

Beijing Grade-A Office Market Report



Q2 2023

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

► Slower leasing demand as companies continued to reduce costs and increase efficiency

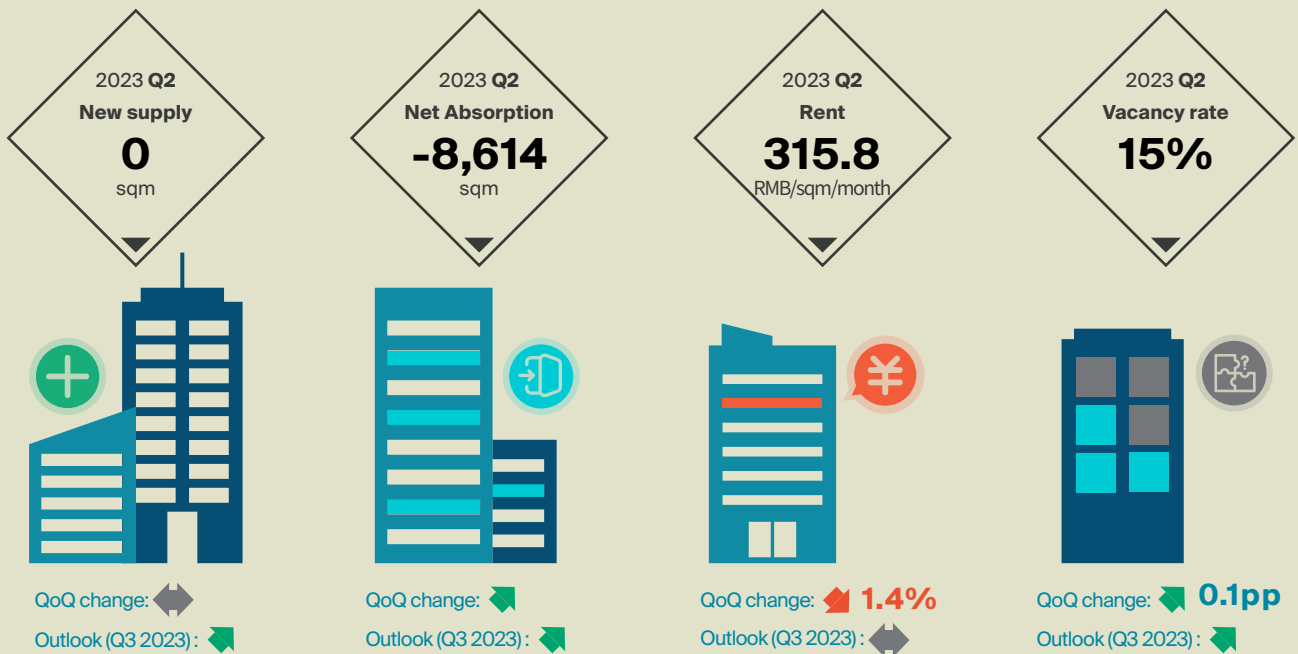
In the second quarter of 2023 (Q2 2023), Beijing's Grade-A office market was relatively quiet. In the economic downturn, demand for new leases in various industries has temporarily slowed down, with some sectors reducing and surrendering leases as an effective way to save costs. At the same

time, some companies with relocation needs are placing priority on reducing costs and increasing efficiency.

In Q2, the average rent in Beijing's Grade-A office market decreased by 1.4% QoQ to RMB315.8 per sqm per month. No new Grade-A office

