GREATER CHINA

OUTLOOK

2023

BEIJING

KEY MESSAGES

SUPPLY

- The Beijing office market is expected to see 2.65 million sq m of new office space in the 2022 to 2025 period. The incoming supply will represent 21.0% of the current citywide Grade A office stock, the lowest level among the four first-tier cities.
- The five core submarkets will account for 42.3% of the total new supply, with suburban submarkets taking 57.7%. The incoming space will take total Beijing Grade A office stock to an estimated 15.2 million sq m by 2025.

DEMAND

- The COVID-19 outbreak in early 2020 obliged many landlords to reduce rents throughout the year, and tenants took advantage of the opportunity to take new office space or to relocate. The new supply also provided greater choices for tenants and enhanced market vitality. In 2021, citywide net absorption reached a five-year high of 839,458 sq m.
- The reoccurrence of the pandemic in the city at the end of April 2022 dampened market activity. By the end of Q3, net absorption had dropped by 51.4% y-o-y to record 285,373 sq m citywide.

RENTS

- In 2022, the falloff in leasing transactions continued to lead to a slight drop in rental levels.
- Under the dual pressures of falling market leasing demand and an influx of new supply, the overall market vacancy rate in Beijing will be pushed up, while rental levels will continue to come under pressure.

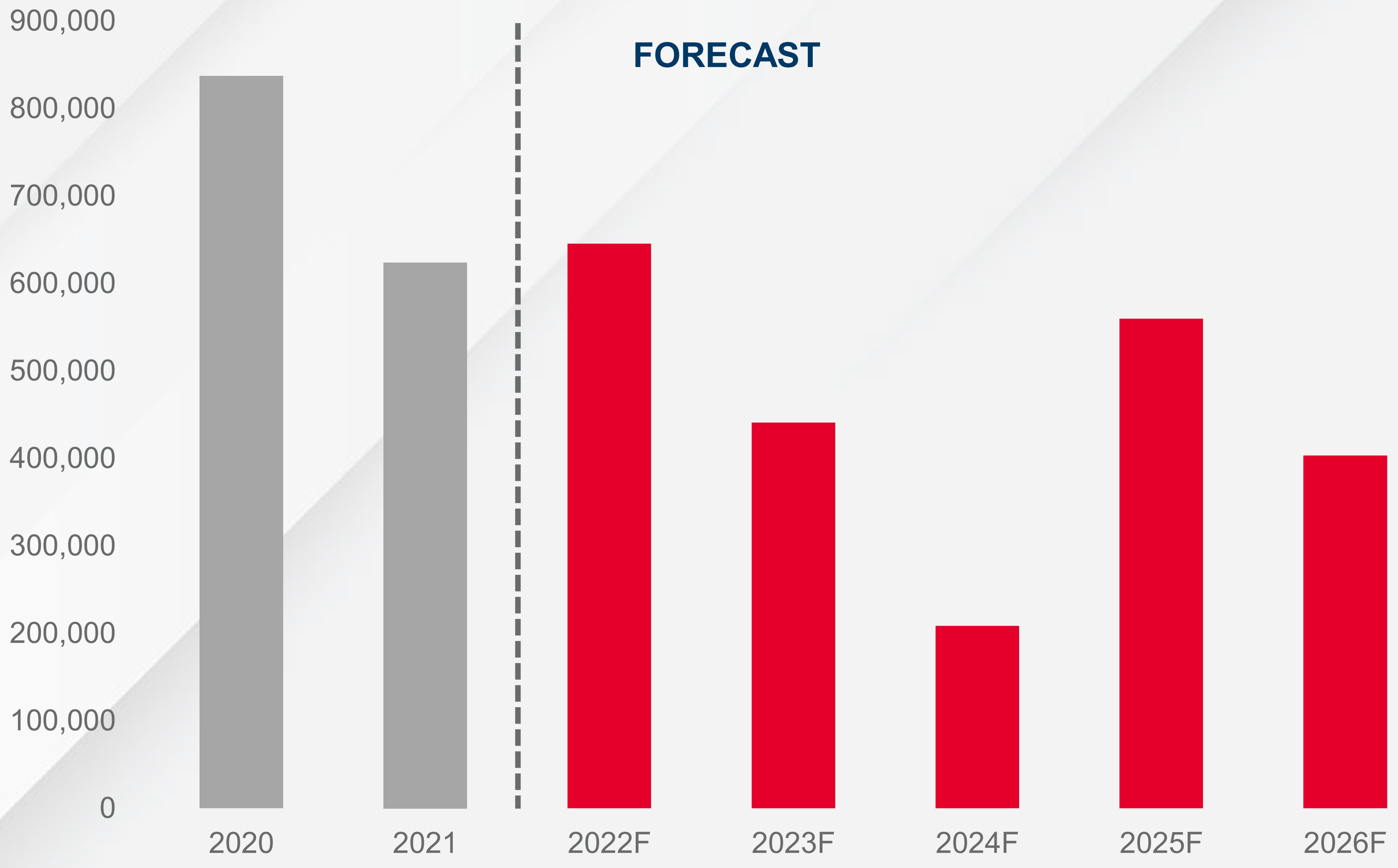
KEY OUTLOOK

- Looking ahead, against the background of normalization of the pandemic, we see consulting companies such as law and accountancy firms, together with high-tech firms, and manufacturing-related R&D centers and biomedicine enterprises supported by national policies, together with financial institutions, rising as the key development industries in Beijing.

BEIJING

NEW SUPPLY

NEW SUPPLY (SQM)

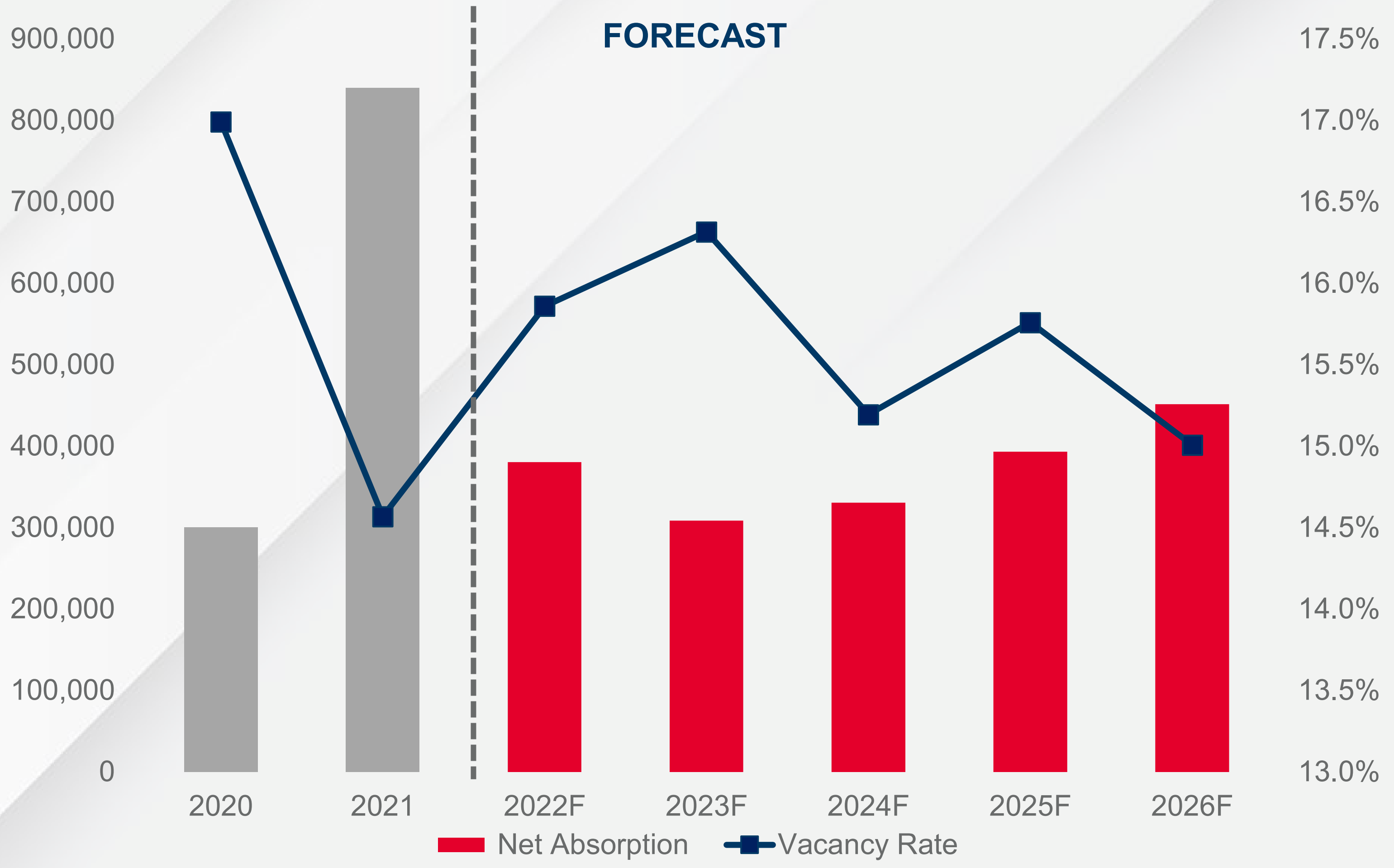


Source: Cushman & Wakefield

- 645,798 sq m of new supply is expected to enter the Beijing office market in 2022, with a further 441,06 sq m expected in 2023.
- Future office market supply will be concentrated in the CBD, Tongzhou Canal Business District, and Li'ze Financial Business District, accounting for 26.2%, 19.8%, and 12.7% of the total future supply, respectively.

