

Leasing market recovers more quickly



Beijing Grade-A Office Market Report

Q1 2021

knightsfrank.com.cn

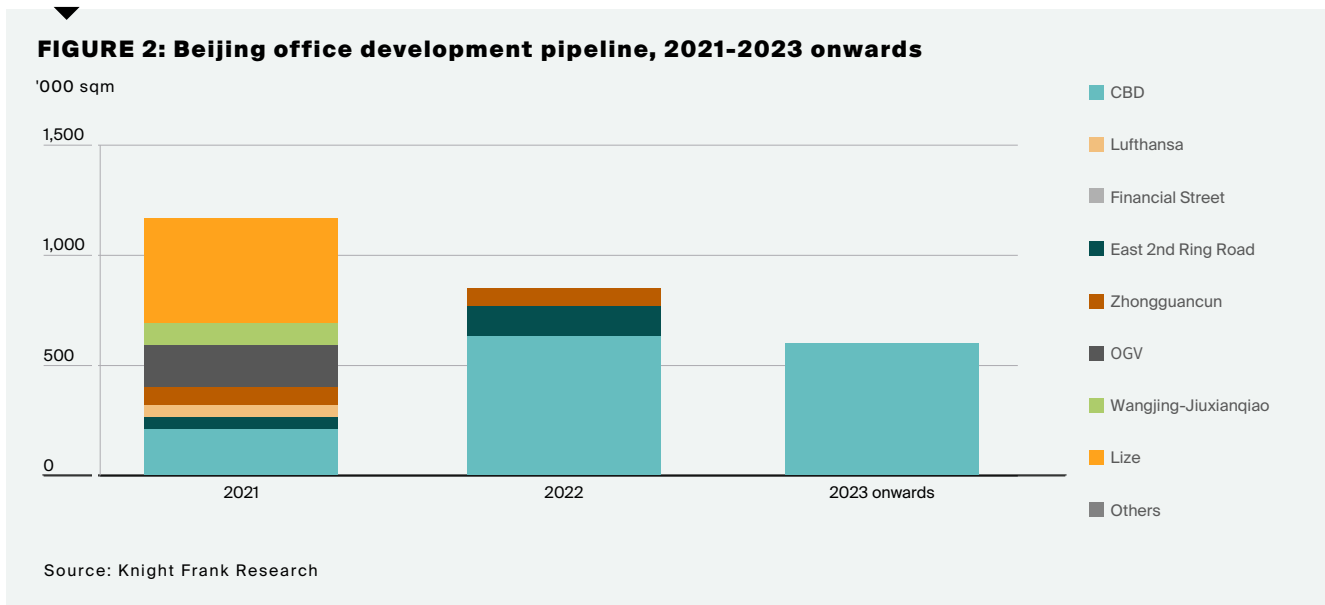
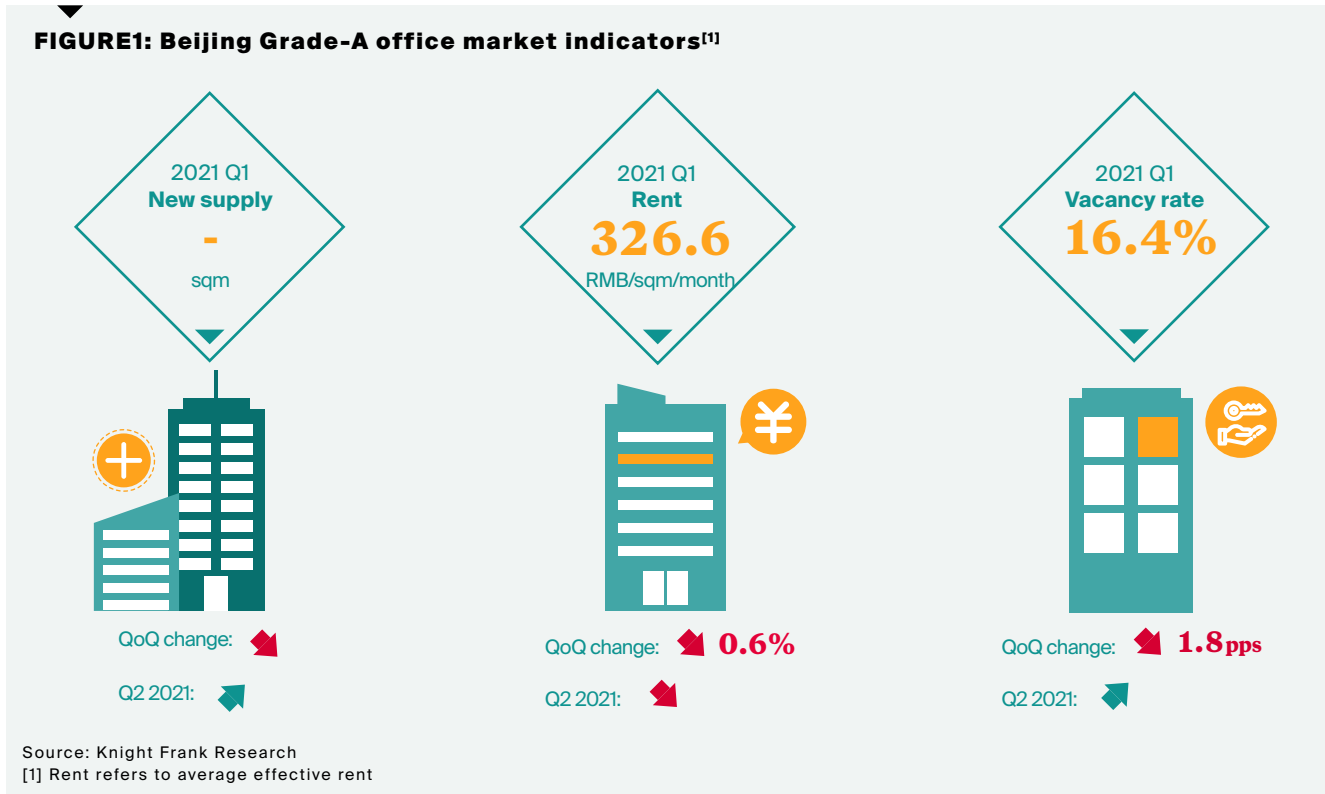