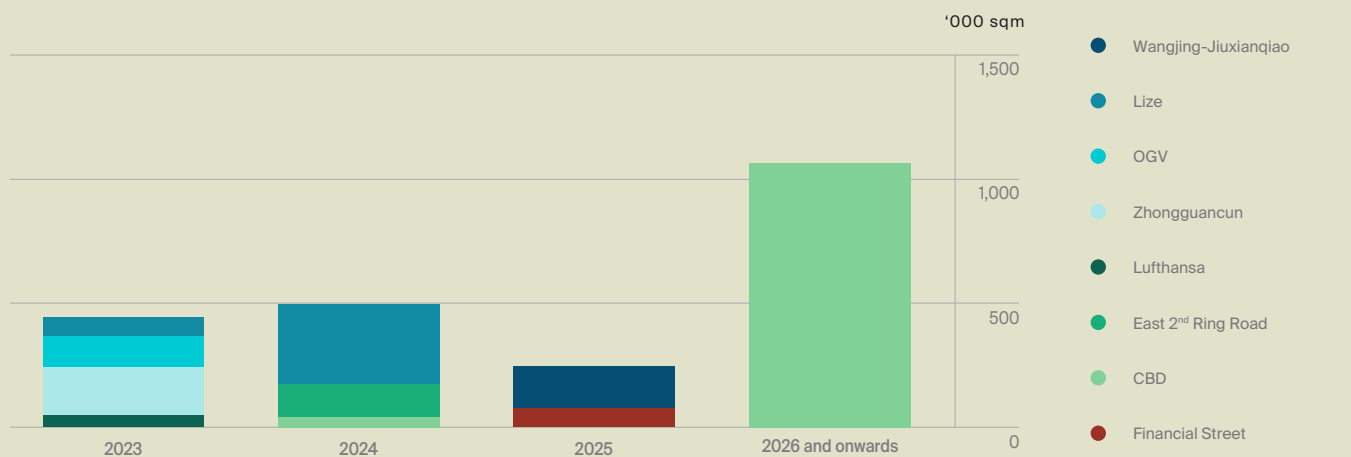
buildings were completed in the core business area in Q2. Inventory in Beijing's Grade-A office market remained unchanged at 12.31 million sqm. The average vacancy rate was 15%, increasing 0.1 percentage point QoQ.

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, 2023-2026 onwards



Source: Knight Frank Research

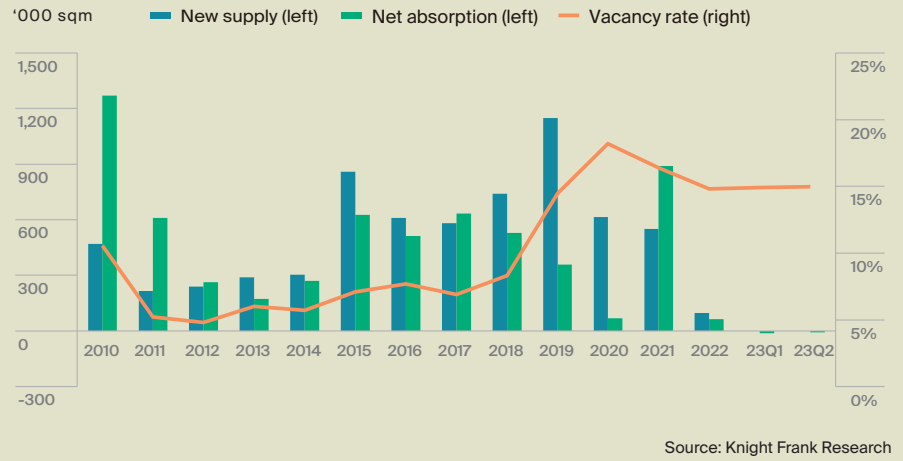
Supply and Demand

► Leasing demand led by the technology sector

In Q2, there were no new projects completed in the core areas of Beijing's Grade-A office market. Grade-A office inventory remained unchanged at 12.31 million sqm. Looking forward to Q3, North Star Centre in the Olympic Games Village area is expected to be competed, resulting in 96,000 sqm of new space in the market.

In Q2, the average vacancy rate of Beijing's Grade-A office market increased by 0.1 percentage point QoQ to 15%. New leasing demand was weak, and some sectors are still undergoing the process of consolidation and optimisation. Therefore, net absorption remained negative at -8,614 sqm in Q2. In terms of leasing transactions, leasing demand was dominated by the TMT sector, with over 37% of total transactions. Tech companies made up the largest number of transactions in the TMT sector, showing that the technology industry is still the

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



development focus. The financial sector followed with 20%, and the professional services sector accounted for 10% of

total transactions. The above three sectors accounted for approximately 70% of total transactions in Q2.

