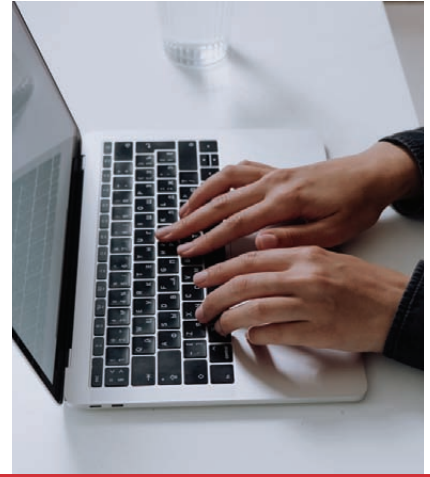


May 2024

NEWSLETTER



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Table of Contents

Market Insight

The Scene

Property Snapshots – Jindi Xinhua Dao
Nanfeng Tower
Shinmay Union Square

Property of the month

Dining

Events

Market Notes

Market Insights

Buy vs. Rent Calculus for Different China Property Types

In Shanghai an apartment that costs USD 1 million typically rents for around USD 1,900 per month, while an office unit that costs the same typically rents for around USD 3,800 per month. Where does this difference come from? Have we discovered a rule of thumb, that when it comes to property in China one should rent residential but purchase commercial?

Even greater contrasts arise if we compare factory buildings to commercial or residential properties. Let's say three tenants are paying a monthly rent of USD 10,000 per month for, respectively, a factory, an office and an apartment. How much it would typically cost each to buy their property can be seen in the table below.

Typical purchase prices for ~ USD\$10,000 / month rental
(based on rough average property values in Shanghai)

Factory	\$1.2 million
Office	\$2.7 million
Apartment	\$5.2 million

It's mostly about money

There are many reasons why residential properties are much more expensive to buy than offices or factories. The main one is probably that in China – as well as in some other Asian countries – people tend to invest into apartments with a goal of asset appreciation, largely ignoring the property's annual yield, or how much income the property will generate compared to its purchase price. For China's big city apartments, that income is often so low that it cannot even cover mortgage payments.

With commercial properties the opposite holds true. Whether an office building, shopping mall, factory or warehouses, a commercial property is typically developed and bought with the aim of having an attractively high yield – high enough in order to be cash flow positive even after making one's mortgage payments.

What this boils down to is that essentially nobody in China buys an office if the actual or potential annual rental income isn't at least about 4.5% of the purchase cost, but people are willing to buy an apartment even if the actual or potential annual rental income is only 2.3%.

Non-financial considerations

A cultural aspect also plays an important role. Many families believe it's important to own one's place of residence and, especially among young people, the purchase of an apartment stands high on the priority list. Near and far relatives sometimes pool money together in order to enable the initial down payment.

There are also solid legal reasons why people tend to accept higher 'multiples' when it comes to residential real estate – about 42 years of rental payments to equal the purchase price, as compared to only about 10 to 12 years when it comes to factories. The duration of land-use-rights (LUR) is one. For residential land, the land-use right period is typically 70 years, while for industrial properties it is usually 50 years and commercial 40 years. After owning a property for 25 years, you still have 45 years left to collect rent if it's an apartment, but only 15 years if it's an office.

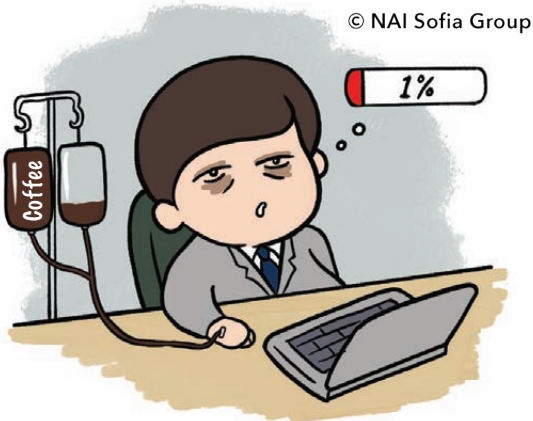
And then there is the issue of LUR renewals. No one knows for sure what will happen at the end of the LUR period of any property type, since the rules have yet to be set. But for residential the law does say that there must be a mechanism to renew one's LUR, whereas for commercial and industrial properties there is no such guarantee. In reality there will probably be a renewal process for all LUR types, and likely none will be free of charge. Authorities have been discussing real estate ownership taxes for quite some years now and they could be applied to residential as well as commercial and industrial properties. It seems somewhat likely that such taxes will be lower for residential properties and higher for commercial and industrial properties.

