

China Office Occupier Survey 2022

REPORT

CBRE
CHINA RESEARCH

SEPTEMBER 2022



Summary of Key Trends



01

While the pandemic resurgence is set to impact corporate revenue in 2022, the outlook for finance and professional services demand remains upbeat

Around **70%** of respondents stated that this year's resurgence in COVID-19 infections and associated lockdowns would weigh on corporate revenue in 2022. However, 36% of respondents still expect to extend their office footprint over the next 18 months. Sentiment towards expansion was strongest in the professional services (**55%**), finance (**42%**) and TMT (**31%**) sectors.

02

There is a window of opportunity for tenants to secure attractive terms

Although leasing activity slowed under the impact of restrictions to contain the spread of COVID-19, **demand was more resilient compared to the period immediately after the onset of the pandemic in early 2020**. This year has continued to see **a steady flow of flight to quality, expansion and relocation** demand from a wide range of industries. Amid increasing vacancy, occupiers have enjoyed a greater variety of choice and are in a stronger bargaining position to secure high quality office space.

03

Occupiers are prioritising sustainability and placing a stronger focus on employee wellness and green buildings

Around **50%** of respondents have implemented or plan to implement policies to strengthen **employee wellness**, while around **35%** of respondents are considering doing the same. **80%** of respondents displayed an interest in **green office buildings**, with the survey also uncovering a greater willingness to include green features in leasing due diligence in future.

01

Demand momentum

Although the Omicron-driven resurgence in COVID-19 infections weighed on corporate performance in 2022, companies in the finance and professional services sectors continued to display expansionary demand.

Business activity rebounds and employees swiftly return to the office after lockdowns end

Business activity in H1 2022 was inevitably impacted by strict lockdowns to contain the spread of COVID-19 in cities such as Beijing, Shanghai and Shenzhen.

Following the relaxation of pandemic prevention and control measures in most cities in June, employees swiftly returned to the office. 84% of respondents in cities impacted by lockdowns had brought 70% of their staff back to the office by the end of June, with 56% managing to bring all their employees back to the office by the same date.

Despite the severity and duration of lockdowns in Beijing and Shanghai, 83% of respondents in these cities stated that 70% of their employees had returned to the office by the end of June, with over half of occupiers surveyed succeeding in bringing all their staff back to the office by the same date.

The service industry experienced a strong rebound over the summer months, with the China Service Purchasing Managers Index (PMI) rebounding sharply from June to July and remaining above the level indicating expansion. Over 75% of industries reported stronger business activity over the period.

Figure 1: Office attendance post-lockdown

Q: What has been the level of office attendance since the lockdown ended?

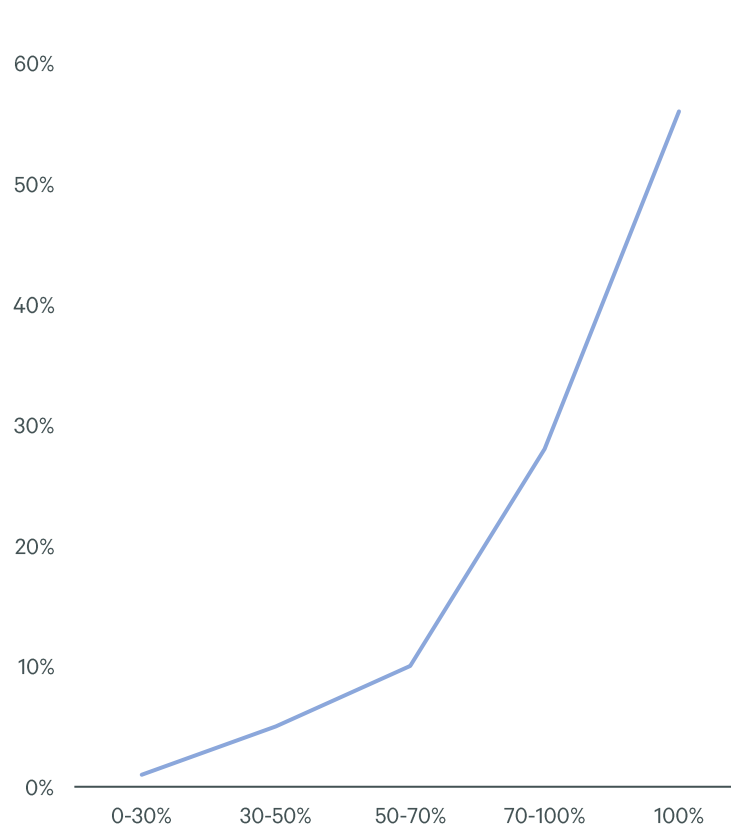


Figure 2: China Service Purchasing Managers Index



Source: National Bureau of statistics, CBRE Research, August 2022

Lockdowns weigh on corporate business performance in 2022

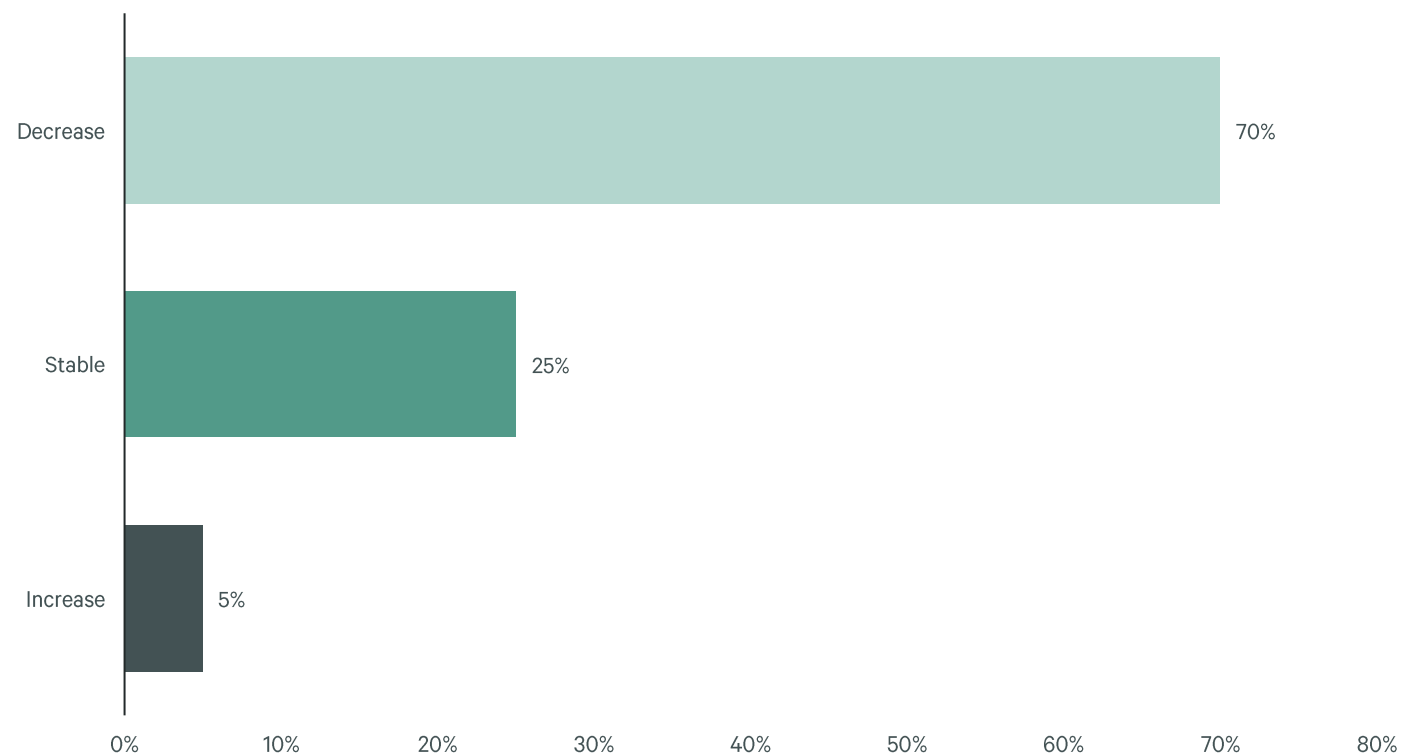
Despite the rapid return to the office, 70% of respondents stated that their annual operating income would be impacted by measures to contain the spread of COVID-19. However, 25% of respondents clarified that their business situation remained stable, with 5% expecting to achieve growth in annual operating income.

The finance sector has been relatively less affected by the measures, with 40% of respondents stating that their business performance remains stable, and 8% of respondents expecting their operating income to increase in 2022.

Office-occupying industries that have been hit relatively harder by lockdowns include retailers, with around 90% of such respondents expecting their annual operating income to decline in 2022. Among other sectors, supply chain disruption and factory shutdowns weighed on manufacturing industry tenants' expectations of business performance for the year.

