2017 CHINA OFFICE MARKET

2017 中国写字楼市场

savills
第一太平戴维斯

Economic and Business Environment

The business environment proved challenging for many in 2016, with a shift in the economic structure creating winners and losers. The economy on the whole proved more resilient than many had forecast, though many believe this was primarily the result of a supercharged residential market in leading cities and lax monetary controls, which saw debt as a percentage of GDP balloon to over 250%. This debt overhang is comparable to some developed countries with institutional debt problems, and more worryingly, it has contributed to rapid price inflation in the last 10 years.

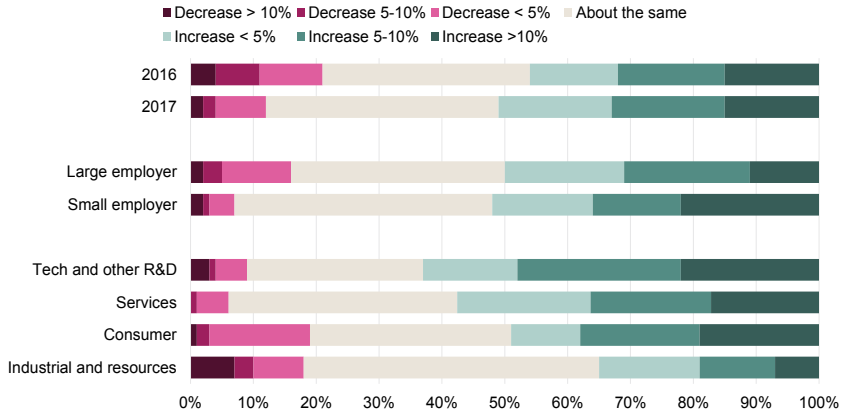
Many corporations operating in China have proven to be committed to the world's second largest economy, though many have turned more conservative in recent years, given the growing imbalances that many see within the market and increasing opportunities in other countries.

Below are some excerpts from AmCham and Bain & Company's 2017 China Business Climate Survey Report, giving an indication of American companies' performance and future plans for China in 2017.

The Chinese government has been generally pro-business and pro-investment over the last two to three years with a number of wide-ranging programmes to encourage investment and job creation, as the manufacturing and heavy industry sectors suffer from overcapacity. In the last three years, the key programmes announced have been the One Belt One Road (OBOR) program and the Asian Infrastructure Investment Bank (AIIB). The former is a development strategy and framework announced in 2013 that focuses on connectivity and cooperation between China and the rest of Eurasia, which consists of two main components: the land-based "Silk Road Economic

FIGURE 1

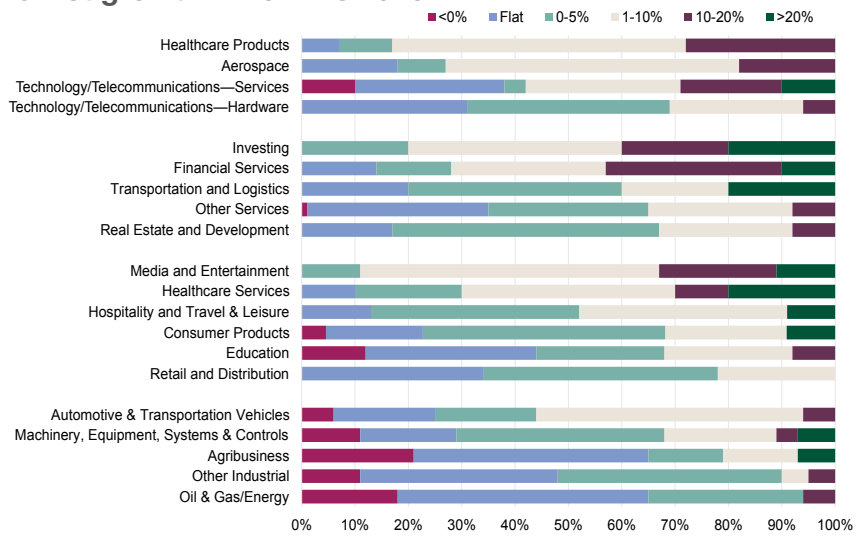
Do you expect to increase or decrease headcount in China in 2017?



Source: AmCham China, 2017

FIGURE 2

What is your or your company's forecast for your industry's market growth in 2017 vs 2016?



Source: AmCham China, 2017

MAP 1

GDP growth rates, 2015

MAP 2

Tertiary sector as a percentage of GDP, 2015

Source: National Bureau of Statistics; Savills Research

Belt" (SREB) and oceanic "Maritime Silk Road" (MSR). The latter is an international financial institution that entered into operation in 2015 and aims to support the building of infrastructure in the Asia Pacific region; the AIIB is estimated to have roughly US$100 billion of capital.

China has also introduced a number of national programmes to support local growth; namely the formation of the Shanghai Free Trade Zone (FTZ) in 2013, which was later extended to include zones in Guangdong, Fujian and Tianjin. More recently another seven zones were added, including Chongqing, Zhejiang, Hubei, Henan, Sichuan, Shaanxi and Liaoning, bringing the total FTZs to 11. The zones are testing grounds for new reforms, which if proven successful, would then be expanded across the entire country. The zones also have a 'negative list' (foreign investment is permitted in all sectors unless explicitly prohibited by the inclusion of a given sector on the negative list), faster company set-up, and liberalised foreign exchange regulations. Each zone has its own focus:

Shanghai
International trade, financial services

Tianjin
Shipping, financial leasing and high-end manufacturing

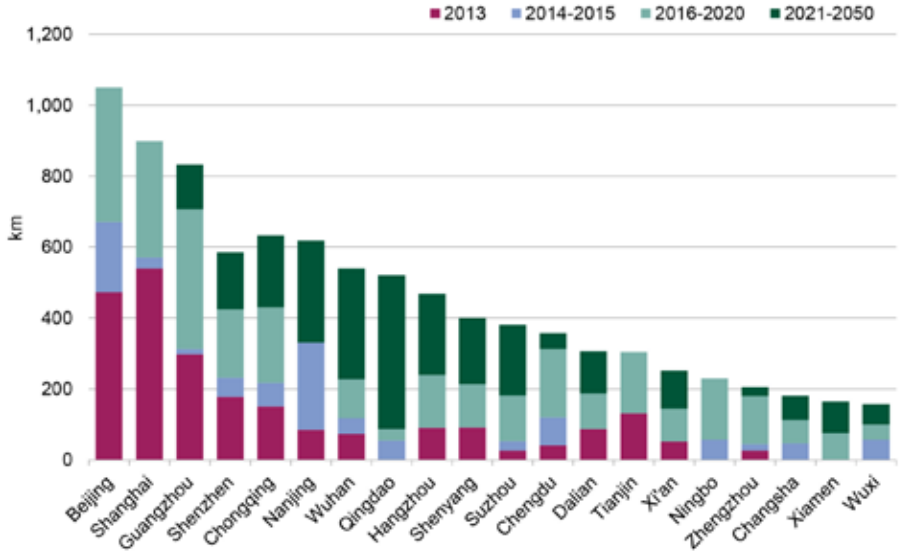
Guangdong
Finance industry, customs clearance and maritime routes to Africa and Europe

Fujian
Trade with Taiwan, production services and high-end service sector

One of the other significant changes in China over the last few years has been the transition from business tax (BT) to value-added tax (VAT). The latest round occurred in early 2016 and involved much of the services sector, and real estate and construction industries. The goal is to encourage the development of the service industry, helping the

FIGURE 3

Metro track length, by city

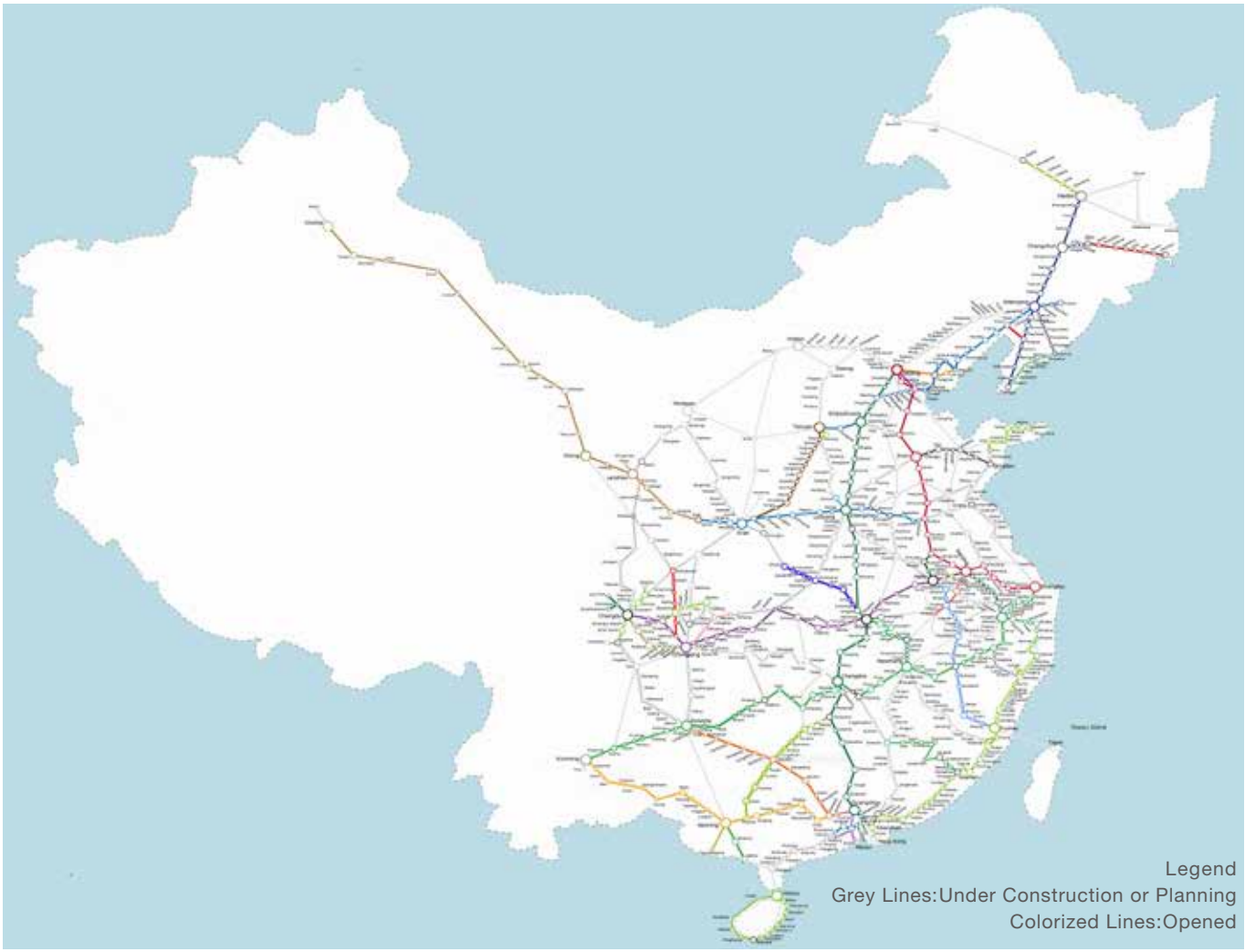


Source: Urban Land Institute; Various sources; Savills Research

economy shift from a manufacturing- and fixed-asset investment-led economy to a consumption- and services-led economy. While the tax rate is higher for some industries, the deductibles offered will mean that the transition for many companies and industries will be net neutral, with even a lesser tax burden and elimination of double taxation in many sectors of the economy.

MAP 3

China high-speed rail network, Jan 2017



Source: Travel China Guide

CHINA OFFICE

MARKET OVERVIEW

Given the volume of new supply and relatively limited demand for Grade A office space, many second-tier city markets have proved favourable to tenants over landlords for a number of years. Over the next two to three years even first-tier cities are expected to see tenants gain more negotiating power as new master-planned areas start to see projects handed over to the market. That said, there will remain certain submarkets where landlords, for one reason or another, will continue to hold the upper hand in dictating lease terms – Shanghai's "Little" Lujiazui and Beijing's Financial Street are two examples.

Slowing economic growth, increasing competition and larger space requirements are forcing a number of tenants to take a long hard look at their corporate real estate needs and the potential cost savings that could be generated by adopting different strategies, whether that be full relocation to a more decentralised area, bifurcation, or purchasing and developing their own facilities. Smaller start-ups may also consider the new range of co-working space providers that have emerged over the last two years. Beginning with SOHO China's 3Q platform, the sector has exploded in first-tier cities in the last year and started to spread to some second-tier cities. Different providers offer a different range of services and fees, and are increasingly looking to target specific industry niches. Some of these platforms have seen a significant injection of capital either from investors or developers to grow their networks as quickly as they can. The entrance of global market leader WeWork has only intensified competition further.

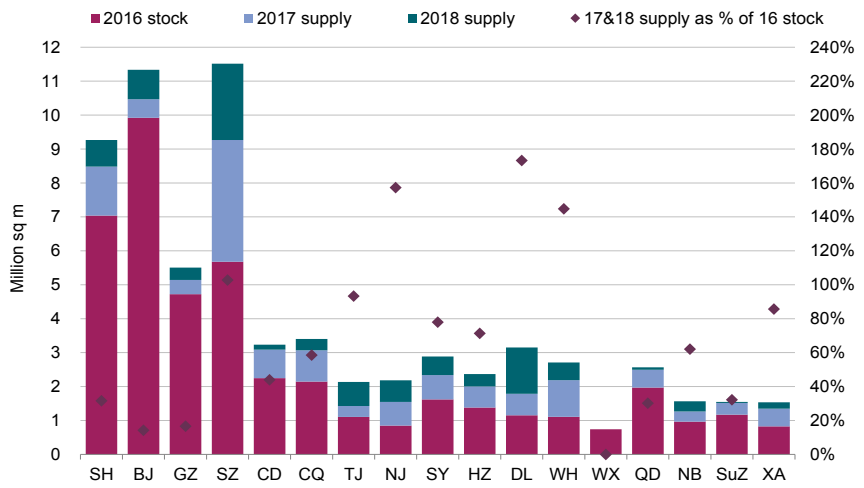
More traditional landlords are also getting in on the game, looking at increasing the range of services on offer to tenants as they look to differentiate themselves from their competition. That range of competition is not limited to existing stock and new supply. However, many cities are starting to see the conversion of historically significant buildings to corporate headquarter space or creative offices. At the same time, secondary landlords (professional leasing companies that sign master leases for premises at below-market rates and then sublet) and the upgrading of older premises by institutional investors are on the rise.

Even first-tier cities are expected to see tenants gain more negotiating power as new master-planned areas start to see projects handed over to the market.

"In certain submarkets, landlords will continue to hold the upper hand in dictating lease terms"
Savills China Research

FIGURE 4

Grade A office stock and future supply, by city

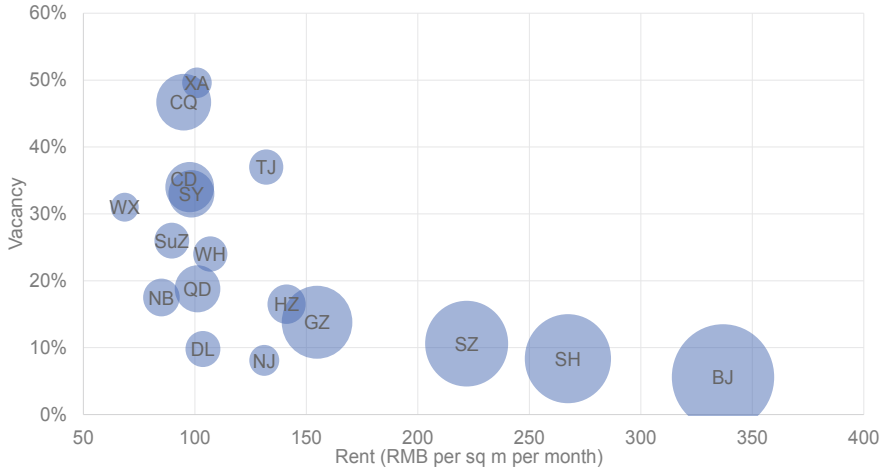


Source: Savills Research

With overcapacity in heavy industry, and the slowdown of trade and manufacturing, much of the new demand for office space is being driven by the services sector, especially the finance and IT sectors. Domestic companies, long-shielded from outside competition, are now growing rapidly and are increasingly exposed to, investing in, and learning from international peers. At the same time, the accelerated growth of new private companies and the fintech sector has intensified pressure placed on previously stodgy state-owned enterprises.

