Beijing Grade-A Office Market Report

Q2 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

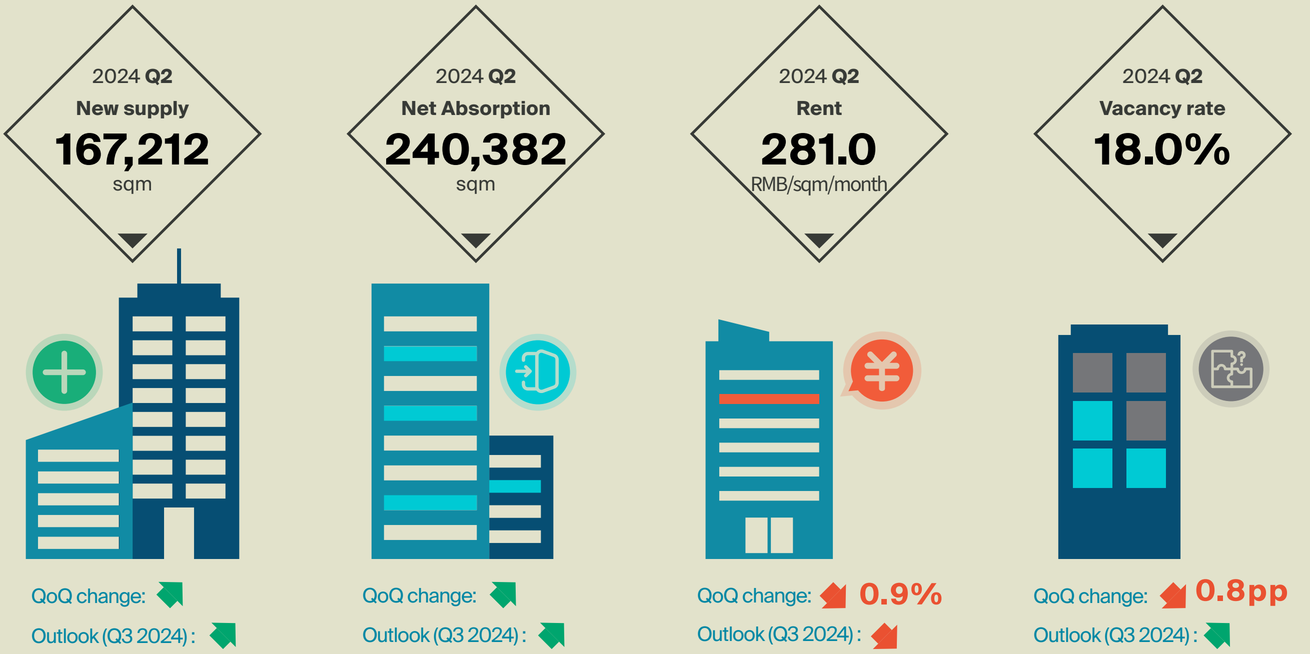
Market activity yet to see a significant rebound

In the second quarter of 2024 (Q2 2024), activity in Beijing's Grade-A office market had yet to see a significant rebound, with demand lagging slightly behind supply. In Q2, two new Grade-A office buildings were completed and delivered in the city – the Beijing Financial Technology Centre in Xicheng District and the Lijin Centre in the Lize business area – bringing the city's Grade-A office stock to 13.076 million sqm. Grade-A office rents continued their downward trend from Q1, declining 0.9% QoQ to RMB281 per sqm per month.

In Q2, there was a significant QoQ increase in net absorption in Beijing's Grade-A office market, reaching 240,382 sqm, due to the completion of new projects. In addition, approximately 400,000 sqm of new supply is expected to be completed and available in the market this year. The upward trend in vacancy rates, which had persisted for five consecutive quarters was temporarily alleviated in Q2, with the city's vacancy rate declining slightly by 0.8 percentage point QoQ to 18.0%. In Q3, new projects are expected to be introduced to the market in the Lize and Zhongguancun areas, which will continue to put significant pressure on the absorption rate. As a result, the vacancy rate is expected to rise again in Q3, and rents are expected to continue their downward trend.