Figure 3: Corporates' expectations of operating income in 2022 compared with pre- lockdown period

Q: How would you describe the business situation for your company in 2022?



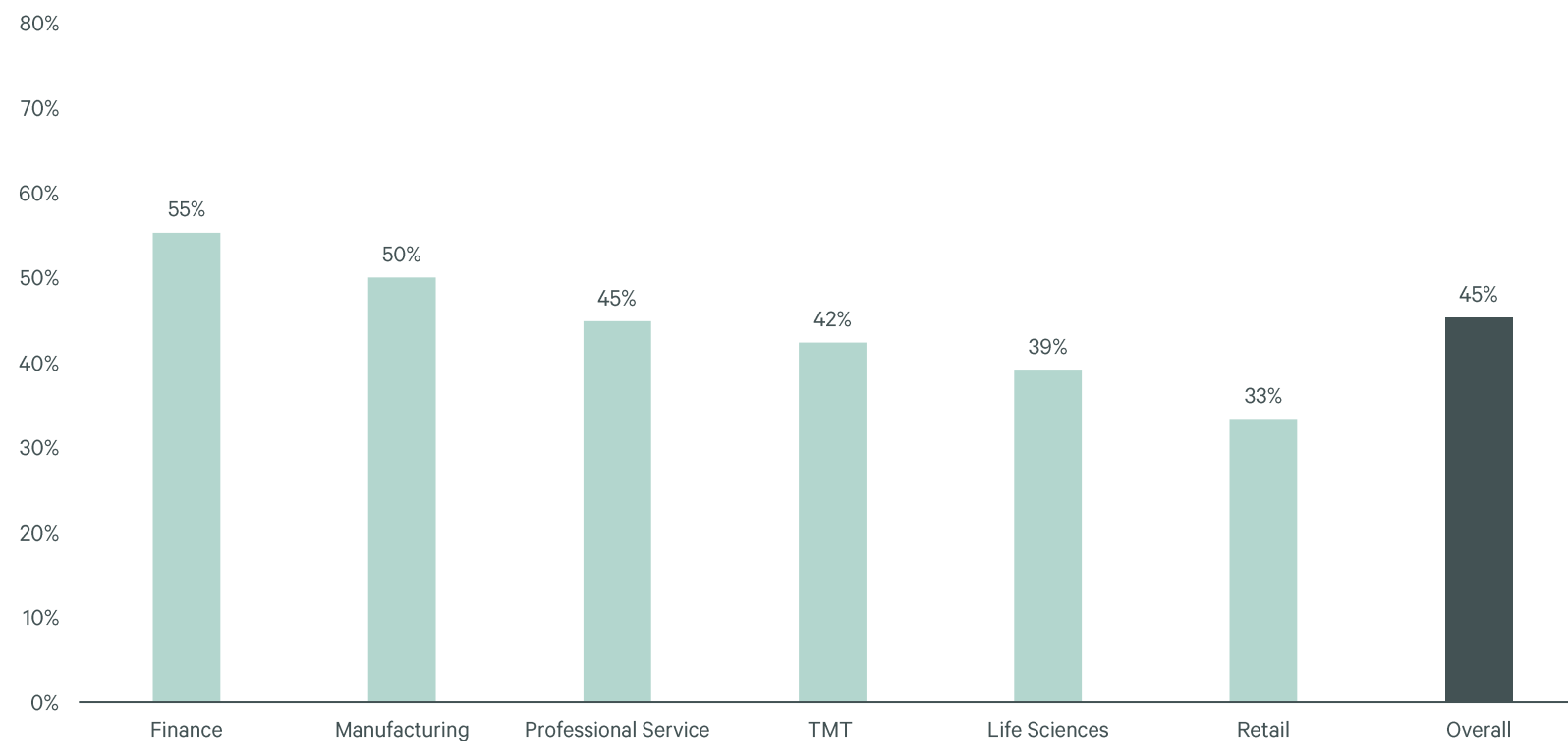
Companies expect revenue to improve in 2023: finance and manufacturing sectors set to lead growth

With the recent resurgence in COVID-19 infections having largely been contained, CBRE expects China's GDP growth to rebound to 5.1% in 2023. The survey uncovered a similar belief among office tenants that better times are ahead, with 45% of respondents expecting an increase in their business operating income in 2023.

Finance sector (55%) respondents were the most positive with regard to expectations of growth in business income, followed by the manufacturing sector (50%), perhaps in anticipation of the stabilisation of supply chains. 45% of respondents from the professional service sector expect their operating income to increase next year.

Figure 4: Expectations of higher business operating income in 2023 by industry

Q: How would you describe your expectations of business operating income for your company in 2023?



Around one-third of occupiers expect to increase office space; domestic firms set to drive expansionary demand

Based on expectations of improved business performance, 36% of respondents expect to increase their office space over the next 18 months, while 37% of respondents expect to retain their current office footprint. Both these ratios are higher than those uncovered by a similar survey conducted by CBRE in the aftermath of the onset of the pandemic in early 2020.

55% of respondents from the professional service sector, 42% of respondents from the finance sector, and 30% of respondents from the TMT sector plan to increase their office space, indicating that these sectors are set to remain the primary drivers of office leasing demand nationwide.

The survey also found that domestic companies are likely to display stronger expansionary demand than their foreign counterparts, with 40% of local firms expecting to expand their office space over the next 18 months, compared to just 28% for foreign companies. However, demand from foreign financial institutions, professional services companies and consumer product manufacturing firms is expected to be relatively strong.

CBRE expects nationwide office net absorption to reach 6.1 million sq. m. in 2023, a level 25% above the average over the past five years (2018-2022).

Source: CBRE Research, August 2022

Figure 5: Expectations of change to office portfolios over the next 18 months

Q: How do you expect your company's office portfolio to change over the next 18 months (from mid-2022 until the end of 2023)?

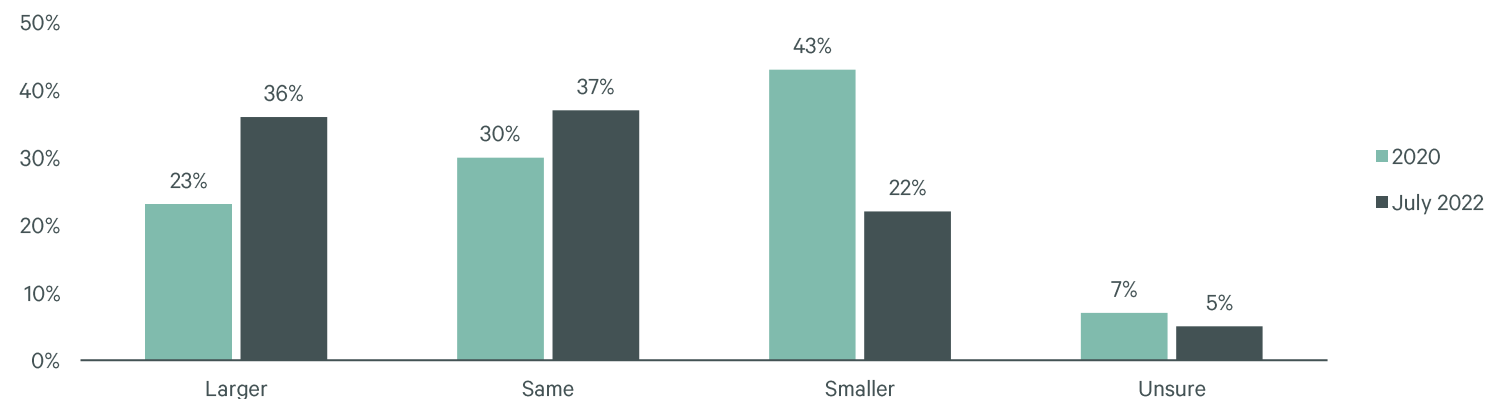
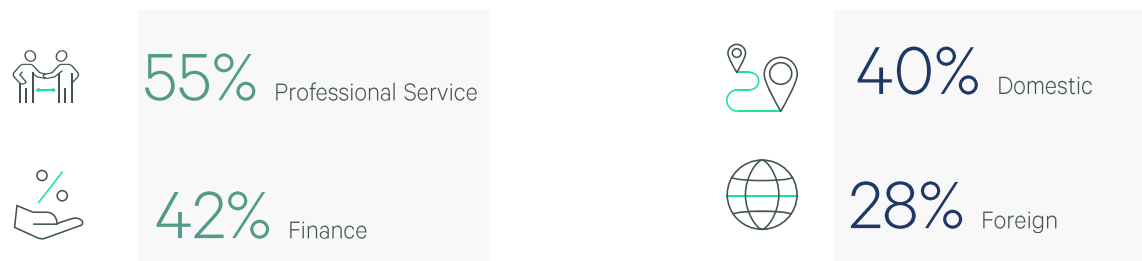


Figure 6: Expectations of increases in office portfolios over the next 18 months (by industry and market of origin) ^



Note^: Figures on the left indicate the percentage of industry respondents selecting 'larger office portfolios', figures on the right indicate the percentage of domestic and multinational respondents selecting 'larger office portfolios'.

