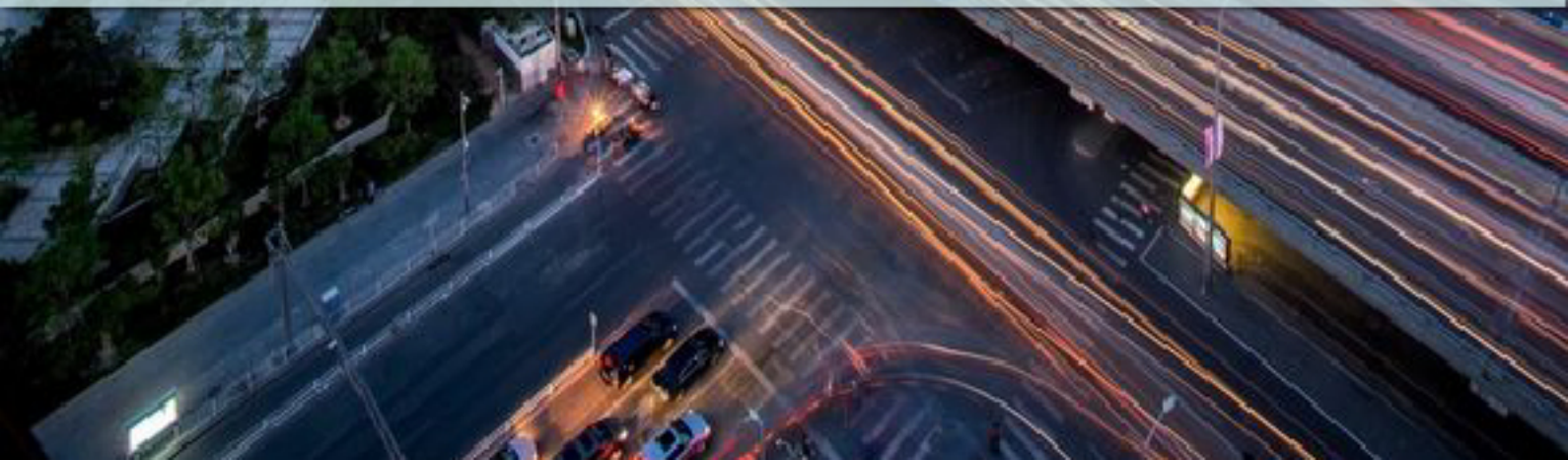




2017 Beijing High-End Residential Leasing Market Report & 2018 Forecast



SUMMARY 2017

The year of 2017 saw the Chinese property market, in reaction to spiking prices and new government policies, pivot towards renting over buying.

LUXURY COMPOUNDS Despite new government measures aimed at boosting the rental market, surging demand and limited supply has led to rental price increases across grade A apartment compounds.

SERVICED APARTMENTS While serviced apartments have grown in popularity amongst corporations that are shifting towards shorter term assignments, demand is largely being driven by a growing class of top-tier Chinese professionals.

VILLA COMPOUNDS Top-tier villa compounds saw only mild year-on-year growth despite registering high-occupancy rates. Demand continues to be locally driven.

HOME SALES Home sales, particularly in Tier I cities, have grown at their most sluggish pace in three years. This comes in response to a series of government measures that were intended to cool the market and reduce speculation.

NEW PROJECTS The Damei Oakwood Residence (171 units, ¥19,000-51,000), Ascott Riverside Garden (190 units, ¥16,000-60,000) and Oriental Plaza's newly constructed 3rd service apartment block (in addition to the Grand Hyatt Beijing Hotel and the two other service apartment's block Millennium Heights and Centennial Heights also found in Oriental Plaza) opened in 2017 named Atlantic Heights (107 units, ¥18,000-50,000) were the three most anticipated projects to enter the rental market this year.

DIGITAL IMPACT In late 2017 Chinese tech giants Alibaba and JD announced their entry into the housing market, allowing renters to connect directly with landlords and, in some cases, be exempt from paying a deposit.

VISA & IMMIGRATION Last year's new work visa pilot program went into effect nationwide in April 2017. In addition, the Chinese government further relaxed their requirements for foreign students and permanent residency permits. Near the end of the year, in continuation with their recent streamlining of the visa application procedure, all initial applications are now processed online and have been fast tracked for top tier talent, with a 'two-step' process implemented for everyone else.

High-End Residential Housing Categories

Luxury Compounds

Luxury compounds have long been a popular option for renters. They are usually large in size at an average of over 200 m² and are centrally located. A layout of 2- to 4-bedrooms and a full-range of on-site facilities is the norm. Whilst facilities differ from one compound to the next, common offerings include 24-hour security, a pool, and a gym. The price of a 2-bedroom apartment ranges from ¥15,000 to ¥37,000, and a 3-bedroom ranges from ¥19,000 to ¥51,000. The market for this type of high-end apartment is well-established, giving renters a wide pool of options to choose from.