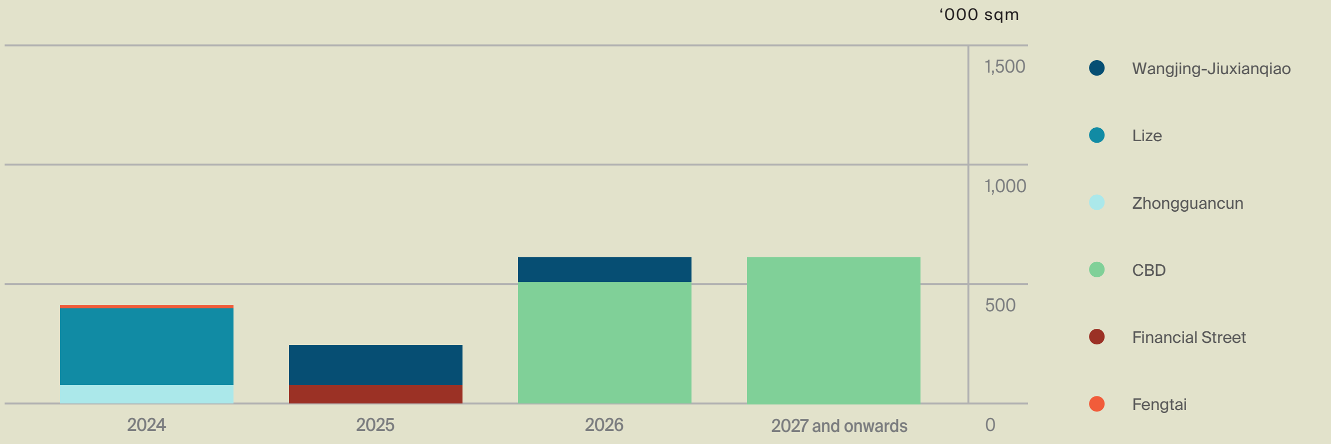
Regarding the overall economic environment, on 31 May, Beijing municipality issued its first specialised regulation targeting foreign investment: the "Beijing Regulation on Foreign Investment". This is expected to have a positive impact on the office leasing market. The implementation of the regulation is expected to attract more foreign capital inflows, which will in turn drive increased demand for high-quality office space. The influx of foreign enterprises will not only boost overall activity in the office market, but also promote the improvement of support services.

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, 2024-2027 and onwards



Source: Knight Frank Research

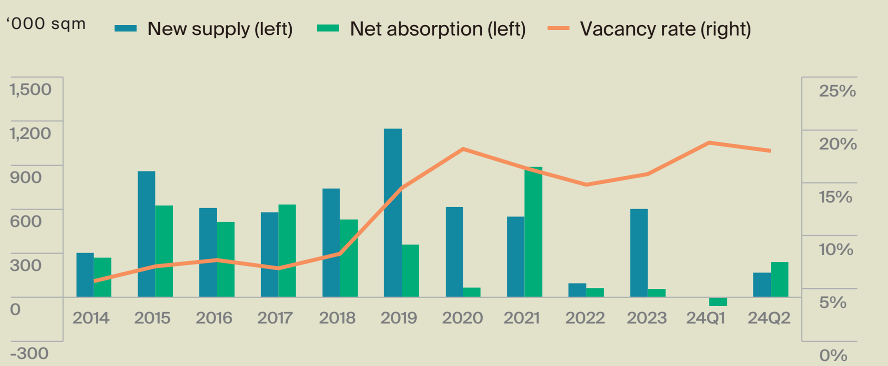
Supply and Demand

Continued weak new demand for office space

In Q2, two new Grade-A office projects were completed and delivered in Beijing: the Beijing Financial and Technology Centre in Xicheng District and the Lijin Centre in the Lize business area. The Beijing Financial and Technology Centre has a gross floor area of 84,000 sqm, and the Lijin Centre has a gross floor area of 83,212 sqm. In Q3, the National Financial Information Building in the Lize area and Block B of the Dinghao Building in the Zhongguancun area are expected to be completed and delivered, providing another 360,000 sqm to the market.

As the landlord strategy of offering discounted rents to boost occupancy started to bear fruit, along with some expansion by large state-owned and central enterprises in Q2, a certain amount of vacant space was absorbed. As a result, the vacancy rate of Grade-A office buildings in the city dropped by 0.8% QoQ to 18.0%.

