

*Overall demand in Grade-A office market was still weak,
vacancy rate continues to increase*



Beijing Grade-A Office Market Report

Q2 2020

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OVERVIEW AND OUTLOOK

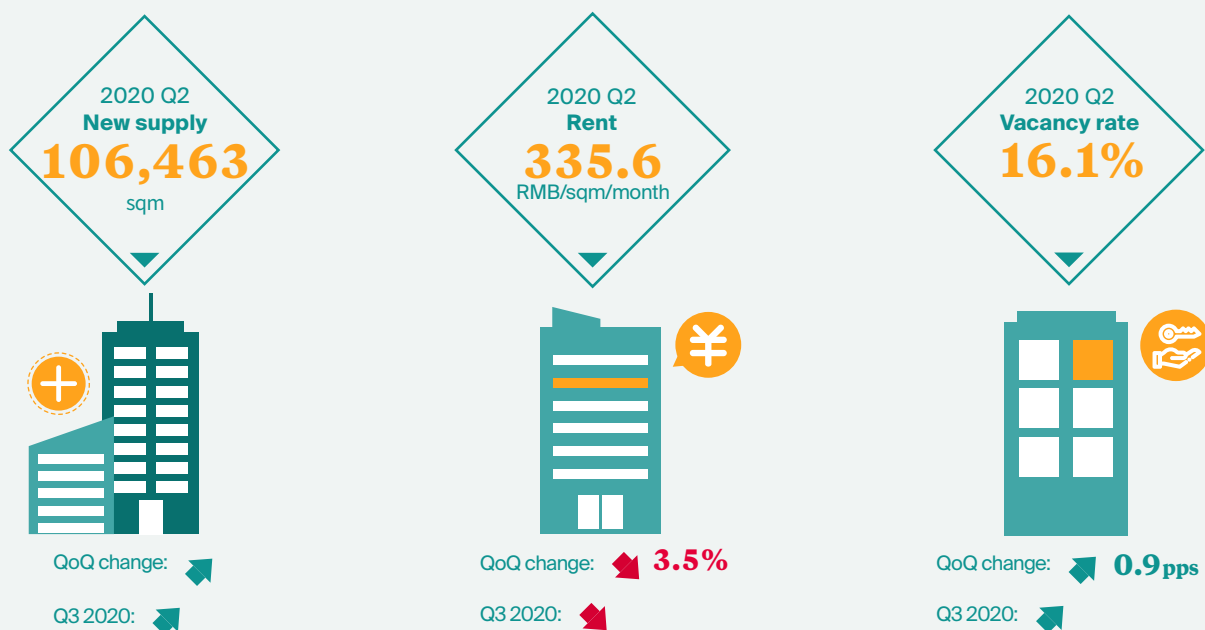
In the second quarter of 2020 (Q2 2020), the Beijing Grade-A office market continues its downward trend due to the COVID-19 pandemic. As of June 2020, the total Grade-A office inventory in Beijing's leasing market reached approximately 11.23 million sqm. The overall vacancy rate rose by 0.9 percentage point QoQ to

16.1% and the average rent fell 3.5% QoQ to RMB335.6 per sqm per month.

In mid-June, due to the new confirmed COVID-19 cases in Beijing and the continuous spread of COVID-19 worldwide, the uncertainty of the global economy has intensified and adversely

impacted the leasing demand. Therefore, we expect the vacancy rate of Beijing Grade-A office market to increase, and the rent to continue to face downward pressure.

