CUSHMAN & WAKEFIELD
戴 德 梁 行

OPTIMAL PRIME

GRADE A OFFICE OPTIMISATION ON THE CHINESE MAINLAND

Better never settles

CONTENTS

01
EXECUTIVE SUMMARY

02
INTRODUCTION

03
SURVEY RESULTS

04
KEY TAKEAWAYS

01

EXECUTIVE SUMMARY

01 – EXECUTIVE SUMMARY

CUSHMAN & WAKEFIELD
戴 德 梁 行

A Change is Needed

- Given market conditions, the majority of Grade A office landlords on the Chinese mainland currently feel a change is needed in their office building asset management strategy.
- In terms of their leasing strategy, most office landlords will focus on refining their tenant profile mix.
- Within this mix, the ratio of domestic companies is expected to continue to expand in the near future, with professional services, finance and TMT being the industries to lead the mix in terms of occupied space.

Asset Management

- Refinement in both hard and soft asset management services will play a large role in driving Chinese mainland Grade A office asset management strategy change.
- Facilities within prime office buildings in the region will also to be targeted for change with most landlords advancing improvement in the tenant-focused amenities that they provide.
- Assigning more portfolio space to amenities will undoubtedly allow a prime office building on the Chinese mainland to remain market competitive.

Sustainability

- Improvement in Grade A office green offerings, features and credentials will continue on the Chinese mainland and this change will be driven by a greater number of landlords now being aware of the concept of ESG and the fact that many more of their tenants have ESG reporting goals to meet.
- Landlords in the region are looking at a number of ways to achieve improvement, including gaining more green certifications, assigning more wellness and wellbeing space for their tenants and installing more energy and water saving equipment.

Optimal Prime

- When looking at whether to adopt an asset-light asset management business model or not, there is currently a 50-50 split between those Grade A office landlords on the Chinese mainland that looking to adopt and those that are not.
- With cost being a top priority for Grade A office landlords on the Chinese mainland and these same landlords desiring an optimal prime solution, we expect an asset-light asset management business model to be adopted by more landlords in the region in the future.

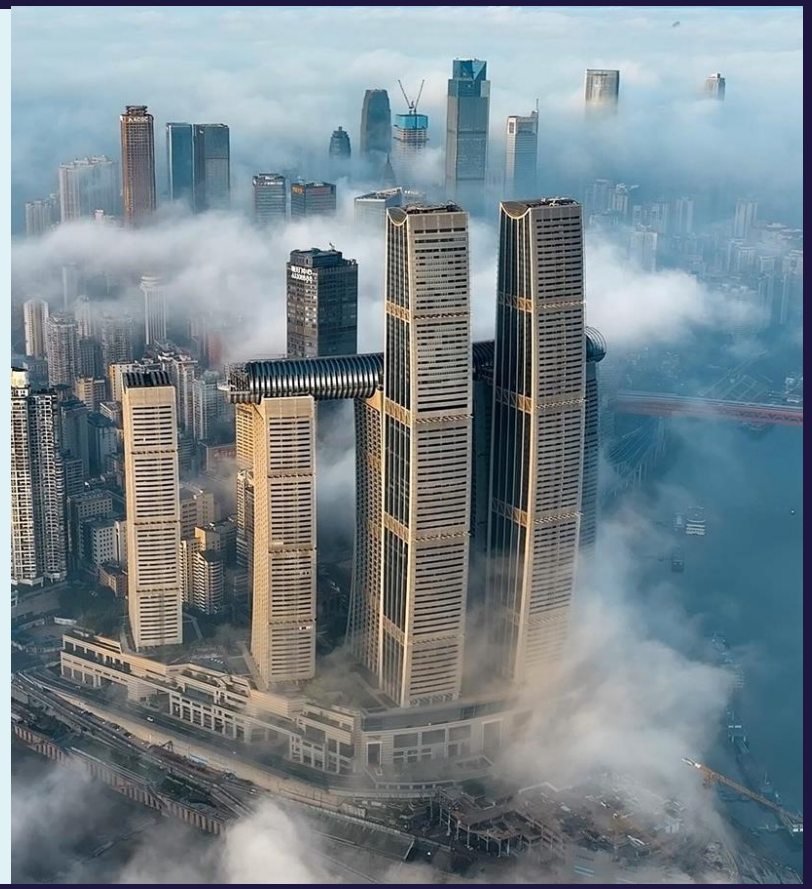
02

INTRODUCTION

02 – INTRODUCTION

This report focuses on a 20-question questionnaire survey we recently conducted on Grade A office landlords on the Chinese mainland.

The questions focused on their perspectives and the answers provide the reader with the latest thinking prime office landlords in the region have on the market conditions and have on their current and future office asset management strategy to achieve commercial success.

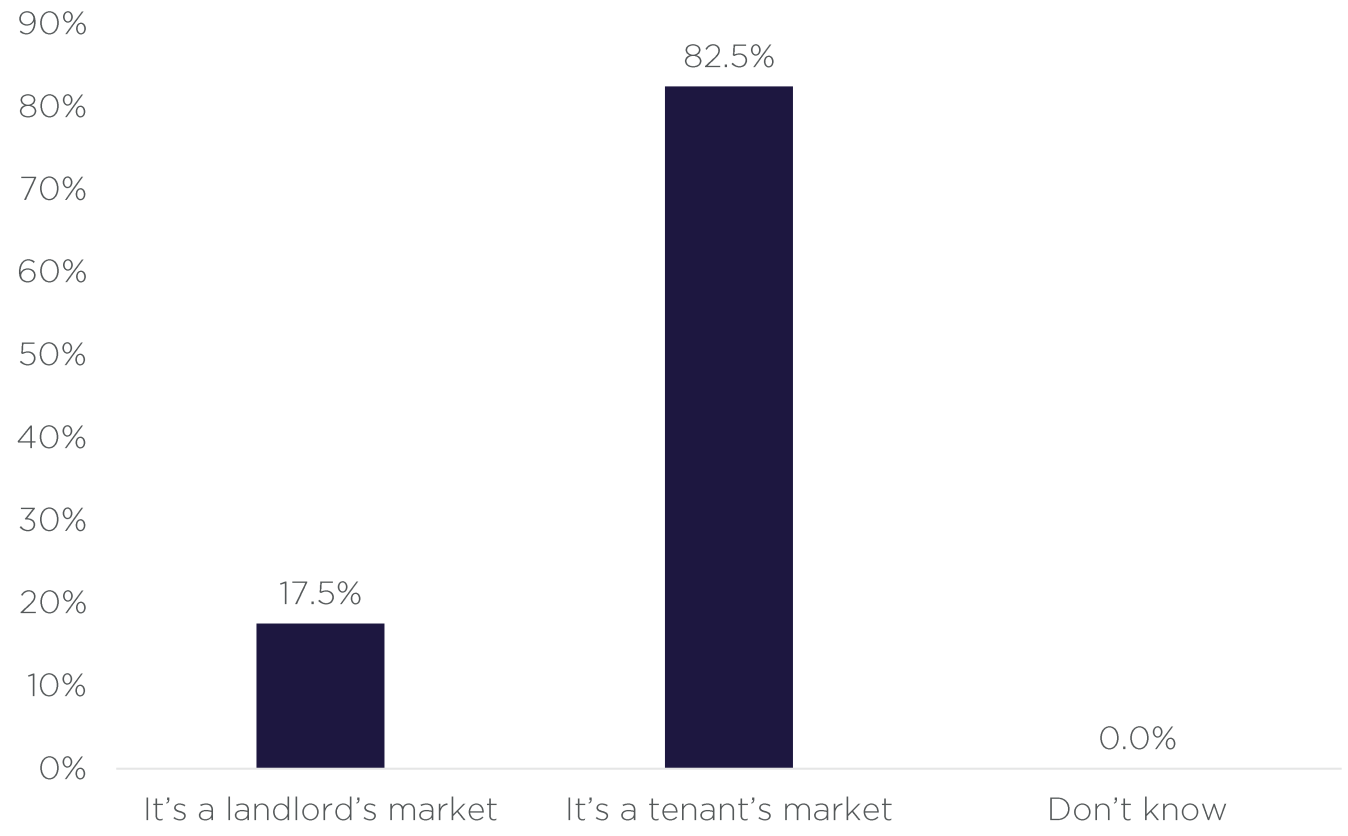


03

SURVEY RESULTS

03 – SURVEY RESULTS

1. What's your view on the current state of the office market in your region?



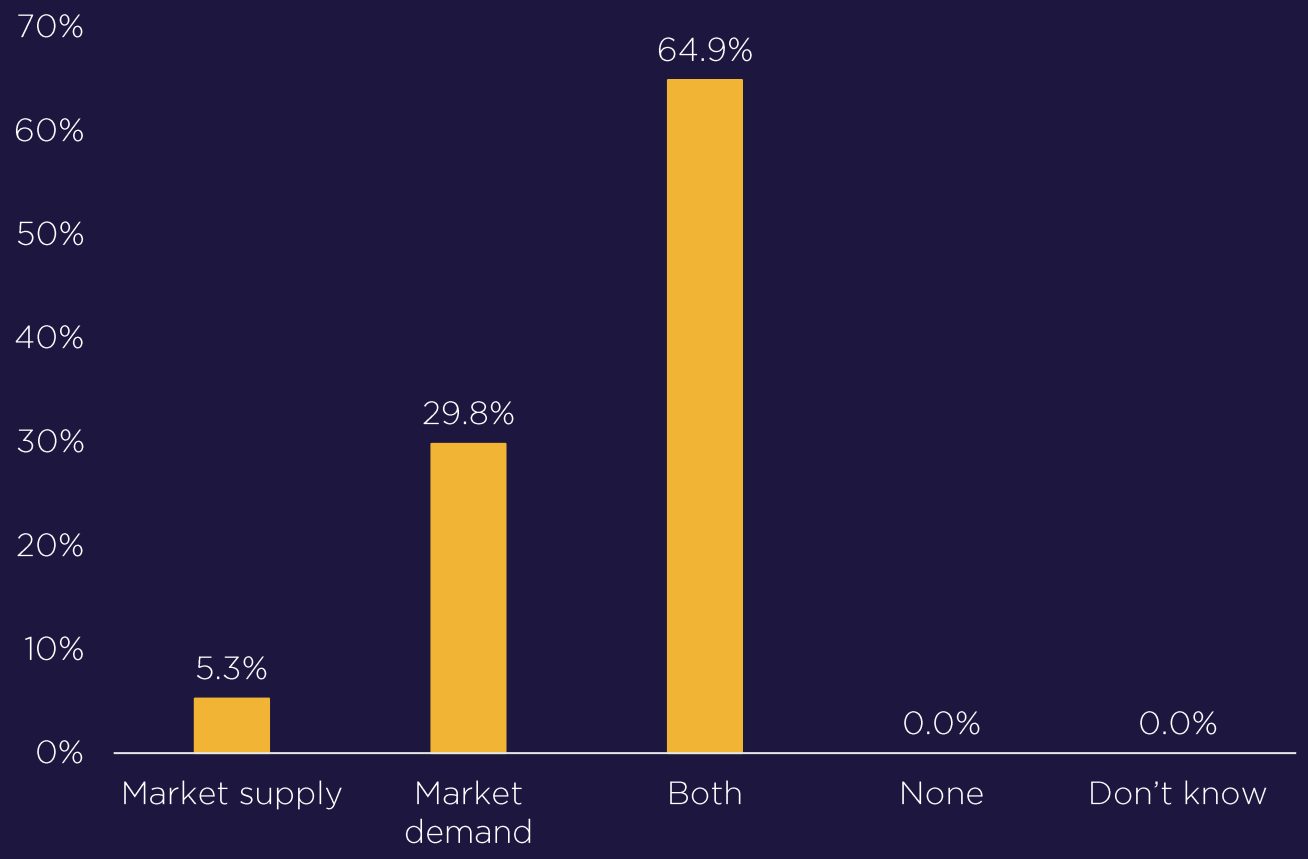
Source: Cushman & Wakefield Research

Generally, a tenant's market but pockets of strength exist

- With the average Grade A office availability rate in a number of cities on the Chinese mainland standing in double digit territory, the majority of landlords surveyed in the region, (82.5%), currently view the Grade A office market on the Chinese mainland as one that is a tenant's market.
- Having said this, with 17.5% of surveyed prime office landlords suggesting the current market is a landlord's market, there are still holdouts of landlord strength.
- When looking at the survey results in further detail, it can be seen that those prime office landlords that fall into the 17.5% group are landlords from two camps; those landlords of individual office towers which still enjoy a low vacancy rate/have no rental impact; and those landlords whose office towers are located in resilient city submarkets which have continued to enjoy solid demand which has resulted in low vacancy rates and steady rentals.

