

Beijing Grade-A Office Market Report



Q1 2024

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

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Overview and Outlook

► The market continues to exhibit a downward trend

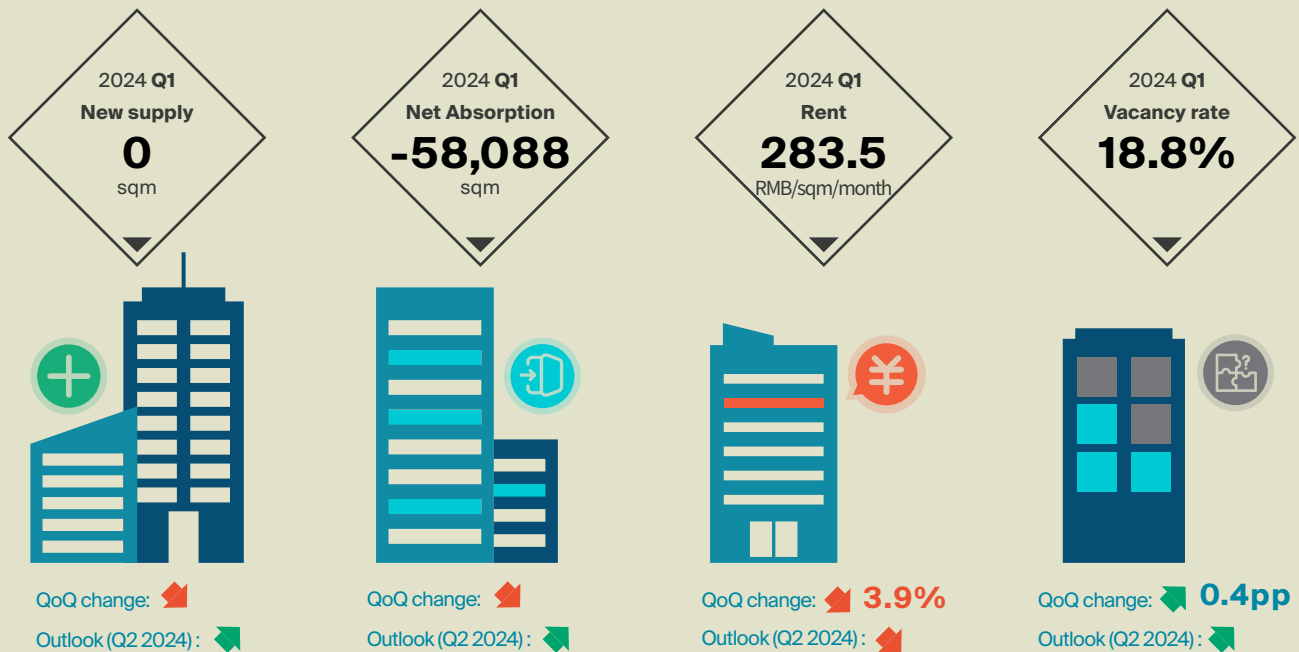
In the first quarter of 2024 (Q1 2024), Beijing's Grade A office market continued to experience a downward trend, with no significant recovery in market activity. No new Grade A office projects were completed during the quarter, resulting in the total stock of Grade A office space in the city remaining at 12.91 million sqm. The average rent of Grade A offices saw a further decline during the quarter, with a 3.9% decrease QoQ to RMB283.5 per sqm per month. Although the government and experts proposed various policies to stimulate economic development in response to the current economic situation during this year's Two Sessions, which set a target of economic growth of about 5% for the year, the Grade A office

market in Beijing does not appear to have immediately benefited from these policies. In the short term, the fluctuations in the domestic economy continue to have a significant impact on the office market, leading to a lack of a substantial recovery in market demand. The net absorption in Q1 decreased from the previous quarter, recording a negative value. The city's average vacancy rate showed an upward trend, increasing by 0.4 percentage points QoQ to 18.8%. In response to the rising vacancy rate, many landlords have adopted the strategy of trading price for volume by lowering rents to retain existing tenants and attract new tenants. In addition, the government has actively intervened with rental subsidy policies to higher-tax-paying

enterprises, with the aim of stabilising market expectations and stimulating demand for larger office space by enterprises.