FIGURE 5

China office market key indicators, Q4/2016



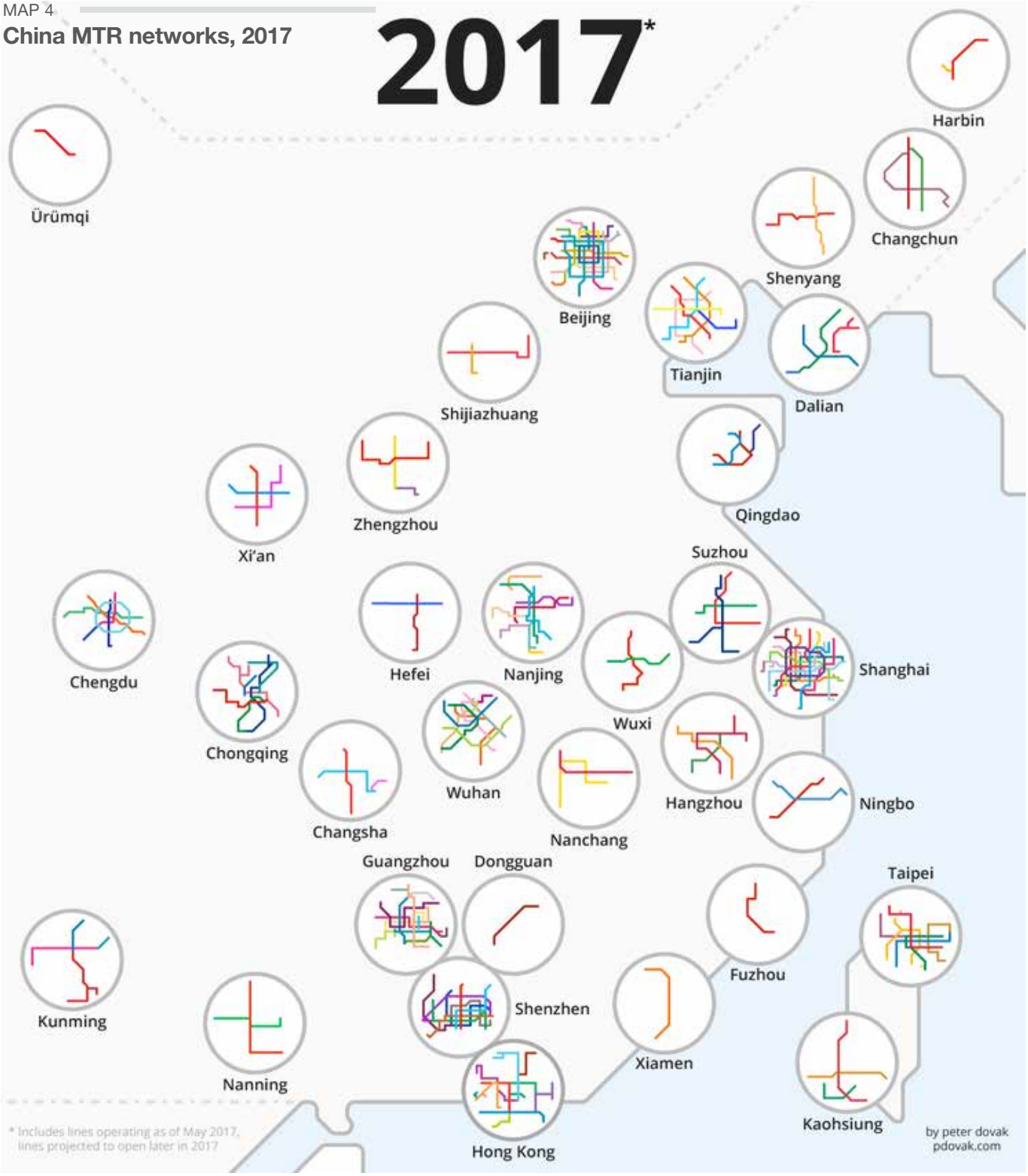
Source: Savills Research

Geography, infrastructure, and access to markets and talent pools play a significant role in many companies' decisions on office location.

The development of China's high speed rail network has cut commuting times between many large cities and created a viable alternative to air travel even over large distances. For example, many business travellers are already using trains to commute between Shanghai and Beijing (flight time: 2hr 20min; high-speed rail time: 4hr 28min). For manufacturing, trade and retail companies, or indeed any company that has a large number of offices scattered throughout the country and requires employees' frequent visit, proximity to these train stations can be

MAP 4

China MTR networks, 2017



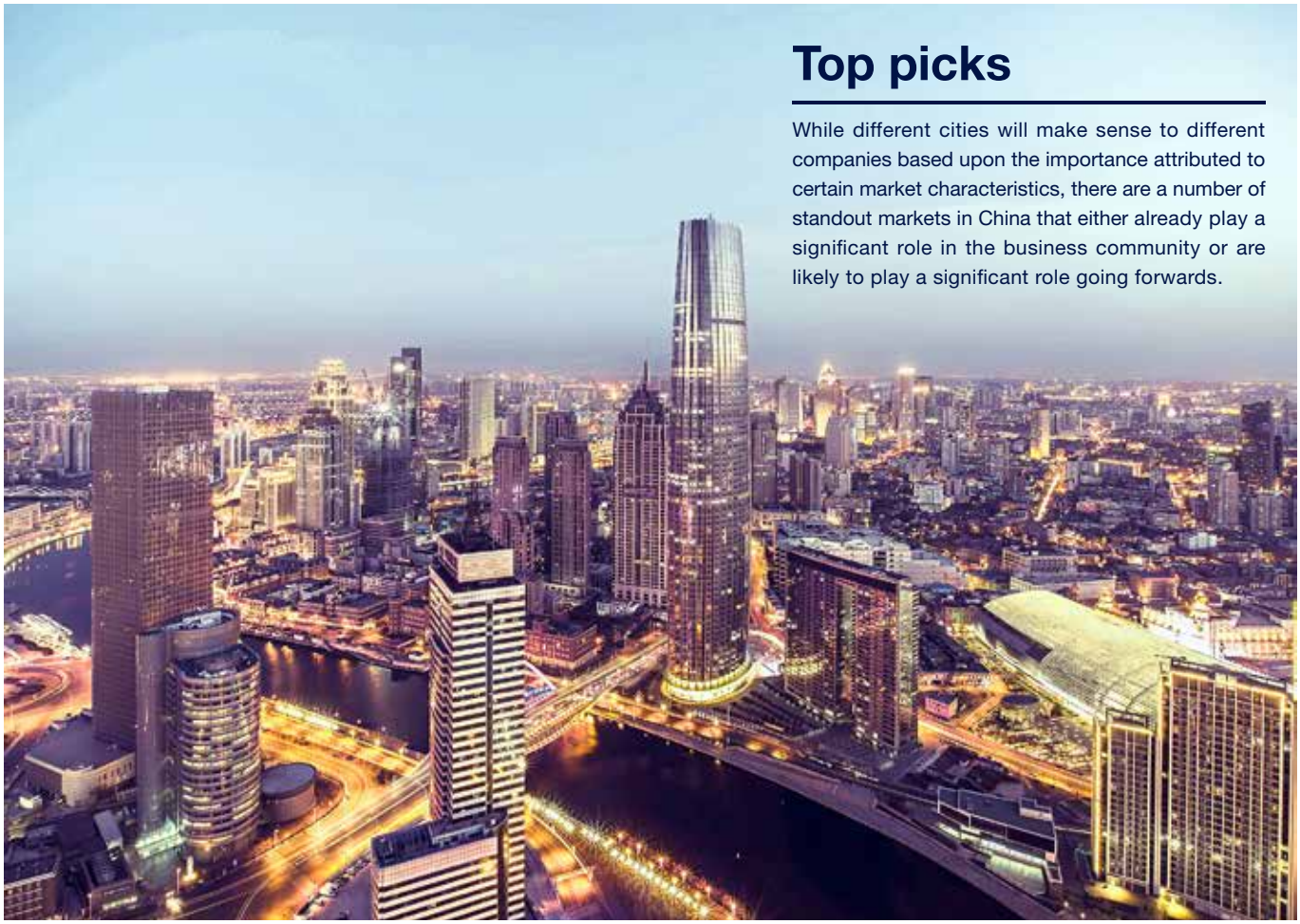
Source: pdovak.com

an important factor. At the same time, significant investments in intercity metro networks have eased congestion in the most populous cities and increased accessibility of decentralised office areas. As such, proximity to metro stations also became an important consideration.

An economy that is changing rapidly and increasingly focused on the services sector requires a large pool of young, educated workers. Cities with numerous respected universities will enable businesses to tap into the pool of some 6.8 million fresh graduates each year.

6.8 million

No. of higher education graduates in China per year



Top picks

While different cities will make sense to different companies based upon the importance attributed to certain market characteristics, there are a number of standout markets in China that either already play a significant role in the business community or are likely to play a significant role going forwards.

TABLE 1

Key city macroeconomic indicators, 2015

City	Permenant population (million persons)	GDP (RMB billion)	Primary industry (RMB billion)	Secondary industry (RMB billion)	Tertiary industry (RMB billion)	GDP growth (PY=100)	GDP per capita ('000 RMB)	FDI actual (USD million)
BEIJING	21.7	2,301	14	454	1,833	107	106.5	12,996
SHANGHAI	24.2	2,512	11	799	1,702	106.9	103.8	18,459
GUANGZHOU	13.5	1,810	23	579	1,209	108.4	136.2	5,416
SHENZHEN	11.4	1,750	1	721	1,029	108.9	158.0	6,497
CHENGDU	14.7	1,080	37	472	570	107.9	74.3	7,520
HANGZHOU	9.0	1,005	29	391	586	110.4	112.2	7,113
WUHAN	10.6	1,091	36	498	556	108.8	104.1	7,343
TIANJIN	15.5	1,654	21	770	863	109.3	108.0	21,134
NANJING	8.2	972	23	392	557	109.3	118.2	3,335
CHONGQING	30.2	1,572	115	707	750	111.0	52.3	3,770
XI'AN	8.7	581	22	217	342	108.2	66.9	4,008
CHANGSHA	7.4	851	34	448	369	109.9	115.4	4,406
QINGDAO	9.1	930	36	403	491	108.1	102.5	6,691
SHENYANG	8.3	728	34	350	344	103.4	87.7	1,061
DALIAN	7.0	773	45	358	370	104.2	110.7	2,703
XIAMEN	3.9	347	2	151	193	107.2	90.4	2,094
SUZHOU	10.6	1,450	22	705	724	107.5	136.7	6,000
NINGBO	7.8	801	29	392	380	108.0	102.4	4,234
WUXI	6.5	852	14	420	418	107.1	130.9	3,202
ZHENGZHOU	9.6	732	15	363	354	110.0	77.2	3,827

Source: CEIC; National Bureau of Statistics; Savills Research

Shanghai

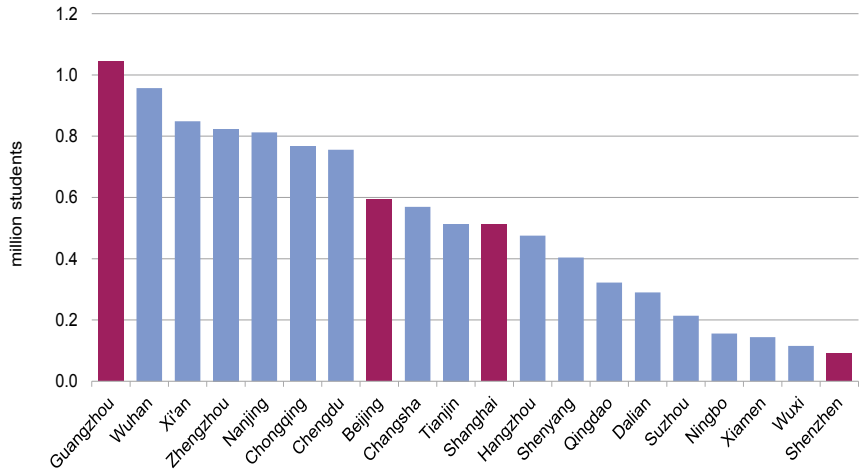
China's financial centre is home to a number of MNCs national headquarters. Its coastal location and shift to higher-value manufacturing and services have lessened pollution levels compared to its peers. As a cosmopolitan city with vibrant nightlife, numerous cultural and entertainment options, direct flight connections to many international cities, advanced city infrastructure and a pro-business government, the outlook for the continued development of the city is positive.

Shenzhen

Located a stone's throw away from Hong Kong, Shenzhen grew from a local fishing village to the technology metropolis it is today. Initially a manufacturing hub for Hong Kong businesses, the city has managed to transform itself in five years to a thriving services, finance and IT hub. The city's youthful demographics and cut-throat business environment enable it to evolve, innovate and lead the colossal and rapidly growing Chinese IT sector.

FIGURE 6

Students enrolled in higher education

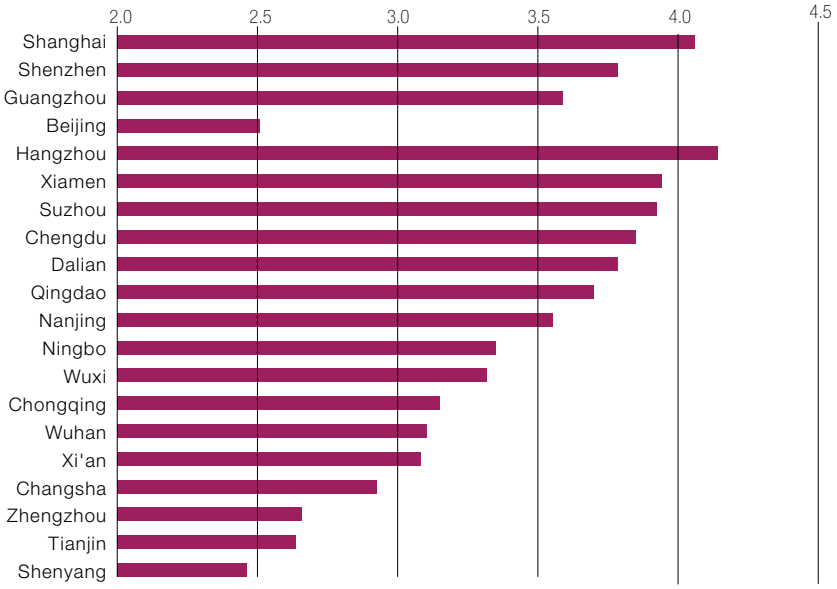


Source: National Bureau of Statistics; Savills Research

Retail sales (RMB billion)	Disposable income per capita (RMB)	Consumption expenditure per capita (RMB)	Fixed asset investment (RMB billion)	Real estate investment (RMB billion)	Airport passenger (million person times)	Students in higher education ('000 persons)	Domestic tourism (million person times)	Int'l tourism ('000 person times)
1,034	52,859	36,642	799	423	95	593	269	4,200
1,006	52,962	36,946	635	347	99	512	276	8,002
793	46,735	35,753	541	214	55	1,043	49	8,036
502	44,633	32,359	330	133	40	90	42	12,187
495	33,476	21,825	701	244	42	756	189	2,305
470	48,316	33,818	556	247	28	476	120	3,420
510	36,436	23,943	768	258	19	957	205	2,024
525	34,101	26,230	1,307	187	14	513	171	3,260
459	46,104	27,794	548	143	19	813	100	588
642	27,239	19,742	1,548	375	32	767	N/A	2,825
341	33,188	18,810	517	183	33	849	136	N/A
369	39,961	29,753	636	100	19	569	81	595
371	40,370	26,052	656	112	18	322	73	1,338
388	36,643	26,532	533	134	13	404	57	650
308	35,889	25,824	456	90	14	290	68	985
117	42,607	28,929	190	77	22	144	57	2,656
442	50,390	31,136	612	187	N/A	214	106	1,497
335	47,852	29,645	451	123	7	156	79	1,575
285	45,129	29,466	490	99	5	115	80	391
329	31,099	21,692	629	200	17	824	86	473

FIGURE 7

ULI liveability ranking, 2016



Source: Urban Land Institute

Chengdu

Benefitting from the "Go West" campaign or China Western Development programme that was initiated in 2000, Chengdu has developed rapidly over the last decade. The provincial capital of the rich, populous and fertile Sichuan province, Chengdu is home to many companies' western China headquarters.

