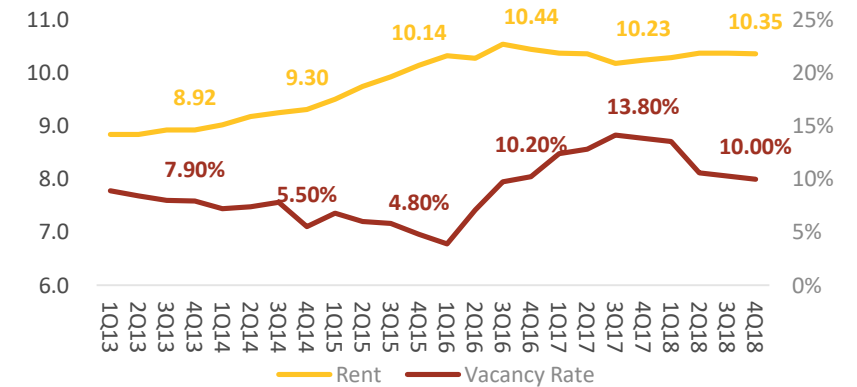
CBD: RENTAL PRESSURE TO BENEFIT OCCUPIERS

Q4 2018



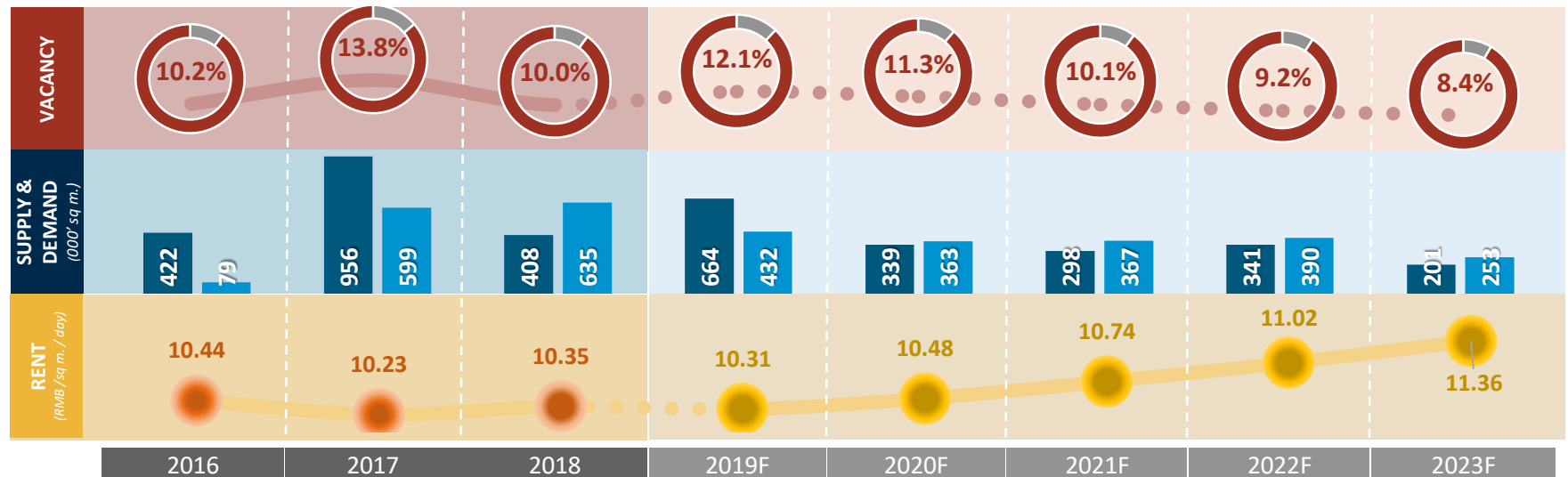
During Q4 2018, only one new completion, Ruiming Tower in Lujiazui, entered Shanghai's CBD, while China's subdued economy softened demand for prime office space. With the influx of supply in 2019, we foresee the CBD vacancy rate rising in 2019, although it dropped to 10.0% at the end of 2018. Rising competition among landlords should keep rents under pressure and drive tenants to relocate. Tenants may take this opportunity to negotiate new leases. We foresee that stabilising demand and limited supply should permit rents to increase again over 2020-2023.