OVERVIEW AND OUTLOOK

In the first quarter of 2021 (Q1 2021), the office market recovered more quickly with increasing leasing activity. The average vacancy rate decreased by 1.8 percentage points QoQ to 16.4% and the net absorption reached 209,000 sqm,

tripled that in 2020. The average Grade-A office rent continued its downward trend, fell by 0.6% QoQ to RMB326.6 per sqm per month. Looking forward to 2021, it is expected that a total of 1.2 million sqm of new office space will be completed.

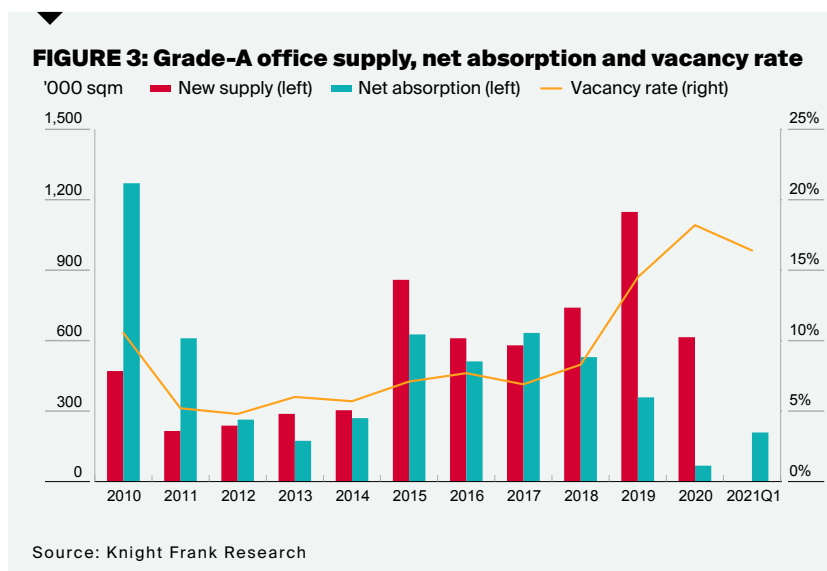
Amongst, more than 400,000-sqm new office space will be completed in the second quarter (Q2), thus the vacancy rate is expected to rise slightly, and the rebound of office rents are facing certain resistance.