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



Source: Knight Frank Research

Currently, demand for Grade-A office space in Beijing remains weak. Affected by the continued decline in rental levels, tenants are still adopting a wait-and-see attitude, further lowering their rental expectations, thus leading to longer decision-making cycles and lower lease conversion rates after property inspections. However, transaction volume in Q2 rebounded after the sluggish performance in Q1, with the Central Business District (CBD) significantly outperforming other regions. In Q2, leasing demand was strongest from various technology companies, accounting for about 30% of the total transaction volume.

Rents

Rental levels continued to decline

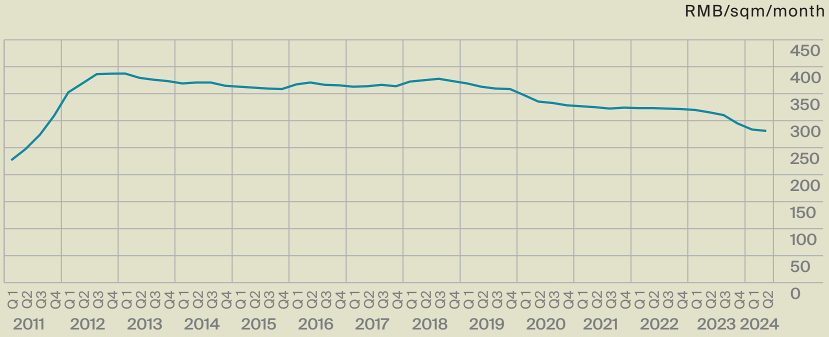
In Q2, the city's average Grade-A office rents continued to decline, decreasing by 0.9% QoQ to RMB281 per sqm per month. The rental decline was slower than that in the previous two quarters, indicating that the market rental level is in a gradual but steady downward phase.

Among sub-markets, there has been a certain degree of recovery in the north areas. Rents in the Lufthansa, Wangjing-Jiuxianqiao, OGV and Zhongguancun areas have seen moderate increases. This may be because these areas continue to be favored by technology companies and their upstream and downstream partners when selecting locations. Additionally, despite lagging overall market demand, technology companies such as Huawei and ByteDance are still in an expansionary phase, which has alleviated absorption pressure in the north areas.

In May, Alibaba's new headquarters in Cuigezhuang officially commenced operations. Alibaba's approximately 16,000 employees in Beijing will be relocating from office buildings in areas like Wangjing to the new headquarters. This will significantly increase the amount of vacant office space in Wangjing and surrounding areas. However, as the news of Alibaba's new Beijing headquarters was announced last year, landlords in the Wangjing area have had plenty of time to prepare by securing new tenants and implementing other mitigation measures. As a result, Alibaba's large-scale relocation has not had a major impact on rental levels in the Wangjing area so far.

As the price-for-volume measures have achieved some effectiveness, landlords will likely continue this strategy in Q3 to achieve higher occupancy rates. As a result, we expect rental levels to continue to decline in Q3.

Fig 4: Grade-A office rental trend



Source: Knight Frank Research

Table 1: Major Grade-A office leasing transactions, Q2 2024

Submarket	Building	Tenant	Area (sqm)	Type
CBD	CP Centre	International Arbitration Commission	11,000	New Lease
Lize	Ping An Financial Centre	South-to-North Water Diversion	7,000	New Lease
Wangjing& Jiuxianqiao	Wangjing International Commercial Centre	Inke	8,000	New Lease
OGV	Global Trade Centre	Yongxing Interactive	3,500	New Lease
Xizhimen	Beijing Technology Financial Centre	Everbright Trust	9,654	New Lease

