Economy and Demand

Economic activity is the key factor determining demand for office space, and in an international metropolis like Shanghai, both the national and global economies exert strong influence on the local business situation. Forecasting the outlook for Shanghai’s office space demand, therefore, is basically a question of economic health on the global, national and local scales.

Since even recognized economists vary greatly in their projections on China’s development for the coming five years, we are not going to play the clairvoyant here. Instead, we would just like to offer a perspective on the local economy and relevant observations on aspects influencing the market. Limited perspectives, after all, can sometimes reveal insights about things beyond their geographic and temporal horizons.

Shanghai in Early 2016

GDP

Growth in the city’s economy for the first three quarters of 2015 was calculated as 6.8%, a bit slower than 2014, but the services sector expanded by a healthy 11%. Shanghai ranks #1 in terms of GDP among all cities in China, and its GDP has been rising for many years.

Foreign Investment

Contracted foreign investment in Shanghai reached a new record of US$ 58 billion in 2015, according to city government. The same news report also noted that in 2015 foreign companies set up 45 new regional headquarters in Shanghai, as well as 15 R&D centers and 15 investment companies. 535 foreign corporations now have regional headquarters in Shanghai. Belgium’s NXP Semiconductors, chemicals provider Ashland of the US and Henkel of Germany were among firms that designated new regional headquarters as Asia-Pacific headquarters in 2015.

Commercial Property Market

Current office occupancy and rental rates point to unequivocally strong demand from businesses in the city. In the Lujiazui financial
district, occupancies are in the high 90s. In Puxi, they hover around 90% in the traditional CBDs. (See the Market Notes at the end of this newsletter for a detailed chart.)

Office rents are at all-time highs in Lujiazui and still increasing. In Puxi, rents are at their highest since the financial crisis, their rate of increase mostly slow or moderate depending on district.

Demand in the retail sector is also looking healthy. According to the city statistics bureau, retail consumption in the first three months of 2015 increased 8% over the same period in 2014. Vacancy rates across the entire city average at roughly 10%. It has to be noted though that all brick-and-mortar retailers are affected by the increasing amount of online shopping taking place, and that luxury suffered considerably during 2015, a fact that most people regard as an effect of president Xi’s anticorruption campaign.

New construction is also an important economic indicator, as it reflects confidence in the future, indicates whether there will be room for growth, and also contributes to the economy itself. As we explained in recent issues, there is an enormous amount of new commercial construction going on in the city. Total available office space in Puxi will roughly double over the next five years, while in Pudong space will increase by nearly a half.

**Innovation**

The Shanghai economy is benefitting from a wave of technology and business innovation in China that is being discussed intensively in the national media. The emergence of P2P platforms including Weixin, as well as crowdsourced financing, are among the facilitators of this trend. The city has a booming start-up scene in which both young foreigners and Chinese are taking part.

**Disposable Income**

Shanghai has the highest average disposable income of all cities in China, and in 2015 it reached CNY 45,900 or USD 6,900 per person per year according to a recent China Academy of Sciences report.

**Expanding Metro**

During the 2010 World Expo, our city’s subway system had a total length of 420 kilometres and was already being touted as the longest in the world. According to some lists the title has since been stolen by the Seoul Metro, but it is nevertheless impressive how the Shanghai Metro continues its rapid expansion. By 2020, its total length will reach nearly 800 kilometres. The map below shows the new tracks being laid during the 2015 - 2020 period.

So what does this snapshot of our city’s economy tell us about the five-year economic forecast and future demand for office space in Shanghai?

Nothing definite. But among these facts we can discern something that may at least help inform our judgment, and it’s something that economist seem to often overlook when cooking up their predictions. We are talking about the extent to which people take the initiative to create and seize economic opportunities, fix problems and generally improve their lives. To use a philosophical term, ‘human agency’ seems to be flourishing here in Shanghai, and it is safe to say by extent that it is also flourishing in much of China. In our opinion, this needs to be taken into account when considering the current slowdown in economic growth or the possibility of a more serious economic crisis. It is one of the many factors to consider, and an important one that is too often overlooked.
**Property Snapshots**

**Gubei Fortune Center**
This development was completed in 2008 and comprises an office tower and adjacent 7-story Shanghai Takashimaya department store. Many offices in the nearly full tower offer fine views of New Hongqiao Central Park. Tenants include Newell Rubbermaid and Hanjin Tire.