FIGURE 1: Beijing Grade-A office market indicators^{[1] [2]}

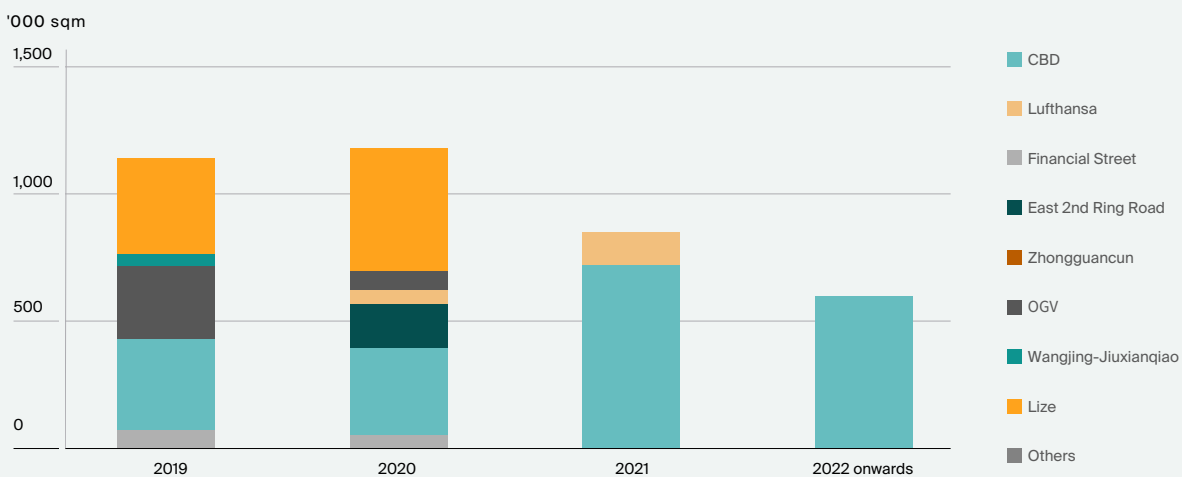


Source: Knight Frank Research

[1] Rent refers to average effective rent

[2] We have adjusted the baskets of buildings in Q2 2020; hence they are not directly comparable with the previous quarters.

FIGURE 2: Beijing office development pipeline, 2019-2022 onwards

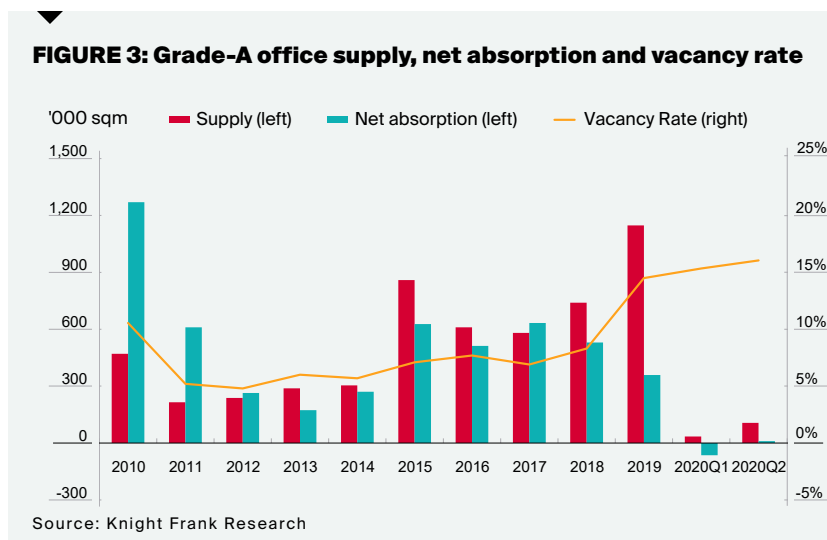


Source: Knight Frank Research

SUPPLY AND DEMAND

In Q2, Samsung Tower in CBD Zhongfu Plot was completed in Beijing. The project has a total gross floor area (GFA) of 169,797 sqm including 106,463-sqm office space. It is expected that Beijing Investment Group S&T Building in Olympic Games Village area, Beijing Hongsheng International Centre and ZT International Centre in East 2nd Ring Road, Financial Street International will be completed in Q3. These will altogether bring approximately 270,000 sqm office space to the market. Amongst, Beijing Investment Group S&T Building and ZT International Centre are newly-built developments while the other two buildings are renovation projects. Beijing's high-quality renovation projects continue to attract market attention.

In April and May, market activities have gradually recovered compared to Q1. Most leasing transactions in Q2 involved renewals while the number of new leases and expansion transactions have reduced. The financial and professional services sectors were the main driving force of Grade-A office



leasing market in Q2. It is worth to mention that China Galaxy Securities leased 40,000 sqm office space in Lize Financial Business District. In June, the recent outbreak of COVID-19 in Beijing added more uncertainties to the

market. With the current situation of the COVID-19 pandemic and the slowdown trajectory of the global economy, we expect the office demand to remain weak in the third quarter.

