stabilise in 2H/2014, ending the year at an average of RMB8.3 per sq m per day.

Gross reversionary yields on office assets traded by international funds are believed to have edged up, given recent transactions and deal negotiations ending the year at approximately 6.0%. Nevertheless, at the same time there are a number of assets that have been acquired by domestic funds and domestic end users at significantly lower yield valuations.

Retail sector

The city-wide shopping mall stock climbed to 7.0 million sq m by the end of the year, an increase of 12.5% YoY. Prime areas account for only 21.2% of total stock, though this figure is expected to fall to 16.5% by 2017, as new supply focuses on large-scale shopping malls in decentralised areas.

Retail rental growth has been very modest in 2014, with the market believed to be at an inflexion point. In the fourth quarter, prime retail area rents remained unchanged, while non-prime areas fell 0.2%. For the full year, this represents a 0.1% and -0.7% change respectively.

Gross yields for retail projects remain unchanged at 6.5%, due to subdued rental growth and a lack of traded assets.

En-bloc investment market

2014 overview

Total transaction consideration of RMB56 billion was concluded in 2014, down 29% compared with the previous year.

Core assets in prime locations remain popular among investors as they seek more defensive investment opportunities. Nevertheless, other more opportunistic investors are exploring opportunities in more decentralised locations that are beginning to see the benefits from improved accessibility and business environment and lower costs while still representing higher yields and greater scope for value appreciation in the midterm. The contribution of assets in core locations to the total consideration in 2014 fell to 48.4% from 65.8% in 2013.

Shanghai International Capital Plaza (ICP) was the only downtown asset sold to an international institutional investor in 2014, with others focusing on business parks for add-value opportunities and higher yields. Among the established business parks, Zhangjiang Hi-tech Park saw the most activity in 2014, benefiting from the prosperous IT industry and the expansion of Shanghai Free Trade Zone. Ascendas, Kailong REI, Starcrest Capital Partners and Morgan Stanley all purchased or established partnerships to develop commercial-use projects in this park.

Divergence between institutional investor and end-user yield valuations persisted in Q4/2014. While funds stood on the sidelines looking to pick up distressed or underperforming assets at higher entry yields, the end-user market remained very active. End-use purchasers continued to place a premium on these assets, buying above market to secure preferred premises and placing significant downward pressure on yields, especially in the office sector. While gross reversionary yields for international institutions ranged from 5.0% to 6.5%, end users were willing to pay the equivalent of 3.0-4.5%.

Q4/2014 overview

Six key deals were concluded in Q4/2014, for a total consideration of RMB8.1 billion. Assets along the Huangpu riverside remained highly sought after by both end users and investors.

Shanghai ICP was acquired by Alpha Investment for RMB1.55 billion. Located in Hongkou district, the project comprises both office and retail components, with a total GFA of 57,000 sq m.

Gopher Real Estate Fund, a subsidiary of Noah Holdings, acquired Suntown Plaza in Huangpu District for RMB3.126 billion. This is the largest deal in terms of total consideration in Q4/2014. Comprising office and retail podium space, this building is expected to be completed in 2016.

#18-1, Shanghai International Shipping Service Centre (SISSC) was bought for RMB1.3 billion by Suzhou Bank, representing a new record high unit price at roughly RMB100,000 per sq m.

Media Tek purchased 12,500 sq m of Poly West Bund Centre (13/F to 19/F)

TABLE 1

Yields and capital values by sector[1] , Q4/2014

	Grade A Office	Prime shopping mall	Prime retail street store	High-end serviced apartments	High-end strata apartments	5 star hotel
Gross reversionary	4.5-6.5%	6.0-7.0%	4.0-5.0%	4.0-5.0%	2.5-3.0%	6.5-8.0%
NOI	3.5-5.0%	4.0-4.5%	3.0-3.5%	2.2-2.8%	2.0-2.5%	1.5-2.0%
Approx. values (RMB per sq m)	50-90,000	60-100,000	150–250,000	55-70,000	100-200,000	40-50,000

Source: Savills Research

[1]Yields refer to stabilised assets in downtown locations free of any impediments and with a clean holding structure owning 100% of the building, assuming 100% occupancy. Capital values refer to the average for the building on a GFA basis – retail assets will have higher CV for lower floors.