Figure 1: Shanghai CBD office vacancy rate and rents (2013-2018) (RMB psm per day)



Source: Colliers International

Figure 2: Shanghai CBD office market outlook



Source: Colliers International Research

DBD: NEW SUPPLY TO LIFT VACANCY

Q4 2018



179,000
sq m

Supply



81,000
sq m

Demand



4.94 million
sq m

Stock



RMB6.66
psm per day

Rent



-0.5%

Rental Growth



24.8%

Vacancy

Emerging clusters in the decentralised business districts (DBD) had 16 new completions in 2018, of which five came in Q4. The influx of supply should continue and peak in 2019 at over 2 million sq metres (21.5 million sq feet). Landlords may be forced to offer favourable terms to attract tenants. We foresee rents dropping 4% in 2019 amidst competition after the 0.5% qoq decline in Q4.

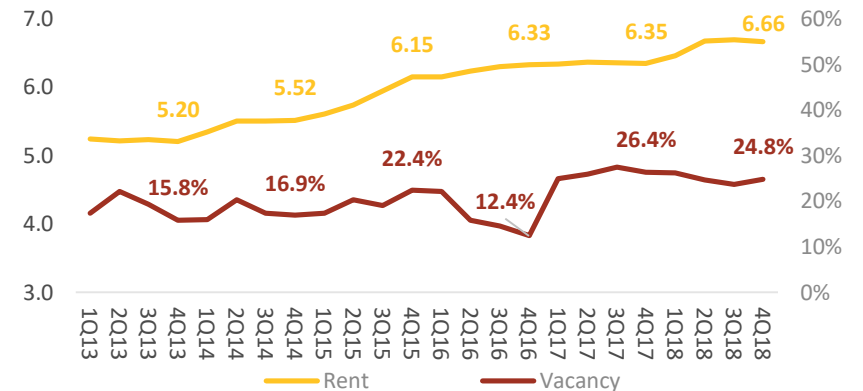
Table 1: Select Shanghai office new supply in 2018 Q4 (CBD & DBD)

CBD/DBD	Project	District	Size (sq m)	Size (sq ft)
CBD	Ruiming Tower	Pudong	35,000	377,000
DBD	Crystal Plaza T1	Pudong	26,000	283,000
DBD	Crystal Plaza T2	Pudong	26,000	283,000
DBD	New Bund WTCT3	Pudong	55,000	592,000
DBD	Xinzhuang Centre	Minhang	29,000	312,000
DBD	EBA Center	Yangpu	42,000	452,000

INVESTMENT: FOREIGN INVESTORS DOMINATED Q4

Deleveraging policies in China made it harder for domestic buyers to secure adequate funding, opening the door to foreign investors. Based on Colliers figures, 23 transactions were recorded in Q4 2018, totaling RMB1.28 billion (USD8.78 billion). Foreign investors bought 9 of 23 transactions, accounting for 68% of the total transaction value. By asset type, offices and business parks remained the top pick for investors, accounting for 19 deals or RMB1.18 billion (USD8.08 billion), 92% of the total.

Figure 3: Shanghai DBD office vacancy rate and rents (2013-2018) (RMB psm per day)



Source: Colliers International

Table 2: Major Shanghai office investment transactions in Q4 2018

Project	Seller	Buyer	Unit Price (RMB/sq m)	GFA (sq m)	Transaction Amount (million RMB)
Star Harbor International Center	SIPG	Capitaland	64,356	303,000	19,500
Mapletree Business City	Mapletree	Blackstone	31,500	264,145	8,321
The Mixc(Office)	CR Capital	Gaw Capital	46,000	60,807	2,797
Lufa Plaza	Zhonglu	Jingrui	62,123	56,340	3,500
Ocean Towers	ARA	Gaw Capital	58,000	50,448	2,926
Orient Chunyi Building	IDG	A foreign investor	65,000	43,095	2,801
Pufa Mansion	HNA	Capitaland	67,465	40,021	2,700
Shanghai Fuyuan Landmark Plaza	China Enterprise/Sunac	China Continent Insurance	87,243	35,361	3,085
LCM Office S4	CIFI	GLP	56,000	26,317	1,474