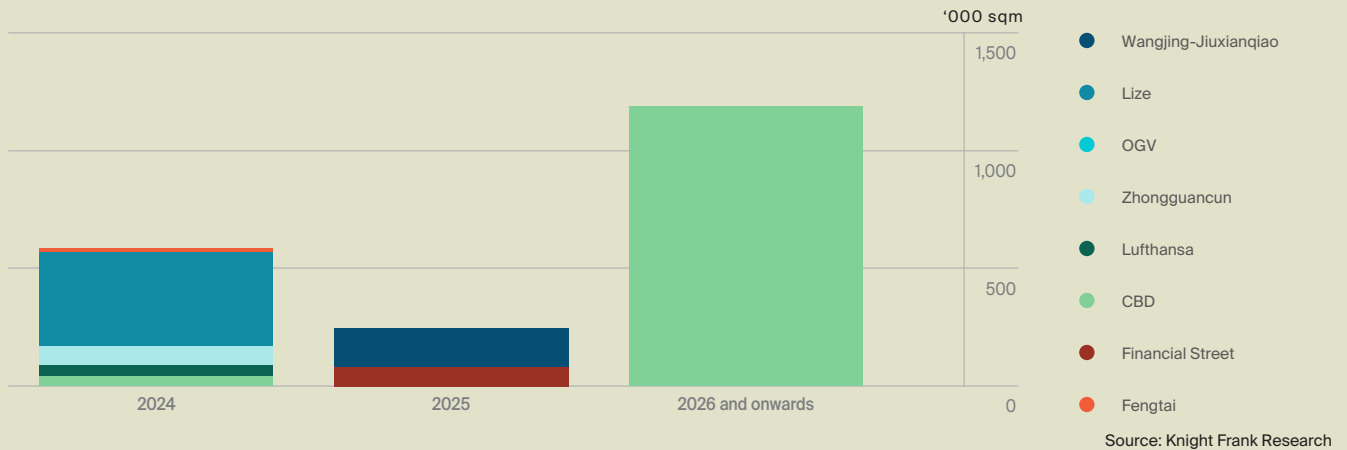
Since the market is still facing certain challenges in the short term, we expect a slight increase in the vacancy rate and a continued decline in the average rent for Grade A offices in Q2 2024. The Lijin Centre, in the Lize Business District, is expected to be completed in the next quarter, bringing 62,000 sqm of new supply to the market. The efforts of landlords and the government, along with the delivery of new projects, are expected to bring new opportunities and vitality to the market.

Fig 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

Fig 2: Beijing office development pipeline, 2024-2026 and onwards



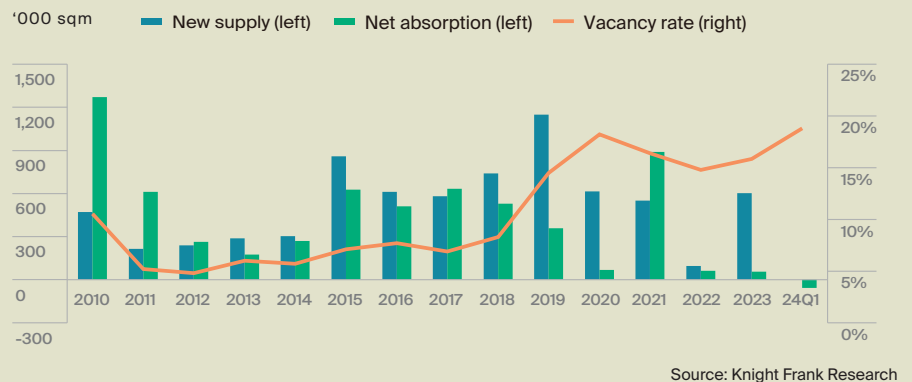
Supply and Demand

► Tenant confidence has not yet been restored

There were no new completions in Beijing's Grade A office market in Q1. The completion of the Lijin Centre project, originally scheduled for Q1 in Lize, has been delayed until Q2, and is expected to bring approximately 62,000 sqm of Grade A office space to the market.

To invigorate the economy and boost confidence in the office market, both the government and landlords have taken active measures and have implemented a series of initiatives. On the government side, rent subsidies have been provided to tenants and landlords to alleviate financial pressure. At the same time, efforts have been made to improve the ecosystem surrounding office buildings, enhance the three-dimensional management of buildings, and establish various communication platforms to facilitate cooperation and exchanges between landlords and tenants. To reduce vacancy rates, landlords have implemented a strategy of price concessions to attract more tenants by lowering rents. Some landlords have offered value-added services, such as customised renovations, to further enhance the attractiveness and competitiveness of their office buildings. Despite these efforts, there was a slight increase in the vacancy

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



rate of Grade A offices compared to that in the previous quarter, with the city's average vacancy rate increasing by 0.4 percentage points to 18.8% QoQ.

Owing to the impact of the Chinese New Year holiday, the transaction volume in Q1 was relatively low. There is not expected to be a significant increase in transaction volume in Q2 compared to Q1. Currently, overall property inspection volume increased because of lower rental levels and government policy support in the market. But owing

to the slow recovery of confidence among tenants in the office market and longer decision-making cycles, the transaction conversion rate was relatively low. The net absorption of Grade A offices in Beijing in Q1 fell to -58,088. Since last year, Beijing has continued to encourage the development of the high-tech industry at the policy level. This resulted in technology companies dominating tenant transactions in Q1, accounting for approximately 35% of the total.

