

Beijing Grade-A Office Market Report



Q3 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 demand picks up slightly

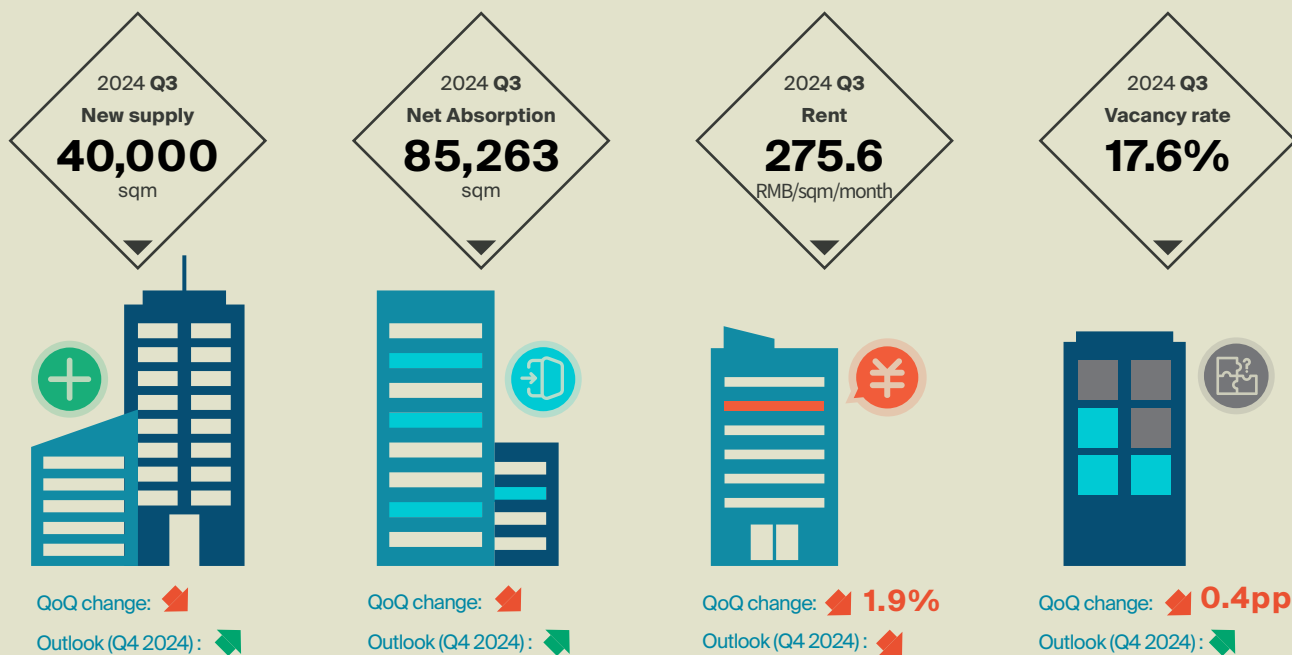
In the third quarter of 2024 (Q3 2024), the Beijing office market showed positive signs of recovery, with a continued reduction in the vacancy rate and growth in net absorption reflecting the market's pick-up trend, despite the decline in rents. The city's average Grade-A rental level dropped by 1.9% QoQ to RMB275.6 per sqm per month. The vacancy rate continued to decline by 0.4 percentage points QoQ to 17.6% in Q3, following the decline in Q2. Activity in Beijing's Grade-A office leasing market increased, with net

absorption remaining at a relatively high level of 85,263 sqm, following a return to positive territory in Q2. In terms of new supply, the completion and delivery of the Beijing Hunan Investment Tower in the Lize area saw the city's Grade-A office stock rise to 13.116 million sqm.

It has become a norm in the office market for companies to reduce space and improve cost efficiency. As rental levels continue to fall, some companies are looking for more cost-effective buildings to upgrade their

location and office quality. Demand for office relocation is therefore expected to rise in the coming quarters. In the fourth quarter (Q4), two new Grade-A office projects will be completed and delivered, bringing approximately 140,000 sqm of office space to the market, resulting in a significant increase in new supply. Under the pressure of increased supply, rents are expected to continue to fall in Q4, and this will continue to increase the overall vacancy rate in the market.