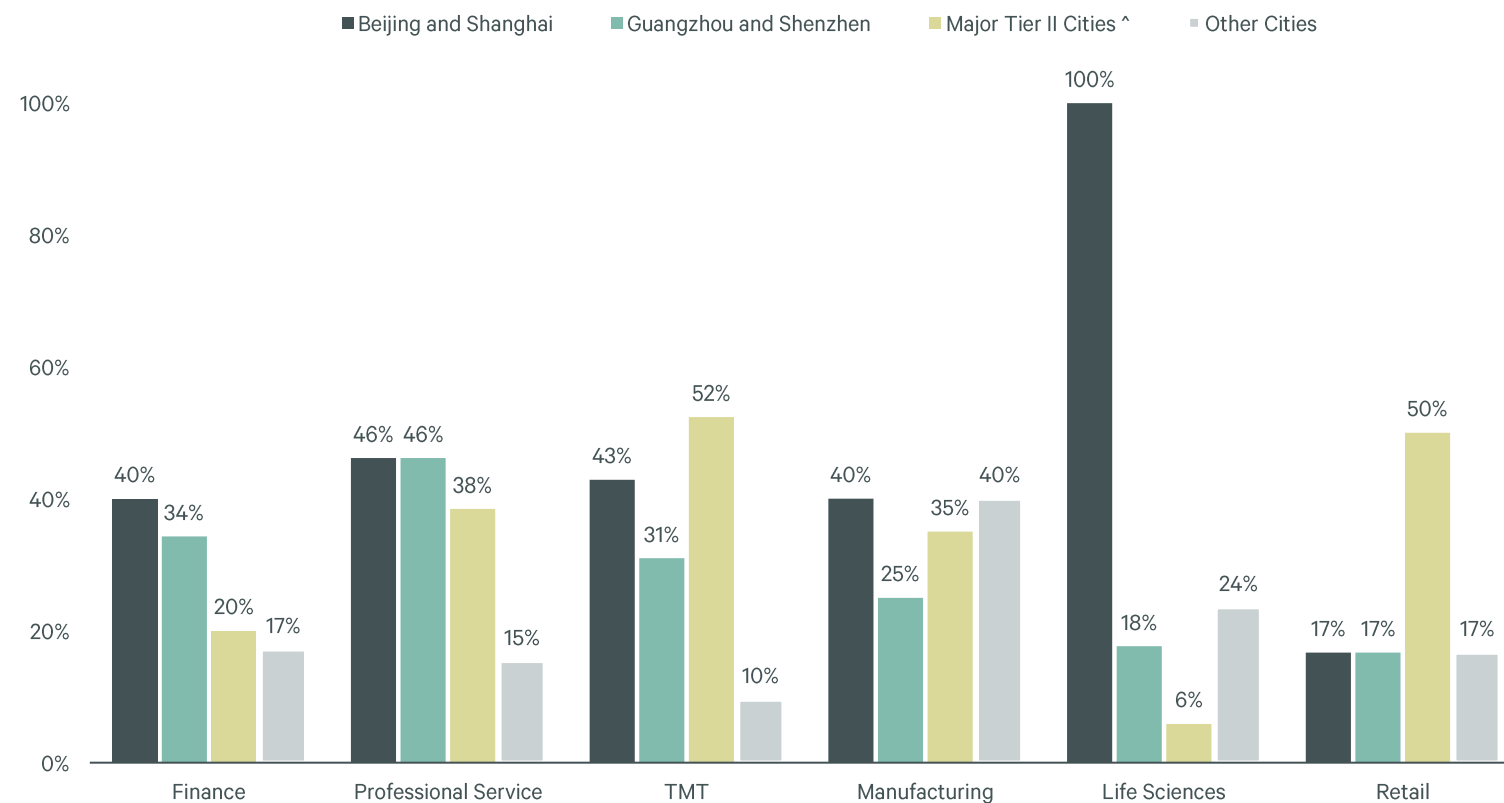
Tier I cities remain priorities for major industries; TMT targets expansion in multiple locations; life sciences companies focus on Beijing and Shanghai

The survey found that the tier I cities of Beijing, Shanghai, Guangzhou and Shenzhen will remain the primary focus of expansion for finance, professional services and TMT companies, which are the major drivers of office leasing demand nationwide.

While occupiers from the finance sector are almost exclusively prioritising expansion in tier I markets, tenants in the professional services, TMT and manufacturing sectors are also considering major tier II cities including Hangzhou, Chengdu and Wuhan. Life sciences occupiers intend to focus their expansion on Beijing and Shanghai.

Figure 7: Preferred locations for office expansion over the next 18 months

Q: In which cities do you expect your company's office portfolio to increase over the next 18 months?



Note ^: Major Tier II Cities include Hangzhou, Nanjing, Chengdu, Wuhan, Xi'an, Zhengzhou, Tianjin and Suzhou.

02

Leasing Strategy

While expansionary demand has been stronger compared to that witnessed after the onset of the pandemic in early 2020, CBRE has observed occupiers adopting a wider range of leasing strategies in response to the latest round of lockdowns to contain the spread of the virus.

Leasing activity slows amid citywide lockdowns but occupier demand more resilient than in 2020

Strict measures to contain the latest wave of COVID-19 infections inevitably impacted key elements of leasing activity in H1 2022, including on-site inspections and deal processing.

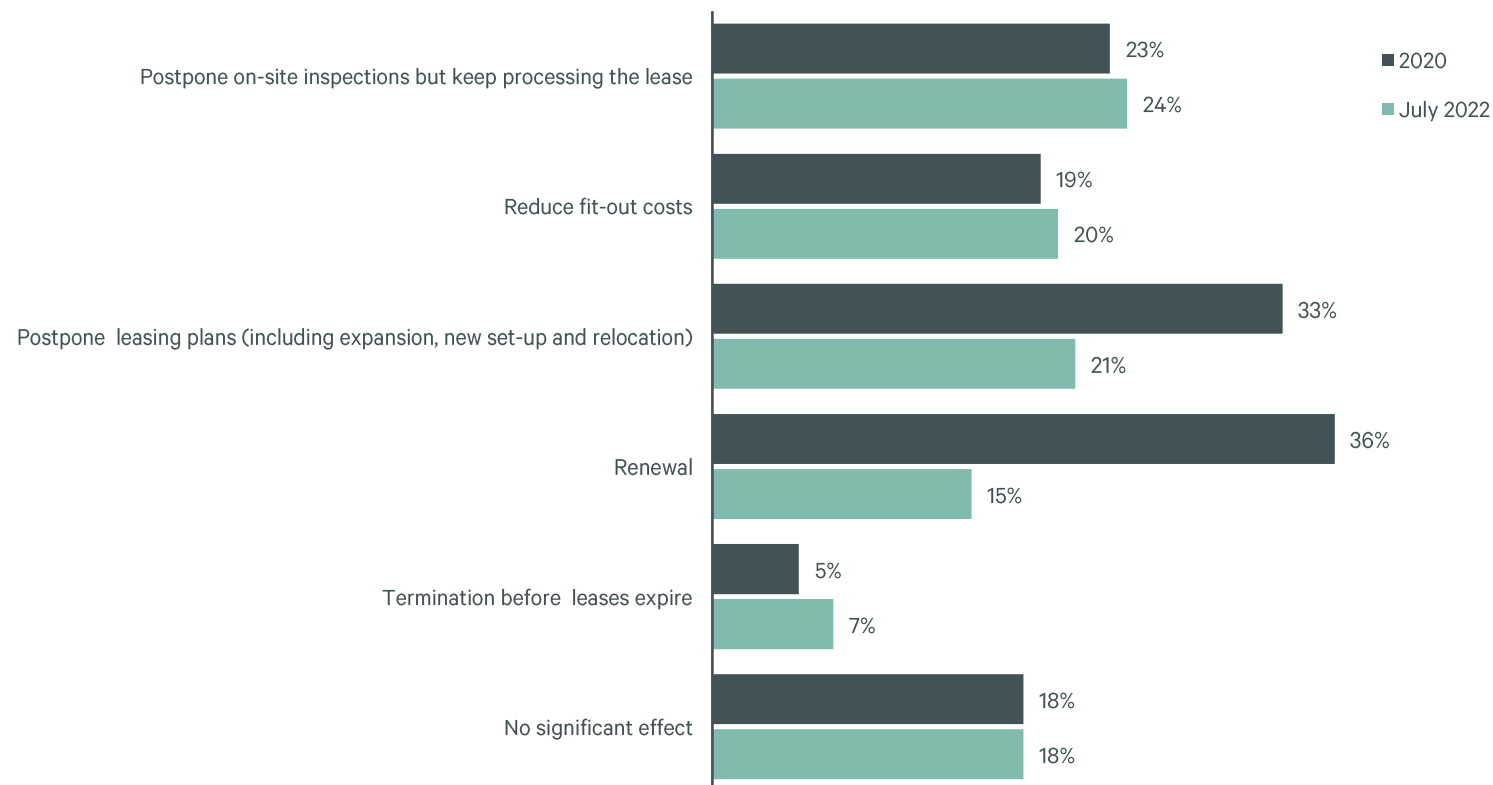
However, occupier demand has proven to be far more resilient than during the same period of 2020, when the pandemic first emerged. Just 14% of respondents intend to renew leases, a significantly lower ratio than two years' previously, while only 8% of respondents expect to terminate leases before they expire. 20% of respondents stated that the latest resurgence in COVID-19 infections had no significant impact on their leasing strategies.

