SPOTLIGHT
Savills Research

China Office - 2018

Working Harder Working Smarter

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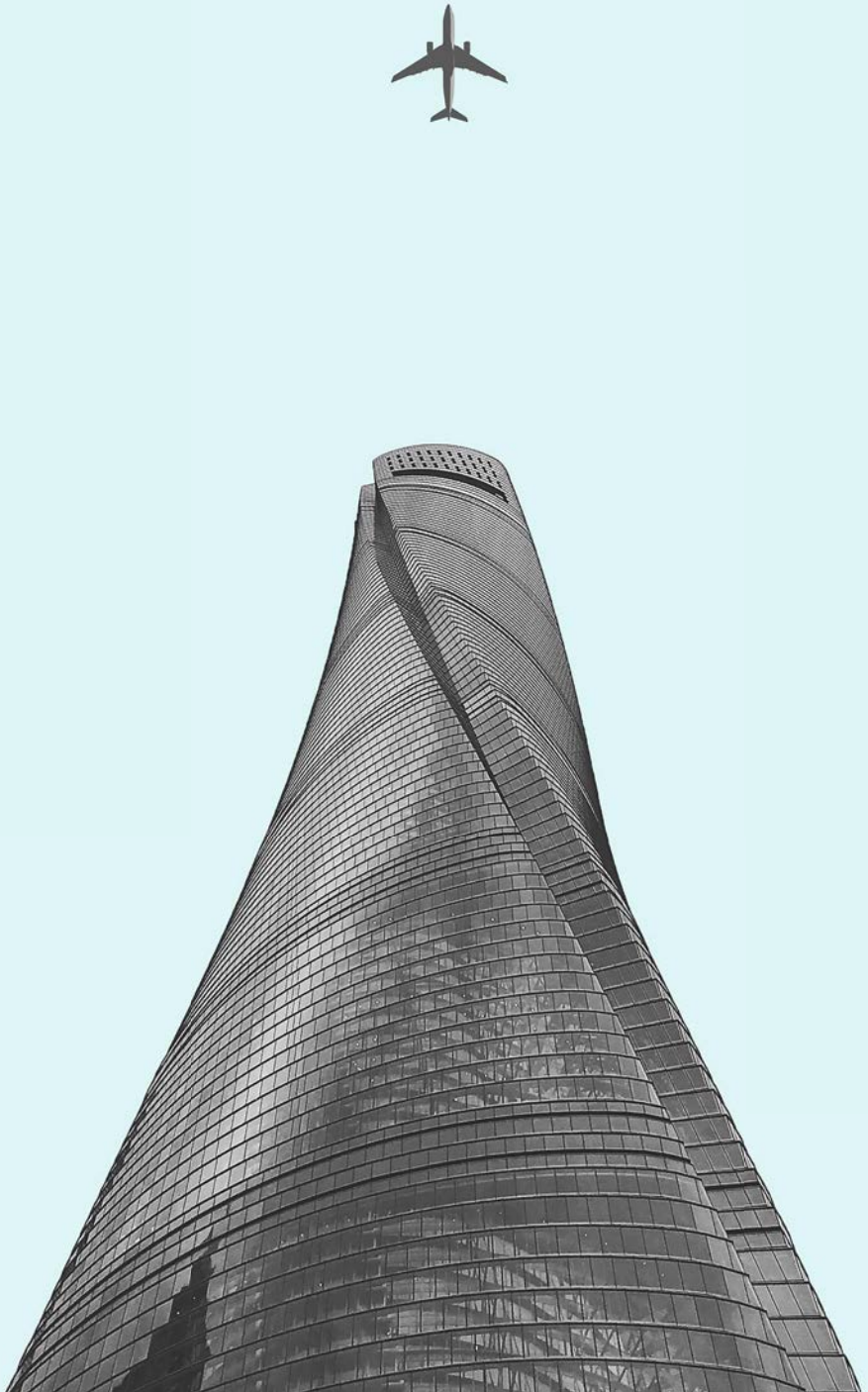
Increasing demands on workspaces force landlords to adopt new strategies



Welcome to the 2018 Savills China Office Market Report

First, thank you for reading the previous 2017 Savills China Office Market Report. This is our second publication of the report, and in last year's publication, we analysed nearly 20 leading Chinese markets city by city and broke down each market by key business districts. This time, we are looking at markets from a different angle—we will focus more on the demand side and market trends, and will highlight hot markets that either outperform or are at a turning point.

The China office market continues to change—we have been talking about oversupply, decentralisation, urban redevelopment, and the rise of co-working over the past three years. In 2018, we saw co-working extend to traditional office buildings. We also talked about building economy, strong demand from the information technology industry, and property technology, as well as the importance of sustainability and wellness. However, these mainstream market characteristics are not applicable to all cities. For these different markets, we will dig out reasons why, and forecast where the markets will go from here.

We hope you find this year's publication of the China Office Market Report an informative and insightful read.

JAMES MACDONALD
Head of Research, Savills China

Economic Outlook

The Two Sessions (or Lianghui) at the beginning of every year is always a wind-vane for the whole year's economy—and so it was in 2018.

China identified three main tasks in its 2018 Government Work Report as well as a number of targets for the country in the coming year and beyond. The three main tasks include guarding against and defusing financial risks, poverty alleviation, and continuation of its campaign to fight and prevent pollution. While financial de-risking is one of the three main tasks for the next three years, the government also introduced tax reductions and incentives to support businesses.

Despite a slowdown in the real estate market and a tightening of the credit environment, the economy was still able to record a growth of 6.6% in 2018, higher than the expected annual growth of 6.5%. The economic growth had been stimulated by financial innovation and the growth of the information technology (IT) sector.

China Economic Data, 2018

6.6%
GDP Growth

52%
Tertiary Sector As A Percentage Of GDP

60%
Urbanisation

4.9%
Unemployment

RMB 39,300 Per Capita
Urban Disposable Income

RMB 38 Trillion
Retail Sales Of Consumer Goods

4,484 KM
Metro Track Length*

RMB 12 Trillion
Real Estate Investment

USD 135 Billion
Utilised FDI

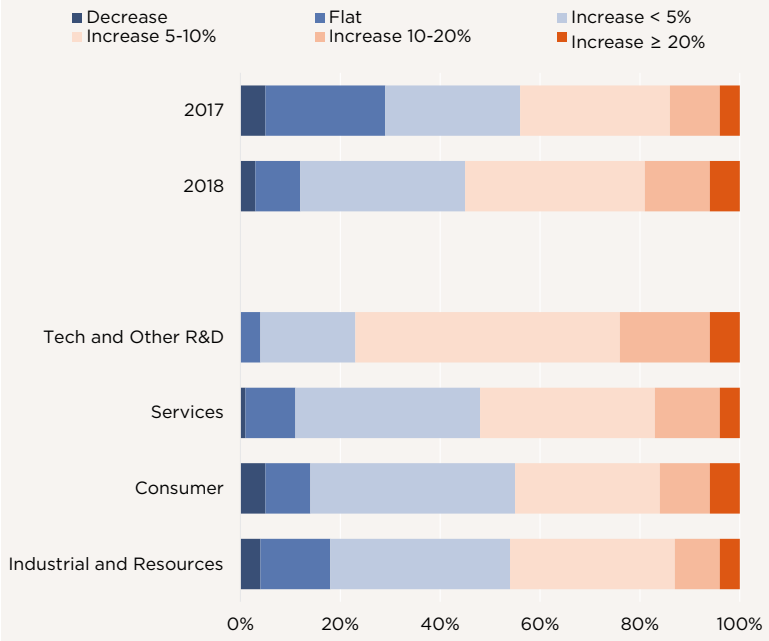
760 Million
Higher Education Graduates*

11
Free Trade Zones

120
Chinese Companies On The 2018 Fortune 500 List

Source National Bureau of Statistics, Ministry of Transport of China, Fortune Magazine, Savills Research * 2017 data

What Is Your Or Your Company's Forecast For Your Industry's Market Growth In 2018 Vs. 2017?



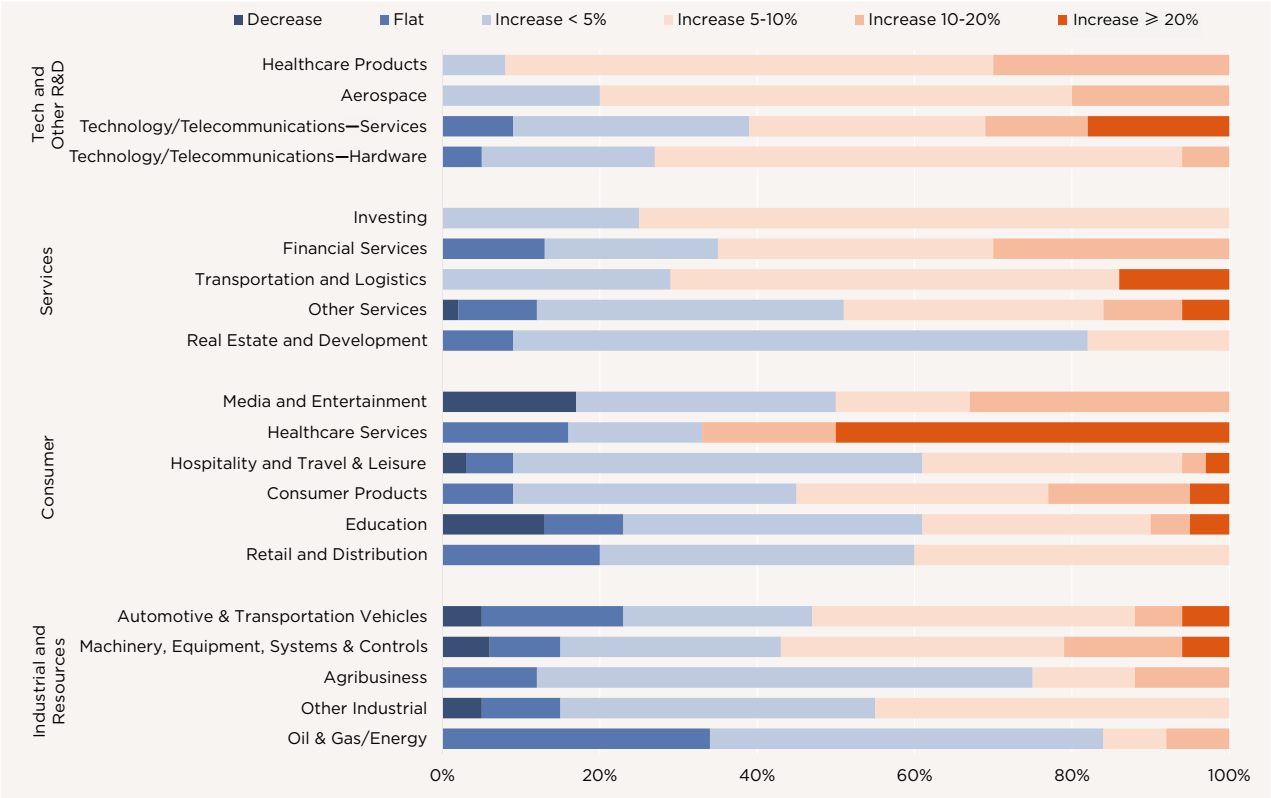
Source 2018 China Business Climate Survey Report by AmCham China & Bain & Company, Savills Research

The drive for the economy is expected to come from new industries such as Internet+, big data, artificial intelligence (AI) and other factors like reducing excess capacity, the continuation of equity swap debt, support for consumer markets through the increase in the personal income tax threshold and reducing import tariffs on certain consumer products. The government is also looking to reduce the corporate tax burden, cut red tape, stimulate innovation and invest heavily in R&D.

