Greater China Occupier Research

Greater China Top Office Supply/ Demand Trends

Strong 2021 absorption lightens the load on 2022

March 2022

CUSHMAN & WAKEFIELD
戴德梁行

CONTENTS

2021 GREATER CHINA TOP OFFICE SUPPLY AND DEMAND TRENDS

Executive Summary

The General Market

By end of Q4 2021, the total Grade A office inventory in the core markets of the 21 major cities in Greater China we track totalled 63.19 million sq m. In the meantime, total premium core city office net absorption across the Greater China market for the whole year was 3.89 million sq m, amounting to a 129.6% increase compared to the figure registered at the end of Q4 2020. This should take some pressure off upcoming supply in 2022.

Among the six major cities in the region, at 2.1%, Taipei registered the lowest vacancy rate at the end of 2021. As for the tier-2 city group, Chengdu recorded the lowest vacancy rate at 12.8% at the end of the same year.

The volume of quality office supply in many cities in Greater China is expected to enter a peak period this year. Between 2022–2025, much of the future supply expected to complete will land in suburban locations, which will continue to drive decentralisation as a number of tenants seek quality space at a discounted rental.

Looking to the year ahead, considering the economy, policy direction and COVID-19 control, we believe overall prime office demand will continue to be resilient in Greater China. In particular, certain industry sectors have seen new business opportunities or have the potential to realise business growth, given recent governmental policy directives and recent commercial, societal and lifestyle changes. These industry sectors are:

- The financial sector;
- The technology, media, and telecommunications (TMT) sector, and;
- The healthcare sector.

Looking at the individual major gateway cities in Greater China, Grade A office market demand performance in 2021 generally turned out to be better than expected. Into 2022, we expect a number of factors, including the state of the general economy, government policy and individual city initiatives, to help drive continued demand.

Beijing

In 2021, due to the significant reduction in the large volume of new supply compared with 2020, Beijing's Grade A office new supply dropped 25.4% y-o-y to 624,065 sq m.

The full-year net absorption was at 839,458 sq m, the strongest annual figure since 2017.

The released 'Beijing's Implementation Plan on Accelerating the Construction of a Benchmark City for the Global Digital Economy' in August 2021 highlights the health services industry as one of the six major industries for Beijing's future development. Meanwhile, in September, the government set up China's third stock exchange in the city, aiming specifically to serve small- and medium-sized businesses. In the future, under the government policy and development goals, the biopharmaceutical industry and SMEs will usher in a better platform and broader development space, further enhancing demand for quality office space in the city.

Shanghai

2021 has been another big year for Shanghai's emerging business areas, with 678,311 sq m of new supply being added, accounting for 92.1% of new supply in the city. Subsequently, overall citywide Grade A office stock expanded to 14.4 million sq m.

As the year progressed, and as the city got used to the epidemic prevention 'new normal', so office demand rebounded from a taxing 2020. In every quarter in 2021 net absorption exceeded new supply, pushing the annual net absorption up to 1.4 million sq m, an over 200% y-o-y increase.

Without doubt, the aftermath of the pandemic has and will continue to transform the general economic structure. As this transformation takes place, so new business opportunities will appear and as they do, so demand for Grade A office space will continue to be driven in major cities like Shanghai. Some industries which are expected to see transformative new business opportunities are fintech, TMT, healthcare, asset management, new retail and modern logistics.

Shenzhen

In 2021, the new supply of Grade A office buildings in Shenzhen was about 359,800 sq m. All were located in the core areas – Futian accounted for 44.5% of the total, while Nanshan accounted for 55.5% of the total.

Given the relatively limited supply in the market, net absorption of Grade A office buildings in Shenzhen was recorded as high as 673,000 sq m for the whole year; the highest figure recorded since 2018.

From 2022 to 2026, the future supply of Grade A office buildings in the city will exceed 6 million sq m. 90.2% of the future supply is scheduled to be completed in the core submarkets, specifically in Nanshan District, while suburban areas will account for 9.8%, signifying a notable westward business expansion in Shenzhen. On the other hand, a significant number of self-use headquarter properties in Qianhai and in the Shenzhen Bay Super Headquarter Base will alleviate the take-up pressure to a certain extent.

Guangzhou

In 2021, Guangzhou's Grade A office market welcomed 430,744 sq m of new supply, increasing by 83% year-on-year (y-o-y). Subsequently, the city's total stock reached 5,617,246 sq m.

In the environment where the COVID-19 epidemic has gradually been effectively controlled, office demand has bounced back. Although there were small outbreaks in some parts of Guangzhou in the middle of the year, the continuous improvement in epidemic prevention minimised its negative impact on economic activities, with office market leasing activity significantly improving. Net absorption in the city consequently recorded 425,969 sq m, more than four times that seen in 2020 and reaching a record high since 2017.

In 2022, Guangzhou's Grade A office market will involve a new round of new supply, which is expected to put pressure on both the market vacancy rate and rental in the short term. The new supply, however, is expected to bring more choice to enterprises, which will provoke office demand and drive absorption.

Hong Kong

In 2021, the Hong Kong's new Grade A office supply only consisted of one new project; Marina 8 in Hong Kong South, which entered the market in Q1. This project added 7,100 sq m to the Grade A office market. Compared to the circa 26,000 sq m in 2020, this represents a 73% yearly decrease in new supply.

For the whole year, overall net absorption for 2021 recorded -53,800 sq m, attributed to a downward trajectory in the first half of 2021. Subsequently, the city's overall availability rate rose slightly to 13.6% by year-end, compared to 12.6% in 2020.

With 2021 showing initial signs of recovery and stabilisation, Hong Kong's Grade A office market in 2022 will hinge on how quickly the prevailing Omicron outbreak in the city can be contained and how the crisis in Ukraine will be resolved. While banking and finance companies were an important anchor to support the leasing activities in 2021, the emerging new economy companies, such as fintech, digital assets and flexible workspace, will likely continue to thrive in 2022 and support the city's office leasing market. This trend will likely help drive the majority of the key leasing deals, particularly within the core CBD and the wider Greater Central area, where some premium trophy office buildings are currently sitting at discounted rents.

Taipei

In 2021, only two quality Grade A office buildings were launched. The new supply, the 53,600 sq m China Life Insurance Building at Dunbei Minsheng and the 15,200 sq m Hope Square at Nanjing Songjiang, added 68,800 sq m to the Taipei Grade A office market.

In 2021, the leasing market remained solid with the full-year absorption for 2021 reaching 57,800 sq m. Leasing transactions were predominantly small- and medium-sized areas, averaging 1,900 sq m per deal. Expansion and downsizing by firms in response to the effects of the pandemic were offset by different industries, resulting in stabilised office demand.

Given the scarcity of leasable area in the core area, Nangang District, as an emerging office district with high-quality office space and competitive rents, has and will continue to attract the attention of tenants. In the core area, the supply and demand factors are likely to reach a counterbalance point, with rental growth subsequently expected to slow further.

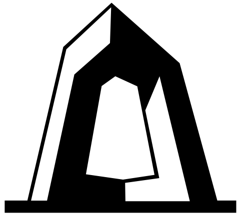
Report Introduction

2021 was a resilient year in terms of quality office space leasing demand in the Greater China region. This strength has assisted the performance of the office market in a number of cities in the Greater China region. This report looks at the Grade A office market in Greater China and provides an understanding of:

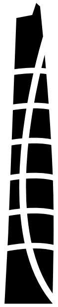
- The office supply/demand trends experienced in the region over the course of the past year;
- An outlook on office supply/demand in Greater China for the year ahead and beyond, and;
- Finally, an insight into the office supply/demand trends for each major city in the Greater China region.

The six key city-level prime office markets the report covers are:

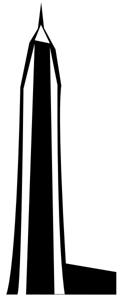
BEIJING



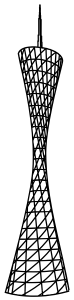
SHANGHAI



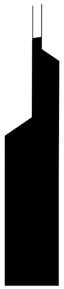
SHENZHEN



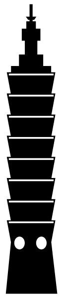
GUANGZHOU



HONG KONG



TAIPEI



Grade A Office - Where it's at

During the past year, market uncertainty brought on by the COVID-19 epidemic waned somewhat and this positively impacted both Grade A office supply and Grade A office demand in Greater China. By Q4 2021, the total Grade A office inventory in the core markets of the 21 major cities in Greater China we track totalled 63.18 million sq m. In the meantime, total premium core city office net absorption across the Greater China market for the whole year was 3.89 million sq m, amounting to a 129.6% increase compared to the figure registered at the end of Q4 2020. This should take some pressure off upcoming supply in 2022. Among the six major cities in the region, Taipei registered at 2.1% - the lowest among our tracked core area city markets in Greater China. As for the tier-2 city group, Chengdu recorded the lowest vacancy rate at 12.8%.

Shaped by continuing supply, the general rental performance across the Greater China Grade A office core markets was constantly under pressure during the past 12 months. At the end of Q4 2021, Hong Kong and Hangzhou registered the topmost core market rentals for their respective major city/tier-2 city tier grouping at RMB640.1 per sq m per month (HKD72.9 per sq ft per month) and RMB149.1 per sq m per month, respectively, with the Greater China core markets regional average standing at RMB160.1 per sq m per month, down by 2.2% y-o-y (Table 1).

Table 1
The supply/demand rundown for 21 city core area-level markets in Greater China (2021)

Source:
Cushman & Wakefield Research

CORE MARKET DATA GREATER CHINA 2021

Markets	Stock (sq m)	Under Construction (sq m)	Absorption (y-o-y sq m)	Vacancy	Rent (Local currency)	(y-o-y change)
Beijing	8,489,977	1,195,401	340,850	9.8%	389.4	0.5% RMB/sq m/mo
Shanghai	8,333,210	1,292,114	531,366	9.9%	284.9	0.8% RMB/sq m/mo
Guangzhou	5,617,246	2,795,762	425,969	7.8%	177.2	-2.0% RMB/sq m/mo
Shenzhen	6,377,935	6,089,241	640,717	18.8%	209.0	-2.0% RMB/sq m/mo
Hong Kong	3,239,999	352,567	-37,518	12.8%	72.9	-4.3% HKD/sq ft /mo
Taipei	1,136,498	102,718	5,888	2.1%	3,213.0	0.7% TWD/ping/mo
Tianjin	2,384,985	756,565	128,781	29.2%	89.1	-5.7% RMB/sq m/mo
Shenyang	1,212,075	390,182	34,791	32.6%	70.1	-5.1% RMB/sq m/mo
Dalian	981,395	382,678	23,852	31.7%	91.1	-5.6% RMB/sq m/mo
Qingdao	1,600,742	786,200	96,978	24.2%	106.0	4.7% RMB/sq m/mo
Nanjing	2,377,540	832,861	222,143	22.1%	127.0	-3.3% RMB/sq m/mo
Hangzhou	2,307,085	447,108	64,178	15.7%	149.1	0.9% RMB/sq m/mo
Suzhou	2,257,294	876,347	233,106	16.0%	91.5	-1.2% RMB/sq m/mo
Wuxi	706,299	524,000	67,393	19.6%	72.4	0.2% RMB/sq m/mo
Chongqing	1,829,082	533,337	112,827	27.6%	82.4	4.3% RMB/sq m/mo
Chengdu	2,703,556	2,395,853	197,394	12.8%	112.0	1.1% RMB/sq m/mo
Xi'an	2,808,211	725,330	125,763	22.4%	90.3	0.6% RMB/sq m/mo
Wuhan	2,571,531	1,632,466	171,046	34.5%	103.2	-5.5% RMB/sq m/mo
Changsha	2,564,656	338,315	207,592	37.1%	87.9	1.2% RMB/sq m/mo
Xiamen	1,128,500	895,700	83,409	21.7%	99.7	-4.5% RMB/sq m/mo
Nanning	2,558,377	793,316	211,527	39.1%	67.9	2.4% RMB/sq m/mo

Grade A Office - Where it'll be

Supply Trends

The volume of quality office supply in many cities in Greater China is expected to enter a peak period this year. Between 2022–2025, much of the overall (core and suburban) future supply expected to complete will land in suburban locations, which will continue to drive decentralisation as a number of tenants seek quality space at a discounted rental. In terms of individual city markets in the region, the market which is expected to see the greatest amount of future core area supply is Shenzhen at 6.09 million sq m, and the market which is expected to see the least amount of core area future supply is Taipei at 102,718 sq m.

Moving into the rest of this year and beyond, climate change is and will be top of everyone's agenda. Subsequently, many more people, governments, and businesses around the world, including those in the Greater China region, will prioritise climate change mitigation. As they do, they will be paying close attention to real estate to achieve their carbon reduction targets, given, according to the United Nations, real estate's estimated 40% contribution to global greenhouse gas emissions. With more of the general public, more governments and more businesses placing greater scrutiny on real estate, so commercial office investors and developers will become increasingly aware of the need to make sure their properties meet the 'green' standards at any given time and are sustainable.

Going carbon neutral will be a policy of increasing prioritisation for many city governments in the region as we enter the rest of this year and look to the future. Real estate, including office properties, can contribute much to the reduction in greenhouse gases by going net zero energy or even taking it further and going net positive energy.

To realise a net zero energy level, office buildings in the Greater China region will have to reduce their embodied and operational carbon and optimise their energy efficiency and this typically takes into consideration many factors, including the following:

- The building's fabric — walls (including the glazing), the flooring (and the foundation) and the roof;
- The air conditioning — heating, cooling, and ventilation;
- The lighting;
- The electrical load;
- The use of renewables — energy and materials, and;
- The building's usage and tenant occupancy behaviour.

For office landlords with buildings up and running, operational carbon reduction and energy efficiency is most pertinent. Operational carbon is more or less the collective energy used and carbon dioxide emissions produced for a building to run throughout its operational lifecycle. Emissions stem from a variety of office building operational activities, including regulated heating, cooling, ventilation and lighting of the building, and unregulated appliance use and small power plug loads, such as IT.

Energy efficiency measures and systems which concern the heating/cooling equilibrium of buildings can be challenging to augment. This is because the amount of yearly carbon emissions from space heating and cooling are often quite analogous. As a result, energy efficiency measures and systems which lessen fabric heat loss or elevate solar gain will lessen the emissions from space heating, but also amplify those from cooling. Correspondingly, measures and systems which elevate heat loss or lessen solar gain will amplify the emissions from space heating but decrease those from cooling. The net effect can be rather small.

Having said this, there are a number of energy efficiency concepts, measures, and systems which commercial office building investors, developers and landlords in Greater China can employ, including ensuring that effective air tightness is achieved throughout the building, improved envelope thermal insulation is installed, and energy efficient lighting is used.

Moving one step further, low and zero carbon (LZC) technologies can also be considered and implemented for commercial office buildings in Greater China. These technologies, such as wind power and solar power technologies, can be defined as systems that satisfy building energy demands with either no carbon emissions, or carbon emissions which are pointedly lower than those emissions produced by conventional technologies.

When successfully applied, a combination of energy efficiency measures and systems and LZC technologies can result in a significant energy performance improvement of a commercial office building, with operational energy being a fraction of that for typical traditionally operated commercial office buildings.

2. Suburban Area Supply

An additional 11.3 million sq m of quality office space is planned to complete across Greater China in 2022, of which 29.2% will be located in suburban locations. Having approximately 18.8% of total office stock in the Greater China region, currently, major city suburban markets are expected to see their stock offering of quality offices increase to 19.7% by end of 2025.

The sizeable quantity of new supply due to be handed over in suburban areas in the Greater China region will continue to support decentralisation by both cost-sensitive tenants and tenants seeking a large amount of contiguous space, particularly in industry sectors, such as TMT, healthcare (including life sciences), manufacturing and logistics.

Tenants in these industries are progressively looking for quality space in suburban areas which have acquired industry clustering momentum, and which are surrounded by fully developed infrastructure and amenities. Examples of these suburban areas across the major city markets in Greater China are many, including Li'ze in Beijing, Qiantan and Xuhui Riverside in Shanghai, Qianhai in Shenzhen, and Quarry Bay in Hong Kong.

Retail amenity development and infrastructure facility construction and completion, particularly the enlargement of metro line networks, has augmented the decentralisation trend in many city Grade A office markets throughout the Greater China region. For example, by the end of 2021, high-quality retail project stock in a suburban submarket like Qiantan in Shanghai reached 18.0 million sq m, with stock to increase to more than 27.6 million sq m by the end of 2027.

As for enhanced accessibility, more new metro lines and new metro stations are expected to be completed in city market suburban locations throughout Greater China. Shanghai, for example, has 20 metro lines with 831 km of metro track. These figures are expected to grow by 3 and 152.8, respectively, by 2026, which will cut office worker commuting times and enhance travel convenience.

Along with peak supply, 2022 will be a time of intense competition among quality office landlords in Greater China for tenants, particularly in suburban city areas.

To stay ahead of the game, office landlords in the region are becoming increasingly inventive in terms of the services they are offering to tenants in order to both attract and retain them.

Some office landlords are looking to form a deeper business relationship with their tenants. They are doing this through collaboration, better understanding the business needs of their tenants, and innovating on presented services. Examples of such services include:

Business facilitation advisory and support: Some landlords are now supporting some of their tenants with business advisory services and support, such as advice on business set up and business taxation, as well as business support, such as car hire booking services;

Co-working office space: Some landlords are now operating dedicated co-working spaces and offering bookable space as a service to their existing tenants;

Health and wellness space: Some landlords have now established dedicated gyms and fitness class space, which can be used by their tenants on a bookable basis;

Day care facilities: Some landlords have accommodated day care facility providers to offer services that can be used by tenants who are parents to young children;

Office pods: Some innovative landlords are now placing office pods in the lobby of their office building for use by the tenants. Office pods offer a fully fitted out, enclosed bookable space where an individual user can focus on their work, can take a private call or participate in a conference call or webinar. The same space, if large enough, can also be used by a group of users to congregate for a meeting, for a discussion or for a brainstorming session, and;

3. Landlords Becoming More Innovative in Their Service Offering

Shopping centre services: Some landlords who also run and operate a connected shopping centre are working with their retail tenants to offer their office tenants F&B and retail goods and services sales offers and discounts via a dedicated office tenant app.

These and other services will undoubtedly be rolled out by more office landlords in Greater China as they look to improve the service offering to their tenants and thereby help to further futureproof the leasing strength of their office building.

Demand Trends

Looking to the year ahead, considering the economy and policy direction, we believe overall prime office demand is likely to remain solid in Greater China. There will be bright spots as well where office absorption has the potential to further drive positive numbers in some city markets. These bright spots are largely derived from industry sectors that have seen new business opportunities or have the potential to realise business growth, given the commercial, societal and lifestyle changes brought on by COVID-19, as well as government policy directives. These industry sectors are:

- **The financial sector;**
- **The technology, media and telecommunications (TMT) sector, and;**
- **The healthcare sector.**

In 2022 in the Greater China region, we also expect demand-side sustainability and ESG concerns to motivate both landlords and tenants to consider green leasing, several city core markets to remain tight in terms of vacancy and home/remote working to mature in practice, given the pandemic experience and the use of technology.

1. ESG and Green Leasing

Sustainability and ESG can be driven from the demand side as well. Once a commercial office building is operationalised and leasing begins, without a doubt, opportunities exist for commercial office property leasing to become greener in Greater China. For the benefits of high-performance commercial office buildings to be exploited, leases must be modelled around green concepts to ensure that the relationships between commercial office property landlords and tenants are aligned with the newest developments in green real estate.

A green lease is essentially a standard lease with new or modified clauses included to better align the financial incentives and sustainability between the landlord and the tenant. A green lease can make it possible for investments to be mutually beneficial to the landlord and to the tenant and can encourage or mandate both parties to collaborate and cooperate so as to ensure that a commercial office building is occupied, operated and managed in a sustainable manner. There is no one-size-fits-all green lease and the green clauses to be included in the commercial office property lease should vary according to the objectives of the landlord and the tenant, considering the individual circumstances of the commercial office building. Possible components of a green lease include:

- Environmental measures required to be taken by the parties;
- Mechanisms or processes to achieve the measures;
- Compliance monitoring and evaluation, and;
- Non-compliance procedures and penalties.

The nature and scope of the clauses in a green lease can be adapted to reflect the extent to which the landlord and tenant are willing to be accountable for the energy efficiency in the commercial office building. A green lease can be formulated as a light green lease, a mid-green lease or a dark green lease, depending on whether the parties intend for the obligations in the lease to be legally enforceable.

Ahead, well-thought-out and properly implemented green leases focused on environmental sustainability will hold several advantages for both commercial office property landlords and tenants in Greater China.