Other findings included 23% of respondents considering reducing expenditure on office fit-outs, a higher ratio than in 2020. This reflects occupiers' intentions to adopt a more cautious approach to capital expenditure amid elevated pandemic and economic uncertainty.

Source: CBRE Research, August 2022

Figure 8: Shift in short-term leasing strategy following latest surge in COVID-19 infections

Q: To what extent do you expect there to be a shift in your company's short-term leasing strategy in the following areas after the latest surge in COVID-19 infections?



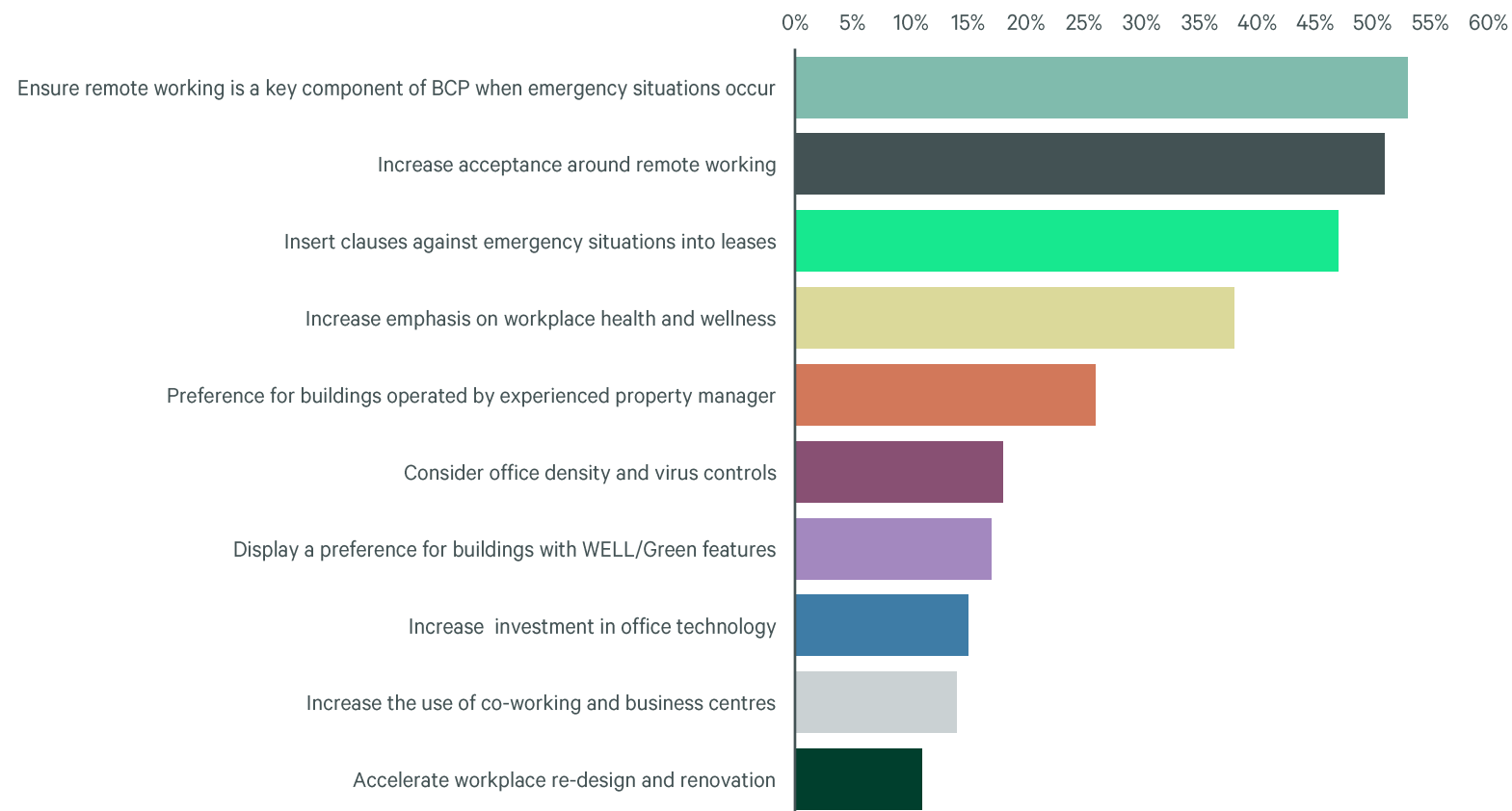
Increasing acceptance and implementation of remote working and sharper focus on emergency clauses to strengthen lease resilience

In terms of long-term shifts in corporate real estate strategy in response to the latest surge in COVID-19 infections and corresponding lockdowns, more than 50% of respondents indicated that they intend to ensure remote working becomes a key component of Business Continuity Processing (BCP) in response to emergency situations.

Other popular options included inserting protective or force majeure clauses in leases to protect themselves in the event of unforeseen events such as the pandemic and related lockdowns, which was selected by 47% of respondents, an increase of 27pp over 2021.

Figure 9: Shift in short-term leasing strategy following latest surge in COVID-19 infections

Q: To what extent do you expect there to be a shift in your company's long-term CRE strategy in the following areas after the latest surge in COVID-19 infections?



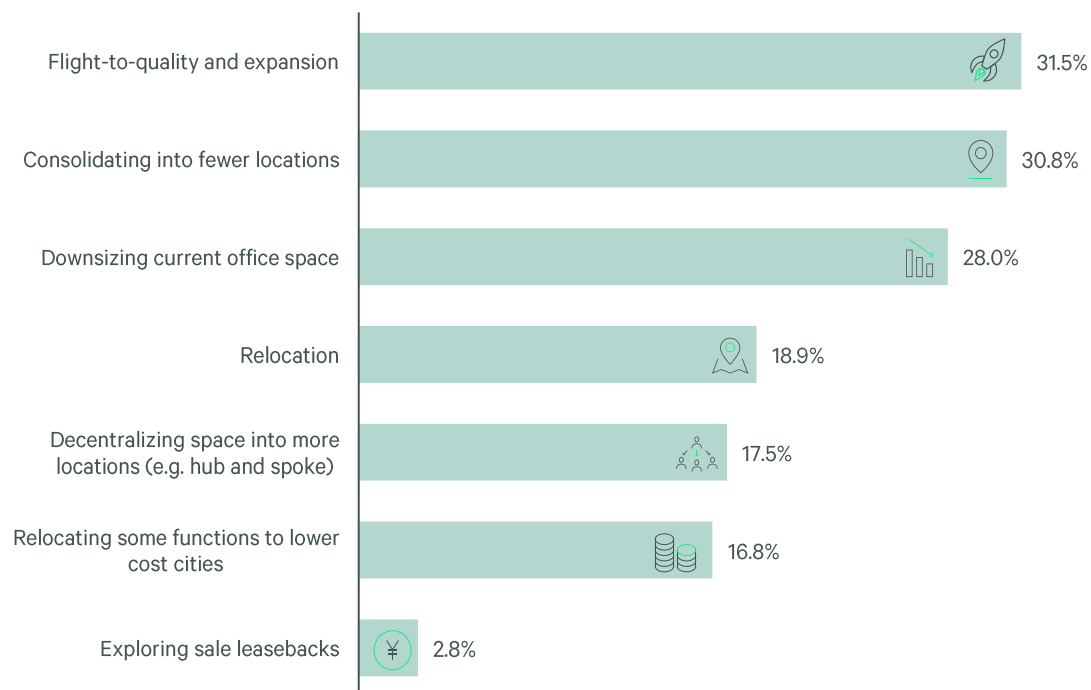
Source: CBRE Research, August 2022

Leasing strategies diverge across different industries

When asked to identify their preferred real estate strategies over the next 18 months, occupiers named flight-to-quality and expansion (31.5%) followed by consolidation (30.8%). 30% of respondents plan to downsize.

Figure 10: Preferred real estate strategies over the next 18 months

Q: Which corporate real estate strategies are you currently pursuing or planning to pursue?