Below are some excerpts from AmCham and Bain & Company's 2018 China Business Climate Survey Report released before the trade dispute, giving an indication of American companies' performance and future plans for China.

Growth in domestic consumption and a rising middle class are driving growth across all industries in China. Environmental protection, digital technologies, e-commerce and globalising Chinese companies are among the factors that will have a big impact on certain sectors.

What Is Your Or Your Company's Forecast For Your Industry's Market Growth In 2018 Vs. 2017 (By Specific Sector) ?

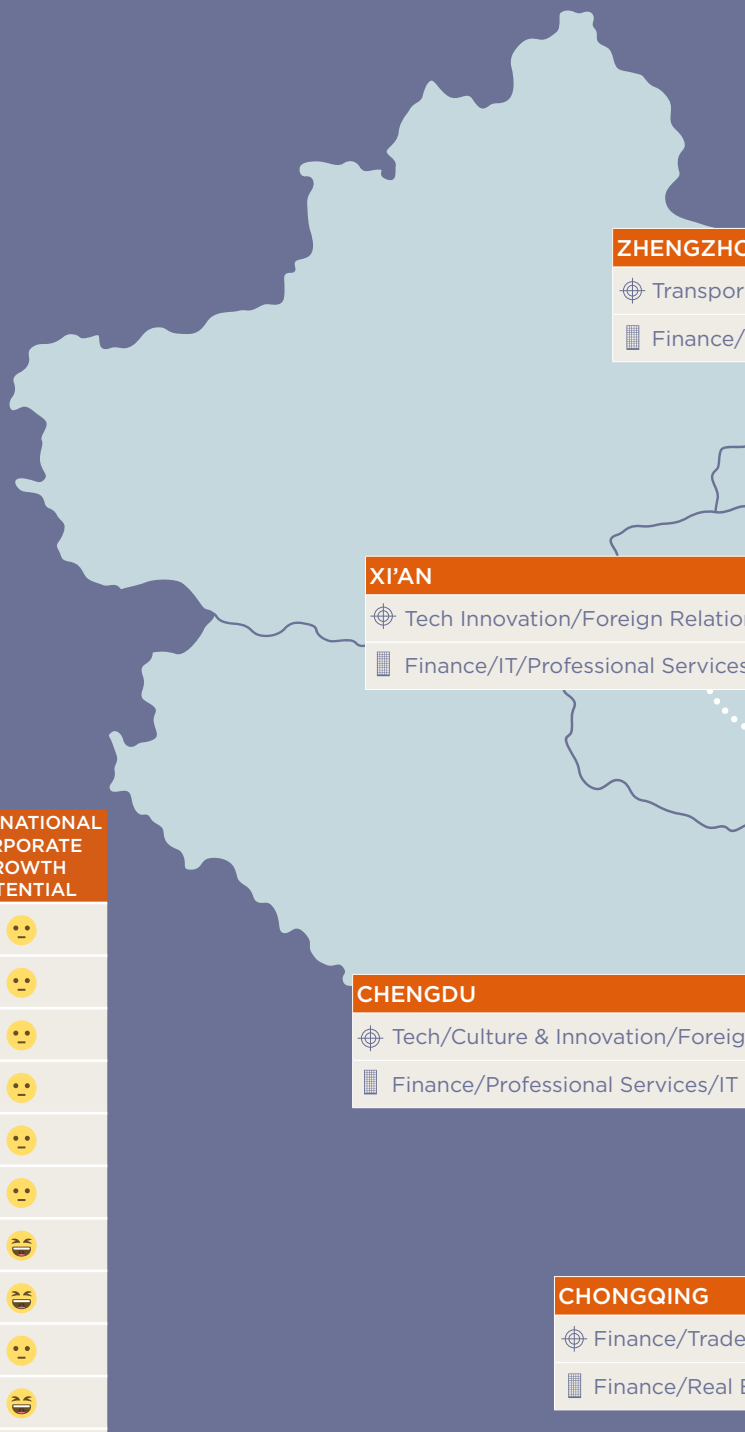


Source 2018 China Business Climate Survey Report by AmCham China & Bain & Company, Savills Research

Demand & Tenant Analysis

As city markets continue to mature, specialisation, which is already apparent between different business districts in one city, also is becoming more apparent between different cities as local governments look to establish their business hubs. Using the first-tier cities as examples, Beijing has its immovable position of China's political and cultural centre, Guangzhou is looking to establish itself as an e-commerce headquarter city, Shenzhen is increasingly known for its tech innovation, and Shanghai is known for its finance, shipping and consumer sectors.

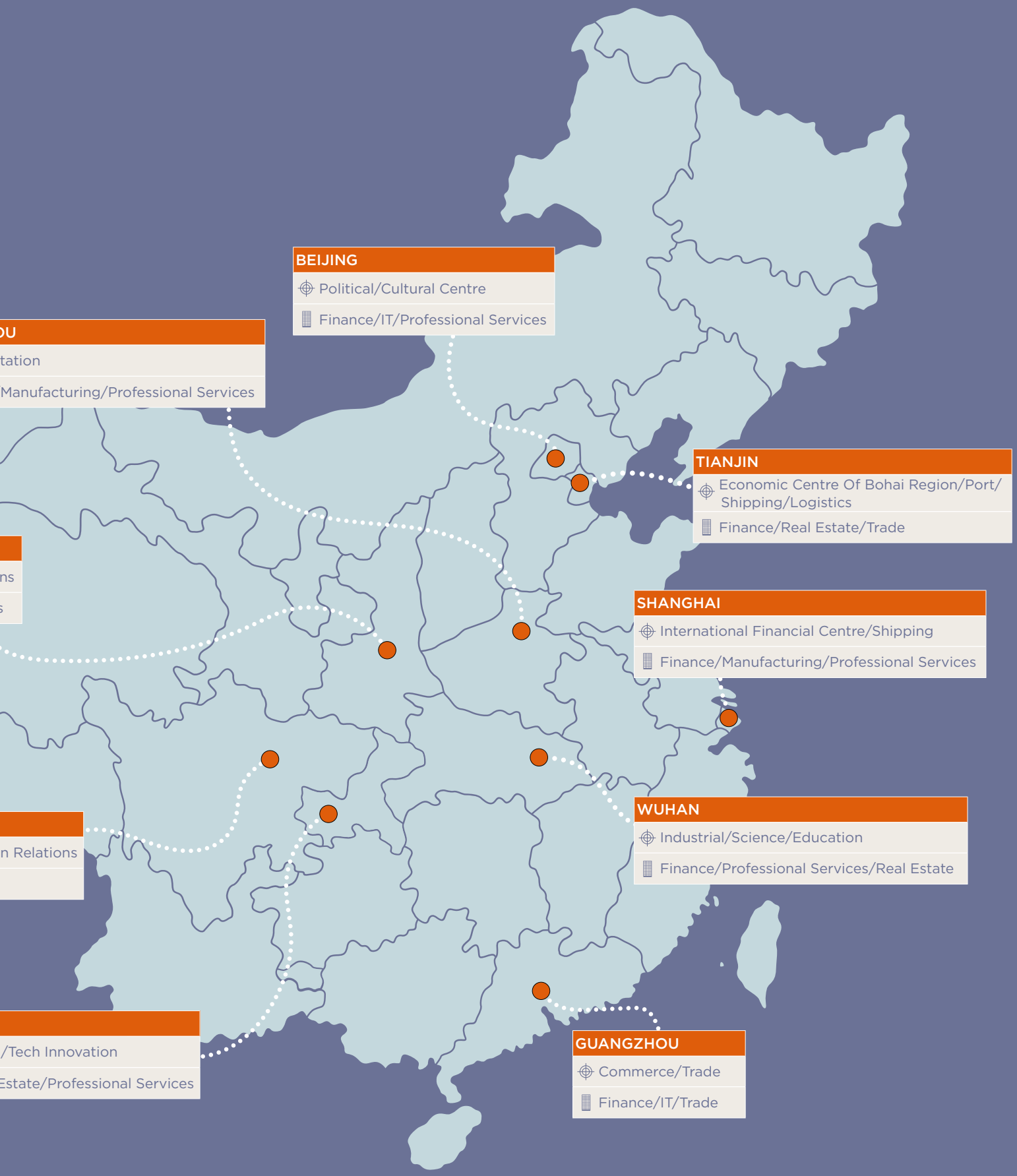
According to China's National Development and Reform Commission (NDRC), nine cities are listed as China's national central cities, including Beijing, Tianjin, Shanghai, Chongqing, Guangzhou, Chengdu, Wuhan, Zhengzhou and Xi'an. While all nine cities are orientated to certain industries, the top industries that occupy most office spaces in each city do not necessarily match that positioning. The map (Pg 6-7) shows the cities' positioning by the central government, compared to the top three industries occupying Grade A office spaces in the respective markets.