03 – SURVEY RESULTS

2. Looking at the current market supply and demand dynamics, which element are you most focused on?



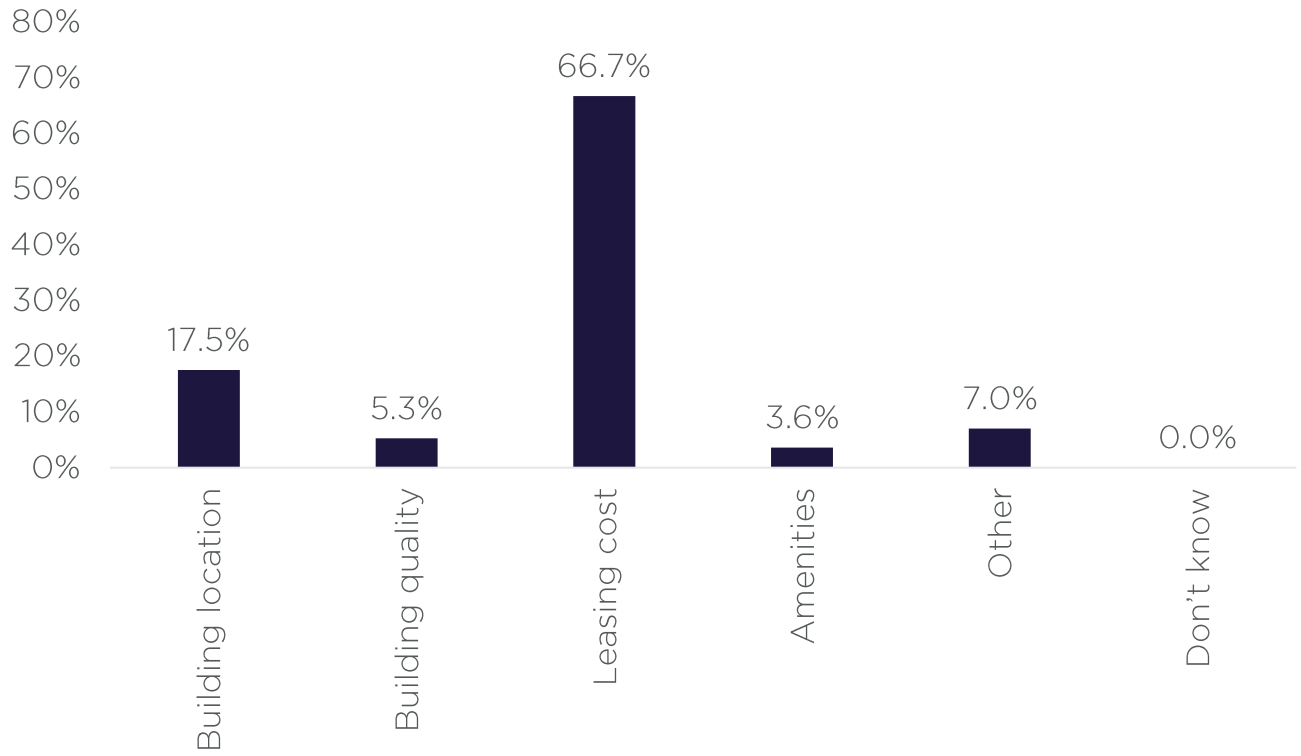
Source: Cushman & Wakefield Research

A combination of supply and of demand

- Amidst Chinese mainland Grade A office new supply for 2024 expected to see a peak in volume and China mainland Grade A office net absorption for the year expected to be down on the same-period 10-year average, its not surprising that 64.9% of Grade A office landlords on the Chinese mainland have their eyes on both the amount of supply and the amount of demand in the current market.
- What is also interesting to note is that 29.8% of surveyed Grade A office landlords are solely focused on market demand while only 5.3% of survey respondents are only focused on market supply. With most landlords focused on both retaining existing tenants and attracting new tenants in the current market, it's no surprise that even though both supply and demand are matters of interest, out of the two, it is market demand which prime office landlords on the Chinese mainland are most focused on.

03 – SURVEY RESULTS

3. Looking at your current existing and potential new tenants, what do you think is the number one item currently driving their office leasing location decision making?



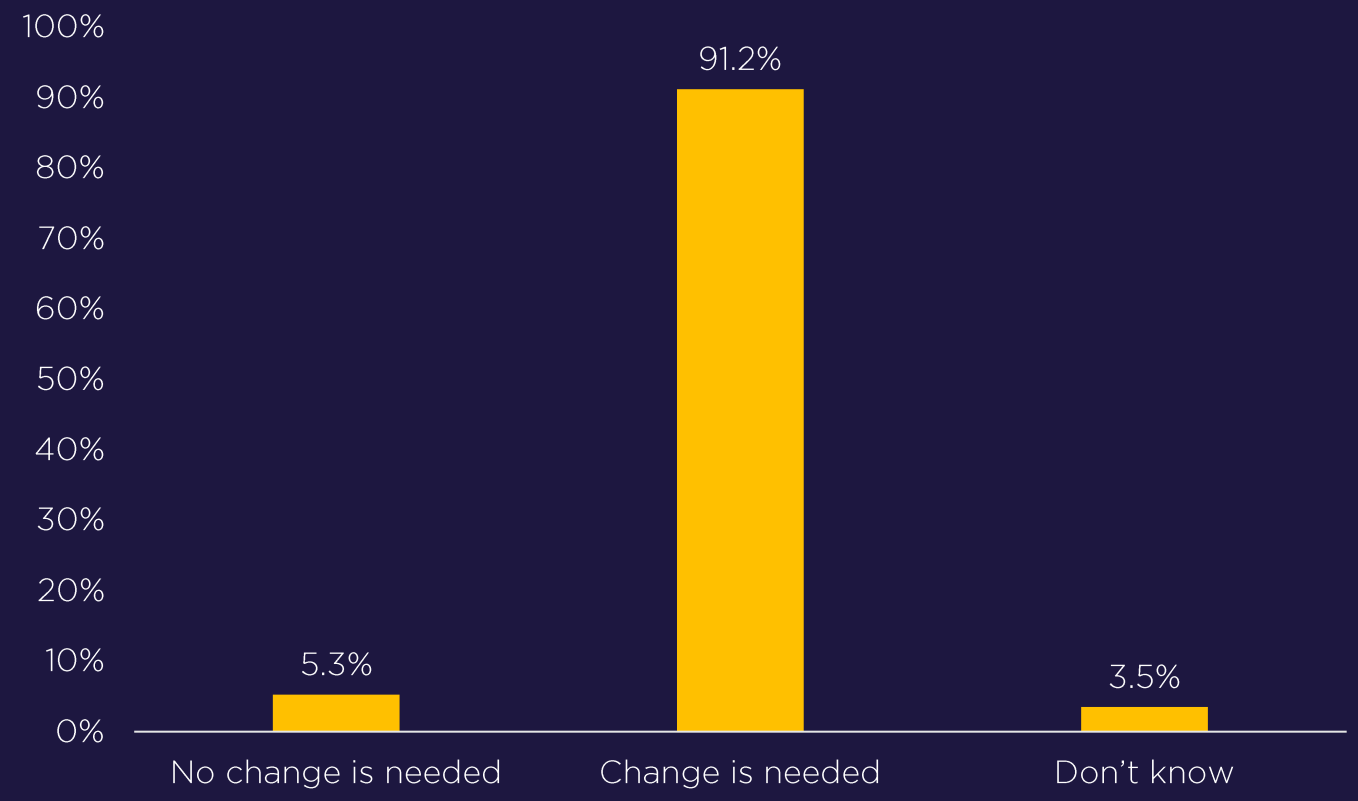
Source: Cushman & Wakefield Research

Cost is key for the majority of tenants

- When tenants are looking for a new lease for their Grade A office property on the Chinese mainland today, not surprisingly, (at 66.7% of survey respondents voting for it), cost is the number one consideration when it comes to leasing decision making.
- Building location came in second with 17.5% of surveyed landlord respondents voting for it and "other" took up third spot.
- In the "other" category, building ESG credentials, innovative tenant-focused services, and same-industry-in-the-building agglomeration were citied as features and elements that helped to drive tenant Grade A office leasing location decision making on the Chinese mainland.
- In the near future, cost is likely to continue to be viewed as the number one priority for most tenants looking to lease Chinese mainland-located Grade A office space, given the weight that commercial real estate carries on the balance sheet of most businesses in the region.

03 – SURVEY RESULTS

4. Looking at your office project/s in the market, what's your take on your current office building asset management strategy?



