China Office Occupier Survey 2024

REPORT

CBRE
CHINA RESEARCH

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Contents

2024 China Office Occupier Survey

Executive Summary

1 Office occupiers expect to see moderate growth in expansionary demand over the next three years.

38% of respondents plan to increase their office space over the next three years, a 4 pps. decrease from 2023, but slightly above the average of 35% seen over the past three years.

Strategic emerging industrial sectors are coming to the fore

Net expansionary demand is anticipated to surge among firms in the TMT, manufacturing, pharmaceutical and life science sectors over the next three years.

2 Cost remains at the forefront of occupier leasing strategy, with transportation, amenities, and location also crucial considerations.

92% of respondents named cost containment and flexible lease terms as the main criteria they consider when deciding to renew or relocate.

Other decisive factors influencing renewal vs relocation

71%	60%	36%	34%
Amenities and services	Preferred location	Sustainability goals	CapEx budgets

3 Occupiers intend to boost space efficiency and enhance employees' wellness by re-formulating and optimising their workplaces.

69% of respondents expect to rightsize different functions in their workplaces to optimise office utilisation, while 46% of respondents are considering decreasing office space with low utilisation.

57% of respondents said they plan to enhance employees' experience while one-third of surveyed companies expect to create workplaces that drive high attendance and maintain employees' wellness.

4 To strike a balance between long-term ESG goals and short-term cost-saving strategy, companies are seeking rental discounts for buildings without green certification.

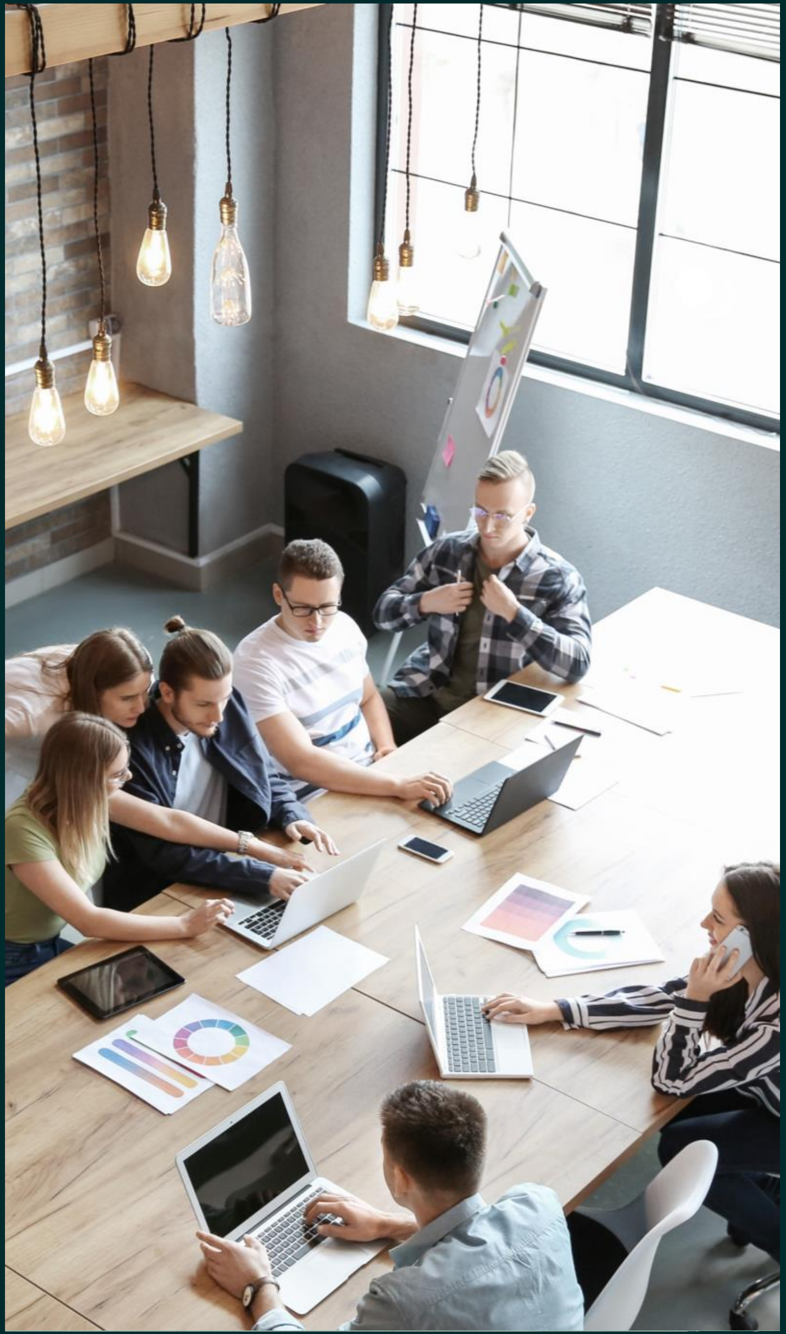
31% Surveyed companies have established net-zero emission goals, with 70% targeting to achieve their objectives in 2030 or earlier.

1/5 Respondents are considering seeking rental discounts for buildings without green certification.

01

Leasing demand

Mild recovery driven by companies in strategic emerging industrial sectors



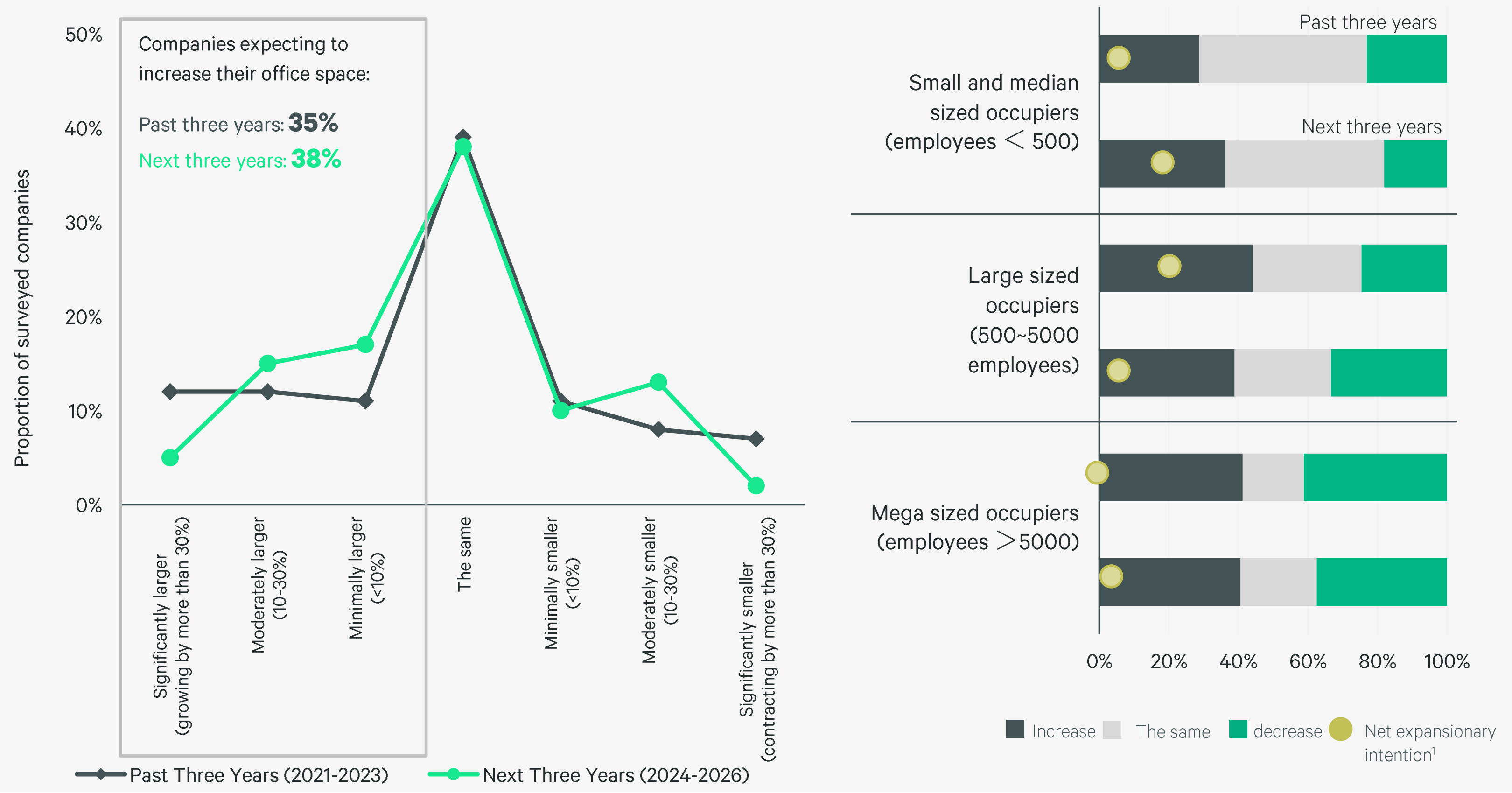
Companies expect slight growth in office footprint over the next three years

The survey found that 38% of respondents expect to increase their office space over the next three years, a decrease of 4 pps. from 2023 (42%), but slightly above the average of 35% seen over the past three years.

