

# Beijing Grade-A Office Market Report



Q1 2023

This report focuses on the Grade-A office market in Beijing, including information about supply and demand, rents, vacancy rates and office investment market

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# Overview and Outlook

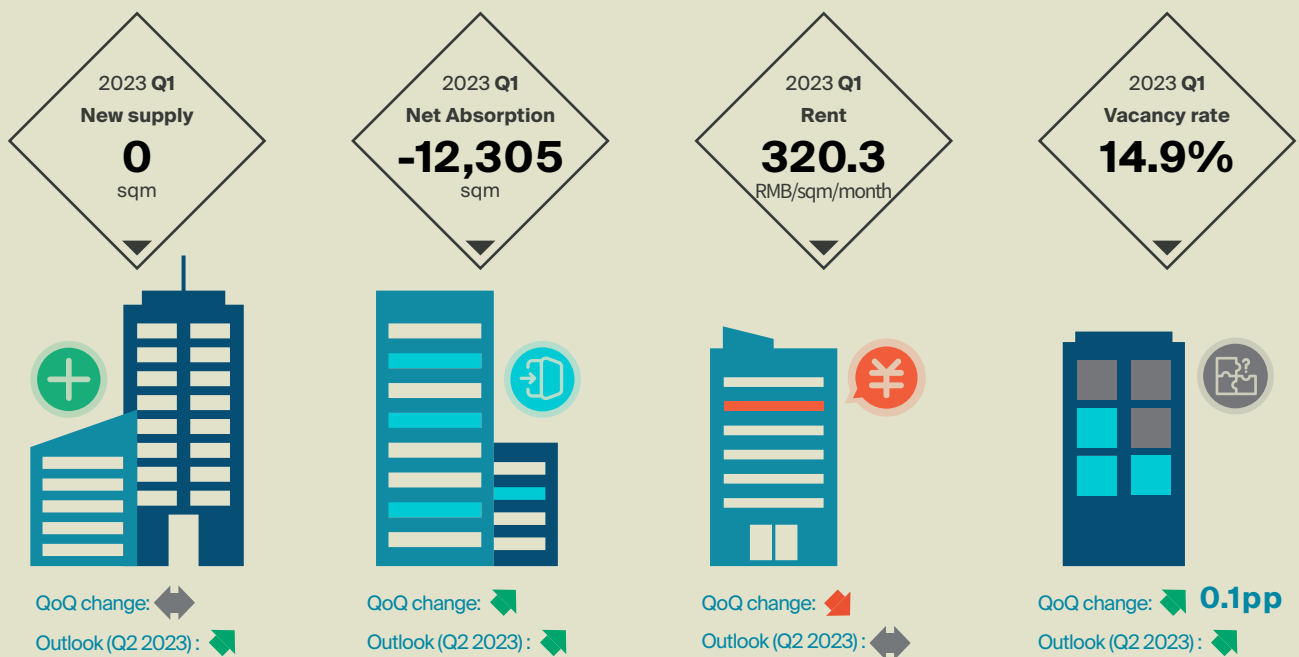
## ► Office leasing activity picks up

In the first quarter of 2023 (Q1 2023), the average rent of Beijing's Grade-A office market decreased by 0.3% QoQ to RMB320.3 per sqm per month. No new Grade-A office buildings were completed in Q1. The inventory of Beijing's Grade-A office market remained unchanged at 12.31 million sqm. The average vacancy rate was 14.9%, with an increase of 0.1 percentage point QoQ.

The repressed leasing demand due to the epidemic was released. Enquiries and inspections in the Beijing Grade-A office leasing market increased significantly in Q1, but the conversion rate was relatively low and actual transactions have yet to recover. With increasing demand for inspections, we expect the office leasing market to reach its peak in terms of the number of transactions in the second half of