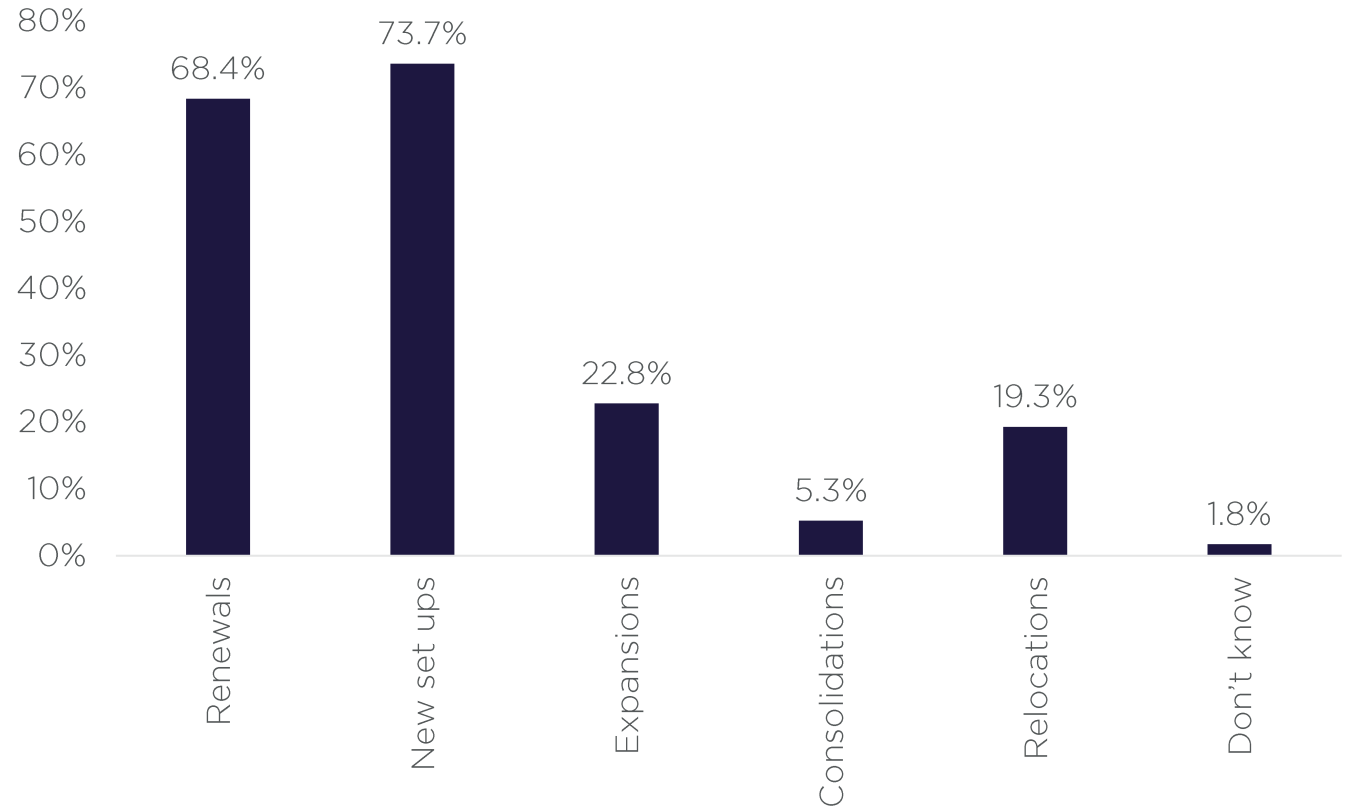
Source: Cushman & Wakefield Research

Changes – Enacting now and on the horizon

- Given the dynamics of the current market, the majority of Grade A office landlords on the Chinese mainland, (at 91.2% of respondents), think that a change is needed in relation to their office building asset management strategy.
- Under landlord-favourable market conditions, it is a plus for office landlords to continually evolve their office building asset management strategy to ensure business success.
- However, when market conditions become more tenant-favourable, inter-market office building competition begins to heat up and a proactive line of thinking related to an improvement in office building asset management becomes vital to ensure market relevance and make certain market competitiveness.

03 – SURVEY RESULTS

5. If a change in office building leasing strategy is needed, which types of leases do you anticipate further concentrating on in the near future? (Choose up to two answers).



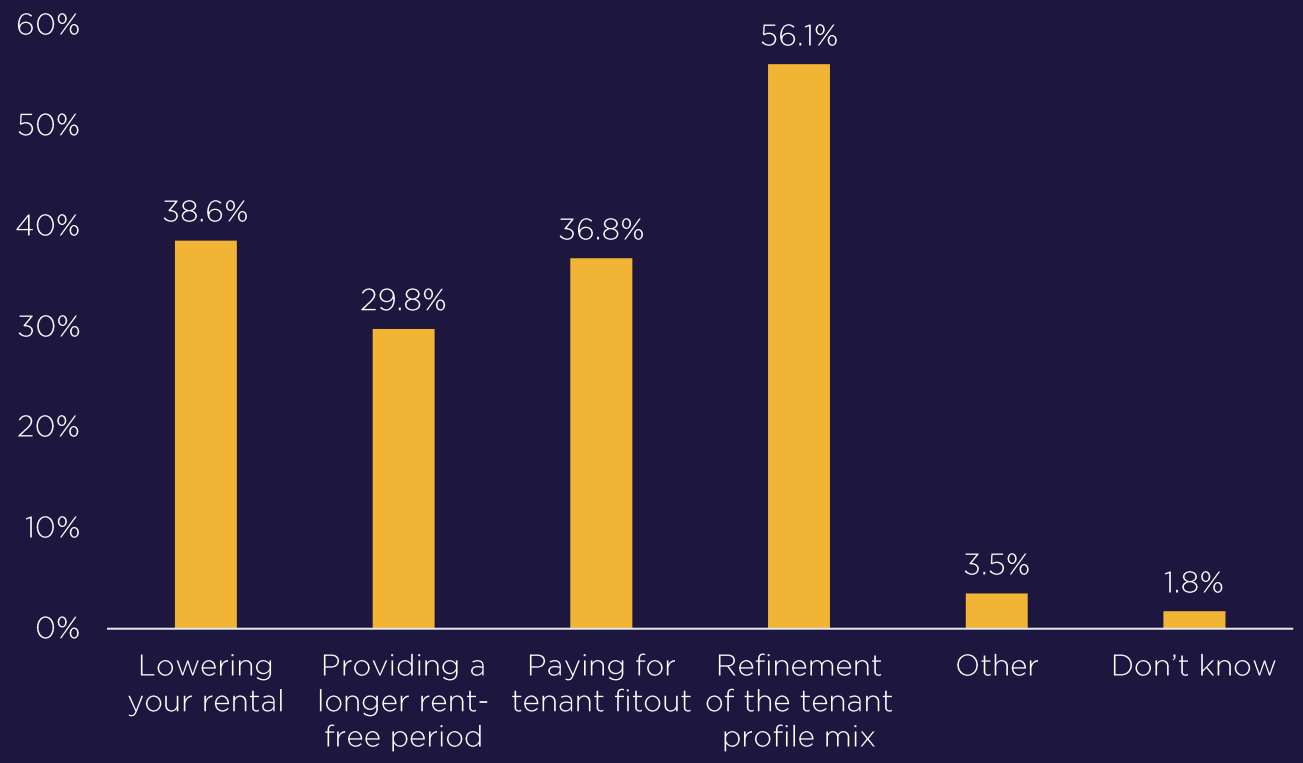
Source: Cushman & Wakefield Research

Renewals and new set ups are top of agenda

- In analysing the answers to this question, it's interesting to note that in the near future, 73.7% of Grade A office landlords on the Chinese mainland are looking to further concentrate on enterprises which are setting up a new business in their locality and 68.4% are looking to focus on enterprises which will renew their leased office space contract.
- These results demonstrate that prime office landlords are currently more or less equally focused on retaining existing tenants as well as concentrating on attracting new tenants.
- What's more, when it comes to retaining tenants, most prime office landlords on the Chinese mainland think same-sized space renewal is the way to go rather than a focus on expansions.
- As for attracting tenants, many more landlords will look to target those enterprises setting up their business in their locality, rather than relocations, which is encouraging for future brand-new market demand.

03 – SURVEY RESULTS

6. If a change in office building leasing strategy is needed, which specific leasing strategy area/s will you look to further concentrate on in the near future? (Choose up to two answers).



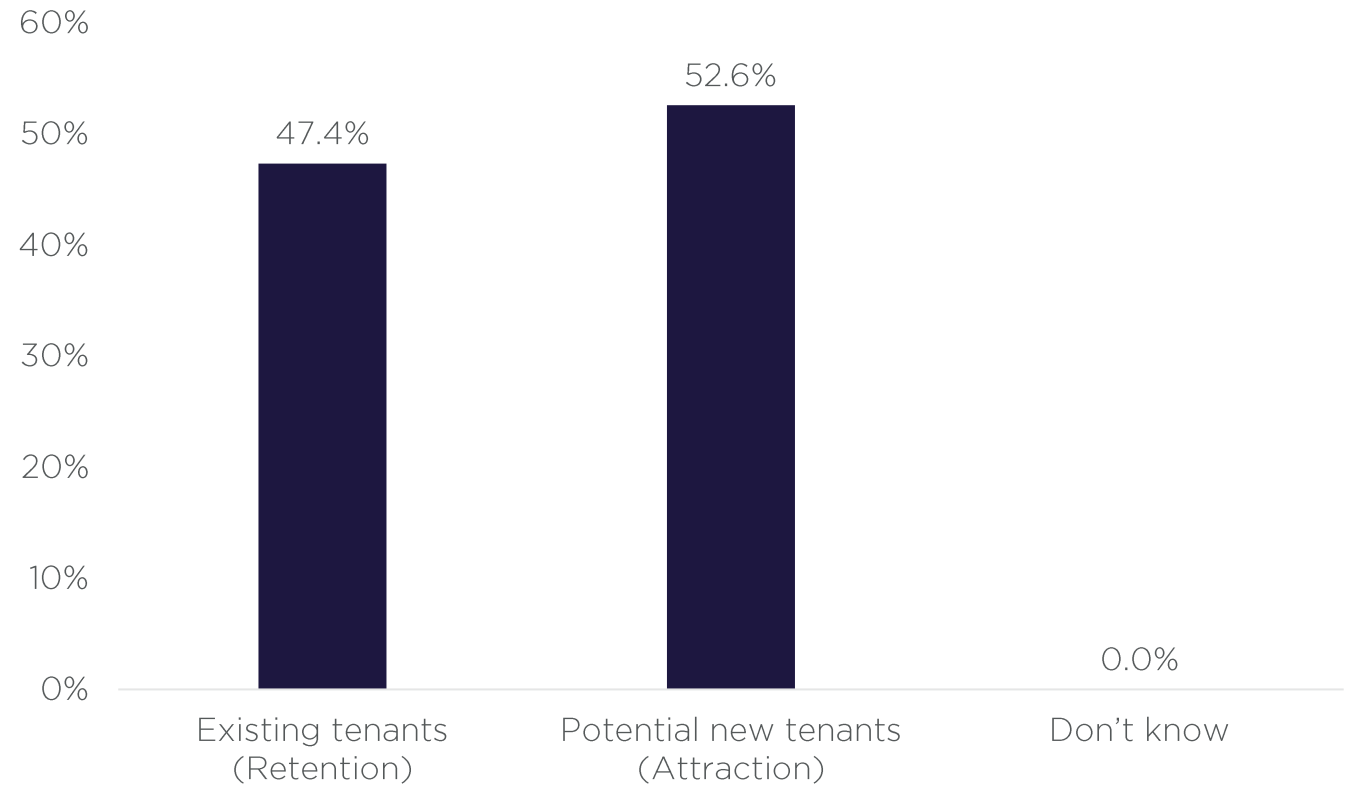
Source: Cushman & Wakefield Research

Tenant profile mix refinement is a primary option

- Just as cost is a key concern for tenants, so it is of utmost interest to Grade A office landlords on the Chinese mainland. Thus, as much as possible, many will seek out leasing strategy areas which don't impinge on profit. Thus, over half of Grade A office landlord survey respondents on the Chinese mainland suggested they would concentrate on refining their tenant profile mix to make it as resilient as possible to any headwinds in the market.
- A market-resilient commercial office tenant profile mix strategy involves a number of factors, including a tenant performance review system, a good balance between anchor and smaller tenants and a healthy industry sector balance.
- If this is in place, and other leasing strategy areas have been optimized, but the office building still remains uncompetitive, then paying for fitouts, providing rent-free periods and/or lowering the rental can be considered.

03 – SURVEY RESULTS

7. If a change in office building leasing strategy is needed, which tenants will you look to further concentrate on in the near future?