Responses indicated cautiously optimistic leasing sentiment amid ongoing economic and geopolitical uncertainty. The survey revealed a significant decline in the proportion of respondents expecting to expand or contract their office space by more than 30%, **reflecting occupiers' belief that their business will reach a steady state over the next three years**.

Net expansionary intentions varied among the different types of surveyed companies. Stronger demand momentum from small and medium sized occupiers is largely being driven by their growing business. Large sized occupiers are focusing on consolidating their footprint while pursuing business growth.

Figure 1: Change in total office space in the past three years (2021-2023) compared to expected change in the next three years (2024-2026). N=213 (line curve for general picture, bar chart to clarify the situation among different sized companies)



Source: CBRE Research, September 2024

Note 1: Net expansionary intention means the difference between the proportion of occupiers expecting to increase and decrease their office space.

Firms in strategic emerging industrial sectors to drive demand growth

Net expansionary intentions are surging among firms in new and strategic emerging industrial sectors, with TMT, manufacturing, pharmaceutical and life science all set to add to their office footprint over the next three years. Demand looks set to remain steady in the business services segment but is losing momentum in finance and real estate.

With the recent phase of consolidation in the TMT sector now over, intentions to decrease office space over the next three years have fallen significantly. New leasing volume from the sector has started to rebound after falling sharply during 2022-2023, rising by 2% y-o-y in H1 2024, backed by strong momentum from AI-related companies. The favourable policy environment for education and training institutions along with the rising popularity of streaming games is supporting the expansion of sub-sectors such as online education and gaming.

The manufacturing sector accounted for 14% of new nationwide office leasing volume in H1 2024, ranking it among the top three demand drivers. Sub-sectors related to consumption and technology upgrading including new energy and advanced manufacturing are expected to continue to grow rapidly. Net expansionary intentions among pharmaceutical and life sciences firms were the strongest of any sector included in the survey, indicating the onset of a new industry growth cycle after two years of relative dormancy.

While expansionary demand from the finance sector remains steady due to an equal proportion of respondents indicating their intentions to increase and decrease their office space, performance is expected to diverge across sub-sectors and business functions. Current low interest rates remain conducive to the growth of wealth management businesses, while expansionary demand by securities investment banking businesses will rest upon a policy shift towards tightening IPO approvals.

Figure 2: Change in total office space in the past three years (2021-2023) compared to expected change over the next three years (2024-2026), by key demand drivers. N=213

Source: CBRE Research, September 2024

2

Leasing strategy

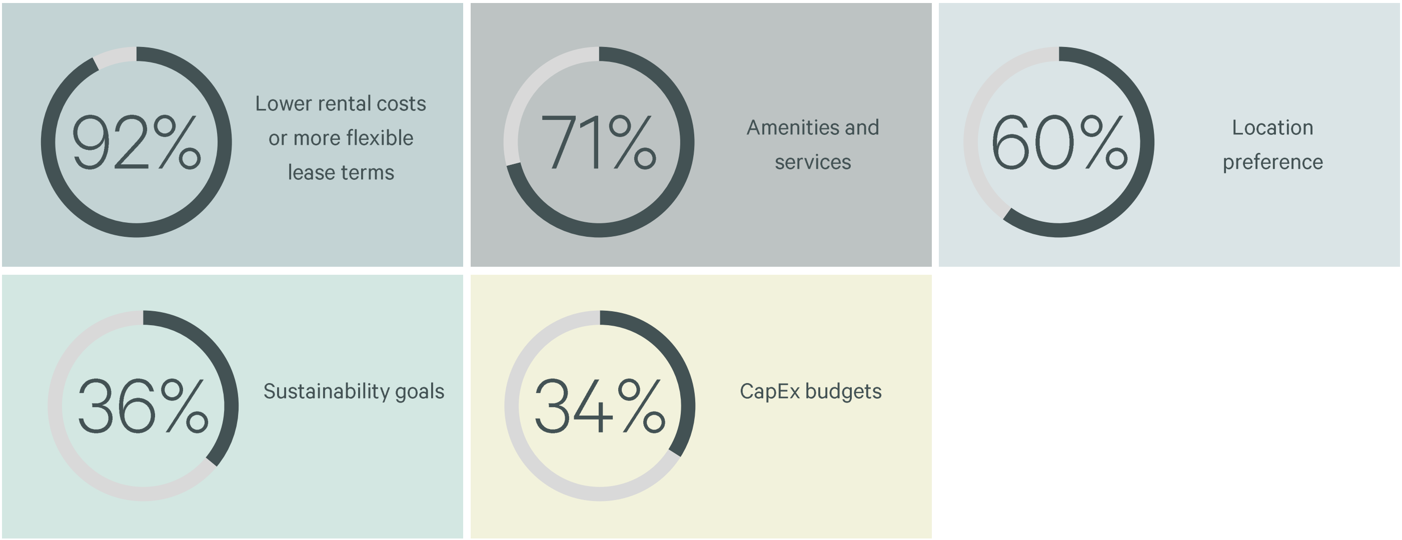
Diverse demand in an era of cost containment

Cost remains at the forefront of occupier leasing strategy, with transportation, amenities, and location also crucial considerations

Amid the large volume of space for lease, falling rents, upcoming expiries of leases signed at the peak of the market in 2021, and more prudent real estate budgets, **occupiers continue to carefully evaluate renewal vs. relocation decisions.**

The survey found that lower rental costs and flexible lease terms are occupiers' primary considerations when deciding to renew or relocate, followed by amenities and services. Around 60% of respondents said location was a crucial factor, while around one-third stated that a building's ability to suit its sustainability goals and corporate CapEx budget would be decisive.

Figure 3: Top five considerations for occupiers evaluating renewal vs. relocation decisions. N=217



Source: CBRE Research, September 2024

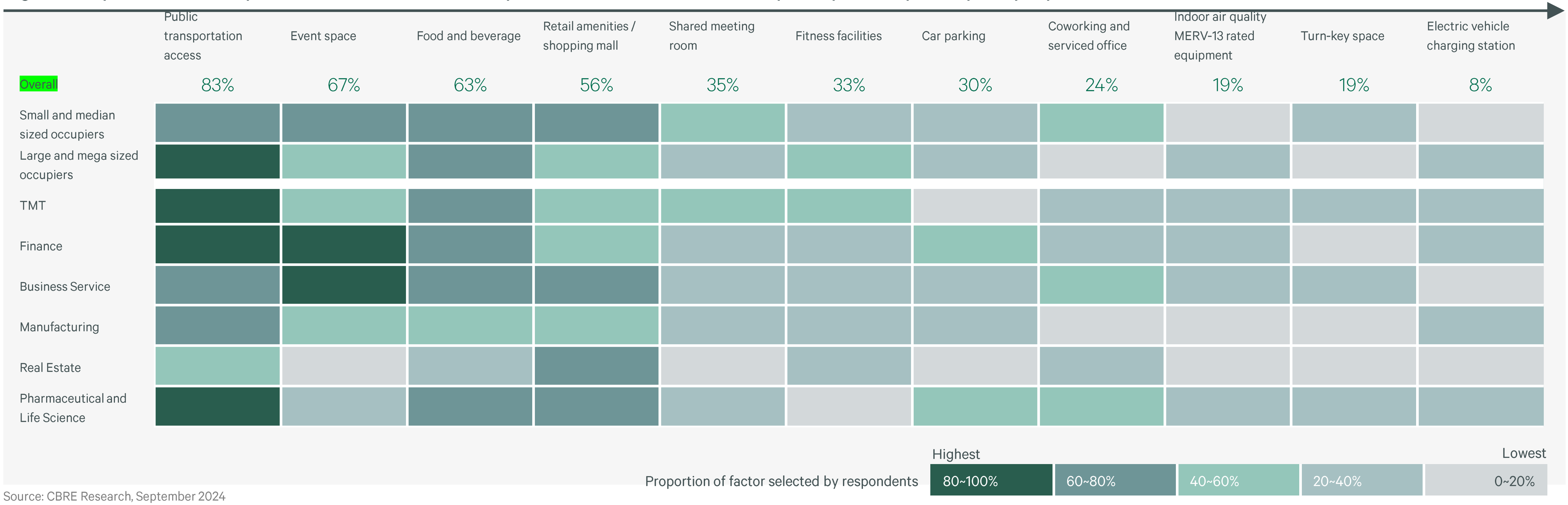
Occupiers seek greater access to public transportation, event space, F&B and retail amenities

