

Shanghai, China

Tenant's Guide ■ International Markets ■ Third Quarter 2009

Overview

Grade A and B Office

The Shanghai office market appears to have turned the corner this quarter with a noticeable increase in business sentiment. Although there have been one or two large transactions, the majority of transactions are still for small office spaces (approximately 500 sq.m.). After several quarters of increasing vacancies and declining rentals, the situation has now stabilized. Most landlords now have an optimistic outlook for the coming months.

Decentralized Office

State owned enterprises have accounted for several of the larger (5,000 sq.m. and above) transactions, although the main reason for improved performance of decentralized office locations is the decision by domestic and foreign companies alike to migrate from downtown to decentralized locations. Such locations continue to receive more and more investment from the government, especially in terms of infrastructure, and these areas, such as Hongqiao, are likely to see improved performance in the coming quarters.

R&D

This quarter has seen an increase in the number of enquiries for buildings suitable for R&D occupation. Isolated large leasing transactions (5,000 sq.m. and 10,000 sq.m. respectively) have been recorded. Landlords are much more optimistic about a potential increase in transactions in the next quarter. Local governments are much more aggressive these days to attract high value-added occupiers, particularly in the high-tech and bio-pharm industries. They are offering some very attractive incentives to qualified companies.

Market Trends

- There is an improvement in business sentiment.
- Vacancy rates are now slowing.
- Market strength is starting to move from tenants to landlords.
- The majority of deals are with state owned enterprise occupiers.
- Office rents are stabilized.
- Office parks and decentralized locations remain attractive.

Tenant's Perspective

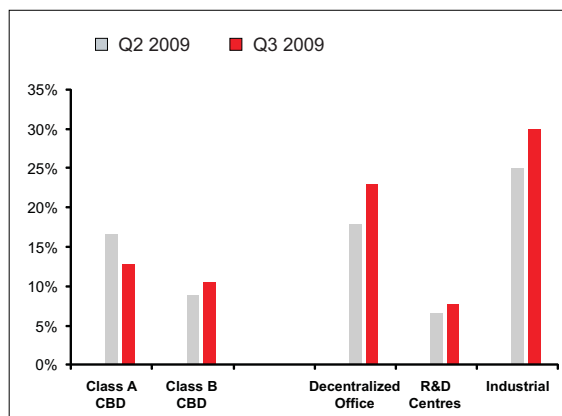
There has been a significant improvement in sentiment in recent months, and rents have now stopped declining. Although a potential rise in rentals is expected in 2010, the market is still a long way from rebounding strongly. However, until that happens, the continued investment in infrastructure in decentralized locations along with more supply coming to the market at the end of 2009 and in 2010 continue to make this a good time for tenants to negotiate with landlords.

Major Transactions

Tenant/Buyer	Size	Type	Lease/Sale
Eurofins	4,700	Office	Lease
Pioneer	1,800	Office	Lease
State Owned Software Park	6,500	Office	Lease
China Commercial Aircraft Corp.	2,000	Office	Lease
Bocom	4,500	Office	Lease
CO Wealth Group	3,000	Office	Lease
Alcatel	5,000	Office	Lease

* Size is represented in square meters

Vacancy Rate



Average Rental Rates

CBD	Q2 2009	Q3 2009
Class A Office	Rmb 382	Rmb 386.70
Class B Office	Rmb 223	Rmb 222.33
Decentralized Office	Rmb 116	Rmb 120.17
R&D Centres	Rmb 75	Rmb 100.27
Industrial	Rmb 21	Rmb 20.00

* 1US\$=6.82950 China Yuan Renminbi

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