

Leasing activities slow down due to the pandemic



Beijing Grade-A Office Market Report

Q4 2022

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OVERVIEW AND OUTLOOK

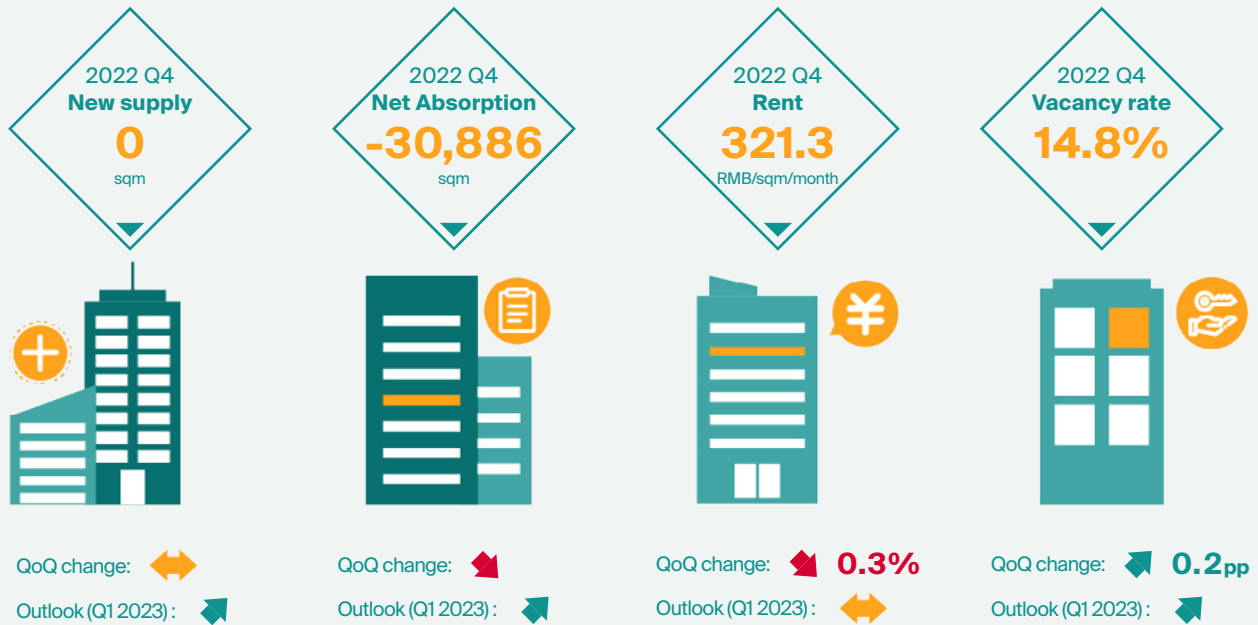
In the fourth quarter of 2022 (Q4 2022), the average rent of Beijing's Grade-A office market was RMB321.3 per sqm per month, decreasing by 0.3% QoQ and 0.8% YoY. No new Grade-A office buildings were completed in Q4. The inventory of Beijing's Grade-A office market remained unchanged at 12.31 million sqm. The average vacancy rate was 14.8%, increased by 0.2 percentage point QoQ and YoY.

With the impact of China's Covid

outbreak in December, there was a significant reduction in overall economic activity in Beijing in Q4, resulting in some transactions being delayed to 2023. The Beijing office market was relatively quiet in Q4, with leasing demand temporarily slowed down and absorption recorded a negative value. More than 200,000 sqm of office space is expected to complete in the first quarter of 2023 (Q1 2023), including projects that were originally planned for completion in Q4 2022. Therefore, we expect the

