Beijing Grade-A Office Market Report

Q4 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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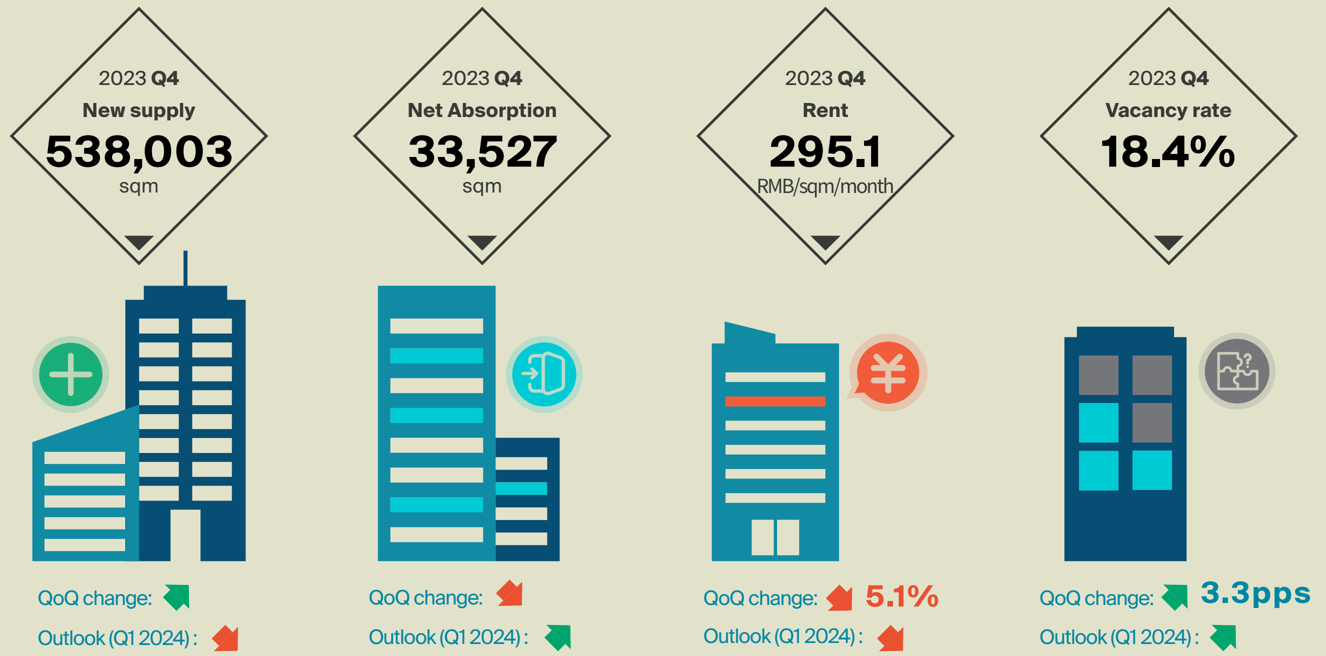
Overview and Outlook

Slowing new leasing demand

In the fourth quarter (Q4), influenced by the global economic slowdown, Beijing's Grade A office market continued its contraction trend, which started earlier in 2023. Although there was a significant growth in new supply this year, growth in leasing demand slowed down, resulting in an overall market decline. Six new Grade A office buildings were completed, adding a total of 538,003 sqm of office space to the market. As at the end of Q4 2023, the city's Grade A office stock had risen to 12.91 million sqm. In Q4, the average rent for Grade A offices in Beijing decreased by 5.1% quarter on quarter (QoQ), reaching RMB295.1 per sqm per month. Towards the end of the year, there was a significant reduction in economic activity due to seasonality, leading to a slowdown in new leasing demand and some transactions being delayed until Q1 2024. As a result, the net absorption in Q4 decreased significantly QoQ. The average vacancy rate in the city also increased by 3.3 percentage points QoQ to 18.4%.

