

Beijing Grade-A Office Market Report



Q3 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

► The market was steady in the third quarter

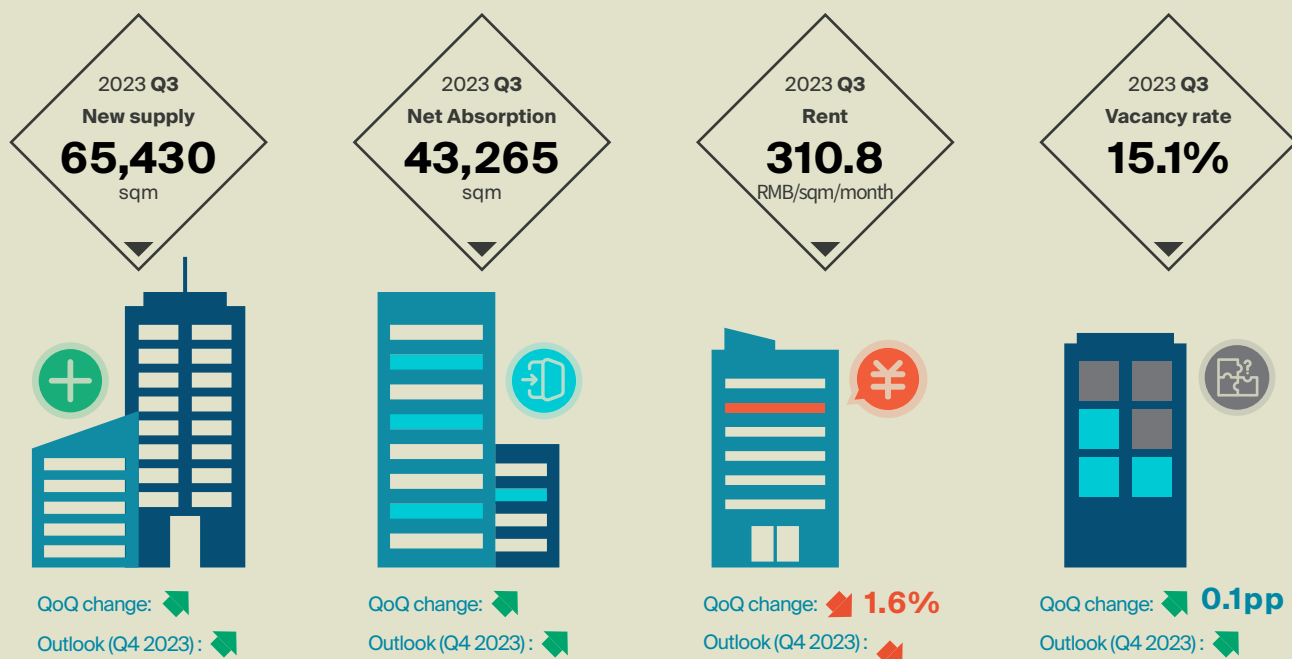
In the third quarter of 2023 (Q3 2023), Beijing's Grade A office market continued the trend in the previous quarter, with rents continuing to dip. The average rent for Grade A office space in Beijing fell by 1.6% QoQ to RMB310.8 per sqm per month. A new Grade A office building was completed and delivered to the market in Q3, with total office gross floor area (GFA) of 65,430 sqm. Grade A office stock in Beijing rose to 12.37 million sqm. The city's average vacancy rate was 15.1%, up 0.1 percentage point QoQ. Market demand was dominated by the technology and financial sectors, with domestic enterprises dominating

overall demand.

Economic growth, the popularity of telecommuting, urban development planning and government policy support have all provided new opportunities for the office market. In Q3, the Central Bank made it clear that it is formulating policy documents related to financial support for the development of private enterprises, which may have a positive impact on financing demand from private enterprises in the future, which will in turn promote the development of private enterprises and increase demand for office leasing. In addition,

