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THE NEW FINANCIAL DESTINATION

Beijing Lize Financial Business District Office Market Overview and Forecast

Summary & Recommendations

As the final large scale development area between the 2nd and the 3rd Ring Road of Beijing, Lize Financial Business District has been considered as the 2nd Financial Street in Beijing due to its prime location. With several prime office projects already completed, Lize is fast developing into a new centre for the financial industry, especially with the release of supporting policies in September 2018.

Although the Lize office leasing market is still in the starting stage due to uncompleted infrastructure projects, we expect Lize to see rapid development during 2020-2022, after the improvement of surrounding facilities. The build-out of the subway, especially the operation of Daxing International Airport with the airport subway line in H2 2019 and the Lize city terminal of the Daxing International Airport in 2021, will all help Lize become an attractive destination with better accessibility to public transport.

- > Occupiers should pay more attention to this area and enter the market earlier to enjoy the low rent with high quality offices.
- > Despite the current high price tag of Lize, we suggest that investors pay more attention to this area, since we expect long-term capital appreciation due to an increase in tenant demand.
- > We also suggest developers to start pre-leasing as early as possible with flexible rents, especially for high quality tenants.

Geographical advantage

Lize has the shortest distance to the core office areas among all the emerging office submarkets. Only 10+ minutes' drive to West, South and Fentai Railway Station from Lize. The city terminal of Daxing Int'l Airport to be inside Lize will largely improve the accessibility.

2.19mn sq metres

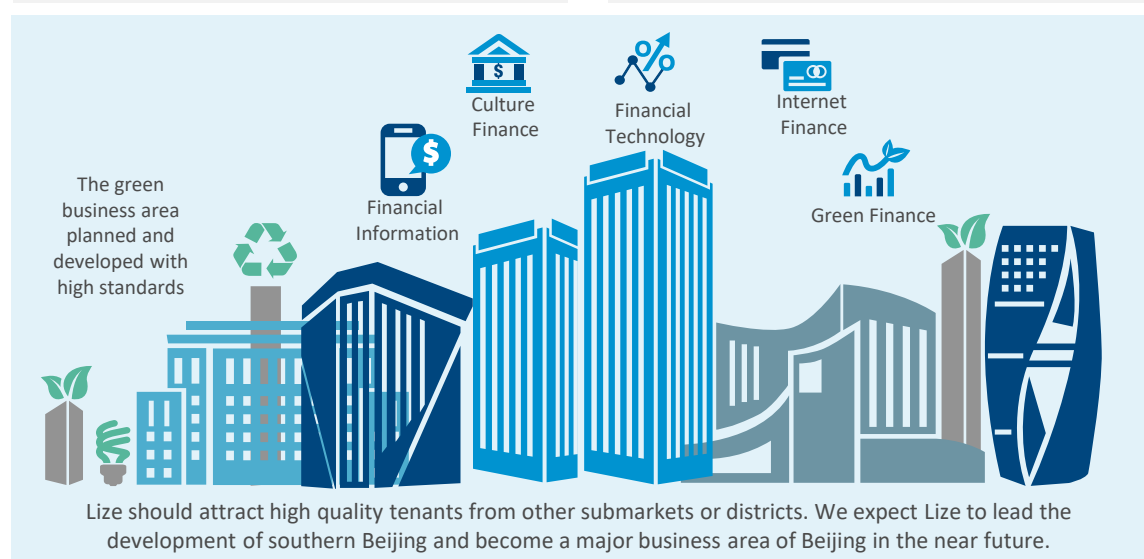
Development of Lize is currently concentrated in the southern part. The office projects will be around 2.19 million sq metres, and at least 5 buildings have the height of around 200 meters. Fintech, headquarters, and professional services firms will be the major tenants.