BEIJING DEMAND & VACANCY

NET ABSORPTION (SQM) AND VACANCY RATE (%)

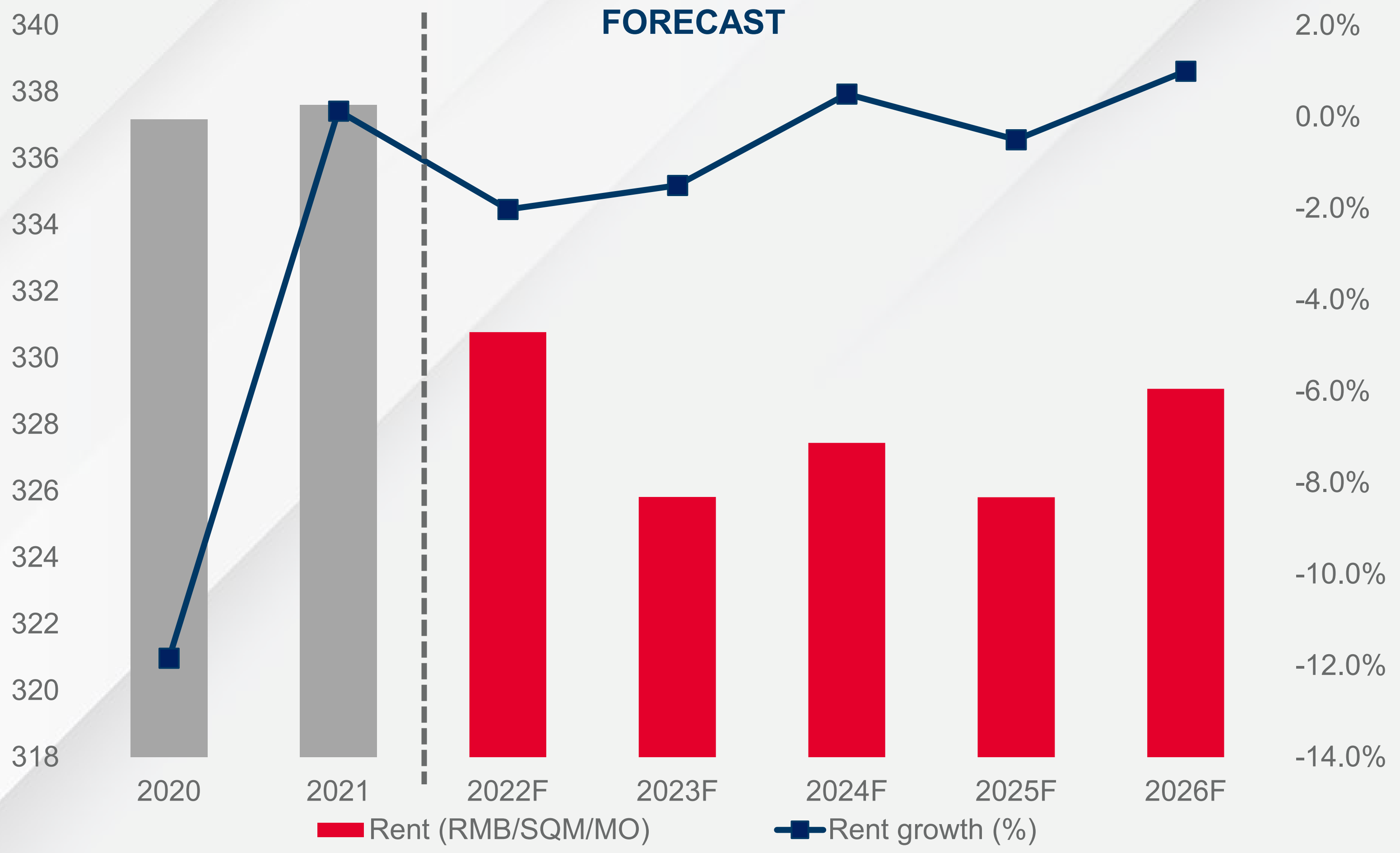


Source: Cushman & Wakefield

- Overall market activity continued to slow in 2022, with first half net absorption down by 25.1% y-o-y to 258,717 sq m citywide.
- The TMT, finance, and professional services industries remained the top three sectors in terms of leasing demand. Biopharmaceutical industries were also active in 2022.
- TMT, financial, and professional services companies, such as law firms and consulting companies, should remain the key drivers of demand in the Beijing office market.

BEIJING RENT GROWTH

RENT (RMB/SQM/MO) AND RENT GROWTH (% PER ANNUM)



Source: Cushman & Wakefield

- The fall-off in leasing transactions continued to lead to a slight drop in rental levels in 2022.
- In the short term, under the dual pressures of falling market leasing demand and an influx of new supply, the overall market vacancy rate in Beijing will be pushed up, while rental levels will continue to come under pressure.

SHANGHAI

KEY MESSAGES

SUPPLY

- Over 2.1 million sq m of new supply is forecast to enter Shanghai's Grade A office market in 2023. Considering strict pandemic prevention policy measures this year, many landlords delayed the completion of projects to 2023.
- In 2024, more new supply is expected to be completed in the city's core submarkets.

DEMAND

- Lock-down periods in 2022 resulted in reduction in leasing demand. Thus, net absorption is expected to reach 718,562 sq m in 2022. With a more stable economic environment, net absorption may rise to 767,185 sq m in 2023.
- Given considerable new supply in 2023 and 2024, vacancy is expected to edge up to over 20%, from around 16% in 2022.
- The market will remain tenant favorable for the next few quarters given the current economic and office market environments.

RENTS

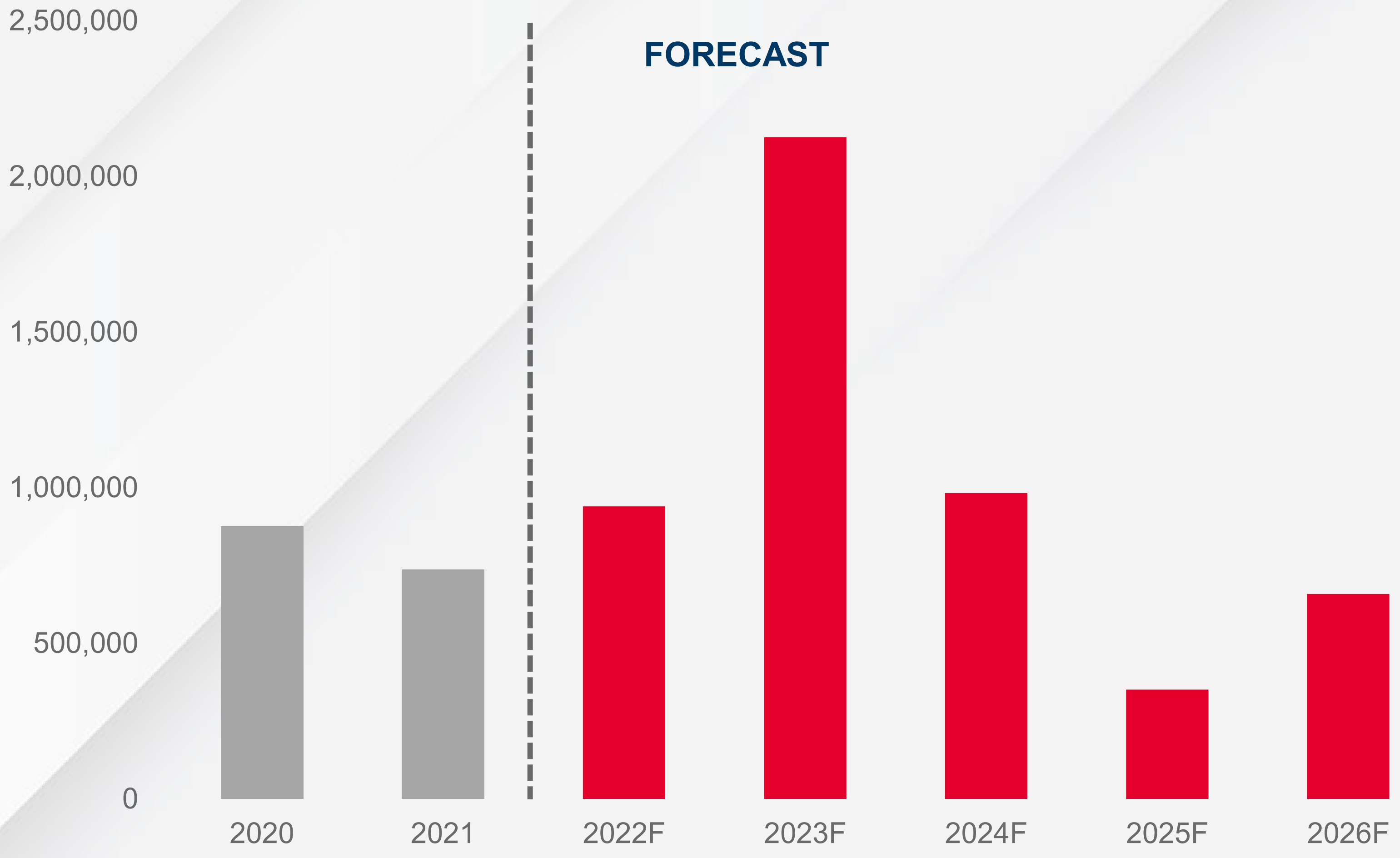
- Rents have been under pressure in 2022. Given the considerable amount of new supply in emerging submarkets, the annual rental growth is likely to range from -0.2% to -1.9% through to 2024.
- The monthly rental may dip slightly from RMB248 per sq m at the end of 2022 to RMB243 per sq m at the end of 2023.