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

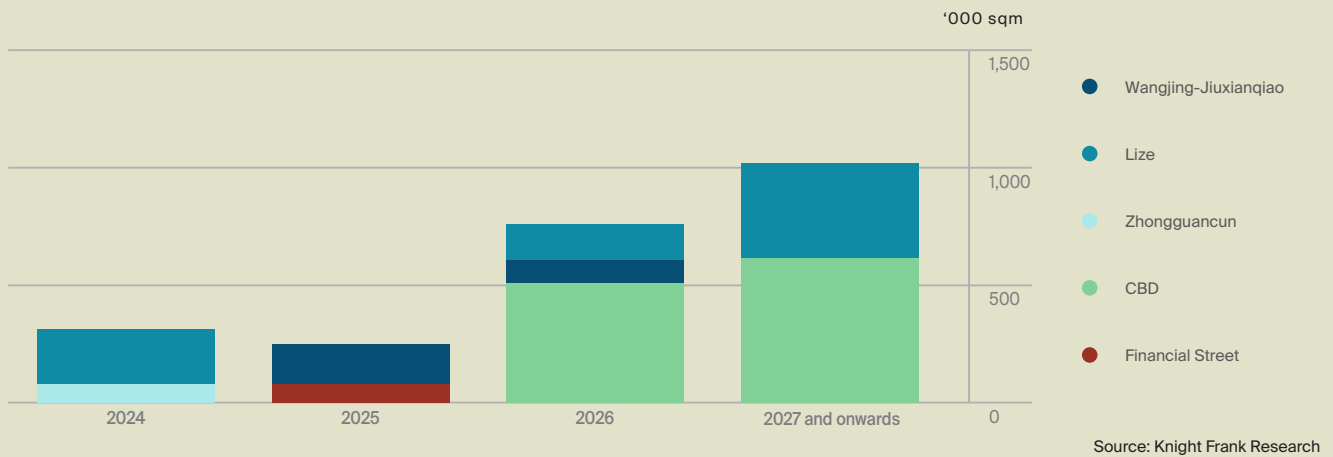


Source: Knight Frank Research

[1] Rent refers to average effective rent

[2] pp refers to percentage point

Fig 2: Beijing office development pipeline, 2024-2027 and onwards



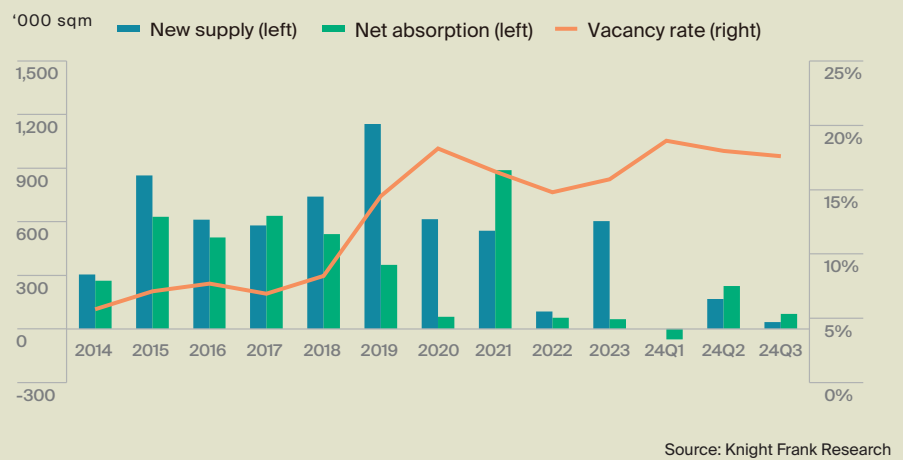
Supply and Demand

► High-tech sector tenants as a key driver of market activity

In Q3, one new project was completed and delivered in the Beijing Grade-A office leasing market, namely Beijing Hunan Investment Tower, in the Lize area, providing approximately 40,000 sqm of office space. Two new projects are expected to be completed and delivered in Q4: Dinghao DH3 Tower B in the Zhongguancun area, and National Financial Information Building in the Lize area. Dinghao DH3 will provide approximately 80,000 sqm of office space, and National Financial Information Building will have a total gross floor area (GFA) of approximately 230,000 sqm, 60,000 sqm of which is expected to be office space for leasing to the public, with the remaining being owner-occupied space.

