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

Knight Frank

Beijing Office Market Report

Q1 2020

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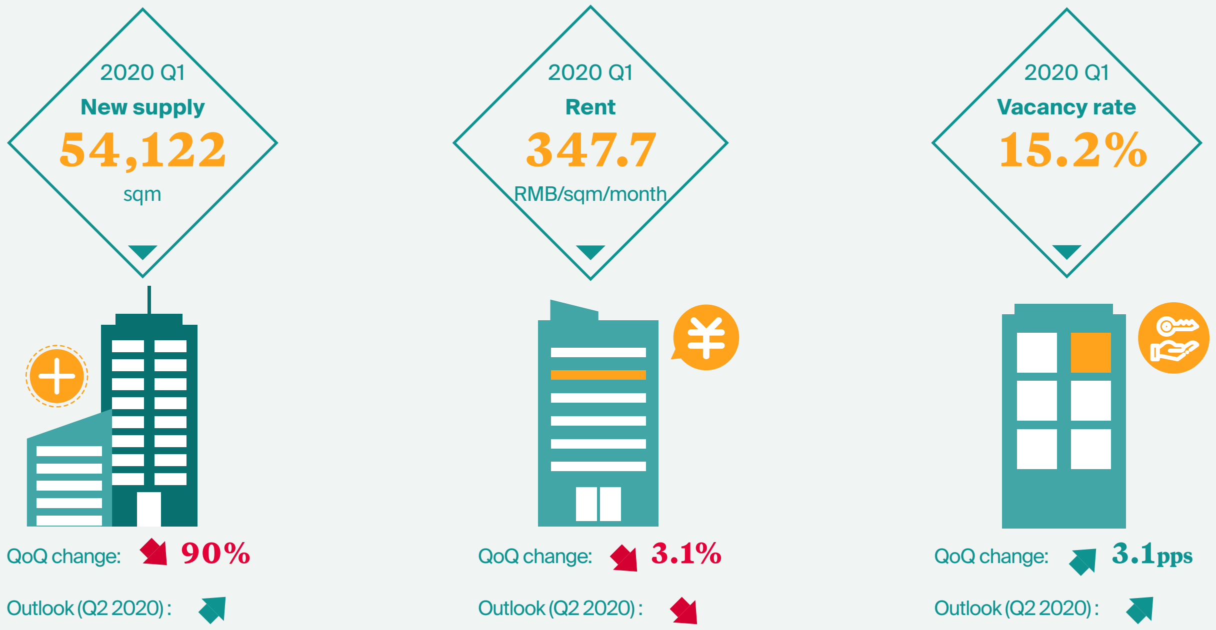
OVERVIEW AND OUTLOOK

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 Q1. As of March 2020, the total Grade-A office inventory in Beijing's leasing market reached approximately 11.41 million sqm. Amid softening market demand and limited on-site inspections, the overall vacancy rate rose by 3.1 percentage points QoQ to 15.2% and the average rent fell 3.1% QoQ to RMB347.7 per sqm per month.

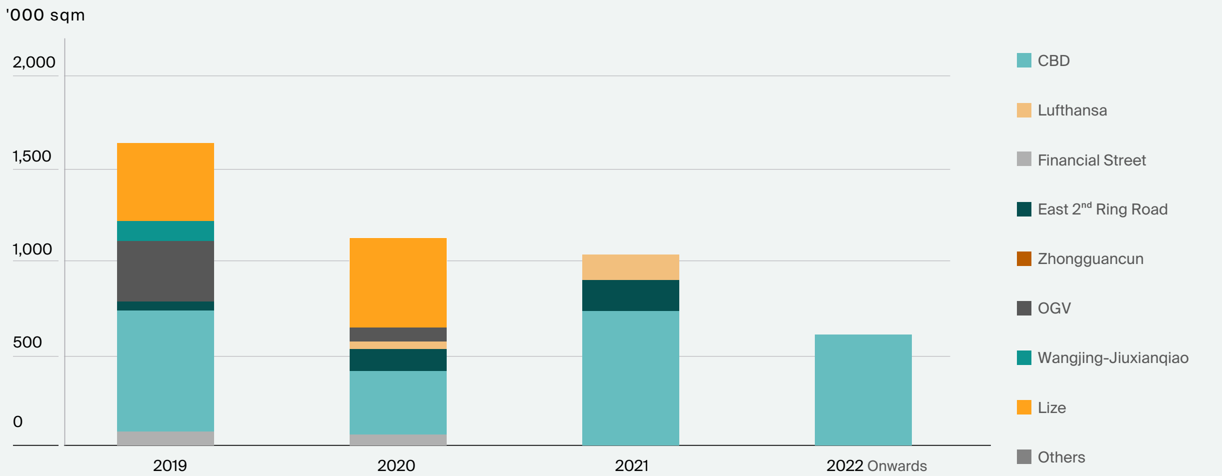
Looking forward to 2020, although China has gained control gradually over the COVID-19 outbreak, the COVID-19 has spread rapidly around the world, which adversely impacts on the leasing demand of multi-national companies. Therefore, we expect that the vacancy rate of Beijing Grade-A office market will stay at a high level and the rent will still face downward pressure.