This year's survey uncovered stronger demand for access to public transportation, event space, F&B options and retail amenities.

Small and medium sized occupiers exhibited a sharper focus on amenities including shared business space and turnkey space, while larger occupiers displayed more interest in employee wellness and sustainability features such as public transportation, fitness facilities, indoor air quality MERV-13 rated equipment, and electric vehicle charging stations. A significantly higher preference for event space was seen from firms in the finance and business service sectors, largely driven by such companies' need to host regular client workshops, roadshows and employee training events, especially insurance and asset management firms which offer b-to-c services.

CBRE's analysis shows that rents of Beijing office buildings with a leasable area of over 100,000 sq. m. with small-scale retail amenities or pedestrian access to large shopping malls can achieve rents 8-9% above the submarket average. In cases where an office building is located above a large shopping mall, this premium rises to 13%.

Figure 4: Importance of transportation and amenities in occupiers' renewal vs. relocation analysis (by industry and by company size). N=144



Source: CBRE Research, September 2024

Occupiers with insufficient CapEx budgets target customised turnkey solutions and space

Around one-third of respondents said their relocation plans were limited by insufficient CapEx budgets. **49% and 33% of such respondents opted to choose customised turnkey solutions or turnkey space, respectively, to process relocations; a proportion 12 pps.** higher than other occupiers. Customised turnkey solutions and space clearly possesses great appeal to occupiers with limited CapEx budgets.

Large and mega sized occupiers displayed the strongest demand for customised turnkey solutions (68%), mainly due to their need for uniform corporate standards and requirements. **Turnkey space (38%) was most preferred by small and medium sized occupiers** due to their need for 'move-in ready' space.

CBRE advises occupiers to utilise technology to manage CapEx during office renovations. Tools such as Pro Plan can sketch designs quickly at the building selection stage to guide corporate business function layout, while platforms such as Capital Planner assist occupiers manage and optimise expenditure and efficiency for the whole renovation process.

Building selection requirements for headquarters relocation

Some 11% of respondents stated that their reason for relocation was to establish a new headquarters. This reason was citied especially frequently by companies in industries including manufacturing (23%), business services (23%), TMT (19%) and pharmaceutical and life science (15%).

The selection of buildings to accommodate headquarters or large-scale office space can be a complex process involving the need to balance multi-dimensional targets and customised features. Apart from obvious factors such as cost containment and building quality, a variety of other issues influenced decisions by companies across different industry sectors. For instance, manufacturing and TMT enterprises preferred buildings in locations next to factory or R&D centres, while business service companies sought headquarters with better access and connectivity with all parts of the city.

The survey also found that 58% of surveyed companies with headquarters relocation demand wanted greater access to flex space in different buildings owned by the same landlord. This indicates demand for consolidation along with headquarters relocation, with companies planning to make greater use of flex space to satisfy front office demand such as field work or business trips.

Figure 5: Building selection requirements of large sized enterprises 2024 YTD

- Cost containment (i.e. rents)
- Specific location (i.e. next to R&D centres or factories, location within the administrative region)
- Premium building hardware
- Dedicated staff cafeteria
- Public transportation access for employee commute
- Move-in ready space
- Appropriate brand exposure
- Contiguous whole-floor office space
- Better amenities or retail facilities

Source: CBRE Research, September 2024

3

Workplace strategy

Boosting office efficiency and experience

Improving space efficiency to boost employee wellness

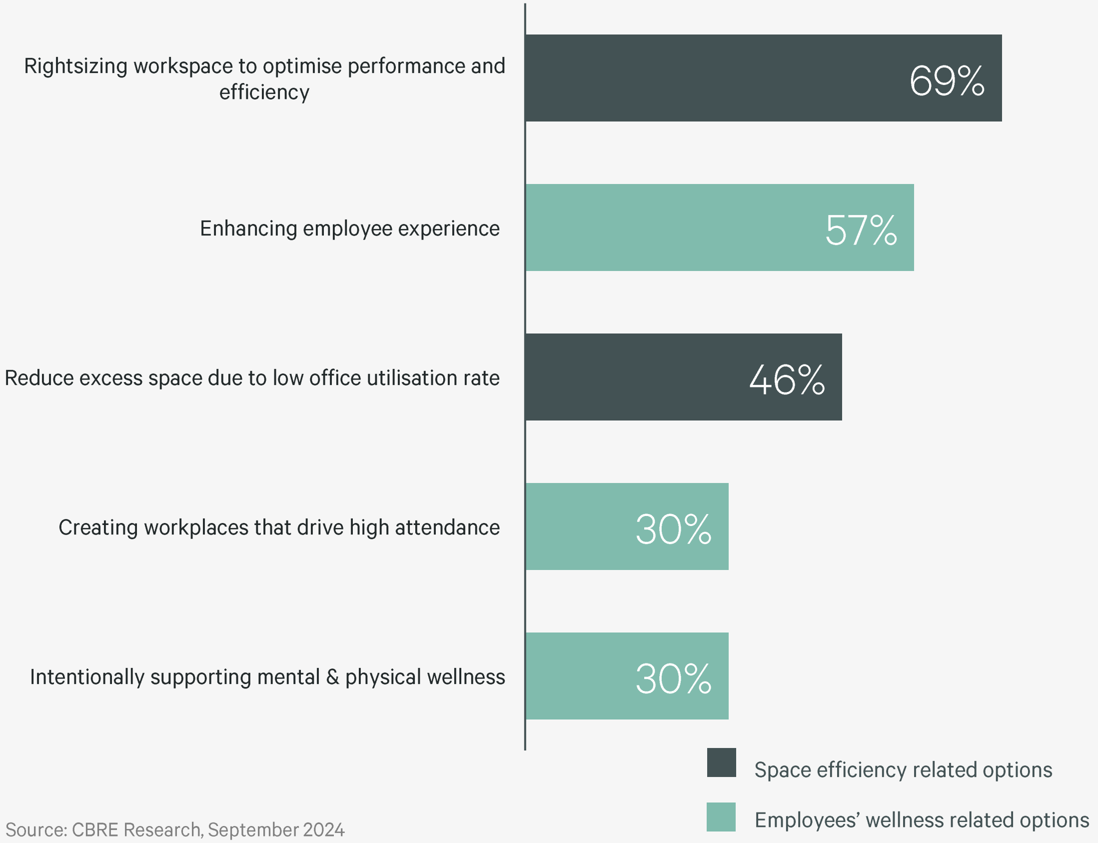
The top five workplace priorities selected by respondents to this year's survey reflected occupiers' desire to strike a balance between achieving cost containment and ensuring employee wellness.

Improving space utilisation can be an effective way to reduce real estate costs. The survey found that the **average office occupancy rate in mainland China stands at 71%2**, a rise of 4 pps. from 2023. One-fifth of respondents stated that their average office occupancy rate was below 60%, indicating significant room for improvement.