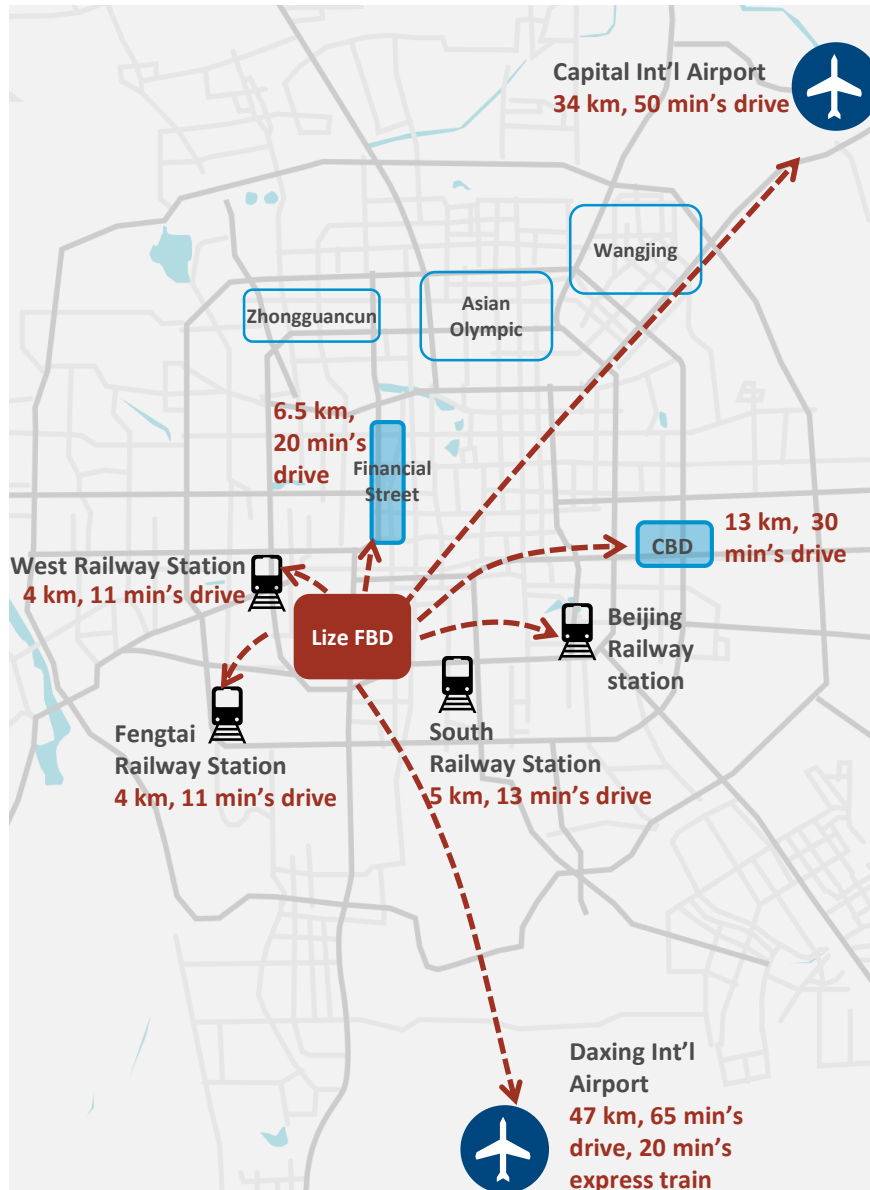
Green business area

Lize is planned and constructed with high standards as most projects are LEED certified. Also, as the historic capital of the Jin Dynasty, Lize has adopted a cultural and ecological approach, making it a green business area that embraces modern creativity and classical roots.

Competitive rent

The net achievable rent in Lize is between RMB180-210 per sq metre per month, lower than that of other submarkets within the 3rd Ring Road and only 30% of that of Financial Street. Nevertheless, we expect Lize to see an above-average rent growth in the next five years.





Source: Colliers International

LOCATION AND ACCESSIBILITY

As the final-large scale development area within the 3rd Ring Road of Beijing, Lize Financial Business district (Lize FBD) has a site area of 8.09 square kilometres (87.1 million square feet), covering four administrative areas: Lugouqiao East, Wanquansi, Xiju and Taipingqiao. The core area of the Lize is west of Taipingqiao Road and Dongguantou Road, east to Jingjiu Railway, north to the planned South Maliandao Road, and south to the planned Jinzhongdu North Road.



Lize lies in between Beijing West Railway station, Beijing South Railway Station and Fentai Railway station, and all three stations can be reach around 10 minutes.



Five subway lines that pass through Lize are being planned or currently under construction. It is worth highlighting that the new airport, Daxing International Airport, will set up a terminal at Lize. The terminal at Lize will allow passengers to check in and provide an express train to the airport in within 20 minutes. We expect the establishment of the terminal to help Lize create a better business environment and attract more tenants.



