NEW OPTIONS FOR OCCUPIERS IN CHANGED MARKET ENVIRONMENT

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Insights & recommendations

- **Landlords:** We recommend landlords adopt more flexible rents to attract anchor tenants, diversify their tenant mix to mitigate risk, and adopt augmented and virtual reality for site tours.
- **Tenants:** We recommend tenants looking for high-quality buildings with high cost performance consider the Lize submarket.
- **Tenants:** We also recommend well-capitalised tenants focus on new projects in core submarkets, like the CBD, that entered the market in the second half of 2019.

Q1 2020 highlights

- The market is experiencing weaker demand and elevated vacancy following the COVID-19 outbreak, creating good opportunities for stronger tenants to strike new deals.

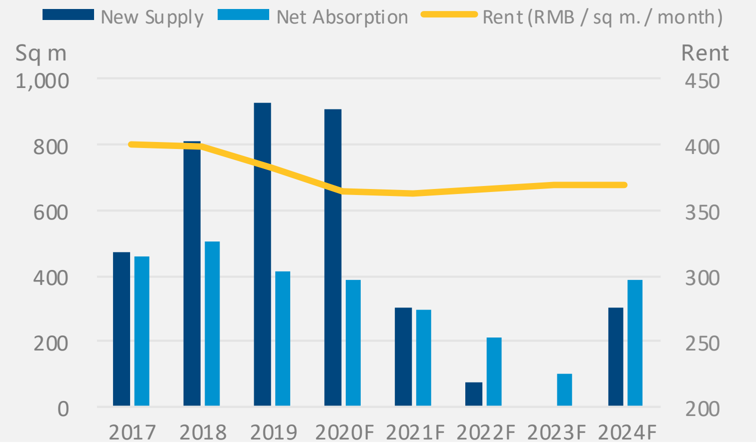
	Q1 2020	Full Year 2020	2020–24 Annual Average
Demand	-81,000 sq m	384,000 sq m	261,000 sq m
Supply	0 sq m	908,000 sq m	316,400 sq m

	QOQ / End Q1	YOY / End 2020	Annual Average Growth 2019–24 / End 2024
Rent	-2.5%; RMB373 (psm per month)	-4.9%; RMB364 (psm per month)	-0.7%; RMB370 (psm per month)
Vacancy	0.8pps; 16.7%	3.8pps; 19.7%	0.0pps; 16.2%

Select future supply

Project	Sub-market	Planned Leasable Space (sq m)	Scheduled Opening
Lize Ping'an Fin. Ctr.	Lize	190,000	2020 Q2
Zhaotai Int'l Ctr. II	CBD	84,000	2020 Q2
Samsung Tower	CBD	67,000	2020 Q2
Sino-Ocean Lize project	Lize	116,000	2020 Q3

New supply, Net Absorption and Rent, 2017 - 2024



Source: Colliers International
Note: USD1 to RMB6.99 at the end of Q1 2020. 1 sq m = 10.76 sq ft

Vacancy rates to continue to rise in 2020

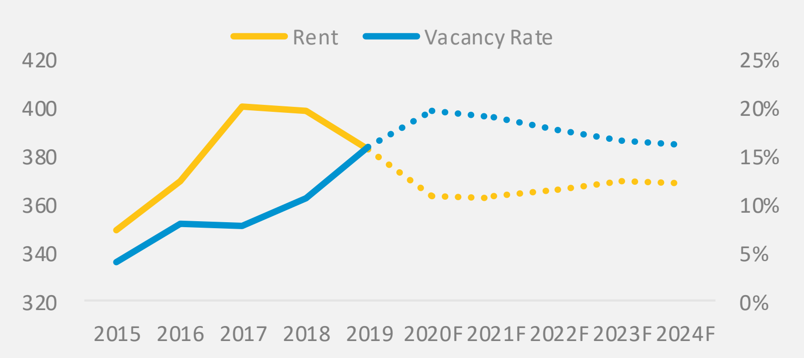
Market Outlook

> The central issue in Beijing continues to be a surge in supply at the end of 2019 pushing up the vacancy rate; 2020 is slated to be another major supply year.

