CBRE INDEX REPORT
CBRE RESEARCH

Q1 2021
T25 China Tech District Rental Index

This year marks the launch of China's 14th Five-Year plan (FYP). The 14th FYP aims to strengthen the country's economic quality and efficiency; enhance technological innovation to accelerate economic transformation and upgrading; and prioritise domestic circulation while promoting positive interplay with international circulation.

Technological innovation is already emerging as a key component of economic transformation and internal circulation. During the 14th FYP period, the value added of the digital economy is projected to increase from 7.8% to 10% of GDP. To meet this target, the government is providing incentives to support the development of Beijing, Shanghai and the Greater Bay Area (GBA) into international technological innovation centres, while also establishing regional centres in other qualified cities.

T25
世邦魏理仕
中国科创中心
租金指数
CBRE CHINA TECH DISTRICT RENTAL INDEX

Figure 1: Key Development Targets of Technology and Innovation Industries under the 14th FYP

Industrial Upgrading

Annual growth in R&D expenditure **7%**

Strategic emerging industries as % of GDP **>17%**

Digital economy as % of GDP **10%**

Talent Supply

Raise higher education gross enrolment ratio to **60%**

Strengthen the training of **innovative, applied and skilled** talents

Further Loosen the Hukou policy

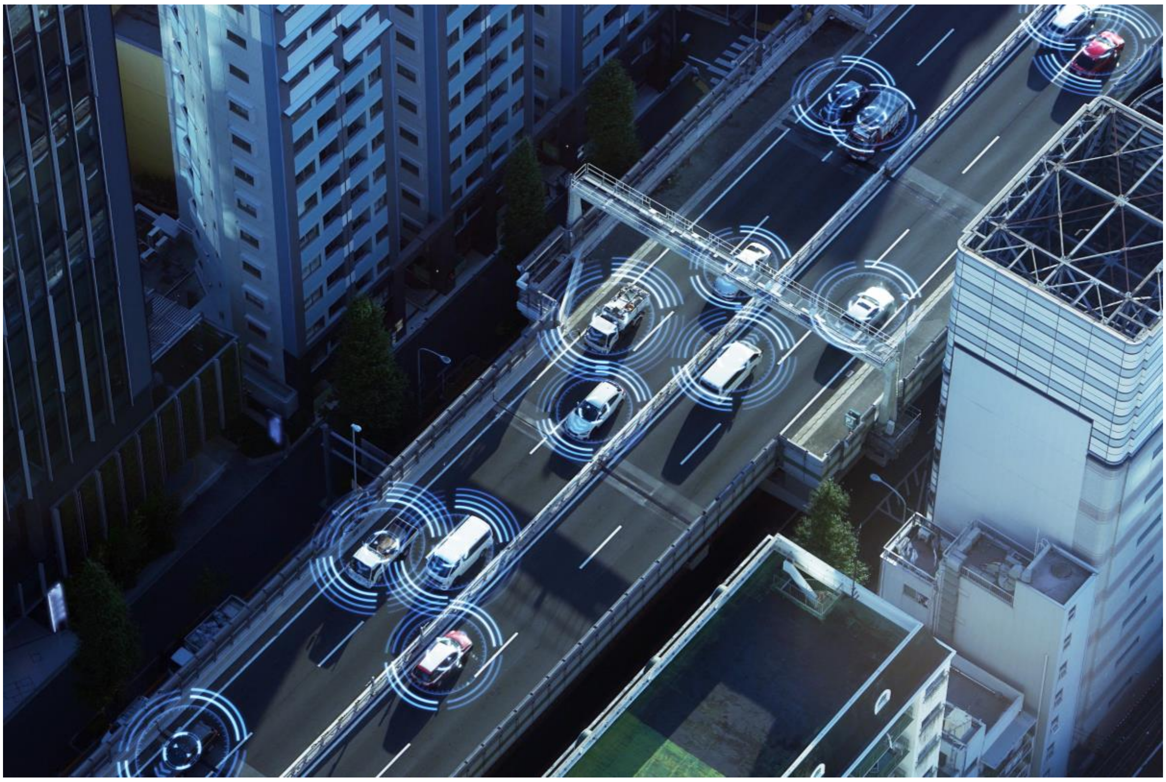
Enterprise Incentives

Develop **Beijing, Shanghai** and the **Greater Bay Area** into international technological centres