CBRE believes that balancing cost containment and workplace experience can be achieved by correctly configuring office layout and amenities; customising management mechanisms; and harnessing the latest real estate technologies.

Note 2: Average office occupancy rate is calculated based on the median.

Figure 6: Top five workplace priorities. N=237



Source: CBRE Research, September 2024

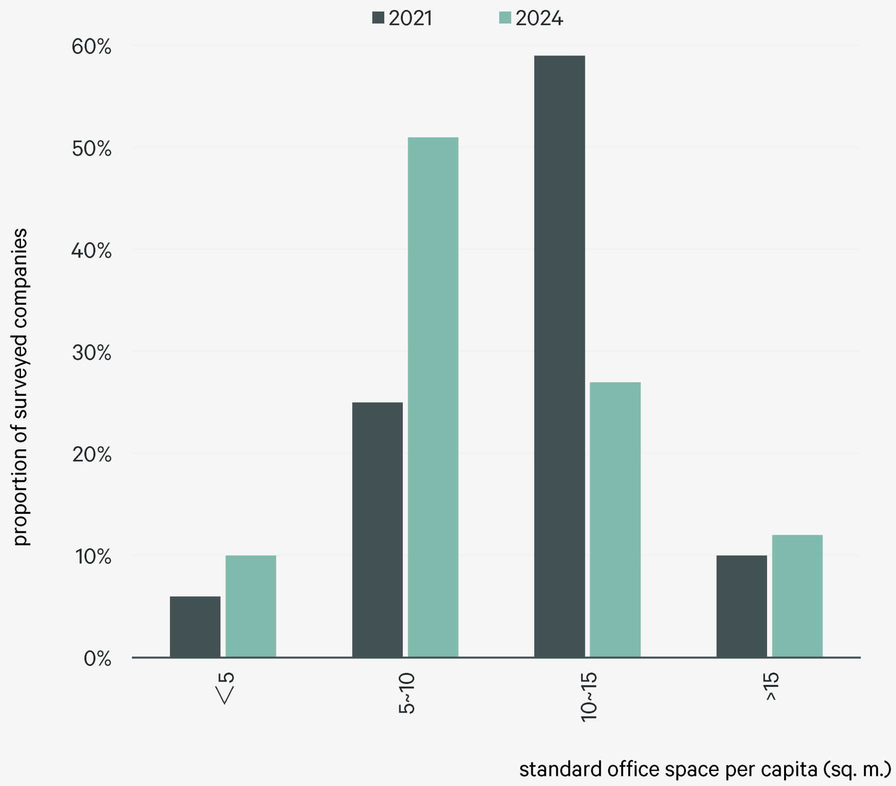
Rebalancing ‘ME’ and ‘WE’ space

The survey found that surveyed companies have revised down their future standard office space per capita to 5-10 sq. m. from 10-15 sq. m. in 2021.

One-third of respondents expect to enhance space efficiency by re-structuring the employee-to-desk sharing ratio. Measures such as switching dedicated seats to hotdesking (58%), expanding the sharing ratio (29%) and removing redundant seats should ensure the median number of surveyed companies’ employee-to-desk sharing ratio improves from 1.19 to 1.3 over the next three years. The most significant improvements to the employee-to-desk sharing ratio will be seen in the real estate, business service and TMT sectors.

Reconfiguring private or “ME” workspace should be based on data collection and analysis of workplace utilisation and employee behaviour patterns. With some 34% of respondents valuing collaborative or WE space as a key component of their future workplace, **companies will look to improve space efficiency and employee experience by re-organising office functions and layout.**

Figure 7: Corporate expectations of future standard office space per capita. N=237



Source: CBRE Research, September 2024

31%

of respondents expect to increase hotdesking

34%

of respondents expect to increase collaborative space

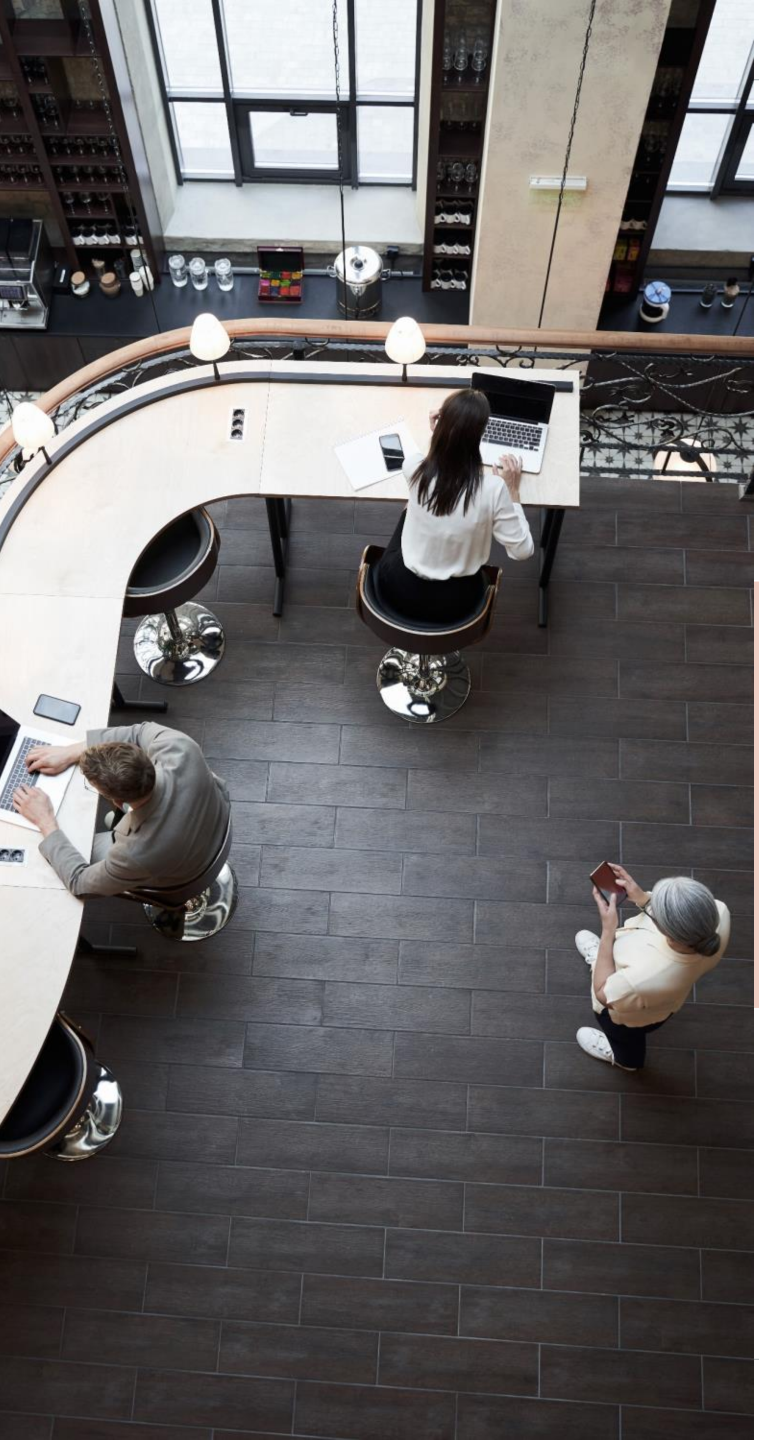


Figure 8: Case Study: CBRE's workplace strategy service to a foreign enterprise

Current office working patterns

- **Corporate employees:** >500
- **Working pattern:**
  - ✓ Hybrid working (employees visit the office 3.5 days per week)
  - ✓ 79% of working hours involve desk-based work
  - ✓ While working in the office, the ratio of private work and teamwork is 6:4

Measures and results

- Converted **50%** of office desks to height-adjustable desks to provide greater comfort to employees
- Reorganised partitions according to business functions and provided more diversified office seating types. In this case, space functions were increased from **four** to **eight** by reconfiguring furniture
- Set up a **long-term** change management community to lead reorganisation
- Employee satisfaction rose from **48%** to **87%** after the modification