Wuhan

A late bloomer, Wuhan also benefitted from another national plan to develop the central provinces of China. The Rise of Central China Plan was initiated in 2004 but took longer to come to fruition than the Go West campaign. Wuhan is a key infrastructure node for China's waterways and rail network as well as having the second-largest student population in the country. Wuhan has been chosen by many companies as their central China headquarters.

Honourable mention

Xiamen

Despite being one of the smallest second-tier cities (pop. 3.9 million), Xiamen's strong ties with Taiwan, coastal location, wealthy population and high livability have made it an interesting location for companies that, while domiciled in China, do not need direct access to large markets. As labour mobility increases and the economy transitions to service industries, companies will prefer locations where the most talented want to be located.

SHANGHAI

	Stock	Supply	Rental range	Average rent		Mgmt fee	Vacancy
2016	10.10 million sq m	683,000 sq m	160-350 RMB psm pmth	276 RMB psm pmth	46 USD per sq ft per annum	32 RMB psm pmth	8.4 %
YOY	+ 10.7%	+ 2.1%	+ 2.2%	+ 2.2%	+ 2.2%	– 1.5%	+ 2.3 ppts

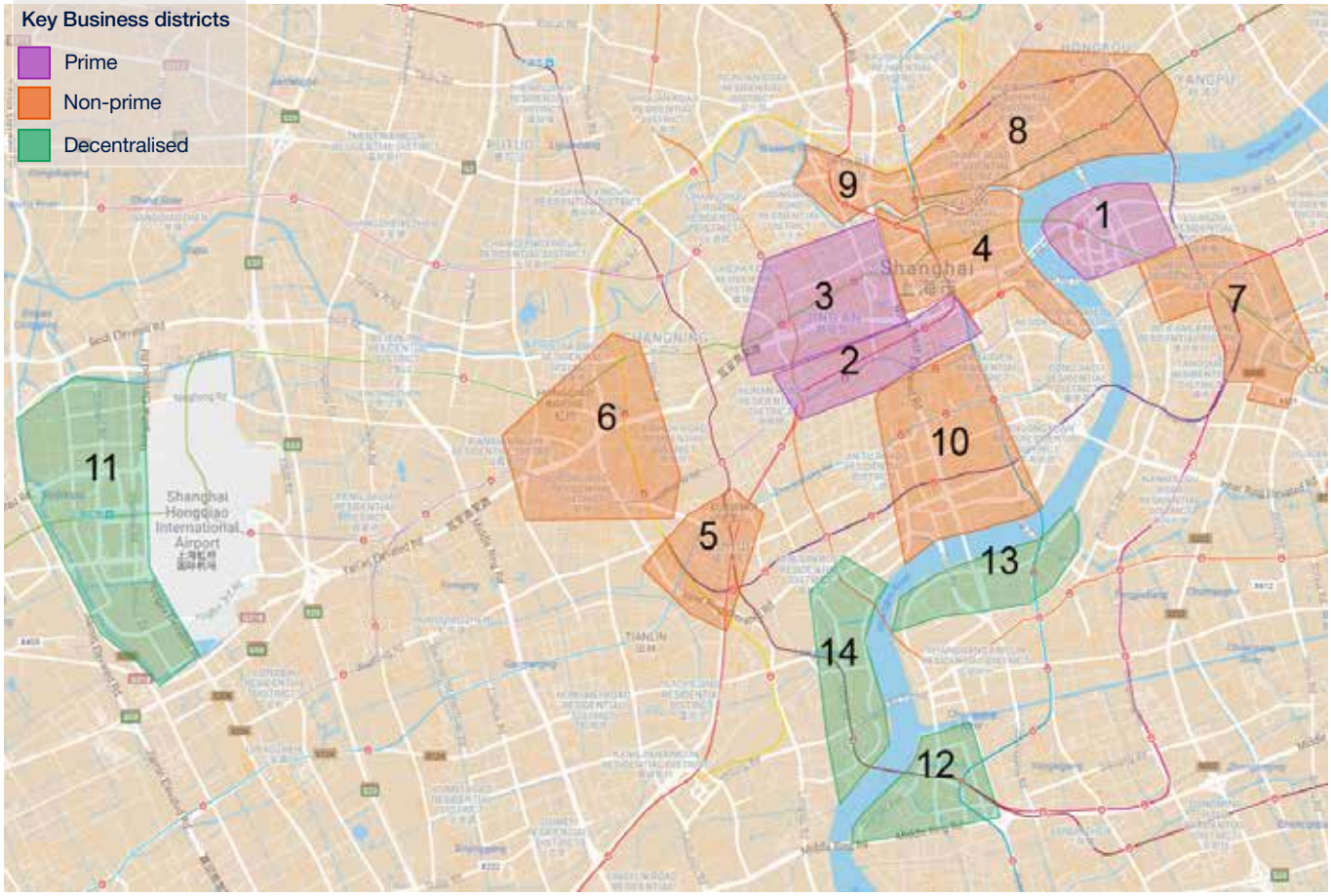
Commentary

Shanghai's economy is by far the largest and strongest in the country. Tenants are comprised of a wide variety of nationalities that are drawn to the city for its talent pool, pro-business administration, access to the Yangtze River economic region and gateway to the global economy, as well as for the city's liveability. 2016 saw the acquisition of a number of office buildings in Shanghai both by end-users helping to underpin demand and institutional investors, signifying confidence in the future of the market.

The city is currently undergoing a market transformation with the development of a number of decentralised master-planned schemes, many of them along the Huangpu River. Given the quality and critical mass of the new development areas, they have the potential to significantly impact the whole market, even prime business submarkets.

Outlook

The next three years are expected to see close to 6.8 million sq m added to the core and decentralised market in Shanghai, 55% of which will be located in decentralised areas. Despite the relative vibrancy of the Shanghai economy and business community it seems unlikely that all of this new space can be absorbed in the short term, leading to an increase in vacancy rates forecast in excess of 10%, which based on historical analysis, should result in the decrease of rents. With new commercial land plots still coming up for auction, the stream of new supply is expected to continue in coming years despite the likelihood of government tapering volume to give the market time to absorb excess supply. However, over the next few years, the tenants will retain the upper hand in many of their negotiations. Rents should start to stabilise in 2019/2020.



1 "Little" Lujiazui

The city's financial hub and most expensive and largest submarket. Almost fully built out, with tenants typically expanding to neighbouring Zhuyuan.

2 Huaihai Rd (M)

Prime retail and office district targeting professional service firms, includes Xintiandi retail area.

3 Nanjing Rd (W)

Prime retail and office district targeting professional service firms, includes Jing'an Temple.

4 Old Huangpu

Former city centre with congested roads and older buildings but very centrally located. Redevelopment of the Bund area along the Huangpu River.

5 Xujiahui

Business and retail node in the city's southwest, small submarket focusing on tenants from the retail and trade sector.

6 Hongqiao

Shanghai's first business centre in the 1980/1990s, with some new developments but mostly older projects. Tenants largely comprised of trading companies and manufacturers.

7 Zhuyuan

Key back office location for financial firms with premises in Lujiazui; significant influx of new supply in recent years. Second largest submarket.

8 North Bund

Emerging business district promoted by the Hongkou and Yangpu governments. Riverfront views of Lujiazui. Targeting domestic firms, especially those from the finance, trade and logistics sectors.

9 North Station

Redevelopment of the city's former train station, previously overlooked despite its proximity to the city centre. The area is now a viable alternative for cost-conscious professional service firms.

10 South Huangpu

New business area. A scattering of buildings along the city's north-south corridor connecting prime business areas with the former Expo site.

11 Hongqiao Transportation Hub

Key master-planned location with access to the city's domestic airport and high-speed rail station, as well as numerous metro lines and 500,000 sq m exhibition centre. Close to 5 million sq m of commercial stock upon completion, mid-rise projects for sale and lease targeting manufacturers and trading firms.

12 Qiantan

Situated to the south of the city centre along the Huangpu River, a comprehensive mixed-use master-planned scheme that in addition to office, hotels, retail and residences includes an international school and hospital. The area's development has been directed by the Lujiazui Development Group and Pudong government and is bringing in a number of leading international developers. Projects will start handing over in 2017.

13 Expo

Located on the former 2010 Expo site location, this area has been redeveloped into a state-owned enterprise (SOE) headquarter district. The densely packed business area, despite being classified as decentralised, has relatively convenient accessibility to key business districts.

14 Xuhui Binjiang

Xuhui Binjiang, located directly opposite Qiantan, is positioned as a media and entertainment district anchored by the Dream Center, by Lan Kwai Fong. Hunan TV and Shanghai media group will also have a presence.

BEIJING

	Stock	Supply	Rental range	Average rent		Mgmt fee	Vacancy
2016	9.9 million sq m	730,000 sq m	250-540 RMB psm pmth	337 RMB psm pmth	55 USD per sq ft per annum	30 RMB psm pmth	5.6 %
YOY	+ 7.4%	+ 99.5%	– 0.4%	– 0.4%	– 0.4%	0.0%	+ 2.6 ppts

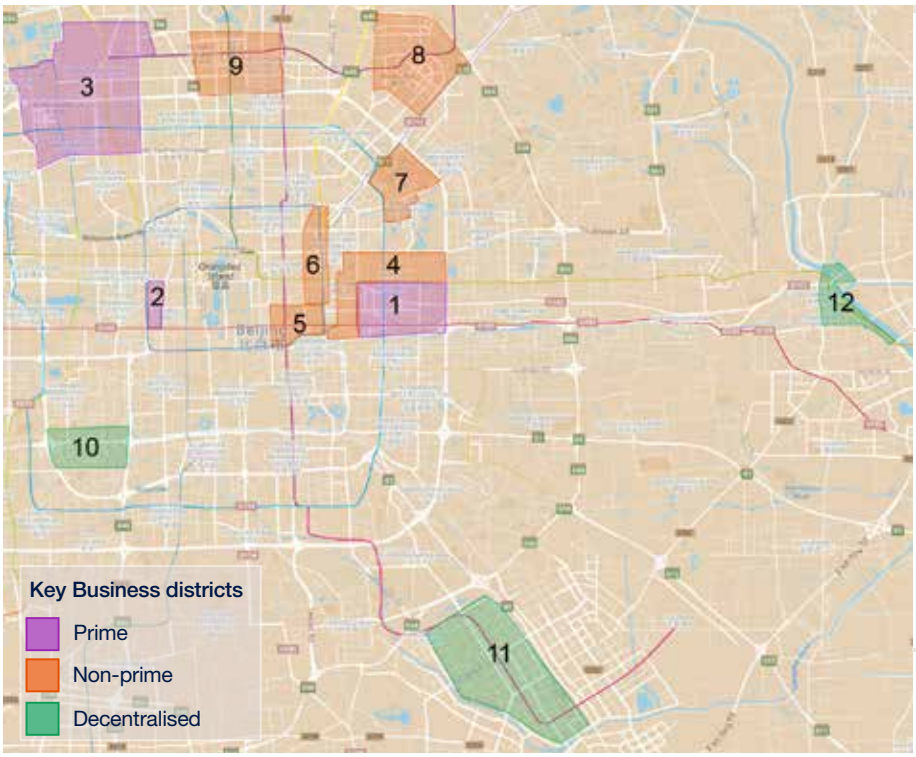
Commentary

Up until 2008/09, Beijing's office market was generally stable in terms of vacancy levels and rents. However, the dynamic began to change during a period of heavy construction in the lead up to the Olympic Games. Following the Global Financial Crisis, significant stimulus packages saw demand levels soar. This, combined with a lack of construction, saw vacancy rates fall to an all-time low of 3%, while rents doubled over a three-year period, reaching 320 per sq m per month by 2012.

Outlook

The market is expected to receive an influx of new supply in 2017, with 12 new projects with a combined GFA of about 550,000 sq m to come online. The majority of new deliveries, approximately 85% of the total new supply, will be located in non-core business districts, thus further fueling the decentralisation of the market. Despite the city's economic growth forecast to further decline in line with the national trend, the tertiary industry is expected to maintain its relatively strong growth momentum. As a result, these sectors are expected to drive the majority of leasing demand from domestic companies going forward, whilst leasing demand from foreign companies may further weaken.

A significant amount of space is scheduled for completion in 2018/19. Vacancy rates are expected to increase across the market, especially within the CBD mainly due to the CBD core extension. Existing supply in traditional business districts, especially older projects with lower building quality, may face greater pressure going forward as they will have to compete with premium projects both within the precinct and in emerging areas. To combat this, landlords will likely need to extend rental incentives to remain competitive. As a result, the overall rental gap between traditional business districts and emerging areas is expected to further narrow, constraining overall citywide rental growth in the coming years.



1 Central Business District (CBD)

Central business district of the city. Concentration of financial, professional services, manufacturing, pharmaceutical and cultural and media enterprises. Clusters of foreign enterprises including many Fortune Global 500 companies.

2 Beijing Financial Street

Beijing Financial Street is home to financial authorities and organisations including banks, securities, equities, trusts and investment banks. Dominated by domestic companies. Highest rents and occupancy levels in the city.

3 Zhongguancun (ZGC)

IT and hi-tech industrial centre and home to many famous universities and institutes. Dominated by domestic companies.

4 CBD Vicinity

The fringe of the CBD with marginally cheaper rents. A concentration of financial and professional services firms.

5 East Chang'An Avenue

One of the earliest business districts in Beijing. Concentration of professional service firms and a clustering of foreign enterprises.

6 East Second Ring Road

"Avenue of State-Owned Enterprises". Concentration of large and medium state-owned enterprises.

7 Lufthansa

One of the earliest business districts in Beijing, located in the heart of the Embassy district. Manufacturing and professional service firms remain key demand drivers. Popular with foreign enterprises from Japan, Korea and Germany.

8 Wangjing

Rapidly maturing emerging area, positioned to be Beijing's second CBD. Telecom, IT and hi-tech, digital and manufacturing firms are the main demand drivers. Cluster of foreign enterprises.

9 Asia & Olympic

Located on the former 2008 Beijing Olympic Games site. Largely a recreational site, this area has been redeveloped into a relatively new business district.

10 Lize Financial Business District (Lize FBD)

New financial business district planned for the southwest of the city. Large amount of new Grade A office supply to accommodate the demand stemming from the burgeoning financial sector and headquarters of financial companies.

11 Economic Technological Development Area

Beijing Economic and Technological Development Area (BDA) is a state-level economic and technological development zone in Beijing. The area is developed by Beijing ETOWN, an economic development and investment initiative of the Beijing municipal government.

12 Tongzhou

Emerging business district located 20 km east of Beijing's city centre. Positioned as a new administrative hub for the municipal government. The precinct is expected to play a key role in the planned integration of Beijing, Tianjin and Hebei.

