

Leasing market gradually recovered and rental decline narrowed



Beijing Grade-A Office Market Report

Q3 2020

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OVERVIEW AND OUTLOOK

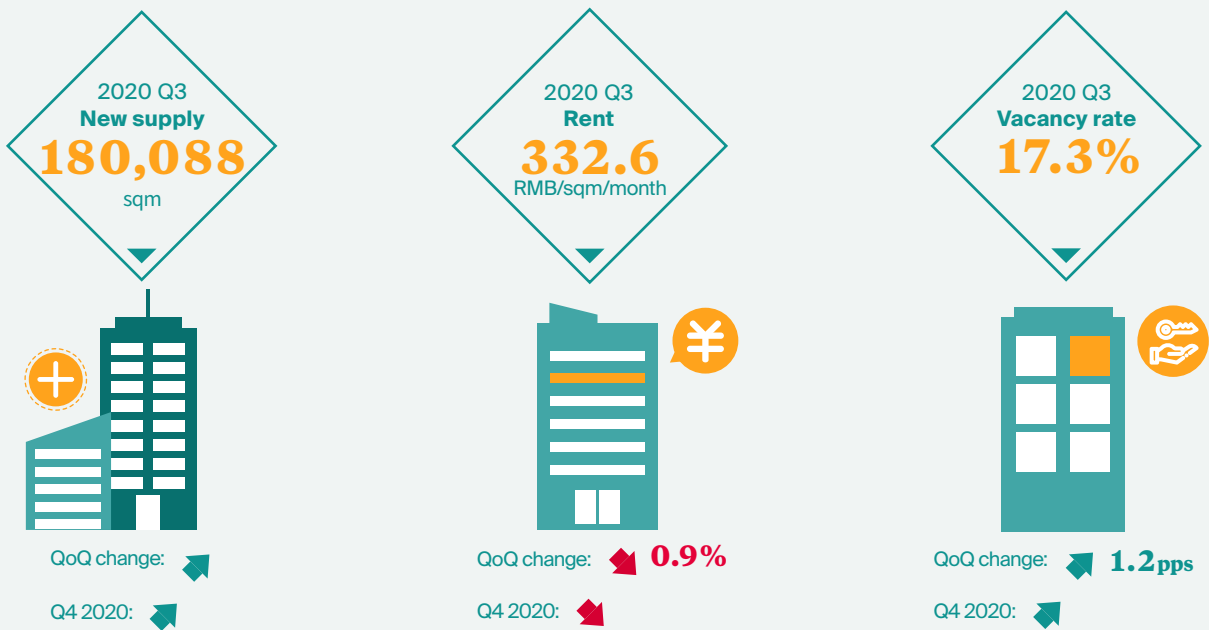
In the third quarter of 2020 (Q3 2020), due to the effective control of COVID-19, the Beijing Grade-A office market has gradually recovered. As of September 2020, the total Grade-A office inventory in Beijing's leasing market increased to approximately 11.35 million sqm. The overall vacancy rate rose by 1.2 percentage point QoQ to 17.3% whilst the average rent

fell 0.9% QoQ to RMB332.6 per sqm per month with a slowing QoQ growth rate.

In Q3, lockdown restrictions have been gradually lifted with an orderly resumption of economic activities. The recovery of Chinese economy has also helped inject vigor into the office market. However, the global pandemic situation

is still not optimistic. Therefore, the leasing demand from foreign enterprises remained weak whilst China's domestic demand still dominate the market. In Q4, there will be a completion of over 200,000-sqm of office space. Vacancy rate is expected to rise further, while rents will slightly decrease.