Rents

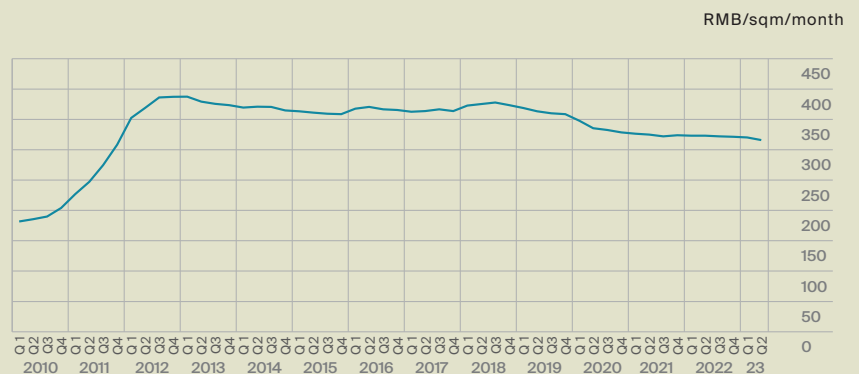
► Rents continued to decline and room to negotiate lease terms increased

In Q2, the average Grade-A office rent in Beijing fell by 1.4% QoQ to RMB315.8 per sqm per month. Average office rents in most business districts continued to decrease and market demand was relatively sluggish. As the absorption of vacant space slowed down, landlords of some office buildings with high vacancy rates offered more incentives and more flexible terms to increase the occupancy rate.

The average rents in CBD and East 2nd Ring Road fell by 1.1% and 0.1% QoQ to RMB356.3 and RMB294.9 per sqm per month, respectively.

Given the consolidation and lease withdrawals of Internet companies, it

Fig 4: Grade-A office rental trend



will be difficult for the vacant space to be absorbed in a short period. This has led to landlords lowering their rental expectations. Therefore, the average rent in Wangjing-Jiuxianqiao area continued to decline, down 6.7% QoQ to RMB220.2 per sqm per month.

The average rent in Beijing Financial Street area decreased by 2.5% QoQ to RMB592.8 per sqm per month. Although the average rent in the area has always been the highest of all business districts, the limited new supply and high rents in the area, coupled with the rise of Lize, have caused the area to lose some tenants and rents to continuously decrease.

Table 1: Major Grade-A office leasing transactions, Q2 2023

Submarket	Building	Tenant	Area (sqm)	Type
Wangjing-Jiuxianqiao	Glory Star Financial Towers	BlueFocus	23,867	Relocation
Zhongguancun	SOHU.COM Internet Plaza	Zhipu AI	13,000	Relocation
Lufthansa	Hyundai Millennium Tower	Yuanqisenlin	9,000	New Lease
CBD	China World Office 1	CICC	1,588	Expansion

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

Investment Market

► Domestic corporate buyers more active

In Q2, domestic investors were active, with two transactions made by self-occupied buyers. Supported by various policies, office buildings in non-core areas and business parks are favoured by domestic self-occupied buyers.

On 10 April, Shunxin Agriculture announced plans to purchase the assets from its wholly-owned subsidiary. It