Rents

► Market rental levels continue to decline

In Q1, the average rent of Grade A office buildings in the city declined by 3.9% QoQ to RMB283.5 per sqm per month. Rental levels are still on a downward trend. The current rental level of Beijing's Grade A office market approached that in 2011, reaching the lowest point in nearly 13 years.

In each sub-market, rents declined to varying degrees. The Central Business District dropped below RMB350 per sqm per month, and even rents in Beijing's Financial Street area, which has the highest rental level, fell below the RMB500 per sqm per month.

The main reason for the significant drop in rents is that to effectively reduce the vacancy rate, landlords have offered substantial concessions and rent discounts to tenants. Many landlords have also chosen to provide complimentary renovation services or extend rent-free periods to facilitate transactions. Before deciding whether to renew their leases or relocate, however, tenants need to comprehensively assess their own business needs and development plans and seek professional assistance to actively communicate and negotiate with the landlords. Tenants also need to closely monitor the market dynamics, understand and grasp the latest changes and trends in the leasing market, and formulate adaptable leasing

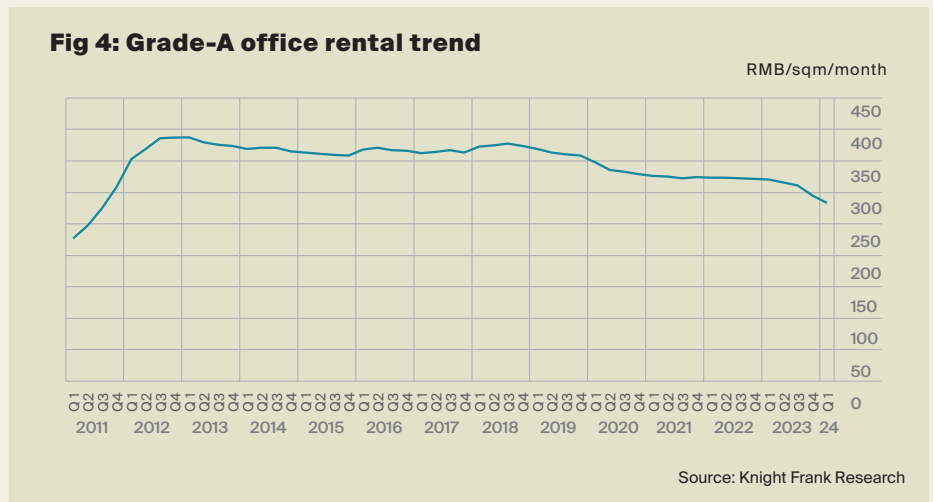


Table 1: Major Grade-A office leasing transactions, Q1 2024

Submarket	Building	Tenant	Area (sqm)	Type
Shangdi	Kailong Gaokeling	ICBC Research and Development Centre	11,446	New Lease
Shijingshan	Zhonghai Overseas Building	Everbright Technology	12,000	Relocation
Wangjing& Jiuxianqiao	Polo International Plaza	Orion	15,000	Relocation
Tongzhou	Tongzhou BIG Plaza	Sinohydro Bureau	10,400	New Lease

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

strategies accordingly.

Landlords are expected to continue to adopt a strategy of offering lower

rents to attract tenants in Q2 2024, leading to further downward pressure on rents in Beijing's Grade A office market.

Investment Market

► Insurance companies show active investment performance

In Q1, insurance companies that performed well last year continued to maintain their transaction momentum. On 31 January, AIA Life Insurance (AIA) successfully acquired a 95% stake in Capital Square, a Grade A office building located in the core area of Beijing's CBD, for RMB2.4 billion. The remaining 5% stake is