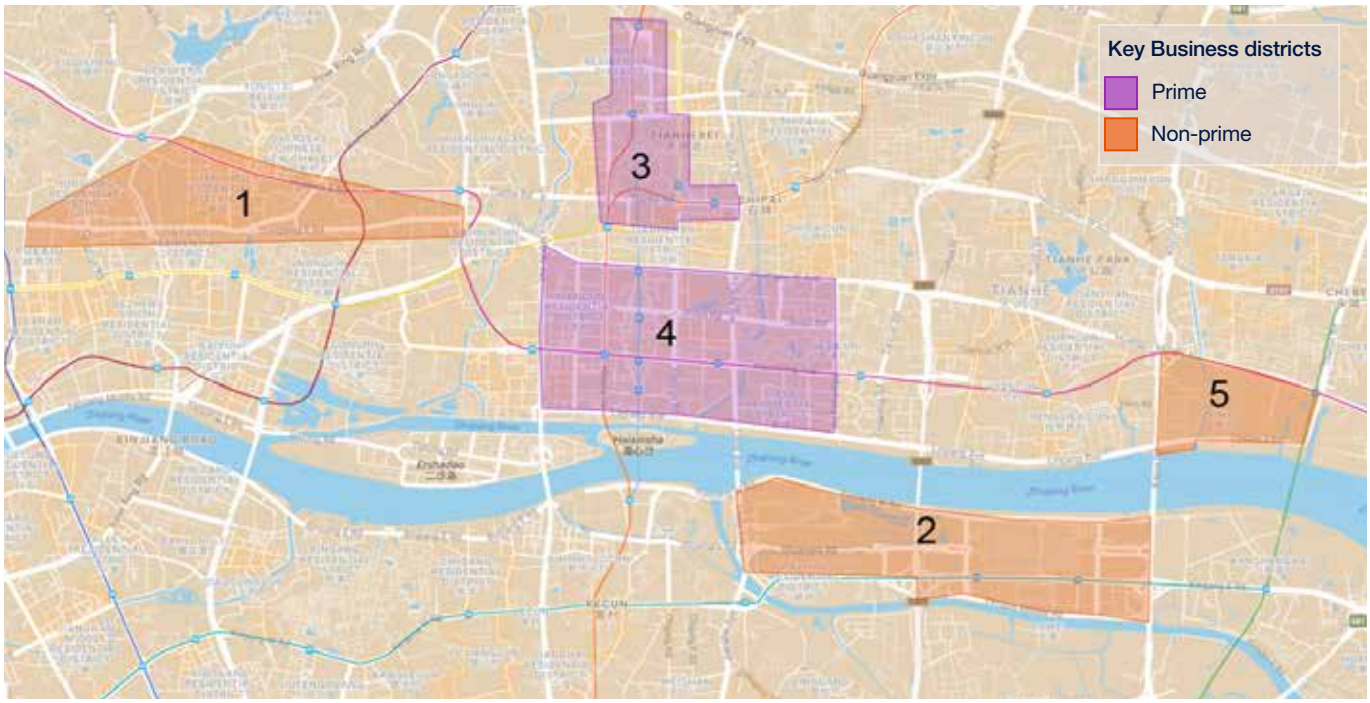
To further the integration of the Beijing-Tianjin-Hebei (BTH) economic region, the central government has announced plans to establish the Xiong'an New Area in Hebei Province approximately 100 km southwest of Beijing. While Xiong'an has already become a hotspot for real estate investment with capital pouring in from real estate developers and investors, the New Area's development and ultimately long-term impact on the Beijing office market will face steep competition from the country's existing super-city-clusters, notably Shanghai and Shenzhen, as well as 11 Free Trade Zones and hundreds of rapidly developing lower-tier cities.

	Stock	Supply	Rental range	Average rent		Mgmt fee	Vacancy
2016	4.7 million sq m	835,000 sq m	116-175 RMB psm pmth	155 RMB psm pmth	25 USD per sq ft per annum	30 RMB psm pmth	13.8 %
YOY	+ 21.5%	+ 74.9%	+ 0.9%	+ 0.9%	+ 0.9%	0.0%	+ 0.1 ppts

Commentary

Guangzhou is the provincial capital of the Guangdong province, and home to one of the fastest-growing economies in the country. Yet, it is the least expensive rental market when compared to China's other first-tier cities. The development of the city's office market has always remained relatively slow compared to neighbouring Shenzhen, where average market rents currently sit more than 40% higher than Guangzhou. In the past five years, the Guangzhou Grade A office market has witnessed a surge in demand due to its affordability and increased integration with other key cities in the Guangdong bay region. These functional and spatial integrations have resulted in a construction boom most notably in new, master-planned business areas.

Though the city's Grade A office market received historical levels of supply in 2016, the sustainable growth of the local economy and improved liveability continue to attract many international and domestic company headquarters. This



1 Yuexiu district

This traditional business area emerged in the late 1990s. Recently the area has witnessed tenant relocations to new business areas as a result of ageing office projects.

2 Pazhou

Starting out as an exhibition area with a strong hotel market, the area gradually evolved into a business area. The area is home to the Pazhou E-commerce headquarter zone, an emerging master-planned area targeting large domestic IT/e-commerce related companies.

3 Tianhe Bei

The key business area in the early- and mid-2000s. Includes a well-developed prime retail street and business area, as well as the lowest vacancy rates among all business areas.

4 Zhujiang New Town

The central business area with a large cluster of high quality Grade A office buildings since 2010 and many new high-end residential projects. This area continues to attract tenants as it further develops into a cluster area for global Fortune 500 enterprises.

5 Guangzhou International Financial City

This is a master-planned area to the east of Zhujiang New Town. It is expected to host construction of a headquarter zone for financial companies in the future. The area is now experiencing significant construction and expects to welcome its first Grade A office project in late 2018.

sustained demand has helped improve the market's absorption rate and assuage fears of oversupply.

Outlook

In the next two years, Guangzhou's Grade A office market is expected to see an average annual supply of approximately 390,000 sq m. Under a business-as-usual scenario with economic growth continuing as planned, the comparatively small volume of supply will help decrease citywide vacancy rates and support market rents. However, in 2019 the Pazhou area and Guangzhou International Financial City will begin to receive extensive supply, as both zones enter a period of initial development. Citywide demand may not be able to keep pace with such a vast amount of space in such a short period, which may put downward pressure on market fundamentals in the future.

As the development of Zhujiang New Town draws to a close over the next few years, new office supply will become increasingly focused in two large master-planned areas: The Pazhou E-commerce Headquarter Zone and The Guangzhou International Financial City. Located on opposite sides of the Pearl River, the two developments aim to become headquarter zones for technology and financial services companies.

Areas outside of the city centre, such as the Panyu and Huangpu districts, will begin to see a small numbers of projects handed over beginning in late 2018. The development of new submarkets will benefit the long-term growth of the city's office market and will also increase competition for existing projects and landlords, giving tenants the upper hand in negotiations over the short term.

SHENZHEN

	Stock	Supply	Rental range	Average rent		Mgmt fee	Vacancy
2016	6.17 million sq m	860,000 sq m	110-400 RMB psm pmth	222 RMB psm pmth	36 USD per sq ft per annum	22 RMB psm pmth	11.2 %
YOY	+ 16.2%	+ 9.8%	– 0.8%	– 0.8%	– 0.8%	+ 0.1%	+ 2.9 ppts

Commentary

Shenzhen is an energetic city that has quickly developed into one of China's main technology and innovation centres. The city is represented by its young and vibrant population, many of whom have moved here in response to the demand for high-quality work and personal career development. The city also supports its workers with favourable employment policies introduced by the municipal government over the past several years. These policies help attract and retain top talent to support its four core tertiary sectors: high-tech, consumer services, healthcare, and new energy. The city's emerging business areas continue to attract many financial services and technology enterprises, with a large number of new headquarters buildings entering the market over the next two years. The city's office market is connected by one of China's fastest growing subway networks, which is scheduled to have 20 lines in operation by the end of 2030. Improved infrastructure will accelerate the development of the city's office market by improving the connectivity of new business areas with the traditional downtown areas, and expanding residential areas in the north, northeast and west/northwest areas of the city.

1 Caiwuwei

Traditional financial and business area constructed in the 1990s. Enjoys a mature business environment and close proximity to Hong Kong. However, a lack of new supply combined with many aged projects has resulted in a growing number of tenant relocations to Futian district.

2 Futian CBD Zone

The city's administrative, cultural and business centre has witnessed rapid development since the early 2000s. The junction of many roads, subways and railways have made the area a new hub and very convenient for businesses, making it a prime destination for many financial and technology companies.

3 Central Area West Zone

An extension of the Futian CBD, the Central Area West Zone has an active office leasing market driven by financial companies. The accelerated development of the area can be attributed to its location nearby major roadways and the city's Convention and Exhibition Centre.

4 Houhai

Development began in 2006 and accelerated with the government's support for the Houhai Headquarter Zone. Many new projects have already been built with peak supply expected in 2018. Known for its sea views, the area is expected to become a new cultural and business centre as new projects are constructed on reclaimed land.

5 Qianhai

The government greenlit the development of this area in 2010 with the ambitious goal to develop the area into an international logistics hub, financial services headquarters and high-tech service centre. The Qianhai area is expected to become a key business area for companies in the trade and logistics and IT sectors, and should help support local small-medium enterprises (SMEs) in gaining access to domestic and/or international capital.

Outlook

The city's Grade A office market will welcome nearly 1.80 million sq m and 3.96 million sq m of new supply in 2017 and 2018, respectively, more than double of its existing stock. Much of this is expected to be absorbed by landlords, as 60% of the land was purchased for self-use. The supply influx is expected to create new challenges for the city's office leasing and sales markets, with rents and vacancy levels expected to be under pressure over the next two years. However, both leasing and sales demand remains strong and will continue to grow, underpinned by the entrance of new international tenants and the growing appetite of large domestic financial and technology companies for new headquarter buildings.

6 Bao'an Downtown

The centre of Bao'an district has seen rapid development since 2008. While relatively underdeveloped compared to other business districts, the area has nonetheless benefited from its location near Qianhai, the city's second Exhibition Centre, and the airport. These advantages are expected to expedite the development of the area in the coming years.

CHENGDU

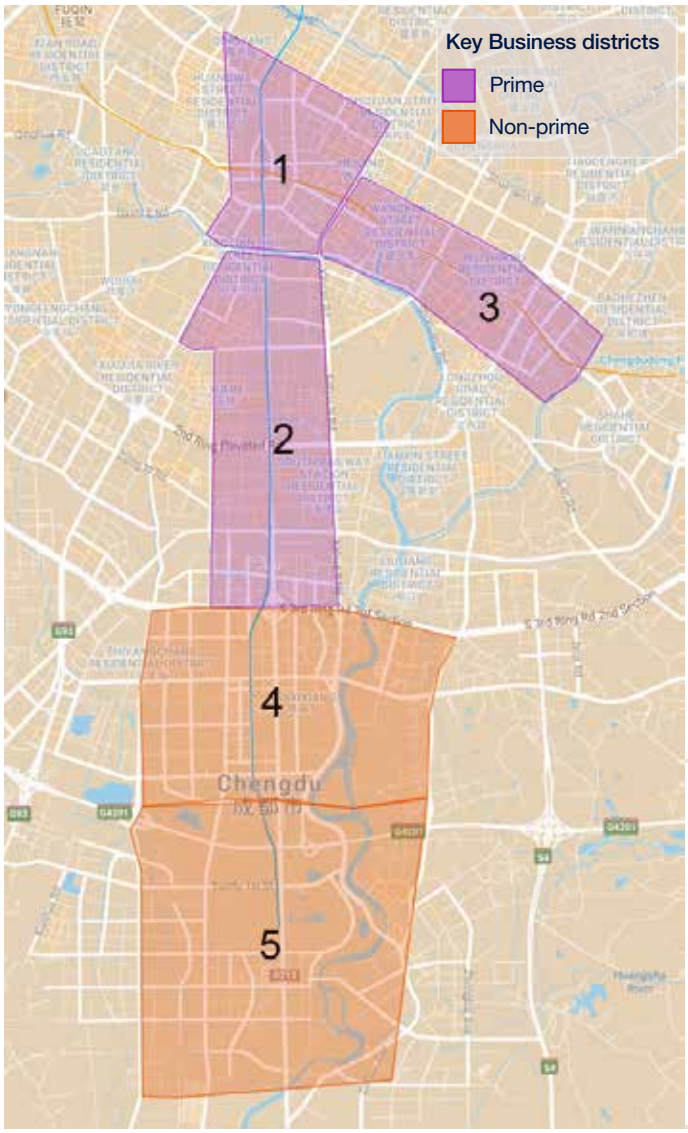
	Stock	Supply	Rental range	Average rent		Mgmt fee	Vacancy
2016	2.25 million sq m	126,000 sq m	70-135 RMB psm pmth	98 RMB psm pmth	16 USD per sq ft per annum	21 RMB psm pmth	34.0 %
YOY	0.0%	– 67.6%	– 2.3%	– 2.3%	– 2.3%	0.0%	– 6.4 ppts

Commentary

Compared to the previous year, 2016 saw fewer new projects handed over to the office leasing market due to construction delays and an increasing preference of some developers for en-bloc sales. Not surprisingly, the en-bloc sales market was very active, reflecting developers' willingness to recycle assets and investors' long-term confidence in the Chengdu market. In addition, the government issued a new incentive plan to further promote the development of office market.

Outlook

The overall market is expected to remain stable in 2017 with several projects to be launched, despite no confirmation on official launch dates. Supply is expected to decrease again in 2017 compared to the previous year, which should help improve market absorption and slow the decline of rents. With the establishment of Sichuan Free Trade Zone in Chengdu and the government's effort to promote commercial real estate, take-up in the city's office leasing market is expected to increase.



1 CBD

The city's traditional business area located in the city centre with well-developed infrastructure and, consequently, the highest rents in the city. Strong demand from a number of multinational companies, with tenants primarily from the professional services, financial, and retail and trade industries.

2 Southern Business District

The city's second prime office market located along South Renming Road comprising many stratified office buildings. Traditionally home to many financial services, consulting and biomedical companies. However, a large influx of IT, internet and e-commerce tenants have moved into the area recently.

3 Dongda Street

Conceived by the Jinjiang District Government as the site of the city's next financial centre, the area has become the first choice for many financial companies. The area has become increasingly popular among consulting, retail and trading companies as well.

4 Financial City

As the most developed part of Tianfu New City, the Financial City office market has benefited from the support of regional industrial policies, which have attracted many financial, management and consulting and IT and technology companies.

5 Dayuan

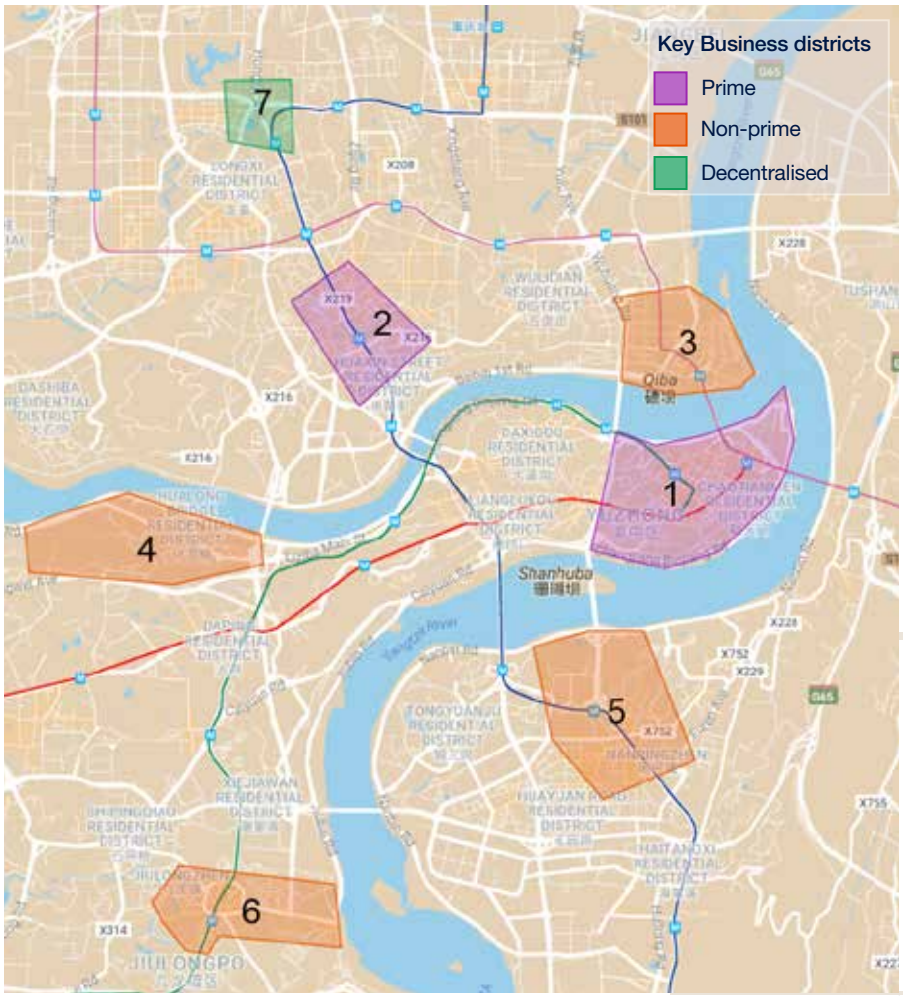
Once an emerging part of Tianfu New City, the Dayuan area received a large amount of Grade A office projects recently and become a stand-alone business area. An increasing number of high quality projects, professional property management teams and governments policies have helped improve the office market despite intensifying competition at the same time. IT and internet companies are the key demand drivers in the area.