SUPPLY AND DEMAND

In Q1, there was no new office space in Beijing's Grade-A office market. We expect that a supply peak will occur since Q2, with the completions of Taikang Tower in CBD Zhongfu Plot, the renovated project HEXA International Plaza in East 2nd Ring Road, Fairy Land Centre in Wangjing-Jiuxianqiao area and Ping'an Fortune Centre in Lize area, bringing the new supply in the market to over 400,000-sqm office space in Q2. Therefore, it is anticipated that the vacancy rate will be on the rise and rents will also face an upward pressure.

In Q1, the average vacancy rate decreased by 1.8 percentage points QoQ to 16.4% with a total net absorption of Beijing's Grade-A office space reaching 209,000 sqm. The office leasing market activity has increased greatly, evidenced by downward trends in most business districts. Amongst, with the improved net absorption of office space in East 2nd Ring Road and Wangjing-Jiuxianqiao areas, the vacancy rates of both areas dropped by 2.2 and



3.5 percentage points QoQ respectively. In terms of leasing transactions, the East 2nd Ring Road area recorded a large-scale lease secured by professional services

occupier; the leasing demand in Wangjing-Jiuxianqiao area was still dominated by the Internet and hi-tech sectors.

RENTS

In Q1, the average rent of Beijing's Grade-A office market felt slightly by 0.6% QoQ to RMB326.6 per sqm per month, with the rental decline narrowing down by 0.6 percentage point compared to Q4 2020. The decline of average Grade-A office rent has slowed down.

With the recovery of Beijing's office market, the average rent in CBD area started to pick up, showing an increase of 0.2% QoQ to RMB358.9 per sqm per month.

The average rents of East 2nd Ring Road area and Lufthansa area decreased by 0.8% and 0.7% QoQ to RMB300.4 and RMB312.7 per sqm per month respectively. The average vacancy rate in East 2nd Ring Road decreased by 2.2 percentage points QoQ to 15.9%. With the vacant space being leased gradually, we expect that the rent in this area will bounce back.

During the COVID-19 pandemic, the online services companies have experienced a new wave of business expansion. Thanks to the strong demand of online services sector, the average vacancy rate in Wangjing-Jiuxianqiao area fell by 3.5 percentage points QoQ to 5.8% whilst the average rent increased by 0.7% QoQ to RMB236.3 per sqm per month.

In Q1, both rents in CBD and Wangjing-Jiuxianqiao areas rebounded. With the new

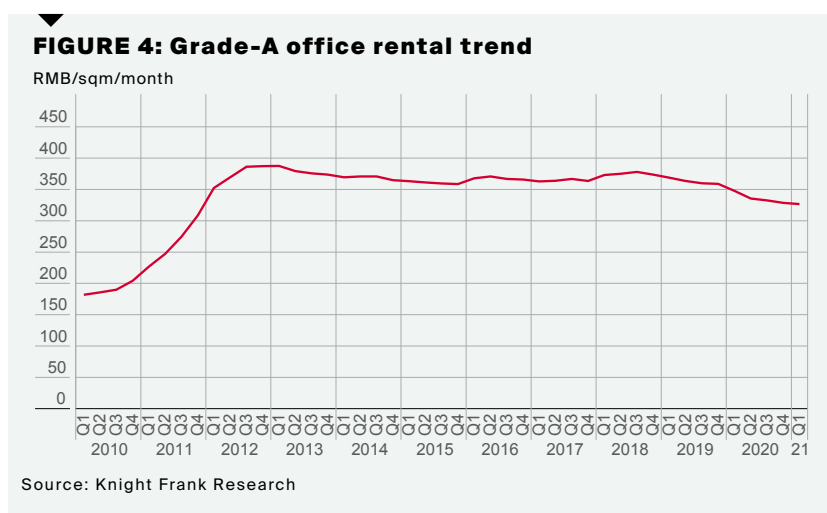


TABLE 1: Major Grade-A office leasing transactions, Q1 2021

Submarket	Building	Tenant	Area (sqm)	Type
CBD	CITIC Tower	Anshu Space	7,400	New Lease
CBD	China Overseas Plaza	CICC	6,000	New Lease
East 2nd Ring Road	Zhaotai International Centre AB	DENTONS	15,000	New Lease
Wangjing-Jiuxianqiao	Vanke Times Wangjing	Missfresh	7,600	New Lease

