NEXT STOP: North Bund

2017 Office Market Report
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In recent years, a number of emerging business districts with development potential have been identified by the Shanghai Government. Of these, the North Bund Area, which is located in the southern part of Hongkou District, is one of the most representative. After a dozen years of development, the area has been developed into a cluster of shipping and financial services businesses from originally just a shipping centre.

As Sinar Mas Centre, The Star Harbour and other landmark projects entered the market, there is an increasing demand for office buildings in the North Bund.

In this report, we address the progress, functions and office planning issues in the North Bund Area. We explore future development opportunities and prospects by analysing the existing and future tenant profiles, office rents and prices, and competitive advantages and strategic positioning of the area over other emerging business districts.
Location and Transportation

Covering a total area of 64,088 sqm, the North Bund Area is located at the riverside in the south Hongkou District, with the Bund to the west and Lujiazui to the south across the river. Both the Dalian Road tunnel and the Xinjian Road tunnel, which connect Puxi and Pudong, run through the North Bund Area. Subway lines 4, 10 and 12 all lead to the area. Line 12 runs through the area with stops at Tiantong Road, the International Cruise Terminal, Tilanqiao and Dalian Road. The planned Line 19 will also run through the area from north to south.

Supply

The North Bund Area is one of the most important emerging business districts in the Shanghai office market with two construction booms.

- Background and Current Status

The North Bund office market’s earliest development dates back to 1997, when the Shanghai Bund International Tower was completed. After it was designated for shipping in 2002, there was an inflow of a large number of cargo service firms. This consequently led to the development of a number of Grade B office buildings. The years 2006-2008 saw the completion of several high quality Grade A office buildings, including BM Tower and Ruifeng International Building. Subsequently, office stock increased by approximately 70,000 sqm per year, reaching 630,000 sqm in 2008, up 50% from that in 2005. From 2010 to 2012, with the establishment of the North Bund Shipping and Financial Services Cluster, the North Bund office market saw a construction boom, with a total of 530,000 sqm of office space completed within two years, up 150% from the period 2006-2008.
After nearly 20 years of development, an office cluster was formed in Sichuan Road, Wusong Road and the riverside area. After being positioned as a shipping and finance service cluster in 2011, the existing office buildings were not able to meet demand for high quality office buildings, so a number of high quality office buildings, including Sinar Mas Centre and Landmark Centre, were constructed. By Q1 2017, total office stock in the North Bund Area reached 1.51 million sqm, with Grade-A office space amounting to 67% of the total.

Figure 4
Distribution Map of Existing and Planned Office Developments

Source: Knight Frank Research
Landmark Developments

Star Harbour

Co-developed by SIPG (Shanghai International Port Group) and Franshion Properties, Star Harbour consists of the Shanghai Port International Cruise Terminal, Shanghai International Shipping Service Centre, Star Bund Centre, and three million sqm of Grade-A office buildings. The Shanghai Port International Cruise Terminal boasts 13 buildings, while the Shanghai International Shipping Service Centre has 19 buildings (all to be completed in 2017). Both projects are for sale; their target buyers include central government-owned and large state-owned enterprises. Most buyers hold these office spaces for self-occupation, and rest will be leased out. The Star Bund Centre, which is located on Haimen Road, plans to develop two 263-metre skyscrapers, which will be landmark buildings in the North Bund Area. The Shanghai Port International Cruise Terminal and Shanghai International Shipping Service Centre comprise one of the major development projects in the area, with total office space amounting to 34% of total office stock. Furthermore, a 130,000-sqm shopping centre in Star Bund Centre is scheduled for completion in 2019.

Sinar Mas Centre

Another important commercial area in North Bund is Sinar Mas Centre area. As a landmark building in North Bund, Sinar Mas Centre is comprised of office buildings, shopping centre and a luxury hotel. Sinar Mas Centre has a total GFA of approximately 420,000 sqm, of which office space accounting for 130,000 sqm. The office tower phase one in Sinar Mas Centre was completed in Q1 2017, adding a total of 65,000-sqm office space to the market. In addition, Sinar Mas Centre has introduced Starwood’s luxury boutique hotel brand W Hotel and will open a retail mall of 70,000-sqm in future. At that time, the ancillary facilities in Sinar Mas Centre Area and Star Harbour Area can meet the requirements of the office and residential population in the area.

The office market in the area will reach another construction peak in the coming four years. In 2017-2020, new office supply will reach an average of 257,000 sqm per year. It is estimated that there will be 1,030,000 sqm of new office space completed in 2017-2020, while office stock will increase to 2,350,000 sqm by 2020.
Demand

In the decade from 2006-2016 office demand continued to drive down vacancy in the North Bund Area.

