



MAXVIEW
GROUP



2016 Beijing High-End Residential Leasing Market Report & 2017 Forecast

SUMMARY 2016

The shift of focus of the expatriate market towards an emerging Chinese market concerning service apartments, high-end apartments and villas units and its likely repercussions.

2016 saw the exit of several service apartments from the market and only the opening of one major service apartment and one reopening after renovations, thus easing the competition off the existing service apartments, but also highlighting the continued trend from 2015 of foreign expatriates mostly repatriating back to their homes, with fewer expatriates taking up those empty slots they leave behind. The shifting demographics of richer and wealthier local Chinese however more than offset the drop in demand of the foreign market and is slated to continue to rise into 2017 further affecting rental prices.

- Three services apartments closed over the year, with one new project and one renovated project reopening.
- Non-Service apartment prices continue to rise, with many emerging local middle class and wealthy class Chinese filling the gaps in demand from shrinking numbers of expatriates.
- Villas shoulder the main repercussions of the expatriate population shrinking in Beijing.
- Various visa changes are aimed at streamlining and easing foreigner application for visas making visa applications requirements more transparent.

SUPPLY AND DEMAND

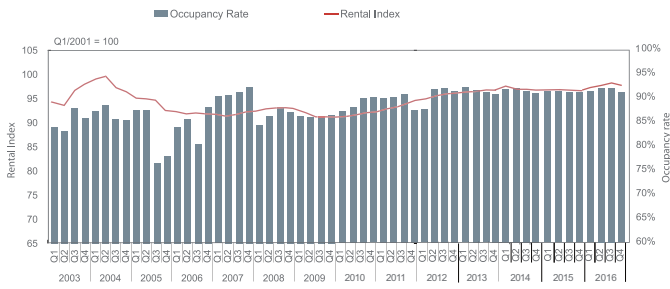
The growing trend of moving towards term assignments rather than fully relocating expatriates, allowing MNC's to save expensive overhead costs that come associated with relocating expats, also show their influence on the high-

-end residential villa occupancy and rates. Using term assignments, these senior expatriates who usually will have spouses and children accompanying them if fully relocated, now will only stay 3-6 months in Beijing and thus will no longer require their family to relocate with them and thus choose smaller residencies, saving companies immense costs. This will affect the supply and demand especially regarding villas and non-service apartments that rely overly on the foreign market. This is however countered by a rising middle and wealthy class of local Chinese who are looking to invest more and more into local infrastructures.

HIGH-END APARTMENT RENTALS

Due to the limited availability of popular non-service apartments that appeals to foreigners, waiting lists have been implemented for a variety of these compounds. In addition to the growing prices of the real estate prices for both new and pre-owned homes across first and second tier cities, with Beijing no exception, the rental rates have steadily grown as many landlords are considering putting their units on sale in order to cash out on their investments. Often this is not restricted only to leasing, but due the increased awareness of Chinese oversea investment and its subsequent increased restrictions on this by the central government, many Chinese have diverted their resources towards local investment, specifically real estate. This investment often means purchasing high-end apartments and thus removing them from the rental market as they Chinese will either live in these themselves or use properties as investments units rather than renting it out. These instability factors and the growing demand of the local populace seeking more and more high-end residences has affected rental prices to rise to RMB 153 per sqm on average. This is an increase of approximate 4.8% from last year's prices.

Apartment Market Occupancy/Rental Index



Highest Rents (RMB/sqm/month)		Highest Occupancy	
Fortune Heights	236.6	Beijing Golf Apts	97.1%
Royal Park 8	199.8	Park Apartments	94.3%
Four Seasons Apts	192.3	Parkview Tower	93.1%

High-end Apartment Rental Benchmark*

Best	Low	Mid	Upper
Layout			
1 bedroom	23,000-26,000	26,000-30,000	30,000-33,000
2 bedrooms	30,000-32,000	33,000-37,000	37,000-47,000
3 bedrooms	40,000-45,000	45,000-49,000	49,000-60,000
4 bedrooms	46,000-56,000	51,000-70,000	70,000-130,000
Superior			
Layout			
1 bedroom	19,000-23,000	23,000-28,000	25,000-30,000
2 bedrooms	23,000-28,000	28,000-33,000	33,000-42,000
3 bedrooms	37,000-42,000	42,000-47,000	51,000-56,000
4 bedrooms	42,000-46,000	47,000-51,000	56,000-60,000
Good			
Layout			
1 bedroom	14,000-17,000	17,000-21,000	21,000-25,000
2 bedrooms	17,000-21,000	21,000-26,000	26,000-31,000
3 bedrooms	23,000-28,000	28,000-33,000	33,000-42,000
4 bedrooms	32,000-40,000	40,000-45,000	45,000-54,000

* Benchmark is based on prices for high-end properties. Please check next page for developer-owned high-end serviced apartment prices.