Tenant Demand

INDUSTRY	IMPORTANCE TO FIRST TIER	IMPORTANCE TO SECOND/ THIRD TIER	DOMESTIC CORPORATE GROWTH POTENTIAL	INTERNATIONAL CORPORATE GROWTH POTENTIAL
Finance	😆	😆	😆	😐
Manufacturing	😆	😆	😐	😐
Energy & Raw Materials	😆	😆	😐	😐
Commercial & Professional Services	😆	😐	😐	😐
Retail & Trade	😆	😆	😐	😐
Transportation	😐	😐	😆	😐
Information Technology	😆	😐	😆	😆
Healthcare	😆	😐	😆	😆
Real Estate	😐	😆	😐	😐
Business Centres & Co-Working Spaces	😆	😐	😆	😆
Consumer Services	😆	😆	😆	😆
Public Organisation	😐	😐	😐	😐
Media & Entertainment	😐	😐	😆	😐
Utilities	😐	😐	😐	😐
Conglomerate	😐	😐	😐	😐

Source Savills Research



City positioning Top three industries occupying Grade A office spaces

Key Growth Segments

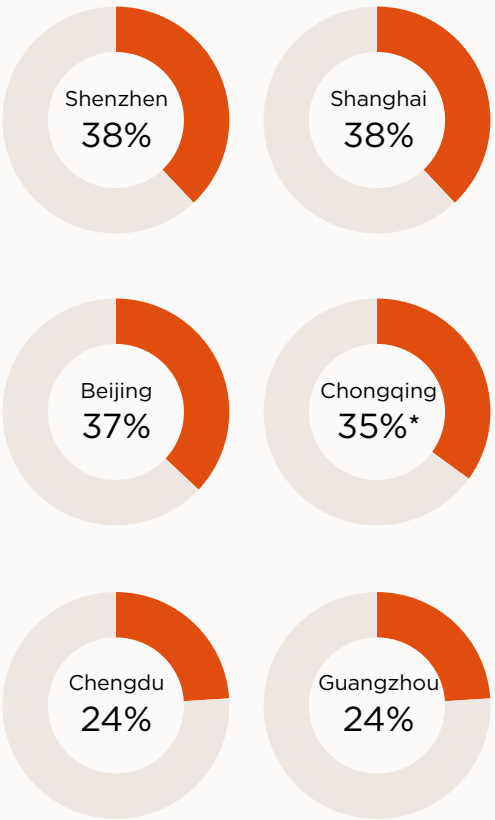
Finance

As a main driving force for China's office market, the financial industry accounts for the majority of office-space demand in almost all Chinese cities. Traditional financial institutions contributed the most occupied space, preferring leasing or purchasing of Grade A office buildings, or self-developed headquarter offices in prime locations. This type of tenant has a high affordability for prime rents and a higher tolerance for rental fluctuations. Commercial banks and insurance companies looking to establish local headquarters usually have a large demand for office space, as evidenced by a majority of spaces larger than 5,000 sq m being absorbed by tenants from the traditional financial industry, even though they also would be able to purchase such spaces. At the same time, large financial companies were aggressive in expanding their branches and relocating back offices to secondary and decentralised locations.

Curbing financial risks remains one of the key tasks of the central government, making emerging financial sectors, particularly fintech and peer-to-peer (P2P) companies face stricter regulations. The total number of P2P companies in China decreased by 54% year-on-year (YoY) in December 2018. Under a challenging regulatory and liquidity environment, survivors tended to be more consolidated and strong, though some landlords remain concerned about instability on the part of these types of tenants.

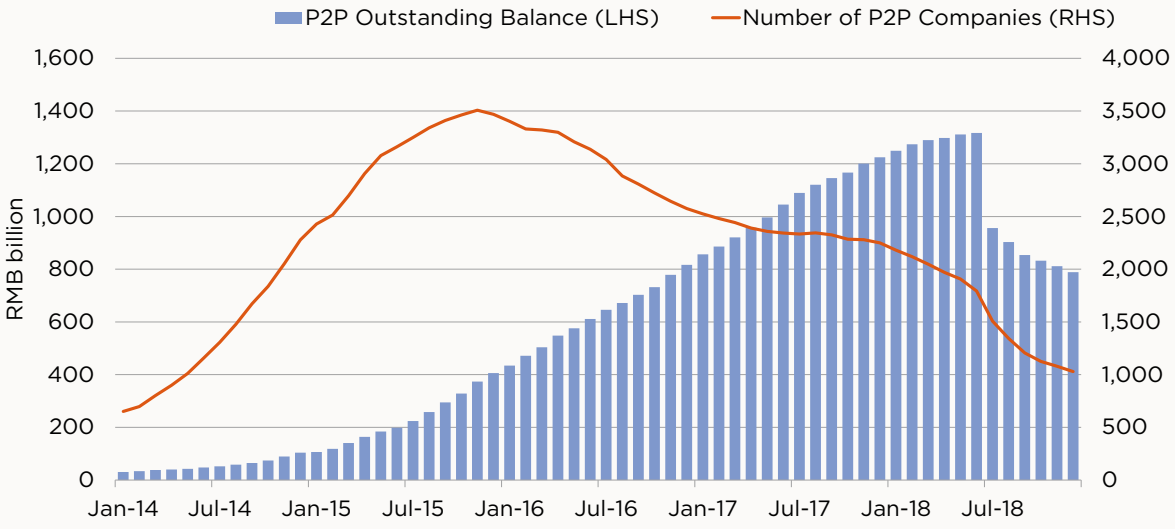
A sluggish stock market in 2018 also affected expansion demand from smaller securities, fund and asset management companies. The Shanghai and Shenzhen Composite indices fell by 25% and 34%, respectively, in 2018. Challenging external economic conditions, tight credit and share-pledged lending by small- and medium-sized enterprises (SMEs) resulted in an underperforming stock market in 2018. However, looming signs of more support for SMEs—including improvement of the funding environment—may help the market gradually get back on track, and healthy growth of the financial service sector is expected in 2019. As China is accelerating its opening up and reforms in financial sector while also looking to professionalise and regulate the asset management industry, demand for office space from this sector is expected to recover soon after.

Financial Sector As A Percentage Of Cities' Grade A Office Space



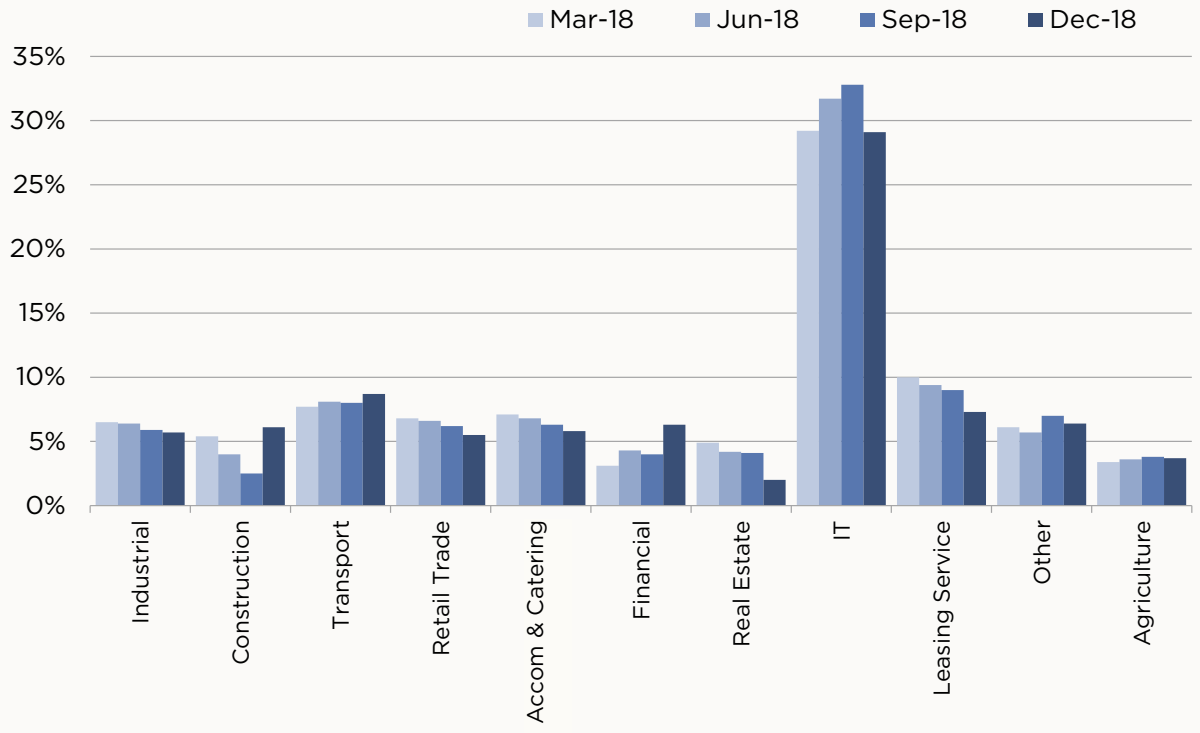
Source Savills Research * Mostly P2P companies

P2P Outstanding Balance and Number of Companies



Source Wang Dai Zhi Jia, Savills Research

China IT Sector YOY Growth



Source National Bureau of Statistics, Savills Research

Information Technology

While the financial sector constitutes the majority of demand, the IT sector has stolen the spotlight in many leading cities, whether it be Internet giants like Baidu and Tencent, eSports, or AI (e.g. SenseTime).

These companies are looking to secure the best and the brightest minds in China to stay ahead of the competition. To do that, they need to provide the best working environment for their staff. These companies and new start-ups are expected to continue their rapid growth, securing premises close to leading universities and colleges. Beijing's Zhongguancun and Wuhan's Optics Valley are two examples. The table lists more IT-sector clusters with their rental ranges.

While the IT sector contributed 3.9% of China's GDP in 2018, its growth has remained in the double digits (29.1%, December 2018) over the last three years. The explosive growth of the IT sector will continue to translate into an increasing portion of office demand.