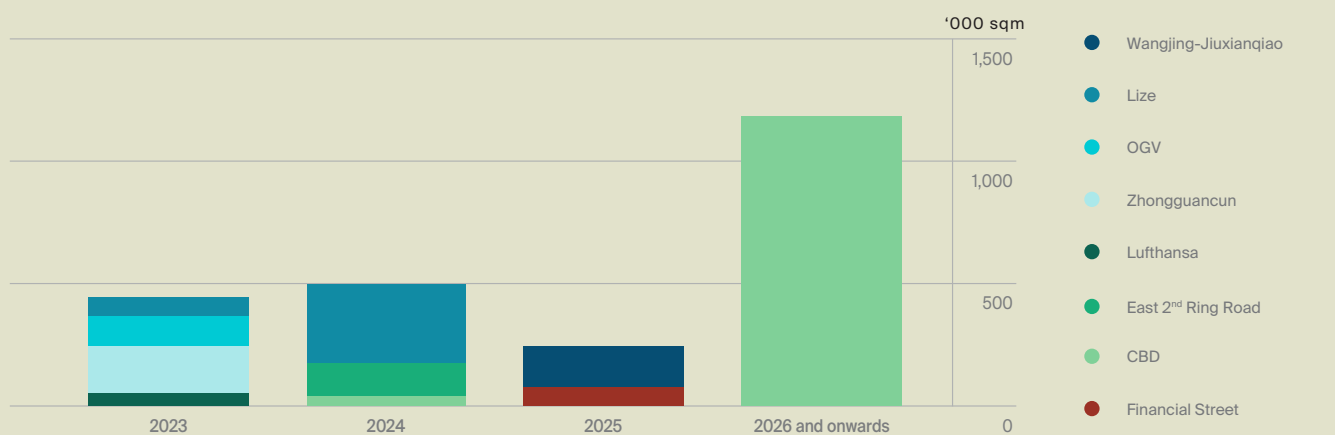
the Beijing Municipal Commerce Bureau issued the Beijing Regulations on Foreign Investment, which encourage domestic reinvestment by foreign-invested enterprises and may have a positive impact on leasing demand from foreign-invested enterprises. Since some enterprises are still prioritising cost reduction and efficiency, and are concerned about budget control when selecting sites, cost-effective office projects are expected to be favoured by the market in the coming days. We expect average Grade A office rents to continue to fall in the fourth quarter and vacancy rates to continue to rise.

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 and onwards



Source: Knight Frank Research

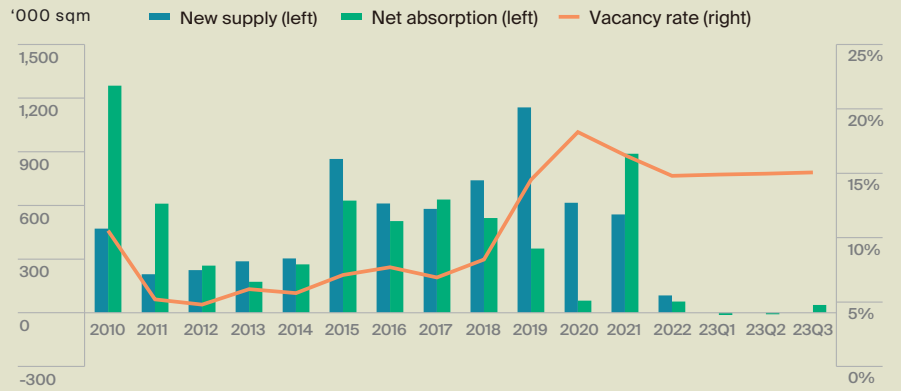
Supply and Demand

► Net absorption returns to positive territory as demand for new leases rises

In Q3, the office project in Phase II of the Beijing National Convention Centre, located in the OGV business district, was completed and delivered. The office building has a total GFA of 65,430 sqm and consists of three buildings, A, B and C, with 12 floors each, of which floors 4 to 12 are office floors.

In Q3, the average vacancy rate of Grade A offices in the city rose by 0.1 percentage point QoQ to 15.1%. Market demand for new leases rose, and as a result, Beijing's net absorption of Grade A office space returned to a positive level of 43,265 sqm. In terms of leasing transactions, the TMT and financial sectors continued to gain momentum during the quarter, comprising more than 50% of absorption. Companies in a wide range of sectors resumed business activity and sought to expand, further increasing demand for Grade A office space. The number of inspections increased QoQ, but the conversion rate was still low. Leasing activity in the Grade A office market was fuelled by

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



Source: Knight Frank Research

a rapid increase in demand for high-quality office space from emerging sectors, such as the technology, fintech and creative industries. Transactions in Q3 were concentrated mainly in the Central Business District (CBD), with

fewer transactions in other business districts. During the quarter, the Wangjing-Jiuxianqiao area attracted a large number of relocations from the technology sector.