KEY OUTLOOK

- In core areas, several prime office projects are scheduled to complete. Simultaneously, the development of high-quality office buildings will be accelerated in some emerging commercial areas along the Huangpu River, which will attract more quality tenants given the improved commercial environment and surrounding amenities.

SHANGHAI NEW SUPPLY

NEW SUPPLY (SQM)

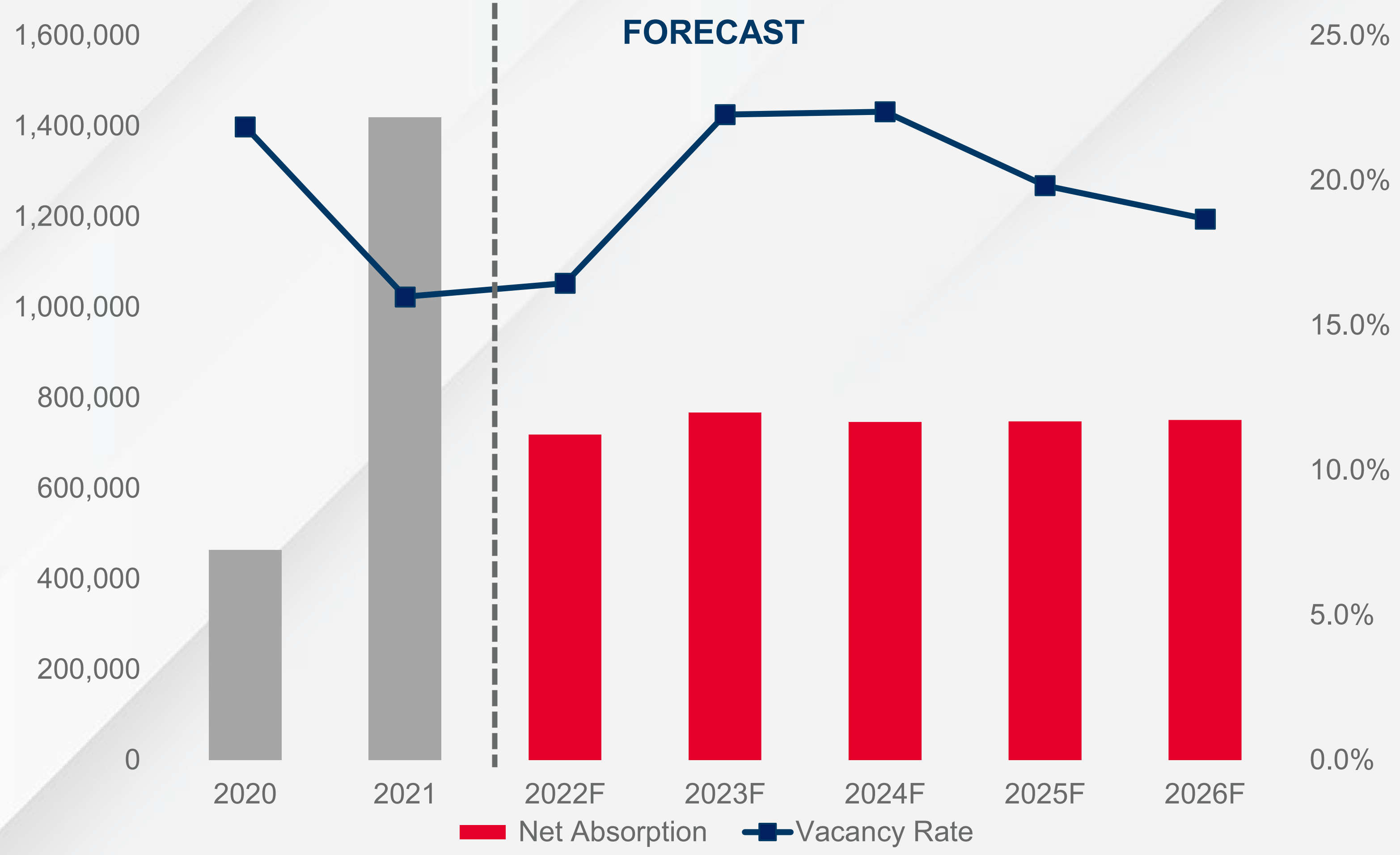


Source: Cushman & Wakefield

- Over 2.1 million sq m of new supply is forecast to enter Shanghai in 2023. Considering the strict pandemic prevention policy measures earlier this year, many landlords delayed the completion of projects to 2023 and 2024.
- Most handover dates are uncertain because landlords currently wish to seek an optimal time to launch in the market.
- Future prime projects will complete in both mature and emerging commercial areas. This will provide a further quality-space balance between the CBD areas and the suburban areas.

SHANGHAI DEMAND & VACANCY

NET ABSORPTION (SQM) AND VACANCY RATE (%)

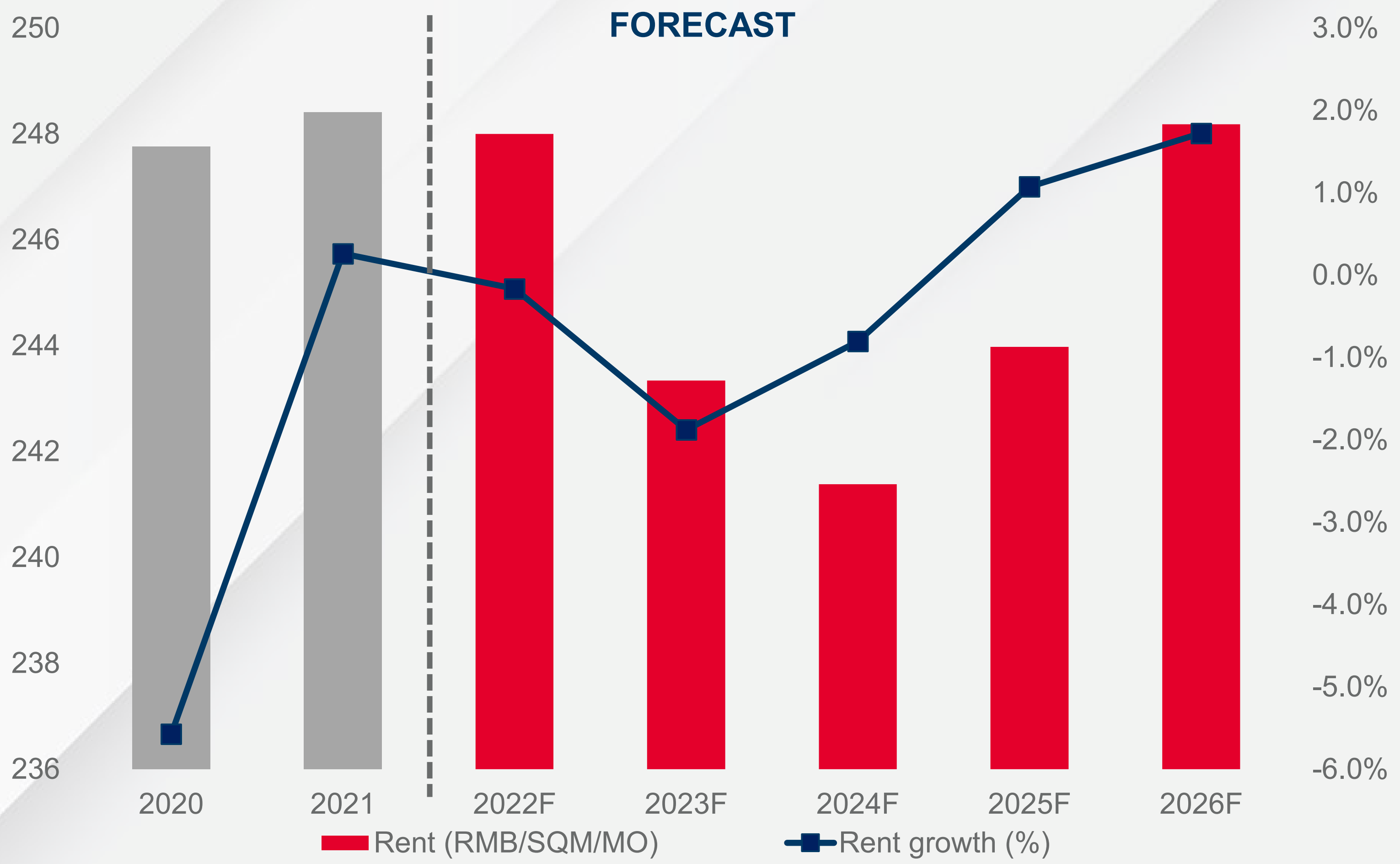


Source: Cushman & Wakefield

- Tenant demand returned to a relatively normal level in 2022, given the strict epidemic prevention policy measures in the first half of 2022. Some major industry sectors, however, continued to drive solid demand, including professional services, finance and manufacturing.
- Net absorption is forecast to reach 718,562 sq m in 2022 and then slightly rise in 2023, in expectation of a more stable economic environment.
- In light of the considerable amount of future supply, vacancy is expected to climb to over 20% in 2023 from around the current 16%.