Support **foreign companies** to set up R&D centres in China participate in national technological projects

Grant an extra tax deduction of **100%** on enterprises' R&D costs

Source: China's 14th Five-Year Plan: Highlights and Implications for Real Estate, CBRE Research, April 2021



T25 China Tech District Rental Index Rationale and Methodology

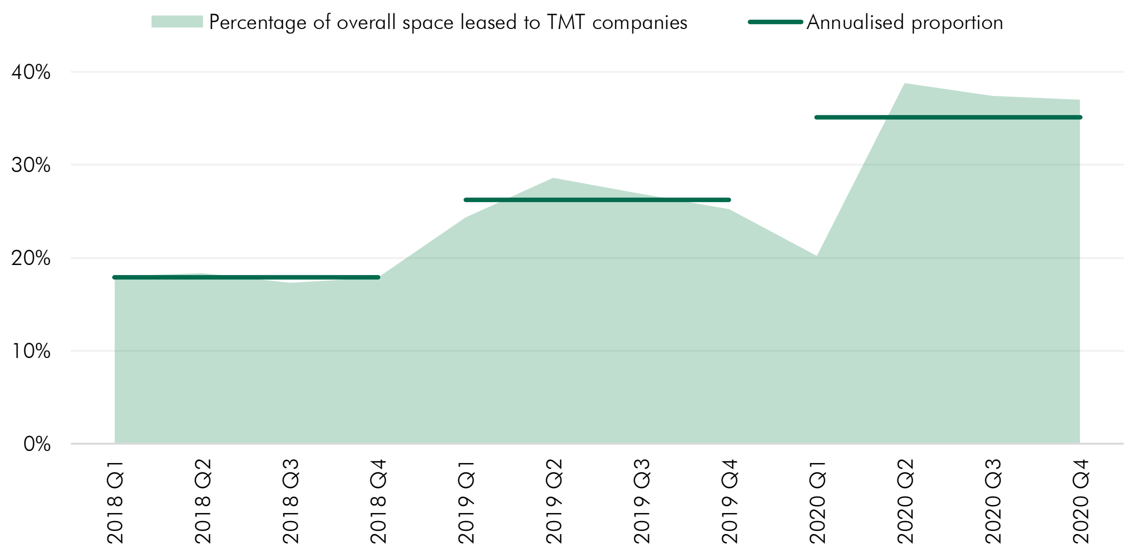
Rationale Behind Creating the T25 China Tech District Rental Index

With technology and innovation playing a prominent role in driving China's economic transformation, the drivers of the office leasing market are gradually evolving. Between 2018 and 2020, technology, media and telecom (TMT) firms' share of total nationwide occupied office space rose from 18% to 35%, surpassing the financial sector to become the largest single industry occupier.

Over the next five years, the tech sector is predicted to grow rapidly in terms of its number of start-ups, company scale and quality. Oxford Economics expects employment within the information technology sector in China to expand at an accumulated growth rate of 17% during the 14th FYP period, eclipsing growth witnessed during the 13th FYP from 2016-2020. This trend will translate to strong demand for additional office space from companies operating in these industries.

Given the increasing importance of the tech sector to the nationwide office market, CBRE has begun conducting more focused and regular research into locations where science and technology-related occupiers are highly concentrated. The result of this initiative is the **T25 China Tech District Rental Index**, which is designed to serve as a reference for tech occupiers looking to stay informed of current leasing market trends and investors seeking opportunities to acquire assets catering to this burgeoning source of demand. The Index will also be of use to authorities considering steps to further regulate China's commercial real estate market.