Source: Knight Frank Research
Note: all transactions are subject to confirmation

space being gradually leased out, it is expected that the average decline rate of Beijing's Grade-A office market will

narrow down in the coming quarters.

INVESTMENT MARKET

In Q1, the office and retail properties in the core area of Beijing have gained popularity among investors. More investors have kept up with the pace of urban renewal and tend to achieve price appreciation through renovation and upgrading.

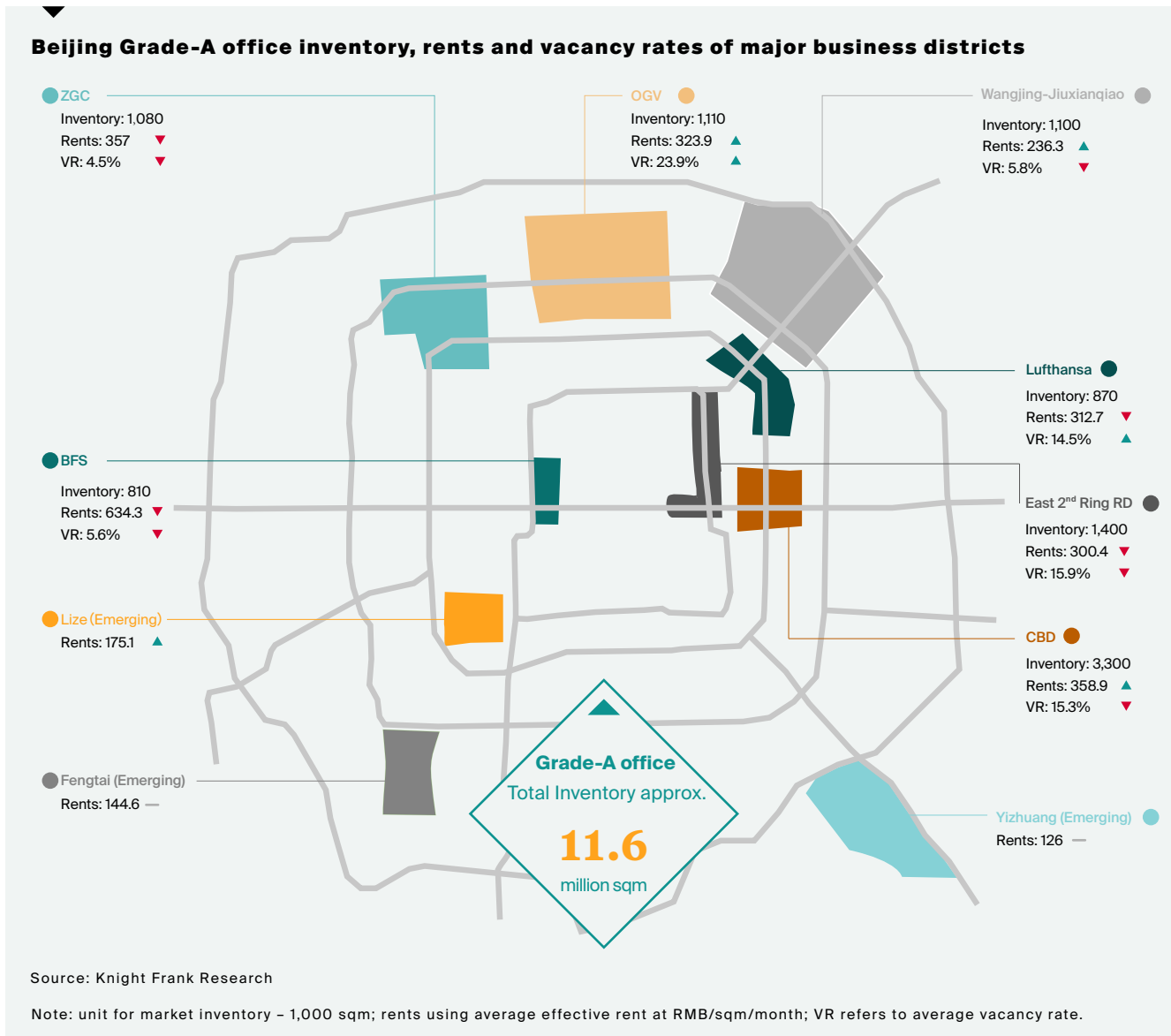
On 7 March, China Jinmao, Beijing Capital Development Holdings (BCDH) and GoHigh Fund jointly established the Torch Fund, subscribed a capital of RMB1.202 billion to acquire Tus Park Tower D, Zhongguancun East Road, Haidian District,