Source: CBRE Research, September 2024

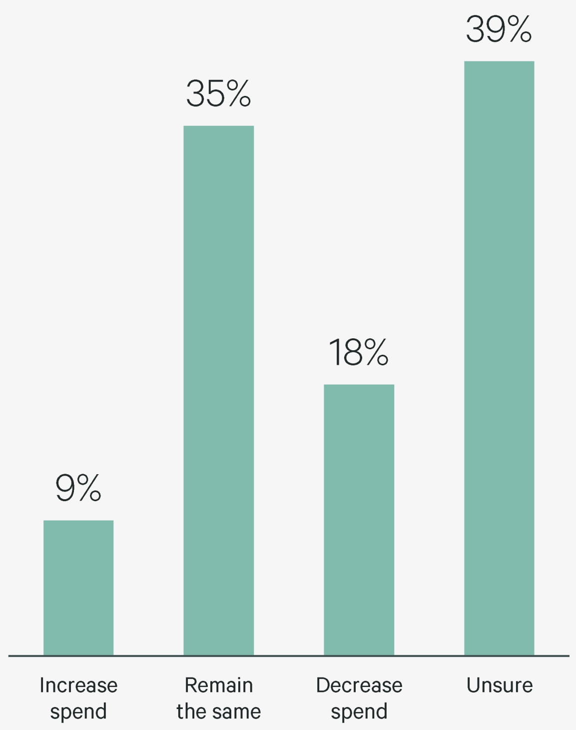
Managing real estate technology expenditure by prioritising tools for cost containment and efficiency improvement

Around 30% of respondents plan to decrease spending on real estate technology in the next 12 months, while around 60% of respondents expect such expenditure to stay the same.

Amid the overarching focus on cost containment, enterprises are prioritising the adoption of real estate technologies such as smart video conferencing and space booking systems, which can reduce expenses while boosting efficiency. Interest in air quality sensors and touchless technology fell sharply in this year's survey, partially because many companies invested heavily in such technologies during the pandemic.

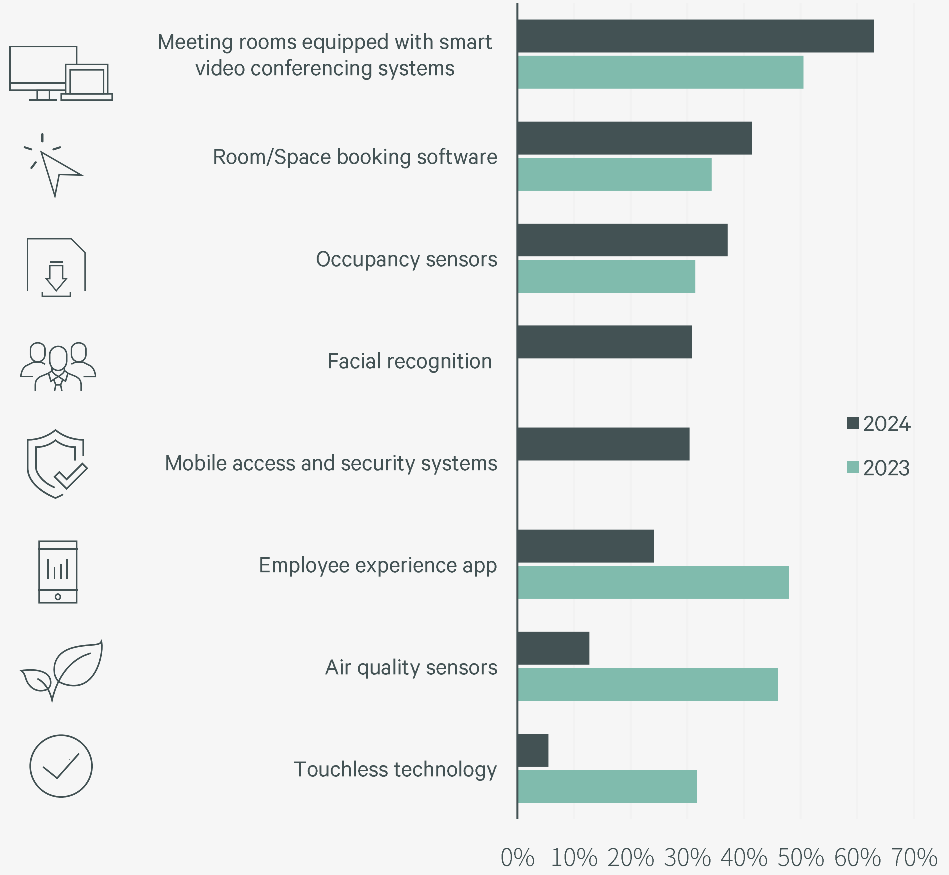
Firms in the TMT sector displayed the strongest intentions to increase their spending on real estate technology, while half showed greater interest in facial recognition, mobile access and security systems, driven by their technical advantage in these fields.

Figure 9: Occupiers' expectation of their spending on real estate technology in the next 12 months. N=237



Source: CBRE Research, September 2024

Figure 10: Occupiers' preference for real estate technologies[3]. N=237

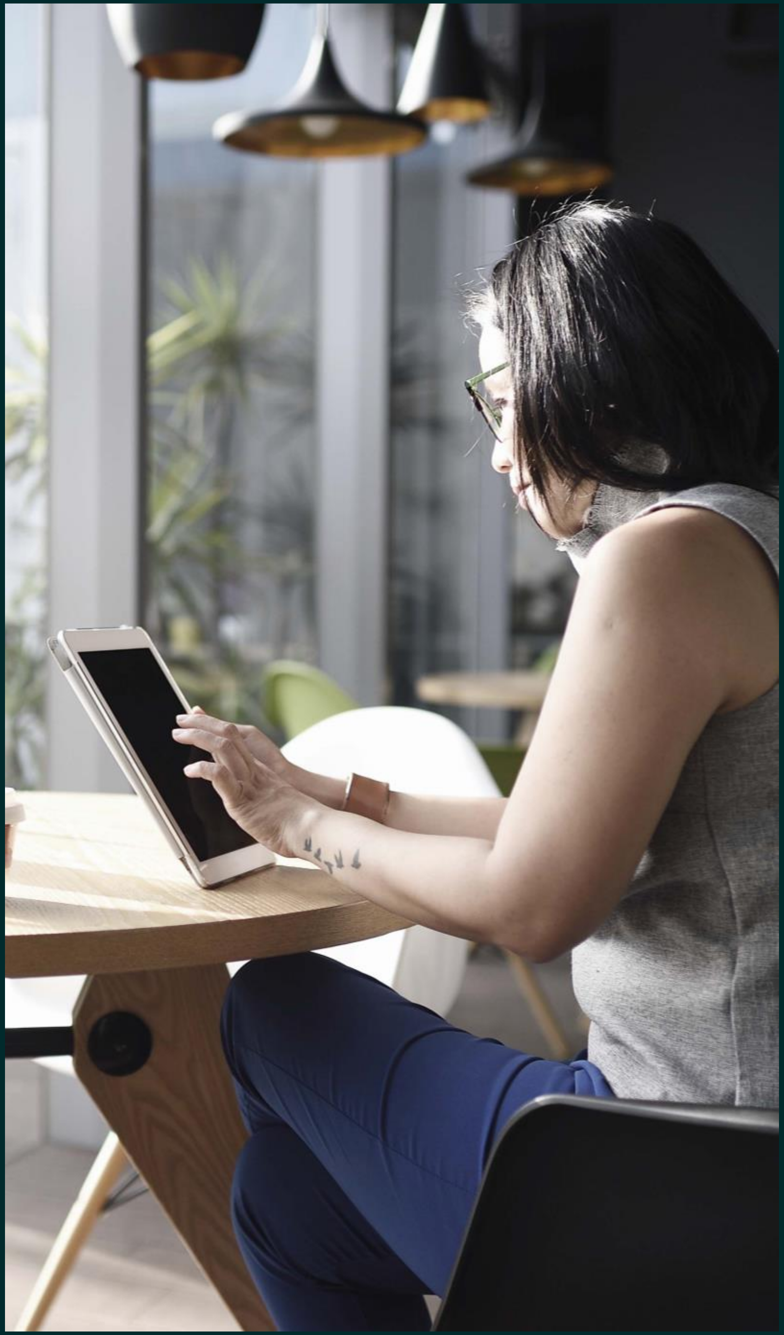


Note 3: The chart displays the proportion of the top three factors rated by occupiers on a score from 1-9. The options 'facial recognition' and 'mobile access and security systems' were not included in the 2023 China Office Occupier Survey.

