BEIJING’S NEW URBAN AREA
Traction for Tongzhou
Summary & Recommendations

Tongzhou District, traditionally a commuter town, has been positioned in the Beijing City Master Plan (2016-2035), released in late 2017, as Beijing’s new urban area due to its prime location and beautiful landscape.

The commercial property market in Tongzhou is still being developed and we expect abundant new supply to enter the market in the next five years. We expect Tongzhou to become an emerging Grade A office submarket and a destination for more prime retail projects in the future.

- We encourage the government to accelerate the construction of infrastructure and the creation of policies to support industry.
- Institutional investors and occupiers should actively pay attention to the development of the Tongzhou District and enter the market as early as possible to enjoy the lower prices and rents in the earlier stages.
- We also suggest developers revise their strategies to hold and rent out their properties to capture the upside of long-term performance.

New Urban Area

A 155 sq km area in central Tongzhou is set as the new urban area of Beijing with three key functional areas: municipal government office area, commercial area, and cultural and tourism area.

1.6mn population

As one of the destinations to accept population relocated from the downtown area, the permanent population in Tongzhou District is planned to be within 1.6 million people by 2020 according to the Tongzhou 13th Five Year Plan, up 6.1% compared with the end of 2017.

2mn sq m office

Nearly 2 million sq metres (21.52 million sq ft) of office space is scheduled to enter the market in the next five years, including around 420,000 sq metres (4.52 million sq ft) scheduled to be held by developers for lease.

0.6mn sq m retail

600,000 sq metres (6.45 million sq ft) of retail space is scheduled to enter the market in the next five years, which we expect to offer more opportunities to local residents and enhance the overall retail prominence of Tongzhou.

The central area of Tongzhou, set as the new urban area, has accelerated the development of Tongzhou District. The relocation of Beijing’s municipal government to Tongzhou District should lead both industry and residents to relocate from downtown to meet the target of dispersing non-capital functions. In addition, we expect Tongzhou to demonstrate integration between the cities of Beijing and Tianjin, which, along with Hebei province, is referred to as the Jing-Jin-Ji region. With advanced, high-standard urban planning, and the rapid improvement of infrastructure, supporting facilities and commercial and retail projects, we expect that eventually Tongzhou will become a high-quality emerging submarket for occupiers, as well as a new shopping destination in metro Beijing.
# TABLE OF CONTENT

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positioning Change of Tongzhou District</td>
<td>4</td>
</tr>
<tr>
<td>Tongzhou Demography and Macro Economy</td>
<td>5</td>
</tr>
<tr>
<td>Tongzhou Major Development Areas</td>
<td>7</td>
</tr>
<tr>
<td>Tongzhou Infrastructure Progress</td>
<td>8</td>
</tr>
<tr>
<td>Tongzhou Commercial Property Market Overview</td>
<td>9</td>
</tr>
<tr>
<td>Tongzhou’s Future</td>
<td>14</td>
</tr>
<tr>
<td>Summary and Suggestion</td>
<td>15</td>
</tr>
</tbody>
</table>
Located on the east side of Beijing, Tongzhou’s core is only 15 kilometres (9.3 miles) from Beijing’s CBD. The history of Tongzhou experienced three different stages:

1. **Tongzhou has the natural advantage of location.** As one of the five suburban districts in Beijing, it is closest to downtown, only 15 kilometres from the CBD. Located on the east extension of Chang’an Avenue, Tongzhou has the best accessibility including two subway lines.

2. **Tongzhou is located on flatlands, which is easier for large-scale construction.**

3. **The core area of Tongzhou is at the starting point of the ancient Beijing-Hangzhou Canal, which is also at the junction of five rivers. This creates a beautiful backdrop for living and working.**

4. **Tongzhou is the only district in Beijing that borders both Tianjin Municipal City and Hebei Province. The location is favourable for leading the Jing-Jin-Ji integration.**

Colliers International believes that the following key factors should drive Tongzhou’s development as a new urban area of Beijing.