What firms are actually doing

Considering the above facts regarding rental vs. purchase costs, it would seem that it makes most sense to purchase in the case of industrial property. Yet many international companies these days are still shifting their focus towards renting factories and warehouses instead of owning them, some even disposing of their current industrial real estate through sale-and-leaseback transactions. This may have to do with wanting to be asset light and flexible, and the belief that capital invested into a business will create higher returns than capital stuck in properties.

On the whole it seems that family-owned businesses are the ones most inclined to own their real estate. One reason they may prefer to buy is that ownership indicates stability of one's business. And while on one's books the value of company properties can be written off, in reality property values tend to grow, delivering a silent capital appreciation which is real for the owners, even if it's not included in any financial reports.

▼ The Scene



Last day of work before holiday



Property Snapshots



Jindi Xinhua Dao

As a smaller size standalone building with terrace, Jindi Xinhua Dao presents its boutique office design concept amid the many trendy restaurants, coffee shops and online influencer hotspots of the Fanyu Road – Xinhua Road area. The vibrant neighborhood, along with unusually high ceilings, hold strong appeal for marketing and design companies.

Building Quality: Grade A-

Address: No. 55 Lane 222 Fanyu Road

Ceiling Height: 4.5 m

Recommended Floor/Area:
5th floor, 1,100 sqm

Rental/sqm/day: ¥7.9 (includes tax)

Total Floors: 5

Metro: 11 mins walking distance to lines 3, 4 at West Yanan Road Station, 11 mins walking distance to lines 10,11 Jiaotong University Station

Location: Changning

Availability: Immediate



Nanfung Tower

Located in the border area between Changning and Xuhui, Nanfung Tower was developed by the Hong Kong based Nanfung Group. This location boasts easy access to the Xuhui CBD area, north-side windows overlooking a park & a multi-cultural environment. Large windows ensure plentiful daylight in the offices. The landlord is now offering finished interiors tailor-designed to tenant requirements as an incentive.

Building Quality: Grade A

Address: No.1568 Huashan Road

Ceiling Height: 2.85 m

Recommended Floor/Area:
8th floor, 587.85 sqm

Rental/sqm/day: ¥7.8 (includes tax)

Total Floors: 12

Metro: 3 mins walking distance to lines 10, 11 at Jiaotong University Station

Location: Changning

Availability: Immediate



Shinmay Union Square

Completed in 2005, Shinmay Union Square is a twin tower complex located at the border of Lujiiazui CBD area and offers very attractive rental rates. It is nearby the Galleries Lafayette and offers easy access to the metro, tunnels and bridges. There is both traditional office space as well as shared coworking space in the building, and the landlord is offering customized fit-out as an incentive.

Building Quality: Grade A

Address: No. 506 Shangcheng Road

Ceiling Height: 2.7 m

Recommended Floor/Area:
Tower B 19th floor, 1,078 sqm

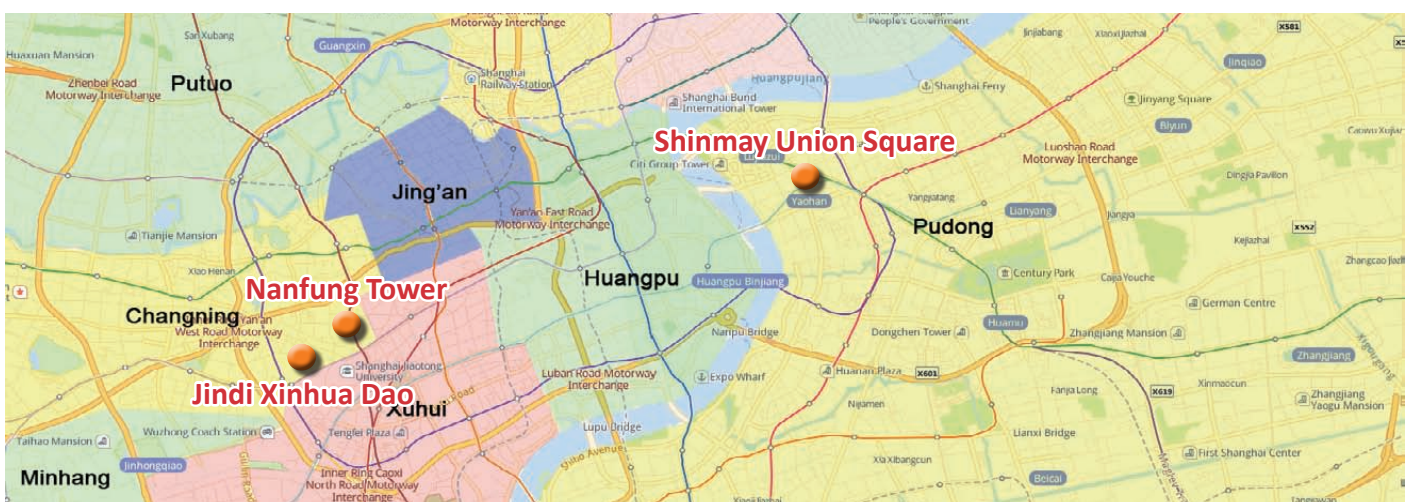
Rental/sqm/day: ¥ 6.5 (includes tax)

