

Consolidation of Internet companies gathered steam



Beijing Grade-A Office Market Report

Q3 2022

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OVERVIEW AND OUTLOOK

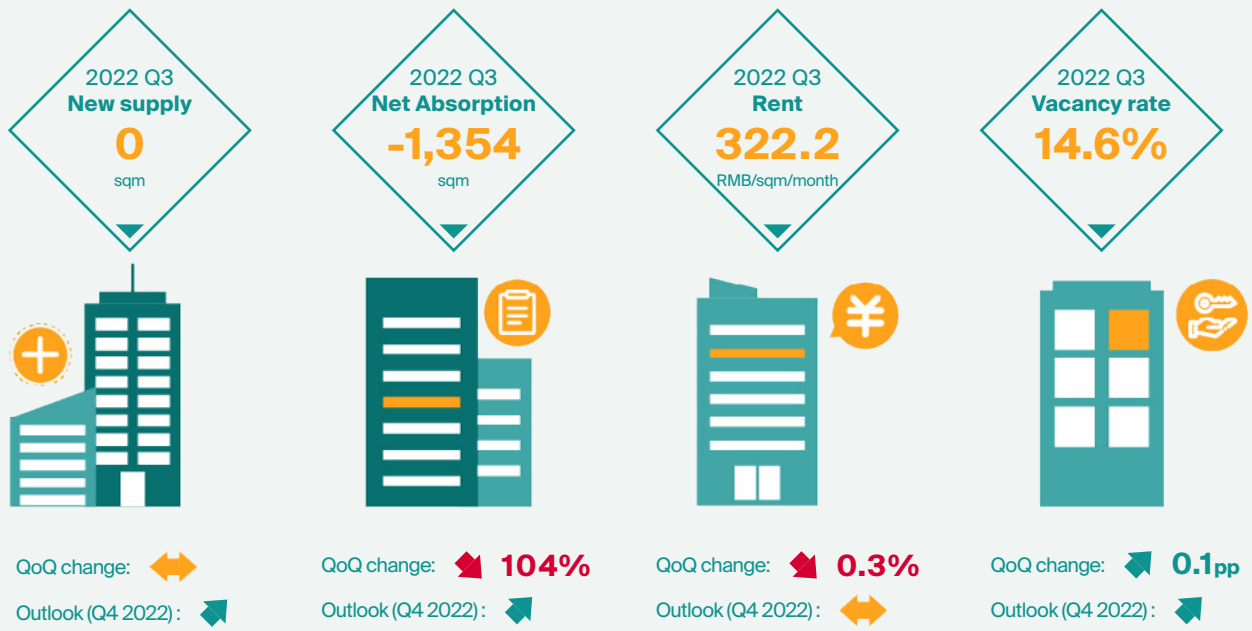
In the third quarter of 2022 (Q3 2022), the average rent of Beijing's Grade-A office market slightly decreased by 0.3% QoQ to RMB322.2 per sqm per month. In Q3, there was no new project completed in the Grade-A office market. The inventory of Beijing's Grade-A office market remained unchanged at 12.31 million sqm. The average vacancy rate increased by 0.1 percentage point QoQ

to 14.6%.

In Q3, the leasing activities in Beijing's office market picked up. Transactions continued to take place in various business districts, but at the same time the consolidation and upgrading of various industries continued. With the consolidation of leading companies in the Internet industry being particularly