The road system encompassing and surrounding Lize includes four city expressways and seven trunk roads. Lize Road, the main avenue in Lize, is currently undergoing expansion to a city expressway. In addition, an underground road system in Lize should connect 19 future projects in the core area, largely improving Lize's connectivity.



With a combination of road expansion and subway buildout, we expect demand for Lize to be strong thanks to an improvement of the surrounding infrastructure.

Metro line	Start-end stations	Completion
Daxing airport express phase I	Caoqiao-Daxing International Airport	2019
Line 14 Lize section	Xiju-Beijing South Railway Station	2020
Line 16	Xiyuan-Wanpingcheng	2021
Daxing airport express north extension	Lize FBD - Caoqiao	2021
Line 11	Jinding Street-Bailusi	TBC
Lize-Financial Street express	Lize FBD - Financial Street	TBC

Source: Public information, Colliers International

POSITIONING AND LAYOUT

According to the “Beijing City Master Plan (2016-2035),” Lize Financial Business District is positioned as the “Cluster of the Emerging Financial Industry” and “Beijing’s Pilot Area of Financial Reform.” According to the proposal, the following sectors will be the focus of future development:

- > Fintech
- > Digital Finance
- > Financial Information
- > Financial Intermediary
- > Financial Culture and Other Emerging Sectors

Lize has already attracted 480 enterprises, including 350 financial companies. Among the financial companies, 336 or 96% of the total, are considered emerging entities, which include:

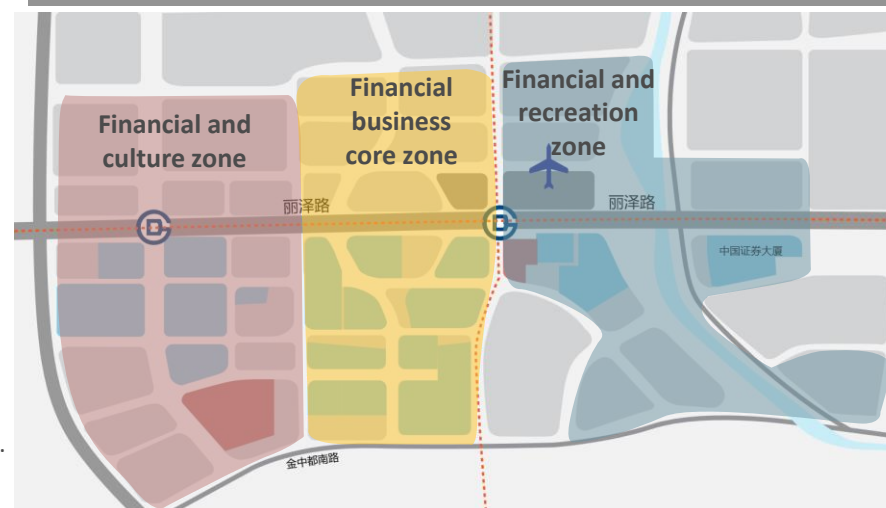
- > China Securities Finance Corporation Limited
- > Centre For the Registration and Circulation of Credit Assets
- > Digital Currency Research Institute of the People’s Bank of China
- > China United Insurance Group Company Limited

The core area of Lize is divided into a financial and cultural zone, a financial business core zone, and a financial and recreation zone from west to east as shown in the map at right.

PREFERENTIAL POLICIES

The “Cluster of the Emerging Financial Industry” guideline is sub-divided into the “Policies For Emerging Financial Industry’s Cluster Development” and “Tentative Approaches For Building Leasing Services,” which were both released by the Lize Financial Business District Management Committee on September 2018. These two preferential policies are expected to strengthen the attractiveness of Lize to the emerging financial industry and companies in other areas with relocation plans.

Spatial layout



Key terms in the policies

Tentative Approaches for Building Leasing Services

- > Financial institutions, headquarters of private enterprises, regional headquarters of MNCs, unicorn companies, and high-quality business, agency, lifestyle, cultural and other services companies that match Beijing’s strategic positioning are encouraged to enter Lize.
- > New co-working space for start-ups is banned in Lize.
- > For a single building (self-use excluded) in Lize, if the comprehensive contribution¹ equals or exceeds RMB10 million (USD1.5 million) a year, landlords of the buildings (or operators, management companies) are qualified to receive a reward of no more than 8% of the generated contribution.

