

September – October 2017

# NEWSLETTER



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### Anxiety among 200,000 owners of commercially zoned apartments in Shanghai

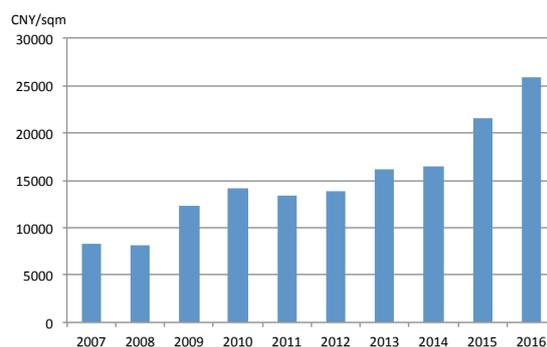
When protesters in Shanghai take to the streets over new real estate regulations, observers must assume that something dramatic has impacted the market. On this occasion, the scenes of protesters marching along Nanjing Road were the outcome of an announcement by the Shanghai city government in May that left individual buyers, as well as property developers, in fear of their properties' becoming worthless assets.

The announcement stated that apartments built on commercial land instead of residential land (often serviced apartments or lofts) would be suspended from being sold, from being transferred and that sanitary installations inside of these units would need to be removed. This would make all such apartments uninhabitable for residential purposes and diminish most of their value.

Why did the government previously grant tacit approval for the development and sale of these types of apartments only to suddenly bring it to a halt?

One plausible reason for the government's former position may be that it used to be a way of deriving income from the sale of commercial land (originally intended for use as office or retail space). While residentially zoned land has become extremely scarce in Shanghai, commercial land is somewhat easier to acquire. The government's new stricter regimentation may be caused by the dramatic increase in the number of these 'commercial apartments' in recent years, which in some districts account for more than 50% of apartments sold. The crackdown is also likely part of the government's initiative to curb property speculation amidst fears of a bubble after property prices continued to rise at a rate of approximately 30% within only a year.

### Average Price of New Built Residential Property in Shanghai



Source: Shanghai Municipal Bureau of Statistics

Could real estate developers and buyers of these apartments have foreseen the risk? It is probable that almost everyone was aware that this was somewhat of a gray area. But, since it was such a widespread practice the government's intervention came as an unexpected shock to most people. The shift began in December of 2016 when the government ended the approval of commercial and residential mixed-use projects in Shanghai. This move was quickly followed by the suspension of 148-serviced apartments that fall within the mixed-use specification. Several districts began demanding current developments restructure their plans to attain complete commercial function. It was further announced that for projects still under construction, toilets and related facilities could not be installed inside individual units, thus making utilization as an apartment impossible and forcing it to be a purely commercial space, such as office or retail. It was also revealed that apartments already completed and handed over to their owners would in future not be tradable on the open market, greatly diminishing their market value.

While for property developers this asset class had proved to be a solid profit maker, for buyers it had always been a double-edged sword. Buyers of these apartments faced some serious disadvantages as they held a title deed for only

40 or 50 years instead of the usual 70 years for residential buildings. They also paid a 4% deed tax instead of 2%, their electricity and utility fees tended to be higher than at normal apartment complexes and usually their units did not come with a natural gas connection.

What did attract potential buyers though, was the possibility for people not holding a Shanghai Hukou to purchase the apartments, which was not an option with other residential units. Furthermore, there was the typically higher level of interior decoration and prices per sq.m that were 30 to 40% lower than those for apartments sitting on residential land with a 70-year zoning. Many people, in the hope of creating a long-term home in Shanghai for themselves and their children, opted to invest in this kind of unit, sometimes relying on financial support from their extended family.

Recently, the government has published further announcements indicating a certain level of goodwill towards those who previously bought this type of property. However, we do not expect additional 'mixed-use' developments to be added to real estate development pipelines in Shanghai or Beijing anytime soon.

## ▼ The Scene





## RND Tower

RND Tower on Hongmei Road is a landmark building in Caohejing serving a favorable mix of tenants. Host to major companies, including McDonald's, the eco-friendly Xuhui building is easily accessible via the Middle Ring Road off-ramp. The 28-story complex offers 1627 to 1959 square meter units suitable for a range of commercial tenants. Completed in 2008, RND Tower remains a premium addition to a hi-tech park of over 2,000 domestic and foreign technology companies.

**Building quality:** Grade A

**Address:** 1801 Hongmei Road

**Ceiling height:** 2.65 meters

**Recommended Floor/Area:**  
1,627 to 1,959

**Rental/sq.m/day:** RMB 6.0

**Total Floors:** 28

**Metro:** 5 min walk to line #9 (Caohejing)

**Location:** Xuhui

**Availability:** Limited options available



## Capital Square

Completed earlier this year, Capital Square is a remarkable achievement in international mix-use development. The high-efficiency Jing'An District building is a modern 30-story location for offices and retail spaces alike. Convenience is key as tenants enjoy quick access to three metro lines via Hanzhong Road. Large floor plans, professional property management, and a high-end interior finish on handover makes this an ideal choice for businesses from a variety of sectors.