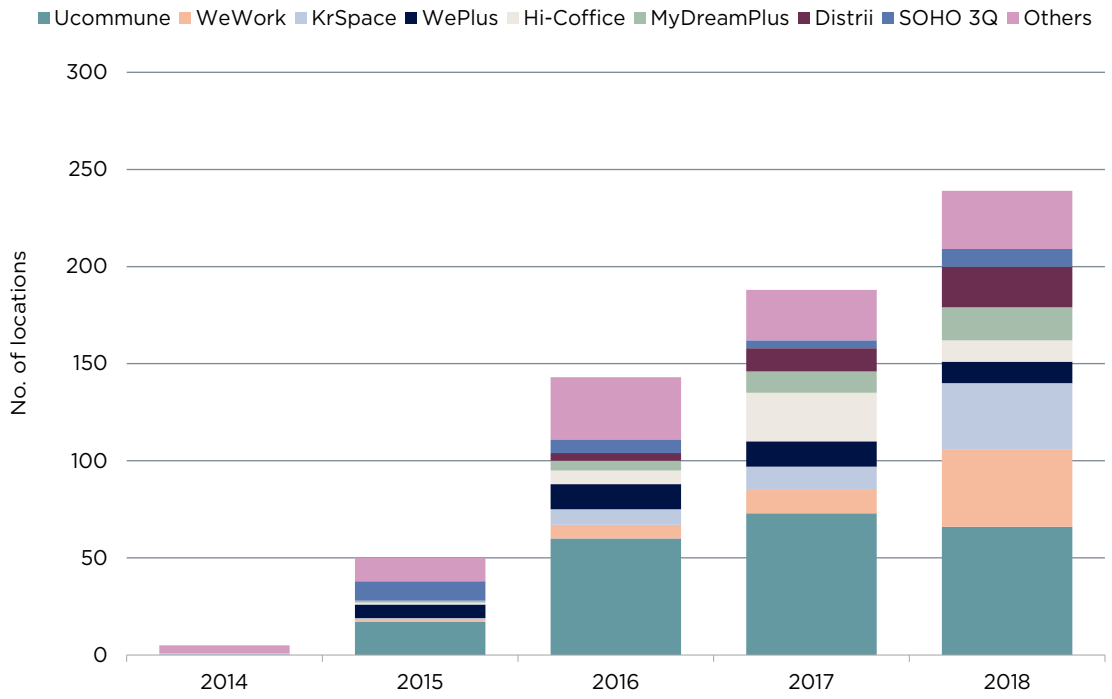
IT Industry Clusters In Key Chinese Cities

CITY	IT INDUSTRY CLUSTER	ASKING RENT* (RMB psm pmth)
Beijing	Zhongguancun	180-500
Shanghai	Zhangjiang Hi-Tech Park	120-180
Guangzhou	Tianhe Software Park	100-150
Shenzhen	Nanshan Technology Park	120-350
Chengdu	Dayuan	60-120
Chongqing	Zhaomushan	50-100
Tianjin	Anshan West Road	90-120
Hangzhou	Future Sci-Tech Town	55-100
Nanjing	Hexi New Town	75-145
Wuhan	Optics Valley	50-130

Source Savills Research* Referring to Grade A, B and industrial park asking rents

Key Growth Segments

Explosive Growth Of China's Co-Working Supply



Source Company websites, Savills Research
* Based on a basket of 20 international and nationwide co-working brands.

Co-working

Since 2016 when WeWork opened its first Mainland location in Shanghai, co-working has remained one of the hottest topics in the office market. The sector has grown very quickly and has become very crowded over the last 12 months. It appears that co-working presents a meaningful long-term change in the way that people work. Besides professional operators and start-ups, more players joined the market, increasing competition. To get a piece of the cake, many developers have established their own brands, such as EasyWork by Longfor, C3 by CapitaLand, WeWa by Kaisa and OfficeZip by China Overseas.

As the market evolves, the other big changes are size and location. Previously, leading operators such as WeWork and Naked Hub focused on smaller scale premises in converted buildings. However, now they are securing space in Grade A office spaces and targeting larger corporations that are attracted by the flexibility and service provided. In addition, many operators are expanding their network to second-tier cities to increase market share, while at the same time second-tier cities are also developing their own co-working spaces such as Hi-Coffee from Chengdu and More+ from Wuhan.

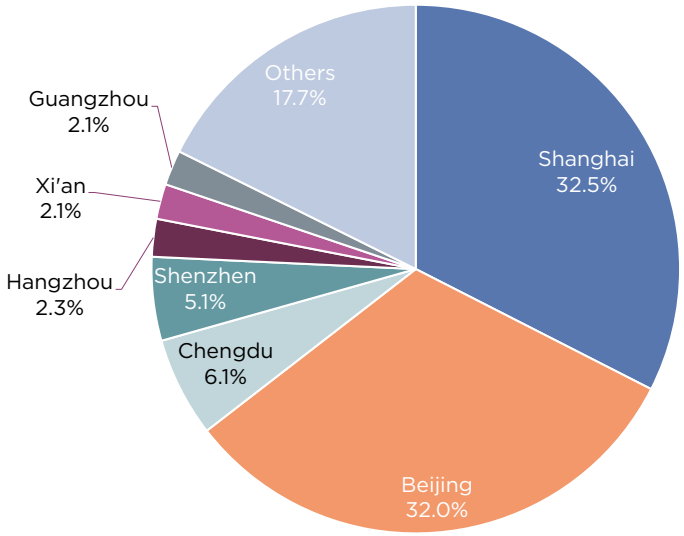
Founded in Beijing and previously known as Urwork, Ucommune now is the biggest co-working player in China in terms of number of location (43% market share, as of 2018), after its acquisitions of a number of peers including Space, New Space, Wujie Space, Wedo, Workingdom, Atwork, and more recently, Fountown. However, Ucommune's pace of expansion slowed in 2018, unlike that of aggressive Kr Space and WeWork.

Shanghai and Beijing were the two biggest markets in terms of number of co-working locations, accounting for 32.5% and 32%, respectively, of the total market share in 2018. The statistics only included international and nationwide brands; in other words, if local operators are considered, the ranking could be different, as cities like Chongqing and Chengdu are highly localised. Co-working supply is currently reaching saturation point in Shanghai and Beijing's downtown locations, with future new openings expected to extend to decentralised areas and second-tier cities.

Domestic service providers will continue to expand aggressively after receiving financial backing —mostly private equity—from investment companies. Market consolidation is likely to continue in the coming years. Recently, the discussion is no longer about the excitement of new openings but concerns about market health—how to attract/retain tenants when they now have more options to choose from? How to differentiate when products and services are becoming increasingly similar? Co-working is a sector that generates short-term revenues under long-term liabilities, so how to strengthen leases? How to make a profit during a downturn?

As for landlords, is co-working an opportunity or threat? Traditional landlords will have to adopt certain aspects and principles of co-working when managing their commercial assets or cooperating with co-working spaces to better meet tenant needs; this could be in the form of social networks, event platforms or management technology. Tenants will increasingly be looking for more than a place to work when selecting an office.

Share Of China's Co-Working Stock



Source Company websites, Savills Research
* Calculated by number of locations

Funding Of Selected Co-Working Operators

OPERATOR	NUMBER OF FUNDING ROUNDS	TOTAL FUNDING AMOUNT (USD MILLION)	LEAD INVESTORS
Naked Hub*	1	33	- Gaw Capital
WeWork	14	12,100	- Softbank - Hony Capital - Glade Brook Capital Partners - Goldman Sachs
Ucommune	9	650.3	- All-Stars Investment - Qianhai Wutong M&A Funds - Tianhong Asset Management - Gopher Asset Management

Source Crunchbase, Savills Research
* Naked Hub was acquired by WeWork for USD400 million in April 2018.

Notable Co-Working Leasing Deals In Grade A Offices

OPERATOR	CITY	BUSINESS AREA	PROJECT	LEASE AREA (sq m)	TRANSACTION DATE
WeWork	Shanghai	South Huangpu	China Overseas Int'l Centre	27,000	2017
MyDreamPlus	Xi'an	High-Tech District Phase 1	China Life Insurance Building	20,000	2018
H·Work	Wuhan	Hankou Riverside	CITIC Pacific Tower	16,000	2017
Kr Space	Beijing	Financial Street	Haixia Int'l Tower	10,300	2018
WeWork	Shenzhen	Houhai	China Resources Building	8,000	2018
SOHO 3Q	Hangzhou	Qianjiang New City	Zhejiang Fortune Finance Centre	8,000	2017
Funwork	Chongqing	Jiangbeizui	Guohua Financial Centre	7,000	2018

Source Savills Research

Acquisitions Of Co-Working Operators

▼ Acquired

Acquired	Date	Acquirer
Wujie Space	2017.03	Fourwork
Weplus	2017.03	Cowork
Ucommune	2017.11	Space
Ucommune	2018.01	New Space
Ucommune	2018.03	Wujie Space
Ucommune	2018.03	Wedo
WeWork	2018.04	Naked Hub
Ucommune	2018.07	Workingdom
Ucommune	2018.07	Atwork
Ucommune	2018.10	Fountown

Source Company announcements, Savills Research

Supply, Stock & Market Conditions

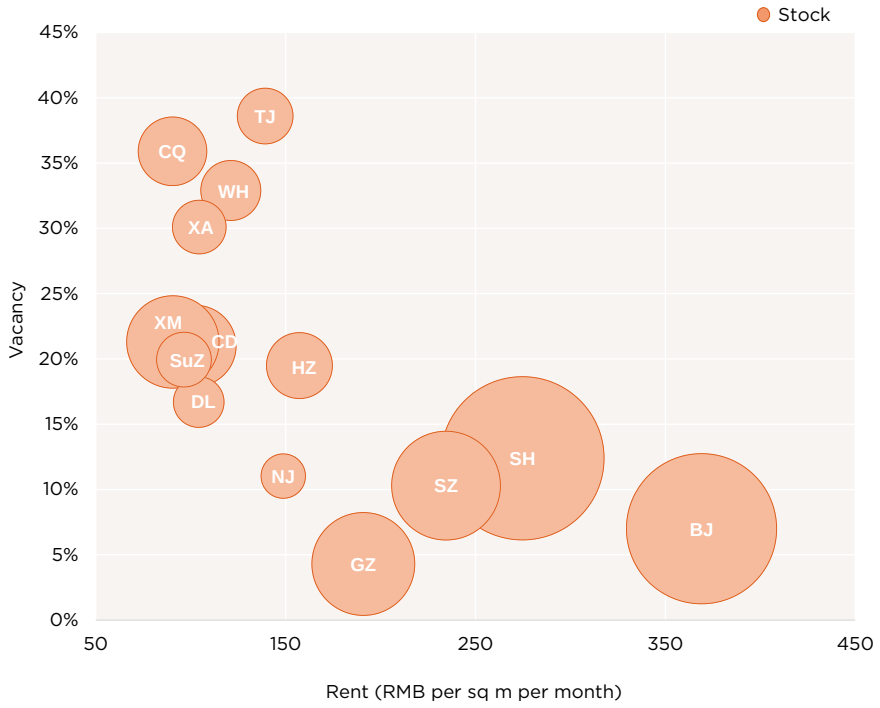
Robust economic and tertiary industry growth continued to support office demand. Though office markets in most Chinese cities are faced with oversupply, we still find most have performed well in the last 12 months. At the end of 2017, we predicted rental declines in several cities; we were proven wrong, however, as stronger demand caused rents to continue to increase, or, at the very least, stay firm.