Figure 2: Percentage of Space Leased to TMT Companies in Office Buildings or Business Parks



Source: CBRE Research, April 2021

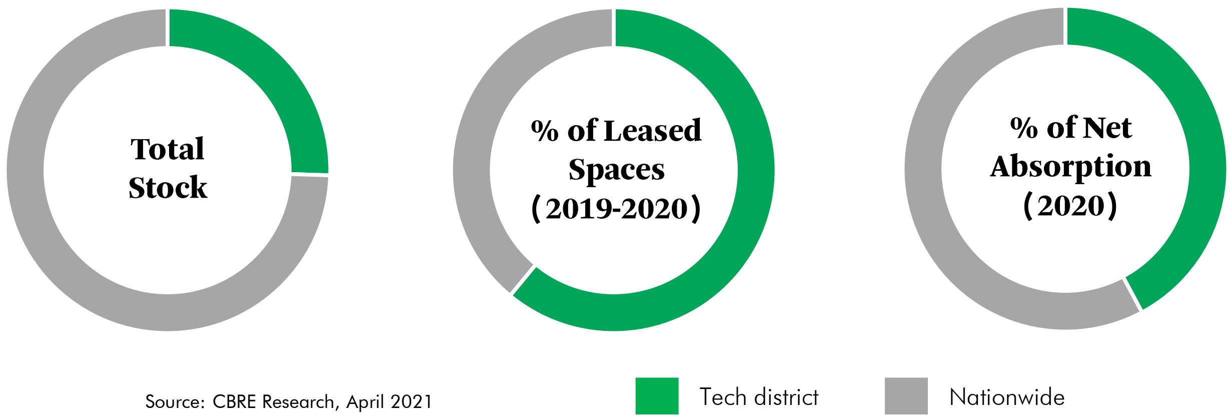
T25 China Tech District Rental Index Methodology

To create the T25 China Tech District Rental Index, CBRE identified 25 tech districts, either office submarkets or business park submarkets, that are in tier I and tier II cities and meet certain criteria related to market size, tenant structure and lease dynamics.

The Index, which is published on a quarterly basis, tracks like-for-like rents in 25 tech districts along with other headline data such as net absorption, vacancy and leasing activity. The Index is calculated by weighting the rental index of each tech district with the current stock of office submarkets and business park submarkets.

As of the end of 2020, total office stock in the 25 tech districts totalled **31.9 million** sq. m., representing **26%** of total nationwide office stock^. The 25 tech districts accounted for **61%** of all leased space by the TMT industry in the past two years. They also attracted **42%** of total nationwide office net absorption in 2020, an increase of 4 ppts compared to 2018. These data reflect the both the TMT industry's rapid growth and its preference for agglomerating in certain locations.

Figure 3: Tech Districts' Share of Stock and Leasing Demand



Source: CBRE Research, April 2021

Note^: Total stock includes office markets in 18 major cities in China and business park markets in Beijing and Shanghai.