SHANGHAI RENT GROWTH

RENT (RMB/SQM/MO) AND RENT GROWTH (% PER ANNUM)



Source: Cushman & Wakefield

- Rents have been under pressure in 2022, due to greatly reduced demand in the second quarter. Overall, in Shanghai, the monthly average rental will likely remain around RMB248 per sq m by the end of the year.
- With many quality projects completing in the future and rising vacancy, the overall Shanghai market may well see monthly rental dip by 2% to reach RMB243 per sq m in 2023.
- In the future, rental growth will likely slow as new supply enters the non-core submarkets.

GUANGZHOU

KEY MESSAGES

SUPPLY

- For the period ahead through to 2026, the 5-year average annual new supply into the Grade A office market is forecast to be 476,000 sq m, doubling the annual average delivery of the past four years. Most of the new space is slated for the Pazhou and Financial Town submarkets.
- The influx of space in emerging business districts will reshape the Guangzhou Grade A office market.

DEMAND

- Buffeted by economic uncertainty, net absorption will drop to a low in 2022. However, the introduction of favorable policies should help absorption rebound to around 270,000 sq m in 2023 and then stabilize.
- From 2023 to 2026, market demand is forecast to be stable. Nonetheless, the vacancy rate will rise to about 20% due to the large volume of new supply.

RENTS

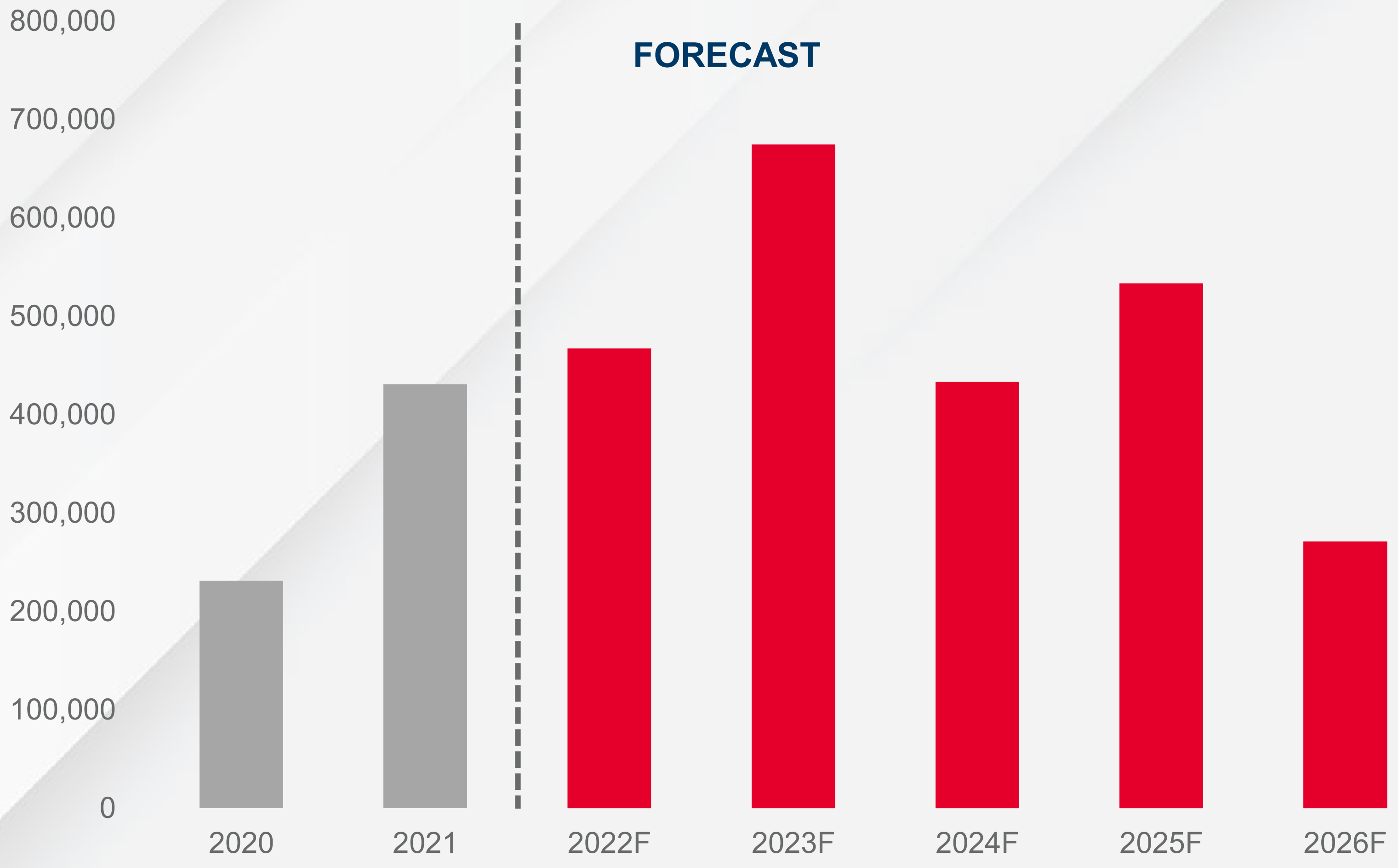
- Pressured by the volume of new supply and the uncertain external environment, the overall rental level will continue to decline and may drop to RMB162 per sq m per month by 2024.
- With the steady recovery of the economic environment and the fall in office supply, positive rental growth may return by 2025.

KEY OUTLOOK

- The accelerated construction of the Guangdong-Hong Kong-Macao Greater Bay Area is helping Guangzhou become an important location choice for enterprises, supported by its advantages in transportation, industrial base, talent pool, and policy support. In turn, enterprises will support demand for R&D, industrial, office and other property classes.

GUANGZHOU NEW SUPPLY

NEW SUPPLY (SQM)