Source: Official Website of Lize Financial Business District, Colliers International, Colliers International

Note: 1. Comprehensive contribution is calculated by local government based on the economic development contribution, industry development contribution, employment contribution, and other factors of a company to local government.

DEMAND DRIVERS AND DEVELOPMENT POTENTIAL

As previously mentioned, emerging finance industries should be the major target tenants of Lize according to the official positioning. A number of financial institutions, such as the Great Wall Asset Management, China United Insurance, China Securities Index, China Galaxy Securities, Ping An Insurance, and Huaixa Insurance have all acquired land and constructed self-used projects, which should improve the attraction of Lize to financial companies. In addition, the relocation of the National Audit Office in Lize should promote the cluster of financial companies.

Financial Street's vacancy rate has been steadily lower than 5%, limiting the demand for expansions. As Lize is only 6.5 kilometres from Financial Street, it should be a favourable alternative for financial companies. Lize aims at long-term development along with Financial Street and Greater CBD submarkets, with the goal of becoming a third hot spot for financial industries in Beijing.

In addition, headquarters of private-owned companies and MNCs, unicorn start-ups, professional services companies and high-end lifestyle and culture companies are encouraged to locate in Lize. The office buildings in Lize have high quality and at least 5 projects have the height around 200 meters, which will benefit to brand tenants' image. According to the region's leasing policies and landlords' leasing preference, we expect the following type of tenants to be strong leasing demand drivers:

- > Headquarters
- > Professional services companies
- > Culture and media companies

As an added bonus, Lize is developed as a green business district by highlighting surrounding natural environment and historical sites. The planned Lotus River leisure area and cultural tourism street should differentiate Lize from other traditional business areas. In addition, several projects in Lize such as Azia Center have achieved LEED certification, which expect to be an attraction to potential tenants.

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Lize office market has huge potential as the last large-scale development area inside the 3rd Ring Road. With abundant office supply entering the market in the next five years, we expect Lize to attract spillover demand from Financial Street and the CBD and its vicinity

ACTIVE INVESTMENT MARKET

Investors are paying close attention to Lize due to its positive prospects. Four en-bloc transactions totaling RMB13.0 billion (USD1.9 billion) have been recorded since 2017, exemplifying Lize as one of the most active emerging office submarkets in Beijing.

Major en-bloc transactions

Project	Buyer	Seller	Amount (million RMB)	GFA (sq m)
Capital Land Centre retail part	Longfor Group	Capital Group	1,790	81,600
Capital Land Centre F02-2	Mapletree	ICBC International	3,000	51,000
Great Wall Asset Building No.3	Hua Insurance	Great Wall Asset	2,500	42,500
China Railway Materials Group Beijing Centre	China Fortune Land Development	China Railway Materials Group	5,780	155,000

Source: Colliers International

Key terms in the policies (continued from previous page)