- Building quality: Grade A
- Address: 1452 Hongqiao Road
- Ceiling height: 2.8 meters
- Recommended Floor/Area: 1,627 sqm
- Rental/sq.m/day: RMB 9.5
- Total Floors: 15F
- Metro: 10 min walk to line 10, Heshan Road Station
- Location: Changning
- Availability: Limited space available

**Shui On Plaza**
Completed in 1996, Shui On Plaza is still one of the most sought after properties in the Huaihai Middle Road CBD, even if newer rivals have now stolen some of its original lustre.

- Building quality: Grade A
- Address: 333 Huaihai Middle Road
- Ceiling height: 2.6 meters
- Recommended Floor/Area: 2,574 sqm
- Rental/sq.m/day: RMB 11
- Total Floors: 26F
- Metro: Direct access to line 1 at Huangpi Road Station; 10 min walk to lines 10, 13 at Xintiandi Station
- Location: Huangpu
- Availability: Limited space available

**Aurora Plaza**
One of the towers on the Huangpu River bank in Lujiazui that is clearly visible from the Bund, Aurora Plaza was built by Taiwanese provider of office furniture, equipment and supplies Aurora Group. Notable features of the building, which was completed in 2003, include classical European style interior decoration in its public spaces, and the Aurora Museum that houses a collection of ancient Chinese works of jade and artworks. Website: auroraplaza.com.cn/

- Building quality: Grade A
- Address: 99 Fucheng Road
- Ceiling height: 2.7 meters
- Recommended Floor/Area: 2,531 sqm
- Rental/sq.m/day: RMB 14
- Total Floors: 37F
- Metro: 6 min walk to line 2, Lujiazui Station
- Location: Pudong
- Availability: Limited space available

Contact NAI Sofia Group Shanghai at 021-6230 1919 for further information on the three office building properties listed above, or for information on any other commercial property in the city.
Events – High Art, Photos and Performances

The Chicago Symphony Orchestra under Riccardo Muti visits the Shanghai Oriental Arts Center on January 22nd to perform music by Prokofiev, Hindemith and Tchaikovsky, returning the following night to play Beethoven’s 5th and Mahler’s Symphony No. 1. Visit http://en.shoac.com.cn for details or book tickets by calling 4006-466-406.

An exhibit of great photos from the National Geographic magazine archives are on display in the 439-meter-high sightseeing corridor of the Shanghai World Financial Center. They include shots of old Shanghai and portraits of middle-class Chinese women in 1880, as well as the scenes and people of other nations. Admission is RMB 180.

The Royal Shakespeare Company of the UK comes to Shanghai Grand Theatre to perform Shakespeare’s Henry IV Part I, Henry IV Part II, and Henry V on February 25th, 26th and 27th respectively. Tickets range from RMB 80 to 880, and can be booked by emailing kf@shgtheatre.com or calling 400-106-8686.

Works of the great French impressionist painter Pierre Auguste Renoir are being shown through March 6th at Shanghai Exhibition Center on Nanjing West Road. Tickets are RMB 100 - 120.

Nearly 100 original works of Picasso are on display in the giant Global Harbor Mall on Zhongshan North Road. The exhibition is located on the 4th floor and tickets are about RMB 100.

Dining Suggestions – M Glam

The Glamour Bar that was formerly on the 7th floor of the #5 The Bund building has closed, but now the same group has opened M Glam, a chic and glamorous new restaurant that offers meals and bites that are fun to share. With a fantastic list of wines and cocktails, M Glam also ensures that #5 The Bund remains one of the best places to have a drink while enjoying the architectural marvels on either side of the Huangpu.

The restaurant serves dinner only.

The mere names of the dishes give a good idea of the kind of gustatory joyride you can expect at this restaurant. Our appetizers included a potent Chili Salt Crusted Bean Curd and Black Beans and a warm and sticky Stuffed Grape Leaves with Lamb, Currants, Rice & Pine-Nuts. Entrees included a Duck Dome Pie – a homely looking pie in the shape of a dome, but with exotic tastes of a ginger glaze, five spice & shitake mushroom. There was also a Smoking Salmon and Salmon Caviar in a Seaweed Fog, which certainly looked exotic but was actually just first-class fresh raw salmon and fish eggs.