1. Suburban districts include Fangshan, Tongzhou, Shunyi, Changping, and Daxing districts.
TONGZHOU DEMOGRAPHY AND MACRO ECONOMY

In 2017, Tongzhou’s economic growth rate was higher than the average growth rate of the city of Beijing. Also, Tongzhou still has the potential to accommodate an increased population as Beijing starts to manage its citywide population.

Population

The Tongzhou District had 1.5 million permanent residents at the end of 2017, an increase of 5.6% YOY. Tongzhou accounts for 6.9% of Beijing’s total population. The population density is 1,665 persons per sq kilometre, an increase of 89 persons per sq kilometre YOY. The density is ranked second among Beijing’s five suburban districts. According to the 13th Five Year Plan of Tongzhou, the population is planned to reach 1.6 million people by 2020, up 6.1% compared with the end of 2017.

GDP

In 2017, Tongzhou’s GDP was RMB75.8 billion (USD11.1 billion), an increase of 8.1% YOY. This growth rate is third among Beijing’s districts and second among the five suburban districts. The manufacturing sector recorded the fastest growth rate of 13.6% YOY among all three sectors, with the services sector recording growth of 3.8% YOY and agriculture declining 2% YOY.

The portion of GDP growth from manufacturing increased to 47.7% in 2017 from 45% in 2016, while the services sector declined to 50.2% in 2017 from 52.6% in 2016. Tongzhou’s government plans to enhance the proportion of the service sector to 55% by 2020 according to Tongzhou’s 13th Five Year Plan, which we expect to support the demand for the office market.

Real Estate Investment

Investment in real estate in Tongzhou peaked at RMB60.3 billion (USD8.9 billion) in 2015, an increase of 35% YOY. Investment in the following two years shrank dramatically, impacted by government policies to restrict real estate purchases. Real estate investment in 2017 was RMB29.6 billion (USD4.35 billion), down 15.2% YOY.
Retail Sales

Retail sales in Tongzhou were RMB41.9 billion (USD6.16 billion) in 2017, an increase of 8% YOY. The growth rate was much faster than Beijing’s overall growth rate of 5.2% YOY. Tongzhou’s growth rate is the first among Beijing’s districts, indicating the demand potential, which we expect to support the development of the retail market in Tongzhou.

Per capita disposable income

Tongzhou’s overall per capita disposable income reached RMB37,209 (USD5,817) in 2017, up 9.1% YOY. The per capita disposable income for urban households was RMB44,607 (USD6,974), up 9.2% YOY. Although Tongzhou’s per capita disposable income is much lower than Beijing’s average, its growth rate is higher than Beijing’s growth rate. With the relocation of the Beijing Municipal Government and the opening of universities and first-class hospitals, we expect a large improvement in Tongzhou’s disposable income in the coming years.

We expect rapid retail sales and disposable income growth to support the growth of the retail property market.
According to the Beijing City Master Plan, a 155 sq km area in central Tongzhou is set as the new urban area of Beijing with three key functional areas:

- **Municipal office area**: a six sq kilometre (2.3 sq mile) area surrounding the Lucheng subway station, which is the eastern terminal of subway Line 6. Beijing’s municipal government is scheduled to relocate various major bureaus here.

- **Canal commercial area**: a 17.4 sq kilometre (6.7 sq mile) area on the intersection of five rivers, Tonghui River, North Canal, Wenyu River, Zhongxiao River, and Yunghaojian River. This area is scheduled to be the destination for companies relocating from core areas of Beijing. We expect this area to house industries such as financial innovation, IT, and high-end services, all supported by the Jing-Jin-Ji integration.

- **Cultural and tourism area**: a 12 sq kilometre (4.6 sq mile) area with the main attraction being the Beijing Universal Studios resort. The key industries will likely include the cultural and creative industry, tourism, and exhibitions.

Looking forward to 2020, the above mentioned areas are planned to be fully completed and put into operation. In addition, the urban renewal of Tongzhou’s existing historic buildings should be completed during the same period. We expect a new city image with high business efficiency and eco-friendly environment to be established in Tongzhou.