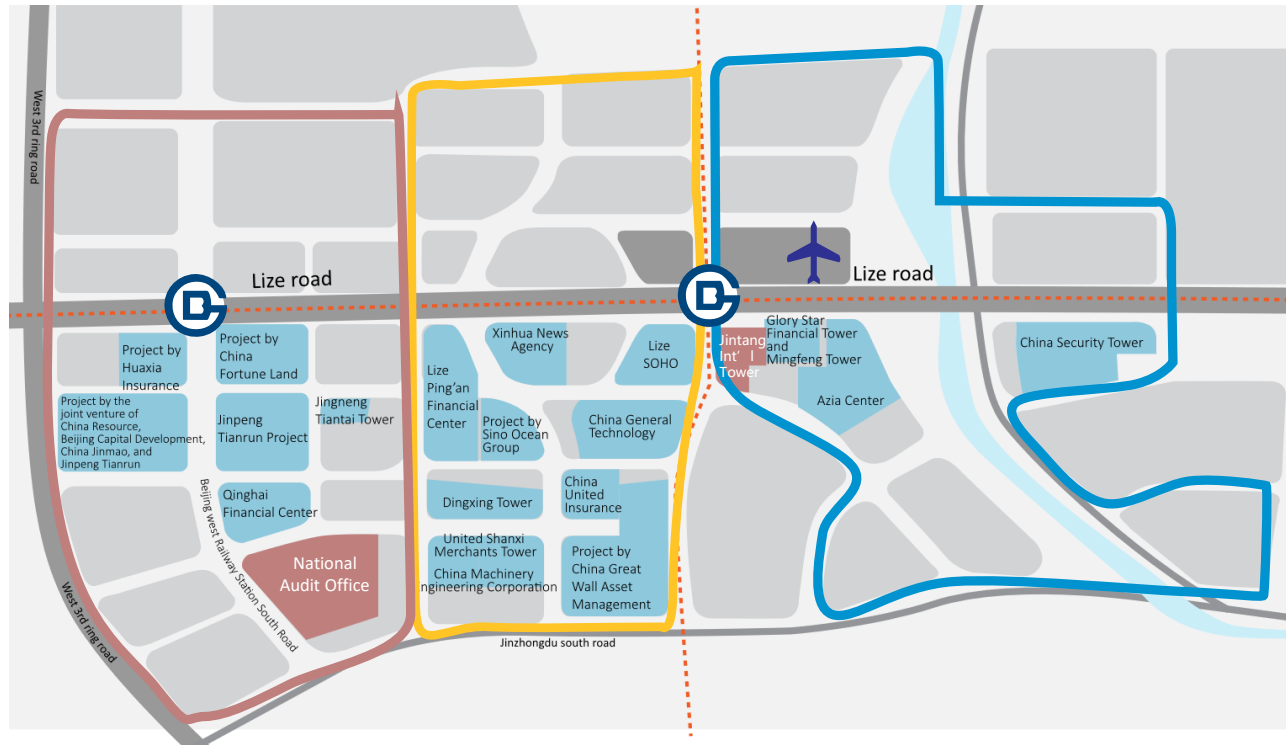
Policies For Emerging Financial Industry's Cluster Development

- > Encourage and support financial institutions to newly established offices in Lize or relocate from districts outside of Fengtai.
- > Enhance financial incentives. If the comprehensive contribution¹ of Lize's financial institutions reach RMB10 million (USD1.5 million) a year or above, mid-to-senior level management is qualified to receive a reward of no more than RMB3 million per person per year.

Source: Official Website of Lize Financial Business District, Colliers International

Note: 1. Comprehensive contribution is calculated by local government based on the economic development contribution, industry development contribution, employment contribution, and other factors of a company to local government.

OFFICE MARKET REVIEW AND OUTLOOK



Financial and cultural zone

Financial business core zone

Financial and recreation zone

Source: Public Information, Colliers International

Lize is divided into south and north sectors by the Lize Road, which cuts through the center of the area. The south sector has already completed the demolition of old buildings, and land transactions have been recorded since 2011. As of April 2019, a total of 18 land plots in the south have been sold to

developers, and the planned GFA for these land plots is 2.24 million square metres (24.1 million square feet). Office, will take up the majority of the planned GFA, as a total of 2.19 million square metres (23.6 million square feet) of supply is expected in Lize.

The office leasing market started in 2018 when four leasable projects entered the market, namely United Shanxi Merchants Tower, Glory Star Financial Towers, Mingfeng Tower, and Azia Center. The total supply of the four buildings is 287,000 square metres (3.1 million square feet).

Existing and planned office projects list

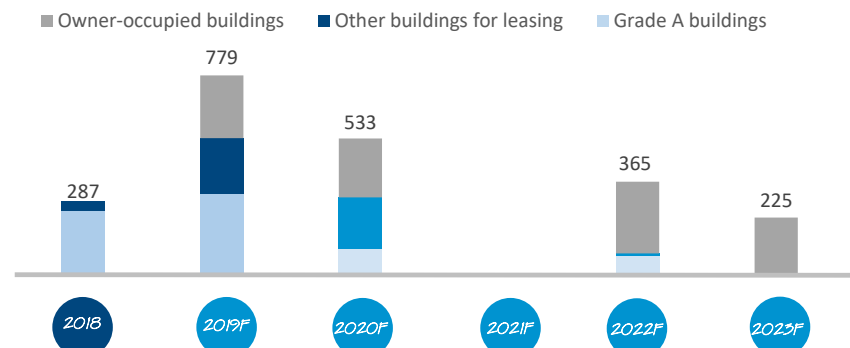
Project Name	Launch / Completion Date
United Shanxi Merchants Tower	2018
Glory Star Financial Tower and Mingfeng Tower	2018
Azia Center	2018
Lize SOHO	2019
Lize Ping'an Financial Center	2019
Project by China Great Wall Asset Management	2019
Project by China United Insurance	2019
Project by China General Technology	2019
Dingxing Tower	2019
Project by China Machinery Engineering Corporation	2019
Qinghai Financial Center	2020
Project by China Fortune Land	2020
Jinpeng Tianrun Project	2020
Project by Sino Ocean Group	2020
Jingneng Tiantai Tower	2022
Project by the joint venture of China Resource, Beijing Capital Development, China Jinmao, and Jinpeng Tianrun	2022
Project by Xinhua News Agency	2022
Project by Huaxia Insurance	2023
China Security Tower	2023