First-tier cities, unsurprisingly, are the most expensive cities in terms of Grade A office rents. Beijing has the highest rent at RMB369 per sq m per month in Q4/2018, followed by Shanghai (RMB275 psm pmth), Shenzhen (RMB235 psm pmth) and Guangzhou (RMB191 psm pmth). Rents were relatively stable in Shanghai and Shenzhen, while Guangzhou rents kept growing due to limited availability (4.3% vacancy, 2018), though this upward trend is about to end soon given the looming high supply (mostly in Pazhou).

With a YoY rental growth of 2.1%, Hangzhou was the most expensive city after the first-tier cities, with its Grade A office rents averaging RMB157 per sq m per month in Q4/2018. The rental increase was primarily driven by the rise of Qianjiang New City, where the business environment is maturing. Increasing demand for office space in the area has allowed landlords to raise rents. Meanwhile, co-working operators' expansion into Grade A office buildings also put upward pressure on office rents.

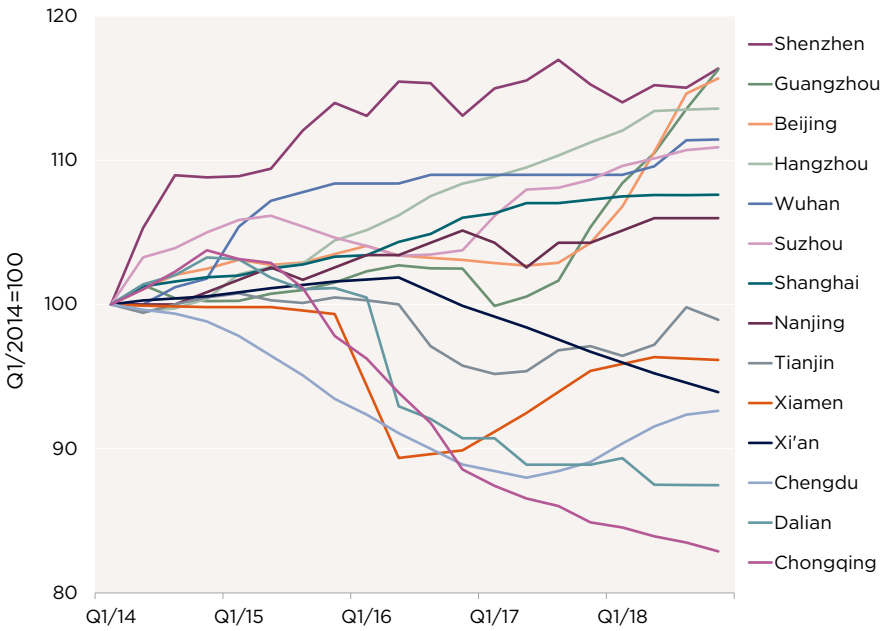
Chongqing was the most affordable city among all the key cities, with an average of RMB90 per sq m per month of Grade A office rents in Q4/2018, a quarter of Beijing's rents. The city's high vacancy level of 36% was the main reason for the rental adjustment, though it recorded a fall of 10.5 percentage points (ppts) from one year ago, driven by aggressive expansions of secondary landlord companies such as MFG and ServOffice. The trend is expected to continue in the foreseeable future.

Grade A Office Market Performance*, 2018



Source Savills Research

Grade A Office Rental Index



Source Savills Research

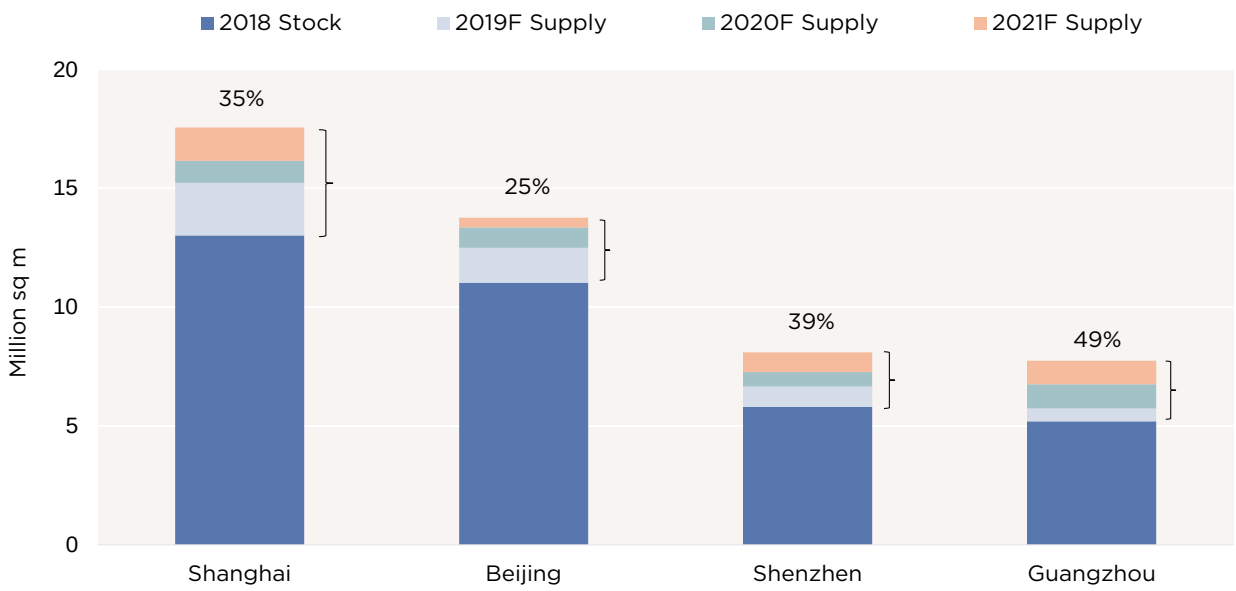
* Co-working spaces are calculated as fully occupied.

Grade A Office Rental & Vacancy Movements

	RENTAL MOVEMENT (2018 VS. 2017)	VACANCY RATE CHANGE (2018 VS. 2017)
Beijing	10.9%	-0.6%
Guangzhou	10.4%	-4.3%
Chengdu	4.1%	-8.5%
Wuhan	2.3%	-2.6%
Hangzhou	2.1%	0.4%
Suzhou	2.1%	-2.1%
Tianjin	1.9%	7.6%
Nanjing	1.6%	0.9%
Shenzhen	1.0%	-0.7%
Xiamen	0.8%	-0.7%
Shanghai	0.3%	0.5%
Dalian	-1.6%	0.2%
Chongqing	-2.3%	-10.5%
Xi'an	-2.9%	-7.2%

Source Savills Research
Note: Rental growth calculated on an index basis

Grade A Office Stock And Future Supply



% refers to 2019-2021F supply expansion as a percentage of 2018 stock

Source Savills Research

Markets On The Rise

There are a lot of reasons to choose a city to invest in or expand corporate businesses. Savills has picked two regional markets that performed well in 2018 and are poised for growth in 2019, based on key metrics including dynamic industry growth, strong job growth, high affordability and low vacancy rates.

Guangzhou & Shenzhen

Supported by significant economic growth, Shenzhen continues its upward momentum in the office market despite upcoming supply. Office demand was mainly driven by finance and IT sectors in the past; however, leasing demand has become more diversified to service sector and upgraders. The city is expected to see the largest amount of new supply in the next three to five years, with new business districts emerging mostly in Houhai and Qianhai areas in the west.

Guangzhou is the capital of Guangdong province and has the largest land area and population in the Pearl River Delta (PRD). As the most affordable first-tier city, Guangzhou has relatively a stable office market. Due to limited supply and strong take-up, the city has recorded the lowest vacancy rates (4.3% in 2018, versus a five-year average of 12.5% from 2013-2017) in the history of the market and is also the lowest in the country. Zhujiang New Town in Tianhe district is the most expensive CBD in the city, though it remains cheaper than the lowest district in Shenzhen. New commercial development areas include Pazhou (e-commerce-oriented) and International Financial City (a financial institution cluster).

What is causing the change?

Since the official announcement of the formation of the Greater Bay Area (GBA) in 2017, local economies and the development of urban infrastructure have accelerated significantly, evidenced by the continued growth of GDPs and FDIs, the completion of Guangzhou-Shenzhen-Hong Kong high-speed railways and the Hong Kong-Macao-Zhuhai Bridge. Office markets in the two cities witnessed robust demand resulting in decreasing vacancy rates (-4.3 ppts for Guangzhou and -0.7 ppts for Shenzhen in 2018). Taking advantage of the master planning, both domestic and overseas investors have been increasing their interest in real estate investment opportunities. More affordable renting and living costs compared to the peer cities of Beijing and Shanghai are also attracting companies.

Chengdu

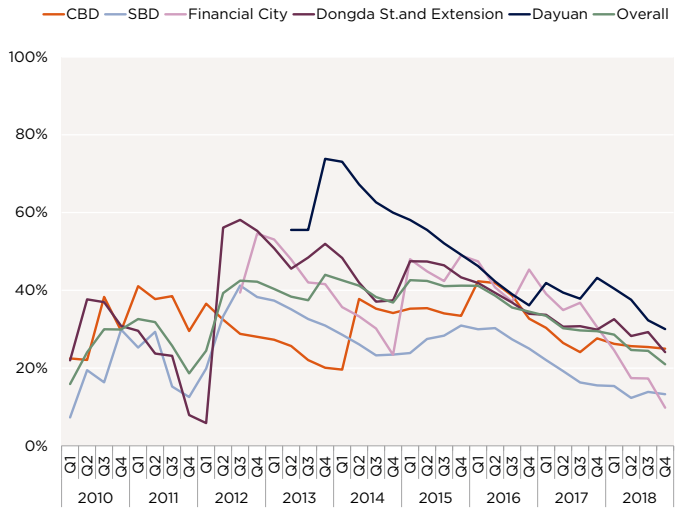
As one of the three national central cities in Western China, Chengdu has a strong modern service economy including financial services and a high-tech industry. The city's Grade A office stock ranked fifth in the country, totalling 3.3 million sq m by the end of 2018. Rapid growth in new industries is reflected in the strong absorption of new office space, albeit mainly in new projects. The overall vacancy rate, consequently, has fallen by 20 ppts since the latest peak in Q1/2016. With less space available and, consequently, an increasingly landlord-orientated market, office rents started to recover across the city and moved upward.