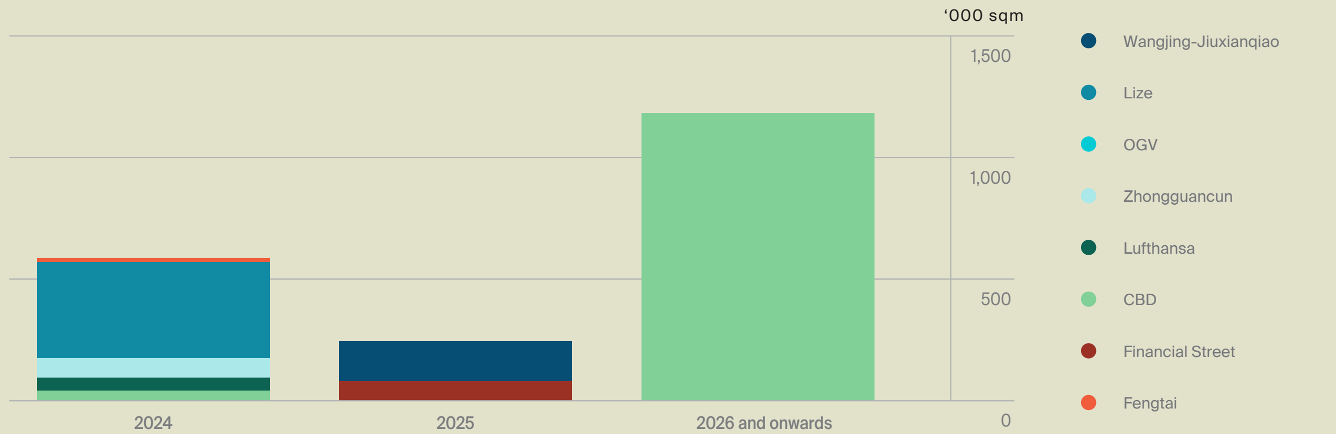
Looking ahead to 2024, the Beijing office market will see approximately 580,000 sqm of new projects entering the market. We expect the vacancy rate to rise in Q1 2024 and rents to continue to decline. Despite a series of economic stimulus policies issued by the government in H2 2023, the market remained in a cautious wait-and-see phase due to prolonged sluggishness in recent years. Therefore, the positive impact of these policies on the market is expected to gradually emerge only in H2 2024.

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, 2024-2026 and onwards



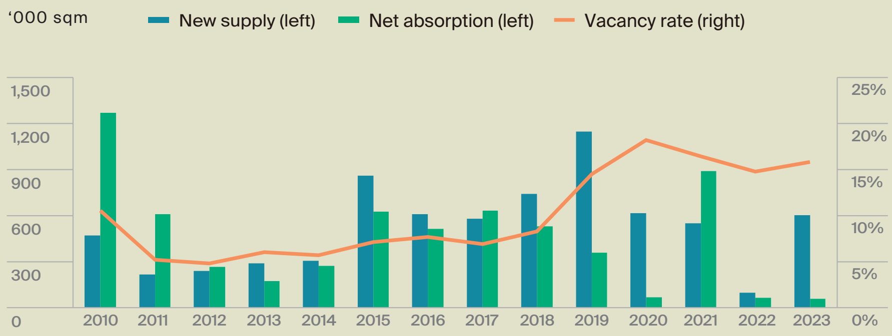
Source: Knight Frank Research

Supply and Demand

The market is in a cautious wait-and-see phase

In Q4, a total of six newly completed projects entered the market, located in the East 2 Ring Road, Zhongguancun, Tongzhou and Shijingshan areas, adding a total of 538,003 sqm of office space to the market. Influenced by the pandemic and sluggish market sentiment, projects scheduled for delivery this year were concentrated towards the end of the year, which to some extent increased the overall vacancy rate. The city's average vacancy rate for Grade A buildings increased by 3.3 percentage points QoQ to 18.4%. In Q1 2024, Lijin Financial Centre, in the Lize area, is expected to be completed and delivered. Buildings A and B will be used as office towers, with a total office GFA of approximately 73,000 sqm.