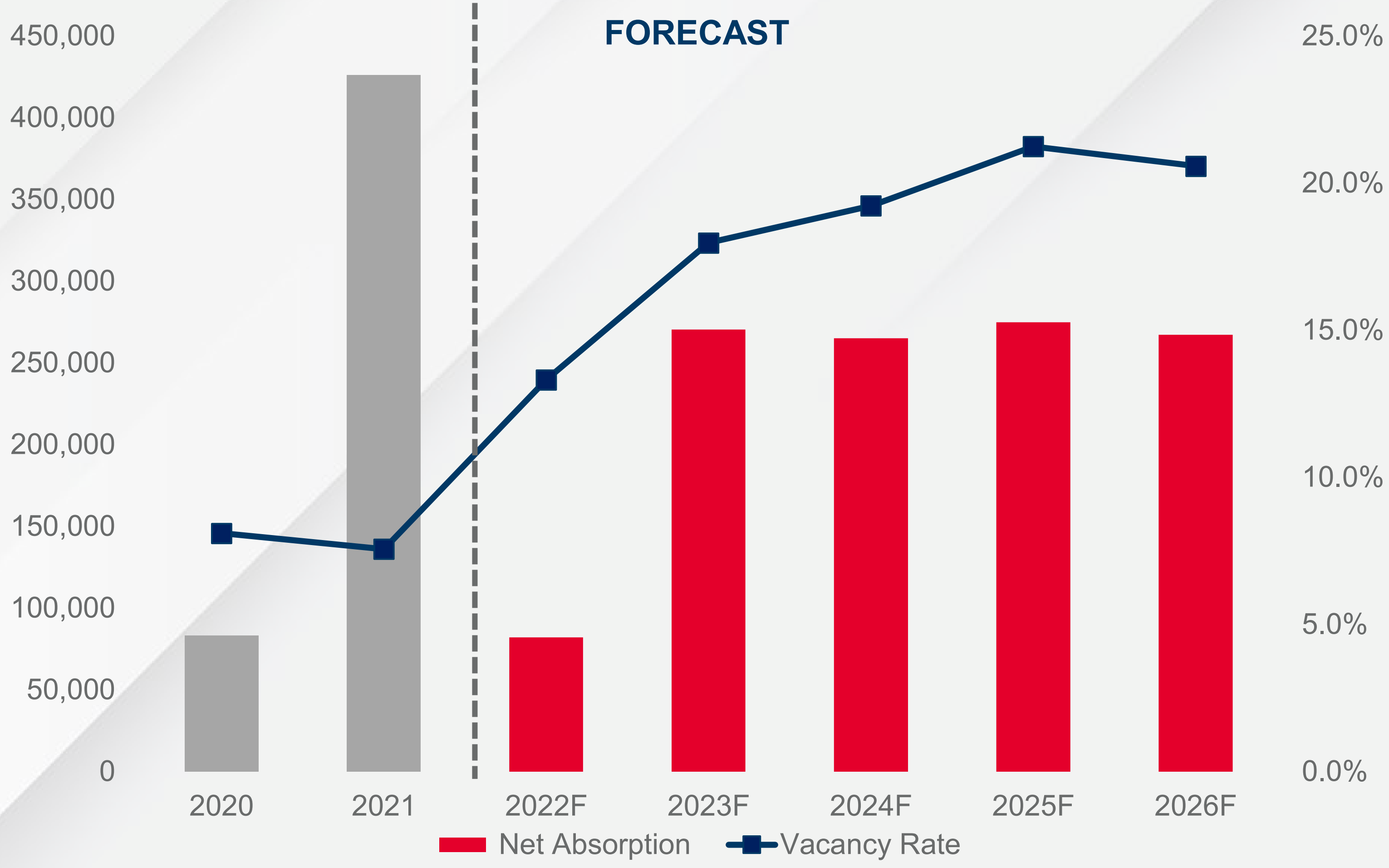


Source: Cushman & Wakefield

- The Guangzhou office market will see a supply peak in 2023, with new supply exceeding 670,000 sq m, of which Pazhou will account for 60% and Financial City 40%.
- In the next four years, nearly 2 million sq m of new supply will enter the market, mainly at Pazhou and Financial Town. The significant new supply will accelerate the formation of new office market trends in the city.
- The mature Zhujiang New Town submarket will see just one new project in the next few years.

GUANGZHOU DEMAND & VACANCY

NET ABSORPTION (SQM) AND VACANCY RATE (%)

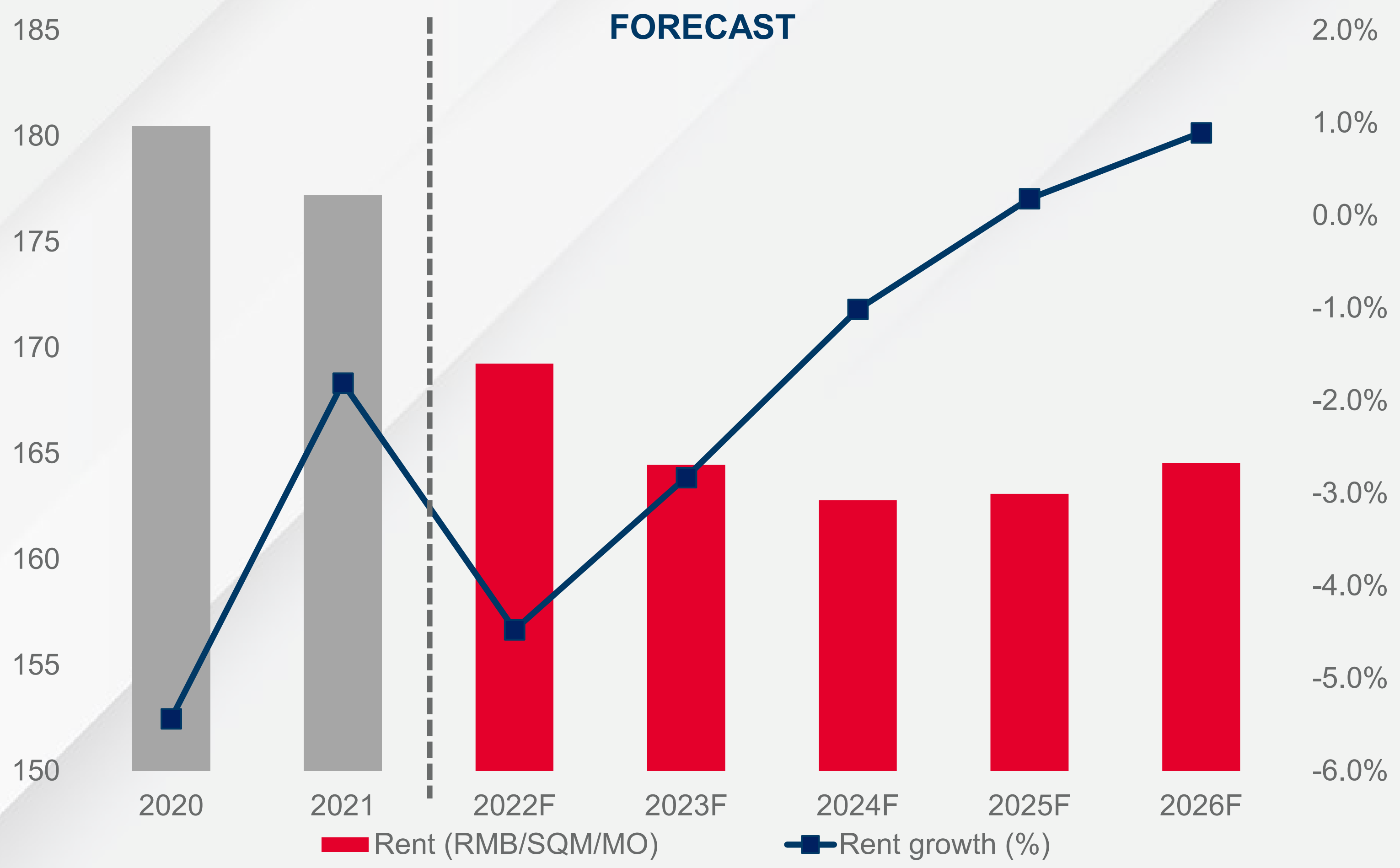


Source: Cushman & Wakefield

- Impacted by market uncertainty, corporate expansion has been more cautious, and net absorption will be at a low level for 2022.
- From 2023, we expect leasing demand to pick up, with net absorption rising to around 270,000 sq m. The TMT, finance, and professional services industries will be key sectors leading demand.
- Despite overall stable market demand, the surge of new supply is expected to push up the citywide vacancy rate to around 20%.

GUANGZHOU RENT GROWTH

RENT (RMB/SQM/MO) AND RENT GROWTH (% PER ANNUM)



Source: Cushman & Wakefield

- Due to the market uncertainty and ample supply, landlords have opted for price-for-volume leasing strategies, which will exert greater pressure on rents. By 2024, the citywide average rent level is likely to drop to RMB162 per sq m per month.
- As the economic environment stabilizes and new office supply drops, rent growth will gradually pick up from -4.5% in 2022 to 0.9% in 2026.

SHENZHEN

KEY MESSAGES

SUPPLY

- Nearly 750,000 sq m of new office supply is slated to enter Shenzhen's Grade A office market in 2023.
- A supply peak is expected in 2025, with approximately 1.4 million sq m of new office space scheduled to enter the market.
- The annual average supply of 0.9 million sq m in the pipeline over the next four years will greatly intensify competition.

DEMAND

- Tenant demand waned notably in 2022 due to economic uncertainties and stringent COVID-19 measures. The financial industry surpassed the technology sector as the leading driver of leasing demand.
- Net absorption is forecast to be less than 200,000 sq m in 2022, remaining low in 2023, with a gradual recovery to follow.
- The market is forecast to remain favorable to tenants for the foreseeable future.