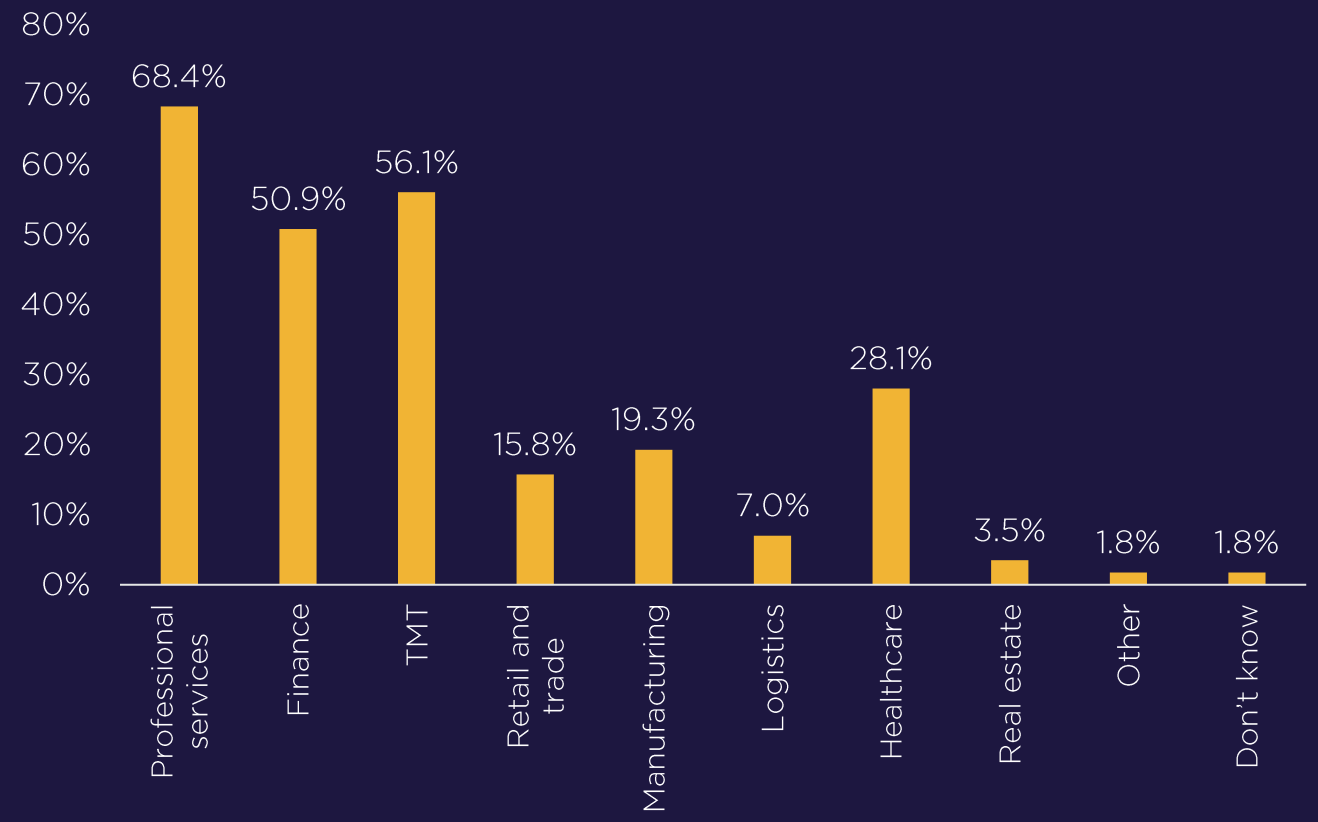
Source: Cushman & Wakefield Research

Retention and attraction held in equal importance

- Reinforcing our finding for Question 4 and according to our survey, Grade A office landlords on the Chinese mainland are split between those looking to focus on existing tenants, (47.4% of landlord respondents), and those looking to focus on potential new tenants (52.6% of landlord respondents).
- In any market, but especially in this current market on the Chinese mainland, given the market state of play and the relatively short office lease lengths in existence, there is a state of lasting competition among Grade A office landlords in the region. The contest to both retain and attract tenants and ensure office occupancy is kept at the optimal level is of the utmost importance to all landlords.
- As for a focus on existing or potential new tenants, this depends on many aspects, including if the landlord has a mature quality office building in a prime location (full of existing tenants) or if the landlord has a newly finished quality office building in an emerging location (and is seeking new tenants).

03 – SURVEY RESULTS

8. If a change in office building leasing strategy is needed, and you are looking to attract more tenants, which types of industries will you look to further target in the near future? (Choose up to three answers).



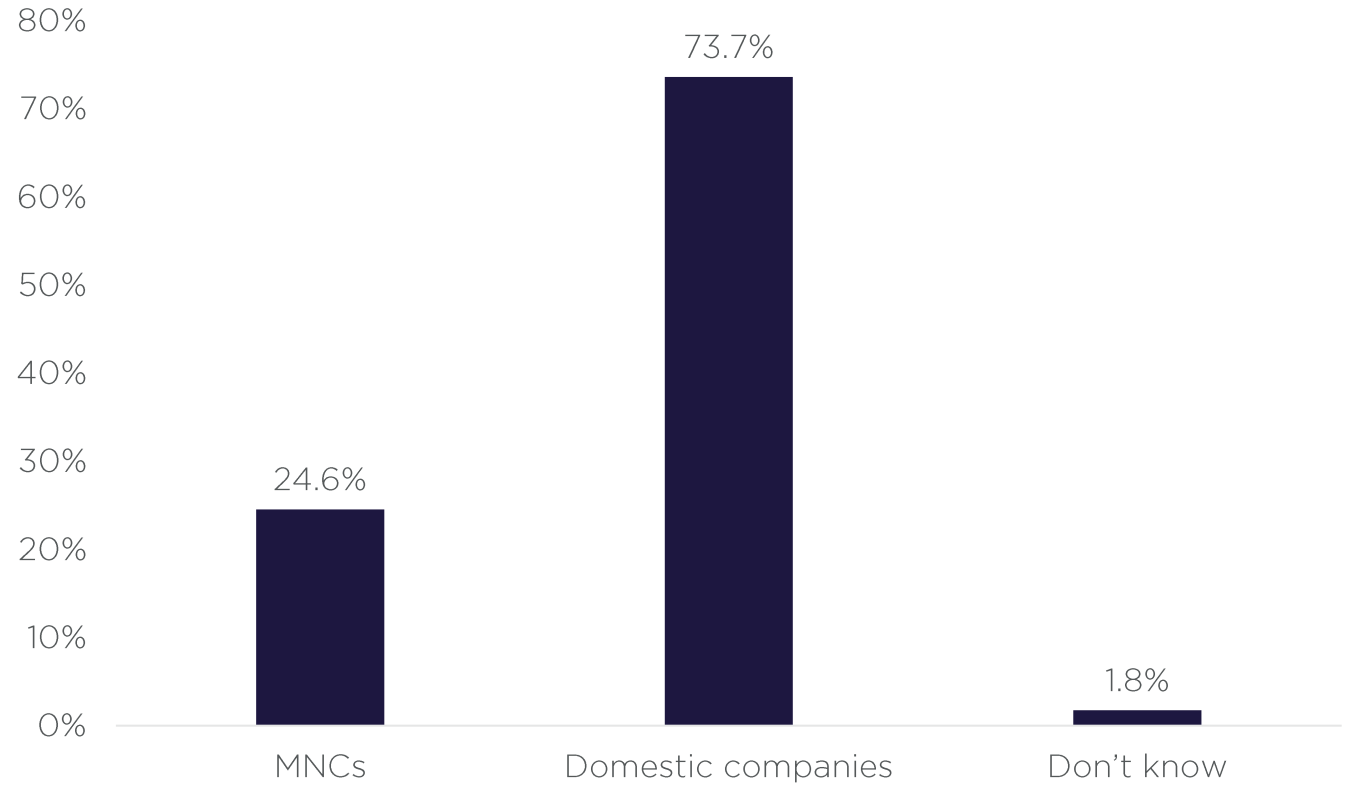
Source: Cushman & Wakefield Research

Professional services, finance and TMT to continue to drive demand

- When considering the types of industry Grade A office landlords are looking to target over the course of the near future, it comes as no surprise that professional services, technology, media and telecommunications (TMT); and finance came out on top in our office landlord survey at 68.4%, 56.1% and 50.9%, respectively. Each of these three industry sectors have shown a strong track record of being consistently in the top three in terms of space taken up in the prime office market on the Chinese mainland over past years.
- What's also interesting is, at 28.1% and in fourth place, how positive Grade A office landlords feel about expected demand stemming from healthcare. Given much investment into this industry sector on the Chinese mainland over recent years, it is expected that arising new innovation within this sector is likely to lead to new business expansion, which in turn will require more quality leased office space in the future.

03 – SURVEY RESULTS

9. If a change in office building leasing strategy is needed, which tenant groups will you look to further target in the near future?



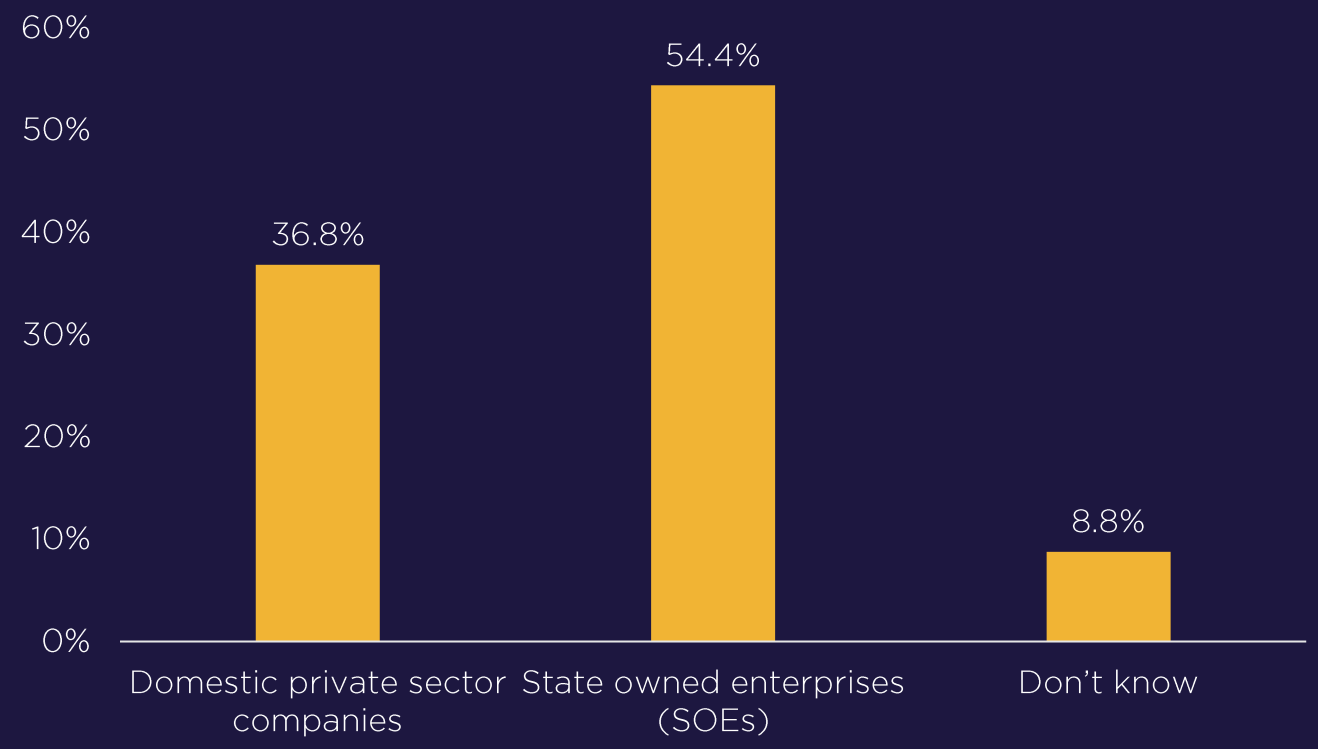
Source: Cushman & Wakefield Research

Domestic company demand to dominate

- For the last 15 years or so, there has been a steady increase in the amount of Grade A office space occupied by domestic companies on the Chinese mainland.
- This trend is recognised in our survey of Grade A office landlords across the Chinese mainland with 73.7% of respondents saying they will look to further target domestic companies.
- With rentals expected to continue to dip in the near future in some cities on the Chinese mainland, we expect more domestic companies that are currently occupying Grade B office space but at the same time, growing their business, to take advantage of market conditions and upgrade their office footprint by occupying higher quality prime office space.