CHONGQING

	Stock	Supply	Rental range	Average rent		Mgmt fee	Vacancy
2016	2.11 million sq m	497,000 sq m	60-120 RMB psm pmth	90 RMB psm pmth	15 USD per sq ft per annum	20 RMB psm pmth	46.5 %
YOY	+ 30%	– 18%	– 11.5%	– 11.5%	– 11.5%	0.0%	– 6.9 ppts

Commentary

A huge supply of Grade A office buildings entered market in 2016, though fewer than in 2015, resulting in a slight decrease in the citywide vacancy rate. Impacted by the large volume of new supply and increasing market competition, Grade A office rents have fallen continuously since Q3/2015. The rapid development of emerging districts, namely an influx of 600,000 sq m to Jianbeizui CBD, has changed the dynamics of the city's office market. At the same time, the establishment of the China (Chongqing) Free Trade Zone feeds plans to transform the city into a financial centre and innovation hub.



Outlook

Several new projects primarily located in the city's northern business areas, namely Jiangbeizui CBD, Xinpaifang and Jinzhou, are set to launch in 2017. Nonetheless, annual supply is expected to decrease year-on-year (YoY), giving the market time to absorb existing oversupply and helping to decrease citywide vacancy rates. Despite the ongoing economic slowdown, the service industry remains on a growth trajectory, albeit at a slower pace. Though financial services and technology companies will remain the key demand drivers, such companies have begun to be increasingly cost-conscious, which may very well drag down rents.

1 Jiefangbei CBD

The traditional business centre with over one-third of the city's Grade A office stock. The financial services, trade and professional services industries account for the largest proportion of tenanted space. Highest rents and occupancy rates among all business districts.

2 Guanyinqiao

The area is second only to Jiefangbei CBD in terms of reputation. However, it has limited Grade A office stock with many projects outmatched by the new supply of Grade A stock. Most of the tenants work in the trade or professional services sectors.

3 Jiangbeizui CBD

An emerging business area with a number of prime office buildings that has attracted a growing number of financial companies. The area records the highest vacancy rate in the city due to a recent supply influx.

4 Hualongqiao IBD

A business district anchored by Shui On Land's development. The area caters to trade, science, manufacturing and professional services enterprises. However, the district has seen comparatively low occupancy rate and falling rents due to heavy traffic congestion.

5 Nanping

One of the city's traditional business districts. However, a historically strong manufacturing presence has seen demand in the district weaken. With no new projects in recent years, rent and occupancy rates have fallen to the middle of the pack.

6 Yangjiaping

One of the traditional business districts suffering from a poor business environment and absence of new high-quality projects. Rents remain low and occupancy rates remain in the mid-range.

7 Xinpaifang

An emerging business district located in the city's north side with few Grade A buildings. Tenants are primarily trade and professional service companies. Comparatively low occupancy rates and rents due to soft demand.

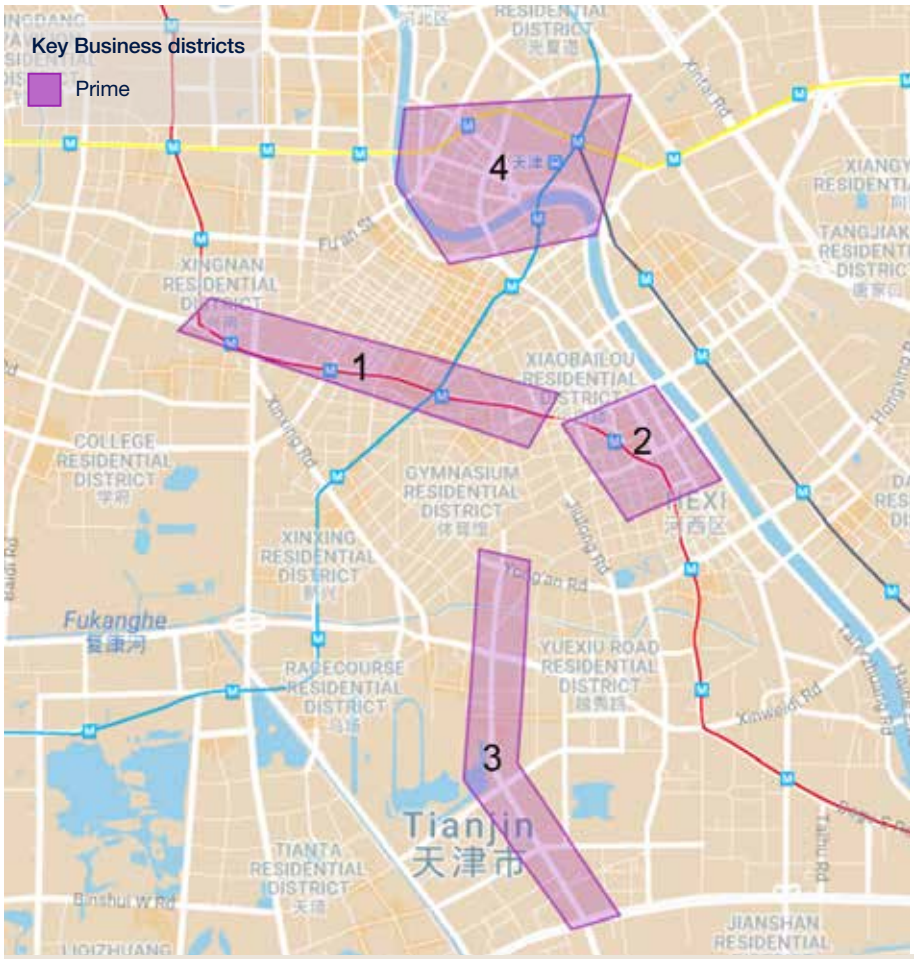
TIANJIN

	Stock	Supply	Rental range	Average rent		Mgmt fee	Vacancy
2016	1.10 million sq m	241,500 sq m	80-150 RMB psm pmth	136 RMB psm pmth	22 USD per sq ft per annum	28 RMB psm pmth	43 %
YOY	+ 13.6%	– 19.1%	– 3.9%	– 3.9%	– 3.9%	0.0%	+ 7.8 ppts

Commentary

The Tianjin's office market is less international than that of the first-tier cities, with demand driven primarily by domestic companies in the industries listed under the national positional plan, such as logistics and trade, finance and investment. In recent years, the city has witnessed rapid urban construction and economic growth, particularly in the real estate sector.

Four new Grade A office projects launched in 2016, adding 240,000 sq m to the leasing market. After the central government issued new regulations targeting the P2P lending industry, the market saw demand decrease, with remaining take-up largely driven by relocations. As a result, overall vacancy rates have climbed to a record high of 43%. In the face of weaker rental affordability by tenants, landlords have begun to adopt more flexible rental policies, putting citywide rents under enormous pressure. At the end of 2016, the city's average Grade A office rent stood at RMB136 per sq m per month down approximately 6% from its peak in Q1/2015.



1 Nanjing Road

Traditional CBD area and home to the highest concentration of Grade A Office projects. The area's mature business environment, central location and good infrastructure have made it a key office location for many large multinational and domestic companies, including foreign banks and financial institutions.

2 Xiaobailou Area

Due to its central location and high concentration of Grade A offices, the Xiaobailou area is viewed as one of the city's prime office markets, ranking second after the Nanjing Road area. Numerous for-lease projects have attracted have attracted a diverse tenant mix composed primarily of well-known local companies.

Outlook

The city is scheduled to welcome several new projects in 2017, including Lujiazui Financial Plaza, Hopson International Building and Tai'an 5. New supply, which is expected to exceed 263,000 sq m, will continue to intensify competition in the city's office leasing market. Competition among new projects is expected to add more uncertainty to the office market in terms of both the launch dates and the lease or sales strategies of projects in the pipeline. However, leasing demand is expected to increase, especially from the manufacturing and modern services sectors, due to the increasing relocation of tenants from Beijing.

3 Youyi Road

Though not as developed as either the Nanjing Road or Xiaobailou areas, the Youyi Road office market has welcomed a number of new Grade A projects in recent years. The new supply has attracted strong demand in particular from local government administrative offices and SOEs.

4 Haihe Riverside

The Haihe Riverside area witnessed an accelerated development which saw large volumes of supply enter the market over a relatively short period of time, resulting in a comparatively high vacancy rate. With the bulk of projects handed over, growing demand for the submarket is expected to see vacant space absorbed. Financial institutions and professional services firms account for the majority of new leases in the area.

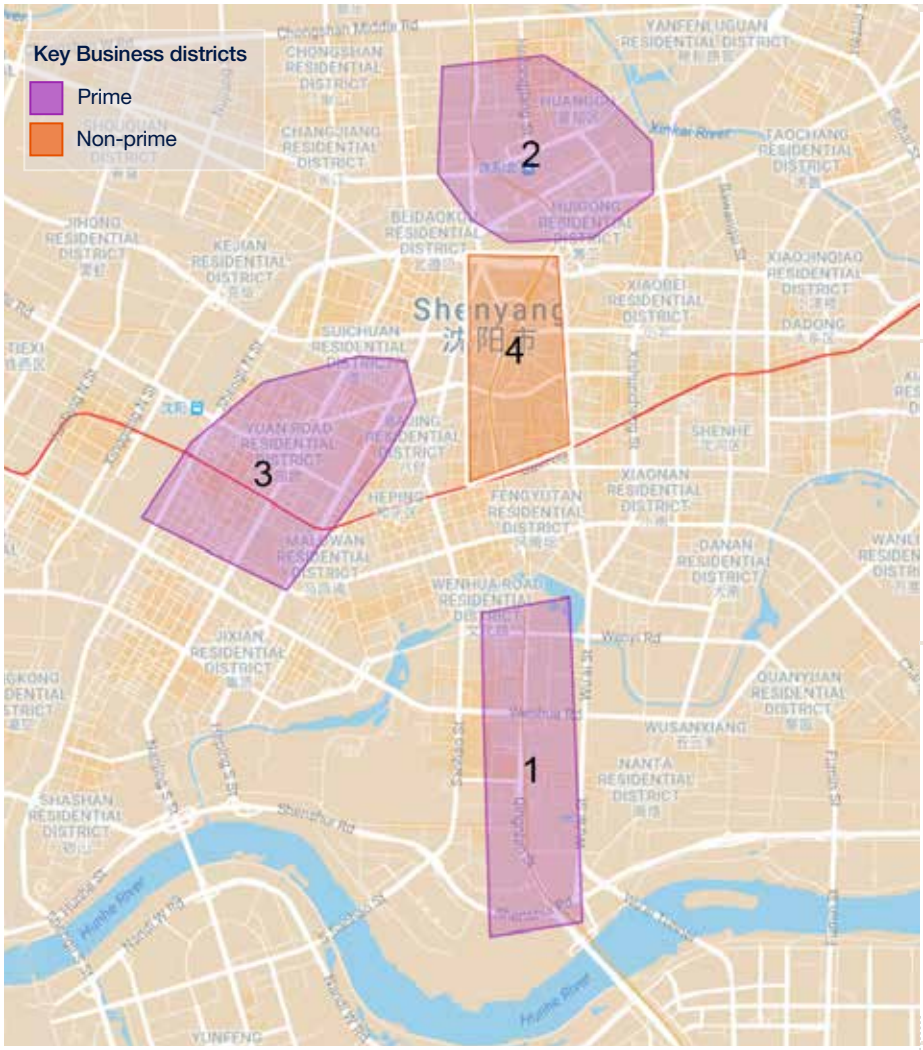
SHENYANG

	Stock	Supply	Rental range	Average rent		Mgmt fee	Vacancy
2016	1.6 million sq m	203,000 sq m	90-130 RMB psm pmth	118 RMB psm pmth	19 USD per sq ft per annum	24 RMB psm pmth	37.3 %
YOY	+ 14.3%	– 39.3%	– 10.8%	– 10.8%	– 10.8%	0.0%	– 2.4 ppts

Commentary

Shenyang, the capital of the Liaoning province, is the largest international city in the northeast region of China. It is also the political, financial and cultural hub of northeast China, as well as one of the most important industrial centres in the country.

The city benefitted greatly from the "Strategy of Improving the Development of Industrial Bases of Northeast China" announced in 2003. By the end of 2016, Shenyang recorded one of the highest



1 Wulihe

The city's newest CBD and the home to the largest share of Grade A office. A diversified tenant mix comprising finance, trade, media, technology and manufacturing companies.

2 North Station

The city's traditional CBD, located in the Financial and Trade Zone of North Station. Second to the Wulihe district in terms of rental levels.

3 Zhongshan Square and Heping Avenue

One of the earliest established office submarkets in Shenyang. Lacking new supply, projects in the area are no longer considered high-quality. However, the area is expected to receive a large volume of supply over the next two years (2017-18).

4 Municipal Government Square

The area has lacked new supply, keeping its stock relatively low compared with other areas. Policy support from the government has seen more international developers enter the market along Qingniandajie, the Golden Corridor, which is expected to bring many high-quality projects to the precinct.

GDPs among the cities in the Liaoning, Jilin and Heilongjiang provinces, second to only Dalian. However, as manufacturing remains the city's pillar industry, the recent economic downturn has plagued the office market.

Coming off the back of a supply peak in 2015, the market remains in a period of oversupply. This, combined with weak economic conditions, resulted in low transaction levels. It is expected that market absorption will not improve in the near future, extending the current supply glut which has seen the overall Grade A vacancy rate reach 37.3% at the end of 2016.

Outlook

The city's Grade A office market is expected to witness a second supply peak in 2017, with the arrival of approximately 717,000 sq m of new Grade A office GFA. The majority of new supply will be concentrated in the Golden Corridor, Zhongshan Square and Heping Avenue areas, and will increase total Grade A office stock to approximately 2.34 million sq m.

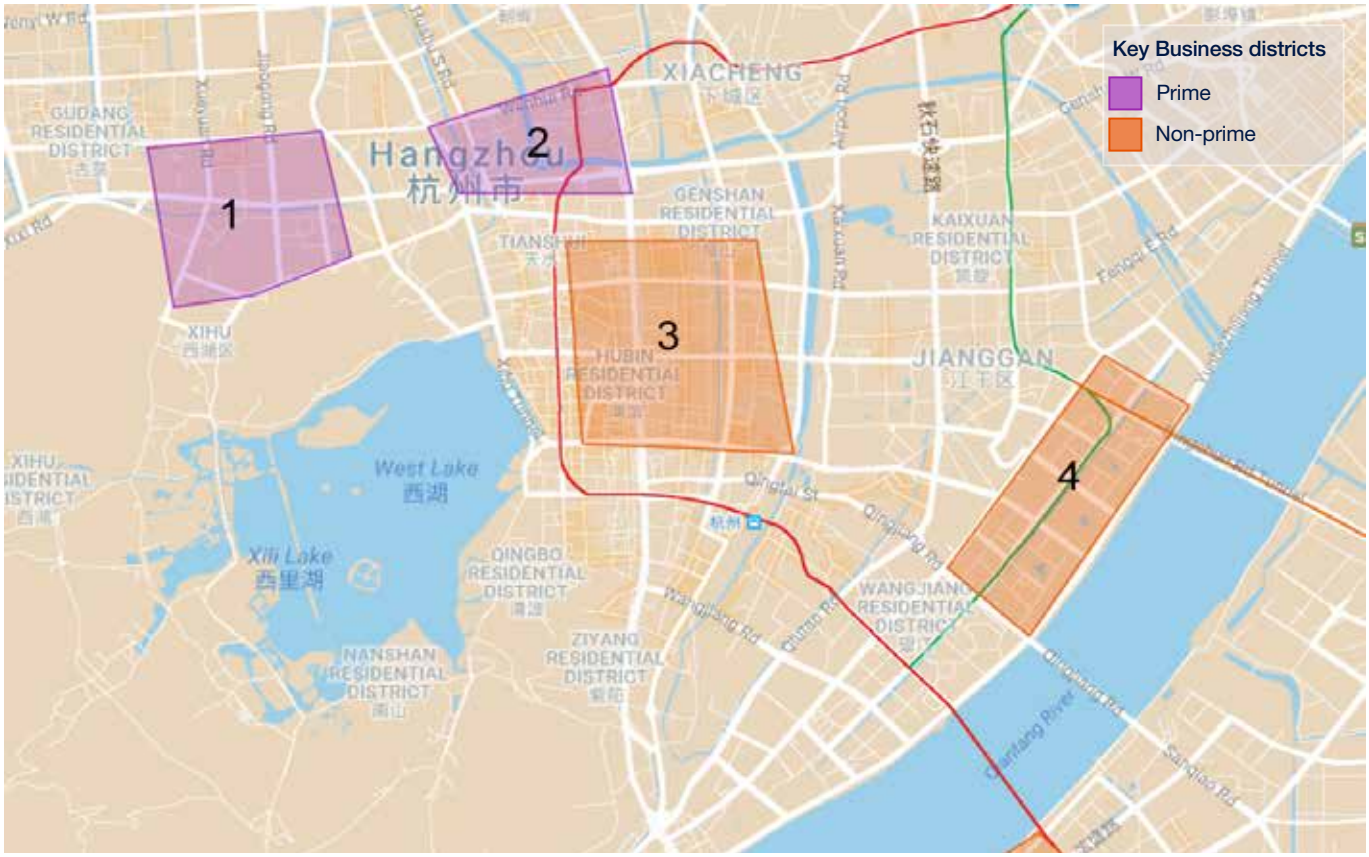
Weakening economic conditions will see continuous soft demand from tenants. This, combined with the scheduled influx of new supply, is forecast to put downward pressure on rents, particularly those of existing projects, and increase citywide vacancy rates.