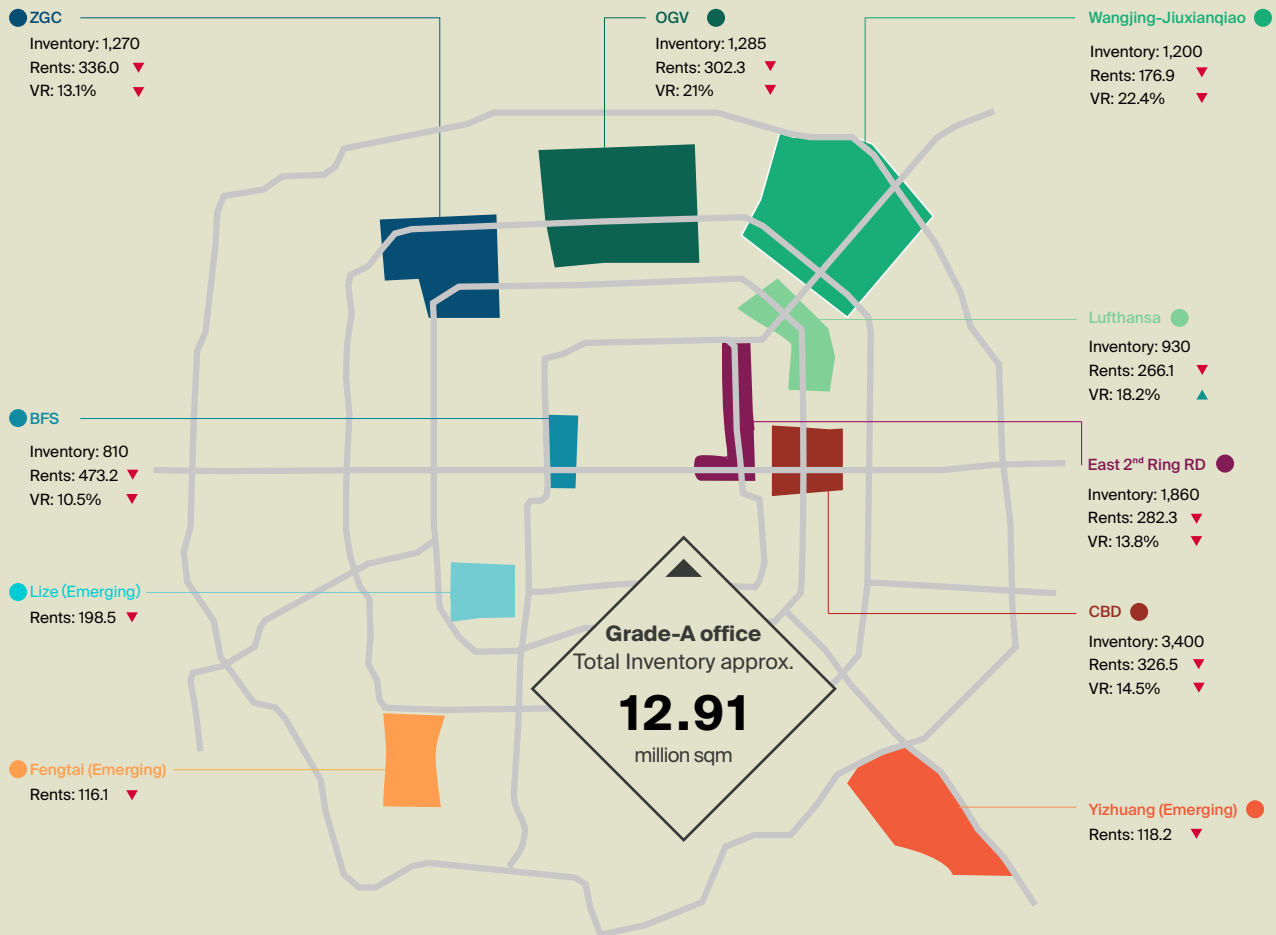
still held by CapitaLand Investments. Capital Square, an office building project acquired by CapitaLand in 2022, has a total gross floor area of 44,759 sqm above ground.

CapitaLand's transfer of a 95% stake in Capital Square to AIA Life and Joy City's transfer of the COFCO

Landmark Plaza to China Post Life in Q3 2023 indicate that some real estate companies have flexibly adjusted their commercial asset portfolio in Beijing through the introduction of insurance capital and the acquisition of existing projects, in a commitment to achieve light asset operations and the efficient utilization of capital.

Beijing Grade-A office market dashboard Q1 2024

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.

Research & Consultancy

**Beijing Office
Strategy & Solutions**



Laurence Zhu
Senior Director,
Head of Research & Consultancy, China
+86 21 6032 1769
laurence.zhu@cn.knightfrank.com



Regina Yang
Director, Head of Research & Consultancy,
Shanghai & Beijing
+86 21 6032 1728
regina.yang@cn.knightfrank.com



Katherine Lu
Managing Director,
Beijing
+86 10 6113 8011
katherine.lu@cn.knightfrank.com



Martin Wong
Director, Head of Research & Consultancy,
Greater China
+852 2846 7184
martin.wong@hk.knightfrank.com



Vanessa Zhang
Assistant Manager, Research & Consultancy,
Beijing
+86 189 1096 1641
vanessa.zhang@cn.knightfrank.com

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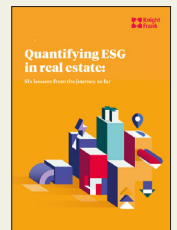
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