03 – SURVEY RESULTS

10. If a change in office building leasing strategy is needed, and you are looking to attract more domestic tenants, which type of domestic companies will you look to further target in the near future?



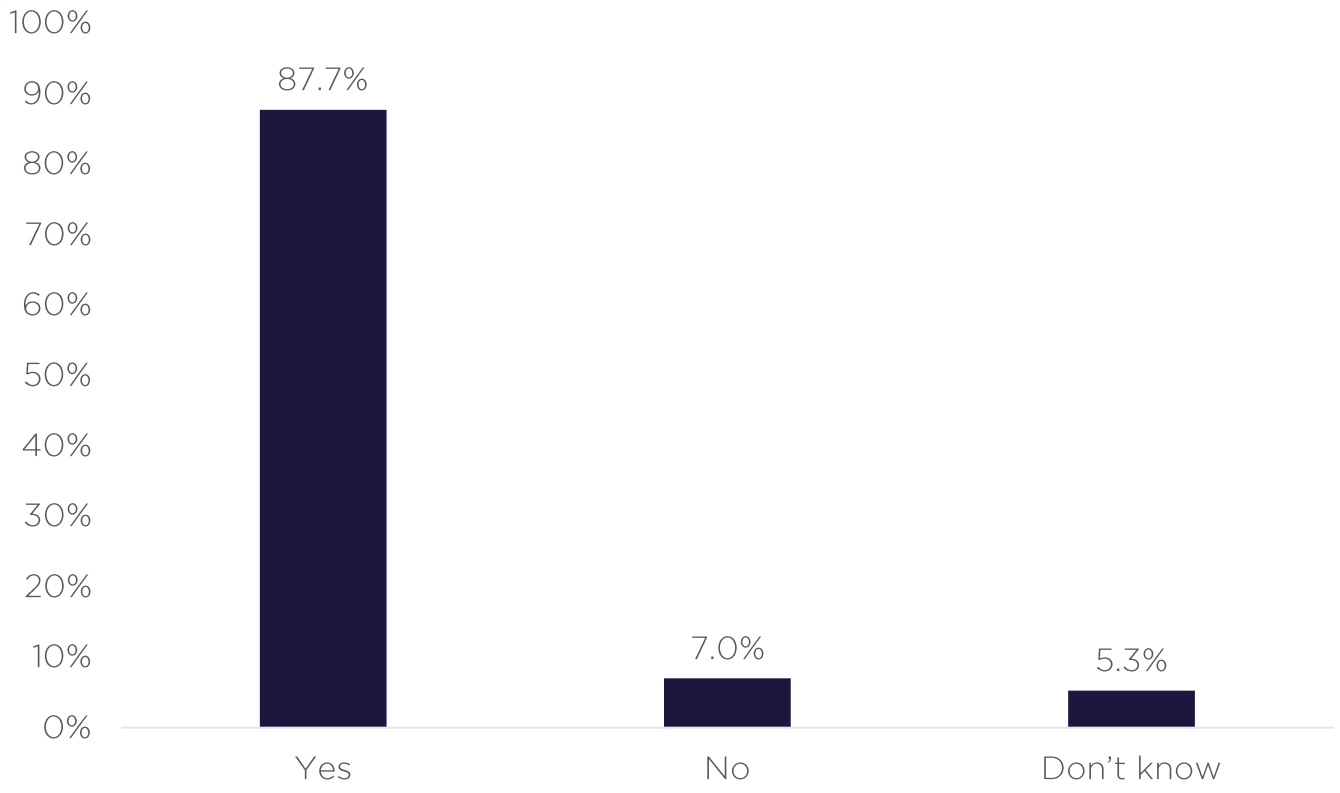
Source: Cushman & Wakefield Research

State-owned enterprises (SOEs) currently have the edge

- When further splitting domestic companies into two groups, according to our survey, 54.4% of Grade A office landlord survey respondents on the Chinese mainland are looking to further target state-owned enterprise (SOEs) while 36.8% of respondents will look to further focus on domestic private sector companies.
- Domestic private sector companies have always been a strong driver of demand for prime office space on the Chinese mainland; and they will continue to be a vital source of space demand.
- SOEs on the other hand are now, more than before, willing to take up leased prime office space. This trend is certainly helping to soak up available space, particularly new-supply available space, and this recent market development is not lost on many quality office landlords on the Chinese mainland.

03 – SURVEY RESULTS

11. If a change in office building asset management strategy is needed, are you looking at improving your office building hard and soft asset management strategy?



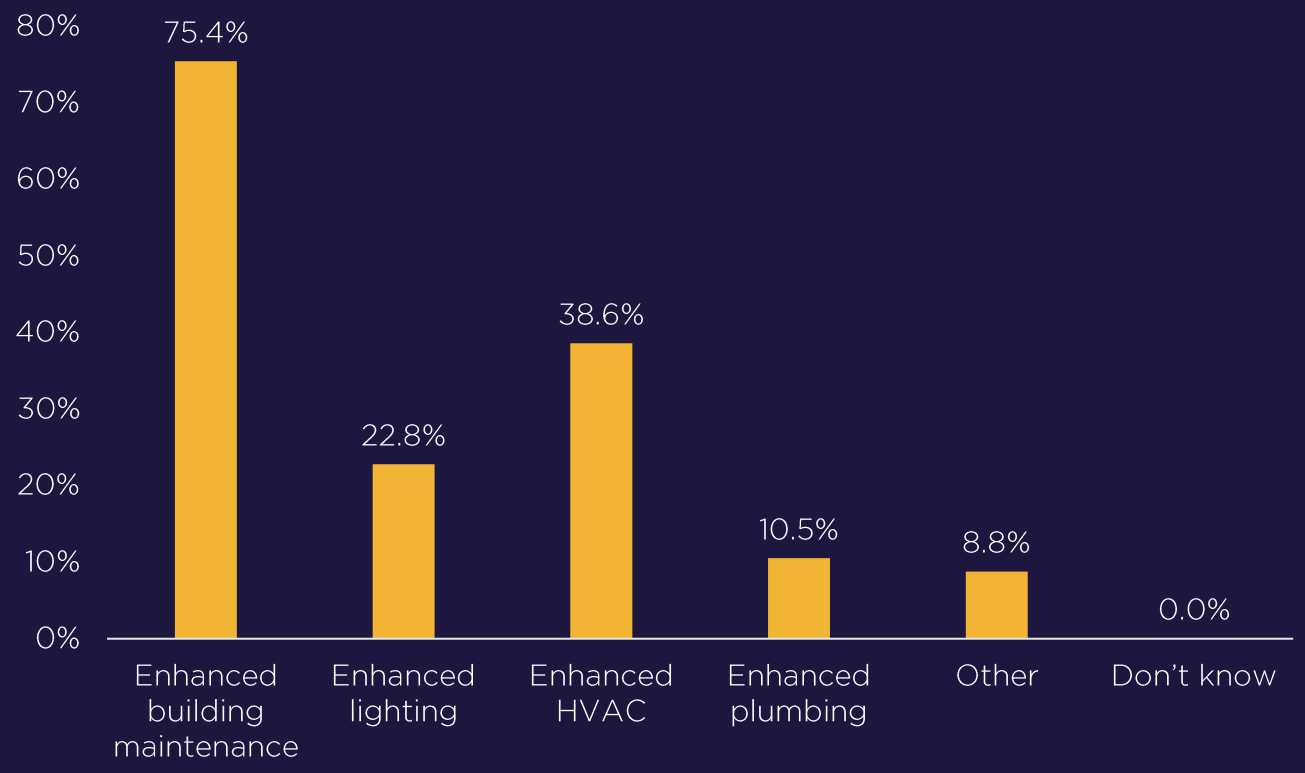
Source: Cushman & Wakefield Research

Hard and soft asset management is front and centre

- With 87.7% of survey respondents suggesting that any change in their office building asset management strategy will require an improvement in their hard and soft office building asset management strategy, it just goes to show how critically important asset management services in general are to Grade A office landlords on the Chinese mainland and their office buildings.
- Implementing an improved hard and soft asset management strategy will go a long way to positively distinguish a prime office building from its competition as well as assisting in the mitigation of any decline in net operating income, any heightening in risk premiums, and ultimately any deterioration in asset market value.

03 – SURVEY RESULTS

12. If yes, what new/improved hard office building asset management strategy features are you looking to incorporate/improve upon in the near future? (Choose up to two answers).



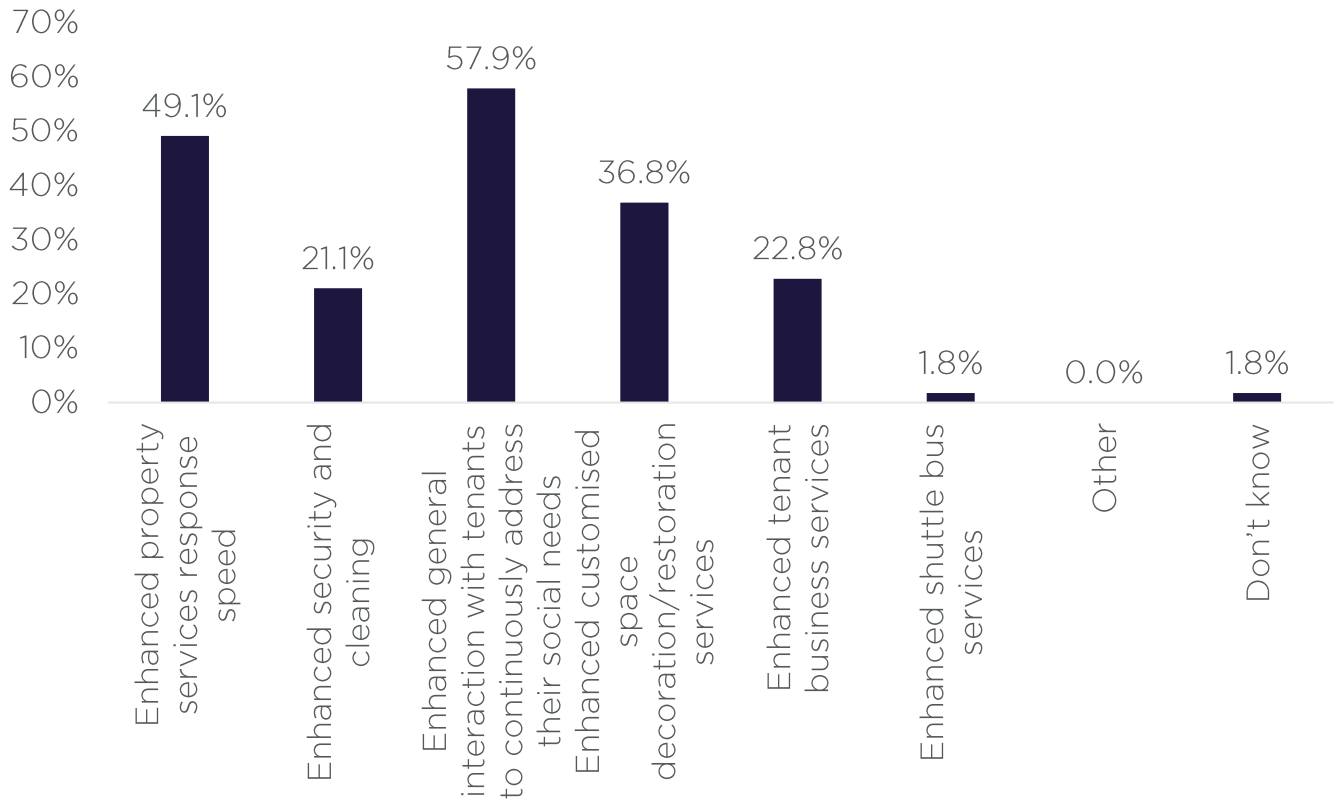
Source: Cushman & Wakefield Research

Building maintenance and HVAC are top hard priorities

- When considering the hard office building asset management strategy features, according to our survey, the top features that Grade A office landlords are currently looking to prioritise are, enhancing their building maintenance, improving the building's HVAC system and augmenting the building's lighting.
- This is not surprising as these three hard service features are ones that tenants most often encounter/experience/notice when in the office building.
- In the "other" category, lift service improvement, the procurement and use of better plant and machinery and the provision of a "24-hour office" service were citied.