On the landlord side, a green lease will, among other things, also go a long way to help a landlord maximise his or her long-term annual rental profitability and therefore, return on investment. In many city property markets around Greater China, commercial office buildings that are green often enjoy higher rentals and higher capital values, given the greater demand for such space from tenants wishing to occupy this type of commercial space.

Additionally, more landlords in Greater China are anticipated to adopt green leasing, given commercial office buildings that operate a green leasing programme generally enjoy reduced operating costs and maintenance costs, and longer life cycles. Further, green leasing will also enhance the landlord's reputation, which will in turn translate into positive public relations.

As for the tenant, the benefits associated with a green lease will be no less significant. Green leasing will enable the tenant to attract and retain talented and key employees because of an improved green work environment. As is the case with the landlord, green leasing will also enhance the tenant's reputation and promote positive public relations. Finally, the tenant's overall leasing cost should also be reduced because of increased efficiency in green office building operations.

2.

Some Core Areas Transitioning Back to a Landlord Market

In early 2020, we saw vacancy in many city market core areas around Greater China increase as a number of companies that were initially impacted by the COVID-19 epidemic relinquished office space. As a result, many office landlords in core city areas around Greater China dropped their rentals to entice prospective tenants to move and refill the available space in their buildings.

Having said this, however, into the rest of 2020 and into 2021, demand for office space picked up again as the economy recovered. In many overall city markets, office demand volume actually exceeded expectations, and this was particularly the case for many core city office markets around the region.

One example of a core city Grade A office market in Greater China which saw an increase in vacancy at the beginning of 2020 (13.69% at the end of Q1 2020) but a continuous drop in vacancy throughout the rest of 2020 and into 2021 (4.35% at the end of Q4 2021) is Core Jing'an in Shanghai. This has led to the average rental in the area stabilising with the expectation that this market will return to a landlord favourable market in 2022.

Into 2022, as occupiers decide to lease quality office space in downtown locations at (for now) favourable rentals in Greater China, we expect a number of other core city office markets around the region to follow suit (if they have not already done so) and transition to a market which is propitious for landlords.

3. Home/Remote Working and Office Space Design

Over the past year, given the experience of the pandemic and the greater affinity with related technology, many enterprises around Greater China have been allowing their employees a hybrid working option to work from home or to work remotely from time to time. With the vast majority of employees, at any given working-day time, working out of the office, this option is really only offered by employers to employees when it is needed, when it is appropriate and/or when it is convenient to do so.

Employees in Greater China still want to work out of the physical office, given the collaboration environment it affords, the sense of belonging it instils and the range of work activities and means it supports, among other things, and this pressing-the-flesh sentiment is expected to continue into the future. Therefore, office space and its use will continue to be important in Greater China into the future.

Having said this, however, not many organisations in Greater China have made design changes to their office space. Alongside this, with the greater use of online meeting technology used by employees in the office, (as they communicate with colleagues, clients and persons who are working at home, remotely or in other offices), noise levels in the office have increased in some cases and this has resulted in close-vicinity colleagues being distracted. Ahead, we expect office space in Greater China to be redesigned in such a way to embrace the new technology but also to mitigate any generated distractions.

As corporations and companies in Greater China look towards the rest of 2022 and beyond, there is the chance for them to re-characterise the function of their office, and to keep advancing with an open-minded interpretation of work and a rekindled emphasis on employees and how they can accomplish their work in the best possible way.

4.

The Finance Sector

Towards the end of 2019, the State Council of China circulated the 'Opinions on Further Improving the Utilisation of Foreign Investment' (Guo Fa 2019 No. 23). One of the main goals of this document is to promote the further development of the financial sector in mainland China. In total, this document set out 20 policy measures, which were grouped under four themes. These four themes are:

1. Sector growth and the further opening up of the financial sector;
2. Increasing efforts to promote further investment in the financial sector;
3. The intensifying and deepening of reforms to enable investment in the financial sector, and;
4. The protection of rights and interests of overseas investors investing in the financial sector.

Additionally, with the establishment of the Beijing Stock Exchange, performing SMEs are expected to benefit, while during the next five years, the 14th Five-Year Plan (FYP) will look towards:

- The further internationalisation of the renminbi (RMB);
- The further development of the capital markets;
- The further firming of financial market regulatory standards, and;
- A continued relaxation of the capital account.

Sequentially, financial sector reform policies, including the 'Opinions', the 14th Five-Year Plan (FYP) and the establishment of the Beijing Stock Exchange will bring new business opportunities and will support the further development of mainland China's commercial office real estate market.

There is also the fintech sub-financial sector. According to Penser, with an average value of US$26.8 billion, mainland China is now home to eight of the world's leading fintech unicorns. That is roughly eight times the size of the average value of fintech unicorns in North America.

The COVID-19 pandemic has also played a part in expanding certain business areas within the finance sector. During the height of the outbreak period in mainland China within the early part of 2020, an increased usage of online financial services was witnessed. Firstly, online banking and wealth management services saw a surge in activity. Secondly, online insurance brokerage business activity also witnessed an increase, and, thirdly, more people shopped online from home during the lockdown period.

As investors and financial institutions continue to grow their businesses in mainland China, we can expect the range of participants in the financial industry in the region to expand. In turn, this business expansion will bring new opportunities and support further development of not only mainland China's Grade A office market, but the prime office market in the Greater China region as a whole.

2021 saw both several new regulations being enacted within the TMT sector in mainland China and the TMT sector continuing to be a key driver for quality office demand across many cities in Greater China.

Ahead, as outlined in the 14th FYP, mainland China will boost investment in 'new infrastructure' along with its 'Digital China Initiative' to establish a "digital society, digital government and healthy digital ecosystem."

To advance innovation, the 14th FYP cited a goal of 7% R&D investment CAGR throughout the economy over the course of the next five years. E-commerce, 5G, AI, health-tech, autonomous vehicles and more, are all examples of tech areas which are expected to further evolve in the mainland China region.

As a result of this industry evolution, new business opportunities are anticipated to arise. As TMT companies in mainland China and beyond realise these opportunities, so demand for Grade A office space by these companies in the Greater China region is expected to increase in the foreseeable future.

The market for pharmaceuticals and medical devices in Greater China has greatly expanded over recent years. Ahead, given the greater awareness of healthcare that COVID-19 has generated, the rising incomes of many people, the greater pool of healthcare scientists and professionals and the greater involvement and integration of tech in the region, we expect the Greater China pharmaceutical and medical device market to further grow in the future.

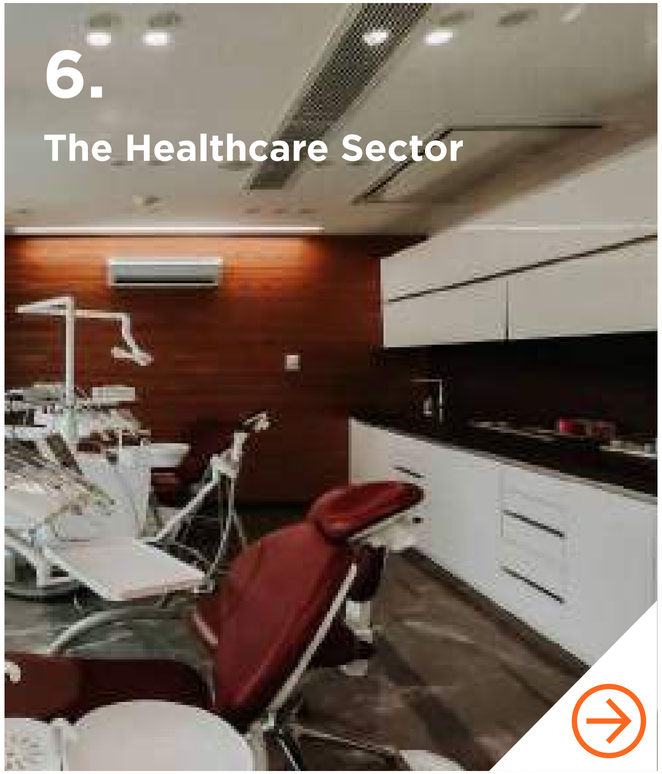
According to an estimate from the Qianzhan Industry Research Institute, it is expected that the market size of mainland China's biopharmaceutical industry will exceed RMB5.3 trillion in 2025, with continued room for growth thereafter. Ahead, mainland China has targeted to become one of the world's most mature and most important biopharmaceutical markets.

Additionally, the country's population is aging, while the country's health expenditure is growing. Thus, the market for drug provision and medical devices is expected to expand. Stimulated by a series of favourable economic, demographic and political factors, domestic and overseas biopharmaceutical companies have invested more in mainland Chinese cities. More and more functional departments, as well as the Asia-Pacific headquarters of many firms have been and will be built in mainland China to ensure sustainable business development for these firms into the medium to long-term future.

Moreover, mainland China has enjoyed the fastest growing amount of R&D investment in the biopharmaceutical industry in the world over recent years. With the rapid expansion of many biopharmaceutical companies in mainland China, R&D investment totals are expected to continue to grow, as new drugs and new medical devices are invented, developed, and produced in the country.

Furthermore, the outbreak of COVID-19 in China in early 2020 has accelerated capital flow, including venture capital, into the biopharmaceutical industry in mainland China to some extent.

Finally, given the change the COVID-19 outbreak has brought on the healthcare sector in Greater China and the predicted commercial activity growth in a number of areas, we expect the healthcare sector in the region to generate positive office demand for the year ahead.



The Six City-level Markets

The six major Greater China city-level prime office markets this report covers are:

- **Beijing;**
- **Shanghai;**
- **Shenzhen;**
- **Guangzhou;**
- **Hong Kong, and;**
- **Taipei.**

These six markets provide a broad cross-section of office supply and office occupier demand activity across the key gateway markets in the Greater China region.


SHANGHAI

SHENZHEN

HONG KONG

TAIPEI

Top Supply/Demand Trends For Beijing

Leon Lian
Project and Occupier Services
leon.fz.lian@cushwake.com

Sabrina Wei
Research
sabrina.d.wei@cushwake.com

SUPPLY

The past year

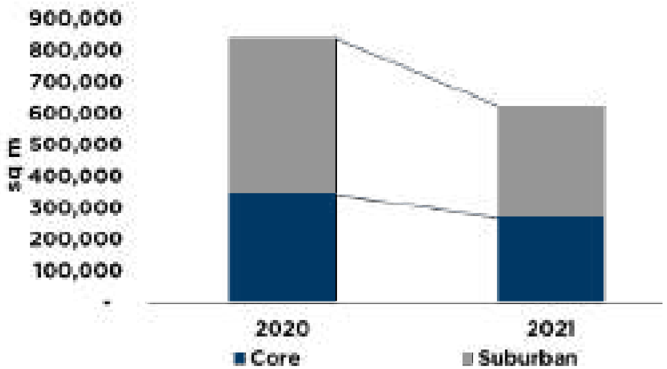
In 2021, due to the significant reduction in the large volume of new supply compared with 2020, Beijing's Grade A office new supply dropped 25.4% y-o-y to 624,065 sq m. The five core submarkets and suburban submarkets accounted for 43.1% and 56.9% of the total, respectively (Figure 1).

It is worth mentioning that the Lufthansa and Zhongguancun submarkets welcomed landmark projects, such as No. 33 Xiaoyun Road and Ding Hao DH3, this year after four years of no new supply (Table 2).

Among the 10 Grade A office buildings that completed in 2021, two buildings are located in the Li'ze Financial Business District, with a total GFA of 270,000 sq m,

Figure 1:
Beijing Grade A office total supply – Core area/ Suburban area breakdown (2020-2021)

Source: Cushman & Wakefield Research



and accounting for 43.3% of the total new supply. The CBD submarket also has two buildings which entered the market. However, due to most of the office space being occupied by owners, the leasable area is only 49,805 sq m, and accounted for 8.0% of the total new area. Meanwhile, Lufthansa, Zhongguancun, East 2nd Ring Road, OGV, Financial Street and Wangjing-Jiuxianqiao each have one office building which entered the market, accounting for 10.4%, 9.1%, 9.0%, 7.2%, 6.6% and 6.4% of the total new supply, respectively (Figure 2).

Outlook

From 2022 to 2025, the Beijing office market is expected to usher in about 2.48 million sq m of office space. The total future supply accounted for only 19.7% when compared to the current citywide Grade A office stock, the lowest among the four first-tier cities. Among them, the future supply in the five core submarkets and suburban submarkets accounted for 48.2% and 51.8% of the city's total future supply, respectively. Consequently, the estimated Beijing Grade A office stock will reach 15.1 million sq m by 2025 (Figure 3).

The future supply in Beijing's office market 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. Among them, GLP/CICC/HongKong Land (Z3), Minsheng Bank (Z4), Dajia Insurance (Z5) and Sino-Ocean Land/HSBC (Z6), which are expected to be completed after 2025, will have a total additional supply of 500,000 sq m. In addition, the high-profile Tongzhou Canal Business District will also welcome landmark projects in the next three years, such as Sino-Ocean-Grand Canal Place and New Beijing Center, all with a volume of more than 150,000 sq m (Table 3).

Table 2:
Beijing Grade A office – Largest completed projects (2021)

	Building Name	Submarket	Office GFA (sq m)
1	Ping An Fortune Center	Li'ze Financial Business District	150,000
2	No. 33 Xiaoyun Road	Lufthansa	65,010
3	Ding Hao DH3	Zhongguancun	57,000

Source: Cushman & Wakefield Research

Figure 2:
Beijing Grade A office total supply – District by district breakdown (2021)

Source: Cushman & Wakefield Research

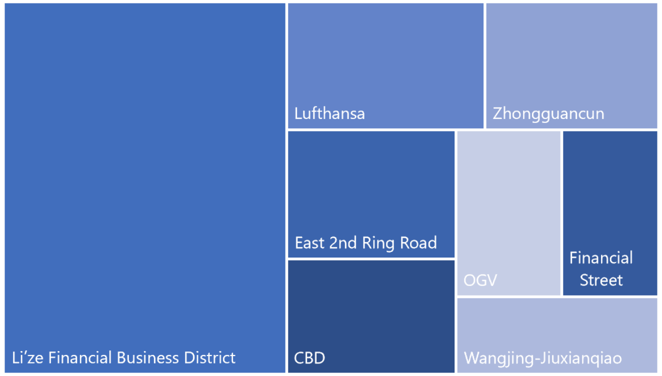
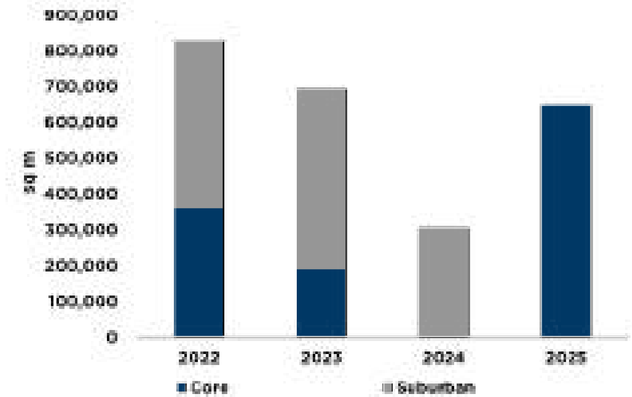


Figure 3:
Beijing Grade A office total supply – Core area/ Suburban area breakdown (2022-2025)

Source: Cushman & Wakefield Research



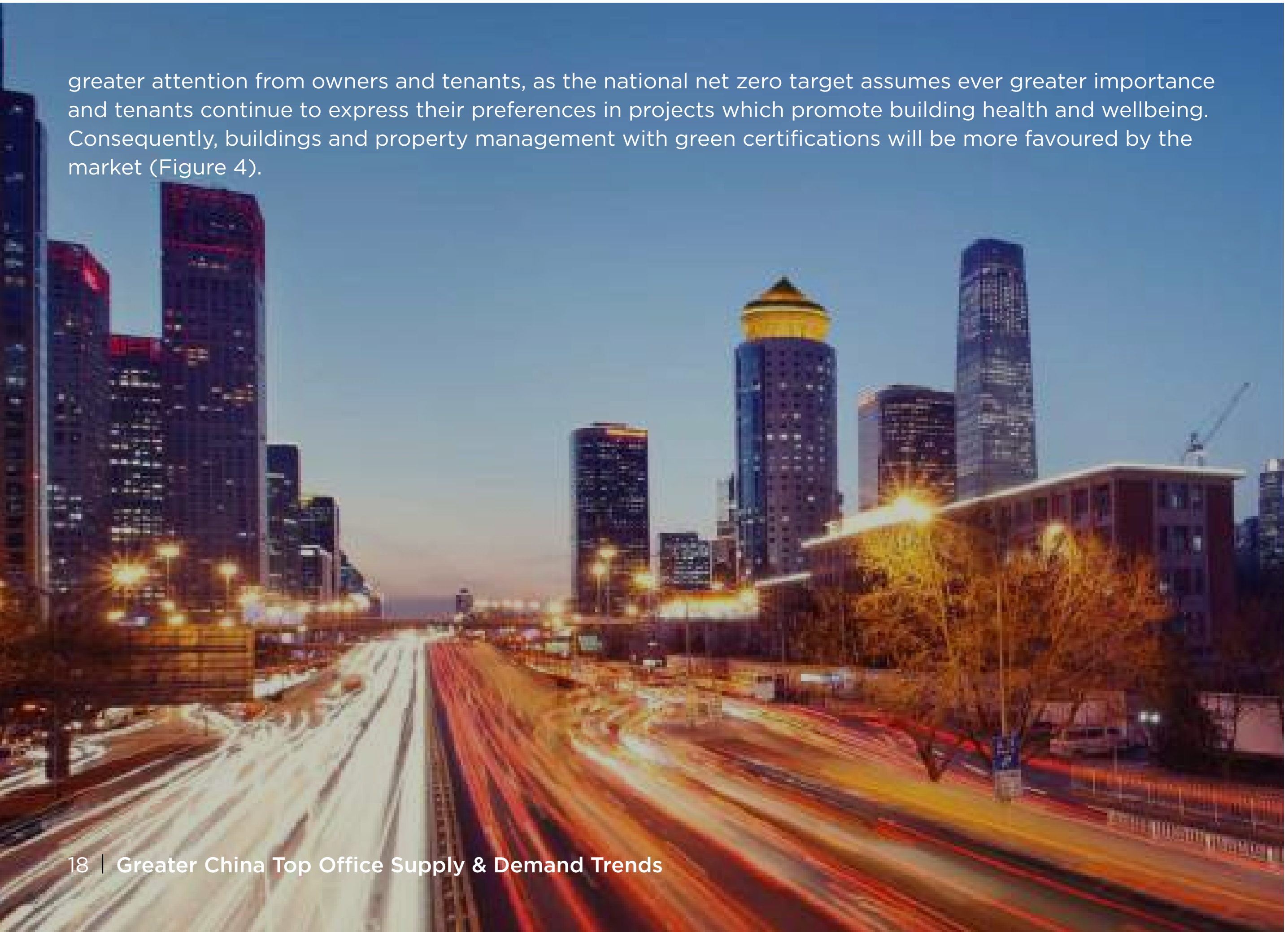
In the future, with infrastructure improvements in Li'ze Financial and Business District and Tongzhou Canal Business District, and the accelerated pace of industrial upgrading, we expect momentum in the Beijing office market to continue in a positive direction.

Since Ding Hao DH3 entered the market, the Zhongguancun submarket will see a small supply peak in 2022. Projects, such as the Hevol Building and the King Region Group Project, will bring about 150,000 sq m of high-quality office space to the market. If the projects can enter the market as scheduled, it will alleviate the shortage of rentable area in Zhongguancun to a certain extent.