4

ESG

Steady uptake in ESG adoption

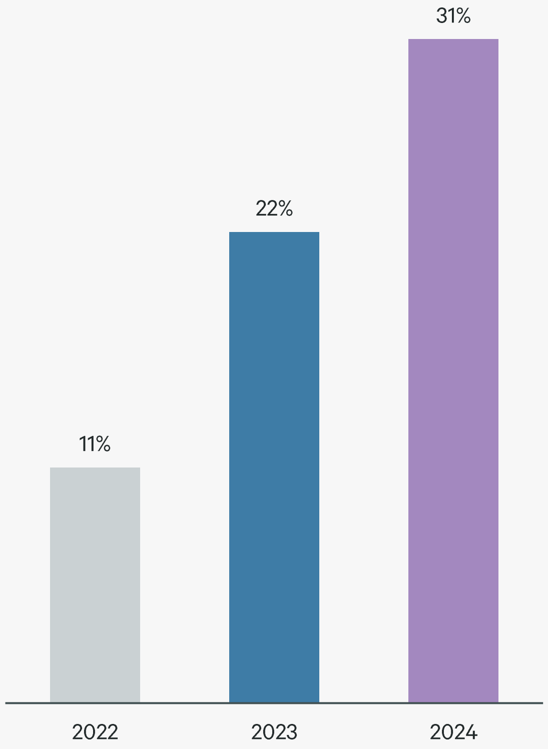


ESG journey accelerates

Office occupiers in China continue to display a growing acceptance and implementation of ESG goals. The survey found that **the proportion of companies with a published commitment to net-zero emission targets rose to 31% in 2024.**

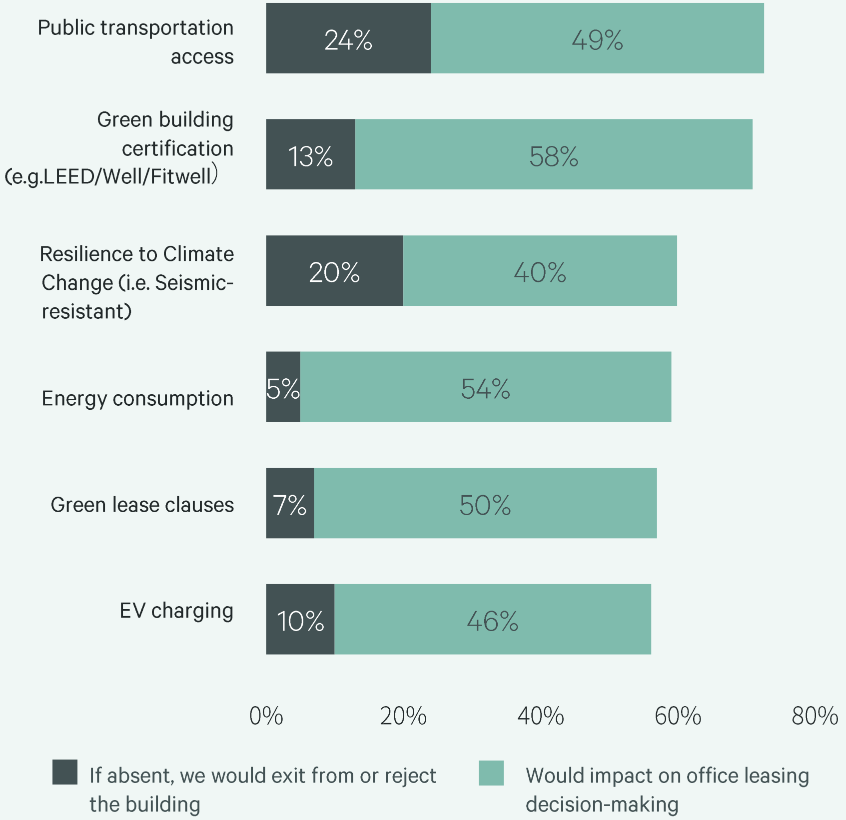
The most sought after ESG related features were named as **public transportation access** and **green building certification**. Some 20% of respondents said that resilience to climate change is a key factor in their building selection decisions, mainly driven by the increased frequency of extreme weather events. Over 50% of occupiers stated that energy consumption, green leases and electric vehicle charging stations were important ESG factors influencing their building selection.

Figure 11: Proportion of companies with established net-zero emission targets. N=237



Source: CBRE Research, September 2024

Figure 12: Most important ESG related features in building selection decisions. N=237



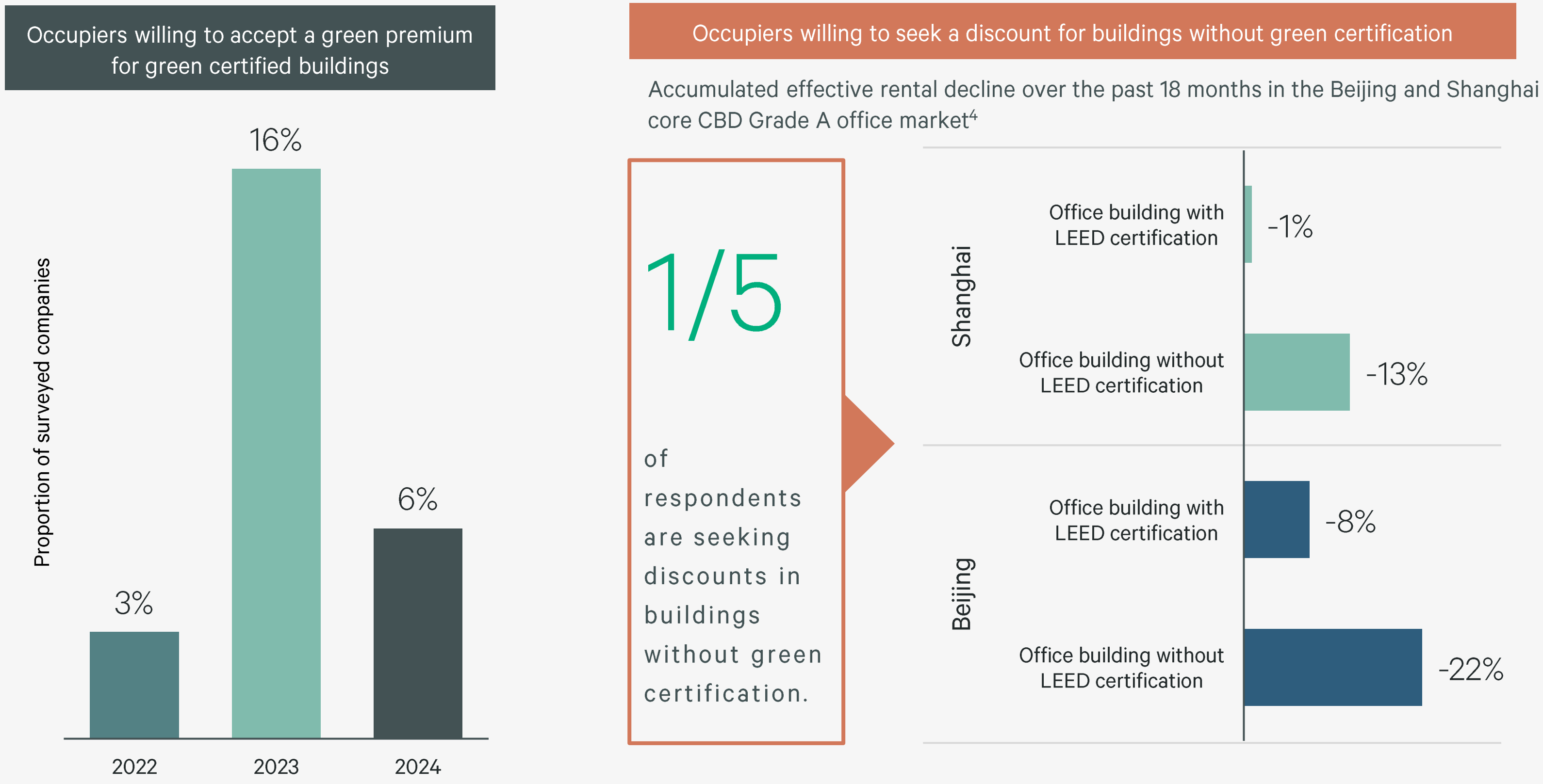
Occupiers seek discounts for buildings without green certification

Although the adoption of ESG is accelerating, the survey revealed that occupiers are attempting to strike a balance between achieving long-term ESG strategic goals and meeting short-term financial targets in an era of cost containment.