Q1 2021 T25 China Tech District Rental Index Review

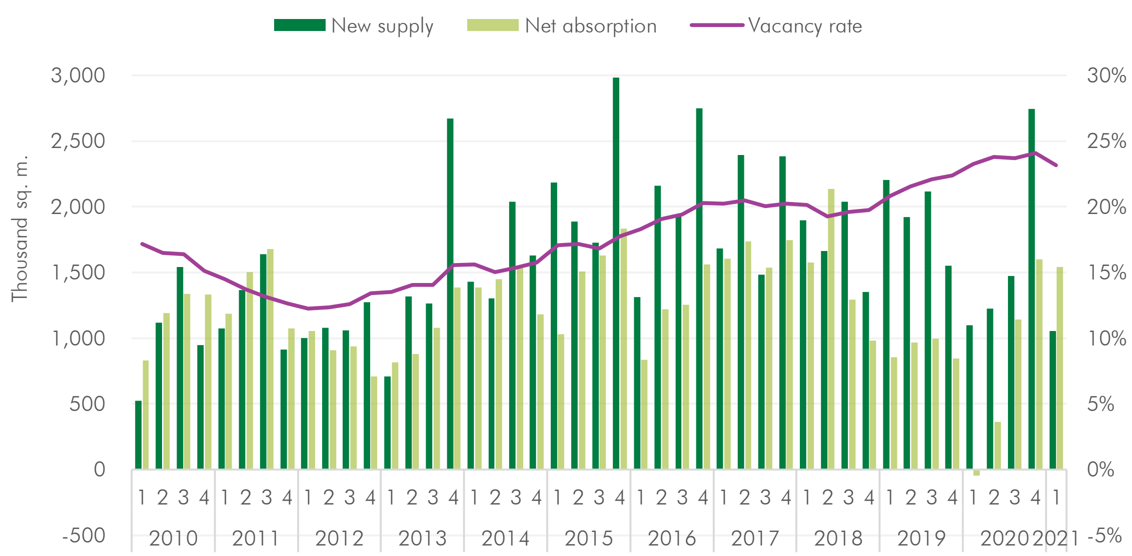
Q1 2021 China Office Market Overview

Office leasing activity in the 18 major cities tracked by CBRE remained on a recovery track in Q1 2021. While traditionally a quiet period, business activity and lease negotiations resumed quickly after the Chinese New Year holidays in mid-February. Nationwide office net absorption reached 1.54 million sq. m. during the quarter, exceeding that recorded during the corresponding periods of 2019 and 2020.

Net absorption in tier I cities rose by 5.6% q-o-q to 770,000 sq. m, comprising around 50% of the total. While tier II cities registered a 11% q-o-q decline in net absorption, several cities bucked the downward trend. These included Hangzhou, Nanjing and Chengdu, which achieved quarterly growth of 158% q-o-q, 97% q-o-q and 20% q-o-q, respectively.

Stronger demand ensured the overall vacancy rate declined 1 ppts to 23.1% in Q1 2021, with 15 of the 18 major cities tracked by CBRE recording a drop in vacancy.

Figure 4: Nationwide Office New Supply, Net Absorption and Vacancy Rate



Source: CBRE Research, April 2021

TMT companies remained active in the leasing market in Q1 2021, contributing 42% of total leased office space, the highest total since CBRE's records began. The sector also accounted for 52% of total leased space involving large-scale transactions^. The rate of decline in office rents slowed in Q1 2021 from the previous quarter.

Note^: Large-scale transactions are deals involving space greater than 2,000 sq. m..

Q1 2021 T25 China Tech District Rental Index

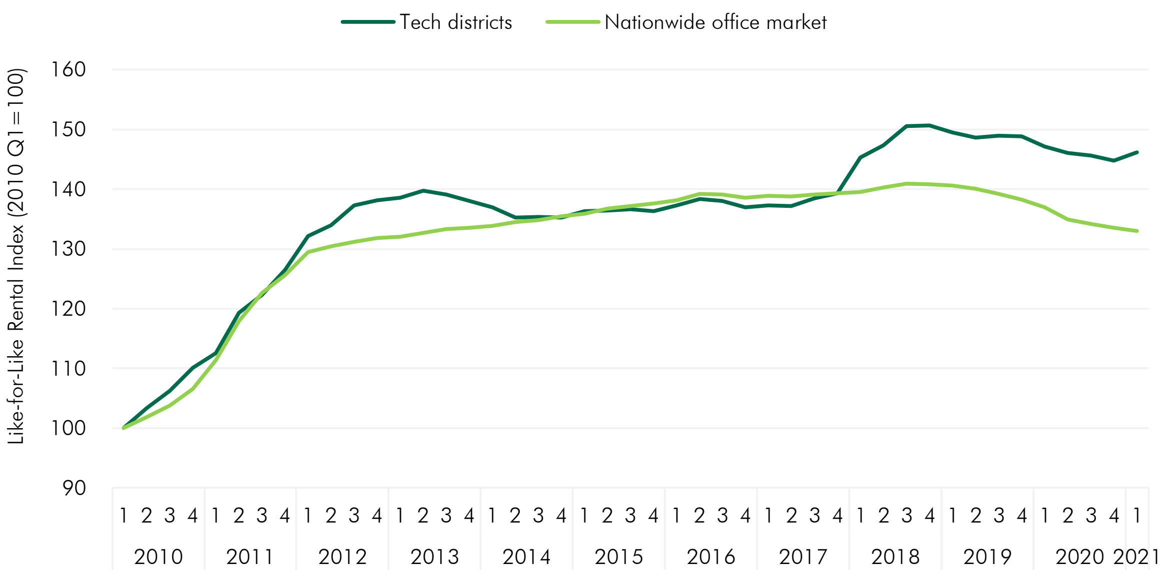
T25 Rental Index		Number of Cities Recording Higher and Lower Rents					
Rental Index	Q-o-Q Change	Up	Q-o-Q Change	Stable	Q-o-Q Change	Down	Q-o-Q Change
146.1	0.9%	6	-1	7	+2	12	-1

CBRE data show that tech districts have proven resilient against recent headwinds such as China-U.S. trade conflict and the COVID-19 pandemic. From 2018 to 2020, CBRE's T25 Tech District Rental Index recorded accumulated rental growth of 5%, compared to a 4.5% decline in the Nationwide Office Rental Index.