03 – SURVEY RESULTS

13. If yes, what new/improved soft office building asset management strategy features are you looking to incorporate/improve upon in the near future? (Choose up to two answers).



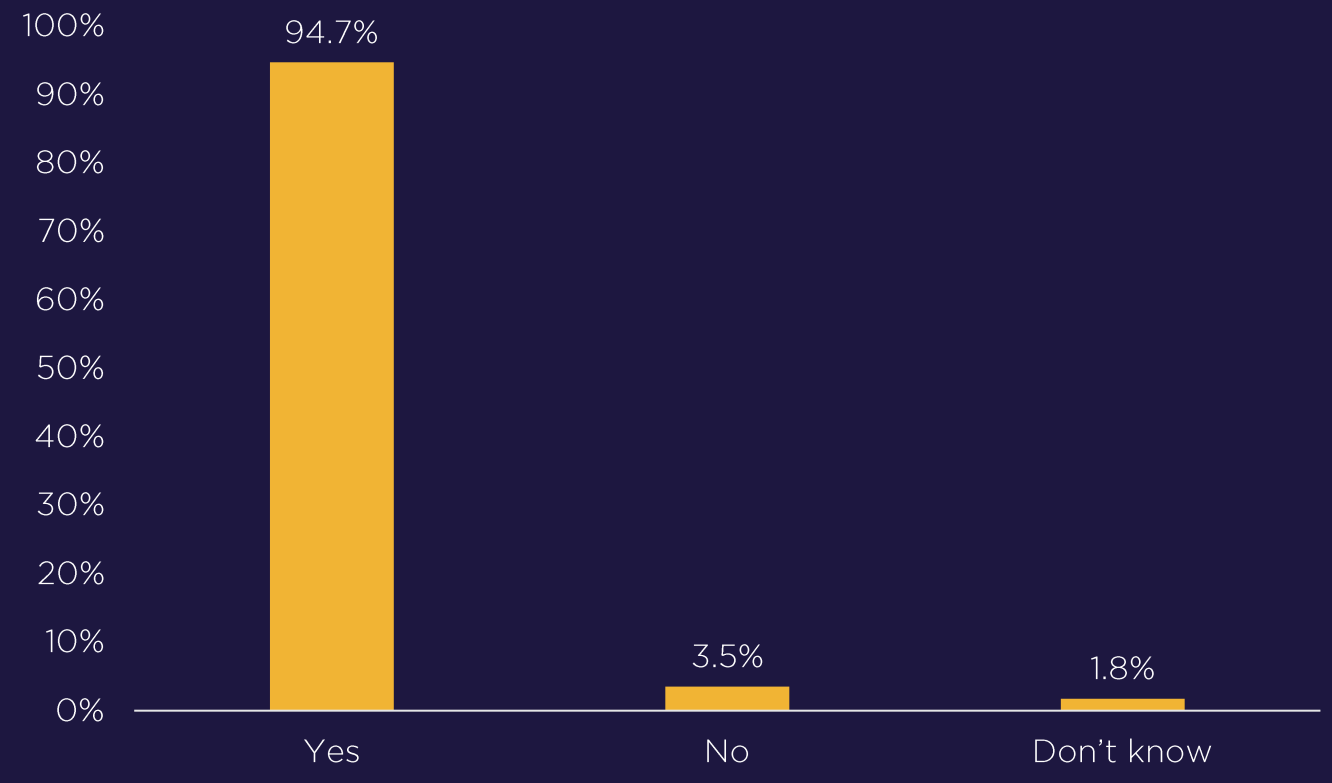
Source: Cushman & Wakefield Research

Social needs, response speed and space dev are top soft priorities

- When looking at the soft office building asset management strategy features, the three main features that Grade A office landlords are currently looking to focus on are, enhancing tenant social needs services, improving the building's property services response speed and bettering the building's space development services.
- Again, these three soft service features are ones that tenants most often encounter/experience/notice when in the office building and so it does not come as a surprise that these three soft services are now being prioritised by Grade A office landlords on the Chinese mainland at the present time.

03 – SURVEY RESULTS

14. If a change in office building leasing strategy is needed, are you looking at improving the office building facility offerings and features you provide to your tenants in the near future?



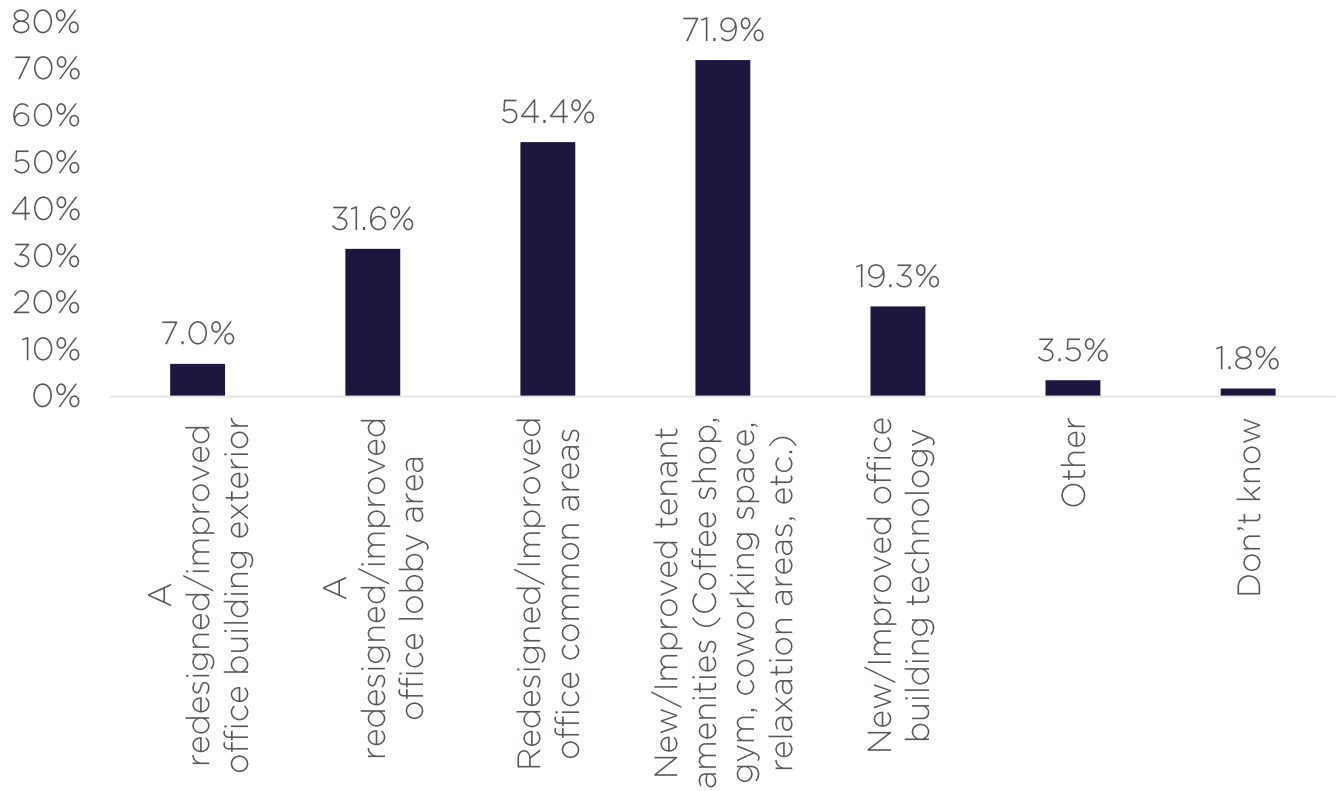
Source: Cushman & Wakefield Research

Landlords looking to improve facility offerings and features

- With "Yes" recording a 94.7% response rate to our survey, it is clear that the majority of Grade A office landlords on the Chinese mainland are looking to improve the office building facility offering and features they provide to their tenants.
- A decade and more ago, office workers on the Chinese mainland expected little in the form of office amenities. Now, with employers competing for talent, and office buildings competing more with one another, office landlords in the region want to transform their buildings into dynamic spaces focused on augmenting the work/visit experience of all of the users/visitors.
- For prime office landlords on the Chinese mainland, this means having a rethink on what facility offerings and features are provided within their building/s – offerings that improve the user/visit experience and continually meet their work, visit and life needs.

03 – SURVEY RESULTS

15. If yes, what new/improved office building facility offerings and features are you looking to provide your tenants in the near future? (Choose up to three answers).



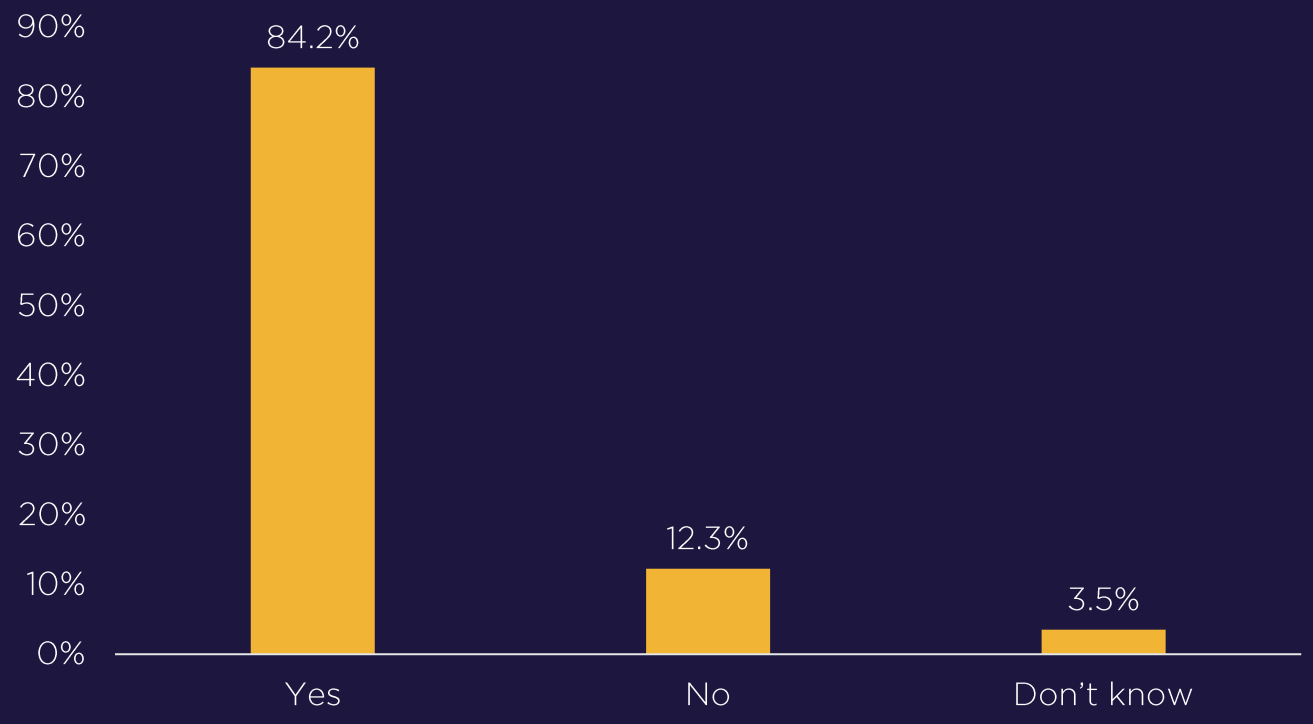
Source: Cushman & Wakefield Research

Amenities, common areas and the lobby area – Foci for improvement

- The top new/improved building facility offering/feature that Grade A Office landlords on the Chinese mainland are looking to provide tenants include new/improved tenant amenities, redesigned/improved office common areas and a redesigned/improved office lobby area, with 71.9%, 54.4% and 31.6% of landlord respondents voting in favour of introducing/improving these offerings and features in the near future, respectively.
- Today, during work hours/lunch hours, office workers on the Chinese mainland might attend a yoga class, meet at a coffee shop or relax in a rooftop garden without ever leaving the office building. Currently, shifts in tenant preferences are having a quantifiable effect on office building facility offerings and features. Assigning a greater amount of portfolio space to amenity offerings and features such as a coffee shop, a gym, a coworking space or a relaxation area will allow a prime office building on the Chinese mainland to remain market-competitive.