FIGURE1: Beijing Grade-A office market indicators[1]



Source: Knight Frank Research
[1] Rent refers to average effective rent

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



Source: Knight Frank Research

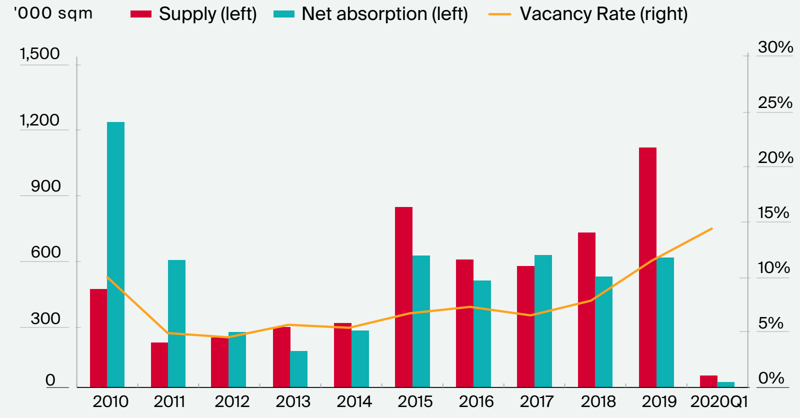
BEIJING OFFICE MARKET REPORT Q1 2020

SUPPLY AND DEMAND

In Q1, only one Grade-A office building i.e. Huarui Building was completed in Beijing. The project has a total gross floor area of 54,122 sqm, including 34,263-sqm office space and 5,095-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 was signed in January before the outbreak of COVID-19.

FIGURE 3: Grade-A office supply, net absorption and vacancy rate



Source: Knight Frank Research

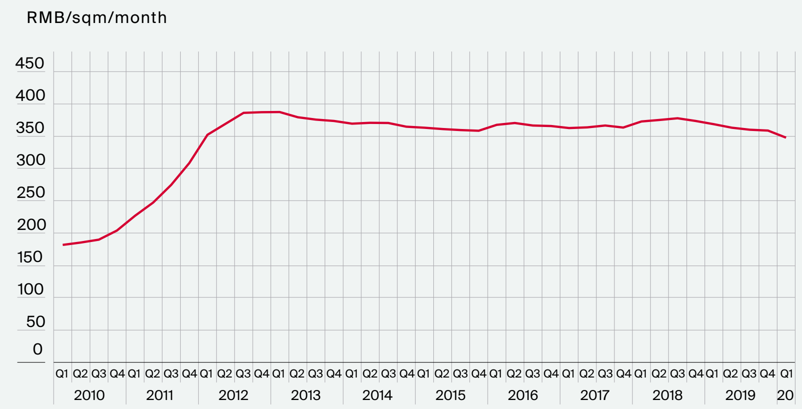
RENTS

In Q1, the average rent of Beijing Grade-A office space decreased by 3.1% QoQ to RMB347.7 per sqm per month. Affected by the COVID-19, the market dynamics has been disrupted. Most landlords tried to maintain existing tenants and attract new tenants by lowering the asking rents whilst they also adopt new means including virtual showrooms or live-streaming of inspections to encourage business.

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 0.1% 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 RMB374.2 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.