Total Floors: 38

Metro: Direct access to line 9 at Shangcheng Road Station, 4 mins walk to line 2 at Dongchang

Location: Pudong

Availability: Immediate



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.

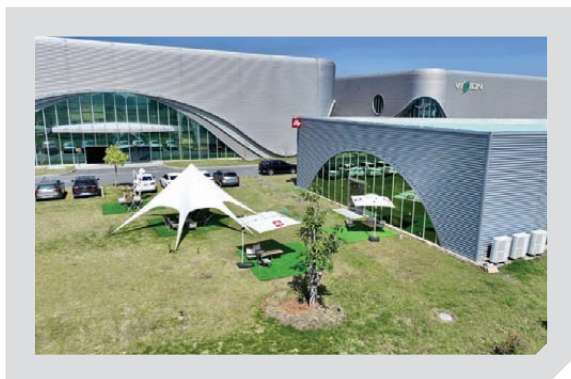
Property of the month

Plainvim International (Zhaoqing New Area) – Zhaoqing, Guangdong

Plainvim International is a real estate developer and operator that focuses on modern industrial parks, with the aim of attracting WOFEs of leading manufacturers. Its parks are all situated in the Yangtze River Delta and Greater Bay Area, and the new park in Zhaoqing is the 13th to be developed by the group.

Construction began in 2019 on a land area of about 1,300 mu (roughly 900,000 sqm). The park has both single-story and multi-story workshops as well as a service center, an Illy coffee shop and intelligent car parking.

Industries that the park is targeting include high-end precision machinery, auto parts, electronics and biological medicines. At present, 13 companies have settled in, including German auto parts company Megnectec and Spanish fragrance manufacturer Lucta. Workshops conform to modern standards and are prepared to enable companies pursuing light-asset strategies to move in quickly.



Recommended Property: Building A11

Property Type: Single-story building

Property Size: 9,323 sqm

Ceiling Height: 12 m

Floor Capacity: 3 tons / sqm (workshop), 0.3 tons / sqm (office)

Grid Width: 26.5 x 8.6 m

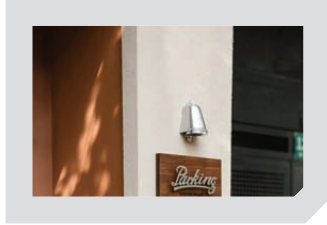
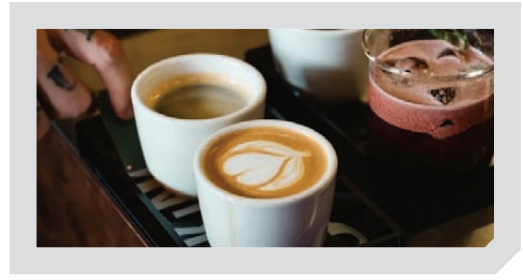
Rent / sqm / day: RMB 30 / sqm / month

Availability: Immediate

Dining

Top 10 Coffee shops on Huaihai Road

Coffee is a daily necessity for many Shanghai professionals at this point, and even those who aren't in love with the beverage are still likely to frequent cafes to work, meet up with friends or just catch their breath now and then. If you're in downtown Shanghai, Huaihai Road has many good cafes, and following are the ones we consider the best.



