New supply and a slowdown in services sector growth are putting pressure on the office market. However, retail and logistics remain stable.

- We expect the traditional finance and technology sectors to be the major demand drivers for office space.
- We recommend landlords to introduce tenants offering unique shopping experiences and high-quality services to avoid homogenization.
- Potential logistics tenants who are able to register and pay tax to local districts should enter the market now, as market conditions are currently tenant-favorable.
- Properties with stable incomes or value-added properties in the core areas continue to attract investors.

Summary & Recommendations

2019 YEAR END FORECAST

<table>
<thead>
<tr>
<th></th>
<th>Rents</th>
<th>Vacancy</th>
<th>Capital Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office</td>
<td>-0.1%</td>
<td>3.6 pts</td>
<td>1.4%</td>
</tr>
<tr>
<td>Retail</td>
<td>-0.9%</td>
<td>-0.1 pts</td>
<td>0.3%</td>
</tr>
<tr>
<td>Logistics</td>
<td>1.1%</td>
<td>-3.1 pts</td>
<td>3.8%</td>
</tr>
</tbody>
</table>

- In H2 2019, we expect a new supply total of 840,000 sq m, which should push up the overall vacancy rate to 15.1%, a record-high level for the decade. Average rents should also be pulled down slightly. Taken together, we expect these three factors to lead to a more tenant-favorable market.
- In H2 2019, we expect rents to edge down by 0.9% YoY to RMB820 (USD119.4) per sq m per month, as two new completions are scheduled in emerging areas. New supply operated by established developers should keep the vacancy rate low.
- We foresee more warehousing space becoming available in existing projects in H2 2019 as we do not expect any easing on tenant type restrictions and tax requirements in the next six months. We expect consistent annual increases in rent.
- The Beijing investment market is likely to continue to be opportunity-driven in H2 2019 due to the limited tradable assets on the market. We expect office and retail to be the most popular property types.

Source: Colliers International
Note: USD1 to RMB6.87 as of end-H1 2019. 1 sq m = 10.76 sq ft; pts is short for percentage points; bps is short for basis points
OFFICE

H2 2019: Heavy supply to intensify market competition

In H2 2019, around 840,000 sq metres (9.0 million sq feet) of future supply is scheduled to enter the market. We expect the supply peak, together with weaker economic growth, to intensify competition among landlords. As a result, we expect the vacancy rate to rise by 4.5 percentage points YOY to 15.1% by end-2019. The average rent should accordingly be pulled down to RMB398.5 (USD58.0) per sq metre per month, a 0.1% YOY decrease. We recommend landlords to be flexible during leasing negotiations and offer favourable leasing terms to tenants. We also recommend tenants willing to upgrade to higher-quality properties, but who have cost constraints, to take advantage of the intensified competition and likely declines in rent.

H1 2019: Market became tenant-favorable

In H1 2019, four new buildings totaling 212,000 sq metres (2.3 million sq feet) entered the market and expanded the total stock to 8.3 million sq metres (89.3 million sq feet). Considering large future supply and weak growth in the services sector, net absorption in H1 recorded 96,230 sq metres (1.0 million sq feet), a 60.6% YOY decrease. This pushed the overall vacancy rate to 11.5%. Demand from the traditional finance and technology sectors remained firm. Meanwhile, the average rent declined by 1.4% YOY to RMB398.8 (USD58.0) per sq metre per month. Tenants attained a stronger negotiation position and most landlords had to take flexible rental strategies and lower their expectations.

RETAIL

H2 2019: New policy favours Wangfujing and Tongzhou

In the face of fierce competition, we recommend landlords to introduce experience-focused and high-quality tenants, as well as consider reconfiguring underperforming space, like setting up themed space or reorganizing tenants. In H2 2019, we expect three new completions. Two in emerging areas should help pull down average rents by 0.9% HOH to RMB820 (USD119.4) per sq metre per month. Established developers of new supply should keep vacancy rates low. Notably, the recently-released Draft of Spatial Layout Planning for Beijing Business Service Industry Facility, is likely to help reshape the layout of Beijing’s retail market as it favoured the Wangfujing and Tongzhou areas.
**H1 2019: Emerging market projects saw rental growth**

Backed by firm demand, the overall market remained stable. Individualized and unique high-quality domestic fashion brands saw increased popularity. Multiple brands opened their first stores in the city, including Undefeated, Tom Ford, Legoland Discovery Centre and F.A.O Schwarz.

Two new projects entered the market. The average ground floor fixed rent was up by 2.0% HOH to RMB827.2 (USD120.4) per sq metre per month, mainly contributed by the above-average rent of one new project, and the success of some established projects in emerging areas. However, some brands, including fast fashion slowed expansion. Vacancy remained relatively flat at 2.2%.

**LOGISTICS**

**H2 2019: rents should remain high**

Only one project with an planned GFA of around 68,000 sq metres (732,000 sq feet) is scheduled to launch in H2 2019. We expect that tenant type restrictions and minimum tax level requirements for potential tenants are unlikely to be eased within the next six months. Therefore, we expect more space to be released back onto the market in existing properties in H2 2019. We expect average rents to remain high, given that demand remains firm in the market. Colliers recommends that:

> Potential tenants who are able to register and pay tax in Beijing should consider entering the market at this time. Local landlords with vacant space are willing to offer a competitive price to tenants that are significant tax revenue generators.

**H1 2019: Vacancy saw an increase due to tenant adjustment**

In H1 2019, three new projects totaling around 164,000 sq metres (1.8 million sq feet) were completed. Total stock increased to 2.30 million sq metres (24.8 million sq feet). Even though demand remained strong, strict regulations on the type and the minimum tax level of potential tenants remained in place. We noticed several cases of space being returned to the market, which drove up the overall vacancy rate. Net absorption totalled around 62,000 sq metres (670,000 sq feet) while the overall vacancy rate increased by 4.4 percentage points HOH to 5.9%. Rents continued to experience stable growth, with a 3.2% HOH increase to RMB50.2 (USD7.3) per square metre per month.
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