RENTS

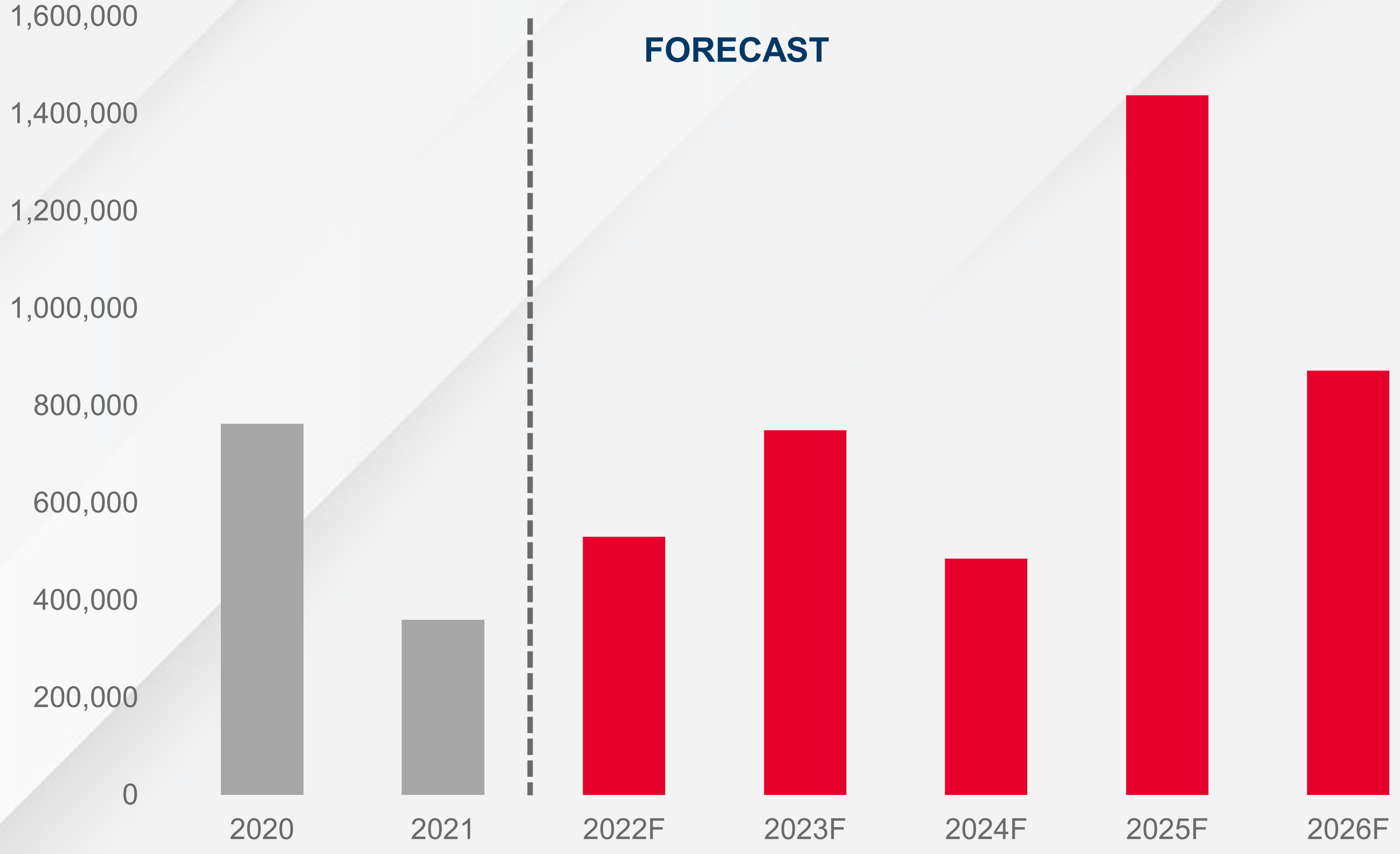
- The overall average rental level is forecast to drop by 1.5% to RMB207.28 per sq m per month at the end of 2022, and then to slide by a further 3.4% to record RMB200.27 per sq m per month by the end of 2023.
- The downward trend for rents is forecast to continue until 2025, followed by an expected stabilization and market recovery as incoming new supply drops off and demand rebounds.

KEY OUTLOOK

- The oversupply of Grade A office space in Shenzhen is expected to continue in the next few years. The reinvigoration of leasing demand largely depends on improvements in the economic outlook.

SHENZHEN NEW SUPPLY

NEW SUPPLY (SQM)

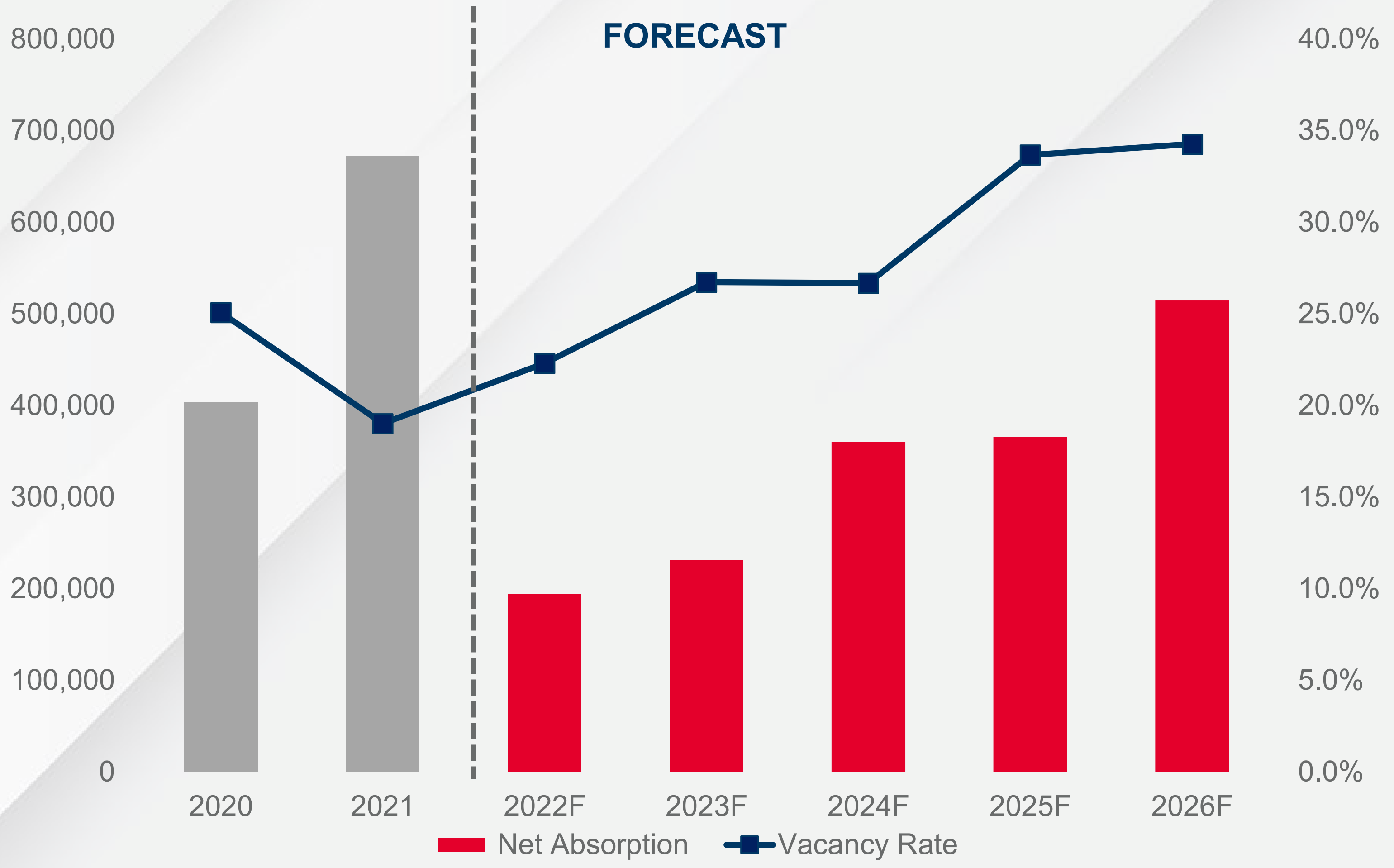


Source: Cushman & Wakefield

- A total of 749,396 sq m of new office supply is slated to enter Shenzhen's Grade A office market in 2023.
- A peak in supply is expected in 2025, with approximately 1.4 million sq m of new office space scheduled to enter the market.
- The annual average supply of 0.9 million sq m in the pipeline over the next four years will greatly intensify market competition.

SHENZHEN DEMAND & VACANCY

NET ABSORPTION (SQM) AND VACANCY RATE (%)