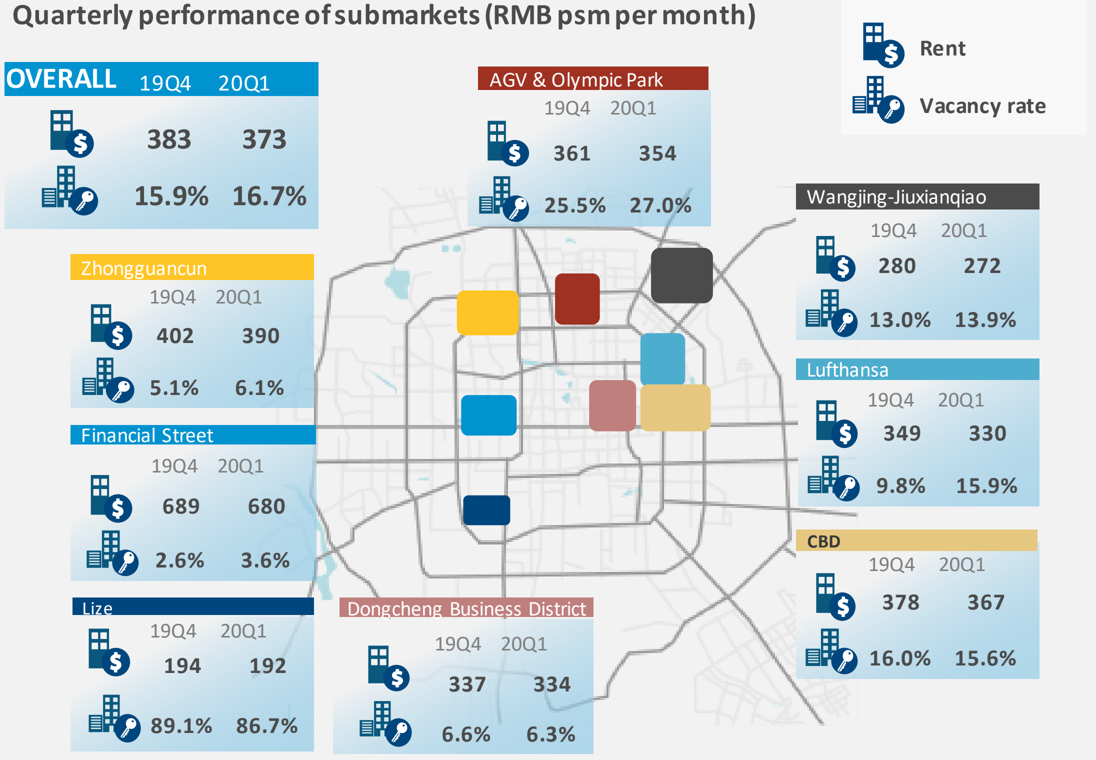
> We expect the vacancy rate to reach a record high if the new supply starts entering the market from Q2 2020. However, given our forecast that new supply will drop sharply from 2021, average rents and the vacancy rate should recover.

> With China gradually recovering from the COVID-19 outbreak, and staff returning to their offices, we expect to see greater confidence from domestic and foreign firms toward completing leasing deals in Beijing.

Vacancy and rents (RMB psm per month)



Quarterly performance of submarkets (RMB psm per month)



Q1 2020 Review

Net absorption negative in Q1

> Affected by the epidemic in Q1 2020, overall market activity stagnated, and market demand from many sources experienced a short-term pause.

> With the exception of the CBD and Lize submarkets, all other markets recorded negative net absorption, resulting in a further rise in the vacancy rate to 16.7%.

> The vacancy rate in the Lufthansa submarket increased by 6.1% QOQ to 15.9%, the highest in three years, and occurred in the absence of any new supply in the submarket.

> Beijing's average net effective rent decreased by 2.5% QOQ to RMB373 (USD 53.4) per sq metre per month, supporting our view that Beijing rents have entered a phase of downward adjustment. In the light of the COVID-19 shutdown, we see the Q1 rental performance as resilient.

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