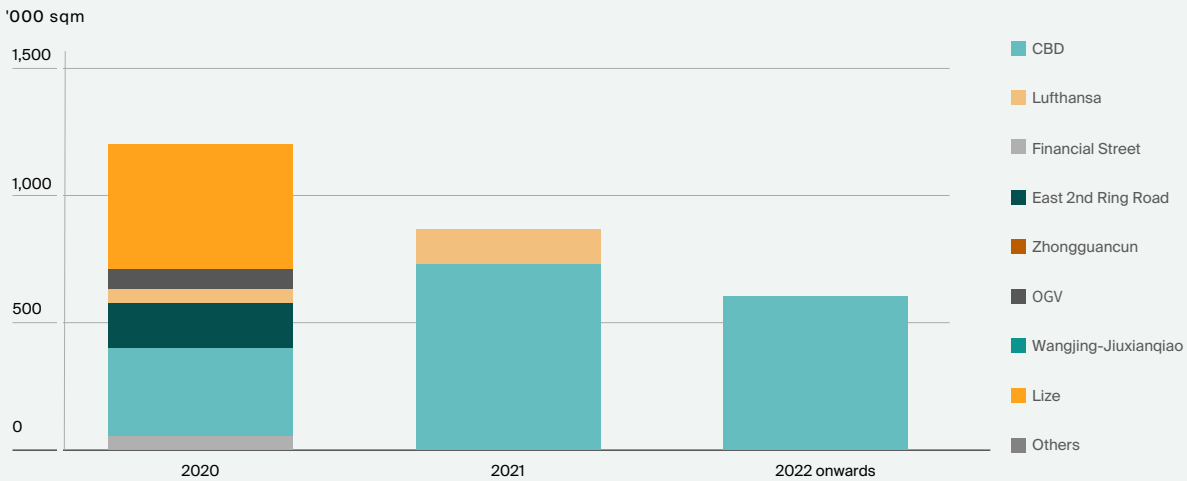
FIGURE 1: Beijing Grade-A office market indicators^[1]



Source: Knight Frank Research

[1] Rent refers to average effective rent

FIGURE 2: Beijing office development pipeline, 2020-2022 onwards

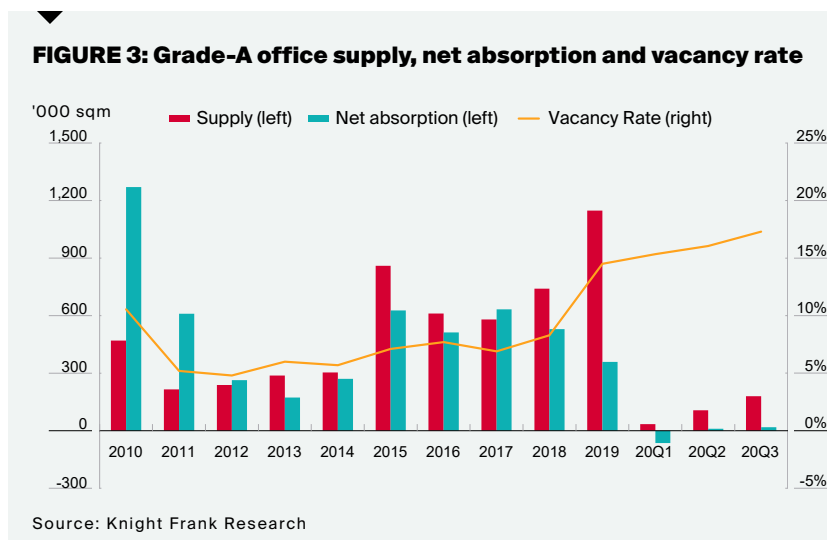


Source: Knight Frank Research

SUPPLY AND DEMAND

In Q3, Zhaotai International Centre in East 2nd Ring Road area and Financial Street International were completed in Beijing, bringing 180,088 sqm office space to the market. Amongst, Financial Street International is a renovated office project from a former hotel. Looking forward, it is expected that Beijing Investment Group S&T Building in Olympic Games Village area and Ray Zone in Lize FBD will be completed in Q4, bringing over 200,000-sqm office space to the market.

In Q3, boosted by the continuous increasing level of economic activities, the Beijing Grade-A office market has also gradually recovered. The net absorption has almost doubled, and rental decline has narrowed compared with numbers in Q2. The leasing demand of the financial sector remained stable, and the Internet and high-tech sectors were active. Ningbo Bank leased 17,000-sqm office space in Dajia Insurance Building in



CBD; TOPJOY leased 4,000-sqm office space in North Star Century Centre in Olympic Games Village area; Byte

Dance has expanded their office with 3,800-sqm office space in ZGC Financial Building in Zhongguancun area.