**Building quality:** Grade A

**Address:** 268 Hengtong Road

**Ceiling height:** 2.80 meters

**Recommended Floor/Area:**  
2,344 to 2,375 sqm

**Rental/sq.m/day:** RMB 7.5

**Total Floors:** 30

**Metro:** Direct Access to lines #1, 12,13 (Hanzhong Road)

**Location:** Jing'An

**Availability:** Various options available



## Vanke Centre Riverside

From world class developer China Vanke, this 25-story office building is a brand-new addition to the growing Pudong district. Stunning views of the river and proximity to top hotels makes this an ideal location for any office space. Competitive pricing for units of various sizes is available for a broad range of commercial clients. Located on Changyi Road, Vanke Centre Riverside has direct access to metro line 14 and 18 (under construction) and is only a short drive from the highway.

**Building quality:** Grade A

**Address:** 118 Minsheng Road

**Ceiling height:** 2.90 meters

**Recommended Floor/Area:**  
1,260 sqm

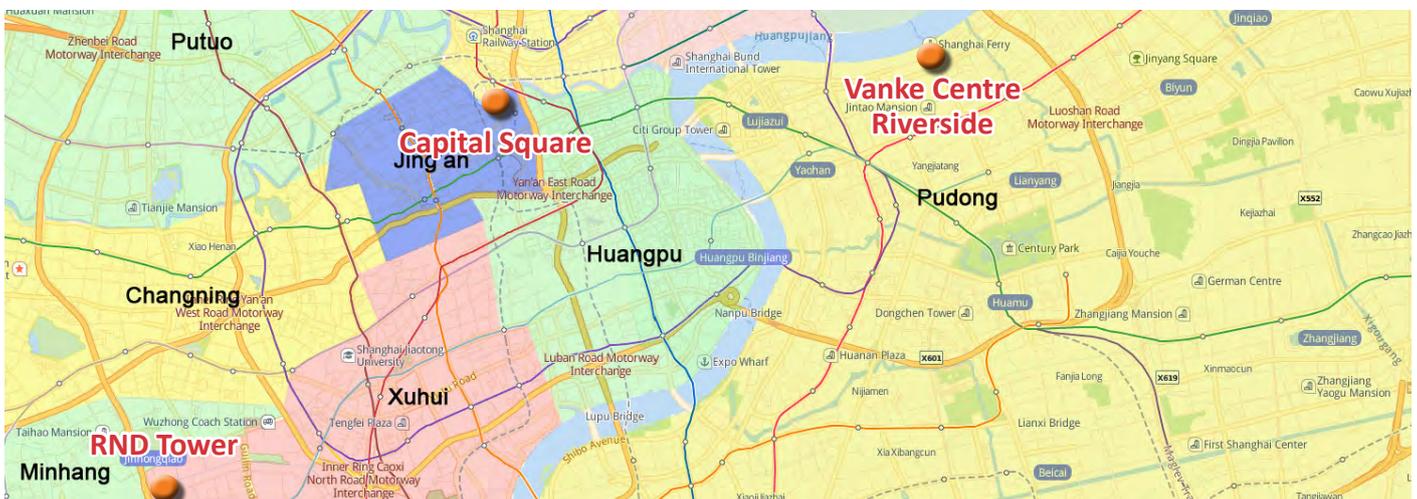
**Rental/sq.m/day:** RMB 6.5

**Total Floors:** 25

**Metro:** 15 min walk to line #6 (Minsheng Road)

**Location:** Pudong

**Availability:** Various options 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

Commemorating over 200-years since its first publication, Shanghai Grand Theater welcomes you to Jane Austin's "Pride and Prejudice". One of the most popular novels in English literature is brought to the stage by a first-class cast. Tickets are available from October 31st through November 5th for RMB 50 to RMB 380.

"The Producers" step off Broadway into the Shanghai Cultural Plaza to offer a laugh-out-loud experience like no other. Written by Mel Brooks and Thomas Meehan, the story is a satirical glimpse into the strange world of showbiz. The musical is on-stage from November 1st to the 5th and tickets are available for RMB 80 to RMB 950.

Turning ancient poetry into dance, Tang Shiyi shows her abilities as a premier member of China National Opera and Dance Drama Theater. The contemporary take on three poems from the Tang Dynasty explores a variety of themes on an illustrious stage. Tickets for October 14th and 15th performances are available for RMB 280 to RMB 580.



## ▶ Dining – Yanting

Recently opened in May of 2017, Yanting welcomes guests with a selection of tasty southern delicacies. Shunde, one of the most exquisite of the four Cantonese cuisines, comes to life via a diverse collection of items. The food is skillfully prepared with fresh ingredients, adding an elevated level of sophistication to some well-known dishes. Yanting, a term for the setting of a banquet, is an ideal place to meet for a delicious dining experience.

A four-course lunch takes friends and family on a culinary journey for RMB 280 per person. Guests have their choice of a soup, vegetable, two main dishes, rice, freshly squeezed orange juice, and a welcome drink. Available for a minimum party of two, the special encourages diners to share dishes amongst themselves. Visit Yanting with your favorite people to take advantage of an opportunity to savor this tasty cuisine.