Source: Knight Frank Research

Note: All transactions are subject to confirmation

Investment Market

Insurance companies remain key players in the en-bloc transaction market

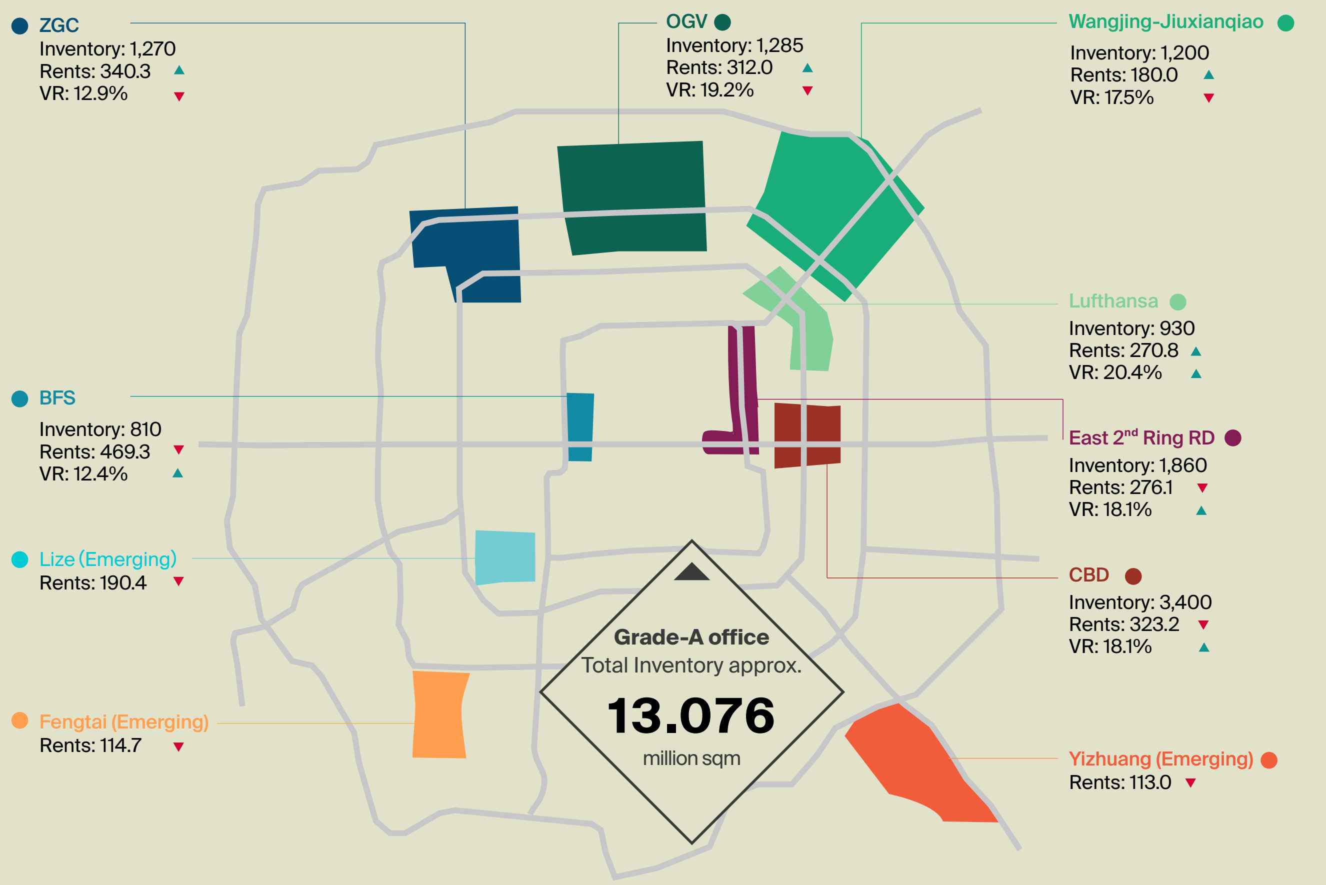
In Q2, insurance companies continued to be the key players in Beijing's en-bloc transaction market. Insurance companies typically have strong capital strength and professional teams, allowing them to leverage management advantages in commercial real estate investments. By collaborating with developers and real estate companies, insurance companies can obtain better integration of resource and project management capabilities, thereby maximising their investment returns.

On 9 April, Buildings B and C of the Wanda Group headquarters, located in the Dawanglu business district, were sold, with Xinhua Insurance acquiring a 99.99 equity stake and CICC acquiring a 0.01% stake.

On 10 June, Sino-Ocean Group transferred its full equity and debt interests in Indigo Phase II to China Life and its partner Swire Group for a total consideration of RMB4 billion. Indigo Phase II is an ongoing development project in the Jiuxianqiao area, consisting of seven office buildings, a shopping mall and a hotel, with a total gross floor area exceeding 560,000 sqm. The project is expected to be completed in 2025 or 2026.

Beijing Grade-A office market dashboard Q2 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.

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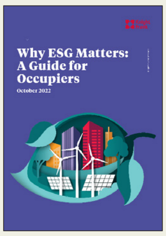

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