Rents

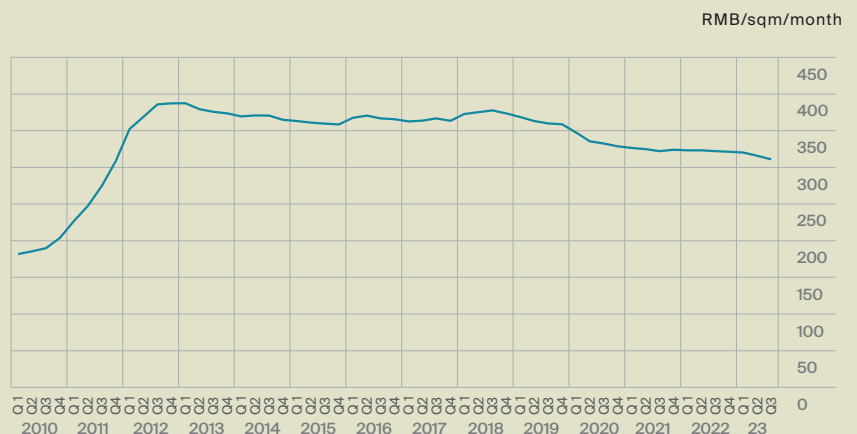
► Overall rental levels continue to dip

In Q3, the city's average Grade A office rent dropped by 1.6% QoQ to RMB310.8 per sqm per month, continuing the downward trend from the previous quarter.

Average rents in the Fengtai and Yizhuang areas remained flat compared to those in the previous quarter, while most other submarkets saw decreases of varying degrees. Those that showed a QoQ increase were the Lize and Lufthansa areas, up 2.0% and 0.2%, respectively.

As an emerging business district, Lize has attracted tenants from other districts, as well as new companies, because of its lower rents and improved infrastructure. With a large number

Fig 4: Grade-A office rental trend



Source: Knight Frank Research

of projects yet to be completed and marketed, as well as improving infrastructure and transport networks, the Lize business district is poised for even greater development potential in the future, with rents expected to rise steadily.

Table 1: Major Grade-A office leasing transactions, Q3 2023

Submarket	Building	Tenant	Area (sqm)	Type
East 2 Ring Road	Hong Kong Macao Centre	Bank of China	10,000	New Lease
Wangjing-Jiuxianqiao	China Aviation Chanrong Building	Focus Media	5,500	Renewal
Xizhimen	Beikuang Finance Building	Minmetals Capital	5,800	Expansion
Shangdi	Neusoft Building	Didi Global Inc.	4,163	Relocation

Source: Knight Frank Research

Note: All transactions are subject to confirmation

Investment Market

Domestic companies are active

Domestic investors were active in the office investment market in Q3, with four en-bloc transactions recorded during the quarter, all of which were acquired by domestic companies. The four transactions are located in Zhongguancun, South Second Ring Road Youanmen, Lufthansa and Andingmen areas. Zhongguancun and Lufthansa areas have well-established office clusters, and the South Second Ring Road is conveniently located just 1.3 kilometres from Beijing South Railway Station. The subject properties are mainly office buildings, over 15

years old and conveniently located in mature business areas. The properties have good accessibility, but because of their age, the selling prices are relatively low, so there is potential for renovation and appreciation in value.