## Local Living – Ordering with JD

Balancing obligations between the home and office often leaves little time for trips to the store. The 'JD' website and application provide access to a global online platform for all shopping needs. Goods of all shapes and sizes become available on any Apple or Android device, or personal computer. Food items, household goods, clothing, and more can all be found on the shelves of the virtual JD marketplace.

An ever-growing inventory of products is accessible to shoppers around the globe. JD DaoJia is an additional service that delivers items from third party sellers; selections from supermarkets, shops, and suppliers are brought to doors worldwide. The possibility to order with the tap of a finger is here; learn more about this online option at [www.jd.com](http://www.jd.com).

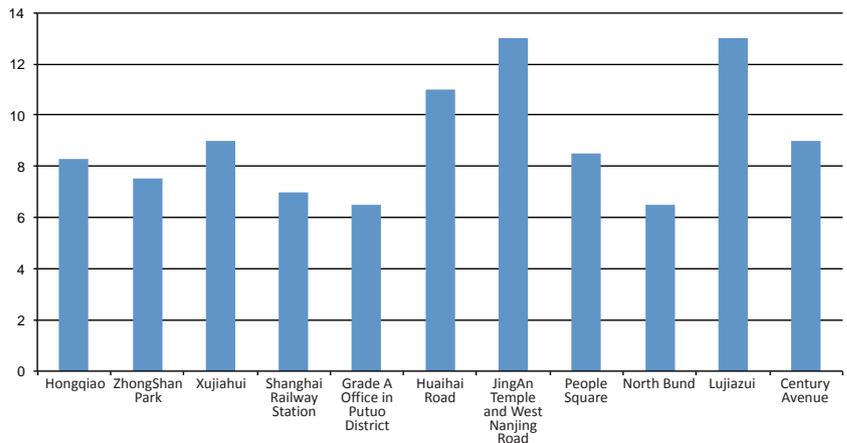
## Market Notes

The first half of the year brought to completion 19 Grade A office buildings in Shanghai. The market gained a record-setting 1.35 million square meters, more than any time in history. Due to this huge jump in supply, the vacancy rate in Shanghai rose slightly to 3.2% last month despite increased demand.

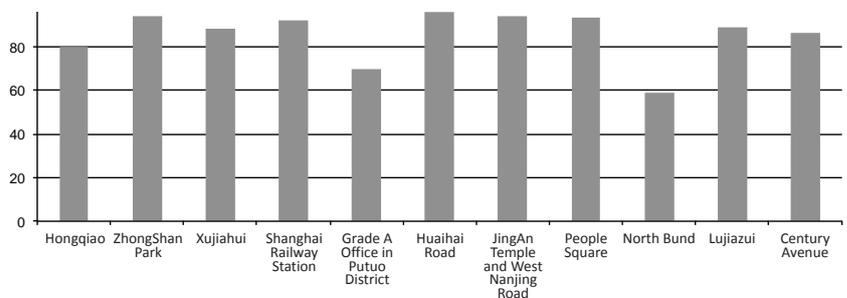
New 2nd Quarter openings included HKRI Centre Two, BFC, Sinar Mas Plaza, Capital Square, Baosteel Group Expo, Orstar City, and Longshi Square. These additions allow the CBD to reach 7.76 million square meters of Grade A office building space while in more decentralized business areas, premium office space reaches 2.95 million square meters.

Despite the boom in E-commerce, the first half year of 2017 still saw the arrival of five additional shopping malls. To expand customer reach, a variety of beauty and fashion brands are opening food/beverage shops in several new locations. Chanel begins their 12-day Coco Café pop-up store on West Nanjing Road as Bobbi Brown's Café and Hera's "Like It" dessert shop open in Raffles City.

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



Shanghai Office Occupancy in Percentage



# Global Locations



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Locally and  
Globally

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- China
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- Indonesia
- South Korea
- Malaysia
- New Zealand
- Singapore
- Taiwan

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- Bahamas
- Brazil
- Cayman Islands
- Chile
- Jamaica
- Mexico
- Panama
- Peru
- Puerto Rico
- Venezuela

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- Baltics  
( Latvia, Estonia & Lithuania)
- Denmark
- France
- Georgia
- Germany
- Greece
- Italy
- Netherlands
- Norway
- Poland
- Romania
- Russia
- Serbia
- Sweden
- Switzerland
- United Arab Emirates
- United Kingdom

## North America

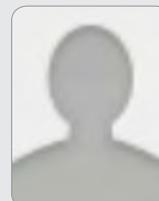
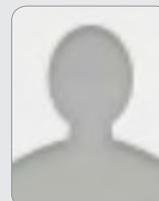
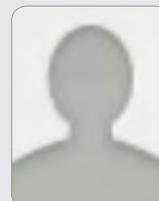
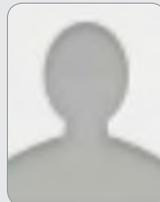
- Canada
- Mexico
- United States

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Your Shanghai office, industrial and retail property specialists

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