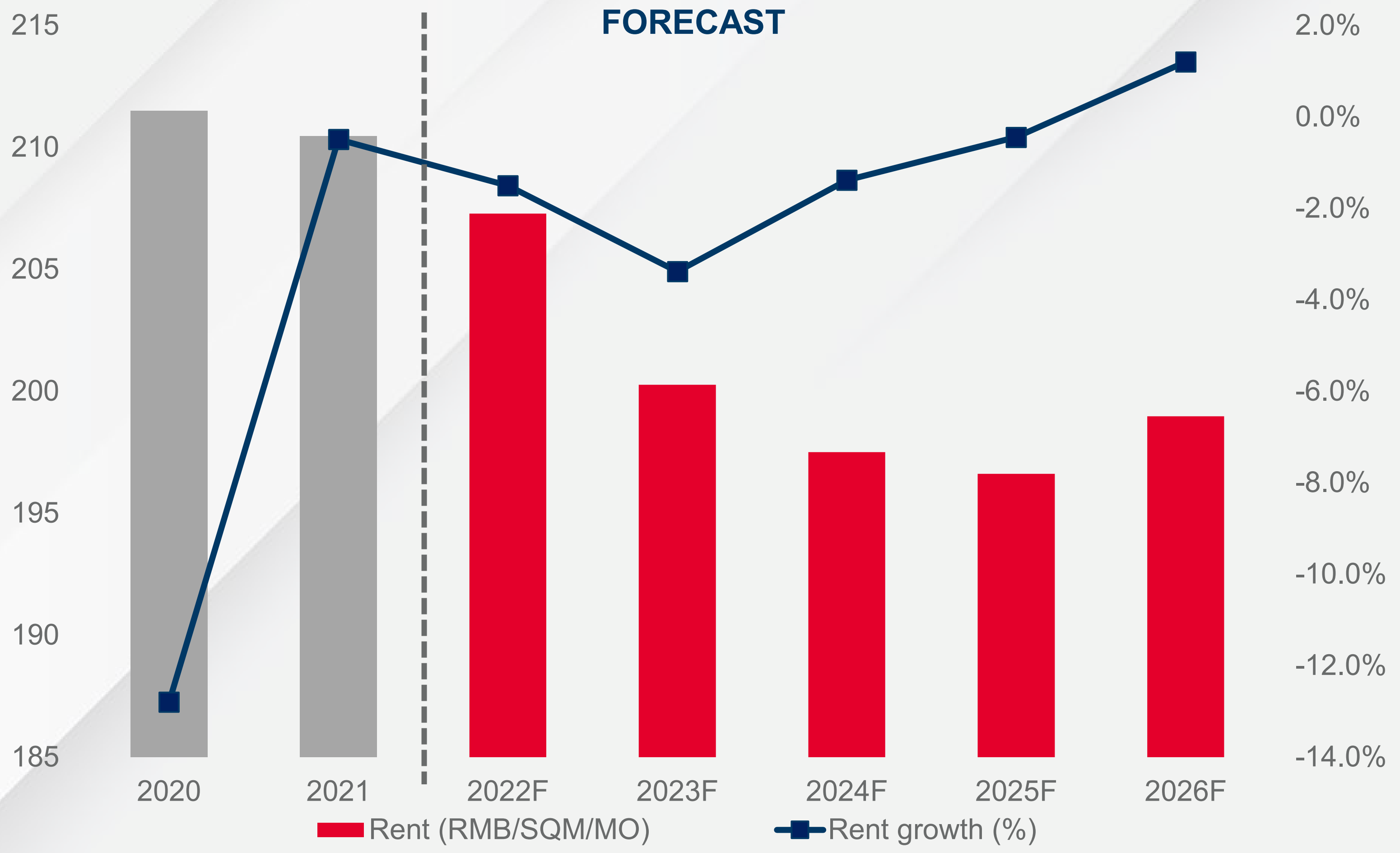


Source: Cushman & Wakefield

- Tenant demand waned notably in 2022 due to economic uncertainty and COVID-19 measures.
- The financial industry surpassed the technology sector as the leading driver of office leasing demand in 2022.
- Net absorption is forecast to be less than 200,000 sq m in 2022 and remain relatively low in 2023, but to gradually recover thereafter.
- The vacancy rate is forecast to rise in the coming years due to the impact of the uncertain economic outlook on demand, coupled with high future supply.

SHENZHEN RENT GROWTH

RENT (RMB/SQM/MO) AND RENT GROWTH (% PER ANNUM)



Source: Cushman & Wakefield

- Rental growth is expected to remain in negative territory in 2022, widening to -1.5% from -0.5% in 2021.
- With weakening demand and rising vacancy, the decline in rental growth is expected to further steepen in 2023, with rent forecast to drop by 3.4% to RMB200 per sq m per month.
- The downward trend in rents is forecast to continue until 2025, with the market then expected to stabilize and recover as new supply falls and demand rebounds.

HONG KONG

KEY MESSAGES

SUPPLY

- After 2.9msf of new supply in 2022, six new projects are expected to enter in 2023, totaling 1.9msf. Of the new projects next year, three of them will be in Kowloon East, two in Greater Central, and one in Kowloon West
- Beyond 2023, the supply is expected to drop to 0.7msf in 2024 and then peak again in 2025 at 3.1msf.

DEMAND

- Hong Kong's office market continued to face headwinds, nevertheless net absorption is expected to reach 300K sf in 2022, and slightly increase to 400K sf in 2023.
- As a result of new supply in 2022, availability is expected to increase to 16.8% by the end of this year, and increase further to 18.7% in 2023.
- The overall availability will stay in the double-digit territory in the foreseeable future, as demand will unlikely catch up with supply, affected by upcoming geopolitical and economic uncertainties.

RENTS

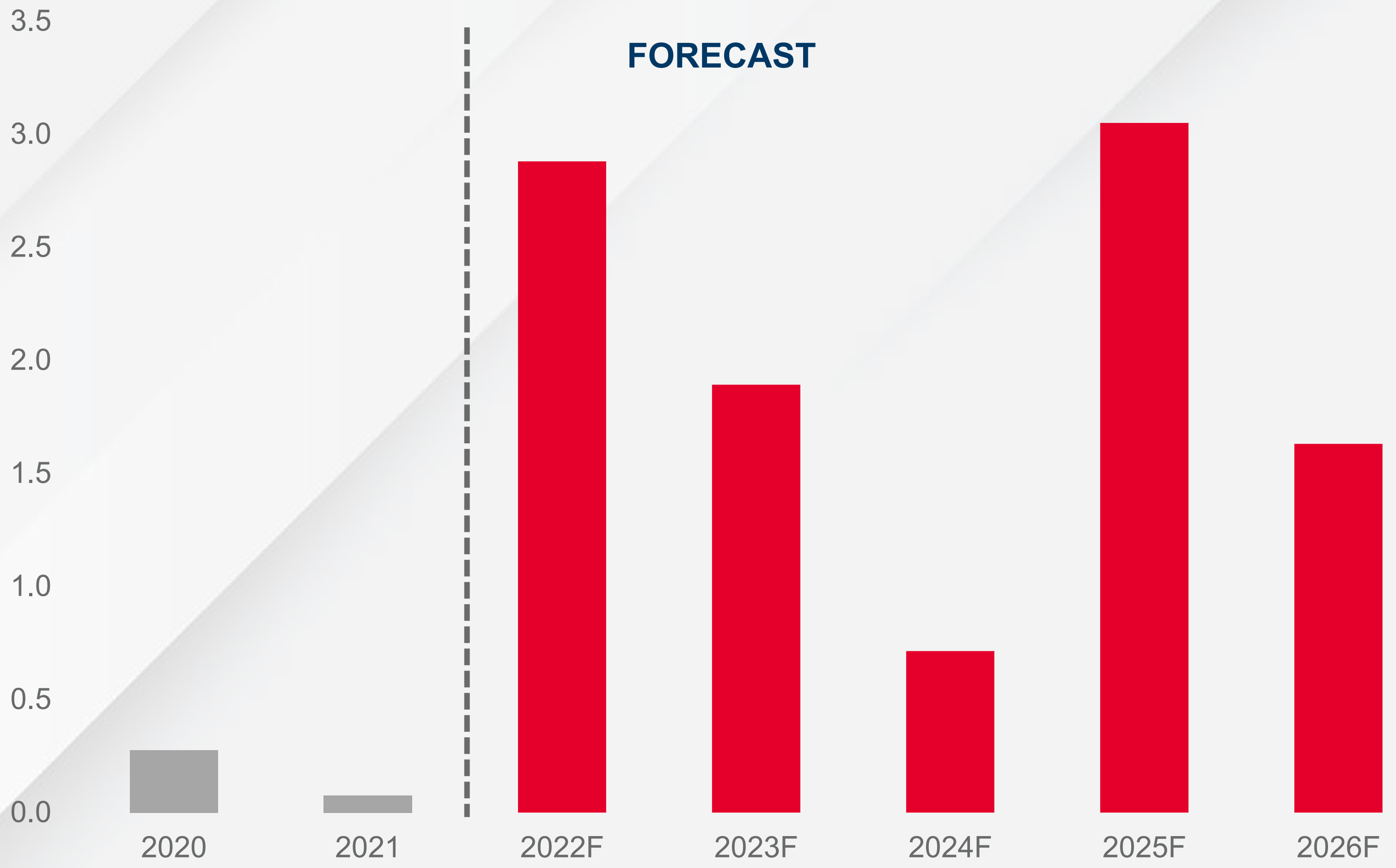
- As the earlier fifth wave of COVID-19 impacted economic performance and business sentiment, most occupiers remained cautious and looked for cost-effective options. Rents are forecast to decline by 5% in 2022 and further decline by 3% in 2023 and then subsequently stabilize in 2024.
- This movement will take rents to HKD53 per sf/mth at the end of 2022, and to HKD52 per sf/mth at the end of 2023 before staying flat in 2024.

KEY OUTLOOK

- Looking ahead, we believe the latest "0+3"* quarantine policy and further relaxation of borders could help to facilitate business travelers, although it may not necessarily result in an immediate rental recovery in the near term or into 2023.