From 2020 to 2035, Tongzhou is planned to become a modern harmonious district with developed infrastructure, a completed public service system, a concentration of high-end industry, along with a prosperous culture and elegant environment.
TONGZHOU INFRASTRUCTURE PROGRESS

Infrastructure progress

Subway

Currently Tongzhou has two completed subway lines, Line 6 and the Batong Line. Additionally, two new subways are under construction:

> **The east extension of Line 7**: with total length of 16.6 kilometres, the east extension of Line 7 connects the current Jiaohuachang Station on the west to the future Universal Studios. There are nine stations on Line 7 and the line is underground. Construction has started on the entire line and it is planned to be completed in September 2019.

> **The south extension of Batong Line**: this extension starts from the current Tuqiao station in the north and terminates at the future Universal Studios. The total length is 4.45 kilometres and it is scheduled to be completed in 2019.

Interurban railway

In addition, the interurban railway S6 is planned to start construction in June 2018 and be completed by June 2022. This is planned to connect terminal three of the current Capital International Airport with the new capital airport in Daxing District. The S6 line passes the Shunyi, Pinggu, Tongzhou, and Daxing districts in Beijing and Langfang city in Hebei province. The total length is 112 kilometres with stations set in Tongzhou and east of Universal Studios.

Road

The **eastern extension of Guangqu Road** has started construction in May 2018 and is planned to connect the CBD with Tongzhou. This is one of Beijing’s priority projects in 2018, with the road running from Yile West Road on Beijing’s westside and ending at the East 6th Ring Road. The total length is 7.6 kilometres. This road is expected to become one of the major traffic corridor and expressway between the central Beijing and the Beijing new urban area.

We expect the improving infrastructure and supporting facilities in Tongzhou to create a more livable environment.

The north extension of Songliang Road is also a key task for 2018 and the construction is expected to be completed in mid-October 2018. After completion, these two roads should significantly improve the traffic accessibility of Tongzhou to areas throughout Beijing.

The section between Tongzhou and Daxing District of the 7th Ring Road was completed in August 2018.

Supporting facilities

To meet the demand of Tongzhou’s residents, especially new Tongzhou residents relocated from downtown, at least five new hospitals, five public schools, and two universities (or branches), and seven kindergartens are scheduled to open in Tongzhou in the upcoming years, such as Anzhen Hospital, Beijing School, and Renmin University.

Source: Realty Data-Processing System, Colliers International
TONGZHOU COMMERCIAL PROPERTY MARKET OVERVIEW

Since 2010, Tongzhou’s commercial property market has entered a phase of rapid development. Planned as a major destination for commercial properties, a significant quantity of commercial land was transacted in the Canal commercial area from 2010 to 2015. A total of 146 sq hectares (56.4 sq mile) of land was transacted during the period with a total planned GFA of around 4.11 million sq metres (44.23 million sq ft). By 2015, most of the land in the Canal commercial area had been sold, with no new land supply in this area since 2016.

The average accommodation value of the transacted land was RMB10,756 (USD1,681) per sqm, which is relatively high compared with the land transacted during the same period with same land usage, considering all the lands transacted in Tongzhou Canal commercial area are zoned F3 mixed function land except plot 05-04-039 on the east side of the canal (which is C2 commercial land). All the lands are designed into office, apartment, retail, and hotel developments.

Office Market Overview Outlook

The Tongzhou office market is still in an early stage of development, and major projects are for strata-title sales, which is an obstacle for projects to maintain high-quality in the long term. However, local government and developers have recognised the problem and try to hold more projects for the future or at least for en-bloc sales.