Prices are surprisingly reasonable given the culinary artistry and amounts served. Set menus for RMB 295 here make a satisfying meal for two.

M Glam

West 7F, #5 The Bund, Shanghai
Opens daily at 5pm, closing 11:30pm Monday – Thursday, 12:00 on Friday and Saturday and 10:30 Sundays
Call (86 21) 6329 3751
Email: reservations@m-glam.com
Brain Food – Paper Mix

A new bookstore has opened in the Hengshan Fang development in Shanghai, and it is special for its extensive and eclectic collection of foreign and Chinese books and magazines as well as its overall design, which is quite cozy and conducive to social interaction.

Market Notes

The Century Metropolis Building (developer Lujiazui Group) on Dongfang Road / Zhangyang Road should be handed over during the current quarter. Spaces in the building are renting for RMB 10-12 / sqm / day.

Kerry Everbrite City Phase III Enterprise Center started renting out space late last year. Several foreign firms have already signed contracts, with rents around RMB 5.5 - 5.6 / sqm / day.
NAI Sofia Group Shanghai
Your Shanghai office, industrial and retail property specialists

Our consultants will be delighted to personally assist you at any time. You may call our main Shanghai office number, (86 21) 6230 1919, or contact directly a consultant who handles your specific concern:

Main Contact for

**INDUSTRIAL AND OTHER PROPERTY DIVESTITURES**

- **Mr. Bjarne Bauer**
  - Language: German, English, Mandarin
  - +86 21 6230 1919 x 808
  - bjarne@sofiagroup.com

**DESIGN AND BUILD OUT MANAGEMENT**

- **Ms. June Zhang**
  - Language: English, Mandarin
  - +86 21 6230 1919 x 802
  - june@sofiagroup.com

**RETAIL RENTING**

- **Ms. Selina Lv**
  - Languages: English, Mandarin
  - +86 21 6230 1919 x 809
  - selina@sofiagroup.com

**OFFICE RENTING**

- **Ms. Jean Gao**
  - Languages: English, Mandarin
  - +86 21 6230 1919 x 801
  - jeangao@sofiagroup.com

- **Ms. Gu Meng**
  - Languages: English, Mandarin
  - +86 21 6230 1919 x 815
  - gumeng@sofiagroup.com

- **Ms. Mary Hoo**
  - Languages: English, Mandarin
  - +86 21 6230 1919 x 803
  - maryhoo@sofiagroup.com

- **Ms. Candi Wang**
  - Languages: English, Mandarin
  - +86 21 6230 1919 x 809
  - candi@sofiagroup.com

- **Mr. Tom Liu**
  - Languages: English, Mandarin
  - +86 21 6230 1919
  - tom@sofiagroup.com

- **Ms. Emma Zhang**
  - Languages: English, Mandarin
  - +86 21 6230 1919
  - emma@sofiagroup.com

- **Ms. Amanda Zhu**
  - Languages: English, Mandarin
  - +86 21 6230 1919
  - amanda@sofiagroup.com

- **Mr. Paul Xia**
  - Languages: English, Mandarin
  - +86 21 6230 1919
  - paul@sofiagroup.com

- **Ms. Gu Meng**
  - Languages: English, Mandarin
  - +86 21 6230 1919 x 815
  - gumeng@sofiagroup.com

- **Mr. Alex Ding**
  - Languages: English, Mandarin
  - +86 21 6230 1919
  - alex@sofiagroup.com

- **Ms. Cecilia Liu**
  - Languages: English, Mandarin
  - +86 21 6230 1919
  - cecilia@sofiagroup.com

**LAND AND PROPERTY APPRAISAL**

- **Ms. June Zhang**
  - Languages: English, Mandarin
  - +86 21 6230 1919 x 802
  - june@sofiagroup.com

- **Ms. Selina Lv**
  - Languages: English, Mandarin
  - +86 21 6230 1919 x 809
  - selina@sofiagroup.com

- **Ms. Alex Ding**
  - Languages: English, Mandarin
  - +86 21 6230 1919
  - alex@sofiagroup.com

- **Mr. Jet Guo**
  - Languages: English, Mandarin
  - +86 21 6230 1919 x 805
  - jet@sofiagroup.com

- **Ms. Cecilia Liu**
  - Languages: English, Mandarin
  - +86 21 6230 1919
  - cecilia@sofiagroup.com