Table 3:
Beijing Grade A office – Major projects to complete (2022-2025)

	Building Name	Submarket	Office GFA (sq m)	Completion Year
1	Hevol Building	Zhongguancun	80,000	2022
2	Cinda Center	East 2nd Ring Road	138,444	2023
3	New Beijing Center	Tongzhou Canal Business District	150,000	2025

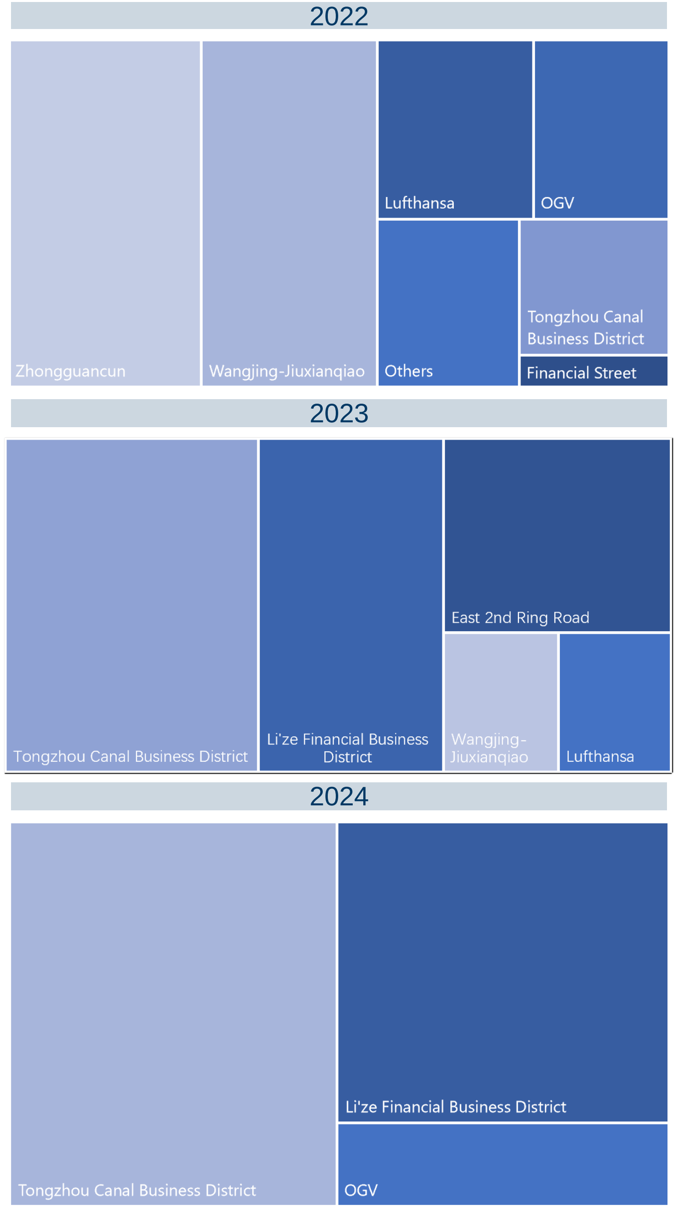
Source: Cushman & Wakefield Research



greater attention from owners and tenants, as the national net zero target assumes ever greater importance and tenants continue to express their preferences in projects which promote building health and wellbeing. Consequently, buildings and property management with green certifications will be more favoured by the market (Figure 4).

Figure 4:
Beijing Grade A office total supply – District by district breakdown (2022-2024)

Source: Cushman & Wakefield Research



DEMAND

The past year

The outbreak of COVID-19 in early 2020 caused many landlords to cut rents throughout the year, leading to tenants seizing the opportunity to take new office space or to relocate. In H1 2021, the entry of new supply has provided more choice for tenants, prompting the office leasing market to be active, with net absorption reaching 345,226 sq m citywide during the same time period.

Entering H2 2021, strong performance in the CBD, Li'ze, OGV and Wangjing-Jiuxianqiao submarkets pushed citywide net absorption to 494,232 sq m in the second half of the year. The full-year net absorption was at 839,458 sq m, the strongest annual figure since 2017. Affected by this, the overall vacancy rate dropped 2.4 percentage points y-o-y to 14.6%. Meanwhile, strong demand propelled citywide rental levels upwards. Rentals achieved modest increases after ten consecutive quarters of declines since Q3 2021. At year end, at RMB337.6 per sq m per month, the average citywide rental recovered to around the same level seen before the pandemic onset.

Figure 5:
Beijing Grade A office take-up by area – MNC/ Domestic company breakdown (2021)

Source: Cushman & Wakefield Research

92.4% | **Domestic**

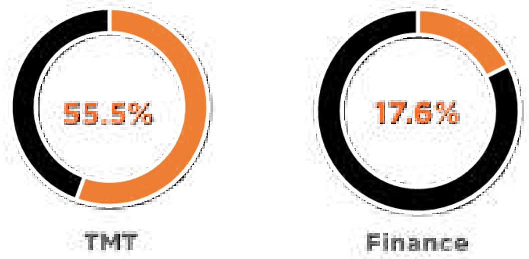
7.6% | **MNCs**

In terms of transaction types, affected by various factors, such as uncertainty of the epidemic and the international political environment, overseas companies were less active in terms of leasing demand due to long approval processes. Domestic enterprises still served as the main force to support the Beijing office market in the whole of 2021, with the leased area accounting for approximately 92.4% of total transactions by area (Figure 5).

As a national centre of science and technology innovation and helped by supporting policies and development initiatives, including expanding and opening-up of the services industry, the creation of a pioneer demonstration zone for the development of the national digital economy, the establishment of the Beijing Free Trade Zone and the setting up of the Beijing Stock Exchange, Beijing has welcomed an influx of high-tech enterprises, which has generated expanded office leasing demand. In 2021, large-scale expansion of many well-known Internet companies drove the TMT sector to account for 55.5% of the total leasing transactions by area in the whole year, 17.9 percentage points higher than 2020.

Figure 6:
Beijing Grade A office share of take-up by area – Industry sector split (2021)

Source: Cushman & Wakefield Research



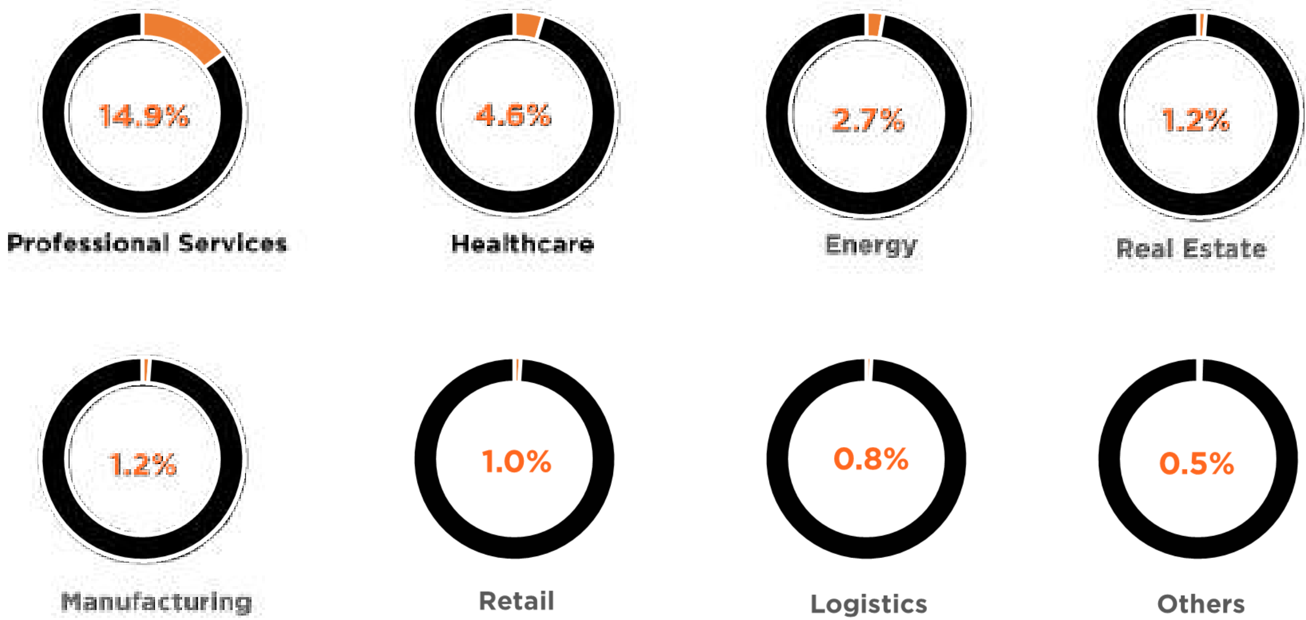


Table 4:
Beijing Grade A office – Five significant leasing deals by area (2021)

Property	Submarket	Tenant	sq m	Lease Type
Asia Financial Center	OGV	Tencent	100,000	New Setup
Beijing Fusion Center	Lufthansa	Bytedance	100,000	New Setup
Wanjia Denghuo Building	Zhongguancun	Kwai	86,000	New Setup
Vanke Fashion Center	CBD	Bytedance	83,000	New Setup
Dingcheng Times Square	OGV	Meituan.com	80,000	New Setup

Source: Cushman & Wakefield Research

In addition to the TMT industry, the pandemic also stimulated rapid expansion by insurance and fund companies, which allowed the financial sector to take second place in terms of office demand, with 17.6% of total leased space. Law firms, consulting, and online entertainment companies were also active, taking third place with regard to leasing area by all industries, with a 14.9% share.

It is worth mentioning that the biopharmaceutical industry, as a beneficiary of the pandemic, is also developing rapidly. For the full year of 2021, new setup and relocations demand by biomedicine firms accounted for 4.6% of total office leasing transactions by area, the highest since 2014, ranking fourth by industry sector.

The remaining sectors which helped drive leasing demand were energy, real estate, manufacturing, retail, and logistics, which together account for approximately 7.4% of the total office demand in the city over the past year (Figure 6 and Table 4).

For the TMT industry, the entry of new supply provided more office space for the OGV submarket. Meanwhile, with the opportunity afforded by the Olympic Games event, the OGV submarket has welcomed many high-tech companies to settle down in the past two years. Notable deals included Tencent's lease of 100,000 sq m in Asia Financial Center and Meituan.com's lease of 80,000 sq m of office space in Dingcheng Times Square. The leased area in the vicinity has accounted for 22.2% of the total in the TMT industry in the city for the whole year. The CBD, Zhongguancun, and Wangjing-Jiuxianqiao have always been the main favoured office location spots for TMT companies. Over the years, they have attracted many well-known high-tech companies to settle down. In 2021, the three major submarkets accounted for 49.0% of the total leased area by the TMT industry in Beijing. Although the urban renewal project, Beijing Fusion Center, located in the Lufthansa submarket, has not been completed, it has been pre-leased by Bytedance due to its unique appearance and intelligent office concept. Therefore, the leased area in this submarket accounted for 13.5% of the total by the TMT industry in the city. Looking at the whole year of 2021, the leased area of enterprises in these areas accounted for 84.7% of the total leased area by the entire TMT industry in Beijing (Figure 7).

In terms of the financial sector, Beijing has concentrated the national financial supervision and policy management departments in the city, thus helping to gather a large number of well-known financial companies and bank headquarters. In the past two years, as a pioneer city in the opening up of the financial industry, the Beijing Municipal Government has attached great importance to and introduced a number of measures to support the rapid development of the high-quality financial industry. For financial industry transactions, the CBD, Financial Street and Li'ze were the three most popular submarkets for financial enterprises in Beijing during 2021. The three major submarkets accounted for 67.4% of the total leased area by the financial industry. Meanwhile, a number of domestic funds and securities enterprises were attracted to the East 2nd Ring Road, with the leased area in this submarket accounting for 15.5% of the total leased by the financial industry in the city. Notable deals included Zhongtai Securities' lease of 11,900 sq m of office space in Hexa International Plaza. Throughout 2021, the leased area of tenants located in these areas accounted for 82.9% of the total leased area by the whole financial industry in Beijing (Figure 8).

Finally, for the professional services industry, the CBD and East 2nd Ring Road have attracted many law firms, accounting firms, and consulting management firms during the past year. The two major submarkets accounted for 46.7% of the total leased area by professional services companies in Beijing. Wangjing-Jiuxianqiao attracted some health management and education companies to settle down. The leased area accounted for 16.3% of the total by the professional services industry in the city. Meanwhile, driven by the government's "Mass Entrepreneurship and Innovation" initiative, SMEs have developed rapidly, thus boosting office demand from related professional services companies. Additionally, boasting a cluster of research institutes and universities, the Zhongguancun submarket attracted service-oriented venture capital institutions to settle down. Notable deals included Sinovation Ventures' lease of 7,000 sq m of office space in Ding Hao DH3. The leased area in this submarket accounted for 8.9% of the total by the professional services industry in Beijing. Looking at the whole year of 2021, the leased area of enterprises located in these areas accounted for 71.9% of the annual leased area by the entire professional services industry (Figure 9).

Figure 7:
The TMT sector – Location preference by leasing transaction area (2021)

Source: Cushman & Wakefield Research

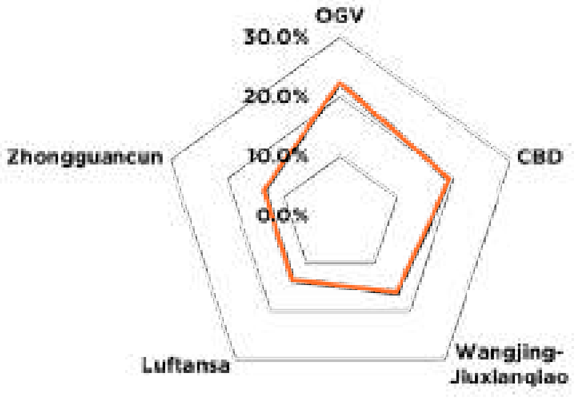


Figure 8:
The finance sector – Location preference by leasing transaction area (2021)

Source: Cushman & Wakefield Research

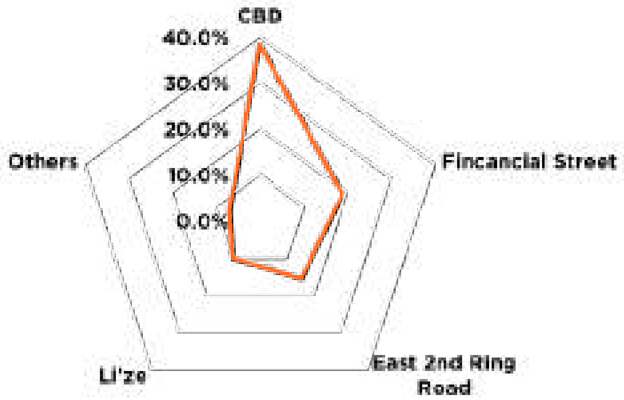
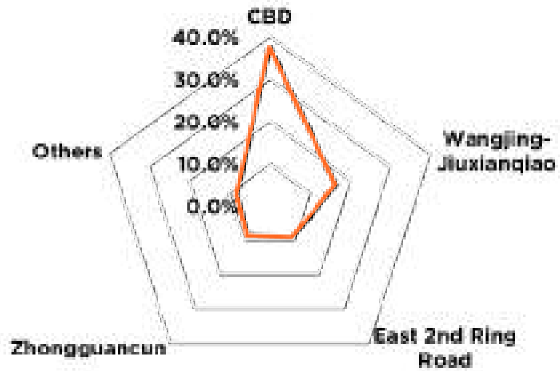


Figure 9:
The professional services sector – Location preference by leasing transaction area (2021)

Source: Cushman & Wakefield Research



Outlook

From 2022 to 2023, the Beijing Grade A office market will usher in about 1.5 million sq m of new supply. It is expected that in the coming year, the continued large-scale expansion from the Internet industry is anticipated to slow in the wake of tightened scrutiny and the lagged effect of the "double reduction" measures. Under these twin supply and demand factors, we expect overall office vacancy to rise, while rental levels may again come under pressure.

Looking ahead, in the 2022 government work report, both the 14th Five-Year Plan and major tasks for 2022 have highlighted the importance of self-reliance in science and technology, indicating that the high-tech sector will continue to be a key player in the Beijing government's future development plans.

Finally, the released 'Beijing's Implementation Plan on Accelerating the Construction of a Benchmark City for the Global Digital Economy' in August 2021 highlights the health services industry as one of the six major industries for Beijing's future development. Meanwhile, in September last year, the government set up China's third stock exchange in the city, aiming specifically to serve small- and medium-sized businesses. In the future, under the government policy and development goals, the biopharmaceutical industry and SMEs will usher in a better platform and broader development space, further enhancing demand for quality office space in the city.

Top Supply/Demand Trends For Shanghai

Johnathan Wei
Project and Occupier Services
jonathan.cy.wei@cushwake.com

Shaun Brodie
Research
shaun.fv.brodie@cushwake.com

SUPPLY

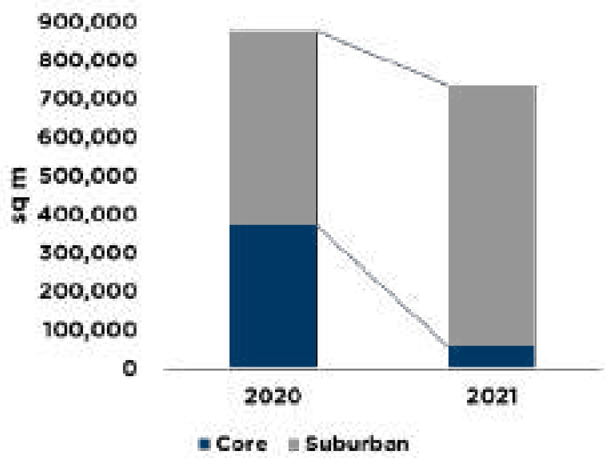
The past year

2021 has been another big year for Shanghai's emerging business areas, with 678,311 sq m of new supply being added, accounting for 92.1% of new supply in the city. Subsequently, overall citywide Grade A office stock expanded to 14.4 million sq m (Figure 10).

Despite the fact that many projects were delayed into 2022, in 2021, some significant projects completed in Shanghai's suburban areas. Landmark projects included Ruihong Tiandi, SK Tower and One FS Phase II. Given the strong demand in 2021, landlords of newly built projects want more quality tenants not only to help drive the rental rate in their building but also to help drive the local economy (Table 5).

Figure 10:
Shanghai Grade A office total supply – Core area/Suburban area breakdown (2020-2021)

Source: Cushman & Wakefield Research



Among the 13 new projects completed in 2021, 11 were located in Puxi. Hongkou, Putuo and Minhang saw more than 90,000 sq m of prime office supply each, while the Pudong submarkets witnessed more supply of business park offices but a smaller amount of new supply of Grade A office buildings during the past year (Figure 11).

Outlook

By 2025, over 3.9 million sq m of future Grade A office supply is expected to complete in Shanghai. The future supply/current stock ratio registered at the end of 2021 was 27.4%. Moreover, the city's core areas and suburban areas are likely to contribute 33.0% and 67.0% of the total future supply, respectively, which is expected to push the Shanghai Grade A office stock to about 18.2 million sq m by 2025 (Figure 12).

Core Xuhui has been one of the most significant submarkets for new supply for some time, with the new wave of quality office supply in the next four years expected to offer more quality choice for many commercial sectors. Meanwhile, Fringe Xuhui will enter a mature development stage with more projects completed by 2024. Other key submarkets for future supply are Jing'an, Huangpu, Putuo and Hongkou. The majority of future supply projects in Pudong will be located in Expo & Qiantan, with two set for Century Park and Zhuyuan, respectively (Table 6).

Over 86.2% of the Grade A office supply in the next four years will be in Puxi. Of all future supply, 32.6% will be in core areas, such as Core Jing'an and Huangpu, while 67.4% will be scattered in the region's suburban areas, mostly in Fringe Xuhui, Putuo and Qiantan (Figure 13).