Serviced Apartments

Due to their incredible service and central location, serviced apartments have become an increasingly attractive option for lessees. They offer flexible leasing options that suit both long- and short-term tenants. A range of premium services, such as regular cleanings and breakfast, add a layer of comfort and convenience for less than the cost of a high-end hotel. Layouts range from studio style to 3-bedrooms, with a 1-bedroom service apartment having around 100 m². The price for serviced apartments is around ¥26-47,000 for a 2-bedroom, and ¥42-62,000 for a 3-bedroom. High quality local brands, particularly in Tier I cities, are more competitively priced and are experiencing growing demand.

One emerging portion of this sector is the concept of 'corporate housing', which refers to fully-furnished,

temporary housing with add-on services such as cleaning services. Whereas standard serviced apartment companies will manage entire buildings, corporate housing operators usually oversee individual units across different compounds. In general, corporate housing is a more economical alternative to a standard service apartment, but typical offerings are less uniform and vary based on the management company and the unit.

Villas

With floor space averaging from 300 to 500 m², villas are more spacious than the average apartment. In addition to having 3-bedrooms or more, villas typically come with a private yard. Residents also have access to a range of facilities within the compound, such as a children's playground, spa, and gym. Although located far from the city center, the city's most popular villa compounds are conveniently situated near elite international schools. Pricing for a 3-bedroom ranges from ¥28,000 to ¥61,000. And, if the prices are broken down by the square meter, villas emerge as one of the market's cheapest luxury housing options. With their proximity to international schools, spaciousness, and cut-rate pricing, villas are particularly well-suited for families.

Luxury Compound Rentals

Despite government measures aimed at promoting the rental market, a sudden surge in demand coinciding with a shortage in supply have mildly pushed up rental prices.

Market Overheating Leads to Government Intervention

After several years of policies aimed at stimulating the real estate market, signs began emerging in 2016 that were indicative of market overheating and increased speculation. This prompted the government to begin implementing a series of controls that were designed to cool the market and develop the rental sector. Among other restrictions, officials increased the down payment requirement for second-time buyers to 60%, reduced loans periods by five years to 25 years, and introduced new guidelines that require non-locals

to pay personal income tax for 60 consecutive months before becoming eligible to purchase property. Due to these policies, many individuals were forced to defer their home purchasing plans and instead enter the rental market.

New Policies Promote the Expansion of the Rental Supply

The government's annual land supply plan, which was released in early 2017, announced that only 610 hectares of land would be zoned for residential housing, marking a 70% year-on-year decline and the seventh consecutive year of reductions. By early April the government had shifted course and revised its land supply plan, doubling the amount allotted for residential housing to 1,200 hectares. One third of the allotment was to be allocated for the rental market, with a total of 500,000 housing units to be added over the next five years. Other policies, including tightened restrictions against the "rent-to-own" practice, have been introduced with the intention of further promoting the city's rental market. Beijing also has plans to extend homeowners rights to tenants, providing residents with equal access to public resources such as education.

Rental Demand Shoots Up Amid Tighter Sales Restrictions and Shifting Trends

As a consequence of a slowdown in overall construction, the supply of first-hand residential housing declined by over 60% year-on-year. As buyers turned toward the second-hand market, the number of available rental units declined. The rental supply was further squeezed by the sudden uptick in demand stemming from local Chinese families who, as a result of the new home purchasing regulations, had pivoted towards renting. Other market trends, such as the growing propensity for multinational corporations to hire locally, indicate that demand will continue to rise. As a result, average rental costs for luxury apartments registered a moderate increase of nearly 2.5% year-on-year.

Tech Giants Fuel Demand

A number of high tech tools and platforms were announced this year that are expected to have a positive impact on consumer demand levels. The Beijing government, for example, is planning to setup an online supervisory platform that will help protect tenants' rights. Meanwhile, Alipay's new home rental platform made headlines for its "deposit free" feature that is available to customers with good credit ratings. JD is luring property developers with big data-based solutions and inventory management. And high-end expat relocation company Maxview Group released an updated version of its Settle-In-China Shanghai website, which helps expats with their relocation needs by providing on-demand services and acting as an all-around guide for expats during their stay in China. The Settle-in-China Beijing site is expected to debut in Spring 2018.

Serviced Apartment Rentals

With domestic demand on the rise, the serviced apartment sector is seeing positive growth and rising costs.