HANGZHOU

	Stock	Supply	Rental range	Average rent		Mgmt fee	Vacancy
2016	1.54 million sq m	244,500 sq m	100-290 RMB psm pmth	150 RMB psm pmth	25 USD per sq ft per annum	20 RMB psm pmth	17 %
YOY	+ 19%	– 5%	+ 1.8%	+ 1.8%	+ 1.8%	0.0%	– 9 ppts

Commentary

As the site of the 2016 G20 Conference, Hangzhou's economy, already one of the most stable in the country, has experienced a surge of activity, resulting in a rise of both citywide Grade A office rents and occupancy rates. The local government remains committed to developing Hangzhou into a regional finance and wealth management centre. The city is already home to many



technology companies including Alibaba as well as a number of large domestic and international financial corporations.

As the city's traditional prime submarkets are fully built out, emerging markets such as Qianjiang New City will provide the city with new space to grow. Incentivised by new office buildings and comparatively low rent a fair number of companies have already relocated to new emerging markets.

Outlook

The next three years will see approximately 1.02 million sq m added to the Grade A office market, 83% of which will be located in non-prime areas. 85% of offices in non-prime areas will be in Qianjiang New City. Despite increase demand in emerging submarkets, the relatively fast pace and large size of development means that these new projects will result in elevated vacancy rates in the short term. Meanwhile, as supply in the prime areas remains tight, these areas are expected to see slight improvement in rents and vacancy levels.

1 Huanglong

Historically the favoured location of multi-national corporations due to its proximity to Zhejiang University. High rents but comparatively old building facilities. Limited new offices planned as the area is already built out.

2 Wulin

The most expensive submarket housing many new buildings with modern designs and facilities, including those by renowned developers. Major tenants include well-known financial institutions and regional headquarters of large domestic companies.

3 Qingchun

Non-prime retail and office district targeting finance, insurance and trade companies. Still largely under construction with most new projects being large scale.

4 Qianjiang New City

New emerging and prime-to-be submarket with high-quality office buildings yet lower rents. Improved public transport in the area will be accompanied by increase demands. Supply influx is expected in the coming years.

DALIAN

	Stock	Supply	Rental range	Average rent		Mgmt fee	Vacancy
2016	1.15 million sq m	40,000 sq m	80-140 RMB psm pmth	109 RMB psm pmth	18 USD per sq ft per annum	28 RMB psm pmth	10.1 %
YOY	+ 3.4%	+ 100%	– 6.7%	– 6.7%	– 6.7%	0.0%	– 0.1 ppts

Commentary

Holding strong ties with the East Asia region, Dalian, a major seaside port, is northeast China's most important financial, shipping and logistics hub.

The enduring economic downturn continues to weaken leasing demand. Consequently, landlords are under pressure to extend rental discounts and incentives in order to fill vacant space in their projects. As a result, Grade A office effective rents declined 6.7% to an average of RMB109 per sq m per month (exclusive of property

management fees) by the end of 2016. The citywide vacancy rate stood at 10.1% by the end of 2016.

Outlook

Following a series of delays in project delivery, the city's office market has accrued a bottleneck of supply, which is expected to flood the market over the next three years. With demand already strained, the oversupply of new office space is forecast to raise vacancy rates. However, more handover delays could be possible.

Xinghai Square and East Harbour areas are scheduled to receive the majority of high-quality supply, which should help them transition rapidly into mature business centres. However, the substantial level of new supply is expected to outstrip demand, causing landlords to extend rental discounts in order to attract and retain tenants. As a result, it can be expected that the market will experience a continuous decline in rents until the vacant space is absorbed.

1 Renmin Road

The city's traditional business district. The majority of office stock in this area is outdated and offers lower-quality facilities. The area continues to offer the lowest rents in the city and sees strongest demand from domestic companies with tight rental budgets.

2 Qingniwa

Mature business district and home to numerous prime office buildings. Continues to attract a number of overseas companies.

3 Xinghai Square

Few existing projects but an imminent supply influx of high-quality buildings will transition the area rapidly into a mature business environment.

4 East Harbour

The eastern extension of the Renmin Road CBD has become a new business district in its own right. Given the area's high-quality facilities and services coupled with the strong tenant affordability, the area commands the highest rents in the city.

	Stock	Supply	Rental range	Average rent		Mgmt fee	Vacancy
2016	1.1 million sq m	193,000 sq m	115-155 RMB psm pmth	129 RMB psm pmth	21 USD per sq ft per annum	26 RMB psm pmth	15 %
YOY	+ 21.1%	+ 64.6%	+ 1.0%	+ 1.0%	+ 1.0%	0.0%	+ 2.0 ppts

Commentary

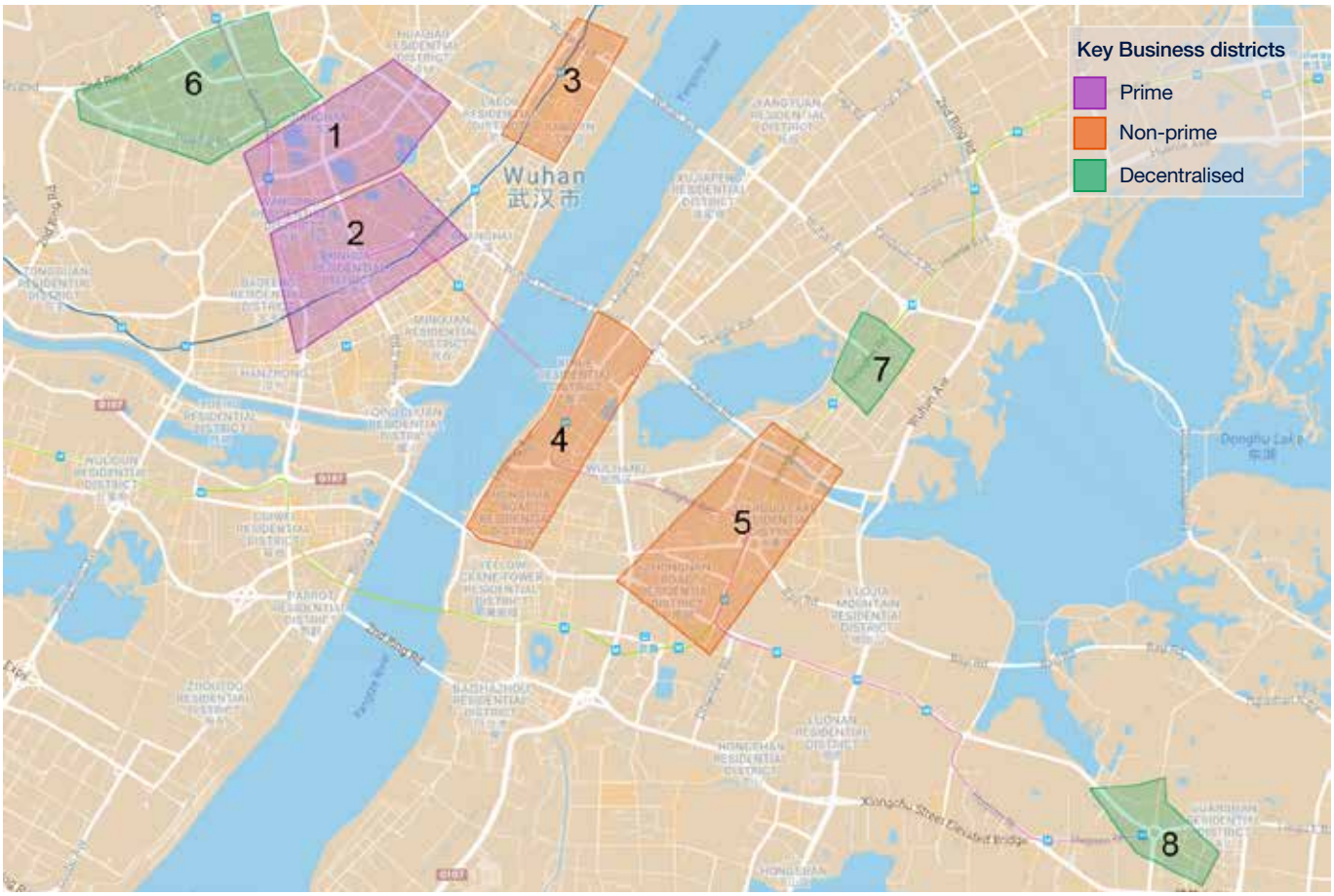
The Central Government proposed the "Rise of Central China Plan" in 2004, revitalising central China's economy with policy support. Wuhan has remained one of the main beneficiaries of this scheme, helping to re-establish itself as the political, financial and cultural centre of central China.

Both tenants and investors are showing increasing interest in good quality and single ownership offices, while currently these kinds of buildings are still limited in Wuhan. Although most traditional business districts remain central to the business environment in the city, emerging areas appear to be breaking the status quo in recent years.

Outlook

The next three years expect to see close to 1.6 million sq m being added to the market in Wuhan. Given the city's historical take-up level, the new supply is expected to push up vacancy rates with no major rental increase in the short term. In the long term, the new supply will have a significant effect on the development of Wuhan's office market, attracting more investment to the city.

Wuhan is currently improving the city's infrastructure, including several metro lines and connections to the airport. These will largely alleviate congestion between the districts and boost commuting efficiency, which will also benefit the city's office property market.



1 Jianshe Avenue

The traditional financial street, where most of the big domestic and foreign banks, insurance companies and financial institutions have a presence. This area also attracts MNCs and SOEs from a wide range of industries such as professional services, trade, manufacturing and real estate.

2 Wuhan Square

The city's traditional retail area. Heavy congestion and limited developable land continue to hamper the area. MNCs such as trade, manufacturing and pharmaceutical companies tend to occupy most of the Grade A office space.

3 Hankou Riverside

Despite not locating in the heart of the city centre, Hankou Riverside area commands the highest rent in the city with high-quality buildings and management.

4 Wuchang Riverside

A developing area just across the Yangtze River, catering to a mix of SOEs, international companies and domestic private companies.

6 Wangjiadun CBD

With good connection to the Jianshe Avenue and Wuhan Square areas, and also with relatively adequate land to develop, Wangjiadun plans to become the new city centre of Wuhan. The 88-floor Wuhan Tower is expected to become a new landmark of the city.

5 Zhongnan Road

Wuchang district's oldest business area benefits from easy public transport access (two metro lines nearby). Tenants are mainly domestic financial and real estate companies.

7 Shuiguohu

With the provincial government located in Shuiguohu, the area has generated increasing interest in recent years, especially following the handover of the Wanda Group's complex.

8 Guanggu

Another booming office submarket with plenty of Grade B office buildings accommodating small private businesses and start-ups.

NANJING

	Stock	Supply	Rental range	Average rent		Mgmt fee	Vacancy
2016	849,000 sq m	0 sq m	130-152 RMB psm pmth	146 RMB psm pmth	24 USD per sq ft per annum	16 RMB psm pmth	6.9 %
YOY	0.0%	N/A	+ 1.6%	+ 1.6%	+ 1.6%	0.0%	– 6.4 ppts

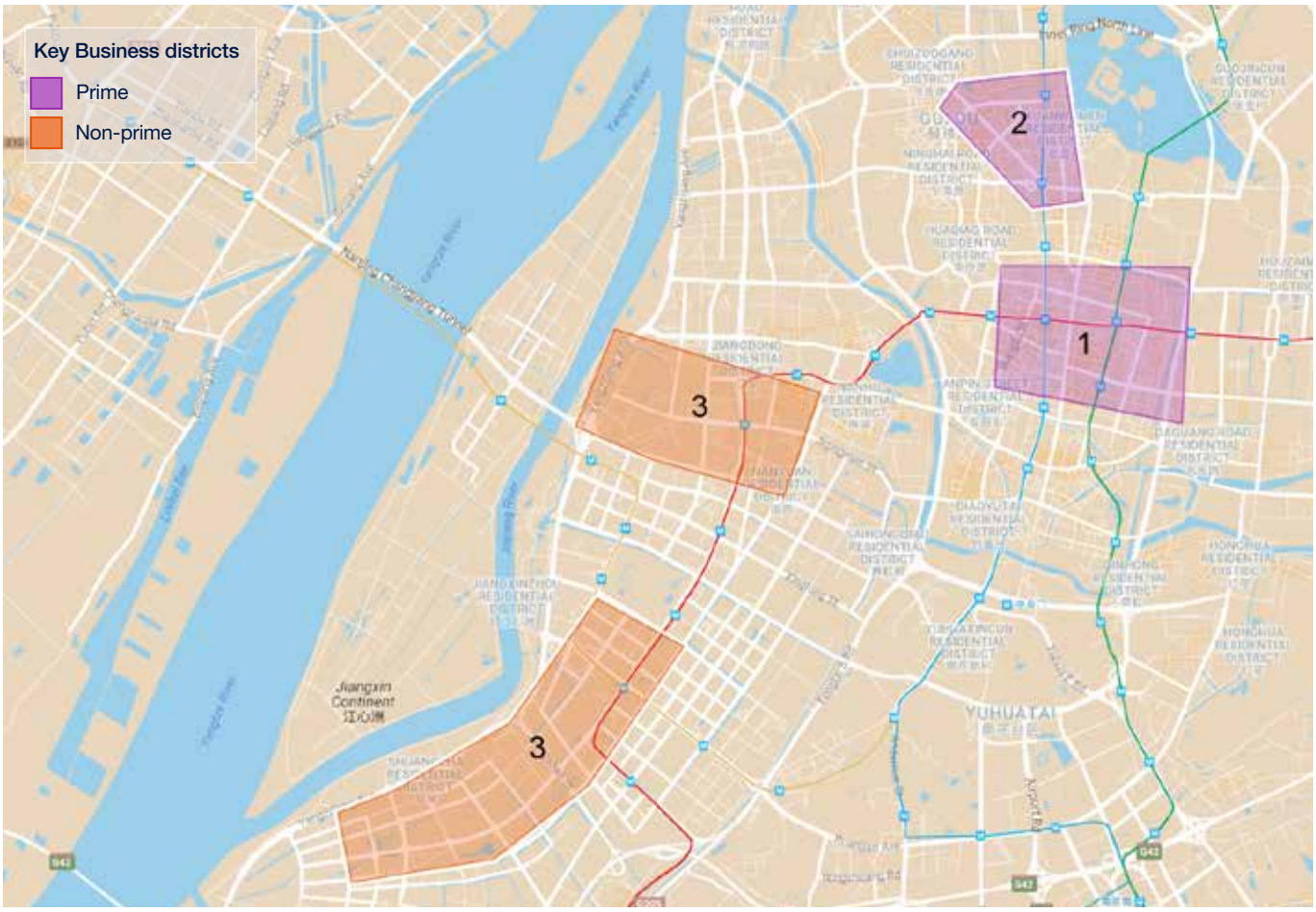
Commentary

A key transportation hub of goods and people, Nanjing acts as a gateway between the Yangtze River Delta (YRD) and central/western China, as well as an important stop on the Beijing-Shanghai railway segment. While known for heavy industries, over 50% of its GDP is now contributed by the service sector.