Selected High-end Apartment Transactions

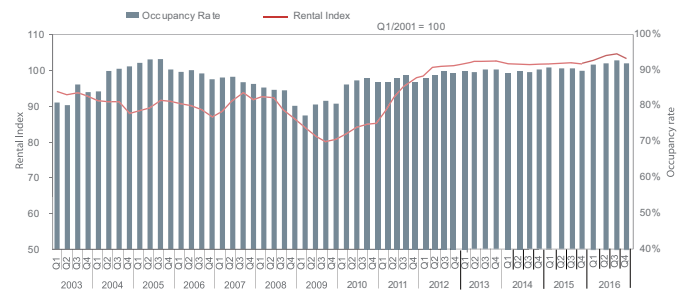
Compound	District	sqm	Rent (RMB)	Bedrooms
Central Park	CBD	110	20,000	2
Park Avenue	Chaoyang Park	153	19,000	2
Park Apartment	Chaoyang Park	265	35,000	3+1
Seasons Park	Dongzhimen	150	20,000	3
Sanlitun SOHO	Sanlitun	265	40,000	3+1
Palm Springs	Chaoyang Park	210	32,000	3
Upper East Side	Lido	246	38,000	3+1

All transactions are 12 month leases starting from Q3 2016

SERVICED APARTMENT RENTALS

The closure of three service apartments namely Somerset ZGC (154 units), Lanson Place (105) and Embassy House (174) have removed a grand total of 433 service apartments from the market. Enter two new service apartment projects, the Oakwood Residence Damei in Chaoyang District that adds a total of 171 contemporary serviced apartments ranging from studios to three bedrooms to the market and the newly reopened, renovated Ascott Beijing with 158 units. These two new service apartments add a total of 329 units back onto the market leaving around 6000 service apartment units onto the market. Service apartments hold stable at around RMB 205 per square meters for throughout the year, however the transition of the business tax to VAT has increased the previous 5.5% business tax to the 11% for the VAT, which already has an impact on rising rentals.

Serviced Apartment Market Occupancy/Rental Index



Serviced Apartment Rental Benchmark*

Layout	Low	Mid	Upper
1 bedroom	17,000-23,000	23,000-28,000	25,000-30,000
2 bedrooms	23,000-28,000	28,000-33,000	33,000-42,000
3 bedrooms	37,000-42,000	42,000-47,000	51,000-56,000
4 bedrooms	42,000-47,000	47,000-56,000	56,000-80,000

Selected Serviced Apartment Transactions

Compound	District	sqm	Rent (RMB)	Bedrooms
Grand Millenium	CBD	210	50,000	3
Ascott Raffles	Dongzhimen	147	35,000	2
Fraser Suites CBD	CBD	75	26,000	1
Kempinski	Lufthansa	193	45,000	3+1
Oakwood	Dongzhimen	128	35,000	2