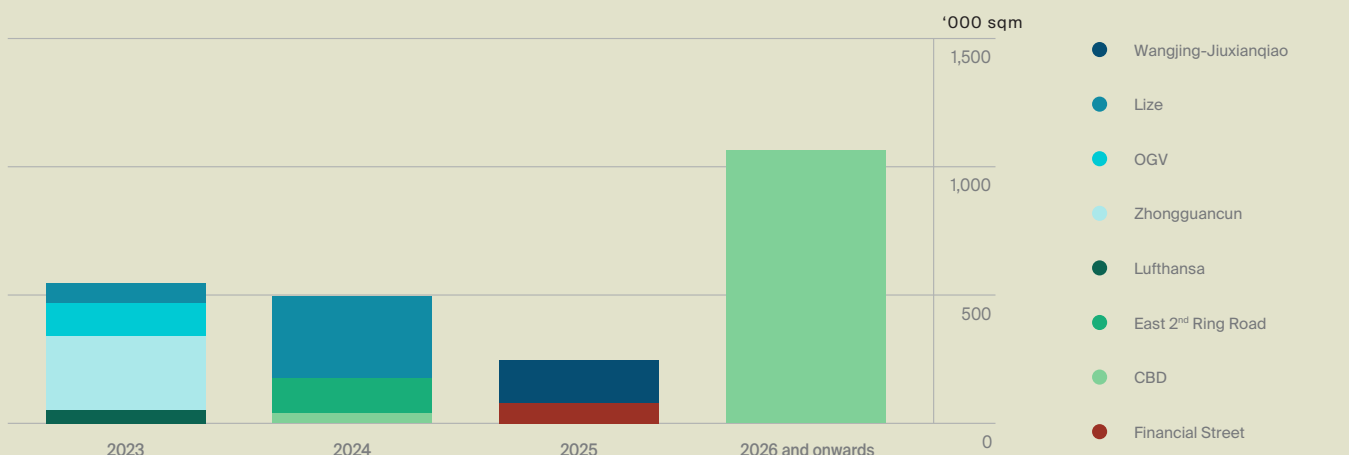
the year. It is expected that more than 200,000 sqm of new office space will enter the market in the second quarter of 2023 (Q2 2023), including projects originally planned for completion in Q1 2023. As a result, we expect vacancy rates to increase and rents to remain stable in Q2 2023.

**Fig 1: Beijing Grade-A office market indicators<sup>[1]</sup>**



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

**Fig 2: Beijing office development pipeline, 2023-2026 onwards**



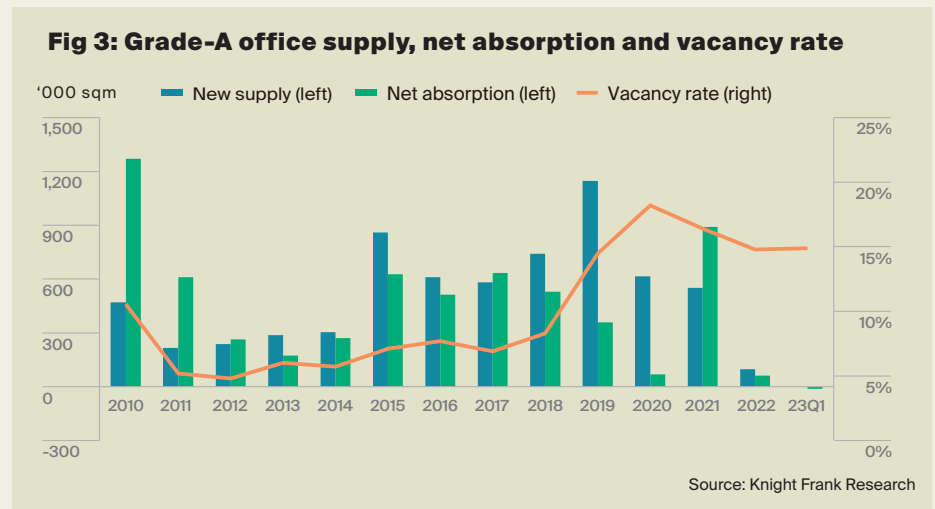
Source: Knight Frank Research

# Supply and Demand

## ► Leasing demand is led by financial sector

In Q1, 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 projects are expected to enter the market from Q2 onwards. The new supply of the year will reach approximately 540,000 sqm, with nearly 200,000 sqm of new office space to be completed in the next quarter. We therefore expect vacancy rate to be pushed up further and the increase in available space to put pressure on rent increases.

In Q1, the average vacancy rate of Beijing Grade-A office market increased by 0.1 percentage point to 14.9% QoQ. The net absorption was at -12,305 sqm. Despite a significant increase in number of inspections, the conversion rate was still below expectations. In terms of leasing transactions, the leasing demand was still dominated by the financial sector, with 28% of the overall transactions; The TMT sector has slightly rebounded, after a period



of consolidation of Internet companies. The transactions are mainly concentrated in technology segments such as software development and microelectronics.

As the first quarter after China's

reopening, the increase in number of site inspections has been an important signal of a rebound in market activity. It is believed that the office leasing market will also see new opportunities in the second half of the year.