2 A commercial titled apartment refers to apartment projects constructed on non-residential land. On the official government registry, the commercial titled apartment is registered as an office if the project is constructed on a office land.
On the demand side, as most current projects are for strata-sale, small and medium size buyers dominate the market. The proportion of transactions of less than 500 sq metres (5,382 sq ft) account for approximately 30% of the total transaction volume from 2014 to 2017. At the same time, the transaction sizes between 1,000 and 5,000 sq metres increased significantly in 2017, and accounted for 62% of total transaction volume. This indicates that more companies are paying attention to Tongzhou and purchasing office properties for self-use or investment. The demand trend in 1H 2018 was not very clear due to the limited transaction volume.

The existing high-quality office projects in Tongzhou include Wanda Plaza in Tongzhou’s downtown area, Greenland Plaza and part of the office buildings in the Poly Metropolitan project in Canal commercial area. The total stock was around 250,000 sq metres (2.69 million sq feet) by the end of 2Q 2018. All the aforementioned projects have been sold on a strata-title basis. As many buyers are investors, a large quantity of this space is available for lease. The average asking rent is between RMB4.0 and 6.0 (USD0.6-0.9) per sq metre per day.

Nearly 2.0 million sq metres (21.5 million sq feet) of office space is scheduled to enter the market in the next five years with the peak in 2019 and 2020. More than 16 landmark office buildings are planned to be concentrated in the Tongzhou Canal commercial area, including more than 5 buildings with the height more than 200 metres. More than 10 well known domestic developers have entered the Canal commercial area, including Poly, Sino-Ocean, Everbright, Vanke, Forte, Fuwah, and Greenland.

Based on the Beijing City Master Plan (2016-2035), the Canal commercial area is the major destination for the companies relocating from downtown. We expect the following industries to be the key office demand drivers in the future:

> **Finance.** Considering several banks have purchased office buildings for self-use and investment, we expect many related companies to set branches in Tongzhou. Specially, as Tongzhou is being positioned as one of the most important demonstration areas for Jing-Jin-Ji integration, we expect Tongzhou to be suitable for those financial institutions serving the Jing-Jin-Ji region.
Professional service and intelligent economy. To support the demands of government administration, Tongzhou is positioning itself to attract new, sophisticated domestic and international think tanks and professional service institutions to accelerate the establishment of an industry cluster supporting for municipal government. Hence, we predict that professional services and think tank type related companies will be an important tenant base in Tongzhou.

Headquarters. In the short term, we expect some municipal, city-level state-owned companies to relocate their headquarters to Tongzhou. In addition, Tongzhou is the best place for companies targeting business related to the integration of the Jing-Jin-Ji region.

Technology industry. The Tongzhou government has plans to attract high-tech companies such as artificial intelligence, big data, and internet security.

Retail market overview and outlook

Traditional retail properties such as department stores, markets, and hypermarkets dominated Tongzhou’s retail market in the past. Wanda Plaza and Roosevelt shopping centres entered the market in 2014. Filling the void of modern retail, they became the fashion landmarks in Tongzhou as they can meet the demand not only for shopping but also for F&B, entertainment, amusement and recreation, as well as social activities, which cannot be satisfied by traditional retail offerings. The total GFA of the two projects is 184,000 sq metres (1.98 million sq feet). Both projects have been almost fully occupied for the most recent three years. Targeting mid-end customers, 72% of the two projects tenants are fashion and F&B brands, along with many children’s and lifestyle brands.

Five prime retail projects are scheduled for completion from 2020 to 2022 based on their current construction progress and are likely to be held by the developers for leasing, including New Everbright project, Jinghang Plaza project and projects developed by the developers R&F, Sino Ocean and Perennial. We project total future supply of 600,000 sq metres (6.45 million sq feet), all appearing in the Canal commercial area. All the projects are positioned in the mid-to-high end sector, targeting white-collar workers and residents in the Canal commercial areas as well as the residents throughout Tongzhou. We expect the opening of these projects to enrich local residents’ shopping opportunities and enhance the level of the overall retail market in Tongzhou.
Major En-bloc sales in Tongzhou