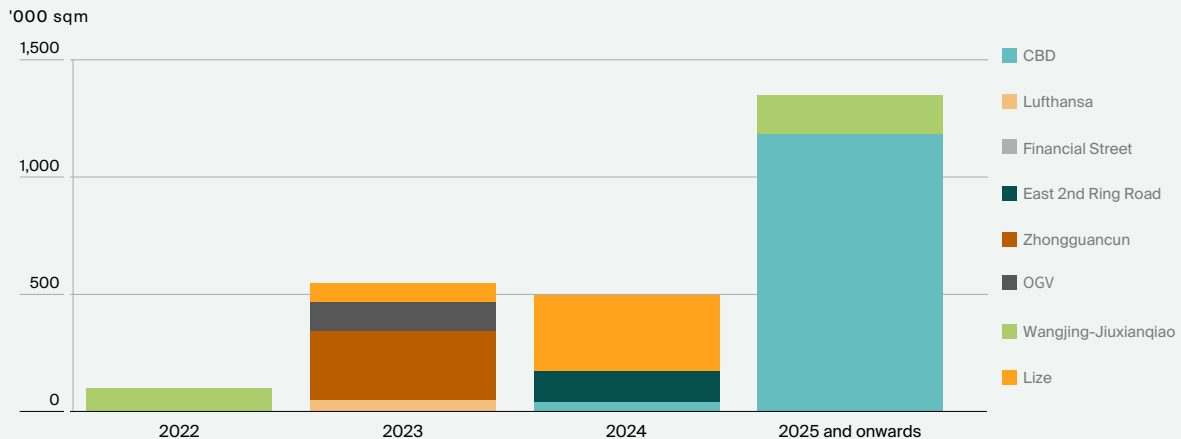
vacancy rate to rise and rents to remain stable in Q1 2023. On 7 December, China announced to relax COVID-19 policies which marks China's epidemic control has entered a new stage. It is believed that that production activities in all sectors are expected to fully return to normalcy and the Beijing office market will gradually pick up in 2023.

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



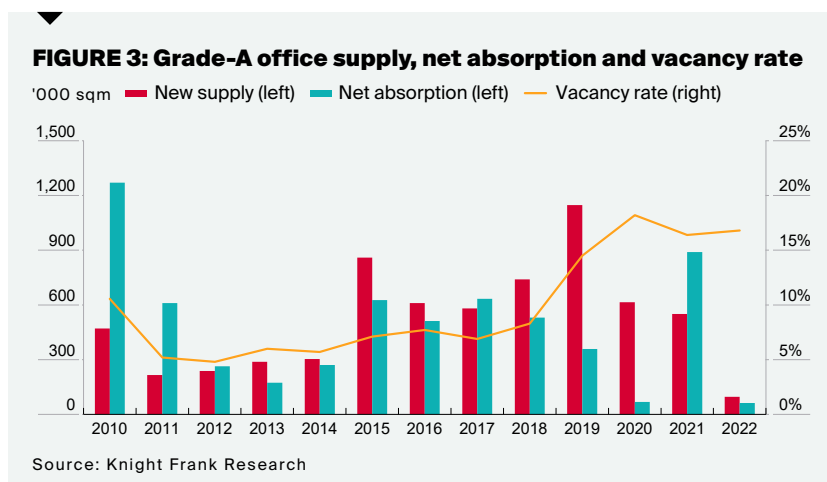
Source: Knight Frank Research

SUPPLY AND DEMAND

Due to the epidemic, the delivery of office project originally scheduled for Q4 was postponed to 2023 and there were no new projects completed in the core areas of Beijing's Grade-A office market. The Grade-A office inventory remained unchanged at 12.31 million sqm. New supply is expected to reach approximately 540,000 sqm in 2023, which will drive vacancy rates further upward and rents will be under pressure.

In Q4, the average vacancy rate of Beijing Grade-A office market increased by 0.2 percentage points to 14.8% QoQ. As Q4 was the end of the year coupled with the impact of epidemic, net absorption was negative at -30,886 sqm. The leasing demand was dominated by domestic financial companies, including banks, funds and securities companies. Meanwhile, the leasing demand of TMT sector was mainly from technology companies.

Due to the ongoing impact of the pandemic, the annual net absorption of



Beijing Grade-A office market in 2022 was only 62,574 sqm. The annual absorption was mainly focused in the first quarter, as the second to fourth quarters being affected by the pandemic. In addition, near the end of the year, the market was relatively

sluggish. As the 'normalisation' of our epidemic prevention and control has entered a new phase, the much-needed recovery of 2023 will at the same time bring new hope for the office

RENTS

In Q4, the impact of the pandemic has yet to be fully diminished, with average Grade-A rent in Beijing continuing to dip, down 0.3% QoQ to RMB321.3 per sqm per month. Rents have fallen to varying degrees in all business districts.