Market activity increased during Q3 because of continued price-for-volume measures and more aggressive leasing policies by office landlords. This year, demand for new leases from state-owned and central enterprises and the relocation of large tenants has increased, absorbing a certain amount of vacant space and boosting the market at the same time. As a result of these factors, the city's

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



Grade-A office vacancy rate fell by 0.4 percentage point QoQ to 17.6% in Q3, with net absorption of 85,263 sqm.

In Q3, there was a significant increase in the number of site inspections in some office sub-markets, with clients mainly in the high-tech industry. Since last year, Beijing put forward policies of comprehensively promoting the digitalisation of the industry, which

has gradually impacted the office market. Although market activity has increased, market demand has involved mainly relocations. New demand is still insufficient and has had a limited effect on the overall office space vacancy rate. Coupled with the new supply to be added in Q4, the vacancy rate is expected to increase in the next quarter.

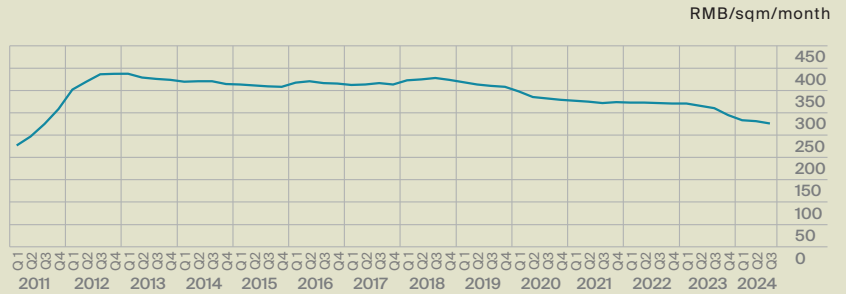
Rents

► Rental rates remain on a downward trend

Rental levels in the Grade-A office market maintained their downward trend in Q3, dropping 1.9% QoQ to RMB275.6 per sqm per month. Landlords' price-for-volume measures are expected to continue for some time, making it difficult for the city's average rent to rebound in the near future.

Different sub-markets showed varying rental trends. The Wangjing-Jiuxianqiao segment continued the Q2 rebound trend, with rents continuing to rise. The Wangjing-Jiuxianqiao segment saw a significant increase in the number of site inspections and transactions in Q3, mainly from technology companies. The Wangjing-Jiuxianqiao segment was more active in Q3, as it is traditionally popular with technology companies, and rents were significantly lower than those in the Zhongguancun segment, another popular location for technology companies. Rental levels in other areas declined to varying degrees. In the future, as the Beijing office market varies in terms of the main types of tenants in different areas, the changes in demand and rents in the sub-markets are expected to generate greater divergence.

Fig 4: Grade-A office rental trend



Source: Knight Frank Research

Table 1: Major Grade-A office leasing transactions, Q3 2024

Submarket	Building	Tenant	Area (sqm)	Type
East 2 Ring	Cinda Centre	China Investment	40,000	New Lease
BFS	Taikang Life Mansion	Postal Savings Bank of China	16,500	New Lease
CBD	Gemdale Plaza	CCCC 4 th Engineering	9,600	Renewal
Lize	Lijin Centre	State Grid	10,000	New Lease
Wangjing-Jiuxianqiao	East Bay International Centre	Yiche.com	6,200	Relocation

Source: Knight Frank Research

Note: All transactions are subject to confirmation

Investment Market

► En-block transactions led by domestic investors

In Q3, two en-block transactions were recorded in the Beijing office market, with domestic investors as the major buyers.

On 23 July, Ali Pictures purchased a 70% stake in the Huayi Headquarter Building property from Huayi Entertainment, an asset of the company's Jiali Culture, for a total consideration of RMB350 million.