• Background and Current Status

In Q1 2017, two office buildings, the Sinar Mas Centre and Landmark Centre, were completed, adding 180,000 sqm of new office space. The overall vacancy rate stood at approximately 10%. In the future, the office vacancy rate in the area will rise slightly because of upcoming projects, such as the Star Bund Centre, International Cruise Service Centre and Sino-American T&A Tower.

In Q1 2017, the overall vacancy rate in the North Bund Area stood at approximately 10%.

The major tenants in the North Bund Area are shipping companies and large and mid-sized domestic financial companies. Shipping companies were the first to set up in the North Bund Area. Following the completion of the Shanghai International Cruise Terminal, shipping companies like Cosco Group, China Shipping Group and SIPG successively moved into the area. As of Q1 2017, up to 4,500 shipping companies were operating in the area, for a compound annual rate of 7.1% over that of 2013. When the government proposed establishing a financial industry cluster, a number of PE firms moved into the area, including SDIC (State Development & Investment Corporation), the headquarters of PSBC (Postal Savings Bank of China), NCI (New China Life Insurance) and JIC (Jianyin Investment of China Group). The number of financial companies reached 1,200 by Q1 2017, which amounted to a compound growth rate of 43% over that of 2012. Currently, the North Bund Area is a business district dominated by shipping and financial companies.

Figure 5:
Office Supply, Net Absorption and Vacancy Rates in the North Bund Area (2006-2020E)

Source: Knight Frank Research

Figure 6:
The number and growth rates of shipping and financial enterprises in the North Bund Area

Source: Knight Frank Research

Note: *refer to figures estimated by Knight Frank
**Tenant Profile**

In terms of tenant profile, office demand in the area is in large measure the result of government policies. In 2011, the authorities issued an official document to reinforce the financial cluster concept, resulting in the entry of large financial institutions, including SDIC, NCI and ICBC. Although shipping and cargo agents remained the majority, financial institutions such as public funds and banks increased to 9% of total tenants in 2012. In 2017, the number of tenants engaged in wealth management and financial investment grew rapidly, with the proportion increasing threefold over that of 2012, followed by shipping and logistics (42%) and cargo agents (16%).

**Rents**

Office rents in the North Bund Area have risen significantly in recent years as a number of large SOEs and financial institutions moved in.

The average office rent reached RMB7.30 per sqm per day in Q1 2017, up 92% over the last decade. The gap in Grade A office rents between the North Bund Area and the city-wide Grade-A level also narrowed, from RMB4.90 in 2008 to RMB2.50 in Q1 2017.

In Q1 2017, the average office rent in the North Bund Area reached **RMB7.30** per sqm per day.
Office rents in the area rank 6th among the major business districts in Shanghai, 58% of that of the top ranking Lujiazui Area. The average rent in BM Tower is RMB7.50 per sqm per day and Ruifeng International Building is RMB6.50 per sqm per day. Office rents are expected to continue to increase due to the supply of high quality office space in the coming years. Currently, the asking rent in Sinar Mas Centre, which was completed in Q1 2017, ranges between RMB10 to RMB12 per sqm per day.

The North Bund Area is one of the most active areas in the office sales market. According to Knight Frank, 55% of the offices in the area are for sale, including 76% for en-bloc sales and 24% for strata-title sales. Share transfer and direct sales are the two major channels for en-bloc sales. For example, Shanghai Port International Cruise Terminal Tower 1 was sold to Baosteel Resources and Shanghai Port International Cruise Terminal Tower 2 was sold to Huafu Investment Group through share transfers. China Shipping Development and State Development and Investment Yahua directly purchased Shanghai Port International Cruise Terminal Tower 5 and Tower 3. Shanghai Point is now available for en-bloc sales.

There are only a few office buildings designated for strata-title sales in the area. Currently, only three projects – Above the Bund Plaza, Greenland North Bund Centre and Yaqjiang International Plaza – with unit sizes ranging from 180 to 200 sqm, are available for small investors to purchase for self-use or investment. Most sales projects are situated in the Shanghai Port International Cruise Terminal and Shanghai International Shipping Service Centre area, with the average unit size below 20,000 sqm. In November 2016, State Development and Investment Group acquired an office building in Shanghai International Shipping Service Centre, located at No.168 Yangshupu Road, with a total gross floor area of 64,496 sqm for a total consideration of RMB5.288 billion and a unit price of over RMB80,000 per sqm.
Opportunities and Risks

As compliments to traditional CBDs, new CBDs are under supply pressure and face fierce competition in attracting investment during their development. Apart from North Bund, there are a number of new CBDs emerging, including Qiantan, Hongqiao CBD, Xuhui Binjiang and Changfeng Ecological Business District.