Supported by strong leasing demand, CBRE's T25 China Tech District Rental Index reached 146.1 in Q1 2021, an increase of 0.9% q-o-q from Q4 2020. In contrast, the Nationwide Office Rental Index registered further losses. During the quarter, the difference between these two indicators expanded from 11.3 to 13.1, marking the largest gap since records began.

Six tech districts recorded higher rents on q-o-q basis in Q1 2021, with Beijing Dongsheng, Beijing Zhongguancun and Shanghai Zhangjiang registering the strongest gains. Although 12 tech districts recorded lower rents, the rate of decline in seven of these districts slowed compared to the previous quarter.

Figure 5: Tech District and Nationwide Office Rental Index Comparison



Source: CBRE Research, April 2021

Q1 2021 T25 China Tech District Vacancy

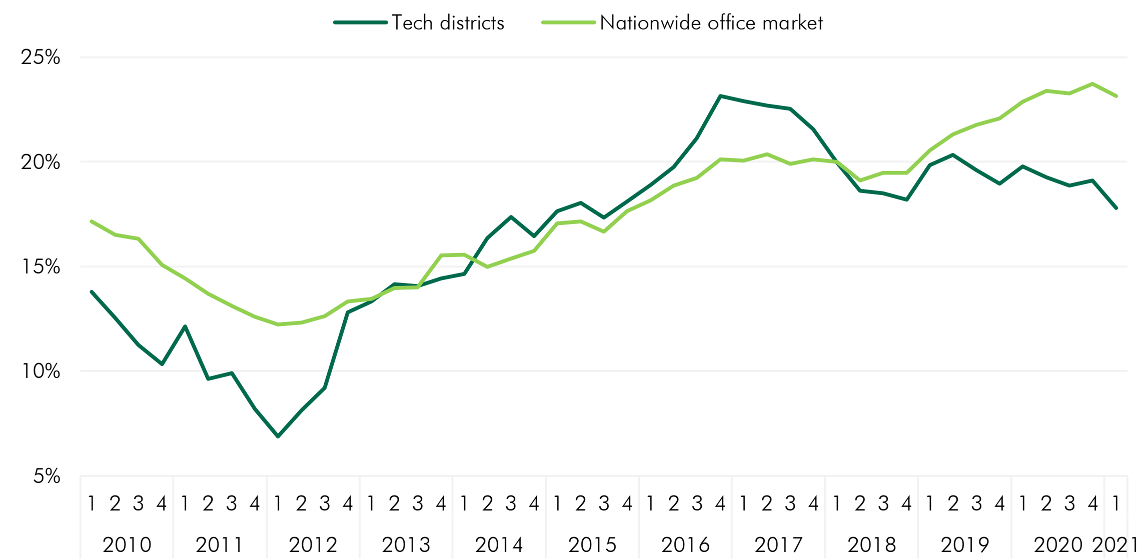
T25 Vacancy Rate		Number of Cities Recording Higher and Lower Vacancy					
Vacancy Rate	Q-o-Q Change	Up	Q-o-Q Change	Stable	Q-o-Q Change	Down	Q-o-Q Change
17.8%	-1.3 ppts	5	-3	0	-1	20	+4

The overall vacancy rate in the 25 tech districts continued to decrease in Q1 2021, falling by 1.3 ppts q-o-q and 2 ppts y-o-y to a historical low of 17.8% after Q4 2015. Overall vacancy in the 25 tech districts now stands 5.3 ppts below nationwide office vacancy.

20 tech districts recorded lower vacancy this quarter, an increase of four from Q4 2020. Hangzhou Jiangcun, Shanghai Hongqiao CBD and Beijing Shangdi reported the largest declines in vacancy. Five tech districts registered higher vacancy, three fewer than in the previous quarter, with a large volume of new supply in Shanghai Xuhui Riverview pushing up the vacancy rate substantially. Beijing Olympic and Wuhan Optical Valley also reported higher vacancy.