The average rent in CBD area fell at a relatively modest rate, edging down 0.1% QoQ to RMB362.3 per sqm per month.

The average rent in the Financial Street area also showed a downward trend, decreasing by 0.5% QoQ to RMB605.8 per sqm per month.

Affected by the consolidation of the Internet technology companies, the Zhongguancun area released some vacant space during the quarter, with the vacant rate rising by 2.3 percentage points to 8.9% and the average rent falling by 0.3% QoQ to RMB360.8 per sqm per month.

Vacancy rates in the East 2nd Ring Road and Lufthansa areas remained constantly high among CBD areas and average rents continued to fall, declining by 0.2% and 0.7% QoQ to RMB296.9 and RMB295.3 per sqm per month respectively during the quarter.

The average rent in Olympic Games Village area decreased by 0.6% QoQ to RMB326.3 per sqm per month.

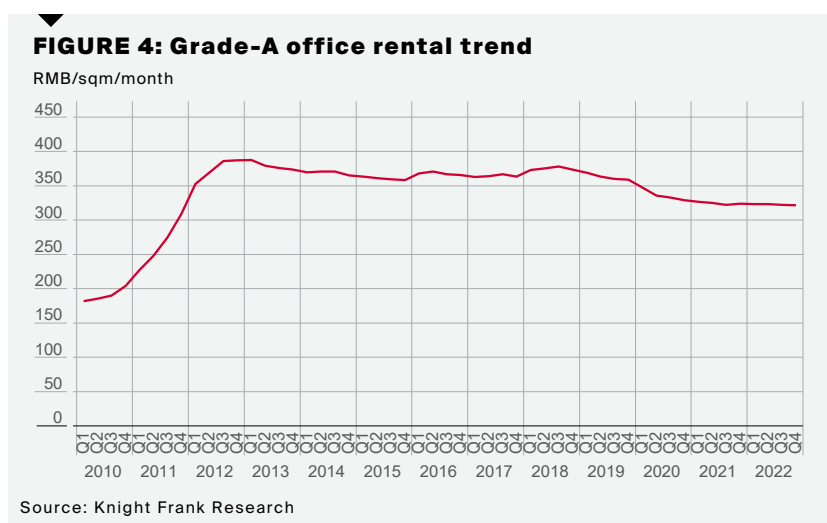


TABLE 1: Major Grade-A office leasing transactions, Q4 2022

Submarket	Building	Tenant	Area (sqm)	Type
Wangjing-Jiuxianqiao	Rosin Technology Centre	QuantaSing Group	15,000	Relocation
East 2 nd Ring Road	Tian Run Fortune Centre	Minsheng Royal Fund	9,055	New Lease
Lize	Dingxing Tower	China Logistics	8,000	Relocation

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

INVESTMENT MARKET

In Q4, the Beijing office en-bloc sales market saw a gradual return to activity by foreign investors, as well as investors from Hong Kong, Macau and Taiwan. These investors were active in acquiring office properties in the core business districts. The total investment value of en-bloc sales of Beijing was RMB14.62 billion in 2022, accounting for approximately 60% of the annual en-bloc sales volume. Hence, office space remains the asset type most sought after by investors.