RENTS

In Q3, the leasing demand showed a sign of upturn and rental decline slowed down. The average rent of Beijing's Grade-A office market decreased by 0.9% QoQ to RMB332.6 per sqm per month, a decline narrowed compared to 3.5% in Q2.

In Q3, the average rents of Beijing Financial Street area and Zhongguancun area started to rebound first with increases of 0.2% and 3.2% QoQ to RMB636.3 and RMB370.4 per sqm per month respectively.

Due to the launch of high quality and large-scale office buildings in CBD Zhongfu Plot, the average rent in CBD area decreased slightly by 0.7% to RMB359.5 per sqm per month. The new development, Zhaotai International Centre in East 2nd Ring Road pushed up the vacancy rate by 6.9 percentage points to 16.7%, whilst the average rent decreased by 0.3% QoQ to RMB307.6 per sqm per month.

As foreign enterprises account for a large proportion in Lufthansa area, severely impacted by the global international economic downturn, plus the epidemic situation in other countries has remained severe. Therefore, the average rent decreased significantly by 9.6% QoQ to RMB321.7 per sqm per month.

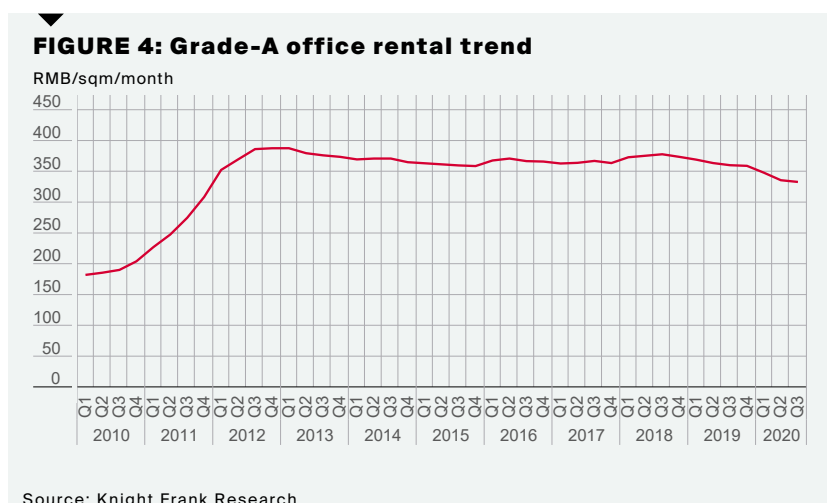


TABLE 1: Major Grade-A office leasing transactions, Q3 2020

Submarket	Building	Tenant	Area (sqm)	Type
CBD	Dajia Insurance Building	Ningbo Bank	17,000	New Lease
CBD	CP Centre	Shougang Fund	1,320	New Lease
CBD	Emperor Group Centre	China Chengtong Holdings Group	2,500	New Lease
Zhongguancun	ZGC Financial Building	Byte Dance	3,800	Expansion
OGV	North Star Century Center	TOPJOY	4,000	New Lease
Wangjing-Jiuxianqiao	Orient Financial Center	Coloplast	2,400	New Lease

