As discussed in our last issue, Shanghai will see a huge amount of new office space handed over in the coming five years, and much of it will be in five new core functional areas:

- North Bund – logistics and finance
- South Bund – finance and tourism
- Qiantan - culture and leisure
- Xuhui Binjiang - culture and media
- Hongqiao Commercial Center - Yangtze River Delta business hub

Below we look at three recent trends in the city property market and how each may be affected by the influx of new supply.

Financial Industry Emerges as Main Occupier

Manufacturing, professional services and financial companies have long dominated the Shanghai office market, accounting for around 27%, 24% and 15% of prime office space tenants in the city in 2005. However, reflecting progress in the grand plan to make Shanghai an international financial center, these proportions have now changed, with finance growing to 30% at the expense of the other two.

Within the finance industry, companies in new and fast growing fields such as P2P finance, wealth management and financial derivatives are renting out space in addition to banks and insurance companies.

Aiming to foster the growth of these newly emerging financial enterprises, the city has launched no less than five industry parks dedicated to online financial services. The five parks are respectively located in Pudong, Changning, Huangpu, Zhangjiang and Jiading.

The government of course has also designated the North Bund and South Bund as new hubs for financial industry companies (with logistics being a second industry focus for North Bund). However, while the two areas are certain to attract some firms from the financial industry, it’s too early to say whether financial companies will be the dominant occupiers in either area. This will be decided by the market.
Retail: Growth Shifts Towards Mid-End and Restaurants

Most high-end luxury brands are putting off expansion plans in the face of slower demand. Discouragement of luxury consumption by government is one factor behind the slowdown, but it is also a result of rising sophistication among consumers, who increasingly insist that luxury products possess sufficient value and uniqueness to justify their high prices.

Within shopping malls, restaurants now take up a much larger portion of space than five or ten years ago, on average about 30% of total mall space. Fast fashion is also performing well.

The new Qiantan and Xuhui Binjiang core areas are planned as culture and leisure hubs, and as such will likely be among city areas that see rapid development in retail and dining. A massive 4.1 million sqm of new shopping mall space will enter the city market in the coming years, and it will be interesting to see how this affects the above-mentioned trends. The new supply will clearly bring struggling retailers cheaper retail space, but as most of the new malls are in non-central locations, are they suitable for premium brands? And will fast fashion companies like H&M also find the sustained strong demand they now enjoy in the new malls? Time will tell.

Fourth Wave of Entrepreneurialism

There is much talk in Chinese media about a new wave of entrepreneurialism that is supposed to be a key driver of growth for China’s economy in coming years. It’s called the “fourth” wave as it follows three earlier ones: the wave of start-ups, characterized by little capital, that emerged in the mid-1980s in response to China’s market reforms; the wave of property development start-ups in the early 90s that went on to become the Vankes and SOHOs of today; and the late 90s/early 2000s dot com boom that gave birth to such Internet giants as Baidu, Tencent and Sina.

It seems obvious that in Shanghai such a trend has been underway for some time, although we have yet to see anyone quantify its extent. Evidence includes an abundance of online and meet-up groups dedicated to entrepreneurial start-ups, the creation of many government sponsored start-up incubators that lease out space at very low rates and many reports on the subject in the Chinese media.

Demand for office space from the resultant multitude of new companies that are expected to emerge could help fill up some of the massive amount of new projects in such areas as Greater Hongqiao. But of course during their initial stage startups may find it convenient to locate themselves inside of serviced offices or incubators, before they become mature enough to require a sizable office.

Therefore even though office building occupancy rates in Shanghai right now are higher than ever before and even though the above-mentioned trends indicate an even higher need of space within certain sectors, we still expect an increased amount of volatility in Shanghai’s commercial real estate market during the next two years. Which should give tenants more options to choose from and for those who have the right timing and good market intelligence also the possibility to catch opportunities for discounted leases.
Property Snapshots

L’Avenue

Originally invested by LVMH and designed by Japanese architect Jun Aoki, L’Avenue is an attractive alternative for firms seeking to escape high rents in the Nanjing West Road area while enjoying the convenience of a top quality building. The four-level podium mall includes several luxury retailers. The environmentally friendly building has been certified as LEED®CS Gold.

- **Building quality**: Grade A+
- **Address**: 99 Xianxia Road
- **Ceiling height**: 2.8, 3.0 meters
- **Recommended Floor/Area**: 2,000 sqm
- **Rental/sq.m/day**: RMB 9
- **Total Floors**: 31F
- **Metro**: 8 min walk to Loushanguan Road Station line 2
- **Location**: Changning
- **Availability**: 1,000 sqm on low floors will be available at the beginning of 2016.

Lippo Plaza

Main attractions of this building include its central location, 4-level mall with luxury brand shops and restaurants, and rental rates that are low relative to many other properties in the area. Completed in 1999, the property is a brief walk from Xintiandi.