Beijing. This fund will transform and upgrade the building in order to promote the development of office market and accelerate the urban renewal in Beijing. Located in the Tus Park, the building has a total gross floor area of approximately 46,330 sqm and is situated adjacent to Subway Line 13, Line 15 and Line 4.

On 25 March, Kaisa announced the acquisition of the Yaohui International City Tower from the three companies that are controlled by Kwok Ying Shing

for a total consideration of RMB13 billion. Located at the southeast corner of the intersection of Xidawang Road and Jianguo Road in Chaoyang District, Beijing, the project is previously known as "Chang'an No. 8". In July 2013, the Kwok family acquired the project and appointed Kaisa to construct and operate it. After Kaisa's debt restructuring, the renovation project "Beijing Kaisa Plaza" was completed in 2017 with a total GFA of 250,000 sqm, covering retail stores, serviced apartments, office buildings and residential buildings.

BEIJING GRADE-A OFFICE MARKET DASHBOARD



We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

Research & Consultancy



Laurence Zhu
Senior Director,
Head of Research & Consultancy, China
+86 137 6439 9991
laurence.zhu@cn.knightfrank.com



Regina Yang
Director, Head of Research & Consultancy,
Shanghai & Beijing
+86 21 6032 1728
regina.yang@cn.knightfrank.com



Martin Wong
Director,
Head of Research & Consultancy, Greater China
+852 2846 7184
martin.wong@hk.knightfrank.com



Amy Cui
Analyst, Research & Consultancy,
Beijing
+86 10 6113 8039
amy.cui@cn.knightfrank.com

Beijing Office Services



Demi Zhu
Director, Head of Office Services,
Beijing
+86 135 8158 7931
demi.zhu@cn.knightfrank.com

RECENT MARKET - LEADING RESEARCH PUBLICATIONS



China Commercial
Real Estate
Investment
Market



Beijing Office
Market Report
Q4 2020



Shanghai Office
Market Report
Q4 2020



Guangzhou Office
Market Report
Q4 2020



Shenzhen Office
Market Report
Q4 2020



Shanghai Logistics
Warehouse Market
Report
Q4 2020

**Knight Frank Research
Reports are available at
knightfrank.com.cn**



Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs. Important Notice: ©Knight Frank 2021: This document and the material contained in it is general information only and is subject to change without notice. All images are for illustration only. No representations or warranties of any nature whatsoever are given, intended or implied. Knight Frank will not be liable for negligence, or for any direct or indirect consequential losses or damages arising from the use of this information. You should satisfy yourself about the completeness or accuracy of any information or materials and seek professional advice in regard to all the information contained herein. This document and the material contained in it is the property of Knight Frank and is given to you on the understanding that such material and the ideas, concepts and proposals expressed in it are the intellectual property of Knight Frank and protected by copyright. It is understood that you may not use this material or any part of it for any reason other than the evaluation of the document unless we have entered into a further agreement for its use. This document is provided to you in confidence on the understanding it is not disclosed to anyone other than to your employees who need to evaluate it.