Source: Knight Frank Research

Note: all transactions are subject to confirmation

INVESTMENT MARKET

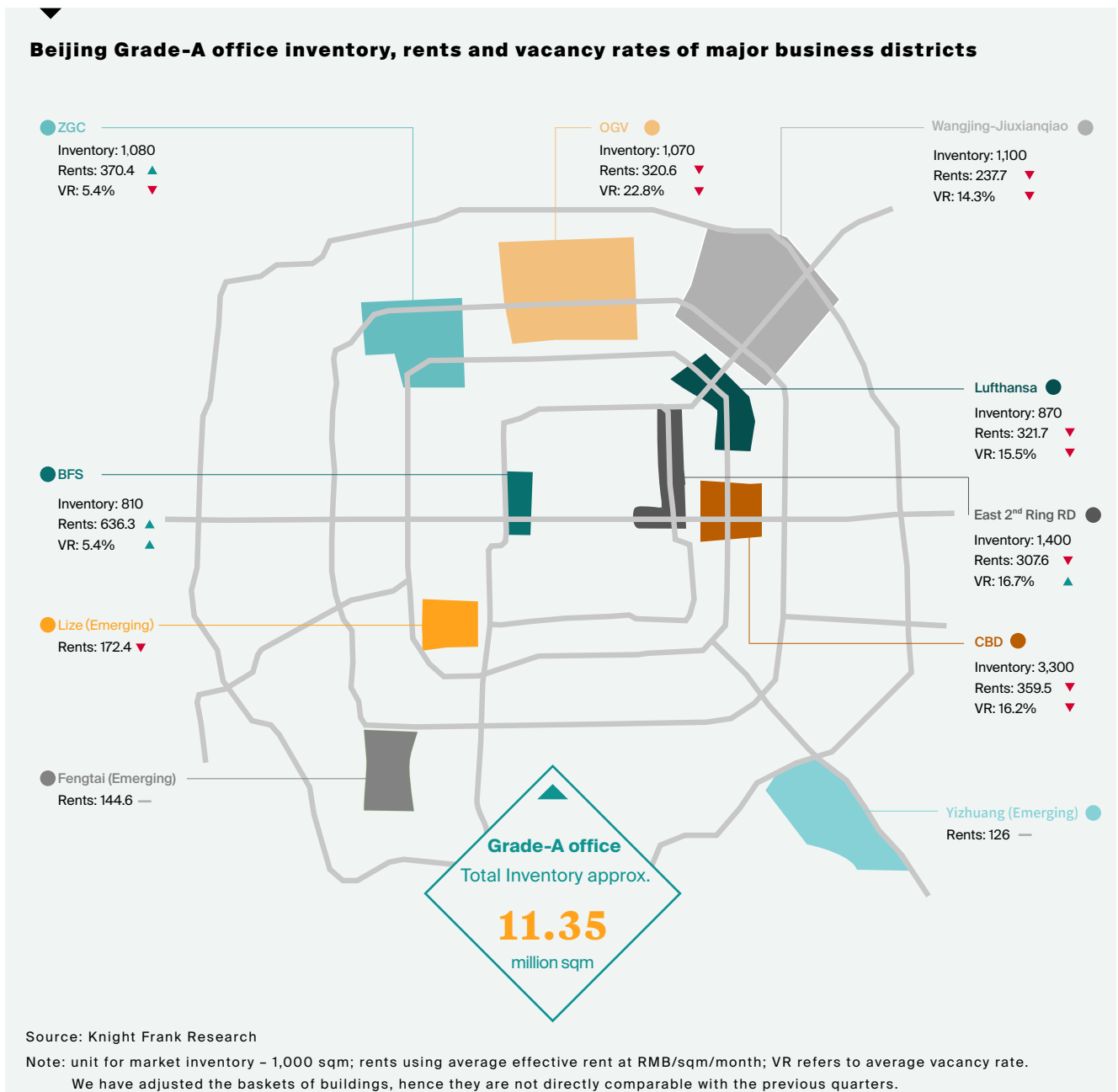
In the en-bloc property sales market, overseas investors have become more active. During the quarter, a significant transaction of a mixed-use commercial property was recorded. On 3 August, Eagle Holdings sold Beijing U-SHOW Plaza to the joint venture of SDP Investment and a foreign institutional investor for RMB4 billion. The project is located at South 2nd Ring Road, directly opposite the Beijing

South Railway Station which connects subway lines 4 and 14. It is a 12-storey office and retail building with a total GFA of 132,000 sqm.

The asset type of Internet Data Centre (IDC) continues to attract the attention of domestic investors. On 23 July, GDS announced that it has established a joint venture with a private equity fund which

is CITICPE's subsidiary company. The joint venture has successfully acquired an IDC Project in Tongzhou District, Beijing, named as No.13 Beijing Data Centre. According to the preliminary plan, the project has a server room covering 21,000 sqm. It will be developed in two phases and will be put in use in early 2022 and mid-2023 respectively.

BEIJING GRADE-A OFFICE MARKET DASHBOARD



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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