Beijing's Local Elite Drive Demand

As a result of the new regulatory measures that tightened home purchasing restrictions and promoted the rental market, a significant portion of interested home buyers were enticed to turn towards rental market instead. Many of these individuals stem from an ever-enlarging class of Chinese social elites that are employed in sectors such as finance or law. A growing number are also being employed by multinational corporations that are hiring locally in greater numbers in order to reduce costs. While some still prefer more traditional rental options, the convenience and luxurious lifestyle that serviced apartment offer is becoming more popular. At the same time, the serviced apartment sector is seeing an uptick in interest stemming from a rise in the number of domestic business trips and inbound tourists. Due to the surge in demand, certain high-in-demand complexes have raised their rental prices.

Nonetheless, landlords are being forced to adapt in order to stay competitive. For the purpose of sustaining high occupancy rates and increasing profits, many landlords have become more flexible towards leasing terms. Consequently, occupancy rates during major holidays have seen moderate growth. Several serviced apartment complexes are also planning to undergo renovations in order to drive demand.

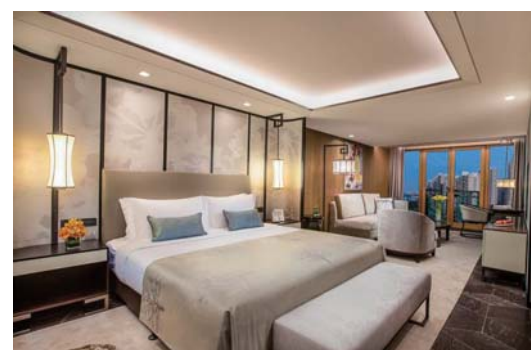
New Projects in 2017

One new complex entered the market at the very end of December 2017, and another highly anticipated project opened its doors in early 2017. In mid June the Ascott Group completed another project in CBD Beijing. Despite rising demand, overall supply remains limited. Consequently, high-in-demand serviced apartments have registered an overall increase in average rental prices.

At the tail end of 2016 the Damei Oakwood Residence entered the market, adding 171 new units. It is one of only two serviced apartment complex in Beijing that has its own natural hot springs water supply.

The Oriental Plaza's 3rd apartment block named Atlantic Heights debuted in 2017, adding 57 units to the market. Phase two, which was completed in the fourth quarter, saw the addition of another 50 units to the market.

Ascott Riverside Garden in Chaoyang district was opened in mid June. They are targeting long-term and short-term lessees only with a total offering of 190 units and layout options ranging from one- to three-bedroom apartments.



Villa Compound Rentals

The villa compound sector continues to see high occupancy rates and mild year-on-year rental prices increases.

Despite their distance from the city center, villas remain popular due to their large size, proximity to elite international schools, and high levels of greenery. Occupancy rates have remained stable in 2017, with the more popular compounds boasting full waiting lists. Villas, in comparison against Beijing's other residential housing sectors, continue to experience below-average vacancy levels at just 1.1%. Villa rents increased by 2.9% year-on-year.

Demand is increasingly driven by the growing number of affluent, local Chinese families that prefer to send their children to one of the city's top international schools. Local demand, along with a shortage in supply, are steadily driving up prices.

Home Sales

The housing market recorded sluggish growth amidst pro-leasing government regulations and shifting consumer trends amongst younger buyers.

Overall Housing Market

The overall Chinese housing market has continued growing year-on-year, albeit at a much slower pace. Market demand is buoyed by a strong cultural preference for home ownership, which is further backed by a widespread belief in property investment as a secure investment. As of 2015 nearly 70% of per capita household wealth stemmed from real estate. And in many cities home ownership continues to be the biggest barrier to public resources, including schools, outside of the Hukou system. The local Beijing government also took steps this year to close the gap between demand and supply by significantly increasing new land supply for residential housing and easing the barriers to receiving a pre-sale permit.

Economic Cooling Measures & Shifting Consumer Trends Lead to Slowing Growth

Nevertheless, after a relatively strong first half, the pace slowed in the second half. A number of government measures, which included raising down-payment requirements and increasing scrutiny on property-related lending, helped stem the rate of home purchases. New policies, which extended access to public services to renters and The cost of new housing in China rose at its slowest pace in 17 months in September. Tier I cities, which have the highest prices and therefore the tightest controls, were particularly hard hit. Price growth contracted by 0.1% year-on-year in Shanghai, and growth in Beijing slowed to just 0.5%.

At the same time, the relative affordability and convenience of renting has encouraged consumers, particularly from the younger generation, to turn towards the rental market. Increased demand is matched by the city's goal of providing an additional 500,000 rental units over the next five years. With developers shifting their business model towards renting, the rental market is slowly becoming more sophisticated and a growing variety of hybrid, high-end leasing options are on offer.