Although Nanjing is not one of the top second-tier cities in terms of total population or GDP per capita, the city's historical and political importance, as well as its cultural and social differences to Shanghai, has made Nanjing an important independent market in the YRD. Nanjing's tertiary industry, currently a key economic driver for cities in China, has benefited from the city's numerous top-tier educational institutions, ranking among the top five in the country.

Outlook

The next three years are expected to see close to 1.79 million sq m added to the Grade A office market in Nanjing, 58.3% of which will be located in emerging areas. The limited future supply in prime areas and the improving



1 Xinjiekou

The city's main business area attracts a broad range of businesses, including both SOEs and MNCs from the professional services, finance and trade sectors. Despite congestion issues, convenient metro access and a clustered business environment have created and maintained strong demand for the area.

2 Gulou

Located just north of Xinjiekou and built on a smaller and less dense scale, the area caters to SMEs and smaller MNCs, typically from a manufacturing background though there are also some financial firms. Most projects were completed in the past five years and there will be limited upcoming supply.

3 Hexi New Town

Hexi New Town is a well-planned, emerging area with a steadily growing business environment. Several municipal administrative offices have already relocated to this area and more companies are expected to follow for relocations or expansions as rents in the area are significantly lower than in the other two business districts.

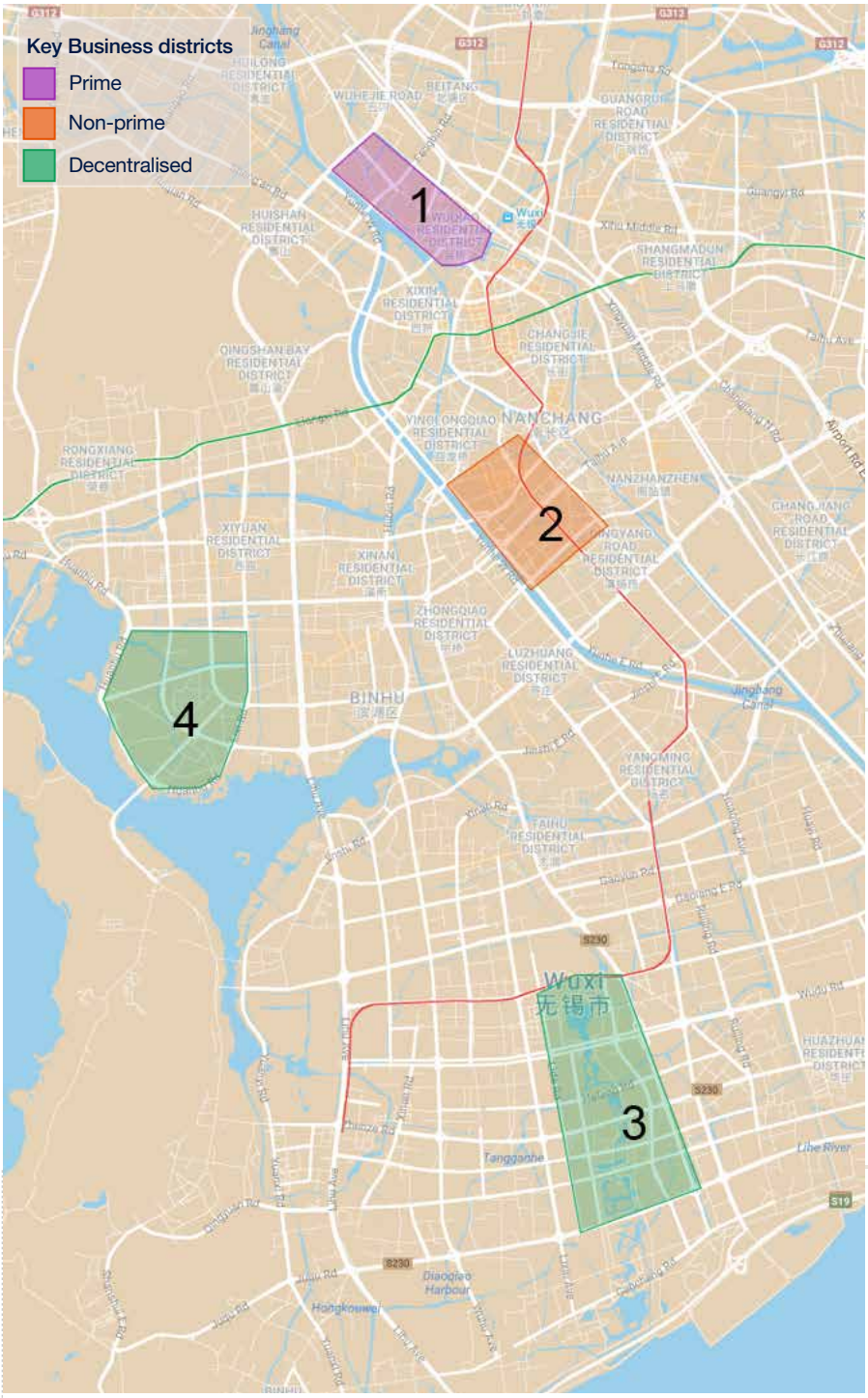
business environment of emerging locations, especially in the Hexi New Town area, will shift demand towards these areas. With the successive completion of high-quality projects and improved infrastructure combined with relatively lower rents, the Hexi New Town area is expected to attract growing attention from high-profile tenants. However, this will cause some short-term uncertainty and difficulties for landlords as the market adapts to the new real estate landscape.

WUXI

	Stock	Supply	Rental range	Average rent		Mgmt fee	Vacancy
2016	740,000 sq m	40,000 sq m	68-102 RMB psm pmth	83 RMB psm pmth	15 USD per sq ft per annum	20 RMB psm pmth	39 %
YOY	+ 6%	– 81%	– 15%	– 15%	– 15%	0.0%	– 22 ppts

Commentary

Wuxi is one of the world's leading manufacturing bases and a hub for domestic enterprises. The economic prosperity created a demand base for the city's property. The city's office market has always been relatively smaller and less developed compared with other second-tier cities, as the first Grade A office was only launched in 2009. However, 2014-15 saw a turnaround, with citywide supply peak reaching 520,000 sq m. Vacancy rates were also at historic high of 62% by the end of 2015. With steady take-up from its leading manufacturing sector and developing service sector, the city's vacancy rate has since decreased to 39% by the end of 2016.



1 Zhongshan Road

Traditional CBD that includes the Zhongshan Road retail area. The area attracts a broad range of companies including SOEs and MNCs from the professional services, finance and trade sectors.

2 Taihu Square

The area received a large volume of Grade A projects between 2014-2015 that greatly improved the quality of this office submarket. However, the supply influx resulted in a substantial increase in vacancy rates.

3 Taihu New City

The financial business district of Taihu New City caters to financial institutions and domestic company headquarters. The area now houses many municipal government administrative offices and has garnered much attention from well-known developers including Wanda, Baoneng, SPG, Lan Kwai Fong and Agile.

4 Lihu New City

Limited office stock and future supply, with relatively low vacancy rates.

Outlook

Future Grade A office supply will be concentrated in the financial business district of Taihu New City. However, the new large-scale handovers are not expected in the near future. In addition, citywide office demand is expected to see stable growth. Therefore, the city's average occupancy rate should not fluctuate far from current levels over the next two to three years, while rents should remain relatively flat or see slight downward movement.

QINGDAO

	Stock	Supply	Rental range	Average rent		Mgmt fee	Vacancy
2016	1.7 million sq m	117,000 sq m	80-120 RMB psm pmth	106 RMB psm pmth	17 USD per sq ft per annum	20 RMB psm pmth	23.5 %
YOY	+ 7.5%	+ 45.2%	+ 1.0%	+ 1.0%	+ 1.0%	0.0%	+ 3.8 ppts

Commentary

Qingdao, one of the world's busiest seaports, is a first-choice city for many multinational corporations entering the Shangdong Province.

Qingdao's economic growth remains stable, which is attributable to the ongoing gradual shift of its economy from traditional manufacturing industries to high-tech industries, focusing on transportation equipment manufacturing and new energy industries. Qingdao's Grade A office market took off after 2000 due to the growing demand for high-quality office space from finance, transport and logistics companies. The development of the city's office market has improved since the 2008 Olympic Games when the city hosted several sailing events. The first area to receive a Grade A office project was the Hong Kong Middle Road area, followed by the Haier Road area. Shibei CBD welcomed its first batch of Grade A office buildings in 2012, becoming the third business district of Qingdao.

Outlook

The Grade A office market is scheduled to enter a period of peak supply in 2017, with six projects adding more than 530,000 sq m to the market. The supply influx is expected to turn the market into a tenants' market. This will be especially pronounced in the Haier

1 Hong Kong Middle Road

Prime business district with the largest office stock in the city. Popular with financial and professional services companies. Highest rents and occupancy rates in the city. Offering a mature business environment, developed infrastructure and higher-quality projects.

2 Haier Road

Older business district with a vast amount of dated projects that entered the market prior to 2012. Large concentration of technology and manufacturing companies.

3 Shibei CBD

Emerging business district planned by the government. Large number of Grade A projects expected to launch over the next several years targeting innovative industries and technology companies.

Road area, where the majority of new supply is concentrated.

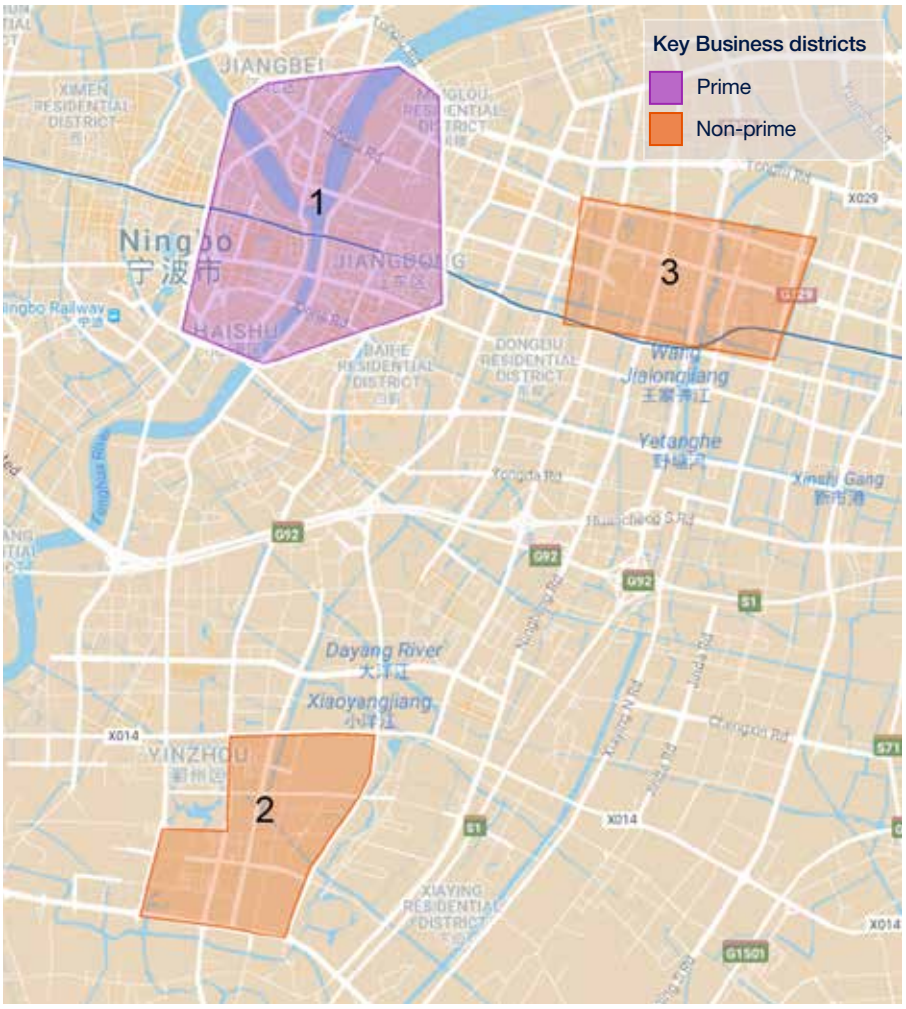
As the Grade A office market continues to expand, landlords will face new challenges. Intensifying competition will force them to offer more preferential policies to maintain or improve the occupancy rates of their projects. Thus, the average rental rate is expected to come under greater pressure.

NINGBO

	Stock	Supply	Rental range	Average rent		Mgmt fee	Vacancy
2016	970,000 sq m	0 sq m	60-90 RMB psm pmth	87 RMB psm pmth	14 USD per sq ft per annum	10 RMB psm pmth	14.1 %
YOY	+ 26.4%	N/A	+ 1.3%	+ 1.3%	+ 1.3%	0.0%	– 2.7 ppts

Commentary

Ningbo is one of the major cities in the Yangtze River Delta and a key transportation hub with one of the world's busiest ports. It is the second-largest city in Zhejiang province in terms of GDP, after Hangzhou. Domestic companies occupy the majority of office space in the city. However, Chinese companies, unlike their international competitors, prefer to buy office space rather than rent. This has resulted in a large amount of office space in Ningbo becoming stratified, and



1 Sanjiangkou

As the city centre of Ningbo, Sanjiangkou was the city's first Grade A office market and has since evolved into a mature business district.

2 Southern Business District

The Southern Business District is dominated by Grade B offices despite a relatively mature business area with adequate facilities, leading to low rents despite a high occupancy rate. Existing office space is dominated by local companies in the trading and textile industries.

3 Eastern New City

Positioned as the future political, economic and cultural centre, the Eastern New Town area covers a site area of 15.9 sq km. The west side is commercially-oriented, while the east side is planned to be a large-scale residential area.

either occupied by end-users or leased out by individual landlords.

Outlook

Over the next three years, Ningbo is expected to receive approximately 1.0 million sq m of Grade A office space, with Eastern New City receiving 52% of this supply. As the city's office market continues to mature and companies start to demand higher-quality facilities, building specifications are expected to improve. At the same time, a doubling of total office stock in the next three years will put great pressure on rents, prices and occupancy rates.