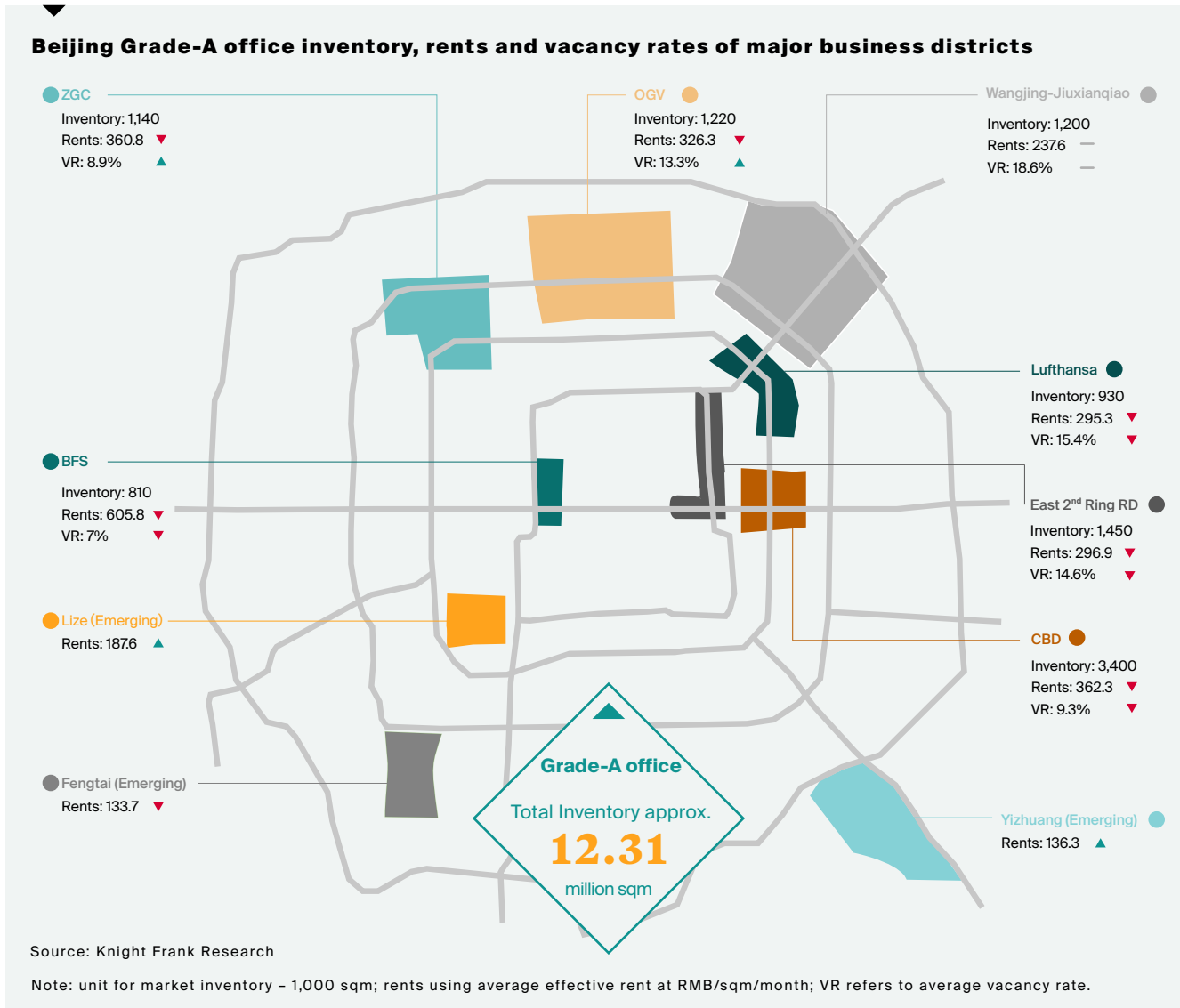
On 17 October, Beijing Borui Plaza was successfully auctioned for RMB2.037 billion. The auction was conducted at a

starting price of RMB873 million below the project's appraised value by Beijing Shiba Shiyi Enterprise Management Consulting Co.,Ltd, which is 100% owned by CapitaLand Commercial Facilities Consulting (Beijing) Co.,Ltd. The project is in between Beijing CBD and Lufthansa business district, it comprises Grade-A office buildings and retail facilities. The subject property of this auction is the basement floor 1 to 3, and the 4-25 floors aboveground of Borui Plaza with a gross floor area of approximately 58,200 sqm.

On 26 December, Weibo announced that its wholly-owned subsidiary Weibo

Hong Kong Limited, entered into certain agreements with Sina Hong Kong Limited, a wholly-owned subsidiary of Sina Corporation, for the purchase of 100% equity of Sina Technology (China) Limited. According to the agreement, Weibo Hong Kong Limited agreed to purchase the entire equity of Sina Technology (China) Limited, a wholly-owned subsidiary of Sina Hong Kong Limited and the owner of Beijing Sina Plaza. The total consideration of the transaction is RMB1.5 billion.

BEIJING GRADE-A OFFICE MARKET DASHBOARD (Q4 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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