Source: CBRE Research, August 2022

Range of strategies observed among different industries

Respondents from several industry sub-sectors displayed relatively stronger flight-to-quality and expansionary demand. These included non-financial institutions, law firms, pharmaceutical R&D and underlying technology R&D and applications companies such as those engaged in AI and cloud computing.

In order to optimise office efficiency and cost controls, several TMT, industrial manufacturing and foreign life sciences companies plan to consolidate their current offices into leased headquarters or relocate to self-owned buildings.

With the retail industry having been hit hard by citywide lockdowns and other recent anti-pandemic measures, many occupiers from this sector indicated their intention to downsize. Only a limited number of TMT companies plan to terminate leases, primarily for the reasons of business readjustment or space consolidation.

Recentralisation is a population option for companies in the finance and professional service sectors, while an interest in decentralisation was observed among the TMT, manufacturing and real estate sectors.

Several occupiers from the real estate and professional services sectors are looking to decentralise a large portion of their portfolios into more locations, the former to host project teams, the latter to ensure staff are located closer to clients.

Occupiers from the manufacturing, real estate and some TMT sub-sectors stated their intentions to pursue cost control, which would involve relocating some functions to lower cost cities.

Sale leasebacks have been explored by a limited number of companies within the retail, real estate and TMT sectors, most of whom are in tier II cities.

03

Future Workplaces

Future workplace demand is likely to be closely aligned with business development purposes and striking the right balance between 'WE' space for collaboration and teamwork and 'ME' space for solo and focused work.

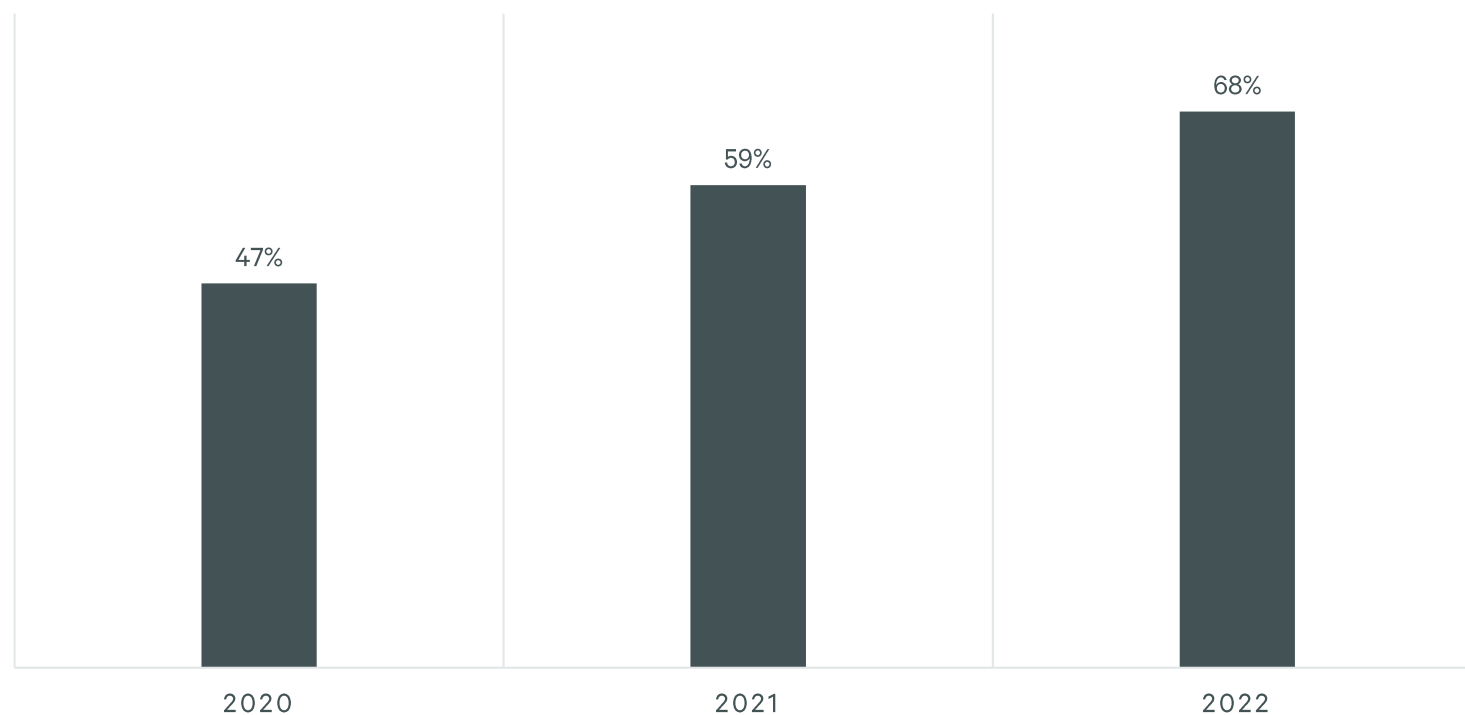
Adoption of hotdesking continues to rise

The latest resurgence in COVID-19 infections has provided enterprises with an additional incentive to implement remote working models. At the same time, however, offices will take on a new role as hosts for collaboration and communication, driving the further evolution of the workplace.

Around 26% of respondents indicated a willingness to increase their use of hotdesking, while 42% of respondents expect to maintain their current hotdesking arrangements. This marked an increase of 9 pps and 21 pps from surveys conducted in 2021 and 2020, respectively.

Figure 11: Hotdesking use in the future workplace

Q: Over the next 18 months, what best describes the type of seating plan you anticipate seeing in most of your workplace? (Percentages indicate the total number of respondents choosing to increase or maintain the use of hotdesking)



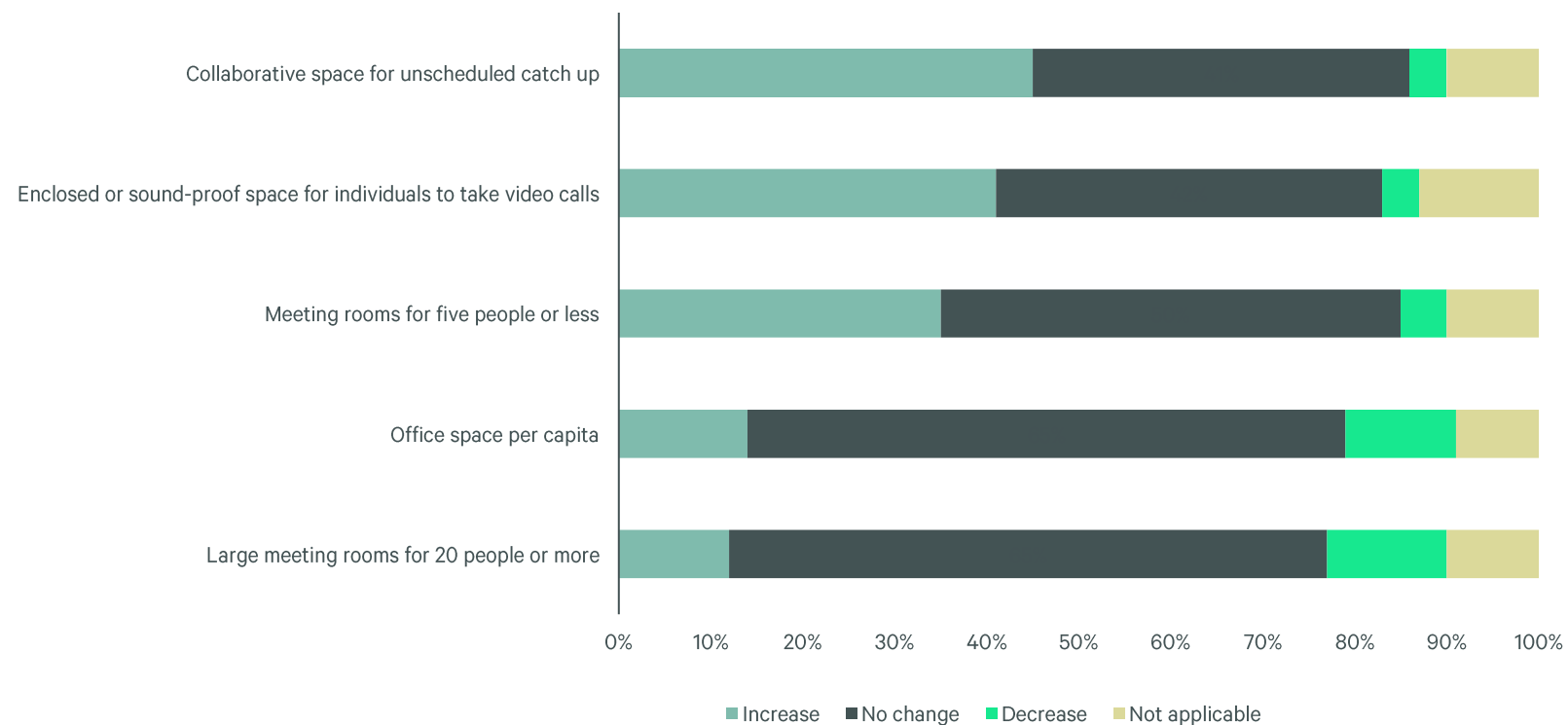
More spaces to be allocated to communication and collaboration

Demand for collaborative space continues to grow, with 45% of respondents planning to increase the volume of collaborative space for unscheduled catch ups, and 35% of respondents expecting to allocate more space to meeting rooms for five people or less. Demand for enclosed space for individuals to take video calls (41%) is also on the rise.