What is causing the change?

While the financial and professional service sectors remain the main drivers of Chengdu's office demand, the city's high-tech industry has flourished and has become an important component of Grade A offices' tenant mix. The proportion of high-tech companies in the total Grade A office space increased from 4% in 2013 to 16% in 2018. Demand also rose from industries such as retail and trade and healthcare as well as consumer services.

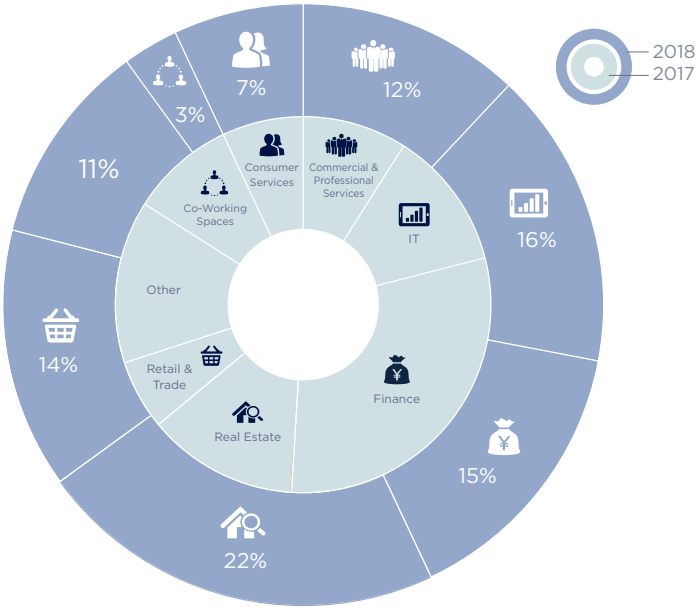
Co-working is another segment that helps absorb large office space in the city. Besides local operators' expansion, Chengdu is a priority for many domestic operators as the first entry point to expand businesses in second-tier cities. To illustrate, the city's co-working operators have taken approximately 195,000 sq m of Grade A office space by 2018, accounting for 6% of total Grade A office stock.

Chengdu Grade A Office Market Vacancy Rates By Area



Source Savills Research

Chengdu Grade A Office Take-Up Breakdown

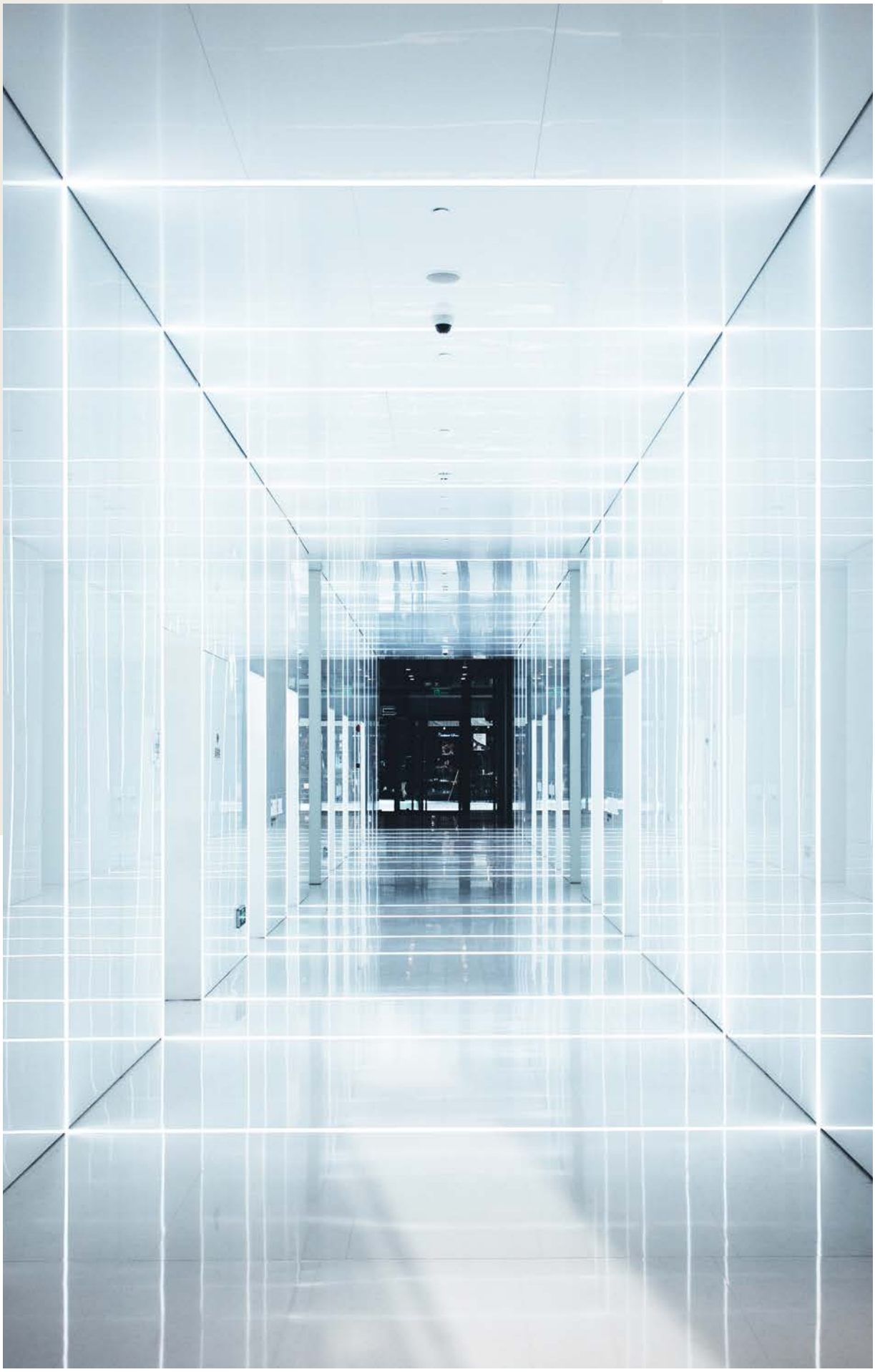


Source Savills Research

Selected Co-Working Leasing Transactions In Chengdu, 2018

TENANT	PROJECT	BUSINESS AREA	LEASE AREA (SQ M)
MyDreamPlus	World Financial Centre	Dayuan	12,300
WeWork	Pinnacle One	Dongda Street And Extension	6,400
WeWork	Leading Center (East Tower)	CBD	6,000
Kr Space	Yanlord Landmark	CBD	4,000

Source Savills Research



Trends

The Hunt For Talent

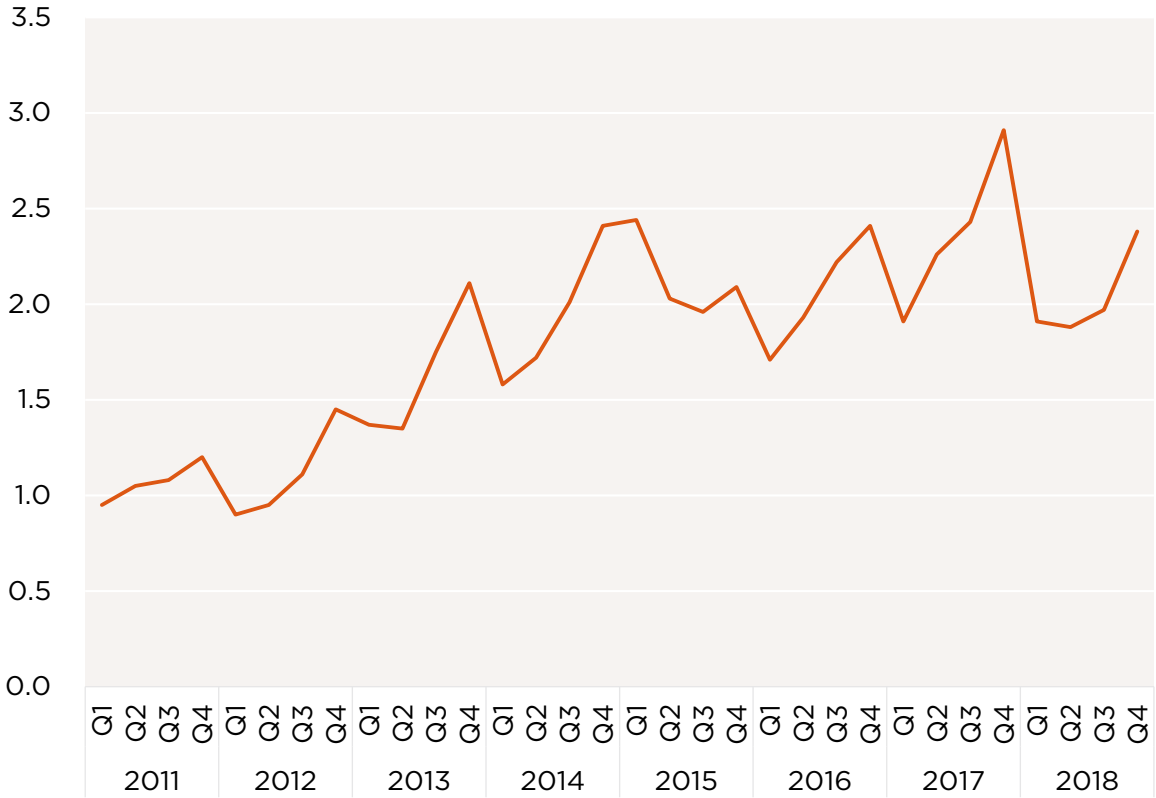
According to an August 2018 announcement by the Shanghai Municipal Education Commission, "Graduates from the two top universities in Beijing, Peking University or Tsinghua University, will be granted fast-track Shanghai household registration authorisation if they choose to work in Shanghai," instituting a preferential policy to attract top graduates.