- **Opportunities**

  **Clear positioning**

  The positioning of the North Bund Area is fairly clear: i.e. a shipping service cluster aiming to develop and encourage shipping and related services. It is also the only emerging business district that is positioned as a shipping services cluster in Shanghai. To avoid duplication, the North Bund Area intends to differentiate itself from innovation and culture-themed Xuhui Binjiang and modern services and international trade-themed Hongqiao CBD.

  **Sizable office stock**

  Currently, there is approximately 1.51 million sqm of total office stock in the North Bund Area. With an additional supply of 840,000 sqm under construction or planning, total office stock is expected to reach 2.35 million sqm by 2020. This is twice the size of the Changfeng EBD (Ecological Business District) and 2.8 times that of the Xuhui Binjiang Business District, topping the list of emerging CBDs in Shanghai. A large-scale office market will attract more multi-floor tenants, bringing economy of scale.

  **Convenient location close to the city centre**

  Compared with other emerging CBDs located in the central and outer rings, the North Bund Area is the only emerging CBD that lies in the inner ring with easy accessibility. Many core CBDs, including Nanjing West Road, Huaihai Middle Road and the Lujiazui Financial Area, are only a 15-minute drive away.

  **Higher rental expectations**

  At the moment, with the support of shipping and financial enterprises in the North Bund Area, the average office rent is RMB7.3 per sqm per day, close to the average rent of all CBDs. While the average rent of other emerging CBDs, such as Hongqiao CBD, Xuhui Binjiang and Changfeng EBD, ranges from RMB 6.0 and 7.5 per sqm per day, they still lag behind those of the North Bund Area.

- **Risks**

  **Higher rental expectations**

  As the earliest emerging CBD, the development process of the North Bund Area has been relatively slow. After its establishment in 2002, the North Bund Area attracted only shipping and logistics companies, giving rise to a relatively small office market size and a slow development pace. Only after the announcement that a shipping and financial services cluster would be established in the North Bund Area did a number of large-scale financial institutions and financial services enterprises move in. It was this diversity of tenants that kickstarted the faster pace of development.

  **Only a few connecting metro lines so far**

  Although three Subway lines lead to the area, at present, only Line 12 operates in the North Bund Area. This results in congestion at rush hours for office workers.

  **Old existing buildings adversely affect the overall developing plan**

  A great number of listed buildings in the North Bund Area cannot be demolished or removed easily, resulting in conflicts in the overall developing plan of the area, which negatively affects the overall development plan of the North Bund office market.

- **Conclusion**

  As one of the emerging business districts, the North Bund Area differentiates itself from other nearby office clusters. Lujiazui in Pudong and the core CBDs in Puxi remain the first choice for financial and consultancy companies. It would be hard to persuade shipping companies to move from the North Bund Area to Lujiazui or Nanjing West Road and Huaihai Middle Road in the city centre. Therefore, the North Bund Area will continue to attract more shipping and related industries, including transportation, trade, insurance, finance and leasing.

  It is worth noting that the success of the North Bund Area relies on the efforts and collaboration of various parties. Governments are expected to provide tax incentives to attract intensive investment from the shipping trade and related industries. Developers are expected to look ahead to develop long-term leasing strategies and improve building management to maintain the quality of the properties. Tenants and buyers should consider the positioning and developing potential of the North Bund Area. Companies in the shipping trade and related industries are recommended to move to the area in order to benefit from industry agglomeration.

  The North Bund Area is still developing, but as part of the core construction area in Hongkou District, there have already been built or there are plans to build several landmark buildings, including Shanghai International Shipping and Financial Services Centre, Sinar Mas Centre, Star Bund Centre, Shanghai Landmark Centre, and Suning Bellagio Hotel Tower. In the future, the military pier will also be open to public, as part of a navy theme park to provide an educational base for national defense and a recreational complex with quality cultural and physical activities. According to the plans, the North Bund Area will ensure a staggered competition market with the Bund, Lujiazui, and Yangshan Deep Water Harbour. Further building on its five major pillars, including an agglomeration of shipping and finance headquarters, a passenger cruise centre, a harbour service centre, and a cultural and innovation centre. Some 840,000 sqm of Grade A office space will be built equivalent to the size of an entire CBD in Shanghai.
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