These findings indicate that future workplace demand is likely to be closely aligned with business development purposes and striking the right balance between 'WE' space for collaboration and teamwork and 'ME' space for solo and focused work.

Figure 12: Workplace expectations over the next 18 months

Q: How do you expect the following workplace settings to change 18 months from now?



Source: CBRE Research, August 2022

04

ESG

Employee wellness is emerging as a top consideration of corporate sustainability with companies also displaying a stronger interest in green buildings.

Employee wellness to drive corporate sustainability strategies

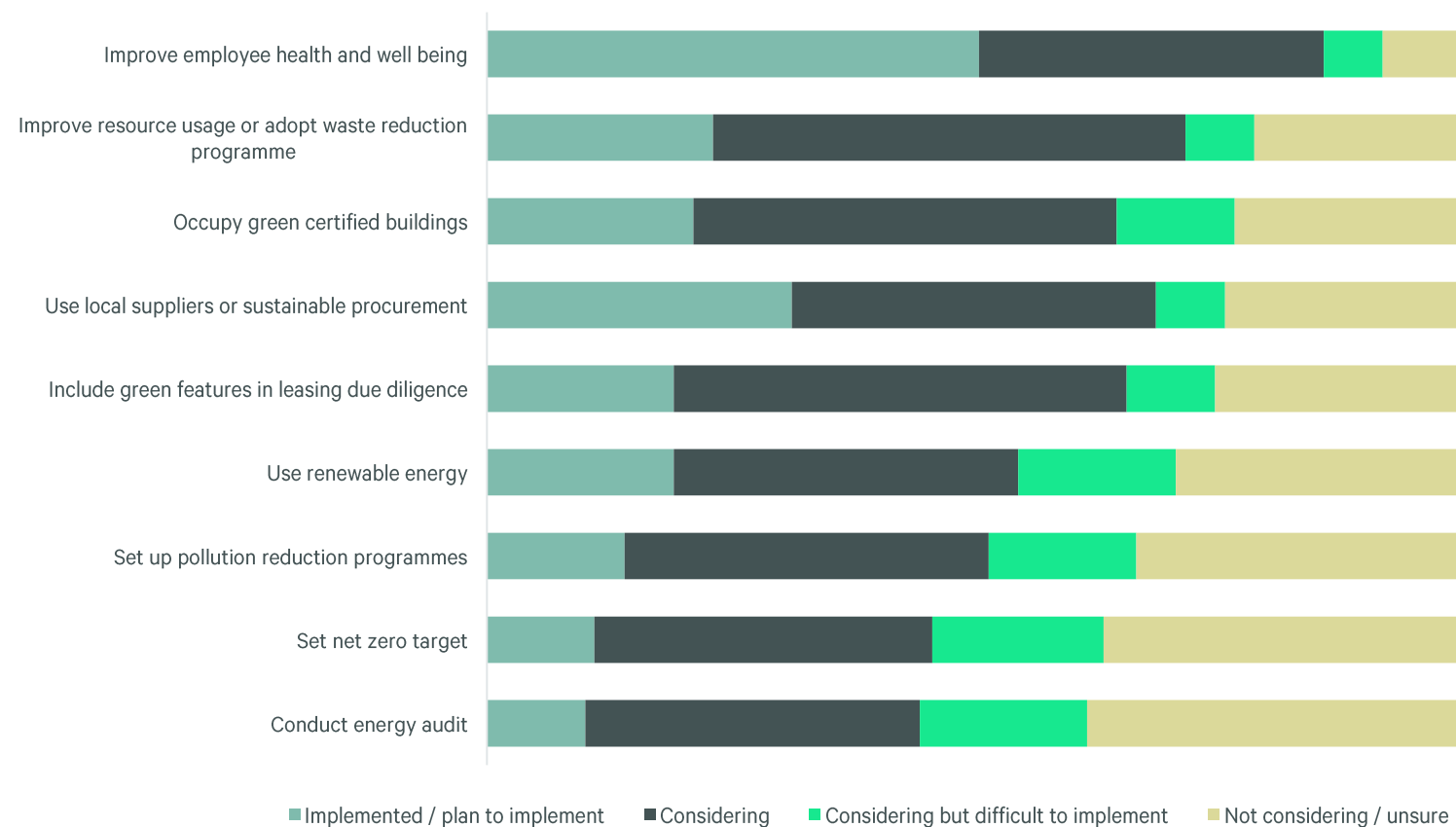
In terms of corporate sustainability priorities, strategies related to improving employee health and wellbeing were the most popular option selected by respondents. Some 50% of those polled stated they had already implemented or are planning to implement such strategies, while 35% are considering to implement such strategies.

Over 40% of respondents said they intended to include green features in leasing due diligence and commit to occupying certified green buildings, indicating that green leases are firmly on the occupier agenda.

A relatively lower percentage of respondents selected setting net zero targets, conducting energy audits and exploring pollution reduction programme. While many companies have launched initiatives in these areas, progress is still at an early stage.

Figure 13: Sustainability priorities for corporate real estate portfolios

Q: What is the extent of your company's adoption of the following sustainability priorities in its real estate portfolio?



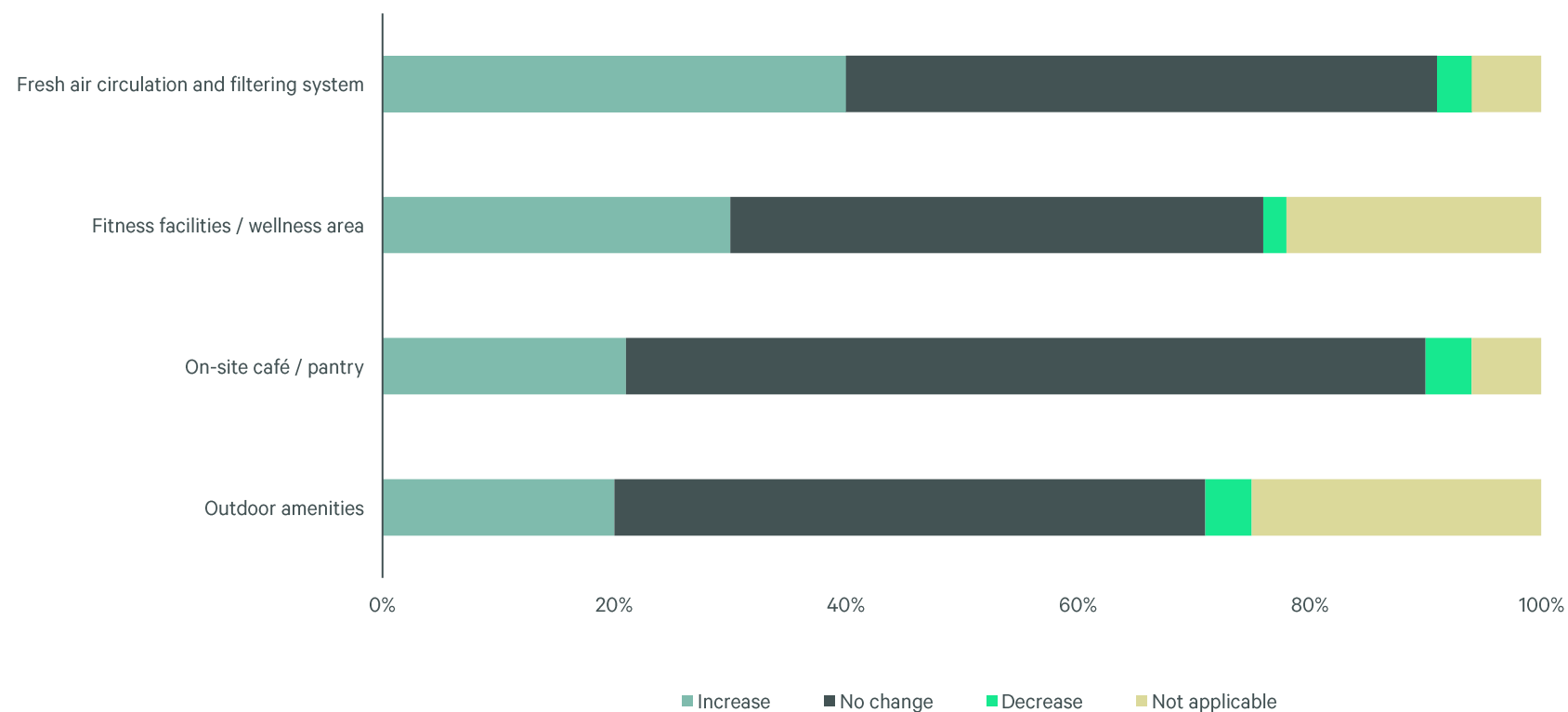
Source: CBRE Research, August 2022

Providing better workplaces to improve employee wellness

Occupiers are pursuing a range of initiatives to enhance their workplaces to improve employee wellness. 40% of respondents expect to increase the use of fresh air circulation and filtering systems, while 30% of respondents plan to include more fitness facilities in their offices in future.