As more cities have realised the indispensability of talent for their cities' development, not only first-tier cities but also many second-tier and lower-tier cities have joined the competition for talent, including Wuhan, Xi'an, Nanjing, Hangzhou, Chengdu, Tianjin and Hainan province amongst others. This demonstrates local governments' eagerness to promote economic growth and also indicates that economic development in these cities has entered a new phase with a significantly increased demand for talent. Talent-attracting measures include benefit packages such as favourable policies on housing and the hukou (the permanent residence permit).

While these measures are encouraging, local governments should work out differentiated measures to lure talent in specific fields such as high-tech, R&D or manufacturing, especially for big cities with population controls. The talent-attraction campaign does not only mean grabbing talent between cities; more emphasis should be put on attracting Chinese graduates who have studied overseas as well as professionals from other countries to relocate or locate in China. The government's effort is one way to achieve this, while companies should also seek to retain talent themselves to reduce time and money spent on staff turnover. The war for talent in China will continue for the foreseeable future.

Incentives are essential; but what is even more important is to improve the convenience, services, affordability, amenities, job opportunities and society of cities.

CIER Index*



Source Zhaopin.com, China Institute for Employment Research (CIER),Savills Research

* The CIER index reflects a relationship between job vacancies and applications, released quarterly by the CIER. If the index is larger than 1.0, it means sufficient job vacancies or a less-fierce talent market.

Sustainability And Wellness

Numerous studies have shown a measurable benefit of sustainable building initiatives on employees' productivity; there is a strong correlation between higher productivity and employees who love being in their working place. Specifically, employees can be affected by certain aspects of sustainable building design such as improved lighting, reduction of pollutants, advanced ventilation systems and the use of non-toxic building materials.

The term sustainable buildings, also known as green buildings, refers to both a structure and the application of processes that are eco-friendly throughout a building's life-cycle—from planning to design, construction, operation, maintenance, renovation and demolition. This requires close cooperation of contractors, architects, engineers and occupiers at all project stages. The objective of sustainable buildings is to reduce the negative impact of the built environment on people's health and the natural environment. Measures include efficient use of energy, water and other resources, as well as the reduction of waste and pollutants.

Leadership in Energy and Environmental Design (LEED) is a set of rating systems for the design, construction, operation and maintenance of green buildings. For publicly listed companies, the emphasis is not placed just on operations and earnings, but also on their abilities to develop sustainably by submitting to Corporate Sustainability Reporting requirements. From an investors' perspective, these types of commercial buildings are likely to achieve higher rents, occupancy rates and sales prices.

Cost is one of the most criticized issues about building environmentally-friendly developments. The common belief is that solar systems, new appliances and modern technology tend to cost more money, but green buildings don't necessarily lead to higher costs. Recycled or natural materials can also be eco-friendly and cost less. Simple steps such as changing conventional light bulbs for LEDs cost little but have a great impact on sustainability and can save money over the long term. In addition, the central government and local governments are providing subsidies to support the development of green buildings. At the very least, savings can come from more efficient use of utilities, which results in decreased energy bills.

More than 30 provinces and municipalities have issued favourable policies to encourage green buildings by 2018. For example, Beijing offers RMB22.5-40 per sq m to two-to three-star certified green buildings, excluding extra subsidies from the central government. Shanghai offers RMB50-100 per sq m to two- to three-star certified green buildings.

Property Management

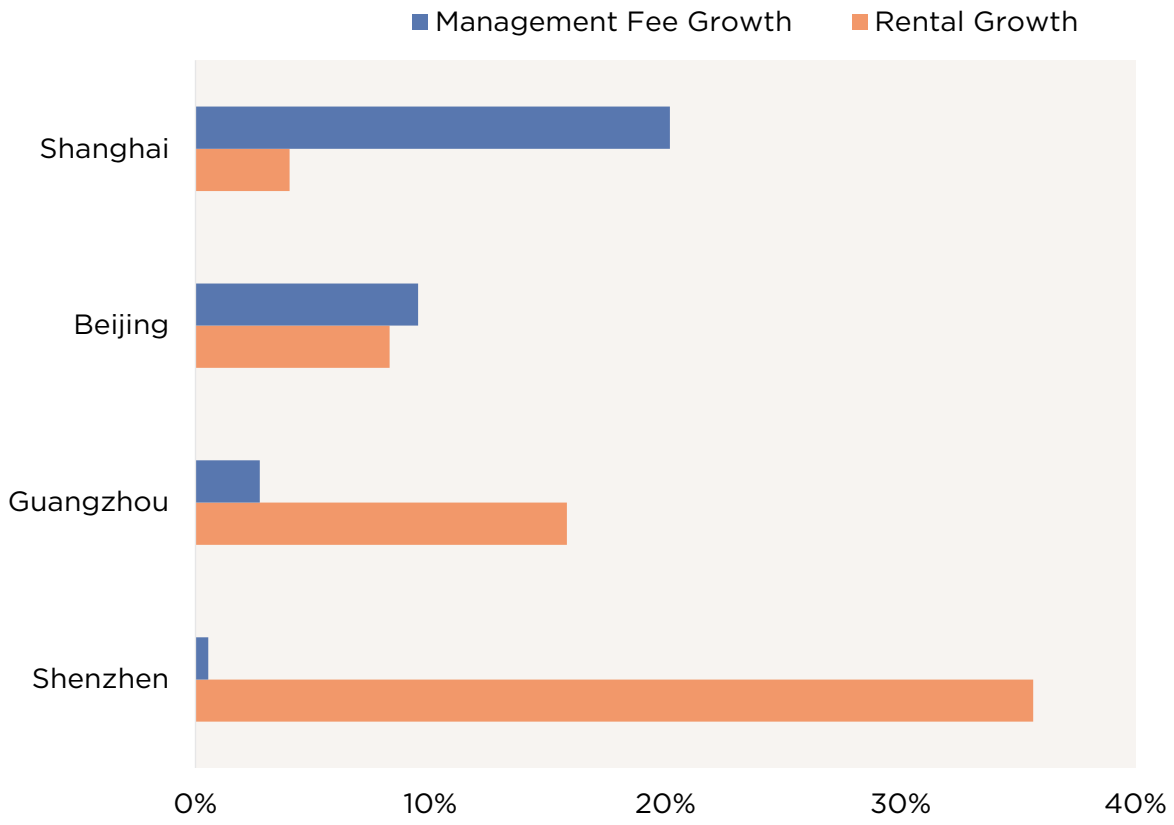
Mobile payments, high-speed rail, online shopping and bike-sharing are dubbed the "four new inventions in China". Technology is changing our daily life, while the combination of property and technology has helped the China real estate market enter a new phase. Bigger developments mean higher management challenges. In order to make property yields higher, it is important to improve management efficiency while lowering costs at the same time. Property technology—or proptech—and the Internet of Things (IOT) are expected from more highly qualified management teams.

New technologies include face-recognition technology, smart lighting, air quality monitoring, drone security and unmanned cleaning to extract better cost and energy savings, custom-made mobile applications for tenants, staff and suppliers to improve communications, and using Building Information Modelling (BIM) to better manage properties.

By tracking rents and management fees of benchmark office buildings in key cities, we found that management fees in cities like Shanghai and Beijing grew faster than rental growths. Even in projects where rents were decreasing, management fees continue to rise, due to increases in management costs including materials, salaries, and the municipal governments' irregular upward adjustment of unit prices of utilities as well as improved services.

As properties become more valuable, it only makes sense to spend more money to retain and enhance the value of the asset. As markets become more competitive—more recently from co-working—property management is also a way to differentiate developments. As the role of property managers evolves, it's important to take advantage of all the services they provide for the same rental level—unless tenants choose a project with a management team that collects a flat management fee.

Management Fee Growth Vs. Rental Growth, 2013 To 2018



Source Savills Research * Calculated based on five prime office benchmark projects in each city

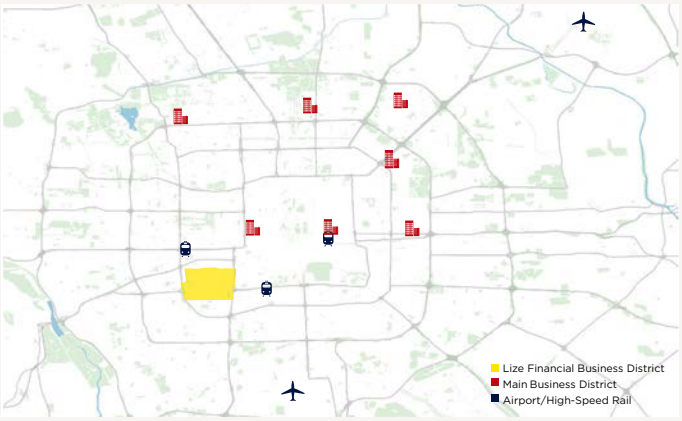
New Business Districts

Replacement Vs. Extension

There is more than one new business district in each market—Beijing has Lize and Tongzhou while Shanghai has Hongqiao Transportation Hub (HTH), New Bund and Xuhui Riverside. In addition, every new business district has its own specific features. The business districts here are likely to reshape the city's future office landscape.

Beijing: Lize Financial Business District

- Located between the West 2nd and 3rd Ring Road, the Lize Financial Business District (Lize FBD) was announced in 2008, and is known as the last large-scale development zone within the 3rd Ring Road. The area covers a total site area of 8.09 sq km including 2.81 sq km of core area. Over eight million sq m are planned to be built, with functions including, but not limited to, governmental, commercial and residential.

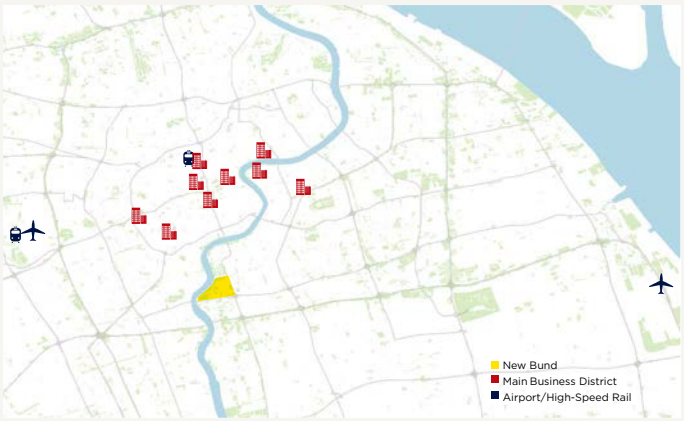


The Beijing government has positioned the area as an emerging financial industry cluster where headquarters for banks, insurance, securities and funds companies will be located. It is reported that 482 companies, of which 396, or 82%, are financial, have been introduced to the area as of June 2018.