All transactions are 12 month leases starting from Q3 2016

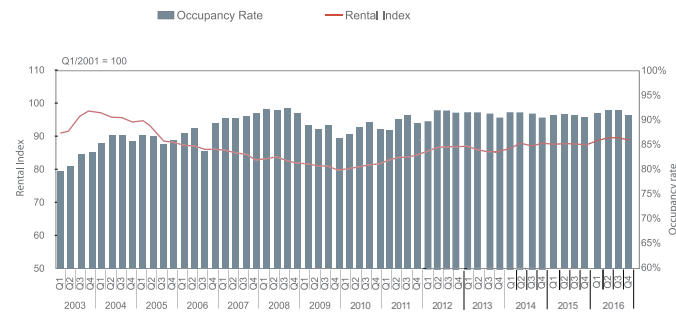


Oakwood Residence Damei

VILLA RENTALS

Villas units have experienced an average growth of 8.6% for units priced below RMB 50,000, however units above the RMB 50,000 benchmark have shown no obvious sign of increased value. Landlords who have villa units of over RMB 50,000 are affected heavily by the expatriate population in Beijing and whilst the Embassies in Beijing will provide a sure and stable expatriate population who will staff these embassies, no matter the economic or political circumstances, global MNCs on the other hand will not be unaffected by these changes as economic circumstances will often dictate the budget for these companies. In addition to this, MNC's executives who can command these housing prices are often executives who will be relocating with families, however many families with children are unwilling to relocate to Beijing due to the growing awareness of Beijing's air pollution and the potential exposure and effect of these on their children. Thus we have also seen an increasing numbers of Chinese landlords taking their villas off the rental market, with numbers of up to 25-30% doing so and living in these units themselves. This and the trend of term assignments affected high-end villa occupancy rates and rentals with villas rental rates dropping down an average of RMB 116 per square meter.

Villa Rental Index/Occupancy Trends



Highest Rents (RMB/sqm/month)

Yosemite	150.3
Chateau Creek	138.5
Grand Hills	134.2

Highest Occupancy

Beijing Riviera	95.0%
Yosemite	92.4%
Grand Hills	92.7%

Selected Villa Transactions

Compound	sqm	Rent (RMB)	Bedrooms
Beijing Riviera	405	60,000	5
Yosemite	384	47,000	4
River Garden Villa	319	55,000	4
Le Leman Lake Villa	315	25,000	3
Rose & Gingko Villa	360	40,000	4
Dragon Bay Villa	357	37,000	4
Lane Bright Villa	328	39,000	4

All transactions are 12 month leases starting from Q3 2016

Villa Rental Benchmark

Best	Low	Mid	Upper
Layout			
3 bedroom	41,000-46,000	46,000-50,000	50,000-55,000
4 bedrooms	55,000-60,000	60,000-64,000	64,000-78,000
5 bedrooms	60,000-64,000	64,000-70,000	69,000-110,000
Superior			
Layout			
3 bedroom	37,000-41,000	41,000-46,000	50,000-55,000
4 bedrooms	51,000-55,000	46,000-50,000	60,000-64,000
5 bedrooms	46,000-55,000	55,000-60,000	60,000-65,000
Good			
Layout			
3 bedroom	26,000-37,000	37,000-41,000	41,000-46,000
4 bedrooms	37,000-41,000	41,000-46,000	46,000-50,000
5 bedrooms	41,000-46,000	46,000-50,000	50,000-55,000

CHANGING MARKET PRACTICES

Visa & Immigration

The 4th Quarter of 2016 saw the implementation of the long-awaited update to the work visa. Over the recent years many changes and updates have occurred to the various visas including the popular business visa in 2015. Now in 2016, the work visa was completely overhauled, essentially affecting everyone who used to stay using a Z or R visa. The changes were aimed at further clarifying, streamlining and simplifying the process by combining the separate Z and R visas and the authorities issuing them.

In the old system, the conventional work visa (Z) and the rare talent visa (R) were handled by the Ministry of Human Resources and Social Security (MOHRSS) and the State Administration of Foreign Expert Affairs (SAFEA) respectively, with a long bureaucratic and paper-based procedure, that often was not very transparent on the exact requirement needed. The new work visa introduced and rolled out to pilot cities which include Beijing and Shanghai in November. The new work visa will divide foreign work applicants into three categories: Class A, B or C. Class A is designated for top professional, special merit and high academic accredited applicants. This is essentially a replacement for people who used to apply for the R visa. Class B is for professionals who are of value to China's economic development, in other words most previous Z visa applicants. Class C is reserved for unskilled or service industry workers, who may not fulfill the requirements for B or A such as academic certificates, salary levels or experience, but who nevertheless occupy positions of need across various services. These individuals will have very limited quotas in the new system per year.

This new system will include a work visa permit ID card, which will be similar to the Chinese National Identity Card, so foreigners potentially will be able to have easy access to an officially acceptable ID besides the rather cumbersome passport, if they are able to apply for a work visa.