Figure 14: Expected change in wellness-related features in workplaces over the next 18 months

Q: Looking ahead, how will the following wellness-related features in your workplaces change 18 months from now?



Source: CBRE Research, August 2022

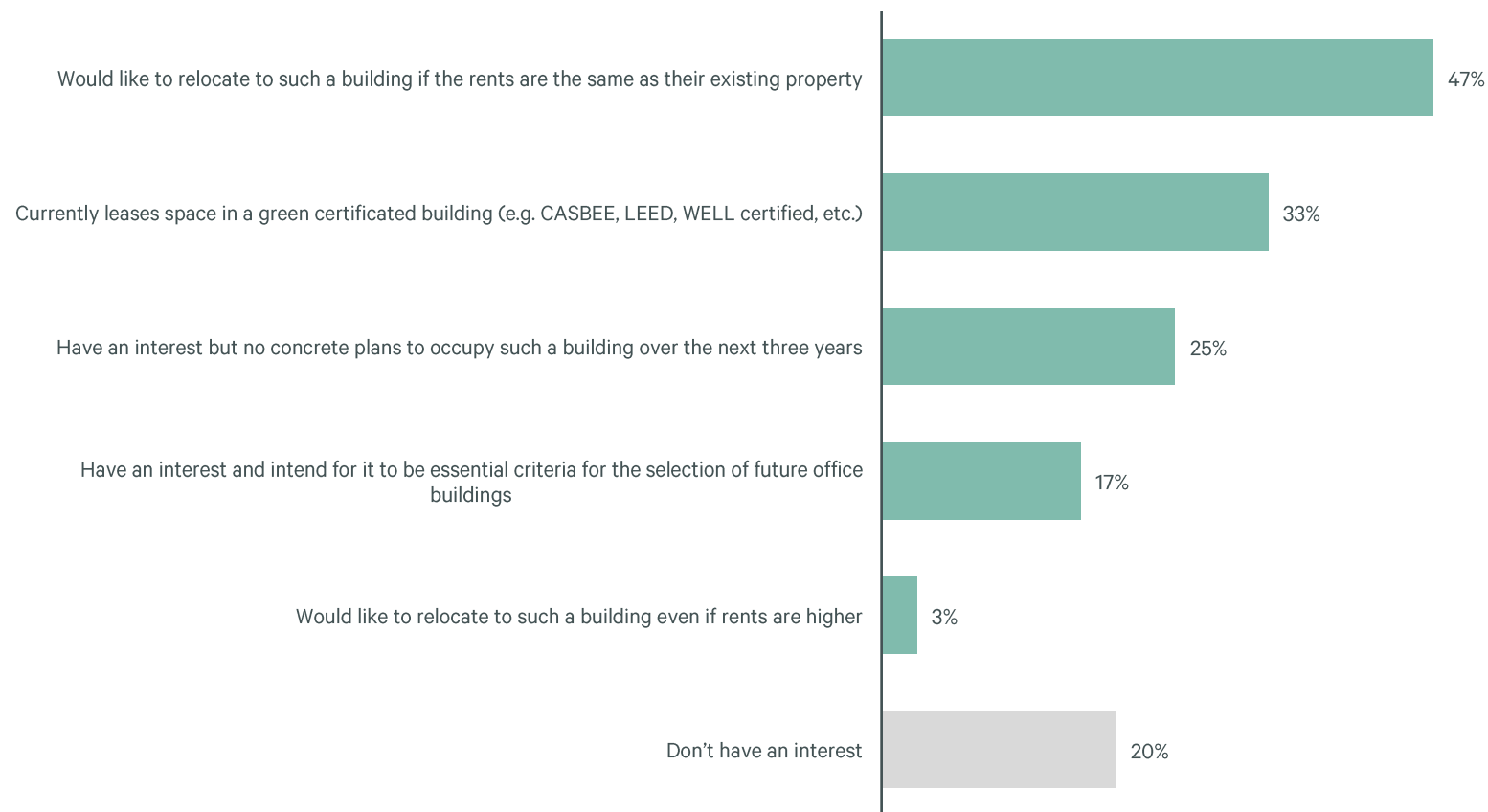
Occupiers display mixed interest in green buildings

Some 80% of respondents indicated an interest in green buildings to some degree. Roughly 50% of occupiers would like to relocate to a green building if rents are about the same as their current property, while 33% of respondents said that they currently lease space in green buildings.

CBRE data show that LEED-certified office buildings in China reported a net absorption rate 6pps higher than their uncertified counterparts in 2021.

Figure 15: Companies' attitudes towards green office buildings

Q: What are your current thoughts towards green office buildings?



Source: CBRE Research, August 2022

More companies utilise corporate real estate technologies

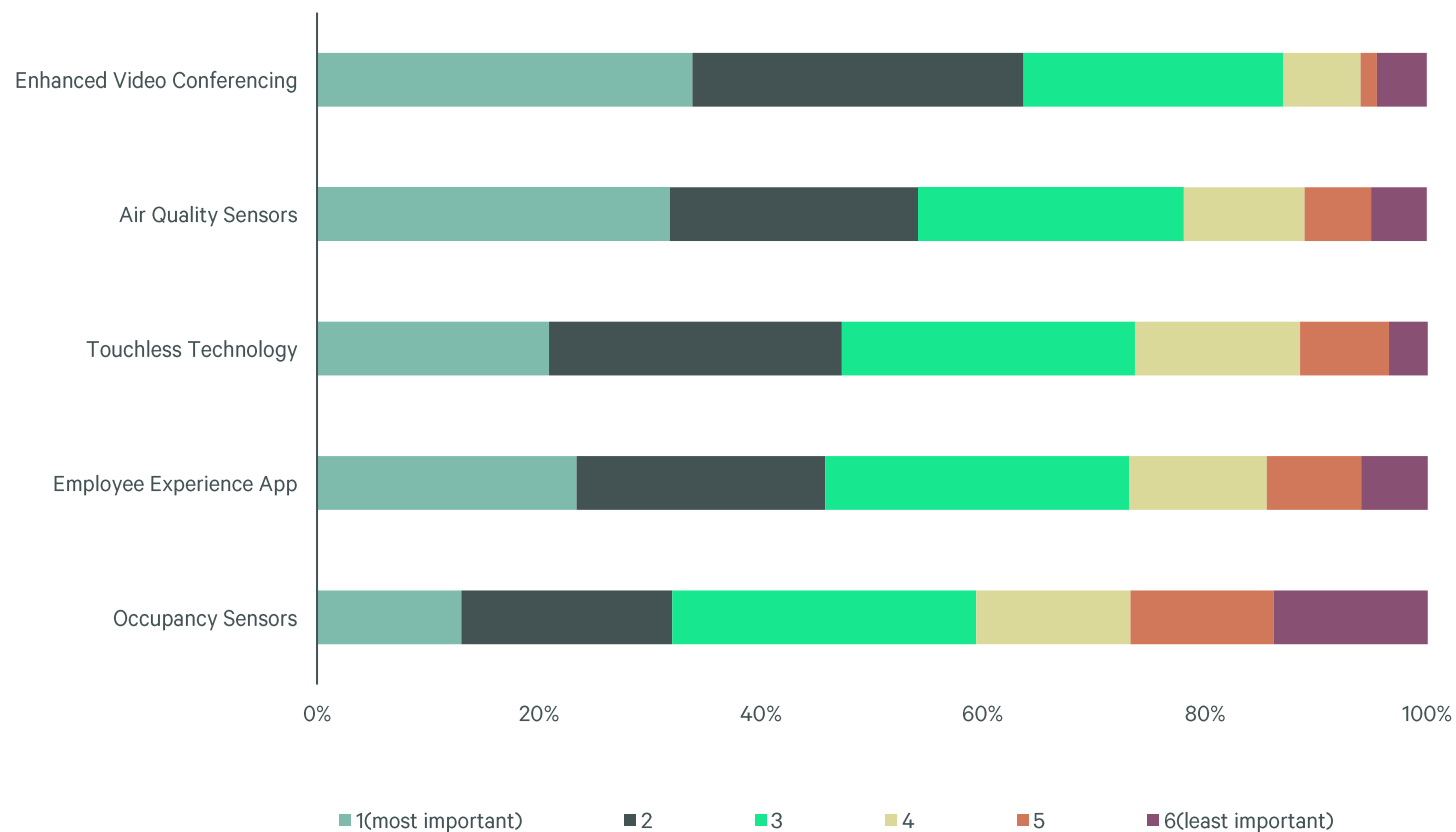
Survey respondents indicated a strong interest in utilising technology to support office functions and improve employee wellness, with around 83% stating their intention to increase or maintain their investment in such programmes.