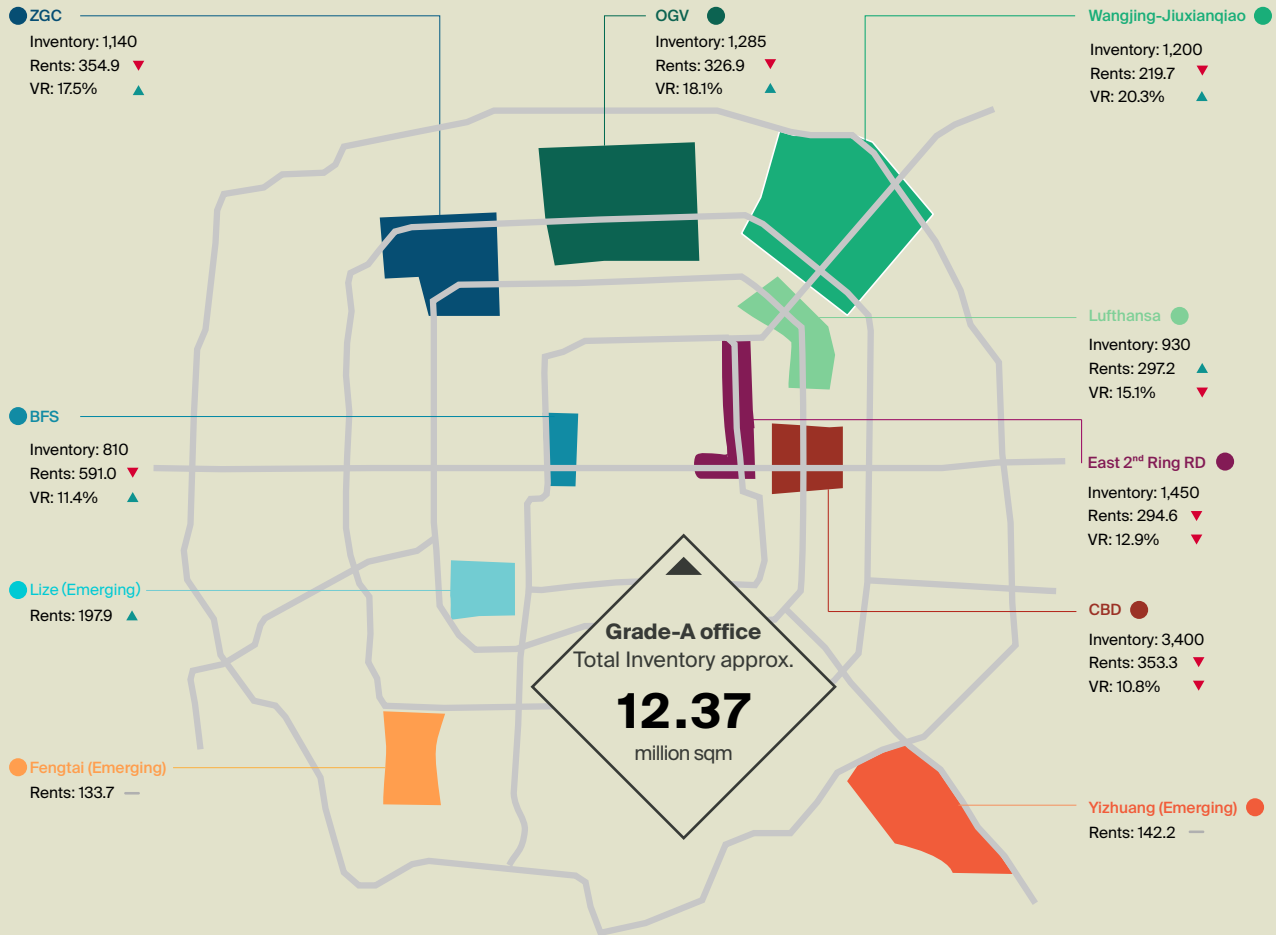
On 23 August, Daheng Technology sold the 9th and 10th floors of the North Block of Daheng Technology Building, in the Zhongguancun area, for RMB177.4 million. Located near Wanquanhe Bridge on the North Fourth Ring Road, Daheng Technology Building was built in 2007 and has a

sold area of approximately 4,264 sqm designated for office use. The buyer is Zhongke Runyu Environmental Protection Technology Co.

On 28 September, Joy City transferred Beijing COFCO Landmark Plaza to China Post Life for RMB4.256 billion. The project comprises three office buildings (with a total gross floor area of approximately 81,454 sqm) and 377 car-park spaces located at Andingmenwai Street in Dongcheng District, Beijing.

Beijing Grade-A office market dashboard Q3 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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