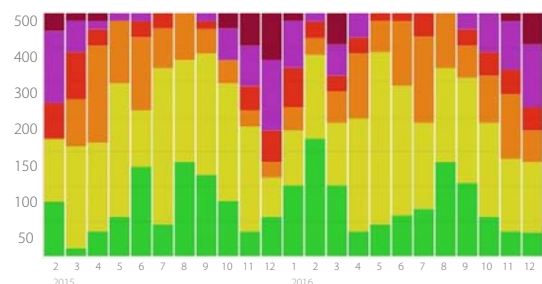
Whilst certain classes are able to automatically qualify for a certain class and apply directly for the visa category, other people who do not automatically qualify have to complete a points system to see how many points they score in order to determine their visa class. For Class A one must score 85 or more points, for Class B 60-85 points and for Class C anything below 60. Class A have unlimited quotas and if the score is correct they may essentially be granted visas

immediately, whereas B or C may face limitation depending on what industry they work in. This new system however has various advantages including: High transparency: gone are the days when you are unable to identify what and how you can apply for visas; streamlined application procedure: now most work visas are processed within 30 business days and certain parts can be done online in the future; no limitation on work experience or academic degrees: whilst they help it is not required for anyone to need a degree or 2 years of work experience anymore, which was the minimum requirements for a Z visa before. Now if you can speak Chinese, have a high salary cap have an impact and many other factors are considered as well.

Near the end of 2016 we also saw further changes made to student visa allowing them now to work, once they have applied for special entries into their visa, such as by including entrepreneurship or internship into their visa status. Permanent Residence Permit regulations were also relaxed immensely, allowing foreigners various ways of applying for Permanent Residence permits and actually be able to obtain them.

Air pollution

Beijing implemented a new air pollution policy on December 15th, which adjusted Beijing's four-tier emergency system. This air pollution policy will now not only affect Beijing but will also extend into Tianjin and Hebei. The new policy will furthermore affect cars allowed on the road if the situation calls for the two highest alerts, orange and red. Cars who only meet national I and national II emission standards will not be allowed on the roads, in addition the even/odd license plate standards already in place.



AQI	Air Pollution Level	Health Implications
0-50	Good	Air quality is considered satisfactory, and air pollution poses little or no risk.
51-100	Moderate	Air quality is acceptable, however, for some pollutants there may be a moderate health concern for a very small number of people who are unusually sensitive to air pollution.
101-150	Unhealthy for Sensitive Groups	Members of sensitive groups may experience health effects. The general public is not likely to be affected.
151-200	Unhealthy	Everyone may begin to experience health effects; members of sensitive groups may experience more serious health effects.
201-300	Very Unhealthy	Health warning of emergency conditions. The entire population is more likely to be affected.
300+	Hazardous	Health alert: everyone may experience more serious health effects

FORECAST FOR 2017

The continued rise of a middle class and more wealthy Chinese will show by influencing less availabilities and drive up the price of service apartments with a predicted increase of up to 8%, even as the foreign demand for them continue to drop due to companies relying less on foreign expatriates. The high prices for real estates and the potential low return on investment will likely continue to trigger the sale of service apartments like Embassy House and Lanson Place this year, however 1-2 two new projects are slated to open in the second quarter of next year.

Villa units will always have a continued demand due to the high embassy population in Beijing, thus a steady demand essentially is guaranteed among the more popular and better situated villa compounds thus further increasing their rentals and the likelihood of waiting lists for these units. However villa compounds that do not enjoy superior location or nearby facilities will be looking to continue decreasing its rentals in order to attract tenants.

The various visa changes will likely allow a greater number of foreigners who previous were unable to attain work visa, due to various reasons such as being students or freshly graduated ones, to obtain visas. This will further shift corporations to likely employ locally sourced foreign work force, who are more likely to seek out middle-range apartment units, rather the high-end residential units. Combined with a the rising Chinese middle class, the supply for these units will be likely strained in 2017, leading to likely continued rise of rental prices for such units.



ABOUT THIS REPORT

Maxview China is one of the very few companies that specialize in high-end residential leasing market analysis. The data for this report was gathered by our market research team of property data analysts who interviewed over 100 representatives of corporate residential complexes and landlords and liaised with industry experts to gain the most up-to-date industry information in order to accurately take the pulse of the market. While every attempt has been made to ensure its accuracy, the information in this report should be used as a guideline only.

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