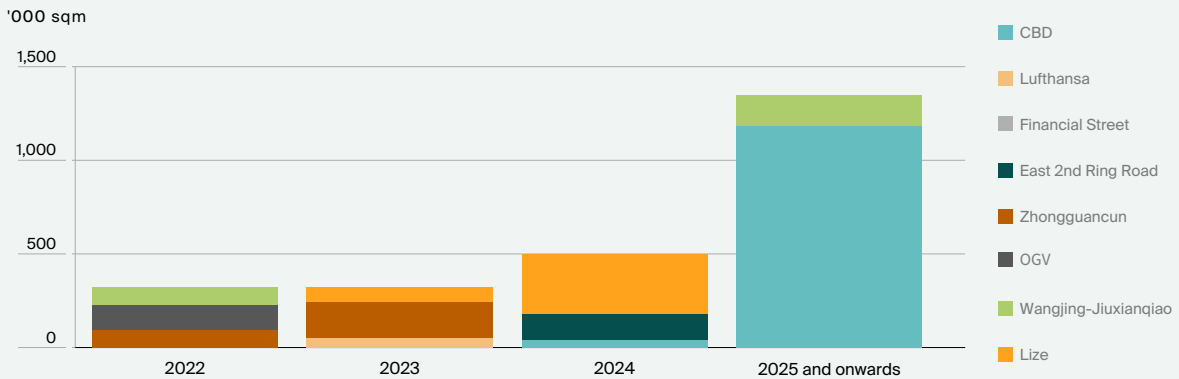
evident under policy guidance and weakening leasing demand, resulting in a decline of net absorption in Q3. Looking forward to the next quarter, a total of 226,000 sqm of new space is expected to be completed with the rents to remain stable and the vacancy rate to rise slightly.

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



Source: Knight Frank Research
 [1] Rent refers to average effective rent
 [2] pp refers to percentage point

FIGURE 2: Beijing office development pipeline, 2022-2025 onwards

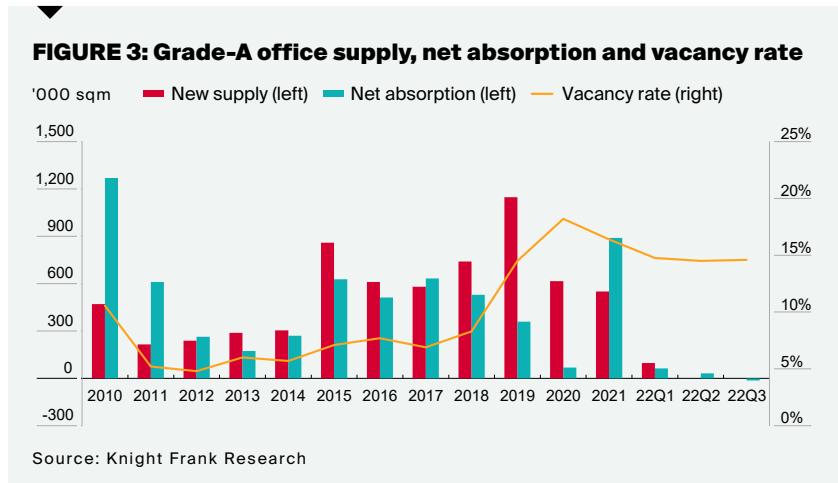


Source: Knight Frank Research

SUPPLY AND DEMAND

In Q3, there was no new project completed in the core area of Beijing's Grade-A office market, and the inventory remained at 12.31 million sqm. In terms of leasing transactions, financial, TMT and pharmaceutical sectors led the leasing demand with transactions taking up more than 50%. Amongst, the financial sector was the top demand driver, accounting for 21%; the pharmaceutical sector has performed well for two consecutive quarters, ranking among the top three sectors with the highest demand, and the health and biomedical companies was expanding significantly.

Looking forward to Q4 2022, North Star Centre in Olympic Games Village area and HEVOL EDIFICE in Zhongguancun area will be completed, bringing over 226,000



sqm of additional office space. Therefore, we expect the vacancy rate to increase and the rent to remain stable.

RENTS

In Q3, the average rent of Beijing's Grade-A office market decreased slightly by 0.3% QoQ to RMB322.2 per sqm per month. The average rent in CBD area saw a slight increase and rent in the Financial Street Area remained stable. The average rent in other business districts experienced varying degrees of rental decrease.

The average rent in CBD area increased slightly by 0.2% QoQ to RMB362.8 per sqm per month. The strong business atmosphere and a concentration of high-quality buildings have resulted in rents in CBD area to remain strong.

The average rent in Financial Street area was stable, remaining at RMB608.9 per sqm per month in Q3.