RENTS

In Q2, cost savings has become a prominent agenda of most companies to ensure stable operation. At the same time, the rental budgets of tenants have gradually decreased. Landlords had to secure occupancy rates through having higher flexibility on rental negotiation. In Q2, the average rent of Beijing's Grade-A office market decreased by 3.5% QoQ to RMB335.6 per sqm per month.

In Q2, the average office rents in all business areas went downward. Due to the new completions of quality office buildings launched in CBD Zhongfu Plot, the overall vacancy rate increased steadily and the rent was under pressure to grow. The vacancy rate in CBD increased by 2 percentage points QoQ to 17.2% and the average rent decreased by 4.5% QoQ to RMB361.6 per sqm per month.

As most tenants in Olympic Games Village area were large state-owned enterprises with relative higher stability, the average rent in the area slightly decreased by 0.2% QoQ to RMB327.4 per sqm per month which was the lowest QoQ change among all areas.

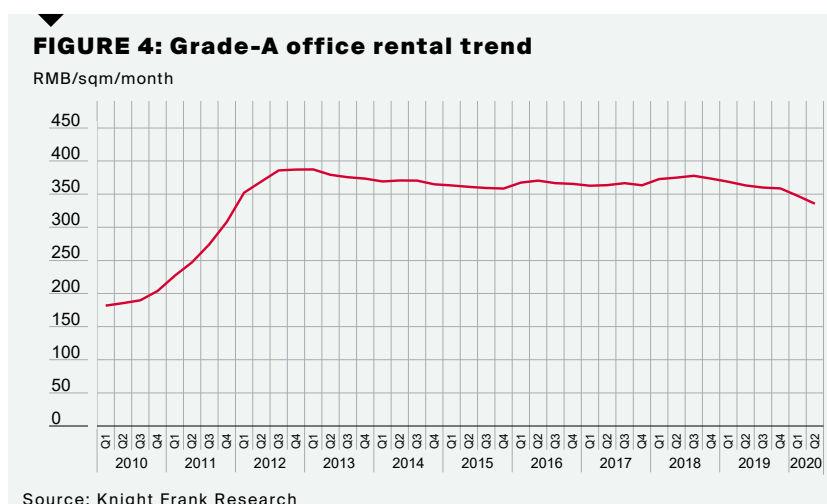


TABLE 1: Major Grade-A office leasing transactions, Q2 2020

| Submarket | Building | Tenant | Area (sqm) | Type |
|-----------|-----------------------------|-------------------------------|------------|-----------|
| CBD | IFC | Fujisu | 3,500 | New Lease |
| CBD | Gemdale Plaza | China Life | 1,660 | New Lease |
| Lufthansa | Huarui Building | Kaochong | 4,000 | New Lease |
| Wangjing | Vanke Times | Changba | 2,800 | New Lease |
| Lize | Glory Star Financial Towers | Asia Pacific Accounting Group | 3,000 | New Lease |
| Lize | New Qinghai Tower | China Galaxy Securities | 40,000 | New Lease |