Table 5:
Shanghai Grade A office – Largest completed projects (2021)

	Building Name	Submarket	Office GFA (sq m)
1	Ruihong Tiandi	Hongkou	130,000
2	Shanghai SK Tower	Expo & Qiantan	123,075
3	One FS Phase II	Fringe Jing'an	75,055

Source: Cushman & Wakefield Research

Figure 11:
Shanghai Grade A office total supply – District by district breakdown (2021)

Source: Cushman & Wakefield Research

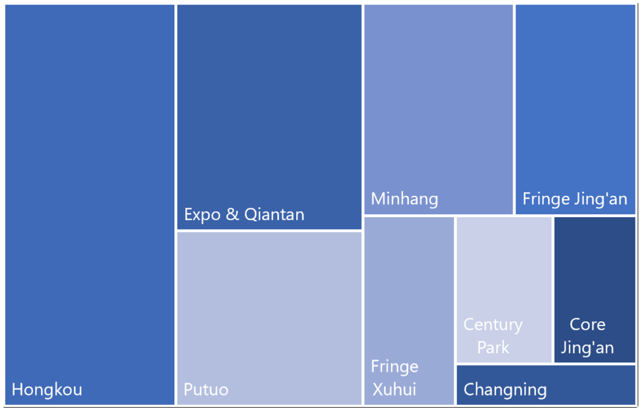


Figure 12:
Shanghai Grade A office total supply – Core area/Suburban area breakdown (2022-2025)

Source: Cushman & Wakefield Research

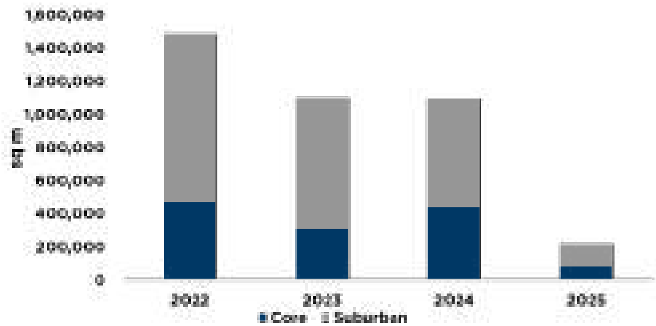


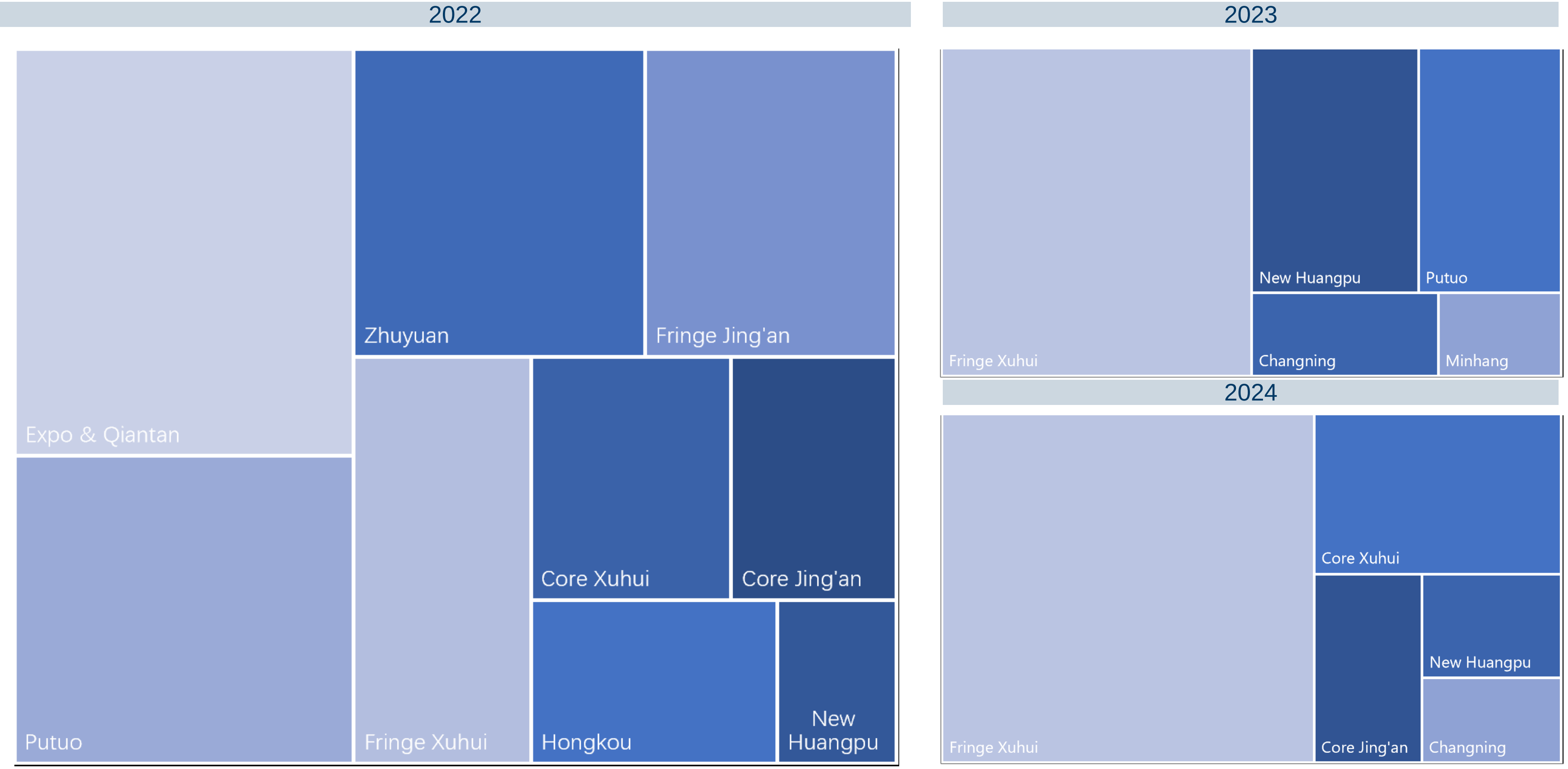
Table 6:
Shanghai Grade A office – Major projects to complete (2022-2025)

	Building Name	Submarket	Office GFA (sq m)	Completion Year
1	Poly Pukai Cultural Centre	Zhuyuan	212,008	2022
2	Shui On Headquarter Tower (Plot 124)	New Huangpu	155,000	2023
3	ITC Phase III T2	Core Xuhui	211,000	2024

Source: Cushman & Wakefield Research

Figure 13:
Shanghai Grade A office total supply – District by district breakdown (2022-2024)

Source: Cushman & Wakefield Research



DEMAND

The past year

Throughout the year, with effective epidemic prevention measures, the Shanghai government ensured that Shanghai's business activity remained largely unaffected in 2021. Consequently, the office leasing market was very active last year.

Throughout the year, Shanghai continued to focus on the development of five economic areas — namely the "Innovative Economy", the "Service Economy", the "Headquarter Economy", the "Open Economy" and the "Flow Economy" — and this certainly helped to drive quality office absorption.

As the year progressed, and as the city got used to the epidemic prevention 'new normal', so office demand rebounded from a taxing 2020. In every quarter in 2021 net absorption exceeded new supply, pushing the annual net absorption up to 1.4 million sq m, an over 200% y-o-y increase. Meanwhile, the total net absorption in Shanghai in 2021 was almost 1.7 times more than the total annual new supply. Overall, 531,366 sq m of net absorption in Shanghai's core areas led the city's vacancy rate to decrease to 9.9% at year end, while 887,566 sq m of net absorption in the city's suburban areas drove the vacancy rate down to 24.5%. Thus, the citywide average vacancy rate edged down to 16.0% due to the unusually solid absorption enjoyed during the year.

Domestic enterprises were extraordinarily active this year, accounting for approximately a 74.6% share of leasing deals by area in Shanghai. To a lesser extent, MNCs were also active, contributing 24.5% to overall quality office leasing activity in 2021. What's more, according to statistics from the Shanghai government, more than 60 MNC regional headquarters and more than 25 overseas organisation research centres were established in Shanghai in 2021. Subsequently, overseas capital actually used in Shanghai grew by 11.5% y-o-y last year (Figure 14).

Finance, TMT, and professional services sectors were the top three industry contributors to office take-up in 2021. The finance sector contributed 24.0% to the total take-up area in 2021. During the past year, finance companies, including investment, overseas capital, insurance, securities, and asset management

Figure 14:
Shanghai Grade A office take-up by area – MNC/Domestic company breakdown (2021)

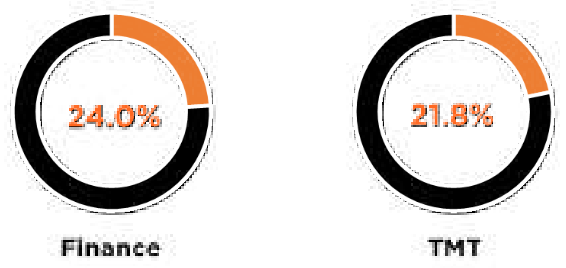
Source: Cushman & Wakefield Research

74.6% Domestic

25.4% MNCs

Figure 15:
Shanghai Grade A office share of take-up by area – Industry sector split (2021)

Source: Cushman & Wakefield Research



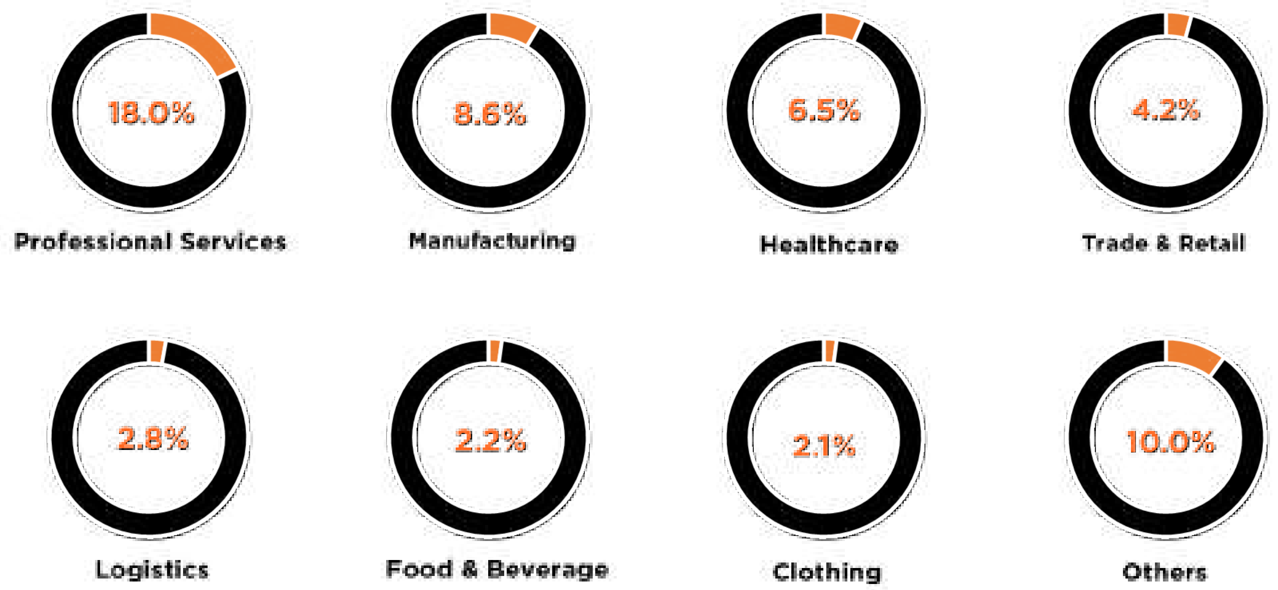


Table 7:
Shanghai Grade A office – Five significant leasing deals by area (2021)

Property	Submarket	Tenant	sq m	Lease Type
Raffles City The Bund	Hongkou	SPD Bank	25,000	Relocation
Embarkment Centre	Lujiazui	China Literature	19,000	Relocation
Embarkment Centre	Lujiazui	Sino IC Leasing	15,000	Relocation
Embarkment Centre	Lujiazui	Shanxi Securities	11,000	Relocation
Guohua International Plaza	Yangpu	Bilibili	11,000	New Setup

Source: Cushman & Wakefield Research

companies, have been active in terms of establishing new setups or renewing their leases in Shanghai's Grade A office market.

The second sector with the highest take-up was the TMT sector, with a 21.8% share of the total leasing transactions by area in 2021. Since a considerable proportion of the population in China still experienced strict quarantine measures at some point throughout 2021, many cities around the country strengthened the development of their digital economy, which offered many business opportunities to TMT firms in Shanghai. Subsequently, IT, Cloud, and online platforms were in great need of office space expansion, as their businesses grew.

Among professional services companies, law firms, consulting firms, certified public accountants and some flexible workspace providers (FWPs) were relatively more active, taking an 18.0% share of completed office leasing transactions by area in Shanghai.

Manufacturing, healthcare, trade & retail, logistics and some other sectors made up approximately a 36.8% share of completed leasing deals by area in the city in 2021. Healthcare companies, including pharmaceutical, medical services and health management companies, have been quite active in the leasing market in Shanghai. A key reason for this is the government has paid more attention to the development of the pharmaceutical and medical equipment industry in Shanghai, especially in Pudong, as more attractive tax and other policies were implemented. Similar business growth numbers were also be found in the manufacturing, logistics, and trade & retail sectors (Figure 15 and Table 7).

Strong leasing demand in 2021 was also driven by finance companies which gravitated towards the financial centre of Shanghai, with Lujiazui contributing to 34.4% of finance sector leasing deals by area. Following Lujiazui, Hongkou and Huangpu were the second and third most popular locations for finance companies, taking up a total of 29.9% of finance sector leasing deals by area in the city. Century Park and Zhuyuan remained active given the spill-over effect of Lujiazui and the positioning of the Pudong New Area from a countrywide perspective. All preferred submarkets benefited from regional policies and plans on the development of the finance sector, issued in 2021 or in the years before (Figure 16).

For the TMT sector, Hongkou, Expo & Qiantan and Minhang led with a 19.1%, 15.0% and 14.3% respective share of TMT sector leasing activity by area. With more surrounding retail facilities and better infrastructure, TMT firms in Shanghai were able to attract talent and gain more cost-efficient office space by locating to the newly built office buildings in these suburban submarkets. Some large IT and new media firms, however, still chose to locate to some of the city's core submarkets, such as Lujiazui and Changning (Figure 17).

As for the professional services sector, core areas in Shanghai like Lujiazui, Core Jing'an, Huangpu and Changning were still among the most preferred locations for this sector. These core submarkets took up a combined share of 55.7% of completed professional services leasing deals by area in 2021. Co-working providers and some other innovative firms expanded their business in some suburban submarkets for more regional development, given the new quality office supply to be leased in these areas (Figure 18).

Figure 16:
The finance sector – Location preference by leasing transaction area (2021)

Source: Cushman & Wakefield Research

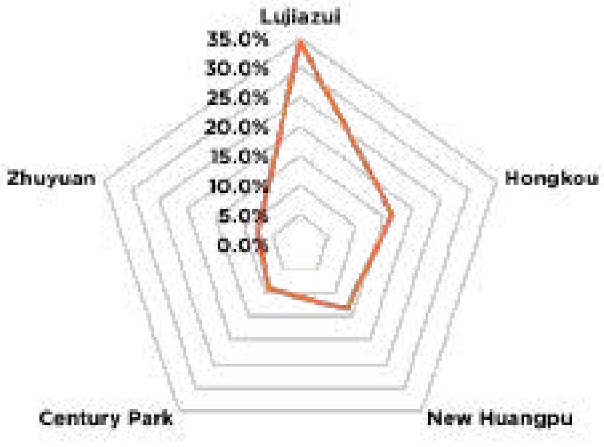


Figure 17:
The TMT sector – Location preference by leasing transaction area (2021)

Source: Cushman & Wakefield Research

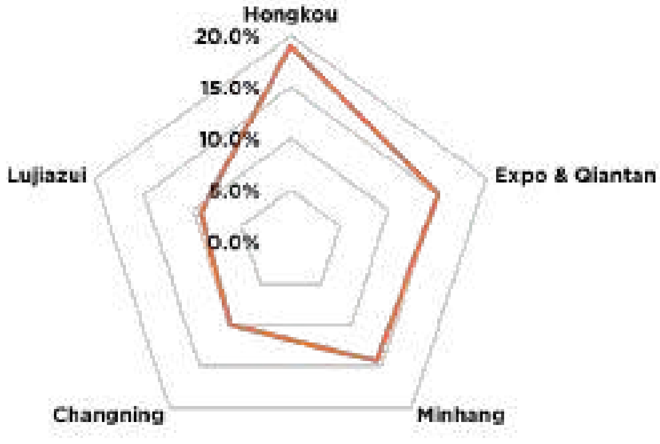
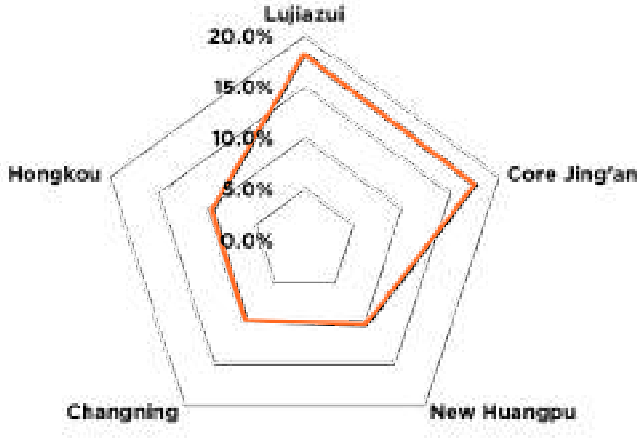


Figure 18:
The professional services sector – Location preference by leasing transaction area (2021)

Source: Cushman & Wakefield Research



Outlook

As one of the main gateway cities in China, Shanghai will look to encourage more overseas capital to invest in high-end industrial sectors to boost high-quality development in China. During the 14th Five Year Plan, as mentioned previously, Shanghai will put more emphasis on the development of five specific areas of the economy to drive quality growth.

Without doubt, the aftermath of the pandemic has and will continue to transform the general economic structure. As this transformation takes place, so new business opportunities will appear and as they do, so demand for Grade A office space will continue to be driven in major cities like Shanghai. Some industries which are expected to see transformative new business opportunities are fintech, TMT, healthcare, asset management, new retail, and modern logistics.

In the coming years, a remarkable amount of Grade A office supply in Shanghai is likely to augment competition among landlords into the mid-term. New supply is likely to raise vacancy and place pressure on rentals.

Finally, responding to the future carbon neutrality goal, many more landlords are expected to enhance the green credentials of their buildings and in doing so they are likely to increase the value of their buildings.

Top Supply/Demand Trends For Shenzhen

Shannon Yang
Project and Occupier Services
shannon.w.yang@cushwake.com

Xiaoduan Zhang
Research
xiaoduan.zhang@cushwake.com

Charlie Huang
Project and Occupier Services
charlie.sl.wong@cushwake.com

SUPPLY

The past year

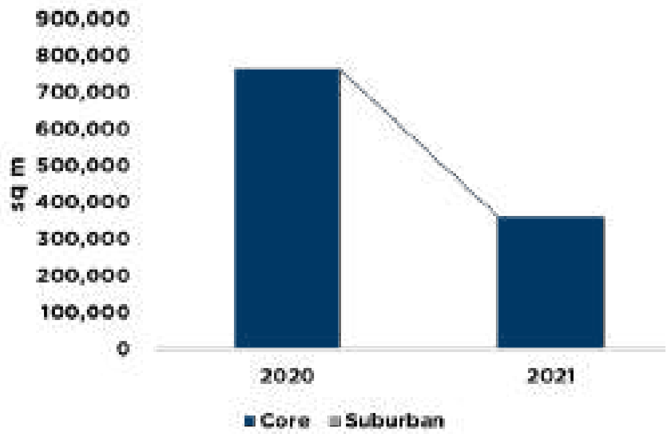
The Shenzhen office market saw several new projects complete in 2021, although with many being non-market projects for industry support and self-use. Final new Grade A supply was relatively limited at 359,800 sq m for the year (Figure 19).

During the past year, a total of four Grade A office projects in Shenzhen were put into use. All are located in the core areas. According to the total area of new supply, Futian accounted for 44.5% of the total and Nanshan accounted for 55.5% of the total.

The completion of Media Finance Center brought new supply to the office market in Futian, while three new projects in Qianhai brought 200,000 sq m of new Grade A office space, which further expanded Qianhai's office market scale (Table 8 and Figure 20).

Figure 19:
Shenzhen Grade A office total supply – Core area/Suburban area breakdown (2020-2021)

Source: Cushman & Wakefield Research



Outlook

Based on the scheduled projects under construction, it is expected that the future supply of Grade A office buildings in the city will exceed 6 million sq m from 2022 to 2026, ranking first among the first-tier cities in China. At that time, the stock scale of Grade A office buildings in Nanshan District will be 2.2 times that of Futian District, and spatial layout of business development in Shenzhen will have a notable westward expansion trend in the city. In the meantime, a significant number of self-use headquarters properties in Qianhai and in the Shenzhen Bay Super Headquarters Base will alleviate the supply pressure to a certain extent.

From the perspective of submarkets, according to the scheduled supply over the next five years, the core submarkets will account for 90.2% of supply while the suburban districts will account for 9.8% of the supply (Figure 21).

In terms of new supply over the next three years, the Qianhai submarket will account for 44.0% of the city's supply, which means that the office market in Qianhai will enter a new wave of new office delivery. However, considering the fact that many headquarters are built for self-use and some properties are for governmental industrial support, as well as the changes in the real estate environment that will impact future supply, the actual supply in the future may be less than currently scheduled. Qianhai Kerry Centre Phase II and Minsheng E-commerce Building will push the new supply of Grade A office buildings in Qianhai up to reach 608,610 sq m in 2022. After these building completions, the China Venture Capital Tower, the Huaqiang Financial Building and other projects will be delivered in the area. The completion of office buildings and the gradual development of supporting facilities will continue to improve Qianhai's commercial image, thus making Qianhai one of the red-hot submarkets for office buildings in the future.