As acceptance of remote working continues to increase, enhanced video conferencing has become occupiers' top technological priority. Other areas of focus include air quality sensors and touchless technology, both of which can aid in improving employee health and reducing the spread of viruses.

Employee experience apps and occupancy sensors, both of which have a role to play in helping occupiers measure office utilisation, were selected by a sizable proportion of respondents.

Figure 16: Corporate real estate technologies currently being used or considering to be used in a future steady state environment

Q: Looking ahead, which of the following corporate real estate technologies are you using or considering using in a future steady state environment?



Source: CBRE Research, August 2022

Conclusion

Occupiers



Window of opportunity

- Although the recent resurgence in COVID-19 infections and associated lockdowns will weigh on corporate revenue in 2022, weaker demand and rising vacancy will provide companies in resilient industries with far greater options and leeway to negotiate attractive leasing terms.
- Occupiers seeking space in areas with limited availability and resilient rents should accelerate leasing decisions.
- Non-financial institutions and professional services firms seeking to expand should be targeted as tenants.
- Strong flight-to-quality demand for new buildings and space in core CBDs will put landlords of properties in these locations in a stronger bargaining position.
- With relocation demand far more robust than that witnessed at the onset of the pandemic in early 2020, landlords are advised to negotiate lease renewals with large occupiers as soon as possible.



Lease resilience and flexibility

- As remote working is increasingly accepted, occupiers will need to respond by recalibrating corporate real estate strategies.
- Companies are advised to assemble portfolios consisting of a mix of traditional office space and flexible space.
- Lease resilience can be enhanced by including protective clauses against emergency situations such as the pandemic.
- Striking a balance between lease term flexibility, resilience and income stability is key.
- As occupiers embrace remote working and look to reduce fit-out costs, landlords are advised to include co-working or turnkey space in their properties and offer fit-out subsidies.



Employee wellness and green leases

- Align corporate real estate strategy with business ESG goals, with employee wellness as the top consideration.
- Demonstrate a preference for green buildings when making building selection decisions and consider including green features in leasing due diligence.
- Improve workplace wellness by investing in related equipment, facilities and programmes.
- Incorporate wellness amenities and services and consider pursuing green building certifications such as LEED and WELL.
- Recognise that while a limited numbers of companies are willing to relocate to green buildings if rents are higher, green buildings still perform better in terms of occupancy.



Space efficiency and CRE technology

- Adjust allocations of 'ME' and 'WE' space to improve space efficiency while enhancing employees' working efficiency and engagement to achieve business objectives.
- Invest in corporate real estate technologies to perform space analysis and management to support remote working and workplace improvements.
- Consider offering facilities such as enclosed booths for phone and videocalls and shared meeting rooms to accommodate on-demand business needs.
- Install smart building sensors to enhance building operations and support occupiers own workplace improvement initiatives.

Landlords

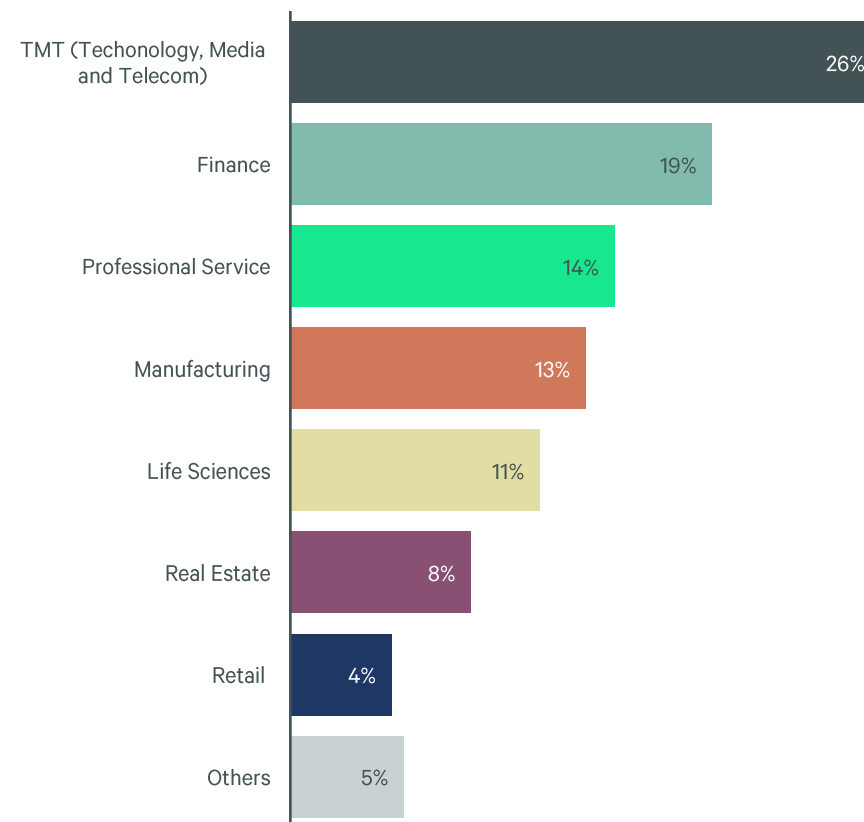
05

Survey Profile

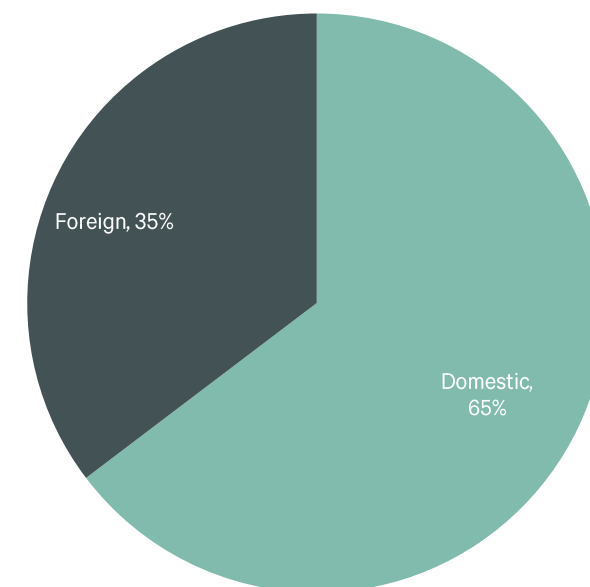
Survey Profile

CBRE's 2022 China Office Occupier Flash Survey was conducted from June 23 to July 14 2022. A total of 201 responses were received.

Response by Industry



Response by Market of Origin



Business Line Contacts

ADVISORY & TRANSACTION SERVICES

CHINA

Rayman Zhang

Head of A&T Office | Occupier
China

rayman.zhang@cbre.com.cn

CHINA OFFICE

Shanghai

Fion Zhang

Head of A&T Office
Eastern China

fion.zhang@cbre.com.cn

Beijing

Molly Yuan

Head of A&T Office | Occupier
Northern China

molly.yuan@cbre.com

Abby Wang

Head of A&T Office | Investor Leasing
Northern China

abby.wang@cbre.com.cn

Linda Song

Head of A&T | Beijing West Office

linda.song1@cbre.com

Hangzhou

Chelsey Wang

Head of A&T Office
Hangzhou

xiaochen.wang@cbre.com

Guangzhou

Ivan Ching

Head of A&T Office
Southern China

ivan.ching@cbre.com

Shenzhen

Kitty Wu

Head of A&T Office
Shenzhen

kitty.wu@cbre.com

Nanjing

Windsor Liu

Head of A&T Office
Nanjing

windsor.liu@cbre.com

Chengdu

Jennifer Huang

Head of A&T Office
Chengdu

jennifer.huang1@cbre.com

Xi'an | Zhengzhou

Steve Sun

Head of A&T Office
Xi'an | Zhengzhou

steve.sun@cbre.com

Research Contacts

CHINA RESEARCH

Sam Xie

Head of Research,
China
sam.xie@cbre.com

Shirley Hu

Senior Director
China Research
shirley.hu@cbre.com

Joey Wu

Senior Analyst
China Research
joey.wu@cbre.com

GLOBAL RESEARCH

Richard Barkham, Ph.D., MRICS

Global Chief Economist and Head of Americas
Research
richard.barkham@cbre.com

Neil Blake, Ph.D.

Global Head of Forecasting and Analytics
neil.blake@cbre.com

Henry Chin, Ph.D.

Global Head of Investor Thought Leadership
Head of Research, APAC
henry.chin@cbre.com.hk

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