Disrupted market dynamics due to COVID-19 pandemic, rental rate continues its downward trend

Beijing Office Market Report
Q1 2020
In Q1 2020, the Beijing Grade-A office market was hit by the outbreak of COVID-19 and the traditional low season during Chinese Lunar New Year. The completions of some office developments have been delayed in Lunar New Year. The completions of some Grade-A office market will stay at a high level and the rent will still face downward pressure.

In Q1, only one Grade-A office building i.e. Huairou Building was completed in Beijing. The project has a total gross floor area of 54,122 sqm, including 34,263-sqm office space and 3,096-sqm retail space, with 18 floors (actual floors) aboveground and 3 underground floors.

In Q1, some small and micro-sized enterprises which were greatly influenced by the outbreak of COVID-19 started to withdraw or reduce their leased office space, thus the average vacancy rate of Beijing Grade-A office increased by 3.1 percentage points to 15.2%. In terms of tenant profile, the financial sector was still the main driving force of Grade-A office leasing market in Q1. The majority of leasing transactions in Q1 were signed in January before the outbreak of COVID-19.

Due to the dual influences of economic uncertainty and COVID-19, the average office rents in most areas declined with varying degrees. The average rents in the CBD and the East 2nd Ring Road area decreased slightly by 0.2% and 0.3% to RMB378.5 and RMB319.9 per sqm per month respectively. The average rent in the Financial Street area decreased by 2.3% QoQ to RMB649.3 per sqm per month. The average rent in the Zhongguancun area decreased by 0.3% QoQ to RMB574.2 per sqm per month.

The Olympic Games Village was the only area which recorded a rental increase in Q1. In the past year, many new high-quality office completions and Asian Infrastructure Investment Bank (AIIB)'s moving its headquarter here have boosted the overall performance of this area and drove up the office rents. In Q1, the average rent in the Olympic Village area increased by 1.6% QoQ to RMB328.2 per sqm per month.
**Investment Market**

In the en-bloc property sales market, on 12 February, GIC announced that it would acquire the LG Twin Towers in Beijing from the South Korean LG Group, for over RMB8 billion. Located near the CBD area, the property is a high-quality commercial mixed-use development comprising two Grade-A office towers and a retail podium with a total gross floor area of 140,480 sqm. The property is located along Chang’an Avenue, a major road in Beijing, with direct access to Yong’anli Subway Station.

LG Electronics announced that it decided to sell off the LG Twin Towers in the core area of Beijing to secure liquidity amid global uncertainties. The construction of the project officially started on 26 June 2002 and was completed in 2005 with a total investment of USD400 million. The LG Twin Towers is 100% held by LG Holdings (Hong Kong). Amongst, LG Electronics holds 49% shares of LG Holdings which is the largest shareholder. LG Chemical and LG Trading hold the remaining 51% of shares, holding 26% and 28% respectively.

LG Electronics will sell off 49% of its shares to Singapore Reco Ziyang Pte Ltd, a wholly owned subsidiary of GIC, for a price of approximately KRW668.8 billion (RMB3.94 billion). LG Chemical and LG Trading will sell off the remaining 51% of shares for a total price of KRW1.37 trillion (RMB8.046 billion).

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**Beijing Office Market Dashboard**

Beijing office inventory, rents and vacancy rates of major business districts

Source: Knight Frank Research

Note: unit for market inventory – 1,000 sqm; rents using average effective rent at RMB/sqm/month; VR refers to average vacancy rate.
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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