Seven of the 25 tech districts recorded a vacancy rate of below 10% this quarter. Beijing Zhongguancun, Shangdi, Dongsheng, Z-Park and Hangzhou Jiangcun all reported vacancy of under 5%. Another seven tech districts – predominantly those in tier II cities in central and western China and emerging submarkets in Shanghai and Shenzhen - recorded vacancy of over 25%.

Figure 6: Tech District and Nationwide Office Vacancy Rate



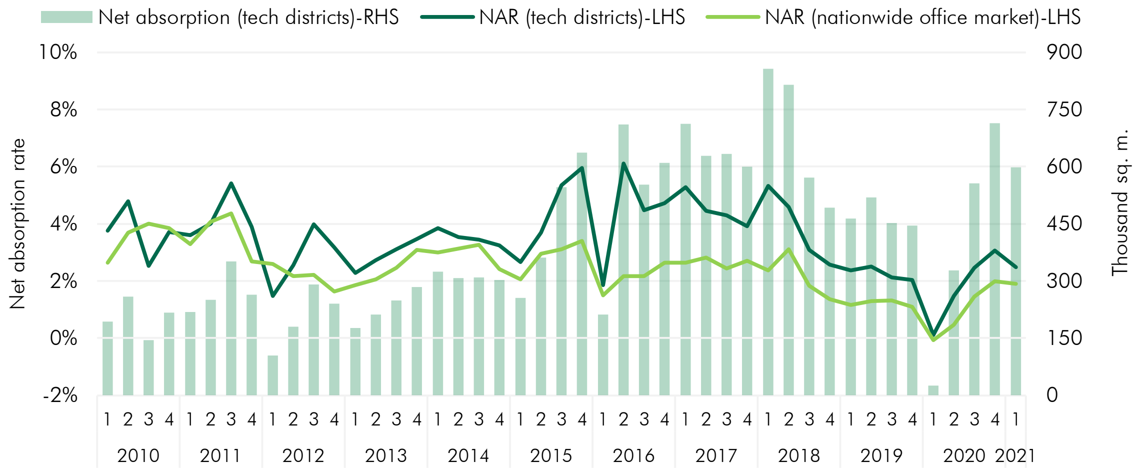
Source: CBRE Research, April 2021

Q1 2021 T25 Tech District Leasing Demand

Net absorption in the 25 tech districts reached 600,000 sq. m. in Q1 2021, well above the corresponding periods in 2019 and 2020. Shenzhen High-Tech Park, Guangzhou Pazhou and Shanghai Zhangjiang were the top three markets in terms of net absorption. Beijing Zhongguancun, Z-Park, and Hnagzhou Jiangcun also saw strong leasing activity, with recently vacated spaces quickly filled by new tenants.

The net absorption rate in tech districts reached 2.5% in Q1 2021, 0.6 ppts higher than that in the overall nationwide office market, underlining tech districts' superior performance.

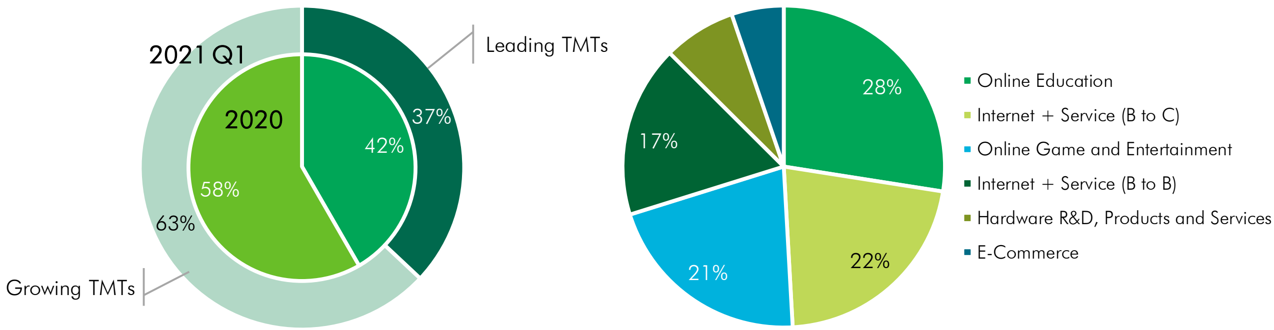
Figure 7: Tech District and Nationwide Office Market Net Absorption Rate (NAR)^ Comparison