Three office projects of 288,000 sq m office space were handed over at the end of 2017. Adoption has been slow despite significant rental savings as a result of a lack of retail and local infrastructures, which could impede long-term viability. Around 1.37 million sq m of office space is currently under construction and is expected to launch within the next five years. The future metro lines 14 and 16 will run through the area and are scheduled to be completed in 2020.

Shanghai: New Bund

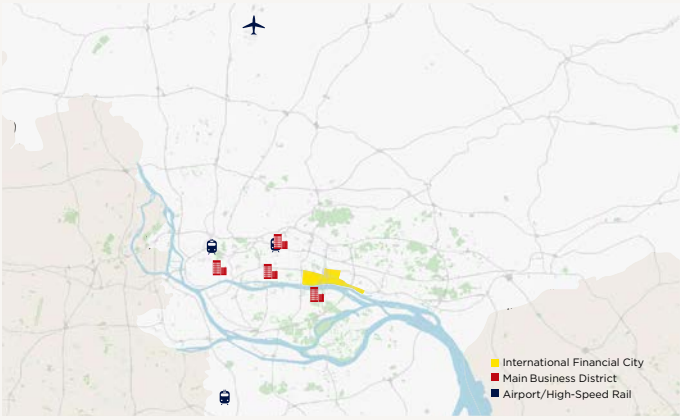
- Lying to the south of the former World Expo site, the New Bund, also known as Qiantan, is one of the city's master-planned decentralised business areas, aiming to appeal to multinational firms. Since its establishment in 2012, the area has attracted investments from many high-profile developers including Tishman Speyer and Swire, though many are in JVs with Lujiazui Group, a local SOE and primary landlord of Qiantan and Lujiazui Finance & Trade Zone.



Around 350,000 sq m of Grade A office space has been handed over by 2018, with another 300,000 sq m expected to be completed in the next three years, and the vast majority of developments are expected to be completed in 2024. Aside from slow leasing activities, the area is also facing challenges from massive new office supply in other decentralised areas. Effective rents in Grade A offices were roughly RMB150-200 per sq m per month in 2018.

Many reporters and analysts expect the area to become a "2.0 version" of Lujiazui, in which it will not only develop into another new business district of Shanghai, but also focus on multi-functionalities including residential, retail and green space. The New Bund is expected to become one of the most sought-after destinations for living, working and shopping in the city thanks to connectivity to a three-line (Line 6/8/11) metro station, and proximity to a sports centre, international hospital, and an international school, as well as encouraging policies from the government.

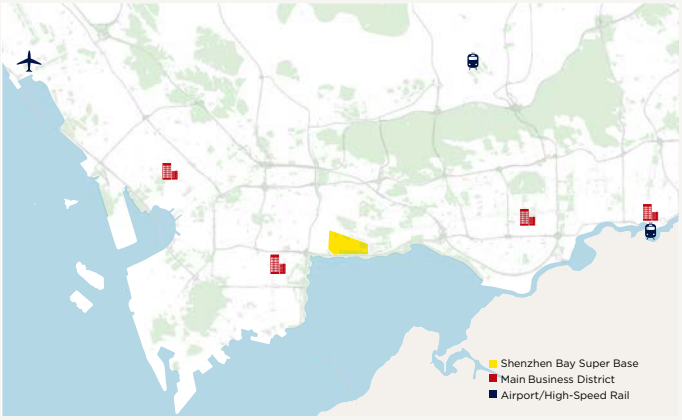
Guangzhou: International Financial City



- Guangzhou International Financial City was established in 2012, and was officially positioned as the city's second central business district (CBD) in 2017. Covering a site area of 7.5 sq km (including 2.3 sq km of core area), development of the area is divided into two phases—the starting zone and western core zone.

  With IT-focused Pazhou on the other bank of the riverfront, the International Financial City is positioned as an extension of the Zhujiang New Town CBD, aiming to attract financial institutions and headquarters. It is planned as a multi-functional hub of commercial, cultural and residential properties.

Shenzhen: Shenzhen Bay Super Base



- While most attention is focused on Qianhai, Shenzhen also has many other plans—notably Shenzhen Bay Super Base, just to the east of Houhai in Nanshan district.

  Located in the core area of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), the Shenzhen Bay Super Base is a new headquarter-oriented business district supported by the local government. Plans are to build 4.5-5.5 million sq m of total GFA (excluding public space and infrastructure), and to introduce 180,000 to 220,000 workers.

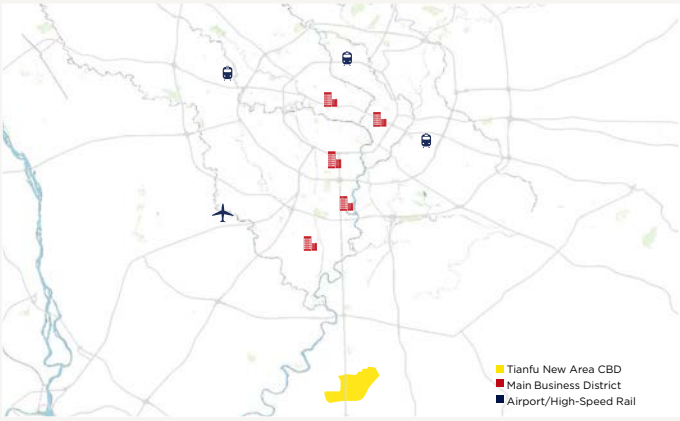
  The area has seen many investments from high-profile companies including CITIC Securities, ZTE, Hengli Group, China Merchants Bank, Vanke, and Evergrande. With a few more years of construction and development, the Shenzhen Bay Super Base is expected to become one of the biggest clusters of Fortune 500 companies.

New Business Districts

Replacement Vs. Extension

Chengdu: Tianfu New Area CBD

- Located in the south of the city, Tianfu New Area CBD is a new, modern service industry-orientated engine for the city's economic growth, expected to meet needs for exhibitions, headquarters, commercial properties, education facilities and public services.



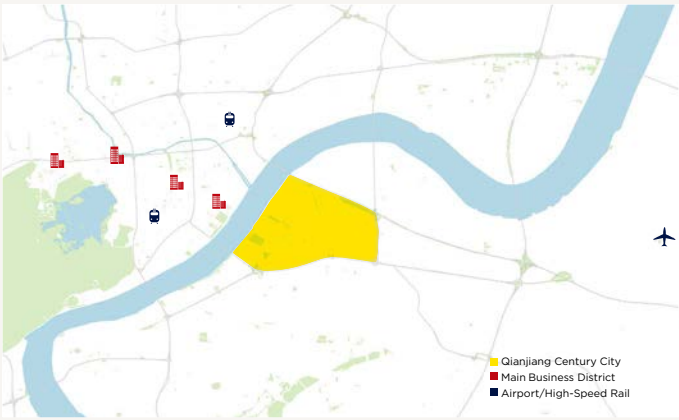
Currently there are a large number of office buildings under construction or under planning. Notable future projects include a 677-metre high skyscraper by China Overseas. It started construction in December 2017 and is scheduled to be completed in 2023. The area has attracted many state-owned enterprises (SOEs), such as China Metallurgical Group, China State Construction, China Communications Construction Company and China Railway Group, which will establish their southwest headquarters in the district.

Despite distances from city centre, one of the highlights of the area is the Western China International Expo City, one of the largest exhibition centres in western China. It was completed in 2016 and has been put into use hosting the 17th Western China International Fair. Currently, the area has access to metro line 1 with more lines (6/18/19) expected in the near future.

Taking advantage of improving infrastructure and the short distances to existing Shuangliu International Airport and the future Tianfu International Airport, Tianfu New Area CBD is anticipated to become a new business area, in accordance with the city's southward-development strategy. However, this district will take a long time—at least five years—to evolve and mature.

Hangzhou: Qianjiang Century City

- Located opposite Qianjiang New City on the south bank of the Qiantang River, Qianjiang Century City (QJCC) is an emerging area that the city announced in 2003. The area has a planned site area of 22.3 sq km and a planned population of 160,000.



Before 2022, when the 19th Asian Games will be held, 1.55 million sq m of office space is planned to be completed. Notable office projects include The Gate of Hangzhou by Greenland, Cinda Centre by Cinda, Vanke Centre by Vanke and a project by China Resources.

Also being built in the area is the main venue for the 2022 Asian Games—the Hangzhou Olympic and International Expo Centre. The event will not only attract significant attention but also will stimulate the area's economy by creating job opportunities and encouraging consumption. Also, urban infrastructure is improving—while now there is only one metro (Line 2) in the area, Lines 6 and 7 (which will run through the QJCC) are under construction and are set to operate before the Asian Games.

Final Words

Market Risks And Opportunities For Landlords

Given a restricted and slowing sales market, developers need to be cautious and rational when acquiring new land plots. Additional uncertainties still exist in the expiration of the land-use term.

Despite booming demand from P2P companies, their instability as an occupier is a big concern. Landlords should evaluate tenants' qualifications and focus on diversifying away from this industry-specific risk if they want to be stable in the long term.

While co-working is an opportunity for landlords, co-working sites may disturb the overall tenant profile of Grade A office buildings. We have seen traditional landlords adopt elements of the co-working concept or start cooperating with co-working brands to effectively meet tenant needs, though more flexible lease contract terms also mean higher tenant turnover and company diversification.

Strategies For Occupiers

In markets where tenants have the upper hand, companies occupying older buildings should take the opportunity to upgrade their office premises to a newer workplace but with lower costs. They could also employ professional intermediary institutions to get the most suitable and cost-effective solutions as more supply and subsequently rental options become available, and as sometimes achievable rents for fintech companies are higher than the average, which could push up rents proposed by landlords.

While the China office market is faced with a number of challenges, the market is continuing to evolve, change and mature, presenting opportunities for developers, investors and operators who can identify and seize these chances.

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