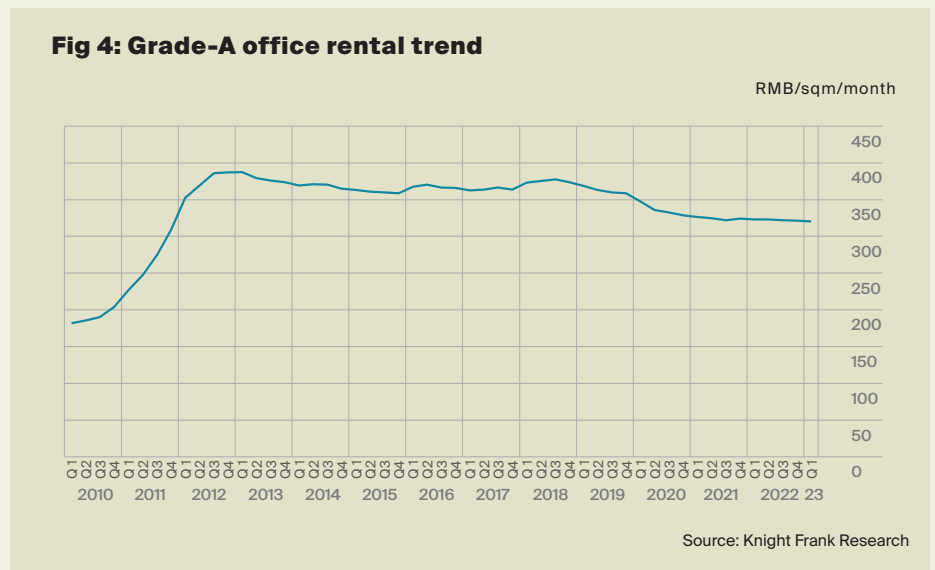
# Rents

## ► The landlords reduce rents to attract tenants in order to lower vacancy rates

In Q1, the average Grade-A rent in Beijing fell by 0.3% QoQ to RMB320.3 per sqm per month. The increasing vacant office space in all business districts was still under pressure, some landlords have adopted a price-for-volume approach to attract or retain tenants. As a result, average rents remained under pressure and continued to decrease in Q1.

The average rent in CBD and East 2nd Ring Road fell by 0.6% and 0.5% QoQ to RMB360.3 and RMB295.3 per sqm per month, respectively.

The impact of consolidation of the Internet technology companies and the lease withdrawals has not gone away, the average rent of



Wangjing-Jiuxianqiao area continued to decrease, down 0.6% QoQ to RMB236.1 per sqm per month with a narrowing decline rate.

Average rents in the Olympic Games Village and Zhongguancun areas remained unchanged at RMB326.3 and RMB360.8 per sqm per month respectively compared with those in the previous quarter.

The business atmosphere in the Lize Financial Business District has gradually improved, attracting a large number of well-known financial companies to move in and the absorption rate was the highest among all business districts in Q1. The average rent in Lize Business District increased by 0.4% QoQ to RMB188.3 per sqm per month.

**Table 1: Major Grade-A office leasing transactions, Q1 2023**

Submarket	Building	Tenant	Area (sqm)	Type
Lize	Glory Star Financial Towers	ICBC Credit Suisse	9,000	New Lease
Zhongguancun	Internet Finance Centre	Kupo Technology	4,200	New Lease
Wangjing-Jiuxianqiao	Fairy Land Centre	NetEase	12,000	New Lease

Source: Knight Frank Research

Note: All transactions are subject to confirmation

# Investment Market

## Foreign investors are active

Amidst the positive economic fundamentals after the two sessions, the market activity of foreign investors continued to rise. In Q1, the Beijing office en-bloc sales market recorded two transactions. Following CapitaLand's purchase of Borui Plaza in the CBD area in the previous quarter, CapitaLand has also acquired Beijing Suning Life Plaza in Q1. Beijing office market remained one of the important areas for foreign investors.