Source: Colliers International

SUBMARKETS: JING'AN AND CHANGNING OUTPERFORM OTHERS

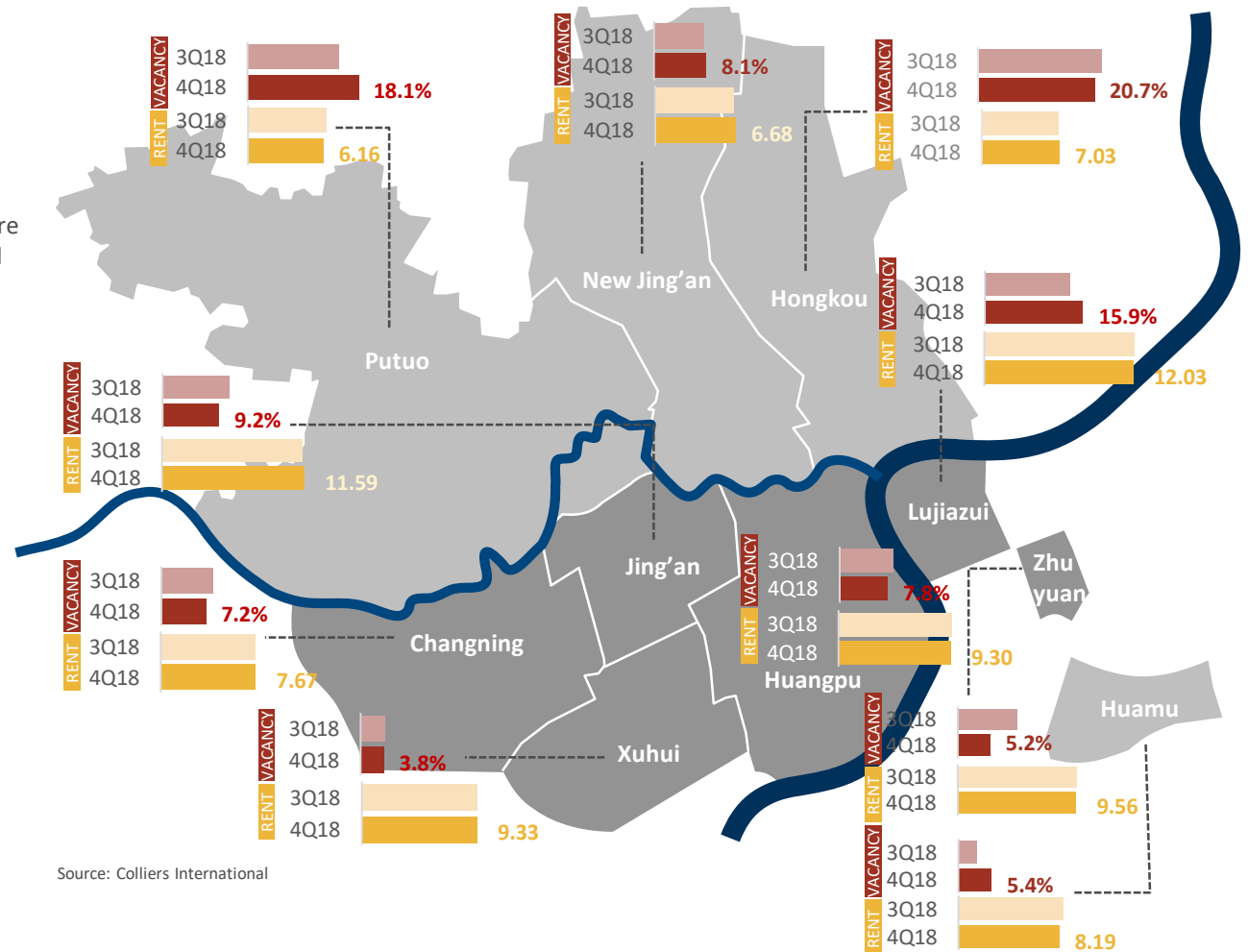
Pudong CBD rents continued declining, mainly due to extended deleveraging measures, whereas increased demand for new leases or relocations were spotted in new projects in Puxi CBD, especially Changing and Jing'an.

Large relocation transactions were seen during Q4, driven by new buildings with high quality and lower rents. We foresee this trend will continue throughout 2019. Growing sectors, especially electric cars are expanding in prime offices, including local brands Nio and Byton.

Table 2: Major leasing transactions in Q4 2018

Property	Tenant	Area (Sqm)
LCM S2	Ping'an	30,000
China Life Tower	China Development Bank	25,000
Innovation Mix	Envision	25,000
Dream Center T1	Blizzard	11,000
Century Link T2	Fullgoal Fund	11,000
Jin Mao Tower	ManuLife	7,700
New Bund WTC Phase 1	DuPont	7,000
Crystal Plaza	NIO Finance	2,500
Raffles City Changning T1	Byton	2,300

Figure 4: Quarterly performance of submarkets in Shanghai CBD and established DBD office market (2018 Q3 – 2018 Q4) (RMB psm per day)



Source: Colliers International

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