FIGURE 4: Grade-A office rental trend



Source: Knight Frank Research

TABLE 1: Major Grade-A office leasing transactions, Q1 2020

Submarket	Building	Tenant	Area (sqm)	Type
CBD	Borui Plaza II	Huaxia Bank	19,897	New Lease
CBD	China Life Finacial Centre	Swiss Re	3,350	New Lease
CBD	Ocean International Centre II	CGGC	2,452	Expansion
OGV	Chengao Building	Fun Plus	15,000	New Lease
LIZE	AZIA Centre	Howden	3,000	New Lease

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

INVESTMENT MARKET

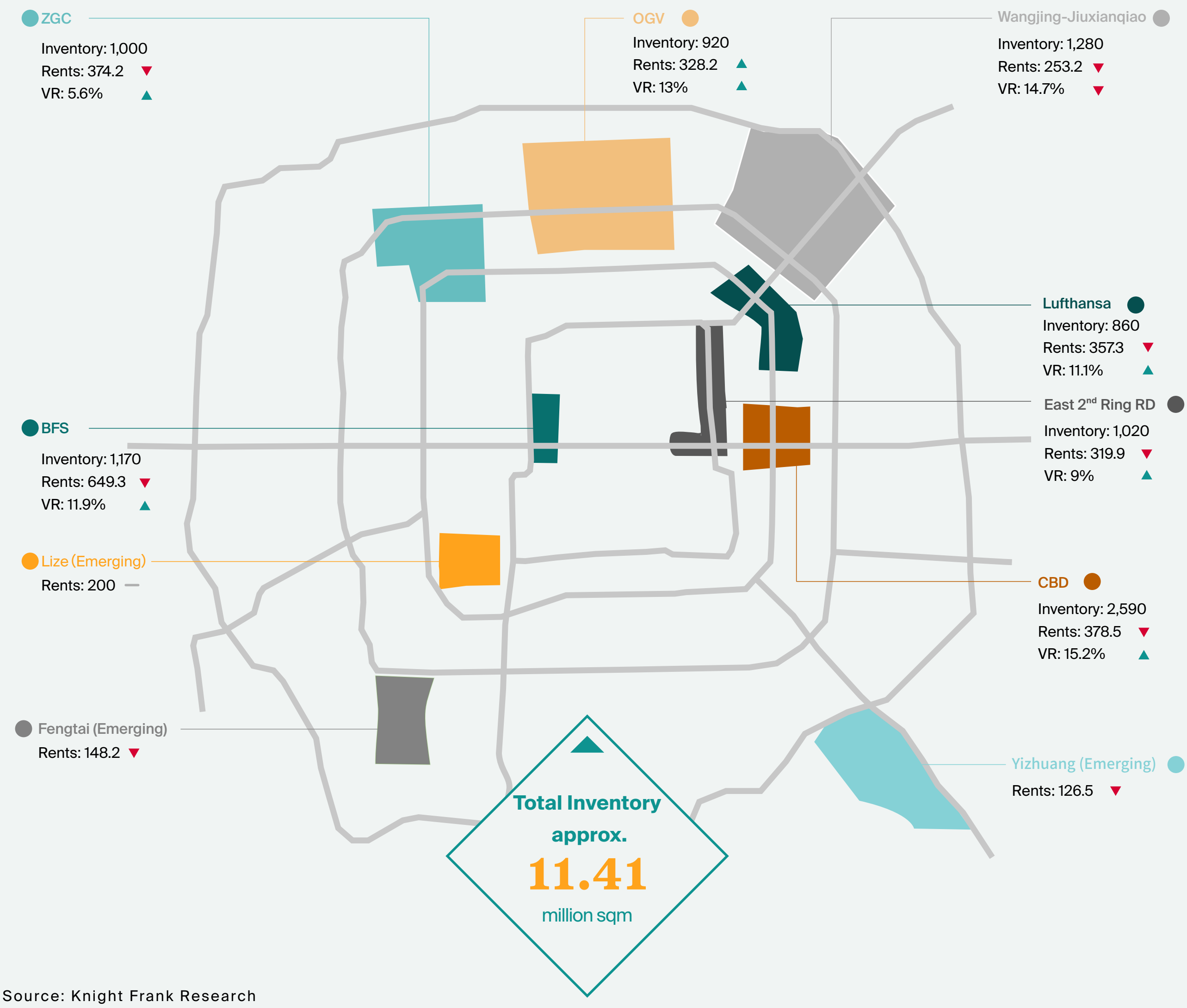
In the en-bloc property sales market, on 12 February, GIC announced that it would acquire the LG Twin Towers in Beijing from the South Korean LG Group, for over RMB8 billion. Located near the CBD area, the property is a high-quality commercial mixed-use development comprising two Grade-A office towers 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 25% 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).

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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