Parking Coffee

Address: No. 1220 Middle Huaihai Road

Average bill: CNY 75

This cafe won the China Division of the 2021 World Barista Competition and offers a good selection of beans. Good destination for the coffee connoisseur.

BLACKSHEEP ESPRESSO

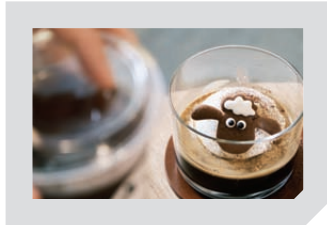
Address: No. 124 South Maoming Road

Opening hours: Monday to Sunday

Average Bill: CNY 42

Blacksheep became a sensation online with its sheep-shaped Affogato and drinkable cinnamon rolls, among other one-of-a-kinds. It has a unique bean selection and many consider it their favorite cafe in the city.

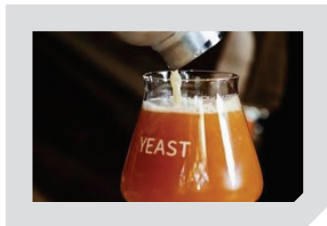
And the remaining 7 of our top 10 list:



Rader Coffee

Address: No. 27 Sinan Road

Average Bill: CNY 36



YEAST

Address: No. 25 Yanqing Road

Average Bill: CNY 60



FOJO CAFE-BAR 虎纠咖酒

Address: 1, No. 135 South Maoning Road

Average Bill: CNY 36

The Usual 有所 by ME Ft. WE

Address: No. 116 Nanchang Road

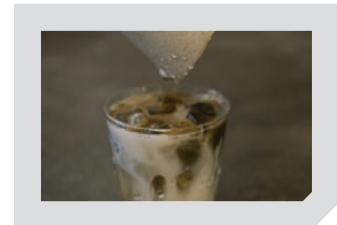
Average Bill : CNY 30/ person

Metal Hands

Address: No. 234 Nanchang Road

Average Bill: CNY 43

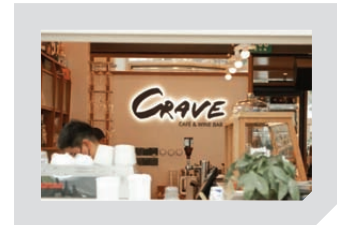
Likewise great for serious coffee enthusiasts, Metal Hands was the only cafe in mainland China to be shortlisted in a World Top-50 list. The chain was born in a Beijing hutong, and offers self-roasted beans in a range of styles.



Kukur

Address: 140, Lane 927, Middle Huaihai Road

Average Bill: CNY 51



Crave Café & Wine Bar

Address: No. 208 Xinle Road

Average Bill : CNY 102 / person



Tiffany Blue box

Address: 2F, No. 283 Middle Huaihai Road

Average Bill : CNY 390 / person

Events



Ages of Splendor: A History of Spain in the Museo del Prado

This exhibition co-organized by Museo Nacional del Prado and Museum of Art Pudong (MAP) features a selection of 70 masterpieces from the collection of Museo del Prado, among which 16 pieces have never been on view outside of Spain, and 9 have never been loaned out from the museum before. Through its eleven rooms visitors are introduced to Spain's social and political evolution over more than 400 years, as depicted by some of the nation's great artists through history.

Time: 23rd April to 1st September, 2024

Venue: Museum of Art Pudong

Address: No.2777 Binjiang Avenue, Pudong New Area

Tickets: CNY 80 /120/100/150



The Promise

Prada presents Belgian painter and filmmaker Michaël Borremans's first solo exhibition in China and it is being held at Prada Rong Zhai, a historic Shanghai residence constructed in 1918 and reopened in October 2017 after restorations by Prada. Borremans, who was born in 1963, "depicts the human condition by creating an ambiguous tension between his refined language and the portrayed subjects". The Promise features twenty-three of his paintings and one of his films.