On 24 February, CapitaLand has established the CapitaLand China

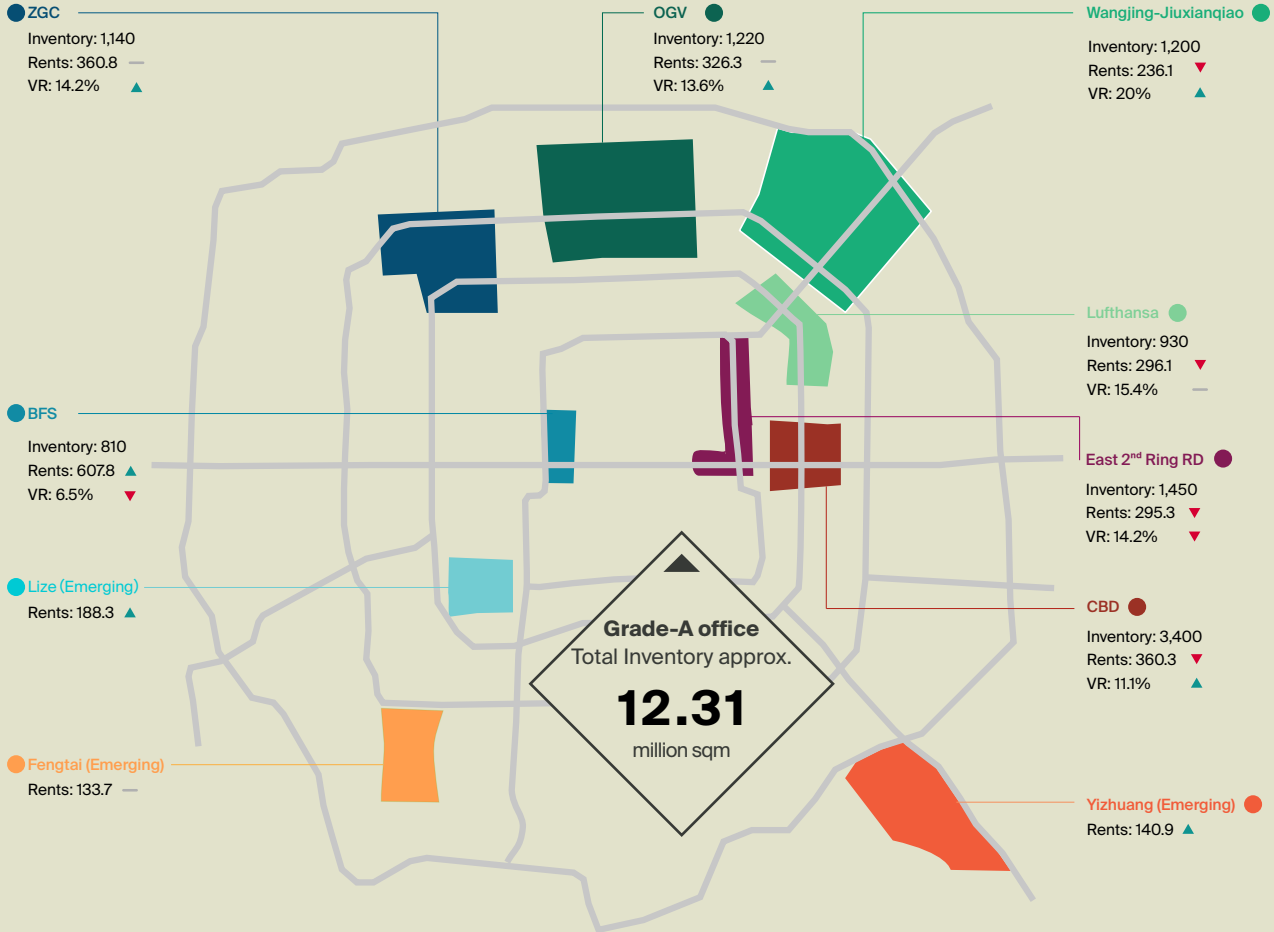
Opportunistic Partners Programme (CCOP) with a total committed equity of S\$1.1 billion to invest in special opportunities with China. The CCOP Programme comprises a S\$291 million single asset fund and a S\$824 million planned joint venture. The single-asset fund acquired Beijing Suning Lifestyle Plaza for S\$553 million (RMB2.81 billion), located in Ciyunsi area of Chaoyang District, and the project has a total gross floor area of 99,800 sqm.

On 3 February, Huayuan Real Estate successfully sold the office building

of Huayuan Centre in Beijing for a contracted price of RMB461 million to Foreign Language Press. Located in Shijingshan District, Beijing, Huayuan Centre has a total gross floor area of approximately 220,000 sqm, with a total retail space of approximately 110,000 sqm and office space of approximately 60,000 sqm. The subject building of this acquisition is No.7 Office Building.

# Beijing Grade-A office market dashboard Q1 2023

## Beijing Grade-A 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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