<table>
<thead>
<tr>
<th>Project</th>
<th>Buyers</th>
<th>Transaction Value (RMB billion)</th>
<th>Transaction Area (sq metres)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fort Finance Center Tower A</td>
<td>Bank of Beijing</td>
<td>2.92</td>
<td>54,755</td>
</tr>
<tr>
<td>Fort Center Tower B</td>
<td>China Construction Bank</td>
<td>1.73</td>
<td>34,543</td>
</tr>
<tr>
<td>World Chamber of Commerce Center Tower 2 and 3</td>
<td>Huaxia Insurance</td>
<td>3.12</td>
<td>70,000</td>
</tr>
<tr>
<td>Tongzhou R &amp; F Center</td>
<td>Ti'an Insurance</td>
<td>1.56</td>
<td>34,400</td>
</tr>
</tbody>
</table>

Offices are the most attractive property type in the en-bloc sales market in Tongzhou; domestic finance companies dominate the investment market.

Strata-title sales dominated the Tongzhou commercial property market as before 2016 buyers are mainly individual investors and small companies. In the land transaction market, domestic developers are also key players. The developers of the Roosevelt shopping centre and Perennial (developer for Canal One project, which purchased land in the Canal commercial area in 2012) are a few of the developers which, as of now, have acquired international experience.

With the confirmation of Tongzhou’s status as a new urban area and the future seat of Beijing’s municipal government, the optimistic outlook for Tongzhou is attracting the interest of many investment institutions. Domestic finance companies purchased several office buildings en-bloc in recent years, including Ti’an Insurance, Huaxia Insurance, Bank of Beijing, and China Construction Bank. All these companies purchased properties in Tongzhou for their own use as well as investment. We expect more en-bloc transactions in the future as many other domestic banks and insurance companies are still under negotiation with developers and the Tongzhou government to acquire property.

Source: Beijing Municipal Commission of Housing and Urban-Rural Development, Colliers International
Project map of Tongzhou Canal commercial area

- Sino Ocean Shin Kong Project
- World Chamber of Commerce Center
- Greenland Center
- Poly Metropolitan
- Jinghang Plaza
- North area of Fuwah project
- New Everbright Center
- Chang An Fountain
- Greenland project
- Fort project
- Perennial project
- Forte Finance Center
- Forte Center
- Mix Plaza
- Grand Royal Canal

Source: Colliers International
TONGZHOU’S FUTURE

As one of the most important areas in Beijing’s master plan, the construction of the Tongzhou new urban area ought to have a profound impact on Beijing’s development.

> To be the leading area for dispersing Beijing’s non-capital functions

Tongzhou is planned to accept relocated residents and dispersed functions from the downtown area, taking the lead in relocating Beijing’s municipal government.

The target for Tongzhou’s total permanent population is 1.0 million people by 2020 and no more than 1.3 million people by 2035. The workforce is planned to be 600,000 to 800,000 people by 2035. With the relocation of the municipal government, and through other incentives, the target is relocating 400,000 to 500,000 residents from downtown by 2035.

> To be the demonstration area of Jing-Jin-Ji integration

As the only district that connects Tianjin and Hebei Province, Tongzhou is intended to be the transportation hub for the Jing-Jin-Ji area, with a planned advanced infrastructure system, becoming the representative of smart cities. We expect this to push Tongzhou to be the bridgehead of Jing-Jin-Ji integration, which we expect to attract more related enterprises while supporting the increasing population and the developing of commercial market.

> To be the advanced high-standard new city centre

Tongzhou has the experience of other mature and emerging submarkets to learn from, and should be able to avoid the problems which other Beijing submarkets suffer from in the areas of planning, construction and management. A true opportunity exists to create a district with suitable density and enjoyable living conditions.

We expect this foresight and planning in advanced infrastructure and high-quality properties to improve the investment value of properties in Tongzhou.

> To become an emerging submarket for high-quality offices

We expect the 2.0 million sq metres (21.5 million sq feet) high quality upcoming office projects to attract many companies to relocate. At the same time, companies enduring high rents in core areas can achieve reasonable rental levels in Tongzhou without sacrificing quality.