Source: CBRE Research, April 2021
Note^: Net Absorption rate = net absorption in the quarter under review / total occupied space in previous quarter

Leading tech companies* displayed strong expansionary demand in Q1 2021, collectively accounting for 37% of total leased space in the 25 tech districts. The median size of leasing transactions concluded by leading companies was 5,000 sq. m.. Shenzhen High-Tech Park, Houhai and Guangzhou Pazhou were the most popular submarkets in terms of leased spaces during the quarter. Despite robust demand, leading tech companies' share of overall leasing activity underwent a slight drop compared to the same period of 2020 as the improving business environment encouraged some expansion by smaller but rapidly growing TMT companies. In terms of industry demand, online education, internet plus personal services and online gaming/entertainment firms were among the most active occupiers.

Figure 8: Tech District Tenant Analysis



Source: CBRE Research, April 2021
Note*: Leading tech companies include the top 20 internet companies ranked by the Internet Society of China (ISC) in 2020 and Chinese tech unicorns with a valuation above USD 10 billion identified by CB Insights.

Appendix

T25 China Tech District Rental Index Methodology

To compile the T25 China Tech District Rental Index, CBRE identified 25 tech districts (office submarkets or business park submarkets) that met the following criteria related to market size, tenant structure and lease dynamics.

TECH DISTRICT CRITERIA	
MARKET SIZE	• Office or Business Park^ Inventory (current stock by the end of 2020 and 2021-2022 new completions) according to CBRE's definition: >500,000 sq. m. in Tier I cities; > 300,000 sq. m. in Tier II cities
TENANT STRUCTURE	• The proportion of total leased space by TMTs in selected tech districts should be no less than 30%. Self-built headquarters assets are also included; • Appropriate relaxation of standards for rapidly forming emerging sub-markets
LEASE DYNAMICS	• The TMT industry must have contributed 30% or more of all leasing transactions in the selected submarket from 2019-2020. Leasing transactions include new set-up, expansion, upgrading and relocation

Source: CBRE Research, April 2021
Note^: Business park markets only include Beijing and Shanghai.

Q1 2021 Headline Data for T25 China Tech Districts

City	Name of Tech District	Vacancy / Q-o-Q Change	Face Rent / Q-o-Q Change
Beijing	Zhongguancun	2.1% ▼	329 ▶
Beijing	Olympic Area	27.3% ▲	332 ▼
Beijing	Wangjing	6.5% ▼	257 ▲
Beijing	Shangdi	3.3% ▼	163 ▶
Beijing	Z-Park	4.4% ▼	168 ▲
Beijing	Dongsheng	3.8% ▼	193 ▲
Beijing	Beiqing Road	12.4% ▼	119 ▶
Beijing	BEZ	13.2% ▼	171 ▼
Shanghai	Xuhui Riverside	55.0% ▲	194 ▶
Shanghai	Wujiaochang	17.5% ▲	177 ▼
Shanghai	Hongiqoa HQ	26.4% ▼	192 ▼
Shanghai	Zhangjiang	13.7% ▼	135 ▲
Shanghai	Caohejing	7.8% ▼	148 ▲
Guangzhou	Pazhou	15.5% ▲	149 ▼
Shenzhen	Houhai	20.8% ▼	216 ▼
Shenzhen	Hi-Tech Park	16.6% ▼	165 ▼
Shenzhen	Qianhai	55.8% ▼	161 ▶
Hangzhou	Future Science City	21.1% ▼	94 ▼
Hangzhou	Jiangcun	4.9% ▼	120 ▼
Chengdu	Dayuan	16.2% ▼	78 ▲
Chengdu	Financial City	17.5% ▼	85 ▶
Wuhan	Optics Valley	28.6% ▲	89 ▼
Xi’an	Hi-Tech	31.6% ▼	81 ▼
Chongqing	Dahua	23.2% ▼	65 ▼
Chongqing	Zhaomushan	17.0% ▼	80 ▶
Total		18.2% ▼	0.9% ▲

Source: CBRE Research, April 2021
Rental Unit: RMB per sq. m. per month

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