Expatriate Home Purchasing Regulations

For foreigners looking to buy in Beijing, the process and requirements remain relatively the same. Expatriate buyers are required to provide proof of having lived in the city for at least 12 months. Required documentation may include tax records, employment contract, work permit and residency permit. Foreigners are not permitted to buy commercial property, or purchase a home with the intention of using it as a rental property. Expatriates are potentially eligible for a mortgage loan, but it may only cover a maximum of 70% of the property's value.

Visa & Immigration

This year saw 2016's 3-tier, point-based work visa pilot program come into effect nationwide, causing a slight downturn in expat numbers as corporations adjusted.

Under the previous work permit system, applicants either received a standard work permit (Z) or a rare talent visa (R). These visas were handled separately by the Ministry of Human Resources and Social Security (MOHRSS) and the State Administration of Foreign Expert Affairs (SAFEA), making the process largely bureaucratic and confusing for applicants.

In an effort to streamline and clarify the process, the separate Z and R visas were combined into a 3-tier, point-based system. The new system takes many factors into account, including salary, education level, and years of experience. Applicants are divided into three categories: Class A, B or C. Applicants who score 85 or more points are categorized into Class A. Applicants who score between 60 and 85 points are classified as Class B. And applicants who score less than 60 fall automatically into Class C.

Class A has replaced the R-visa and is earmarked for highly skilled individuals who are at the top of their respective fields. Applicants who qualify for this tier are not required to meet all of the requirements of a standard work visa, such as age or academic degree. In addition, the review and approval timeline for these individuals is considerably shorter than for other applicants.

However, most foreigners fall into Class B, which is for degree holding applicants with work experience. Preference is given to foreigners who plan to work in certain, in-need fields. In comparison to Class A applications, the procedure is relatively strict and time consuming.

Class C is for unskilled or temporary work positions. This section includes internships, seasonal jobs in tourism, and short-term business assignments. Applicants in this category are subject to stricter quotas and shorter validity periods.

Outside of the new 3-tier system, a number of targeted visa policy changes are either being tested or adopted. Foreign students are now able to obtain a work visa within one year of graduation, waving the requirement for two years of post-graduate work experience. The requirements for the permanent residency permit have also been lowered, with application approvals spiking 163% in just one year. And in a number of key cities, including Beijing, a new trial program is allowing expats to apply for a five-year work permit after just two years of consecutive employment in China.

Towards the end of the year a variety of additional policies were introduced in order to further streamline the application process. These include that all applications are now to be processed online via the SAFEA's website, with corporations' registration mandatory, if they wish to employ foreigners.



China at large still operates under a variety of different laws and regulations pertaining to the city and regions they are being applied for. This makes it a major challenge for corporations to follow, update and heed the different visa requirements needed in the various cities and region where they are actively employing

foreign personnel, thus many of these visa applications are commonly still outsourced from city to city. There is currently still no expectation for a complete unified system and policies in regards to this.

2018 Outlook

Recent government regulatory measures towards China's real estate market, in combination with estimates that an additional 100 million people will migrate to city centers over the next few years, has led industry experts to forecast a potential growth of over one trillion for the rental market over the next several years.

As competition intensifies, older projects will need to improve management and quality levels in order to maintain their market share. Although supply is forecasted to expand in coming years, a rise in demand will likely cause prices to rise as well.

Demand for luxury housing is driven more and more by local Chinese renters as property purchasing controls tighten and the housing supply near elite schools dries up. Renters from the younger generation are also enticed by the relatively more affordable rental prices, as well as the range of available on-site services and facilities.

Five new serviced apartment projects are anticipated to hit the market in 2018. Several of these projects are located outside of the Fourth Ring Road, further contributing to Beijing's supply of non-central Serviced Apartments.

Overall construction in the housing market declined in 2017, which has affected the supply of new housing. A four month government-issued winter construction ban that started from 15 November 2017 will further limit supply in early 2018. With government restrictions affecting demand levels, the cost of new residential housing will likely drop in the short-term.



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.

Maxview is one of China's premier relocation services and residential real estate service group. We offer a host of customized, cost effective DSP relocation programs that enable companies and their employees to integrate smoothly into their destination region. In addition to that Maxview also offers licensed visa services for corporations in the first tier cities Should you wish to contact Maxview Group, please contact us here

Should you wish to contact Maxview Group, please contact us here
 Mr. Tony Huang
 Managing Director
 +86 21 3360 7060 ext. 8808
 tony.huang@maxviewgroup.com

Mr. Mike Chang
 Marketing Director
 +86 21 3360 7160
 mike.chang@maxviewgroup.com

Ms. Samantha Sanders
 Market Analyst
 +86 21 3360 7160
 samantha.sanders@maxviewgroup.com

Office Address

Room 507, Tower B, Wangxin Mansion, No. 28 Xiaoyun Road
 Chaoyang District, Beijing, 100020, P.R.C.



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