When Beijing’s municipal government relocates to Tongzhou, we expect professional service companies with work related to government affairs to relocate to Tongzhou as well. In addition, with the progress of the development of Tongzhou Canal commercial area, Tongzhou ought to become a key destination that receives non-capital functions from Beijing, while also attracting finance and headquarters companies.

> To supply more high-quality retail projects

With around 600,000 sq metres (6.45 million sq feet) high-quality retail projects completed in the future in the Canal commercial area, the Tongzhou retail property market should be enhanced. The stock of Beijing prime shopping malls is planned to increase. Among all the future retail projects in Tongzhou Canal commercial area, Sino-Ocean Shin Kong project and Perennial project are closely watched due to their well-known operators and attractive design. Considering Tongzhou’s Universal Studios should be completed in 2020, it is possible for the prime retail projects in Tongzhou to become the new shopping destination for the whole city if those projects have a unique character in their design.
SUMMARY AND SUGGESTIONS

As the new urban area of Beijing, compared with current mature areas of the city, Tongzhou still has great opportunity for enhancement, including:

> Accelerating the construction of infrastructure
> More time for the mature development of the commercial and retail market

Based on these facts, we list the following suggestions:

**Government**

> Improve the infrastructure construction, especially the facilities in the Canal commercial area and Municipal office area. Road and traffic connections and water and power supply should be the highest priority in the operation of buildings.

> Accelerate the attraction of industries. Considering Tongzhou is still lacking an appropriate business environment compared with the downtown area, preferential policies should be one of most important factors for companies to set new branches or relocate to Tongzhou.

> Release or clarify the industry promotion policies to accelerate the relocation of companies. Considering the abundant new supply entering the market not only in Tongzhou, but also downtown, if the Tongzhou government can release attractive and preferential policies, we expect it will accelerate some companies to make decisions to open their offices in Tongzhou.

**Developers**

> Enhance the holding percentage with sufficient capital. Based on our experience, single ownership projects can maintain better quality than strata-titled projects. However, if developers lack cash, we suggest they sell their projects en-bloc.

> Try to construct high-quality projects with advanced technologies, especially some technologies related to eco-living and health, considering more occupiers pay attention to the wellness of their staff and request healthy indoor air quality and facilities.

> Negotiate with potential tenants or buyers as early as possible. Considering the business prominence of Tongzhou is still low and the future office supply is abundant not only in Tongzhou but also in downtown, it is necessary for developers to promote their Tongzhou projects as early as possible.

**Investors**

> Actively focus on the market dynamic of projects under construction. As many projects have been sold out, there are fewer tradable properties in Tongzhou than before. Setting investment plans as early as possible provides more opportunities for investors.

**Occupiers**

> Actively focus on the development progress of Tongzhou’s future supply. If end users have large size relocation plans, they have to be in touch with developers in advance. This gives them the opportunity to ask developers to build-to-suit. Also, communicating with developers in advance gives more opportunities to attain more bargaining power.
Colliers International Group Inc. is a top-tier global real estate services and investment management company operating in 69 countries with a workforce of more than 12,000 professionals. Colliers is the fastest-growing publicly listed global real estate services and investment management company, with 2017 corporate revenues of $2.3 billion ($2.7 billion including affiliates). With an enterprising culture and significant employee ownership and control, Colliers professionals provide a full range of services to real estate occupiers, owners and investors worldwide, and through its investment management services platform, has more than $20 billion of assets under management from the world’s most respected institutional real estate investors.

Colliers professionals think differently, share great ideas and offer thoughtful and innovative advice to accelerate the success of its clients. Colliers has been ranked among the top 100 global outsourcing firms by the International Association of Outsourcing Professionals for 13 consecutive years, more than any other real estate services firm. Colliers is ranked the number one property manager in the world by Commercial Property Executive for two years in a row.

Colliers is led by an experienced leadership team with significant equity ownership and a proven record of delivering more than 20% annualized returns for shareholders, over more than 20 years.

For the latest news from Colliers, visit our website or follow us on...