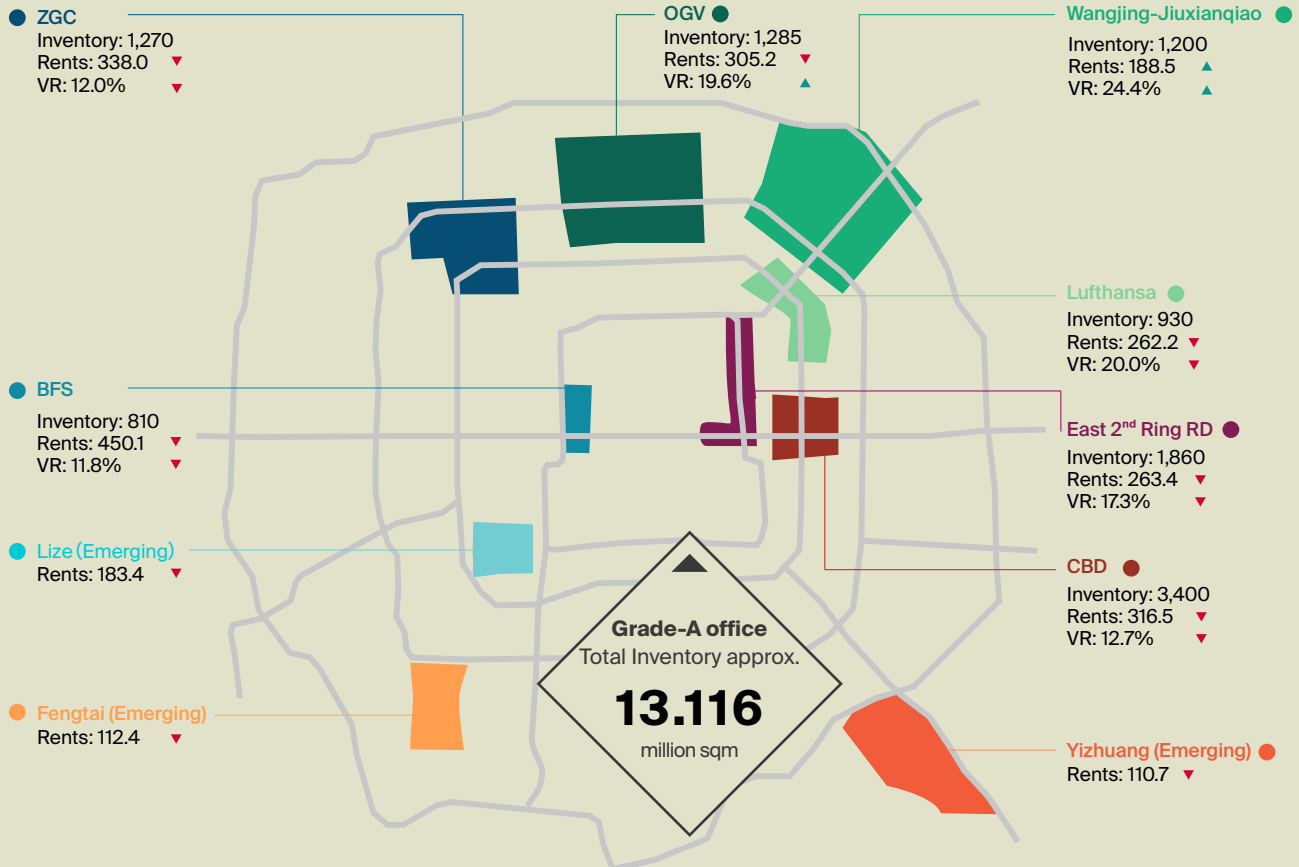
The property is a mixed-use office building located on Xinyuan South Road in Chaoyang District.

On 31 July, Xinhua.net increased its investment in Guojin Ltd. by RMB1 billion and now holds an 85.05% equity stake in Guojin. Guojin is the property owner and operator of the Lize National Financial Information Building. Guojin intends to establish

a new project company, which will hold ownership of its properties of the National Financial Information Building, with an appraised value of not less than RMB1,050 million and covering an area of not less than 20,000 sqm. This includes the ownership of the 5th to 6th floors and 10th to 18th floors of the East Tower and the relevant ancillary facilities, which will belong to Xinhua.net.

Beijing Grade-A office market dashboard Q3 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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