The proportion of occupiers willing to pay a rental premium for green certified buildings decreased by 10 pps. from last year's survey. **One-fifth of respondents are seeking discounts for leasing space in buildings lacking green certification.**

The presence of a 'brown discount' is gradually becoming more prominent in China's office leasing market. In the Beijing and Shanghai core CBD Grade A office market, buildings without green certification registered an accumulated effective rental decline of 12-14 pps. greater than LEED certified projects over the past 18 months.

Figure 13: Occupiers' view of a rental premium or discount for buildings with or without green certification (N=237)



Note 4: Buildings completed for more than two years with occupancy of over 80% in a steady state.

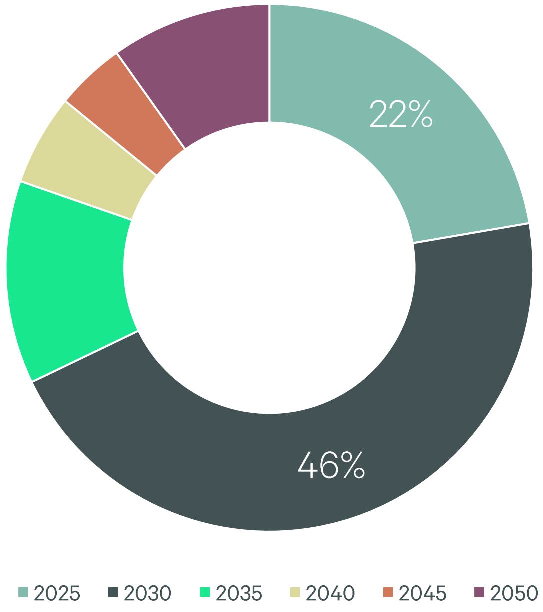
Source: CBRE Research, September 2024

Green building supply must increase to help occupiers achieve net-zero emission targets

Corporates' focus on achieving net-zero emission targets will ensure rents in buildings lacking green certification decline further. The survey found that 22% and 46% of respondents with established net-zero emission targets (31% of the total) plan to achieve their targets in 2025 and 2030, respectively. This underlines the importance of ESG related features in lease terms over the next three years.

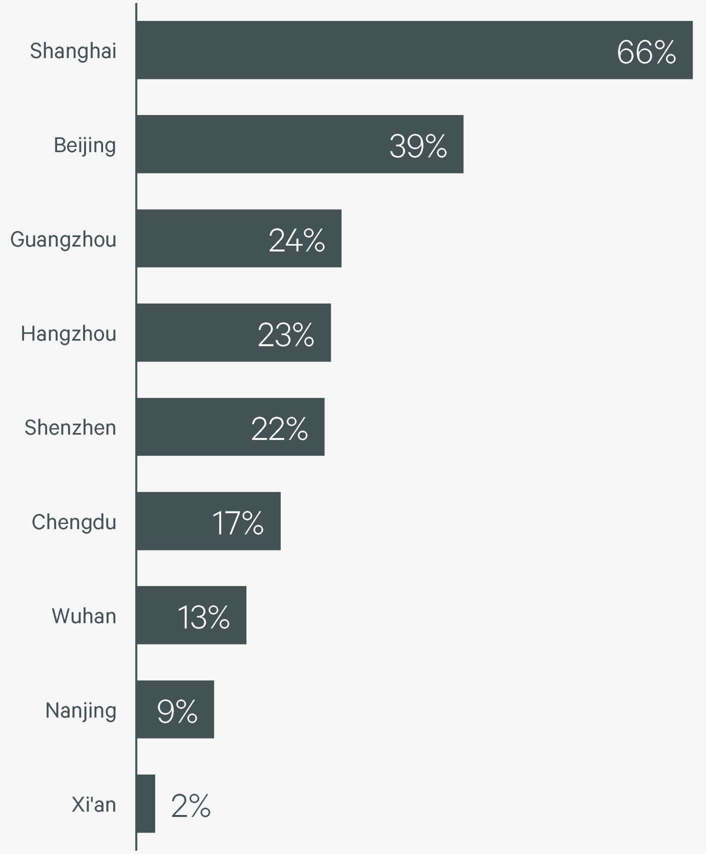
Given the current proportion of LEED certified office buildings in major cities, occupiers may find it challenging to secure space in green buildings, except for Beijing and Shanghai where supply is more plentiful.

Figure 14: Enterprises' target date of public net-zero pledges. N=72



Source: CBRE Research, September 2024

Figure 15: Proportion of LEED certified building stock in major cities of mainland China



Green energy and energy saving taken into consideration for building selection

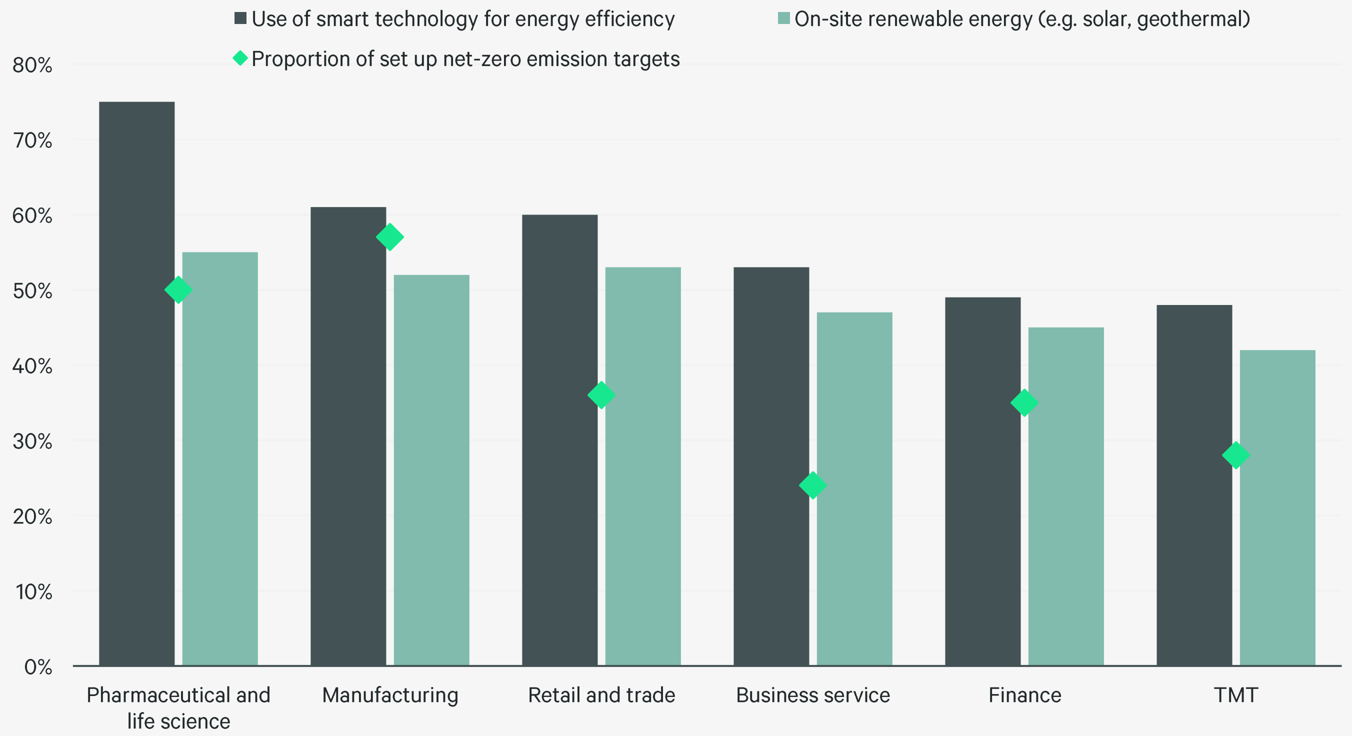
In addition to public transportation access and green building certification, companies are displaying a sharper focus on initiatives to measure carbon emission reduction, such as green energy usage and energy efficiency.