The Houhai submarket is expected to account for 13.5% of new supply in the coming years. Lenovo International Headquarters, an immense project with a GFA of up to 170,000 sq m, is expected to be completed in 2022. It is currently in the pre-leasing stage and has attracted market interest. The development of emerging business districts, such as the Shenzhen Bay Super Headquarters Base and the Houhai Headquarters Base will form an effective linkage with mature Hi-tech park areas, and the business market scale of Nanshan will be further expanded. Although the market will inevitably go through a competition stage, the completion of new buildings will still further stimulate the release of demand for office space in Nanshan, which currently lacks sizeable areas of leasable office space.

Finally, in 2022, Futian is expected to usher in the delivery of Dabaihui Plaza and C Future City, followed by a significant slowdown in the supply of Grade A office buildings due to limited land supply on which to build. Some tenants may shift to the emerging business districts due to limited market supply in this area (Figure 22).

Table 8:
Shenzhen Grade A office – Largest completed projects (2021)

	Building Name	Submarket	Office GFA (sq m)
1	Media Finance Center	Futian CBD	160,000
2	Qianhai Financial Center T1	Qianhai	110,000

Source: Cushman & Wakefield Research

Figure 20:
Shenzhen Grade A office total supply – District by district breakdown (2021)

Source: Cushman & Wakefield Research

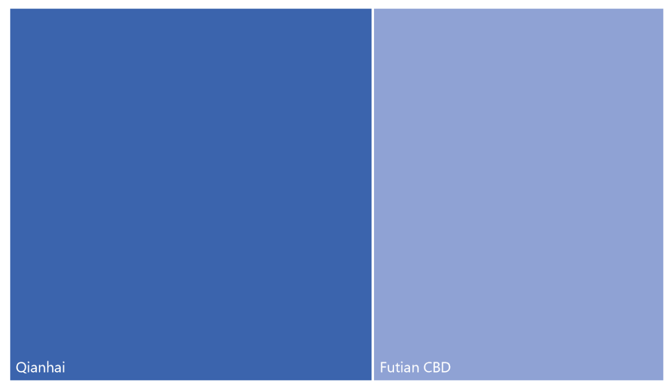


Figure 21:
Shenzhen Grade A office total supply – Core area/Suburban area breakdown (2022-2025)

Source: Cushman & Wakefield Research

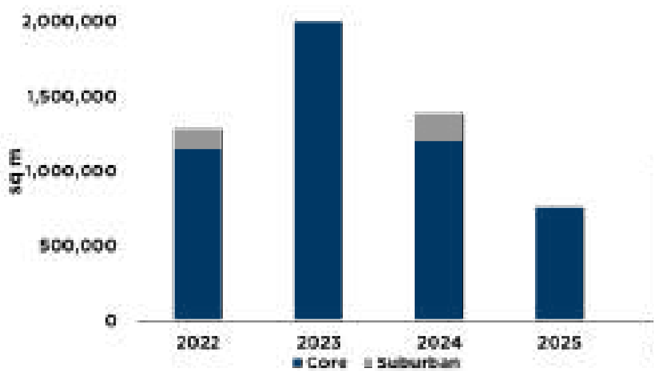


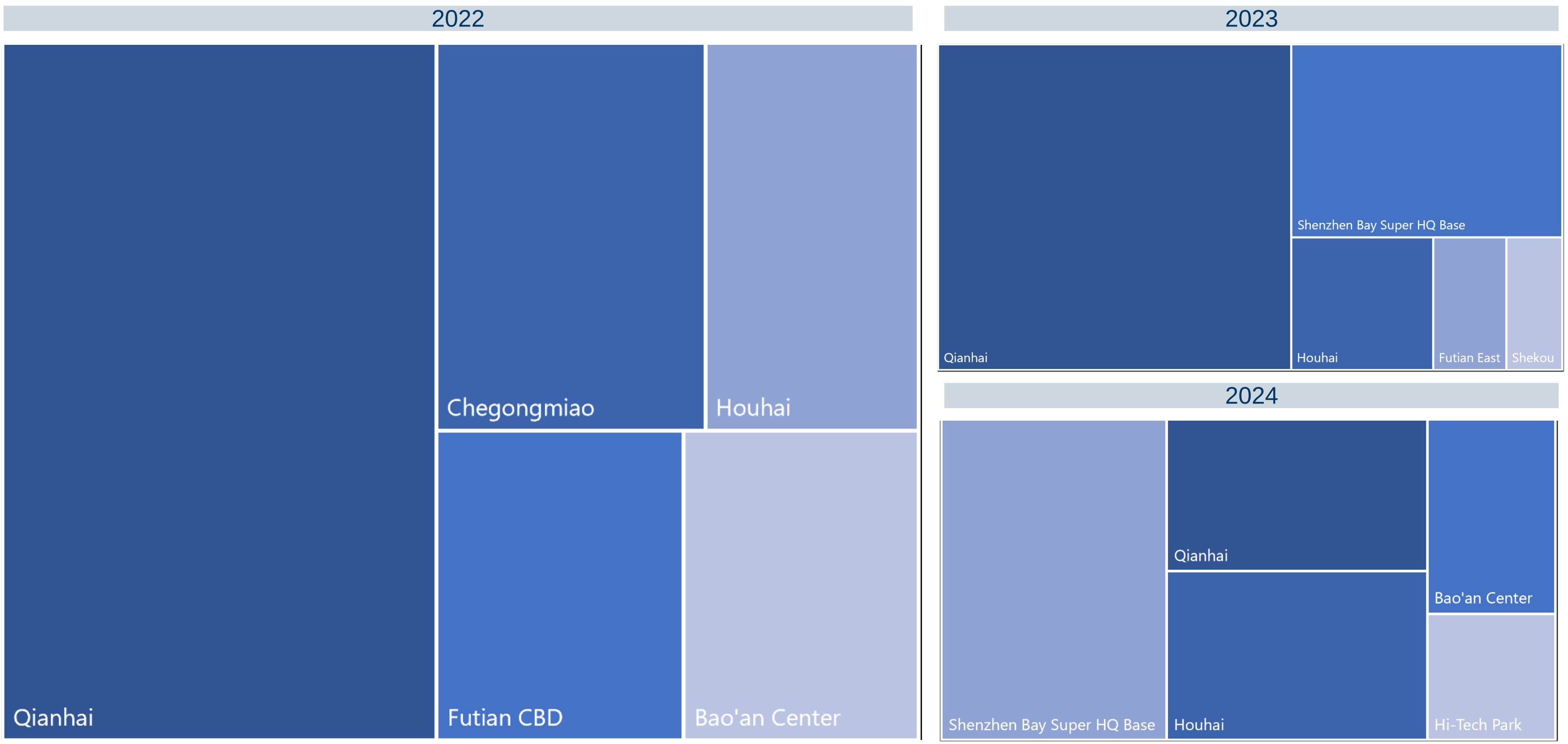
Table 9:
Shenzhen Grade A Office – Largest Projects to Complete (2022-2026)

	Building Name	Submarket	Office GFA (sq m)	Completion Year
1	C Future City	Chegongmiao	214,000	2022
2	Vanke SIC	Shenzhen Bay Super Headquarters Base	93,000	2023
3	China Venture Capital Tower	Qianhai	118,850	2023

Source: Cushman & Wakefield Research

Figure 22:
Shenzhen Grade A office total supply – District by district breakdown (2022-2024)

Source:
Cushman & Wakefield Research



DEMAND

The past year

Shenzhen's strong Grade A office market activity has continued since the end of 2020, supporting rents to remain relatively stable, albeit with a slight fluctuation throughout the year. At the end of 2021, the average rent for Grade A office buildings in Shenzhen was RMB210.5 per sq m per month, a slight decrease of 0.5% over the same period last year. Steady demand and relatively limited actual market supply drove the overall vacancy rate of Shenzhen's Grade A office market down by 6.1 percentage points y-o-y. The current vacancy rate in the city sits below 20%, standing at around 19.0%.

Considering the future supply pressure, landlords adopted flexible leasing strategies to attract potential tenants. Longer pre-lease and rent-free periods have also substantially reduced relocation costs for enterprises, further stimulating the leasing demand. At the same time, rent subsidies provided by the government have stimulated the demand for relocation and expansion. As a result, net absorption in Shenzhen's Grade A office reached 672,599 sq m in 2021, the highest it's been since 2018. By submarket, Qianhai's annual absorption was 294,365 sq m, accounting for 43.8% of the city's net absorption.

By type of enterprise, the leased area by domestic enterprises in 2021 accounted for 89.8%, which dominated office demand. The leased area by MNCs accounted for 10.2% (Figure 23).

Although the proportion of leasing demand from MNCs increased by only 3.2 percentage points when compared with 2020, the number of transactions was two times that seen in 2020. In terms of area demanded by MNCs, some leased small-area co-working spaces, but still 24% of leasing transactions equalled or exceeded 1,000 sq m. The median was about 500 sq m. Such figures showed that overseas companies have enhanced their leasing activities in Shenzhen, and the leasing space scales continue to be diverse. Notably, TMT and financial companies were key occupiers and took up a combined 60% of the total share of leasing deals by area.

By industry, the TMT, finance and professional services industries accounted for 38.0%, 25.6% and 10.1% of the leased space in 2021, respectively, dominating the demand for Grade A office buildings in Shenzhen. The proportion of absorption from the TMT sector has

Figure 23:
Shenzhen Grade A office take-up by area – MNC/Domestic company breakdown (2021)

Source: Cushman & Wakefield Research

89.8% Domestic

10.2% MNCs

Figure 24:
Shenzhen Grade A office share of take-up by area – Industry sector split (2021)

Source: Cushman & Wakefield Research

Table 10:
Shenzhen Grade A office – Five significant leasing deals by area (2021)

Property	Submarket	Tenant	sq m	Lease Type
Media Finance Center	Futian CBD	Great Wall Fund	8,000	New Setup
Qianhai Kerry Centre	Qianhai	Aftership	6,500	Relocation
CR Land Qianhai Center T5	Qianhai	TruValue Asset Management	5,000	New Setup
China Construction Steel Structure Building	Houhai	Qualcomm	4,800	New Setup
Media Finance Center	Futian CBD	CITIC Group	2,700	Relocation

Source: Cushman & Wakefield Research

increased year by year, up about 15 percentage points from 2019. This demand has been driven by the Internet giants and their upstream and downstream enterprises, as well as high-growth technology companies. Having said this, it is expected that the growth rate for demand by the TMT sector may slow down with the completion of some self-use headquarters buildings.

Meanwhile, the trade sector accounted for 7.1% of office absorption in the city in 2021, ranking behind the three pillar industries. In this sector, domestic trade firms accounted for 85.2%, including e-commerce clothing brands and liquor franchisers. They preferred Futian CBD, Qianhai and Chegongmiao. Overseas luxury brands have also leased office space, given the expansion of their respective businesses.

The other notable industry office demand driver in Shenzhen in 2021 was real estate and construction, which accounted for 5.8% of total leased space, of which 46.2% was in Futian CBD, followed by Houhai at 16.5%. Hong Kong-based construction consulting companies are also setting up new offices in Qianhai in order to better serve their clients nearby (Figure 24 and Table 10).

37.7% of the TMT Grade A workspace was leased in Qianhai. The TMT sector has continued to grow rapidly in recent years. In addition to the leading TMT enterprises, ambitious start-ups, unicorns and newly listed TMT companies have turned more attention to upgrading their office environment, further strengthening new demand in the Grade A office market. In the current tenant-favourable market, there are many available properties that are suitable for office relocation and expansion purposes. Large-scale or en-block leasing transactions happened frequently, with the average deal area at 2,557 sq m in 2021. This will also be conducive to attracting more similar or upstream and downstream enterprises to gather in the future. Considering the sustained new supply ahead in Qianhai and Houhai, Nanshan District is likely to remain tenants' most favoured location (Figure 25).

The Shenzhen Securities Association reported that revenues of securities firms in the city jumped 31.08% y-o-y to take a 24.61% share of the sector's national operating income in 2020. The financial sector including security firms, insurance companies and funds continued expanding through 2021, and chased high-quality space and expansions. Futian CBD, where the Shenzhen Stock Exchange is located, absorbed 42.4% of leased space. The proportion that Houhai and Qianhai shared was about 16% of finance company leasing activity, which was concentrated in landmark projects, such as China Resources Tower, One Shenzhen Bay, Qianhai Kerry Centre and CR Land Qianhai Center. Meanwhile, absorption of the Houhai area in 2021 was 2.6 times that seen in 2020, driving the vacancy rate in this area down by 5.7 percentage points to about 12.6%, with limited sizeable available space. However, it is expected that completions of soon-to-complete large-scale projects in 2022 will again stimulate market demand. Additionally, the relatively new projects located in Chegongmiao have also attracted insurance giants, making the leasing demand by the finance sector in Chegongmiao account for about 7% of the total leasing activity by finance companies (Figure 26).

Leasing transactions by professional services companies averaged about 1,079 sq m, of which nearly 30% were completed by law firms. In addition, accounting firms, headhunting firms, and marketing agencies were also active. They preferred developed submarkets, as 42.2% of the leasing demand within the sector took place in the Futian CBD. Well-known international firms including KPMG, PwC and EY successively settled in Qianhai, which made Qianhai (with a 17.5% share of the total) the second most preferred submarket. Meanwhile, leasing demand from the professional services sector in the Hi-Tech Park area increased to 16.5% of professional services company leasing activity by area in 2021 (Figure 27).

Figure 25:
The TMT sector – Location preference by leasing transaction area (2021)

Source: Cushman & Wakefield Research

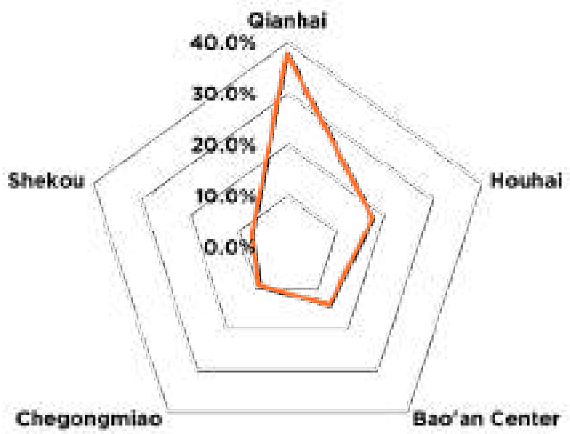


Figure 26:
The finance sector – Location preference by leasing transaction area (2021)

Source: Cushman & Wakefield Research

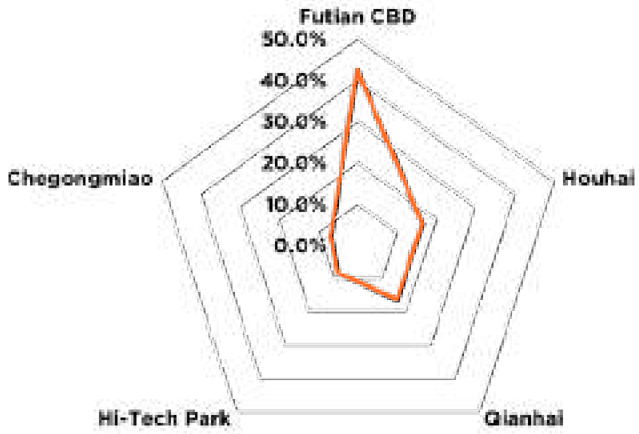
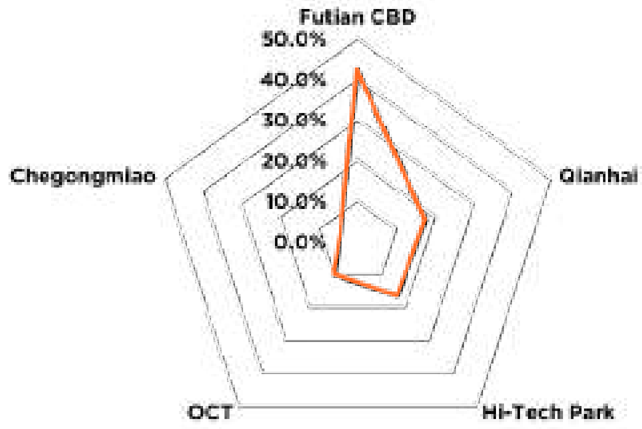


Figure 27:
The professional services sector – Location preference by leasing transaction area (2021)

Source: Cushman & Wakefield Research



Outlook

As a pilot demonstration area, Shenzhen should continue to have a bright future, with the continued development of the Greater Bay Area. Both the locally fast-growing innovative enterprises and overseas enterprises are expected to support the demand for office space, driving the overall market activity in the city. Shenzhen is anticipated to feature high supply but also active demand for a long run.

Although the supply in the short- to medium-term will place pressure on market rental, the long-term development prospects look positive, especially given the coordinated development of Shenzhen and Hong Kong. For example, the Qianhai Entrepreneurship Platforms have incubated 266 Hong Kong teams, and the Hong Kong and Macao Youth Recruitment Plan has generated additional positions in 2021. Finally, the construction of new transportation facilities, such as the Hong Kong - Shenzhen Western Express Railway will accelerate mobility between the two cities, which will bring further business opportunities to Shenzhen and its office property market.

Top Supply/Demand Trends For Guangzhou

Andy Law
Project and Occupier Services
andy.cl.Law@cushwake.com

Xiaoduan Zhang
Research
xiaoduan.zhang@cushwake.com

SUPPLY

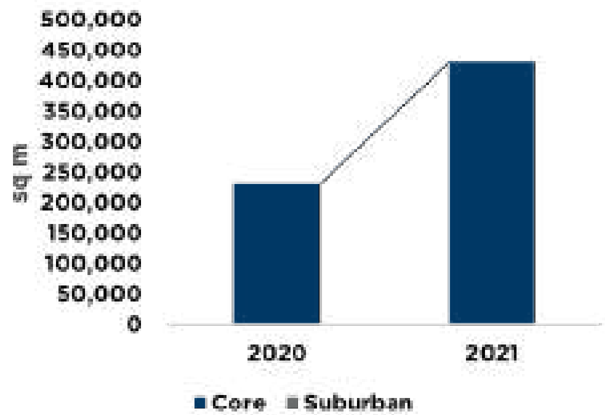
The past year

In 2021, the Guangzhou market welcomed six new Grade A office projects which added a total of 430,744 sq m. The annual new supply subsequently increased by 86.3% y-o-y, a new high in the past five years, pushing up the total city stock to 5.6 million sq m (Figure 28).

Of the six newly completed Grade A office projects in 2021, four are located in Pazhou business district. These projects brought a total volume of 240,000 sq m to the market and accounted for 55.7% of the city's total supply. This made Pazhou business district the main source of supply for office buildings in Guangzhou in 2021. Guangzhou ICC in Tianhe Sports Center and Vanke Center in Zhujiang New Town added 106,000 sq m and 85,000 sq m, respectively, accounting for 24.6% and 19.7% of total new supply, respectively (Table 11 and Figure 29).

Figure 28:
Guangzhou Grade A office total supply – Core area/Suburban area breakdown (2020-2021)

Source: Cushman & Wakefield Research



Outlook

In the next three years, Guangzhou is expected to see new quality office supply of 2.5 million sq m, which will be 44.1% of the total stock of Grade A office buildings in the city. By 2024, the total stock of the city will rise to 8.1 million sq m (Figure 30).

In the next three years, 64.9% of total supply in the Guangzhou Grade A office market will come from Pazhou Business District, amounting to more than 1.6 million sq m. Some huge projects are expected to bring more than 100,000 sq m, including GZ Business Center, GZ International Cultural Center and YY HQ (Table 12).

Since the start of construction in Pazhou, the area has gathered technology companies, such as Alibaba, Tencent and Vipshop, with the stock of Grade A office buildings in Pazhou reaching 1.2 million sq m. With the completion of more headquarters projects recently, 37 Interactive Entertainment, Marubi, HAID Group and other enterprises have settled here. An economy boosted by headquarters agglomeration will help Pazhou attract more well-known enterprises in the future.

Another emerging area is Financial Town. 666,000 sq m of new supply is anticipated to enter the market in the next three years, accounting for 26.9% of the total future supply in the city. At present, Financial Town has introduced a number of financial institutions, such as China Guangfa Bank, Bank of Guangzhou, and Guangdong Nanyue Bank, as it aims to build a headquarters basecamp of financial institutions. In March 2021, the Implementation Opinions of Guangzhou Municipality on Promoting the Joint Construction of an International Financial Hub in the Guangdong-Hong Kong-Macao Greater Bay Area was issued, and with the blessing of favourable policies, the Financial Town district is expected to become one of the international financial hubs in the Guangdong-Hong Kong-Macao Greater Bay Area.

In addition, Zhujiang New Town, as a mature core business district, will welcome 204,000 sq m of high-quality office properties into the market in the next three years, accounting for 8.2% of the total. The completion of these new projects will add more leasable space to this submarket (Figure 31).