Source: Colliers International

Lize will enter a supply peak in 2019 with seven projects completed, releasing a total office GFA of 779,000 sqm (8.4 million square feet). Among the expected completions in 2019, Lize SOHO, Lize Pingan Financial Center, and Dingxing Tower will enter the leasing market this year with a total leasable area of 670,000 square metres (7.2 million square feet). Other projects are mostly for self-use, and limited leasable space is expected.

Among the projects to be completed during 2020 to 2023, two self-use projects are worth highlighting, namely Xinhua News Agency's building for a total investment of RMB4 billion and China Security Tower developed by the joint venture of Zhongzheng Inter-agency Quotation System Co. Ltd. and China Galaxy Securities.

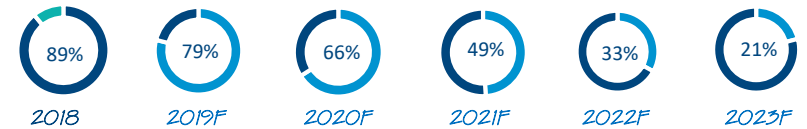
Future supply, 2018-2023F (thousand square metres)



Source: Colliers International

The office leasing market of Lize Financial Business District is only at its initial stages, with the fintech industry, headquarters, and professional services sector being the potential tenants. Due to the ongoing infrastructure construction and land development, most tenants are currently reluctant to move in. The vacancy rate of the projects that have entered the market varies from 30% to 90% and the overall vacancy rate was around 80% by the end of Q1 2019. However, as the area continues to develop, and supplemented by favourable policies, leasing activities have accelerated in Q2 2019. We expect Lize's vacancy rate to drop significantly in coming years, with the overall vacancy rate dropping to 21% by 2023.

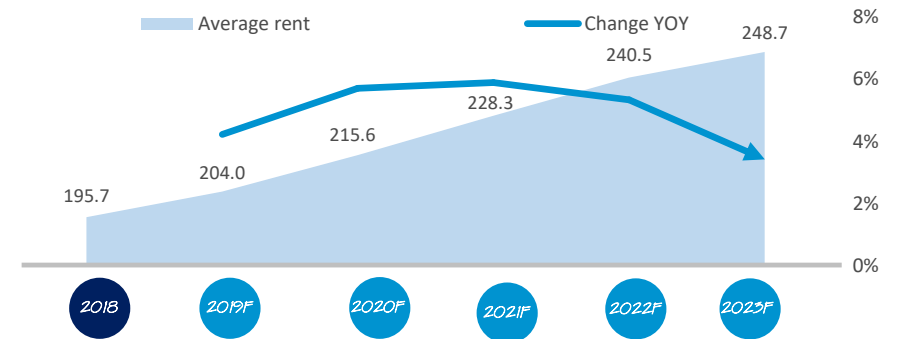
Grade A office vacancy rate, 2018-2023F



Source: Colliers International

The slow rental process has been a factor that dragged down rents in the area. The net achievable rent of existing projects is between RMB180-210 (USD26.4-30.8) per square metre per month, which is much lower than the average of other submarkets within the Third Ring Road. Taking Financial Street as an example, Grade A offices are priced at a 60-70% premium compared to Lize, indicating significant room for growth in the future. With most of the transportation buildout and infrastructures expected to be completed in 2021, and with no new supply expected in that year, rents should see significant upside for existing projects in the next three years. Additionally, 2021 will be a peak contract renewal period for existing tenants in Lize, which should also accelerate the rental growth of that area. Afterwards, the rental growth rate should slow down slightly taking the higher base into consideration.

Grade A office rents and rental change, 2018-2023F (RMB psm per month)



Note: the rent in the above chart is the net effective rent exclusive management fee and rental free period. Source: Colliers International

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