HONG KONG NEW SUPPLY

NEW SUPPLY* (MSF)



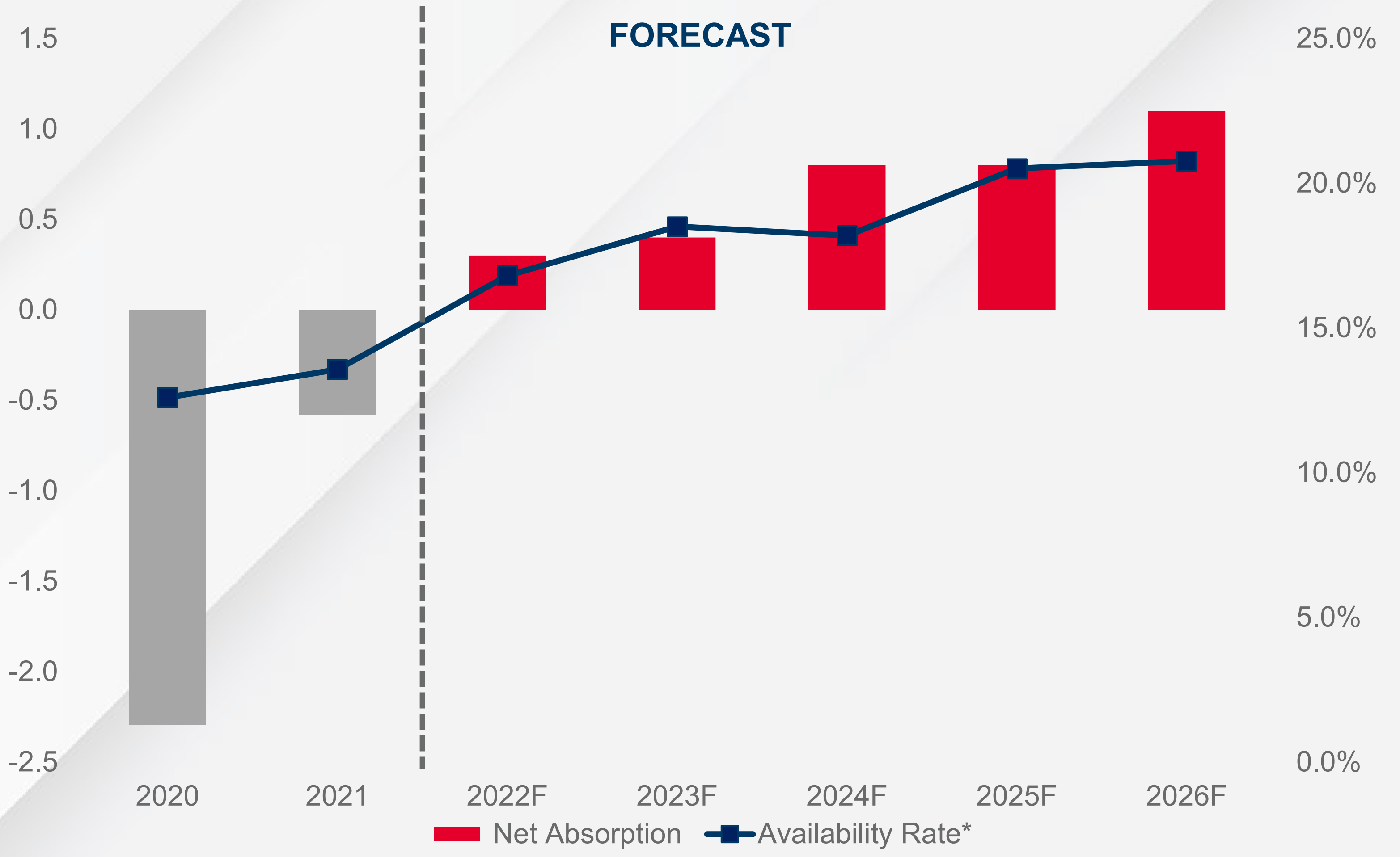
*On a Net Floor Area (NFA) basis

Source: Cushman & Wakefield

- Six new projects are expected to enter in 2023, totalling 1.9msf.
- Of the six new projects, three of them will be in Kowloon East, two in Greater Central, and one in Kowloon West
- Beyond 2023, the supply is expected to drop to 0.7msf in 2024 and then peak again in 2025 at 3.1msf.
- The 5-year average supply from 2022-2026 is expected to reach 2.0msf per annum.

HONG KONG DEMAND & AVAILABILITY

NET ABSORPTION (MSF) AND AVAILABILITY RATE* (%)



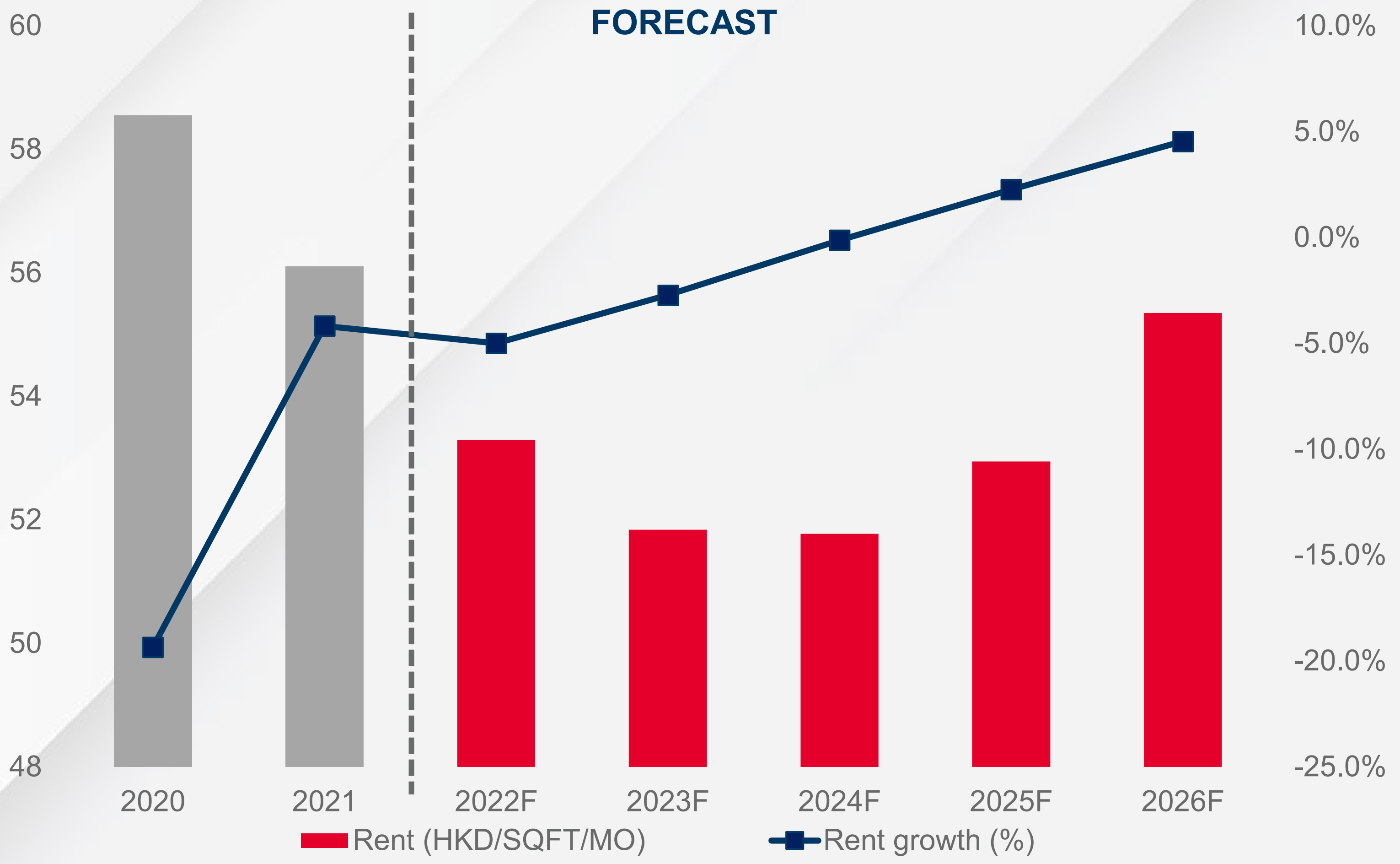
Note * Hong Kong uses availability rate which includes confirmed leasing stock that is currently vacant or becoming vacant over the next 12 months

Source: Cushman & Wakefield

- The banking/finance and professional services sectors remained the key demand drivers in Q3, with some large-sized deals recorded.
- Flex space operators also expanded, driven by businesses looking for greater flexibility in lease terms and commitment.
- Net absorption is forecast to reach 300k sf in 2022 and then further increase to 400k sf in 2023 due to the new supply being absorbed. However, availability is expected to edge up and stay in double digit level until at least 2026.

HONG KONG RENT GROWTH

RENT (HKD/SQFT/MO) AND RENT GROWTH (% PER ANNUM)



Source: Cushman & Wakefield

- The full year rent growth is expected to decline by 5% y-o-y in 2022 and further drop by 3% in 2023.
- Interest rate hikes, high inflation and geopolitical concerns are likely to curb office demand in the near term.
- The tenant favorable market will continue; landlords become more willing to offer incentives and subsidies.
- Rents are expected to stabilize in 2024, with recovery to take place from 2025 onwards.

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