03 – SURVEY RESULTS

16. If a change in office asset management strategy is needed, are you looking at improving the green offerings/features/credentials of your office building/s in the near future?



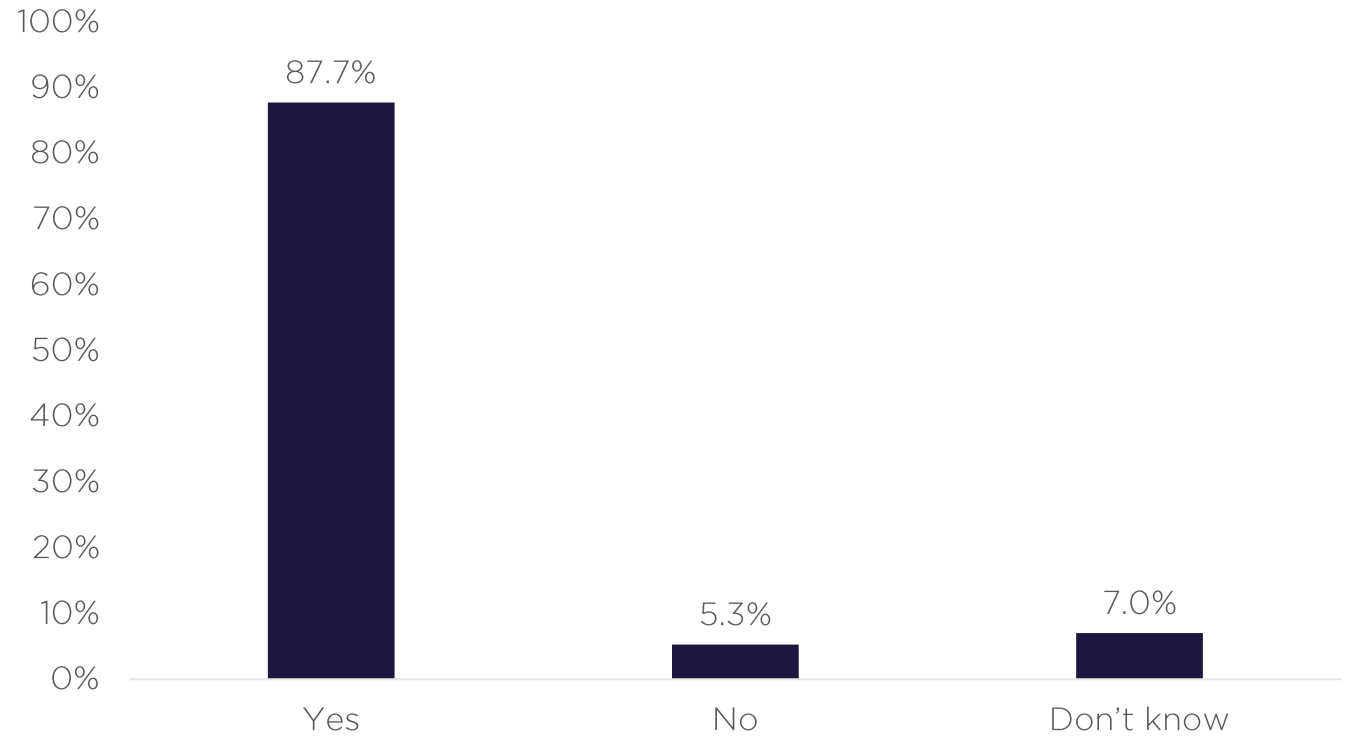
Source: Cushman & Wakefield Research

Sustainability will continue to be given the green light

- Clearly in mainland Chinese Grade A office landlords' minds, sustainability is and will be a very important offering/feature/credential to be associated/attached to their building/s in the region, with 84.2% of landlords, according to our survey, looking to improve on these offerings, features and credentials in the near future.
- Having a green offering, feature and/or credential associated with the office building is now known to make the building that much more competitive in the marketplace given this is what an increasing number of tenants demand.
- As a result of this demand, according to recent research conducted by Cushman & Wakefield Research, green Grade A office buildings on the Chinese mainland are able to command a rental premium of between 8% to 10% over equivalent-city-market buildings that have no green credentials and are classified as non-green Grade A office buildings.

03 – SURVEY RESULTS

17. If yes, is this because more of your existing tenants/potential tenants have their own environmental, social, and governance (ESG) goals to reach and if leasing office space, they would opt for green leased office space?



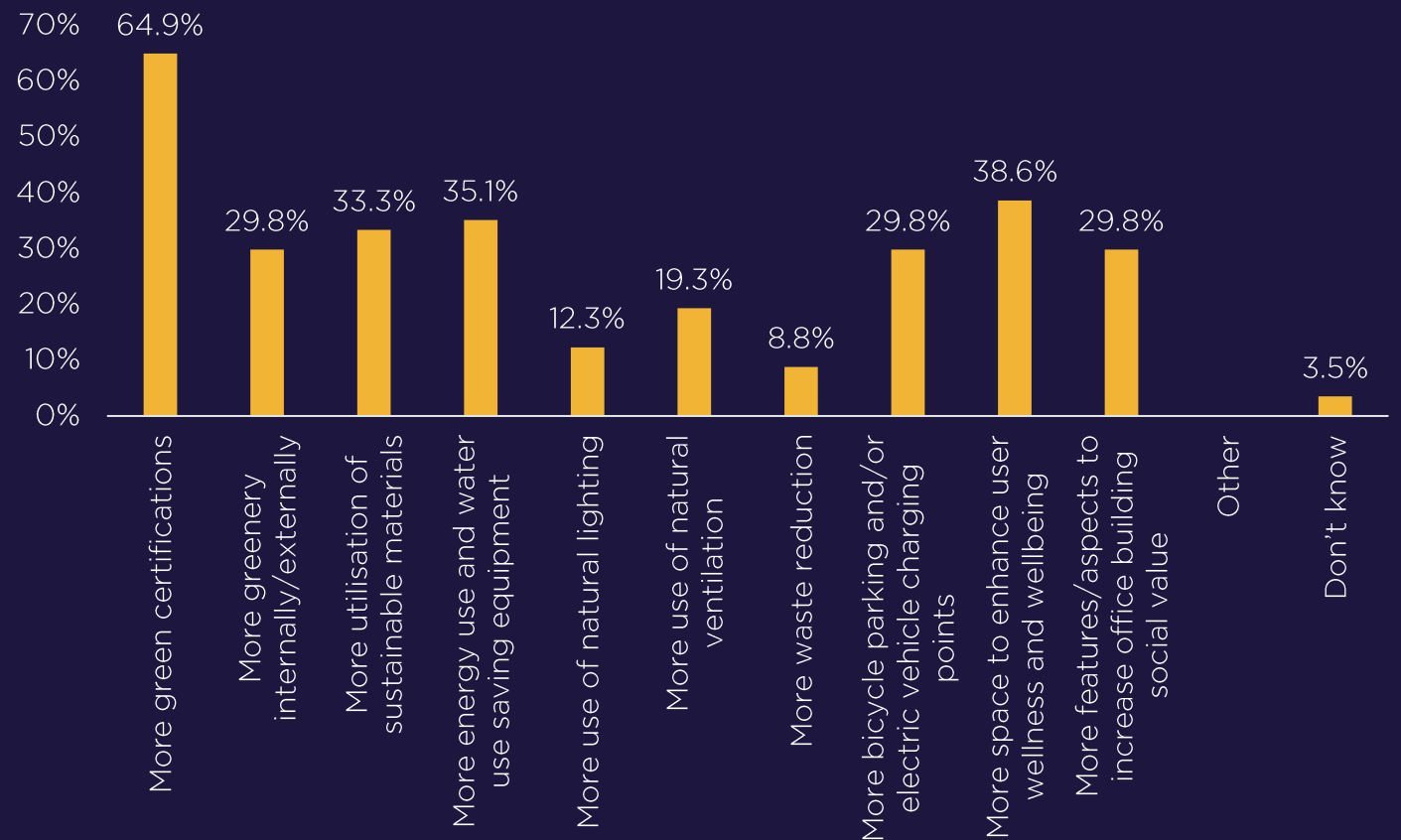
Source: Cushman & Wakefield Research

A yes for ESG

- Simply put, at 87.7%, the answer to this question is a resounding "Yes".
- Grade A office landlords on the Chinese mainland are now very aware of the concept of environmental, social, and governance (ESG). They are very much aware of the increasing number of their retained corporate tenants and potential corporate tenants that have their own ESG reporting goals to achieve and the fact that one way for tenants to accomplish these goals is to occupy ESG compliant real estate, including office space, when conducting their business.

03 – SURVEY RESULTS

18. If yes, what green offerings/features/credentials related to your office building/s are you looking at improving upon in the near future? (Choose up to four answers).