Due to the increasing vacant space affected by the upgrading and consolidation of the Internet sector in Wangjing-Jiuxianqiao area, the average rent decreased by 0.3% QoQ to RMB237.5 per sqm per month. The average rent in Zhongguancun area decreased by 0.7% QoQ to RMB361.8 per sqm per month.

The average rent in East 2nd Ring Road area and Lufthansa area decreased by 0.1% and 0.5% QoQ to RMB297.4 and RMB297.3 per sqm per month, respectively.

In Q3, new office space was added in

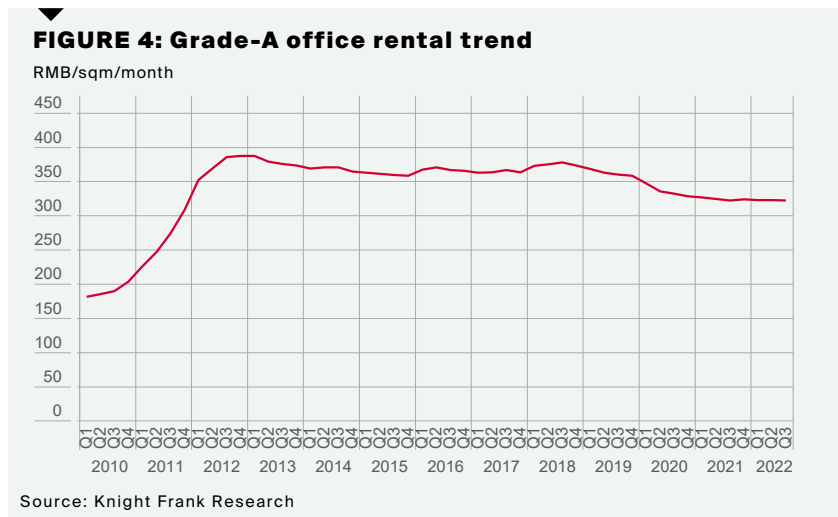


TABLE 1: Major Grade-A office leasing transactions, Q3 2022

Submarket	Building	Tenant	Area (sqm)	Type
CBD	Kaisa Plaza	Mengniu	21,000	New Lease
East 2 nd Ring Road	Hexa International Plaza	Tencent Music	10,000	New Lease
BFS	Taikang International Tower	China Construction Bank of China	12,000	New Lease

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

Olympic Games Village area from the existing office buildings, which pushed up the vacancy rate. The

higher vacancy rate placed downward pressure on rents, decreasing by 1.2% QoQ to RMB328.4 per sqm per month.

INVESTMENT MARKET

In Q3, the Beijing office investment market recorded two major office transactions, both by domestic buyers. Foreign travellers were restricted due to epidemic prevention and control, resulting in some delayed decisions on projects. With the normalisation of domestic epidemic prevention and control, it is expected that the activities in the office investment market from foreign investors will gradually increase.