Table 11:
Guangzhou Grade A office – Largest completed projects (2021)

	Building Name	Submarket	Office GFA (sq m)
1	Guangzhou ICC	Tianhe Sports Center	105,942
2	Guangzhou mPlaza	Pazhou	95,891
3	Vanke Center	Zhujiang New Town	85,000

Source: Cushman & Wakefield Research

Figure 29:
Guangzhou Grade A office total supply – District by district breakdown (2021)

Source: Cushman & Wakefield Research

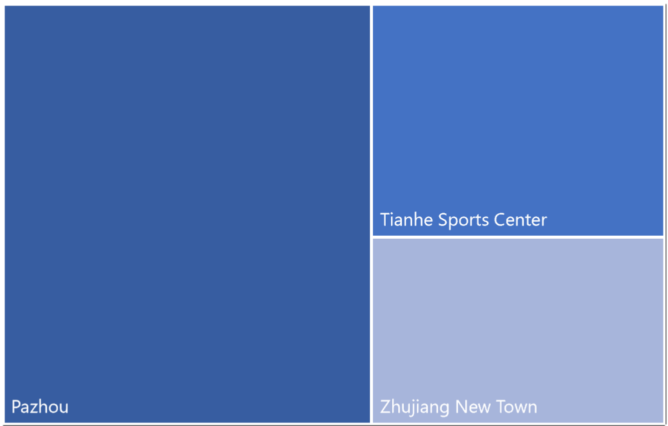


Figure 30:
Guangzhou Grade A office total supply – Core area/Suburban area breakdown (2022-2024)

Source: Cushman & Wakefield Research

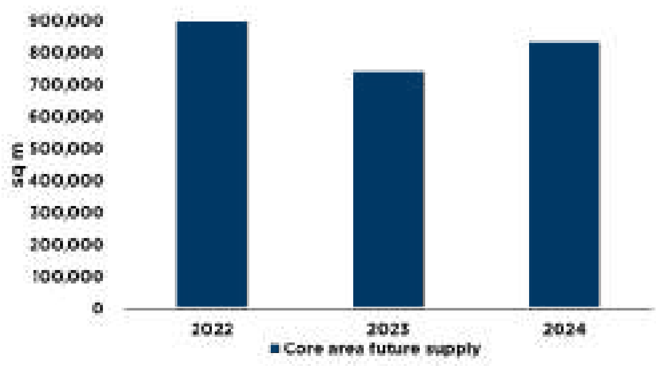


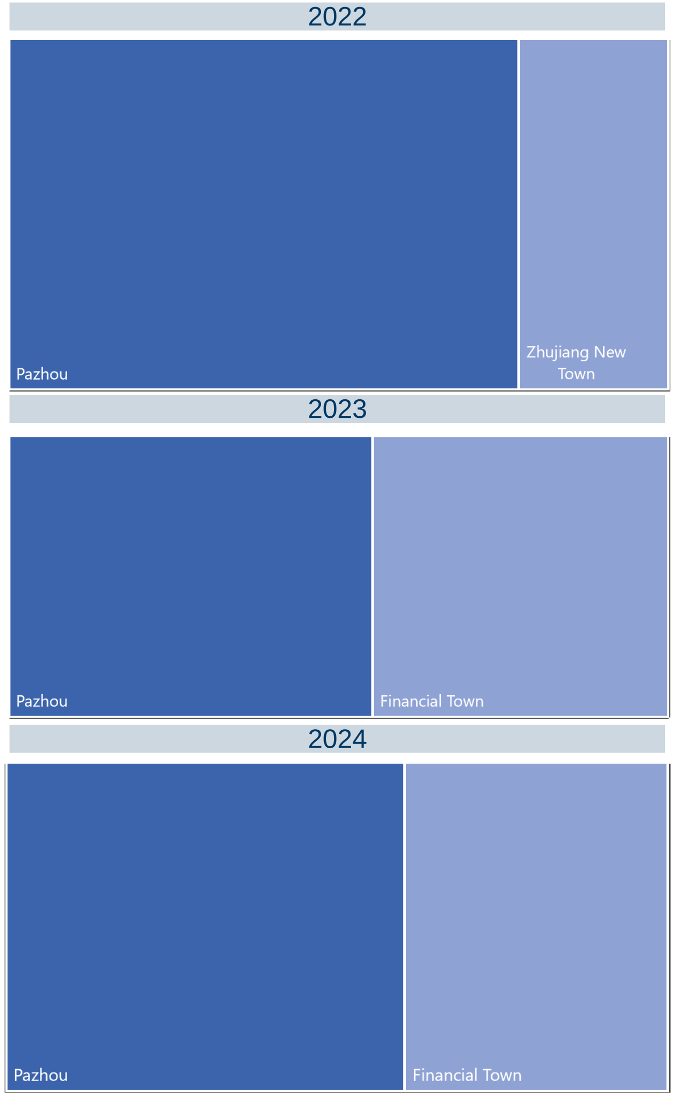
Table 12:
Guangzhou Grade A office – Major projects to complete (2022-2024)

	Building Name	Submarket	Office GFA (sq m)	Completion Date
1	GDH BCC T2	Zhujiang New Town	70,486	2022
2	Star-River Center	Pazhou	82,873	2022
3	Liangye Building	Pazhou	86,400	2023

Source: Cushman & Wakefield Research

Figure 31:
Guangzhou Grade A office total supply – District by district breakdown (2022-2024)

Source: Cushman & Wakefield Research



DEMAND

The past year

In 2021, the COVID-19 epidemic was gradually and effectively controlled, thus the office demand that slowed down due to the impact of the epidemic in 2020 has significantly recovered. Although there were still regional epidemics in some parts of Guangzhou during the year, the continuous improvement of epidemic prevention measures minimised the negative impact on economic activity, and, subsequently, the leasing activity of the office market was significantly improved.

In the first half of the year, enterprises were active in looking for office locations. Consequently, the city's net absorption reached 311,231 sq m, significantly higher than the same period in the previous years. In the second half of the year, changes in the education and training sector, and real estate and other industries have made some enterprises prudent in their office leasing strategies. Therefore, the overall office demand has slowed down, with net absorption recorded at 114,738 sq m in the second half, which accounted for only 26.9% of total annual net absorption —although an increase of 80.9% y-o-y. While experiencing weakening demand towards the end of the year, the Guangzhou Grade A office market recorded 425,969 sq m net absorption for the whole of 2021, an increase of more than four times on last year and a record high since 2017.

Domestic enterprises are still the main force supporting Guangzhou's Grade A office market, with the leased area accounting for about 86.7% of total transactions by area in the city. What's more, a number of full-floor or large-scale lease transactions by domestic enterprises were recorded during the year, such as Toutiao.com, backed by ByteDance, which relocated to the Trendy International Centre in Pazhou Business District. On the other hand, the business activity of overseas-funded enterprises has slowed down due to the complex and changeable macroeconomic environment. MNC leased area in 2021 accounted for 13.3% of the total in the city, down by 3.2 percentage points when compared to 2020 (Figure 32).

Figure 32:
Guangzhou Grade A office take-up by area – MNC/Domestic company breakdown (2021)

Source: Cushman & Wakefield Research

86.7% | **Domestic**

13.3% | **MNCs**

Figure 33:
Guangzhou Grade A office share of take-up by area – Industry sector split (2021)

Source: Cushman & Wakefield Research

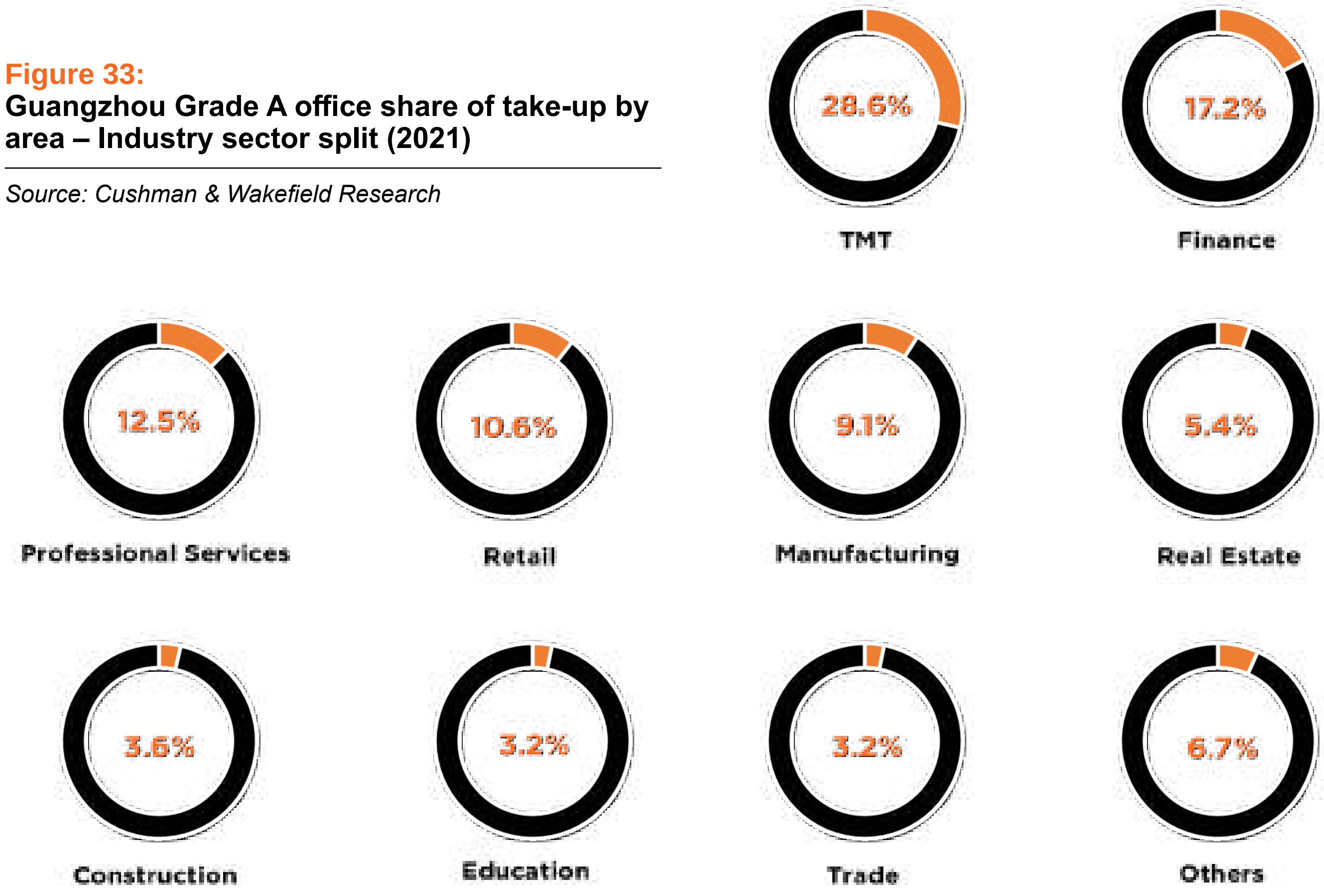


Table 13:
Guangzhou Grade A office – Five significant leasing deals by area (2021)

Property	Submarket	Tenant	sq m	Lease Type
Trendy International Centre	Pazhou	Toutiao.com	30,000	Relocation
Guangzhou mPlaza	Pazhou	MINISO	27,000	Relocation
Baoland Plaza	Pazhou	Meishang Group	7,500	Relocation
CTF Finance Centre	Zhujiang New Town	Yingke Law Firm	3,900	Relocation
China Plaza	Yuexiu	Roche	2,000	Relocation

Source: Cushman & Wakefield Research

In terms of industry sector, TMT (at 28.6%), the financial industry (at 17.2%) and professional services (at 12.5%) were the main sources of demand for Grade A office buildings by leased area. The sum of the leased area for the three sectors accounted for 58.2% of the total leasing activity by area. Demand from the Internet, gaming, and e-commerce industries was strong given the vigorous development of the digital economy in Guangzhou. Finance firms were also active over the year, with the insurance and banking industries maintaining a good expansion trend and continuing the sector's steady office leasing demand since 2020. Additionally, domestic law firms showed a relatively positive need for upgrading and relocation to larger and/or better-looking office spaces. One example was Yingke Law Firm's relocation to the CTF Finance Centre (Figure 33).

Notably, in 2021, the retail sector accounted for a 10.6% share of total leasing transactions by area in the city. The dual demand from online and offline consumption business expansion prompted retail companies to expand their scale, subsequently generating more demand for office space. Some retail companies prioritised Pazhou and Zhujiang New Town as options for their office expansion or relocation. One example was MINISO, which relocated their global headquarters to Guangzhou mPlaza (Table 13).

In terms of location, for the TMT sector, Pazhou and Zhujiang New Town are still the most favoured business districts for office locations. In 2021, 92.8% of TMT enterprises chose to be located here. Among the two, Pazhou was slightly more preferred, accounting for 58.3% for leasing deals by area within the TMT sector. The relatively abundant high-quality new supply was able to meet demand from the fast-growing sector enterprises. Various favourable policies for the industry are also the reasons why Pazhou is favoured by many high-tech enterprises. At present, Pazhou has entered a period of rapid development, and the area has attracted Alibaba, ByteDance, Vipshop and other Internet giants to settle (Figure 34).

Due to the high requirements for building quality and the characteristics of industrial agglomeration, Zhujiang New Town has always been the primary submarket location choice for finance sector companies. 47.5% of the leased office area by financial enterprises occurred here during the year. As the business district with the highest concentration of finance sector companies and with the most commercial resources in Guangzhou, Zhujiang New Town is relatively mature in economic development and these facts compelled finance companies to continue to view this submarket as an important office space location area. What's more, Tianhe Sports Center was the second choice for finance sector companies to locate their offices in 2021, accounting for 22.3% of the total transactions by area by finance companies in 2021 in Guangzhou (Figure 35).

Zhujiang New Town is also the most preferred submarket for professional services companies, with the leasing in this sector accounting for 53.6% of deals by area in 2021 in Guangzhou. Client resources, commercial facilities, and building quality are the primary factors considered by professional service enterprises when choosing an office location in the city. In addition, Yuexiu Business District (at 19.8% of leasing deals by area within the finance sector) also attracted some professional service enterprises because of its abundant client resources and rental advantages (Figure 36).

Figure 34:
The TMT sector – Location preference by leasing transaction area (2021)

Source: Cushman & Wakefield Research

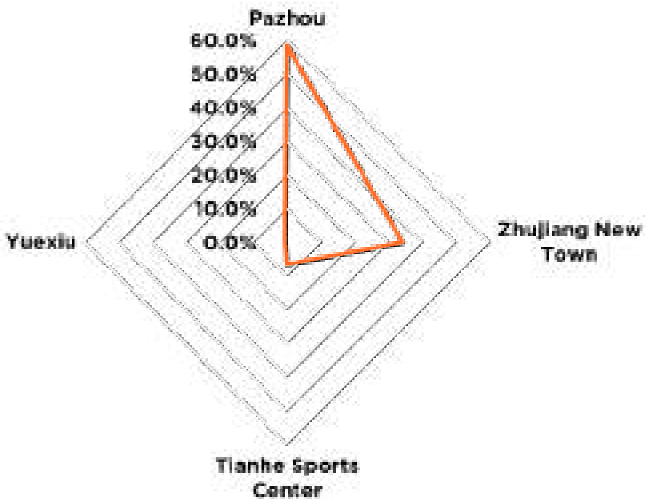


Figure 35:
The finance sector – Location preference by leasing transaction area (2021)

Source: Cushman & Wakefield Research

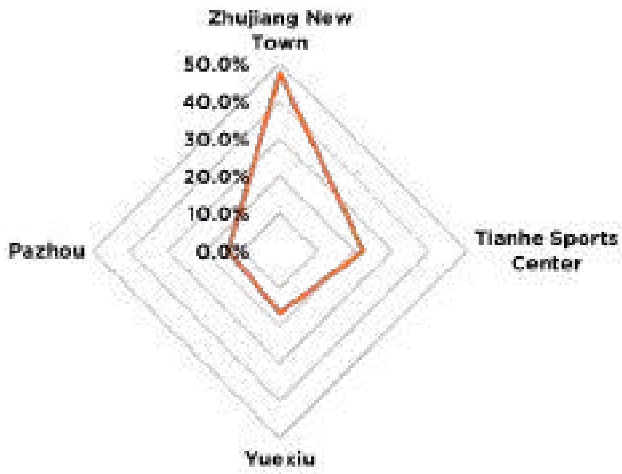
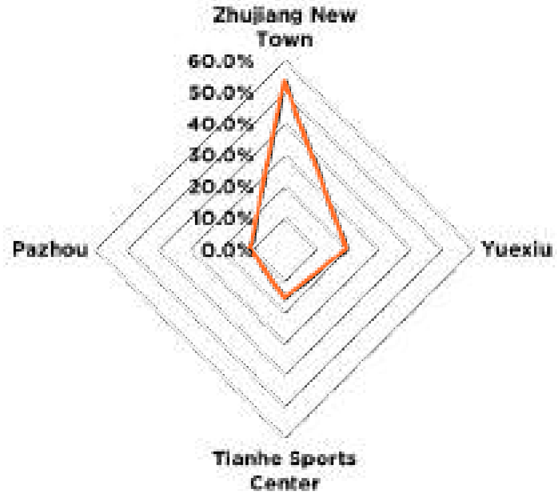


Figure 36:
The professional services sector – Location preference by leasing transaction area (2021)

Source: Cushman & Wakefield Research



Outlook

The sustainable development of high-quality enterprises is expected to bring new demand to Guangzhou in the future. Simultaneously, a new generation of information technology, artificial intelligence, biomedicine and new energy, new materials and other emerging industries will be nurtured and grown. What's more, companies that provide financial support and professional services to these industries are expected to see more business opportunities. Therefore, it is expected that demand by businesses across a wide commercial spectrum for Grade A office buildings in Guangzhou will continue to grow.

In 2022, Guangzhou's Grade A office market will see a new round of future supply. As emerging business districts continue to enter a rapid construction stage, the rise in the vacancy rate in the short term may prompt landlords to adopt more flexible leasing strategies. However, in 2022, high-quality properties in favourable locations with clear positioning will continue to attract and retain quality tenants.

Top Supply/Demand Trends For Hong Kong

John Siu
Project and Occupier Services
john.siu@cushwake.com

Keith Chan
Research
keith.chan@cushwake.com

SUPPLY

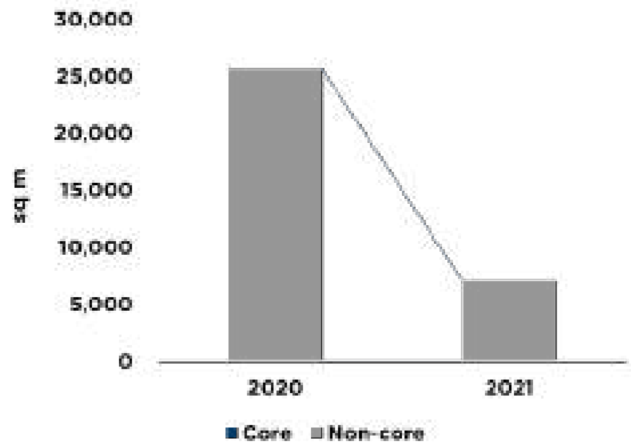
The past year

In 2021, new office supply consisted of just one new project: Marina 8 in Hong Kong South, which entered the market in Q1. This project added 7,100 sq m to the Grade A office market. Compared to the circa 26,000 sq m in 2020, this represents a 73% yearly decrease in new supply (Figure 37).

Marina 8 was the only completed project in 2021 (Table 14). Located in Wong Chuk Hang in the Hong Kong South submarket, the building was launched to the market in Q1, when the city's leasing demand was contracting amid the pandemic. Although leasing demand has gradually recovered since then, larger occupiers have been looking for sizable floor plates for relocation and consolidation. In this regard, smaller buildings, such as Marina 8 might be a less popular option. Nonetheless,

Figure 37:
Hong Kong Grade A office total supply – Core area/Non-core area breakdown (2020-2021)

Source: Cushman & Wakefield Research



given the proximity to the Wong Chuk Hang MTR station and its core location within the Hong Kong South submarket, the project could be attractive to certain small and medium-sized enterprises in town (Figure 38).

Outlook

Approximately 812,300 sq m of new supply is expected to enter the market by Q4 2025, pushing the city's total Grade A office stock to 6.8 million sq m. Specifically, new completions will see a double peak in 2022 and 2025, when circa 270,100 sq m and 270,300 sq m of space will be introduced to the market, respectively.

Between 2022 and 2025, the majority of new supply will come from non-core areas, accounting for 57% of the total as against 43% from the core areas (Figure 39). In particular, all new projects in 2022 will be located in the non-core area. Thanks to their modern and higher building specifications, these new projects could be highly sought after by occupiers who are looking for sizable floor plates to expand and upgrade their workplace at considerably lower cost (Figure 39).