Time: 9th April 2023 to 9th June, 2024

Venue: PRADA RONG ZHAI

Address: No.186 North Shaanxi Road, Jing'an District

Tickets: CNY 60

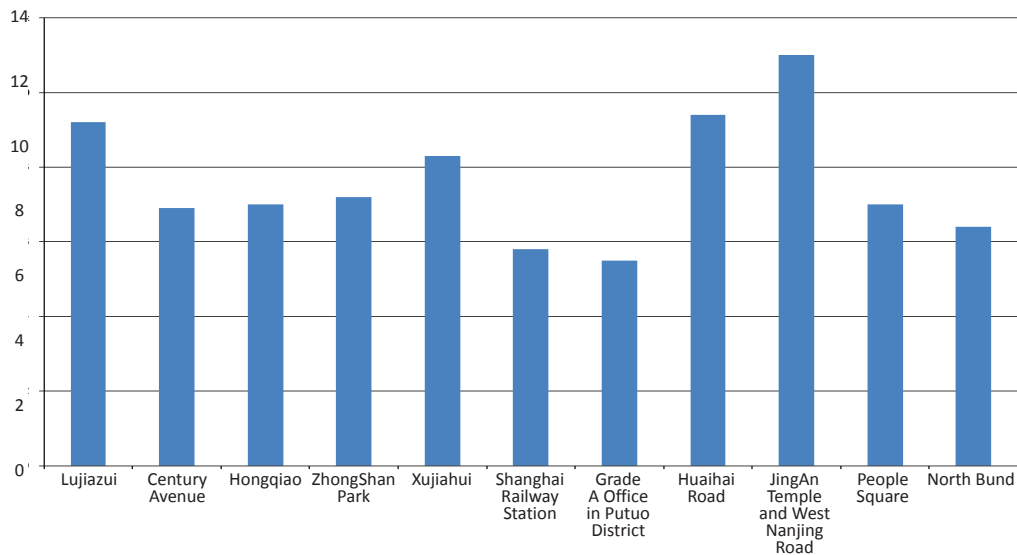
Market Notes

New office building openings in the first half of the year were mainly located in non-central business hubs such as Hongqiao, Huamu, Zhenru and Wujiachang. Rents have further declined in these areas due to this concentration of new supply as well as market competition and existing tenants moving out. The city's overall vacancy rate has further increased.

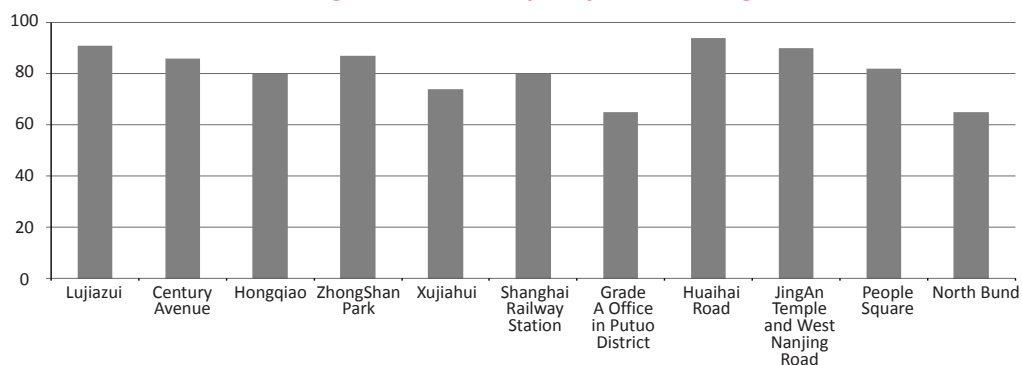
However, landlords in some areas of the city are still doing well, one example being Hongqiao Business District which has been benefiting from relocation demand from automobile enterprises. Rents in the North Bund have also exhibited buoyancy, as third party office operators have been expanding operations there. Zhenru has seen increasing demand for office space, mainly from e-commerce and consumer goods firms. Rental demand in the traditional business core areas such as Century Avenue, Huangpu Binjiang and People's Square, however, is still below normal, especially for older buildings. Domestic institutions are still the main demand driver for office space, with relocation-driven transactions by companies already in Shanghai outpacing transactions by companies newly moving into the city.

In terms of industry, demand for office space is coming from consumer product manufacturers (especially automotive firms); TMT (Technology, Media, Telecom); e-commerce enterprises; financial firms including wealth managers, insurers and stock brokerages; and industrial product manufacturers. We have also seen some new life in demand from property developers and architectural design firms, while other professional services have overall been less active compared with the previous quarter.

Office Building Rental Rates by CBD Area: CNY / sqm / day



Shanghai Office Occupancy in Percentage



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Panama
Peru
Puerto Rico
Venezuela

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Denmark
France
Georgia
Germany
Greece
Italy
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