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

INVESTMENT MARKET

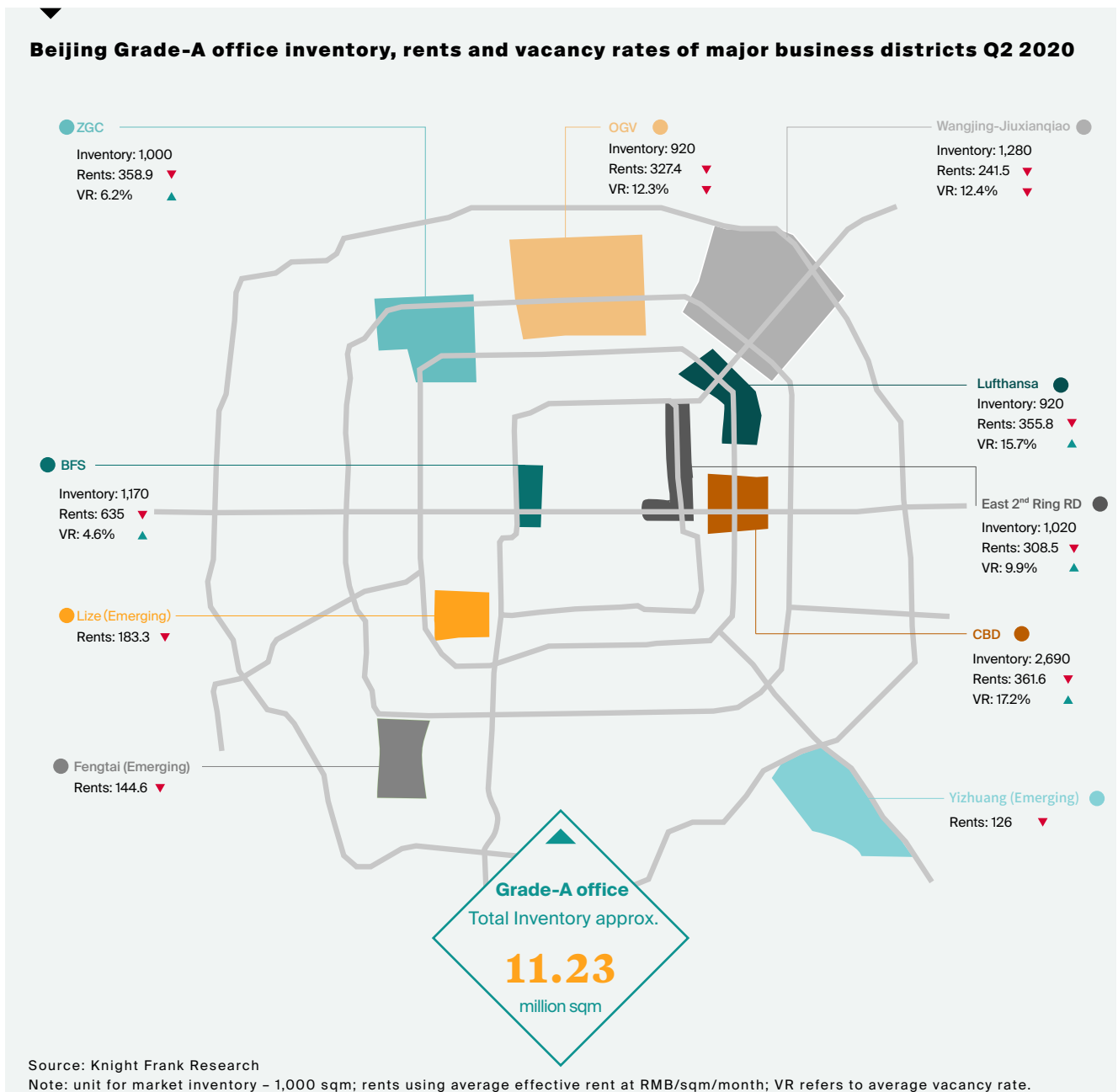
In the en-bloc property sales market, office projects are still the most popular asset type for investors. Recently, although the COVID-19 pandemic adversely impacted the global economy, Beijing's stable market environment and good rate of return have attracted increasing attention of both domestic and foreign investors.

On 8 April, Beijing Zhonghong Tower was

successfully sold during an auction. With a starting price of RMB2.262 billion, after 15 rounds of bidding, the project was sold for RMB3.312 billion with a premium rate of 46.42%, exceeding the estimated value of RMB3.232 billion. Finally, Zhonghong Tower was taken over by Dong Yin Development, a subsidiary established in Hong Kong by China Orient Asset Management Co., Ltd.

On 21 April, Mapletree Investments sold Beijing Arca Building for RMB750 million, for a profit of RMB330 million. The buyer was Baring Private Equity Asia. Located in the ZPark Phase I, Arca Building has a total GFA of 19,700 sqm with 112 parking spaces, tennis courts, basketball courts and staff restaurants. Currently, the building is leased to the world top three multimedia news agency - Reuters.

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.

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