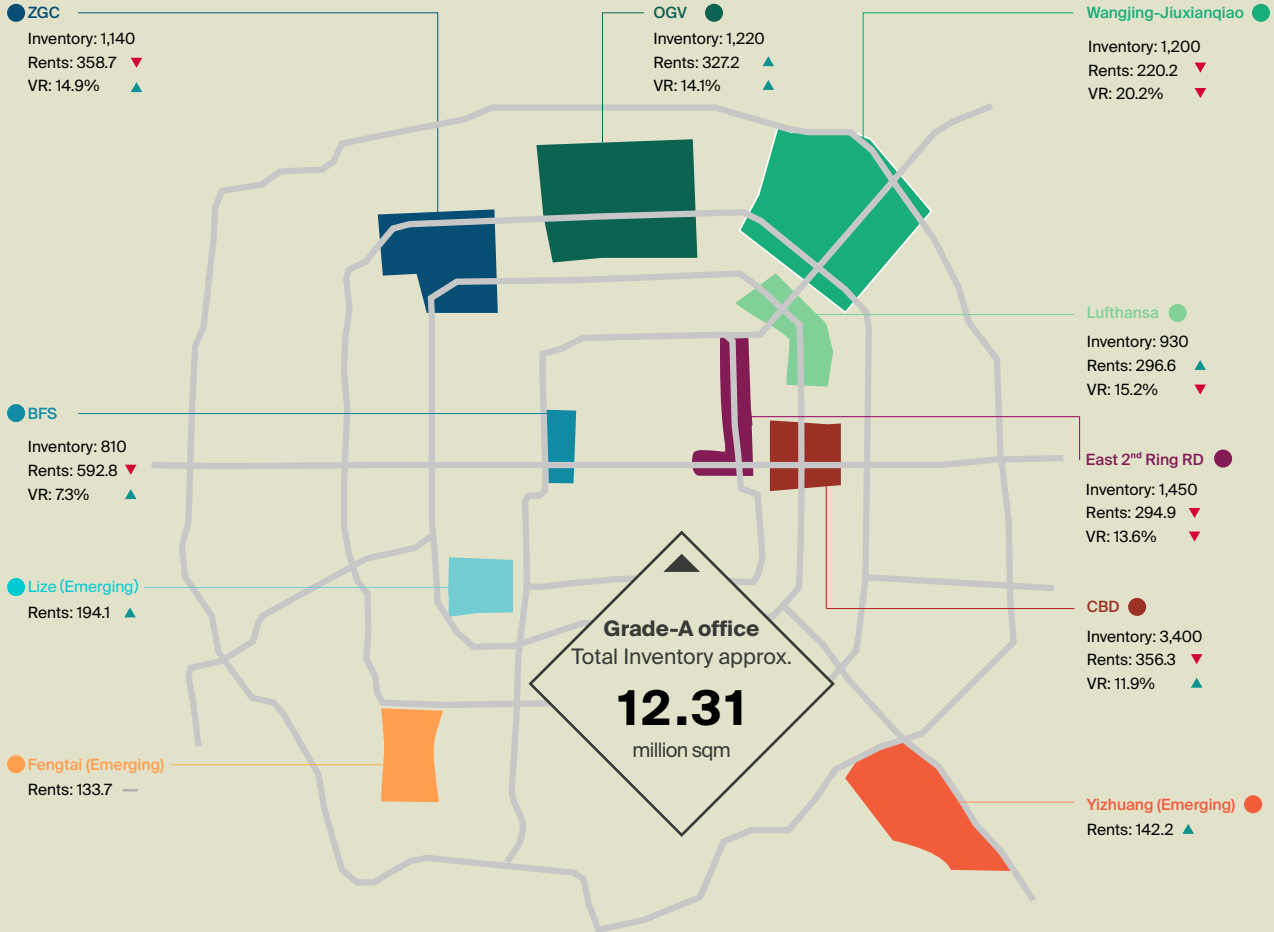
plans to purchase two office buildings, Business Centre and Huanyu Centre, held by Shunxin Jaiyu in Shunyi District. The project comprises office, retail and parking space, with a total floor area of 122,000 sqm. The total transaction price is expected to be no more than RMB1,986 million.

On 11 June, TINAVI purchased 1-5 floors of the T7 R&D and Design

Building, in the Zhonggyuancun Xisanqi Science and Technology Park project, from BBMG Innovation. The land is used for R&D design and has an estimated gross floor area of 8,905 sqm. It was sold at a unit price of RMB38,000 per sqm for a total estimated transaction price of RMB338 million. The purchase funds came from the company or self-financing funds.

Beijing Grade-A office market dashboard Q2 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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