Kowloon East will see the largest amount of new supply between 2022 and 2025, accounting for circa 226,500 sq m. The submarket has been dubbed the new CBD in Hong Kong, with a total of seven projects in the upcoming pipeline. While the existing office stock is clustered at the eastern side of the submarket, Kai Tak, located at the western side, is set to emerge as a new business area. Supported by new transportation infrastructure, such as the Shatin to Central Railway Link, which is due for full completion in 2022, and Route 6, planned for completion in 2025, the area is fast turning into a new business and lifestyle hub. AIRSIDE, the first Grade A office building in Kai Tak, will add 85,400 sq m of prime office space by 2022.

Table 14:
Hong Kong Grade A office – Largest completed projects (2021)

	Building Name	Submarket	Office NFA (sq m)
1	Marina 8	Hong Kong South	7,100

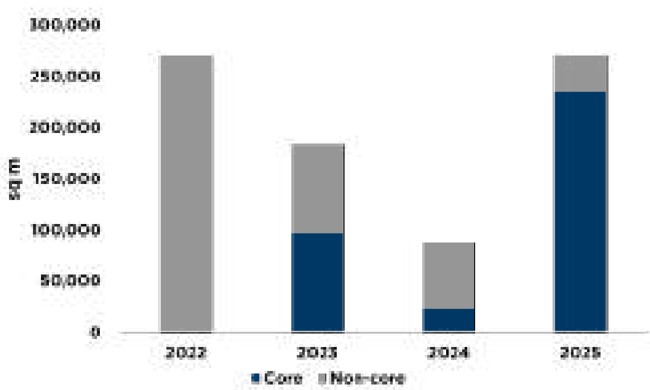
Source: Cushman & Wakefield Research

Figure 38:
Hong Kong Grade A office total supply – District by district breakdown (2021)

Source: Cushman & Wakefield Research

Figure 39:
Hong Kong Grade A office total supply – Core area/Non-core area breakdown (2022-2025)

Source: Cushman & Wakefield Research



Greater Tsimshatsui will be another major area for new supply, due mainly to a mega-sized mixed-use development atop the High-Speed Rail West Kowloon Station (The XRL Site). In 2019, the developer won the tender for the subject site at circa HK$42 billion, which is the city's record for the highest land premium ever paid for a single land parcel. Having obtained the approval from the Town Planning Board, the site will be developed into a commercial complex, in which about 196,200 sq m of space will be assigned for prime office use. The development, planned for completion in 2025, will likely be a new landmark building in the area (Table 15).

1. Note: All area measurements are on a NFA basis unless otherwise specified
2.The core area refers to Greater Central, Wanchai/ Causeway Bay and Greater Tsimshatsui. The non-core area refers to Hong Kong East, Hong Kong South, Kowloon East and Kowloon West.

Table 15:
Hong Kong Grade A office – Largest projects to complete (2022-2025)

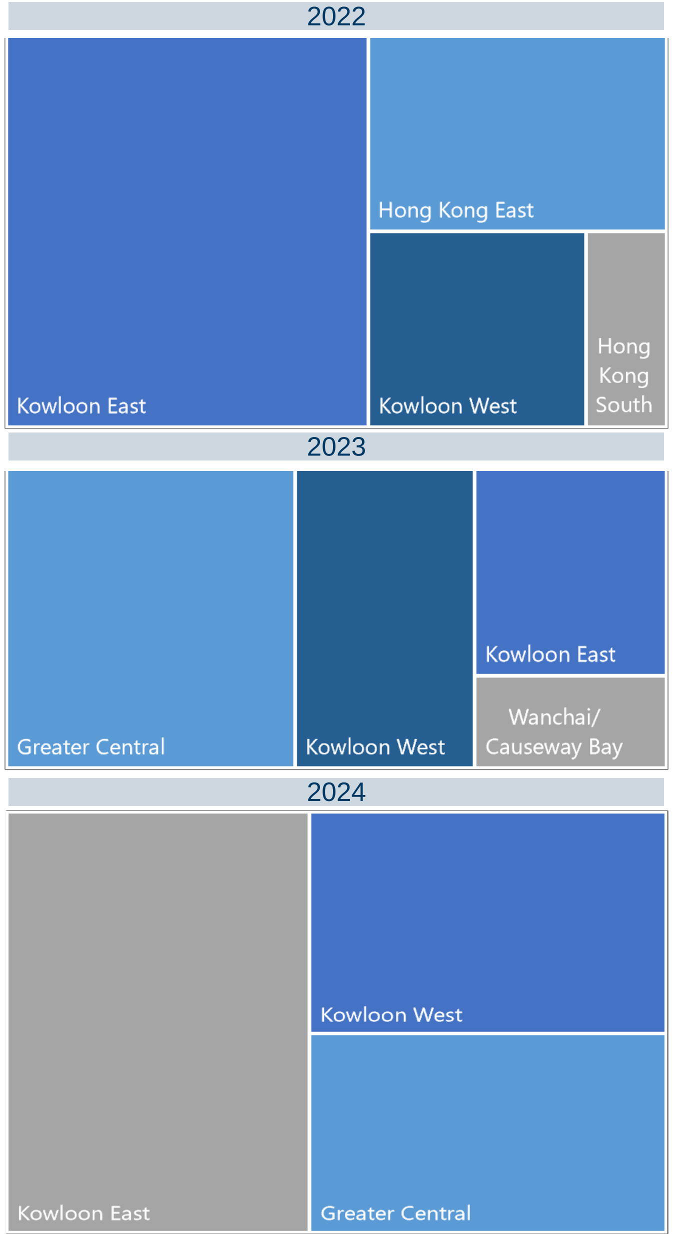
	Building Name	Submarket	Office NFA (sq m)	Completion Year
1	The XRL Site	Greater Tsimshatsui	196,200	2025
2	AIRSIDE	Kowloon East	85,400	2022
3	Two Taikoo Place	Hong Kong East	69,200	2022

Source: Cushman & Wakefield Research

Apart from the aforementioned submarkets, the development pipeline is distributed in multiple locations. Kowloon West will see three Grade A office buildings with a combined area of 113,800 sq m coming online before 2025. Greater Central will also witness three new buildings enter the market, totalling 80,700 sq m by the end of 2023. Meanwhile, Two Taikoo Place, to be completed in 2022, will be the only new project (circa 69,200 sq m) in Hong Kong East in the next four years (Figure 40).

Figure 40:
Hong Kong Grade A office total supply – District by district breakdown (2022-2024)

Source: Cushman & Wakefield Research



DEMAND

The past year

The second half of the year 2021 showed the initial stages of recovery and stabilisation for Hong Kong's office leasing market. Given the economic recovery driven by continued strict border controls and containment of COVID-19, the main leasing theme this year was largely reflected by cost-saving and relocation activities, and this was predominately driven by the banking and finance sector.

The city's Grade A office market awoke from its slumber during the first half of the year, with the last two consecutive quarters recording positive net absorption, at 17,200 sq m in Q4 and 30,400 sq m in Q3, respectively, a considerable improvement from H1 2021 and 2020. At the same time, tenants are committing to leases on relatively attractive terms in well-managed facilities and in core locations. Nevertheless, the whole year overall net absorption for 2021 recorded -53,800 sq m, attributed to a downward trajectory in the first half of 2021. Subsequently, the city's overall availability rate rose slightly to 13.6% by year-end, compared to 12.6% in 2020.

Figure 41:
Hong Kong Grade A Office take-up by area - MNC/Domestic company breakdown (2021)

Source: Cushman & Wakefield Research

48.3% | **Domestic**

51.7% | **MNCs**

Meanwhile, the proportion of new leasing demand from MNCs and domestic firms remained relatively unchanged from last year. MNC firms still took up the majority of space by area, at 52% of the take-up, while domestic firms edged closer to equalling MNC take-up performance, with a 48% share. Meanwhile, the strict border controls in Hong Kong are making some MNCs firms delay their leasing decisions. On the other hand, some tenants looked to take advantage and upgrade into premium office buildings in more centralised locations (Figure 41).

The proportion of new letting by area in the finance (34.1%), trade & retail (11.6%) and professional services (9.5%) sectors were among the top three industry contributors to office take-up by area in 2021, making up more than half of the leasing activity in Hong Kong. The aforementioned three sectors were considered comparatively resilient and more able to thrive through the pandemic in 2021, with the finance sector spearheading the leasing activity within Hong Kong's Grade A office space (Figure 42 and Table 16).

Figure 42:
Hong Kong Grade A office share of take-up by area - Industry sector split (2021)

Source: Cushman & Wakefield Research

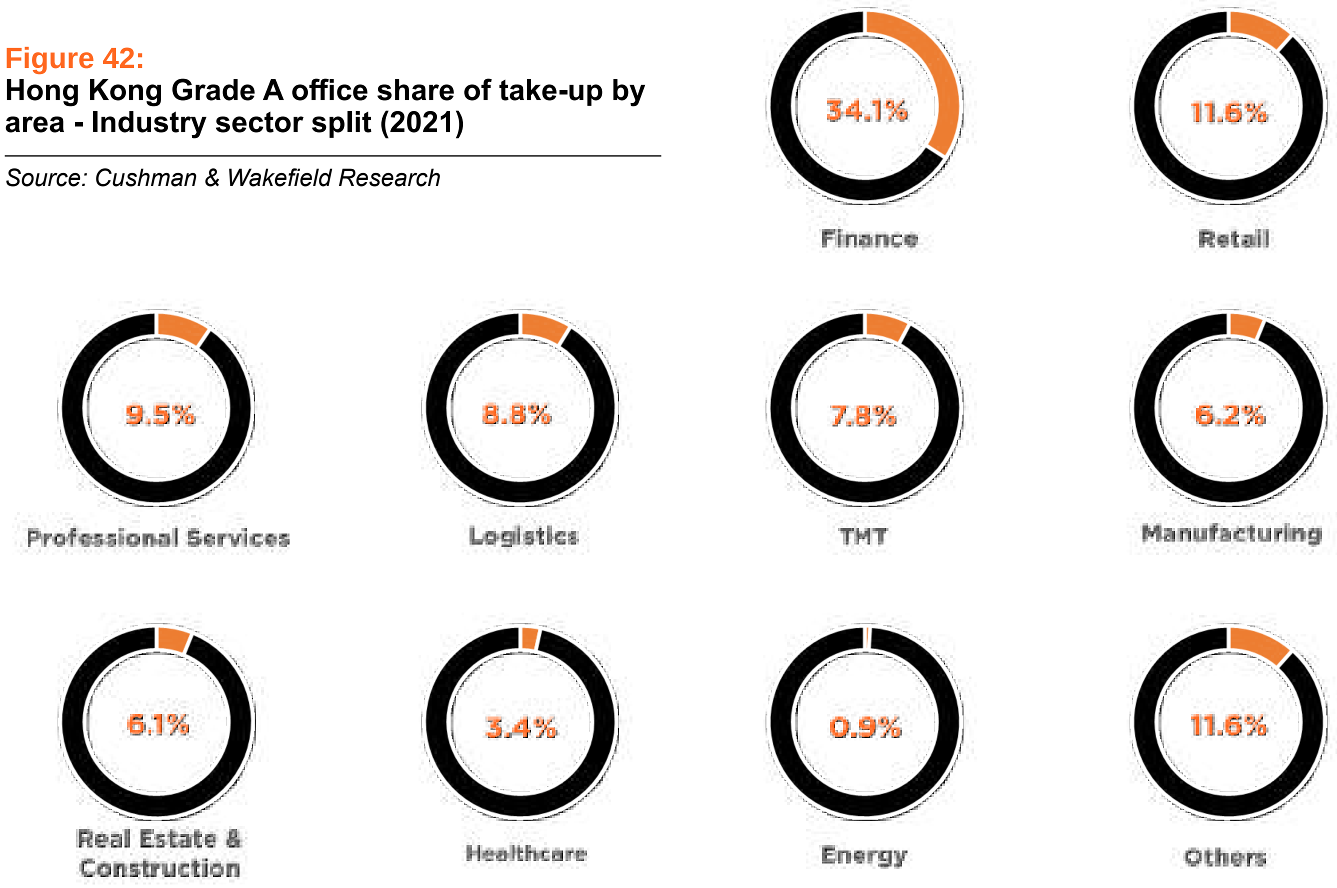


Table 16:
Hong Kong Grade A office – Five significant leasing deals by area (2021)

Property	Sub-market	Tenant	NFA (sq m)	Lease Type
Manulife Place	Kowloon East	Manulife	10,300	Consolidation/Relocation
Two Taikoo Place (pre-leasing)	Hong Kong East	Julius Baer	8,100	Relocation/Expansion
Manulife Place	Kowloon East	DHL	6,800	Relocation/Expansion
The Quayside	Kowloon East	BUPA	6,300	Relocation/Expansion
One Taikoo Place	Hong Kong East	DFS Group	5,200	Relocation/Upgrading

Source: Cushman & Wakefield Research

The finance sector contributed to 34.1% of the total take-up area and continued to be the driving force for leasing activities in 2021. Julius Baer's pre-lease in Two Taikoo Place was one of the major deals of the year, with a total of 8,100 sq m of leased area. It was not only the first key pre-leasing deal by Two Taikoo Place, but also a significant win by the landlord to lure a multinational investment bank to relocate from the CBD. In contrast, the available space in the CBD was swiftly backfilled by new demand. Most notably, alternative finance companies, such as hedge funds, asset management companies and fintech companies were among the most active. For instance, US-based hedge fund Schonfeld signed a 1,600 sq m whole-floor lease in Chater House, asset management firm Apollo Management leased a whole floor of 1,200 sq m in One Exchange Square, and digital asset firm HashKey Digital Asset rented a 900 sq m whole floor lease in Three Exchange Square. These transactions signal a promising leasing outlook, particularly for trophy office buildings in CBD locations, such as Greater Central.

Meanwhile, insurance companies also remained particularly active in 2021, covering three of the top five deals made in the finance sector. Taking advantage of discounted rental offers, some insurance companies consolidated their offices from multiple locations for higher space use and operational efficiency. Similar to 2020, Kowloon East remained the most preferred location for new letting activity. For example, Manulife took up a consolidated office and signed a 10,300 sq m lease in Manulife Place (previously named International Trade Tower before the deal), while BUPA relocated from Hong Kong East to Kowloon East and entered a leasing deal spanning 6,300 sq m in The Quayside Tower (Figure 43).

The second sector with the highest take-up was the trade & retail sector, with an 11.6% share of total leasing transactions by area in 2021. Though significant, there is still a considerable volume deviation from the amount of leasing carried out by the finance sector. Despite most retailers, particularly the bricks-and-mortar retailers being hard hit by the pandemic, those reliant on online services and e-commerce, were able to prosper and opt for expansion. For instance, the British-Portuguese online luxury fashion retailer Farfetch signed a new leasing deal in Manulife Place (2,600 sq m), Kowloon East in Q3, while DFS also entered One Taikoo Place (5,200 sq m) in Quarry Bay in Q2, indicating a shifting demand dynamic within the retail and trade services in 2022 (Figure 44).

The third sector to see the most leasing activity in 2021 was professional services, accounting for 9.5% of the total transaction volume by area concluded in 2021. Most occupiers in this sector preferred to be located within Hong Kong's core areas, with 80% of the new transactions concentrated in Greater Central and Wanchai/Causeway Bay. One transaction worth highlighting was Grant Thornton taking up around 2,100 sq m of office space in Lee Garden Two.

Activity among flex-space operators also remained active in 2021, which made up around 33% of leasing transactions by area in the professional services sector. A few operators continue to expand as the pandemic has encouraged certain occupiers to adopt a rather flexible workplace strategy, hence increasing the demand for co-working space. Notable transactions included IWG's 1,500 sq m whole floor lease in Tower 535 and WeWork's 1,000 sq m whole floor space at 9 Queen's Road Central, which both were signed in Q4, indicating continued strong demand for flex space approaching the end of 2021 (Figure 45).

Figure 43:
The finance sector - Location preference by leasing transaction area (2021)

Source: Cushman & Wakefield Research

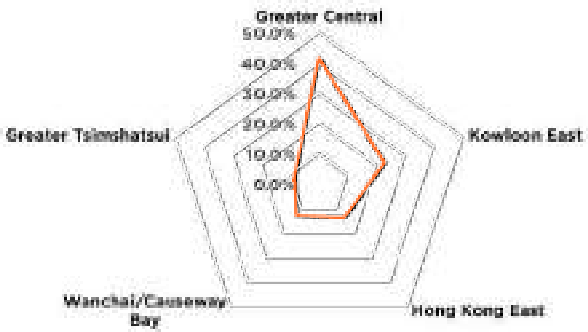


Figure 44:
The trade & retail sector - Location preference by leasing transaction area (2021)

Source: Cushman & Wakefield Research

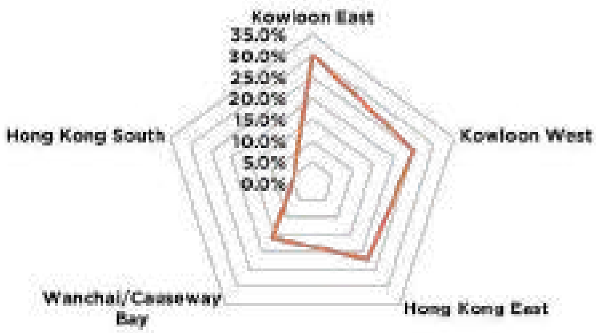
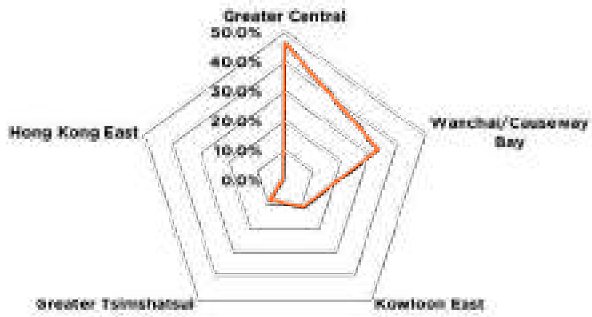


Figure 45:
The professional services Sector - Location preference by leasing transaction area (2021)

Source: Cushman & Wakefield Research



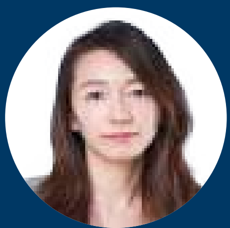
Outlook

With 2021 showing initial signs of recovery and stabilisation, Hong Kong's Grade A office market has finally seen some light at the end of the tunnel. While banking and finance companies were an important anchor to support leasing activities in 2021, the emerging new economy companies, such as fintech, digital assets and flexible workspace, will likely continue to thrive in 2022 and support the city's office leasing market. This trend will likely help drive the majority of the key leasing deals, particularly within the core CBD and the wider Greater Central area, where some premium trophy office buildings are currently sitting at discounted rents.

However, with ongoing emerging COVID-19 variants (now Omicron) persisting, combined with the escalating crisis in Ukraine, this will likely continue to pose challenges to the global economy, and subsequently, impede the progress of office leasing market recovery in the city over the short term. In addition, with the sizable supply pipeline, we expect consolidation and upgrading activities to accelerate in H2.

As the pandemic slowly eases and anticipated border relaxation with the Greater Bay Area and mainland China in the second half of 2022, we expect domestic companies will likely be the driving force for new office leasing demand in Hong Kong. At the same time, more companies will likely push for greater environmental and social governance (ESG) mandates as their global strategy, which may drive more developers and landlords to attain green building certifications, such as BEAM and LEED.

Top Supply/Demand Trends For Taipei



Mei Chiang
Occupier Services
mei.chiang@cushwake.com

Wendy Hsueh
Research
wendy.hj.hsueh@cushwake.com

SUPPLY

The past year

In 2021, only two quality Grade A office buildings were launched. The new supply, the 53,600 sq m China Life Insurance Building at Dunbei Minsheng and the 15,200 sq m Hope Square project at Nanjing Songjiang, added 68,800 sq m to the Taipei Grade A office market. (Figure 46, Figure 47 and Table 17).