Pharmaceutical & life science and manufacturing were the sectors with the highest proportion of enterprises committed to reaching net-zero emission targets, along with the highest intentions to optimise real estate energy consumption in building selection.

CBRE recently assisted a multinational pharmaceutical company in conducting an energy audit on its wholly occupied R&D building in Beijing. With the company having committed to achieving carbon neutral operations by 2025, CBRE recommended the firm install a smart energy metering and management system to better control energy usage. Other energy-saving measures proposed by CBRE included replacing antiquated boiler room facilities; fully applying LED lights; and adopting typical zone controls within the building.

Occupiers located in multi-tenanted properties are suggested to collaborate with landlords to improve the energy consumption of the building and its supporting amenities.

Figure 16: Proportion of occupiers that value attached ESG features as priorities in building-selection decisions (breakdown by industry). N=237



Source: CBRE Research, September 2024

Implications and recommendations

Occupiers

Optimise corporate real estate portfolios to achieve cost containment and flight-to-quality

- With office supply, demand and rents expected to continue to favour occupiers over the next 12 months, companies, particularly those with large-scale space consolidation and relocation plans, are recommended to optimise cost containment and flight-to-quality strategies.
- Given ongoing global economic uncertainty and cyclical fluctuations affecting certain industries, companies are advised to request flexible lease terms while signing or restructuring leases. Utilising coworking space can further enhance corporate real estate portfolio resilience.

Create workplaces to satisfy both space efficiency and employee experience

- Occupiers are advised to formulate a systematic approach to evaluate the utilisation of office space and establish a baseline for space optimisation and efficiency improvements according to criteria such as office space per capita, employee-to-desk sharing ratio, diversified space functions and real estate technology.
- Given the barriers to relocation posed by insufficient CapEx budgets and current lease terms, occupiers may consider reconfiguring their workplace or furniture layout to boost space efficiency and enhance employee experience.

Promote green leases by capitalising on the occupier favoured market

- Occupiers must strike a balance between short-term cost-driven strategies and long-term energy savings, carbon reduction goals and employee wellness when formulating real estate strategies.
- Enterprises targeting to achieve carbon neutral status by 2030 may consider increasing the proportion of leased space in green certified buildings in their real estate portfolios and capitalise on the current tenant-favoured market by asking landlords to include green clauses into lease terms.

Landlords

Capture both existing and new demand

- Industrial and consumption upgrading will support demand momentum from firms in new and advanced technology sectors, such as advanced manufacturing, life science and TMT. Expansionary demand will continue to be seen from business services, asset, and wealth management companies.
- Landlords are advised to be cognisant of flight-to-quality demand potential from occupiers located in Grade B buildings or buildings of a lower grade.
- With the office supply-demand structure in most markets continuing to favour occupiers over the next two or three years, landlords are advised to promptly negotiate renewal or lease re-structures with anchor occupiers.

Improve business amenities and value-added services

- Rather than simply offering lower rents, landlords should provide customised solutions such as rental discounts, subsidies, amenities, value-added services, and flexible lease terms.
- Owners should continuously enrich and optimise building amenities. Landlords with limited resources can overcome financial constraints by cooperating with neighbouring commercial or business facilities.
- Landlords should provide turnkey space or customised turnkey solutions for small sized businesses with high flexibility or insufficient CapEx. Relationships with occupiers can be enhanced by offering value-added services for office refurbishment.

Expedite the adoption of green building and ESG related technological services

- With the competitiveness of buildings lacking green certification having fallen sharply due to the rising number of enterprises with carbon neutral goals, landlords are recommended to promote the green retrofitting and certification of existing properties, along with enhancing communication with occupiers regarding their ESG goals and strategies.
- Other measures may include gradually incorporating green clauses into office leases.
- Property owners can increase spending on renewable energy, smart energy-saving, and data sharing equipment in response to occupier demand for such technologies.

Source: CBRE Research, September 2024

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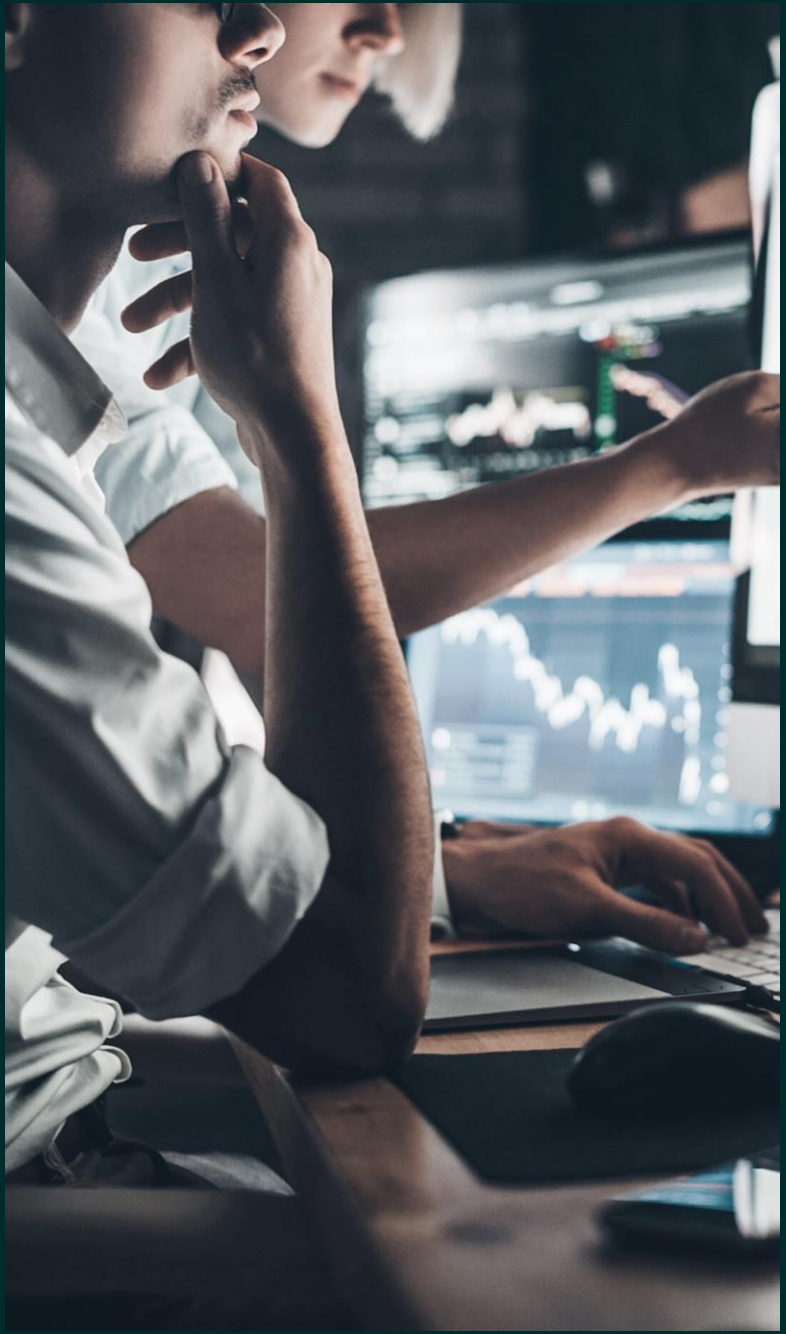
Survey Profile



Survey Profile

- **CBRE's 2024 China Office Occupier Survey was conducted from May 27, 2024 to June 30, 2024.**

237 Mainland China Responses

71% Domestic

29% Foreign

Responses by industry

29%	20%	14%	10%	8%	5%	4%
TMT	Finance	Business Service	Manufacturing	Pharmaceutical and Life Science	Retail and Trade	Real Estate

Responses by company size

60%	26%	14%
Small and medium sized companies (employees <500)	Large sized companies (employees 500~5000)	Mega sized companies (employees >5000)

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