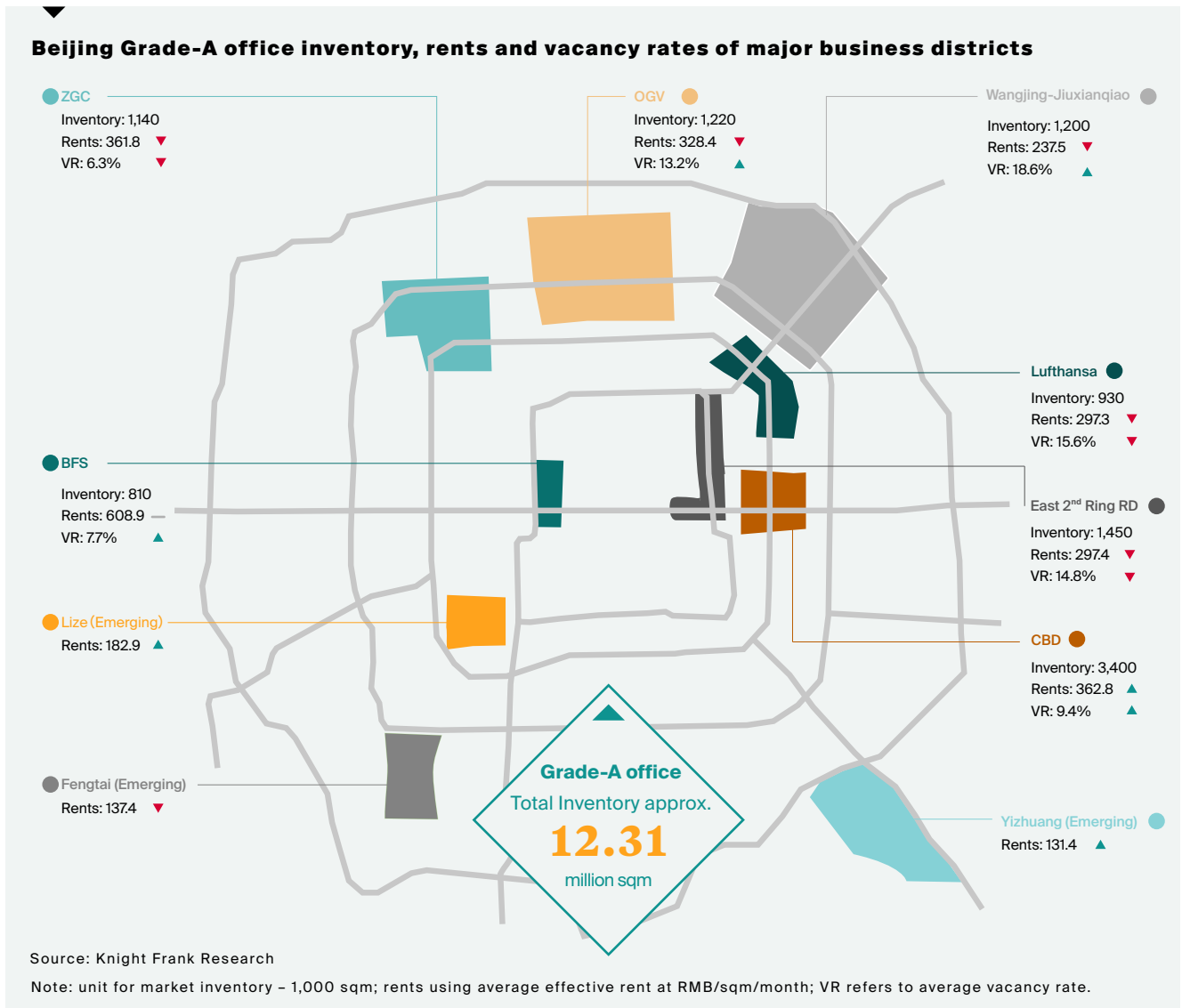
As a technology and innovation cluster, high-quality office assets in Zhongguancun area are attractive among technology companies. On 14 July, Inspur announced the acquisition of Zhigu Tower with a total estimated transaction price of RMB906

million. Located in the core area of Zhuangguancun Science City North District, Haidian District, Beijing, the project has a total GFA of 26,583.46 sqm for office and warehouse use, and 4,239.05 sqm for parking space.

On 26 August, Landsea Green announced that it intended to sell 50% equity of Beijing Ship Building for a consideration of RMB137.6 million. Upon completion of the transaction, Landsea Green will not hold any interest of the project. Located at No.100 Southeast 3rd Ring Road, Shilihe, Chaoyang District, Beijing, the project has a total gross floor area of approximately 21,900 sqm, consisting of office and retail portion. The transferee, Beijing Ronghui, is

owned as to 79.4% by Sunshine Life Insurance Company Limited, 19.85% by Sunshine Property Insurance Company Limited, 0.5% by Sunshine Ronghui and 0.25% by Beijing Rongrun Haiji Investment Management Centre (Limited Partnership). Sunshine Life Insurance is owned as to 99.9% by Sunshine Insurance Group Co. Ltd. Office properties with stable income has become an essential part of the long-term asset allocation of insurance companies. In the current climate of heightened global economic uncertainty, insurance companies continued to acquire the office properties in the first-tier cities to enhance their overall return.

BEIJING GRADE-A OFFICE MARKET DASHBOARD (Q3 2022)



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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