Figure 46:
Taipei Grade A office total supply – Core area/ Suburban area breakdown (2020-2021)

Source: Cushman & Wakefield Research

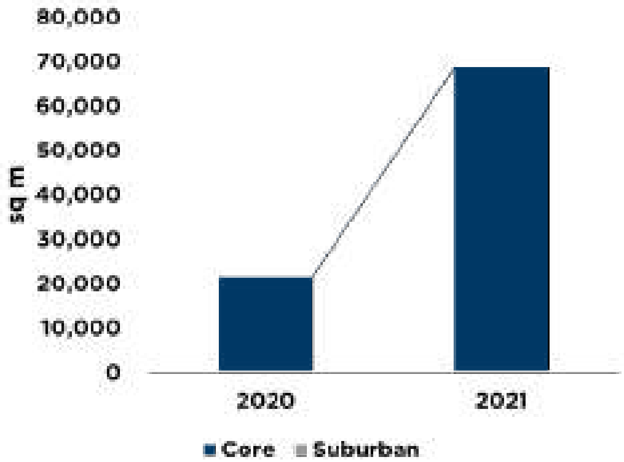


Figure 47:
Taipei Grade A office total supply – District by district breakdown (2021)

Source: Cushman & Wakefield Research

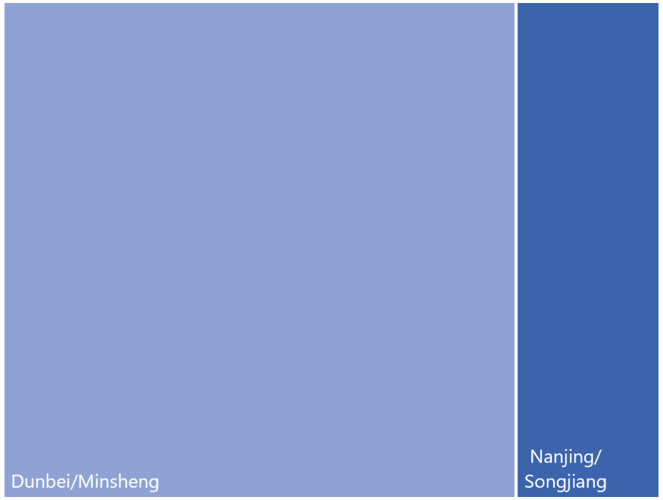


Figure 48:
Taipei Grade A office total supply – Core area/ Suburban area breakdown (2022-2024)

Source: Cushman & Wakefield Research

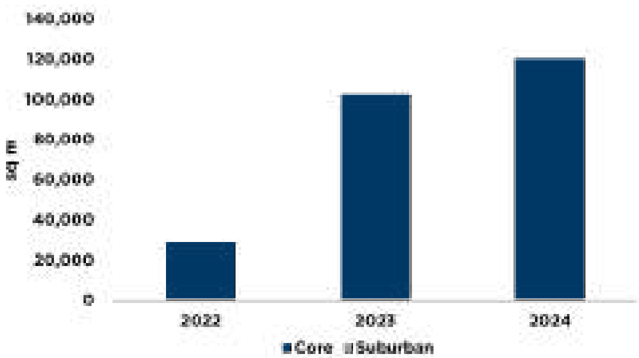


Table 17:
Taipei Grade A office – Largest completed projects (2021)

	Building Name	Submarket	Office GFA (sq m)
1	China Life Insurance Building	Dunbei/ Minsheng	53,600
2	Hope Square	Nanjing/ Songjiang	15,200

Source: Cushman & Wakefield Research

Outlook

By 2024, approximately 250,000 sq m of future Grade A office supply is expected to complete in Taipei, equating to about 10% of the existing stock. Dunbei/Minsheng, Xinyi, and Dunnan are expected to contribute 41%, 41% and 18% to the total future supply, respectively. This puts the estimated Taipei Grade A office stock at 2.73 million sq m by 2024 (Figure 48).

Five buildings are scheduled to complete in the next three years. Amid the future office supply, E.SUN Second Headquarters and Yuanta Bank's Headquarters are set for owner occupation as headquarters, while the other three future supply projects will bring more leasing options to the market (Table 18 & Figure 49).

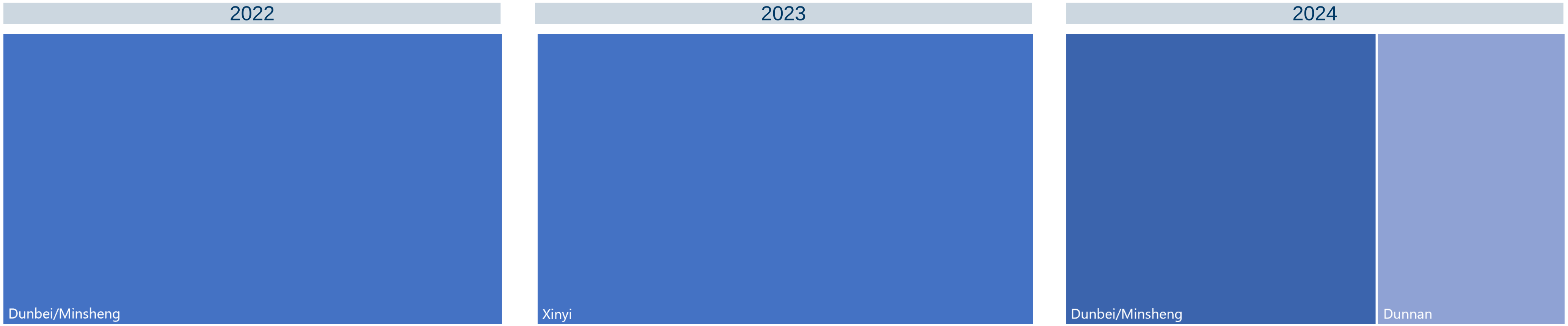
Table 18:
Taipei Grade A office – Major projects to complete (2022-2024)

	Building Name	Submarket	Office GFA (sq m)	Completion Date
1	E.SUN Second Headquarters	Dunbei/Minsheng	28,800	2022
2	A25 Fubon	Xinyi	102,700	2023
3	Cathay Huanyu Building	Dunbei/Minsheng	42,500	2024
4	Yuanta Bank's Headquarters	Dunnan	45,500	2024
5	Kindom Songshan Minquan Building	Dunbei/Minsheng	32,400	2024

Source: Cushman & Wakefield Research

Figure 49:
Taipei Grade A office total supply – District by district breakdown (2022-2024)

Source: Cushman & Wakefield Research



DEMAND

The past year

In 2021, the leasing market remained solid with the full-year absorption for 2021 reaching 57,800 sq m. Leasing transactions were predominantly small- and medium-sized areas, averaging 1,900 sq m per deal. Expansion and downsizing by firms in response to the effects of the pandemic were offset by different industries, resulting in stabilised office demand. MNCs contributed to approximately 83% of completed leasing deals by area while domestic enterprises accounted for a 17% share of deals by area in Taipei for 2021 (Figure 50).

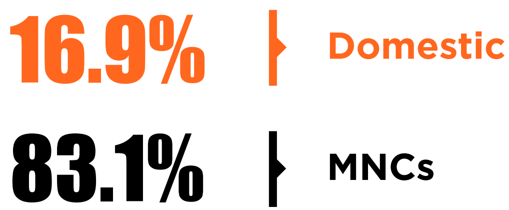
Finance, TMT and heathcare sectors were the dominant industries when it came to office take-up in 2021. Finance and TMT led the way, each taking a nearly 30% share of completed office leasing transactions by area. The continuing global impact of the pandemic drove the demand from the healthcare sector, accounting for 14% of the total take-up area in 2021 (Figure 51 and Table 19).

All submarkets in Taipei, other than Dunnan, enjoyed leasing activity by the finance, TMT and healthcare sectors. For the finance sector, Western was among the most preferred locations, accounting for 82% of leasing deals by area made by the firms classified under this sector. Following Western, Dunbei/Minsheng was also a popular location among finance companies, making up a 18% share of finance sector leasing deals by area (Figure 52).

For the TMT sector, Western, with a 66% share of TMT sector leasing activity by area, was the most appealing

Figure 50:
Taipei Grade A office take-up by area – MNC/ Domestic company breakdown (2021)

Source: Cushman & Wakefield Research



submarket, followed by Xinyi, making up for 34% of the leasing deals under the sector (Figure 53).

For the healthcare sector, Nanjing/Sonjiang led with a 64% share of healthcare sector leasing activity by area, followed by Xinyi, accounting for 36% of the activity (Figure 54).

Figure 51:
Taipei Grade A office share of take-up by area – Industry sector split (2021)

Source: Cushman & Wakefield Research

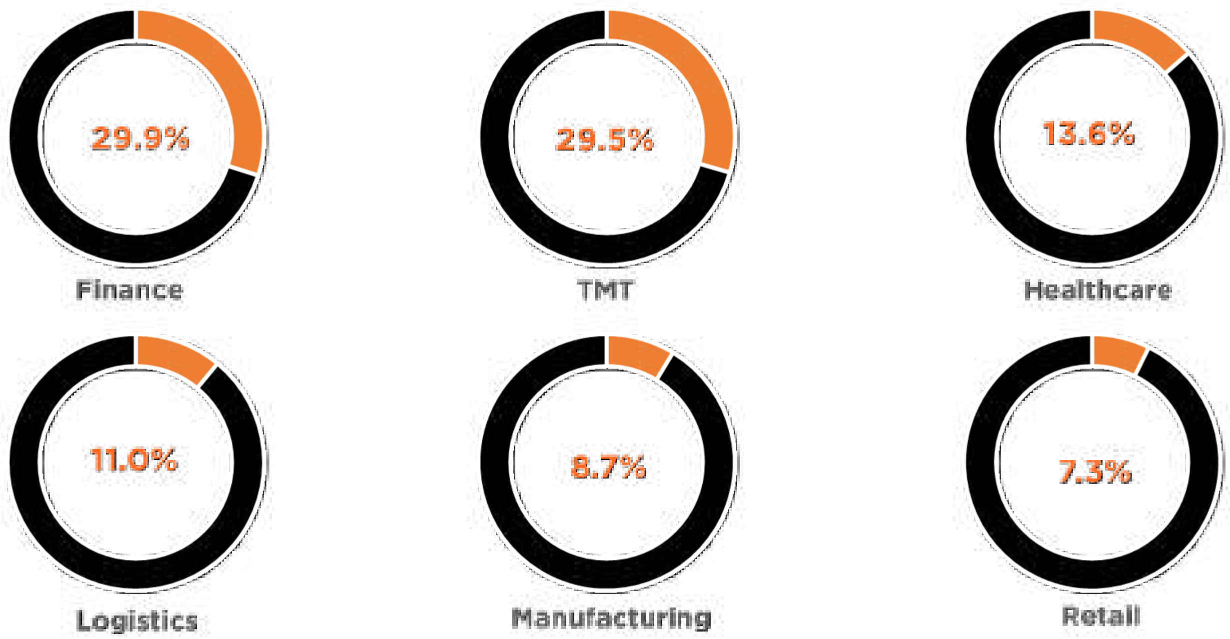


Table 19:
Taipei Grade A office – Significant leasing deals by area (2021)

Property	Submarket	Tenant	sq m	Lease Type
Taiwan Life Insurance Zhongshan Bldg.	Western	Allianz Global Investors	5,220	Relocation
Taiwan Life Insurance Zhongshan Bldg.	Western	Keyence Taiwan	4,170	Relocation
Hung-Sheng International Finance Center	Dunbei/Minsheng	Interasia Lines	2,350	Relocation
Union Jiajia Building	Nanjian/Songjiang	Daiichi Sankyo	1,850	Relocation
Union Jiajia Building	Nanjian/Songjiang	Dairen Chemical Corporation	1,850	Expansion

Source: Cushman & Wakefield Research

Figure 52:
The finance sector – Location preference by leasing transaction area (2021)

Source: Cushman & Wakefield Research

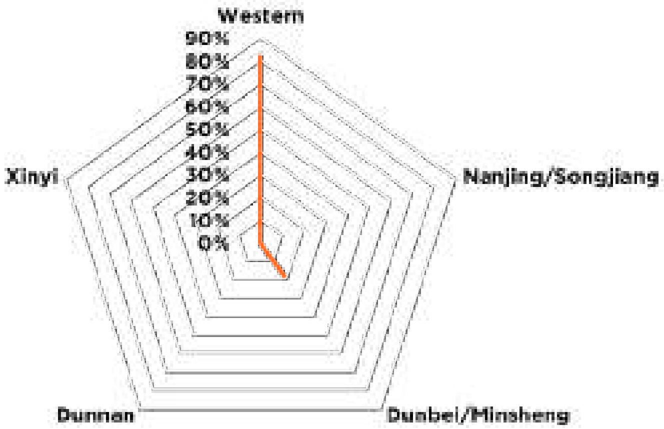


Figure 53:
The TMT sector – Location preference by leasing transaction area (2021)

Source: Cushman & Wakefield Research

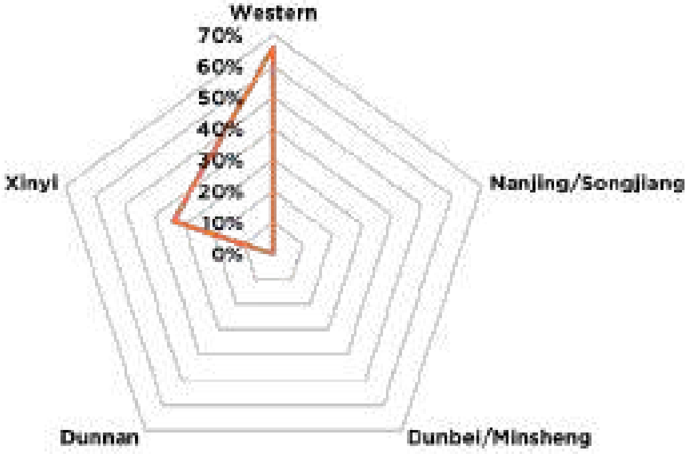
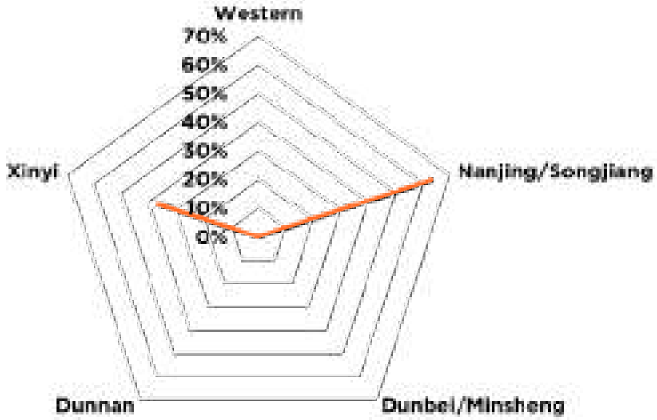
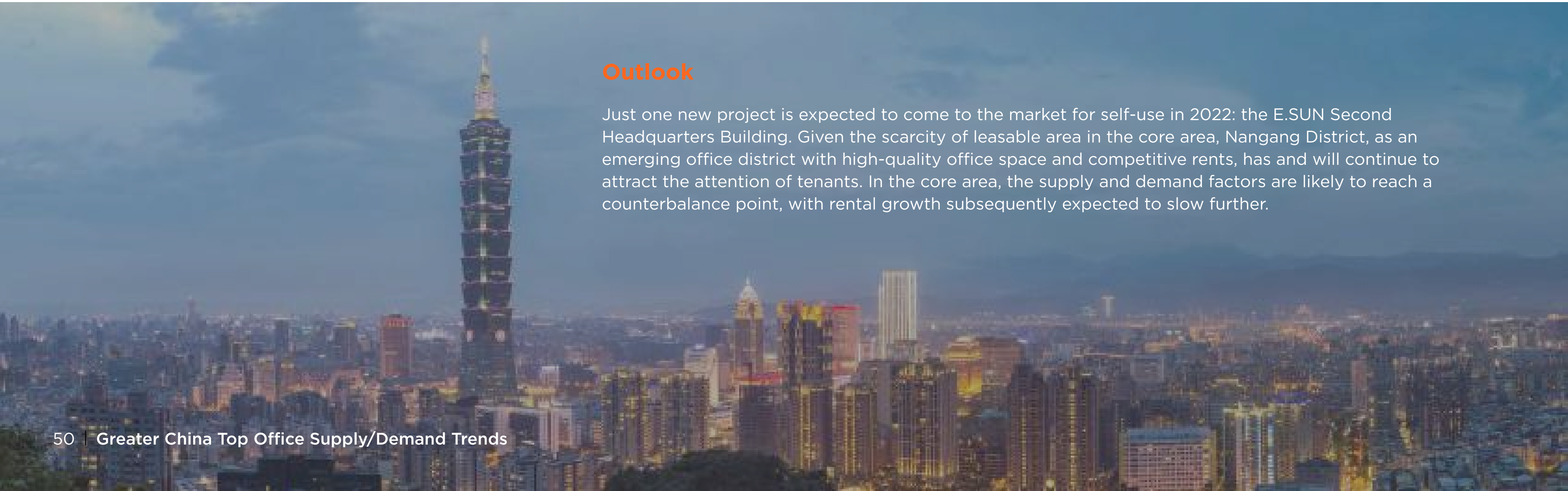


Figure 54:
The healthcare sector – Location preference by leasing transaction area (2021)

Source: Cushman & Wakefield Research





Outlook

Just one new project is expected to come to the market for self-use in 2022: the E.SUN Second Headquarters Building. Given the scarcity of leasable area in the core area, Nangang District, as an emerging office district with high-quality office space and competitive rents, has and will continue to attract the attention of tenants. In the core area, the supply and demand factors are likely to reach a counterbalance point, with rental growth subsequently expected to slow further.

Key Takeaways

- In 2021, market uncertainty brought on by the COVID-19 epidemic waned somewhat and this positively impacted both Grade A office supply and Grade A office demand in Greater China.
- By Q4 2021, the total Grade A office inventory in the core markets of the 21 major cities in Greater China we track totalled 63.18 million sq m.
- In the meantime, total premium core city office net absorption across the Greater China market for the whole year was 3.89 million sq m, amounting to a 129.6% increase compared to the figure registered at the end of Q4 2020.
- This should take some pressure off upcoming supply in 2022.

BUSINESS CONTACTS

Johnathan Wei
Manging Director,
Head of Project and Occupier Services
China
jonathan.cy.wei@cushwake.com

John Siu
Managing Director
Hong Kong
john.siu@cushwake.com

Andy Law
Manager
Guangzhou
andy.cl.Law@cushwake.com

Leon Lian
Executive Director
Head of Project and Occupier Services
North China
leon.fz.lian@cushwake.com

Shannon Yang
Director
Head of PSG
Project and Occupier Services
South China Region
shannon.w.yang@cushwake.com

Charlie Huang
Director
Head of Occupier Services
South China
charlie.sl.wong@cushwake.com

Mei Chiang
Senior Director
Head of Occupier Services
Taiwan
mei.chiang@cushwake.com

RESEARCH TEAM

James Shepherd

Greater China

james.shepherd@cushwake.com

XiaoDuan Zhang

South China

xiaoduan.zhang@cushwake.com

Sabrina Wei

North China

sabrina.d.wei@cushwake.com

Keith Chan

Hong Kong

keith.chan@cushwake.com

Ivy Jia

West China

ivy.jia@cushwake.com

Wendy Hsueh

Taiwan

wendy.hj.hsueh@cushwake.com

This report was authored by Shaun Brodie, Head of Greater China Occupier Research and designed by Gary Jiang. Analysis support was provided by Larry Sang, Tina Huo, Ning Wen, Pheobe Wang, Anthony Wong, Julia Law and Fiona Yu. Proofreading Services were provided by Simon Graham.

To better serve our clients our China Research Team has established Centres of Excellence in various focus areas, such as Capital Markets, Industrial, Logistics and Retail. Shaun leads the Research Centre of Excellence for Greater China Occupier Research. If you have any queries related to Occupier Research in Greater China, please contact:

Shaun Brodie

Head of Occupier Research

Greater China

shaun.fv.brodie@cushwake.com

About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms in the world, with approximately 50,000 employees in over 400 offices and 60 countries. In Greater China, a network of 22 offices serves local markets across the region, earning recognition and winning multiple awards for industry-leading performance. In 2021, the firm had revenue of $9.4 billion across core services including valuation, consulting, project & development services, capital markets, project & occupier services, industrial & logistics, retail and others. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

Disclaimer

This report has been produced by Cushman & Wakefield for use by those with an interest in commercial property solely for information purposes. It is not intended to be a complete description of the markets or developments to which it refers. The report uses information obtained from public sources which Cushman & Wakefield believe to be reliable, but we have not verified such information and cannot guarantee that it is accurate and complete. No warranty or representation, express or implied, is made as to the accuracy or completeness of any of the information contained herein and Cushman & Wakefield shall not be liable to any reader of this report or any third party in any way whatsoever. Cushman & Wakefield shall not be held responsible for and shall be released and held harmless from any decision made together with any risks associated with such decision in reliance upon any expression of opinion in the report. Our prior written consent is required before this report can be reproduced in whole or in part.