- **Building quality**: Grade A
- **Address**: 222 Huaihai Middle Road
- **Ceiling height**: 2.6 meters
- **Recommended Floor/Area**: 1,090-1,368 sqm
- **Rental/sq.m/day**: RMB 8.5
- **Total Floors**: 39F
- **Metro**: 5 min walk to South Huangpi Road Station line 1
- **Location**: Huangpu
- **Availability**: 1,500 sqm is available from 12th Floor to 14th Floor

DBS Bank Tower

Completed in December 2009, this tower boasts several green features such as a double glazing facade and radiant ceiling system. In addition to Singapore-based DBS Bank, tenants include PwC and Blackstone Group. A sunken plaza at the base has restaurants, cafes and shops.

- **Building quality**: Grade A
- **Address**: 1318 Lujiazui Ring Road
- **Ceiling height**: 3.1 meters
- **Recommended Floor/Area**: 2,600 sqm
- **Rental/sq.m/day**: RMB 15
- **Total Floors**: 18F
- **Metro**: 8 min walk to Lujiazui Road Station line 2
- **Location**: Pudong
- **Availability**: 1,300 sqm on the 3rd Floor and 2,500 sqm on the 7th Floor will be available by the end of 2015

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 – Dalí, Da Vinci and Ancient Buddhist Art

Interesting events coming up at the Shanghai Oriental Art Center include a ballet version of Anna Karina performed by the Eifman Ballet of St. Petersburg on November 13th and 14th, and a concert by the Osiris Trio of the Netherlands on November 27th. Visit http://en.shoac.com.cn for more details or order tickets by calling 4006-466-406.

Live American-style country music of the Hongkou Tonks band will be performed and danced to at the Pearl Saloon at 471 Zhapu Road in Hongkou district on November 12th and December 10th. Dance lessons provided at 8pm, and band starts playing at 9. RMB 100 includes a drink.

Fantastic reproductions of ancient Buddhist paintings are on display in Dunhuang, an exhibition at the Shanghai Himalayas Museum that starts November 29 and finishes March 20th. Closed on Mondays and open late on Fridays, address: 3rd F, District A, NO.869 Ying Hua Road, Pudong.

The surreal works of Salvador Dalí are being exhibited on the 4th floor of Bund 18 through January 26th, and another Dalí exhibit takes place in the K11 Art Mall from November 5th to February 15th. The Bund 18 exhibit focuses on Dalí’s bronze sculptures and more, while at K11 some 200 works will include oil paintings and collages.

Da Vinci – the Genius is a large-scale exhibition that includes many full-scale models of the Leonardo Da Vinci’s inventions as well as reproductions of his artwork. Taking place at Hongqiao Tiandi Square from December 1, 2015 to April 7, 2016. Tickets are RMB 70 - 84 and can be purchased on damai.cn.

Dining Suggestions – Vegetarian in Shanghai

A strict vegetarian diet may not be for everyone, but a meatless meal once in a while is always a good idea. Some of the places we like include:

**Zaozi Shu**, one of the earlier vegetarian chains in the city and also one of the most popular, offers deliciously creative Chinese-style vegetarian dishes. However, purist vegetarians may criticize this establishment for its heavy use of mock meat, which often contains additives. Website: jujubetree.com.

**Pure and Whole**, a chain that began as Kush restaurant on Yanping Road and that serves dishes that are uncompromisingly healthy. No mock meats here. Website: pureandwhole.com

**Sproutworks**, another uncompromisingly healthy chain, although it’s not strictly vegetarian. Has many great salads. Website: sproutworks.com.cn

**Wujie**, or Dashu Wujie in Chinese, a chain serving "haute vegetarian". Atmosphere and dishes are both true works of art, the latter generally priced at RMB 70 and above. Three locations: 392 Tianping Road, Xujiahui; 22, East Zhongshang Second Road, 4F; and 100 Century Ave, SWFC 3F. Reservations: 100 Century Ave 3F. Reservations: 4009201517.
Company News – Sofia Group Becomes Exclusive Shanghai Affiliate of World Leading Commercial Property Brokerage Network NAI Global

We are delighted to announce that our company has been named the exclusive member of NAI Global in Shanghai. NAI Global is the world’s largest and most influential network of owner-operated commercial real estate brokerage firms, having 375 member offices around the world.

This is a major milestone in our company’s growth as it significantly bolsters our resources. Being a part of NAI Global will enable us to assist companies in Shanghai that are seeking to rent or acquire commercial properties overseas, and also improve our services for companies entering the Shanghai market.

To reflect our new status, our official company name has been changed from Sofia Group to NAI Sofia Group Shanghai.

Market Notes

About 125,000 sqm of new supply entered the market during the third quarter as three projects were handed over: Bund SOHO (外滩SOHO) on Zhongshan East Road and Shinmay Union Square Phase II (新梅联合广场二期) and the Oriental Single Building (东方纯一大厦) in Pudong.

Average vacancy rate citywide has fallen slightly and is now about 7.1%. Rents rose slightly in Pudong during the quarter and remained stable in Puxi.

A main development that will be completed in 1Q 2016 is Raffles Changning.
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:

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