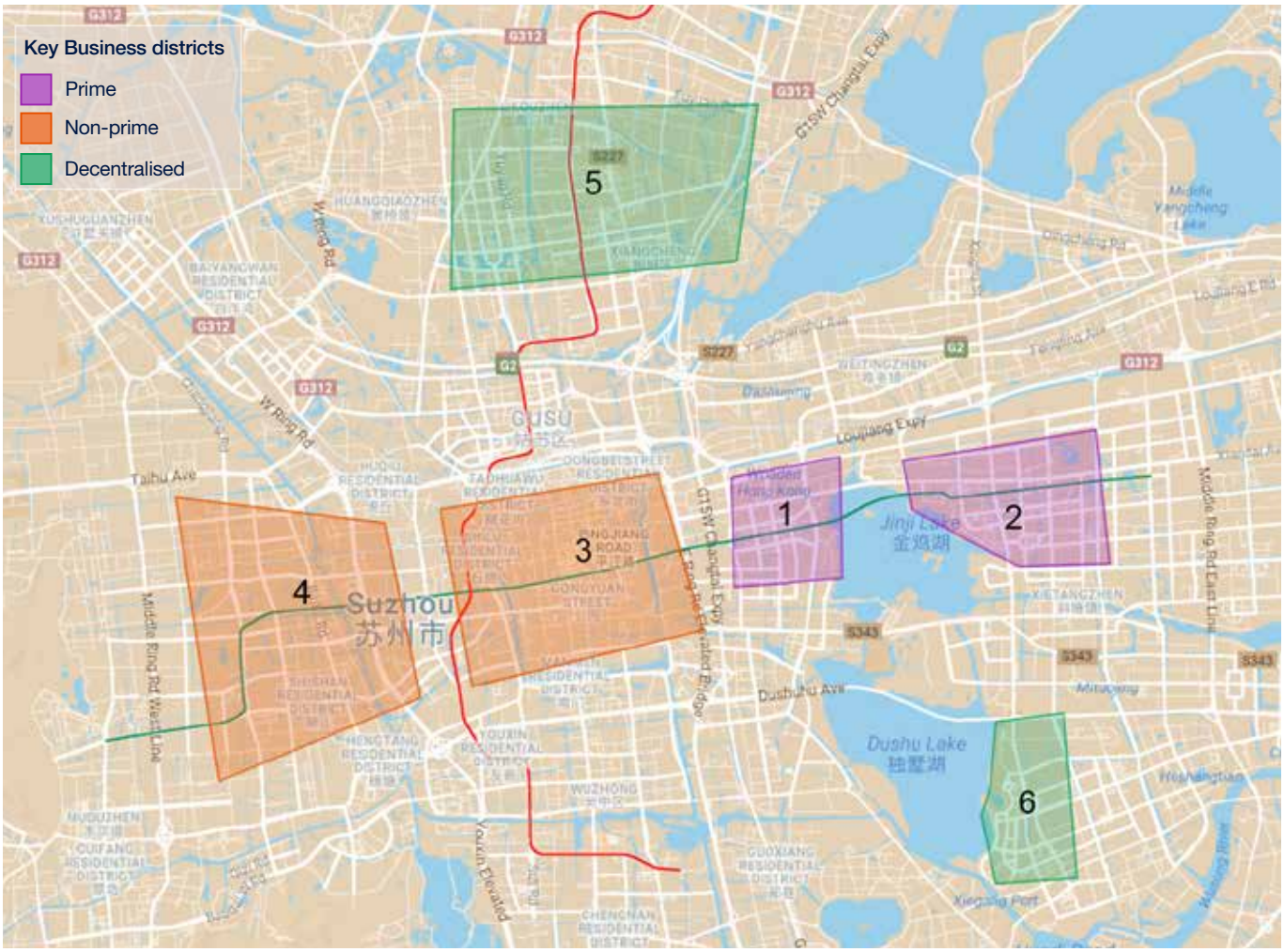
	Stock	Supply	Rental range	Average rent		Mgmt fee	Vacancy
2016	1.16 million sq m	226,000 sq m	70-110 RMB psm pmth	90 RMB psm pmth	15 USD per sq ft per annum	20 RMB psm pmth	18.1 %
YOY	+ 29%	+ 460%	– 2.6%	– 2.6%	– 2.6%	0.0%	– 2.4 ppts

Commentary

Suzhou is one of the major cities in the Yangtze River Delta and ranks first in Jiangsu province in terms of GDP. The city's office market is comprised of a higher proportion of strata-title projects compared to similar markets, although a number of state-owned banks have decided to build or acquire their own headquarters in the city. Similar to many other cities in China, this scenario will subsequently change as a number of new developments will be for lease only.

Outlook

Suzhou is expected to see approximately 600,000 sq m of new supply enter the market between 2017 and 2019, located primarily in the West and East Suzhou Industrial Park (SIP) areas. The SIP areas will continue to play the most significant role in the development of the city's economy and office market.



1 West Suzhou Industrial Park

With close proximity to the city centre, a lake view, and a variety of retail facilities, West Suzhou Industrial Park has a mature business atmosphere with some leading Grade A office projects. Most office space in this area is occupied by companies from the finance, IT, real estate and services sectors.

2 East Suzhou Industrial Park

East Suzhou Industrial Park has the largest Grade A stock in the city. This area has attracted a large number of state-owned bank headquarters, as well as many well-known foreign banks and financial institutions, such as SK Group and Samsung Property & Casualty Insurance.

3 Downtown

Despite the central location and mature retail environment, Downtown has only had a few new developments in recent years, with a majority of the stock being lower quality.

4 Suzhou New District (SND)

Suzhou New District is dominated by Grade B stock at present but has seen the development of a number of Grade A projects in response to increased demand. There is now a wide gap in projects' quality and rent levels in this area.

5 Xiangcheng

Dominated by strata-title Grade B office, mainly occupied by local SMEs.

6 Moon Bay

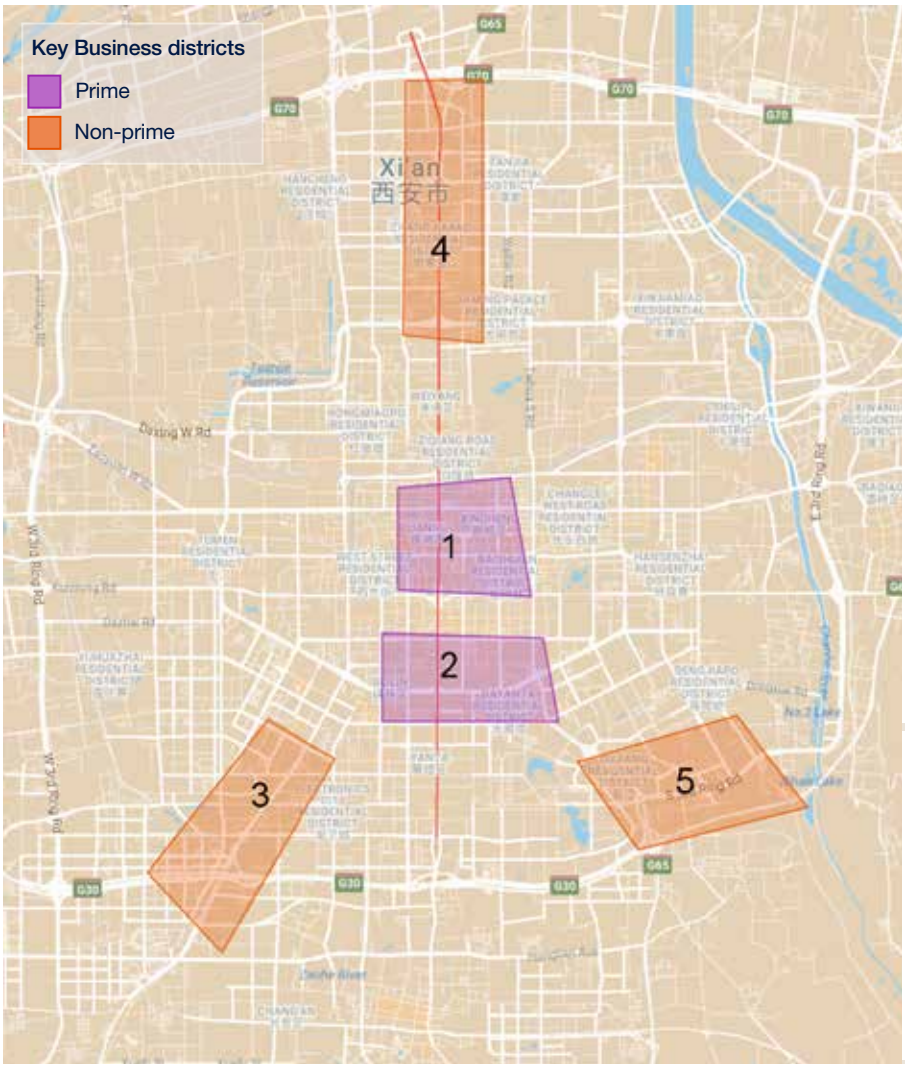
Adjacent to the higher education area, Moon Bay enjoys a solid education-focused environment. Due to its distance from the city centre, lack of metro access and limited retail facilities, this area has limited attraction to tenants despite providing high-quality projects.

XI'AN

	Stock	Supply	Rental range	Average rent		Mgmt fee	Vacancy
2016	828,000 sq m	380,000 sq m	70-155 RMB psm pmth	101 RMB psm pmth	17 USD per sq ft per annum	17 RMB psm pmth	49.6 %
YOY	+ 78.0%	+ 475%	– 3.1%	– 3.1%	– 3.1%	0.0%	N/A

Commentary

The Xi'an office market has seen a peak supply since the second half of 2016, increasing Grade A office stock by 78% to 828,000 sq m. While absorption rates have improved largely due to an uptick of demand in the High Tech Zone, the high volume of new supply continues to put pressure on citywide vacancy rates (close to 50%). The increase in the average vacancy rate has affected rental levels, which fell 3.1% YoY to RMB101 per sq m per month.



Outlook

The city's Grade A office market is continuing a period of high supply, with 500,000 sq m to be handed over in the next few years. While this bodes well for the development of the market, it will intensify competition over the short term. This is especially true for the High Tech Zone area especially along Jinye Road, where most of the supply is concentrated. The supply influx is expected to turn the market into a tenants' market, pressuring owners to lower their rents or offer other incentives to attract clients. To succeed, landlords will also have to take proactive steps to adapt their management strategies, providing better services to enhance the competitiveness of their projects.

1 City Centre

Despite its early development and centralised location, the City Centre has a comparatively small stock and new supply due to strict architectural preservation laws.

2 Second South Ring and Xiaozhai

Thanks to its early development and advantageous location between the City Centre and the Gaoxin District, the area has a well-developed transportation system and healthy business environment.

3 Gaoxin High Tech Zone

The district with the highest Grade A office stock and future supply levels. Development occurred in two phases, with phase one located primarily along Tanyan and Keji Roads. Phase two is focused along Jinye Road.

4 North City

The city's far northern office submarket, and home to both the Economic and Technological Development Zone and many municipal government offices. The business district is located near the railway station with easy access to the airport.

5 Qujiang

Located in the southeast corner of the city, this newest emerging business district, planned by the Xi'an municipal government, aims to attract cultural and tourism enterprises.

XIAMEN

	Stock	Supply	Rental range	Average rent		Mgmt fee	Vacancy
2016	3.70 million sq m	357,000 sq m	70-150 RMB psm pmth	88 RMB psm pmth	14 USD per sq ft per annum	14.8 RMB psm pmth	18.5 %
YOY	+ 10.0%	+ 21.7%	– 0.8%	– 0.8%	– 0.8%	+ 0.9%	– 2.55 ppts

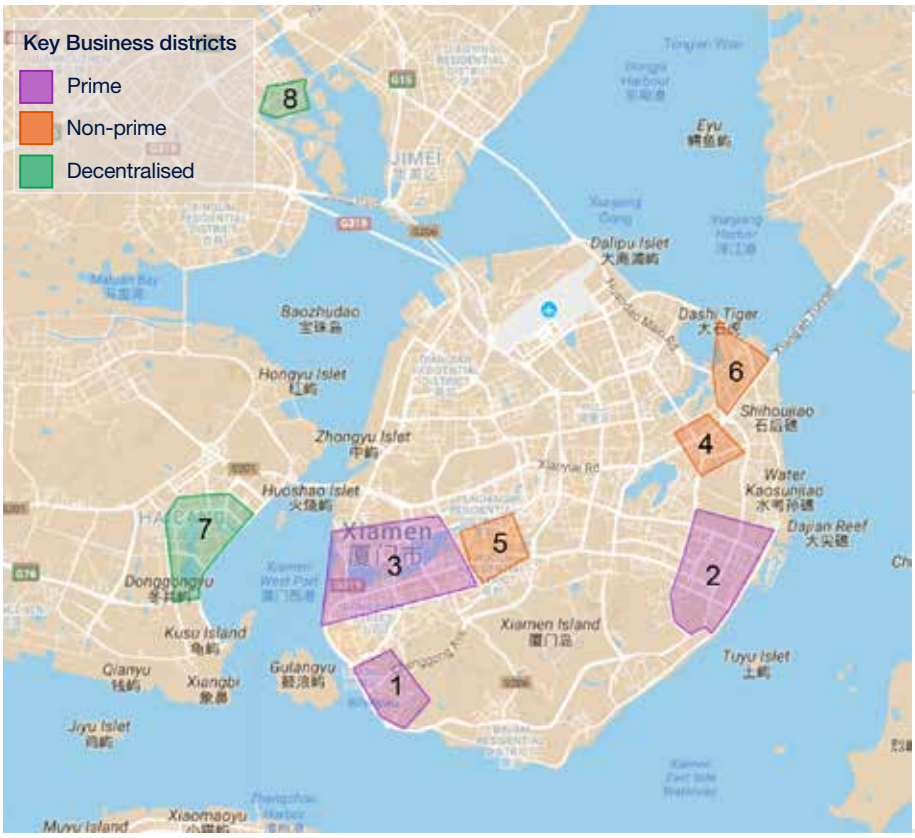
Commentary

The Xiamen office market is faced with mounting oversupply challenges, causing the average vacancy rate to remain relatively high. The island's office market, especially in the Siming district's Lujiang Avenue/Xiahe Road and Cross-Strait Financial Centre business areas, continues to have the greatest concentration of high-quality office projects. The Siming district is not only the most mature business district, but also the political centre of the city and the area with the highest population density, which may guarantee its status as the main CBD.

The government continues to encourage the development of the city's office market by supporting the establishment of several master-planned commercial areas. However, in most cases the rents and prices of these centres are relatively lower than the average of its surrounding areas.

Outlook

The city's office supply in the near future will continue to concentrate in the Siming district, with the majority of new projects located in the Cross-Strait Financial Centre. As a result, the Cross-Strait Financial Centre will soon have the largest office stock among all other submarkets. Government plans such as China's outbound infrastructure investment initiative, One Belt One Road, and the Xiamen FTZ will continue to open up the city to international businesses, attracting more companies and organizations. Consequently, demand for office space will increase.



1 Lujiang Ave.—Xiahe Rd.

The city's most mature office market and traditional business area. As development of the area began in the 1990s, much earlier than most of the other submarkets, aged projects and lack of new supply have slowed rental growth in recent years.

2 Cross-Strait Financial Centre

Once an emerging business centre and now home to the largest proportion of the city's Grade A office stock. According to the city's master plan, developable office land on Xiamen island will increasingly be concentrated in this area going forward. As a result, rents in the area have increased rapidly.

3 Hubin Road

A major business area located near the Xiamen Free Trade Zone. The tenant make-up of the area is largely comprised of companies belonging to the logistics and trade industries.

4 Huli Centre

A traditional business area near the airport. Projects in this area are typically of relatively low-quality yet the area has low vacancy rates. A number of high-quality projects are expected to be launched in the area in the near future.

5 Xiamen Station — Lianban

The traditional business area next to the Xiamen Railway Station and home to a number of notable retail projects. Due to its early development, the projects in this area are aged and the tenants are mostly SMEs.

6 Wuyuan Bay

A government supported master-planned business area that benefits from rent subsidies and thus is more affordable than other island districts. With convenient access to both the old and the new airports, the business area has attracted many financial companies and institutions.

7&8 Mainland

Owing to the abundance of available land resources, the establishment of the Xiamen FTZ, and the maturity of the island's office market, the mainland area has witnessed significant investment and is expected to account for a growing percentage of the future development.

Appendix

General terms and conditions:

- **Standard municipal lease agreement with supplementary clauses attached**
- **Lease terms**
  - Typical lease terms of 2-3 years fixed rent for small to mid-size occupiers
  - 5-year fixed term leases are more common for larger anchor tenants
- **Rents**
  - Contracts fixed in RMB rates
  - Rents quoted on a per sq m per month basis (with the exception of Shanghai which quotes a daily rate)
  - Quoted on a gross floor area basis
  - Concessions typically 5-10% of total contract i.e. rent free/fit-out periods of 2-3 months
  - Cash deposits or bank guarantees
  - Renewal caps are optional, typically 15-25%
- **Deposit: three months' equivalent face rent and management fee**
- **Service/management typically charged separately**
- **Break/expansion/first right of refusal options negotiable**
- **Signage and building name rights are negotiable**
- **Reinstatement and dilapidations typically required**
- **Sublease/assignment generally only to affiliated companies**
- **Sub-contractors for M&E work typical assigned**
- **Car parking and security deposit negotiable**
- **Typical handover conditions**
  - Integrated ceilings
  - Lighting
  - Various HVAC systems
  - Various finished floors
  - Painted walls

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