Source: Cushman & Wakefield Research

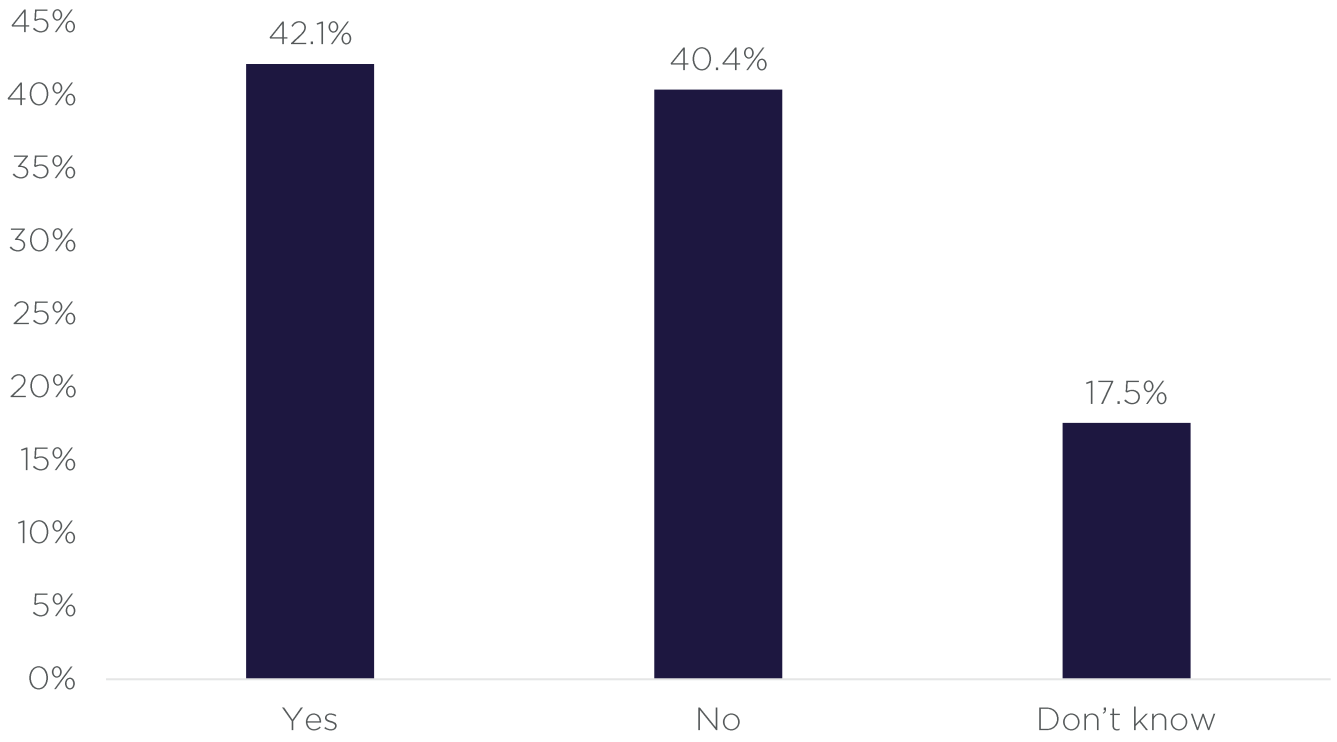
CUSHMAN & WAKEFIELD 戴德梁行

Top three – Certifications, wellness space and energy/water use

- At 64.9%, more green certifications came out as the most important green offering/feature/credential in our survey that Grade A office landlords on the Chinese mainland are looking to focus and improve upon on in the near future. Although many certifications are founded on how a building is designed and constructed rather than how it's operated, certifications are a good indicator for sustainability-minded tenants doing business on the Chinese mainland.
- Second, at 38.6%, was assigning more space to enhance tenant wellness and wellbeing. Wellness spaces that allow tenants to relax and/or remain active are now well-liked by tenants, in the prime office market on the Chinese mainland.
- In third place, at 35.1%, was the use of more energy and water saving equipment. Sustainability-minded tenants need energy efficient buildings – and energy use and water use are the key indicators of a building's sustainability performance.

03 – SURVEY RESULTS

19. If a change in office building asset management strategy is needed, are you looking to take an asset-light asset management business model approach and outsource more of your property, facility and tenant services in the near future?



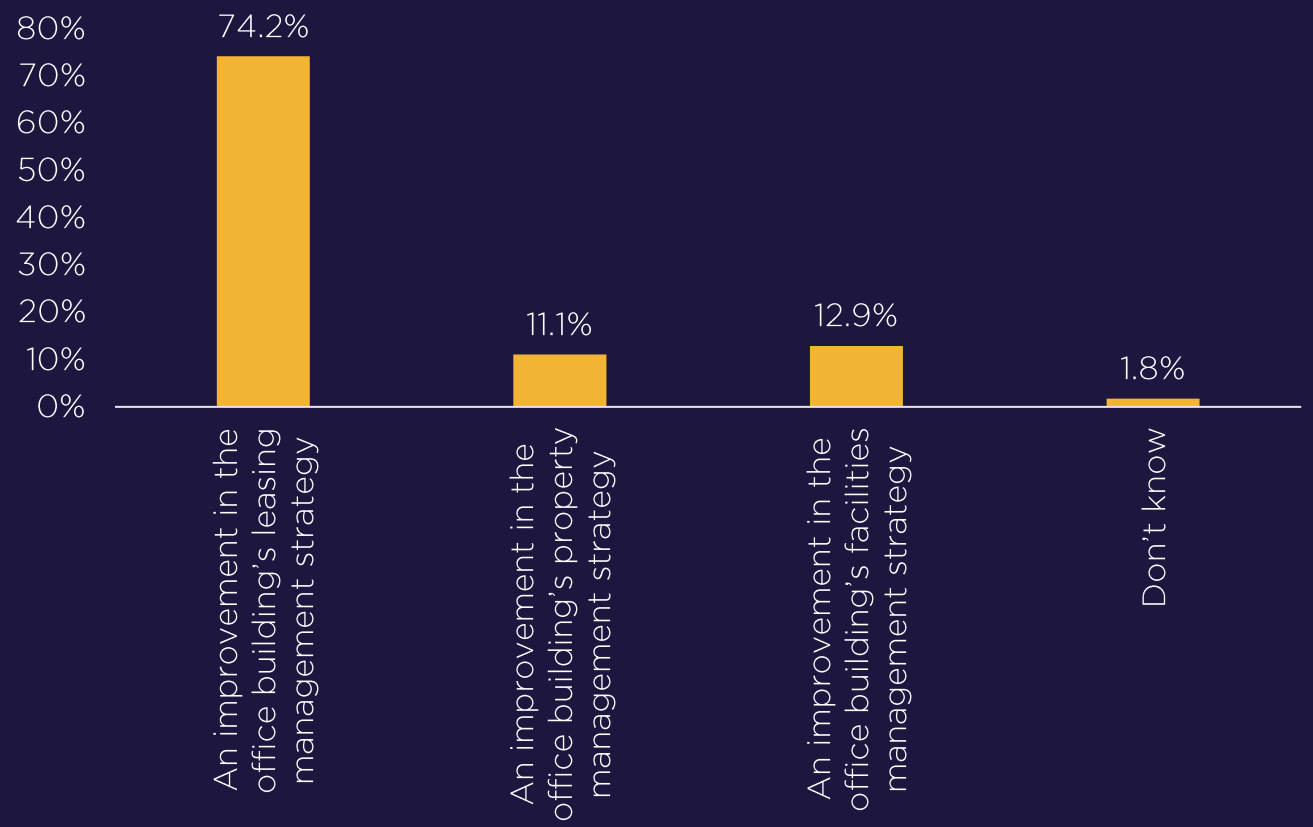
Source: Cushman & Wakefield Research

Asset-light asset management approach – A 50-50 split

- When looking at whether to adopt an asset-light asset management business model or not, it is interesting that there is currently a 50-50 split between those Grade A office landlords on the Chinese mainland that looking to adopt and those that are not.
- There are pros and cons to the asset-light asset management business model approach.
- One advantage is cost. The cost of investing and running an asset-light asset management business model is often less.
- One disadvantage is the standardisation of services, or lack of it. Having several asset management service vendors operating concurrently in a building can sometimes run the risk of the service quality not being universally upheld.
- With cost being a top priority for Grade A office landlords on the Chinese mainland as well, ahead, we expect an asset-light asset management business model to be adopted by more landlords in the region.

03 – SURVEY RESULTS

20. If a change in office building asset management strategy is needed, what near-future change do you feel will bring the greatest return?



Source: Cushman & Wakefield Research

Leasing out on top

- Finally, when looking at three aspects within a current prime leased office asset management strategy on the Chinese mainland; namely the leasing strategy, the property management strategy, and the facilities management strategy on offer to the tenants, at 74.2%, overwhelmingly, our Grade A office survey respondents said an improvement in office leasing strategy would bring the greatest return.
- Entailed in a typical prime office leasing strategy would be a number of aspects, including the setting of a competitive leasing rental, the offering of attractive tenant incentives and the establishment of tenant-wanted office features, offerings and services.
- Again, these leasing strategy criteria and more have a direct connection with what tenants consider to be most important and as such are a top priority for prime office landlords on the Chinese mainland to ensure their office occupation, rental and, ultimately, investment returns are met or exceeded.

04

KEY TAKEAWAYS

04 – KEY TAKEAWAYS

- Given market circumstances, most Grade A office landlords on the Chinese mainland now have a view that a change is needed in their office building asset management strategy.
- Fine-tuning in both hard and soft asset management services will go a long way in driving Chinese mainland Grade A office asset management strategy change.
- Enhancement in Grade A office green offerings, features and credentials will continue on the Chinese mainland and this transformation will be propelled by a greater number of landlords now being conscious of the conception of ESG and the fact that many more of their tenants have ESG reporting targets to attain.
- With cost being a top concern for Grade A office landlords on the Chinese mainland and these same landlords wanting an optimal prime solution, we anticipate an asset-light asset management business model to be embraced by more landlords in the region in the future.

BUSINESS CONTACTS

CUSHMAN & WAKEFIELD
戴 德 梁 行

JONATHAN WEI
President, Project & Occupier Services, China
jonathan.cy.wei@cushwake.com

DAVID SHI
Managing Director
Head of Project & Development Services, China
Co-Head of Sustainability Services Platform, Greater China
david.dw.shi@cushwake.com

ALTON WONG
Executive Director
Head of Sustainability Advisory Services, APAC
Head of Advisory Services, Valuation and Advisory Services, Greater China
alton.yw.wong@cushwake.com

Better never settles

RESEARCH CONTACTS

SABRINA WEI
North China
sabrina.d.wei@cushwake.com

XIAODUAN ZHANG
South & Central China
xiaoduan.zhang@cushwake.com

IVY JIA
West China
ivy.jia@cushwake.com

ROSANNA TANG
Hong Kong
rosanna.tang@cushwake.com

EASON LEE
Taiwan
eason.ih.lee@cushwake.com

This report was authored by Shaun Brodie, Head of Greater China Research Content. Analysis support was provided by Yvonne Jiang, Jane Ji, Jane Cai and Chao Guan. Proofreading services were provided by Simon Graham.

To better serve our clients our China Research Team has established Centres of Excellence in various focus areas, such as Capital Markets, Industrial, Logistics and Retail. Shaun leads the Research Centre of Excellence for Greater China Occupier Research. If you have any queries related to Occupier Research in Greater China, please contact:

CUSHMAN & WAKEFIELD
SUBSCRIPTION CENTER

SHAUN BRODIE
Head of Greater China Research Content
shaun.fv.brodie@cushwake.com

Better never settles

About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global commercial real estate services firm for property owners and occupiers with approximately 52,000 employees in nearly 400 offices and 60 countries. In Greater China, a network of 23 offices serves local markets across the region. In 2023, the firm reported revenue of $9.5 billion across its core services of valuation, consulting, project & development services, capital markets, project & occupier services, industrial & logistics, retail and others. It also receives numerous industry and business accolades for its award-winning culture and commitment to Diversity, Equity and Inclusion (DEI), sustainability and more. For additional information, visit www.cushmanwakefield.com.

Disclaimer

The information contained within this report is gathered from multiple sources believed to be reliable, including reports commissioned by Cushman & Wakefield ("CWK"). This report is for informational purposes only and may contain errors or omissions; the report is presented without any warranty or representations as to its accuracy.

Nothing in this report should be construed as an indicator of the future performance of CWK's securities. You should not purchase or sell securities—of CWK or any other company—based on the views herein. CWK disclaims all liability for securities purchased or sold based on information herein, and by viewing this report, you waive all claims against CWK as well as against CWK's affiliates, officers, directors, employees, agents, advisers and representatives arising out of the accuracy, completeness, adequacy or your use of the information herein.

© 2024 Cushman & Wakefield All rights reserved.