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



Source: Knight Frank Research

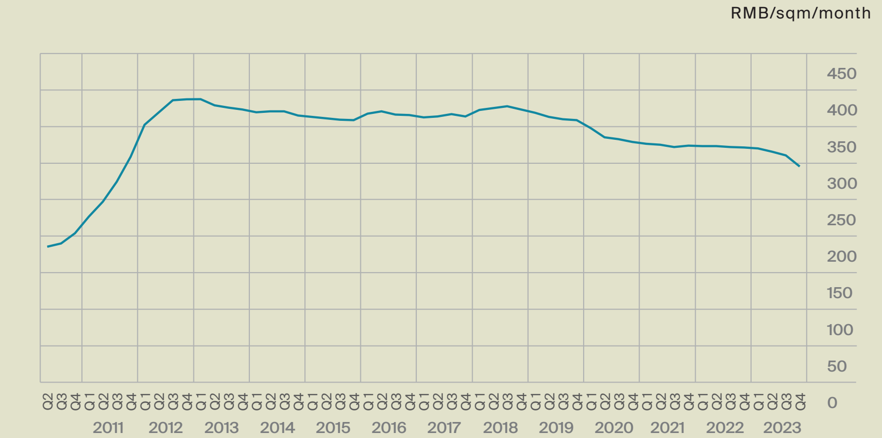
In Q4, leasing demand in the market slowed down. On one hand, to maintain their operations, many tenants tended to adopt conservative leasing plans and downsized when renewing their leases at the same location. On the other hand, to reduce their vacancy rates, landlords were more inclined to offer existing tenants lower rents to drive lease renewals. Therefore, more landlords and tenants reached agreements to renew leases at the same location during the quarter. Relocating tenants generally chose more cost-effective office buildings in their original districts, showing less willingness to move to other areas. The net absorption of Grade A office space in Beijing decreased to 33,527 sqm in Q4, and the annual net absorption for FY 2023 was 55,873 sqm, a decrease of 11% YoY.

Rents

Average rent falls below RMB300 per sqm per month

In Q4 2023, the average rent for Grade A offices in the city dropped by 5.1% QoQ, reaching RMB295.1 per sqm per month and dropping 8.2% YoY. There were three main reasons for the overall decline in rents: First, there was the seasonal effect as Q4 is typically a slow season in the market, resulting in reduced leasing demand, so many landlords chose to lower rents in Q4 to decrease the vacancy rate. Second was the impact of sluggish market trends. Since 2019, rents have been consistently decreasing, leading to generally lower expectations among landlords. As a result, they adjusted rents in line with the expected market decline. Third, the cost and risk of new leases for businesses are relatively high, so in the context of landlords reducing rents, many enterprises

Fig 4: Grade-A office rental trend



Source: Knight Frank Research

chose to renew their leases at their current location with lower rent.

In Q4, among mature areas, the East 2 Ring Road and Olympic Village markets were influenced by new projects entering the market in H2 2023, resulting in an increase of 4.3% and 3.7% QoQ, respectively. BFS, CBD, Lufthansa and Zhongguancun experienced varying degrees of decline. Rents in emerging areas saw a slight increase, with Lize seeing the largest increase of 12.1% YoY and the neighbouring Fengtai area rising by 5.6% YoY. With the development of Beijing's transportation network, businesses are more inclined to choose emerging business districts that have newer buildings and better support facilities with lower rents.

Table 1: Major Grade-A office leasing transactions, Q4 2023

Submarket	Building	Tenant	Area (sqm)	Type
Shangdi	Dongsheng Technology Park Phase II	DeepGlint	7,000	New Lease
Other	Xinchengshi Plaza	17 House	10,000	New Lease
Wangjing& Jiuxianqiao	UBP	Amazon	8,000	Renewal
Olympic Village	Hengyi Tower	Little Red Book	7,000	Expansion

Source: Knight Frank Research

Note: All transactions are subject to confirmation

Investment Market

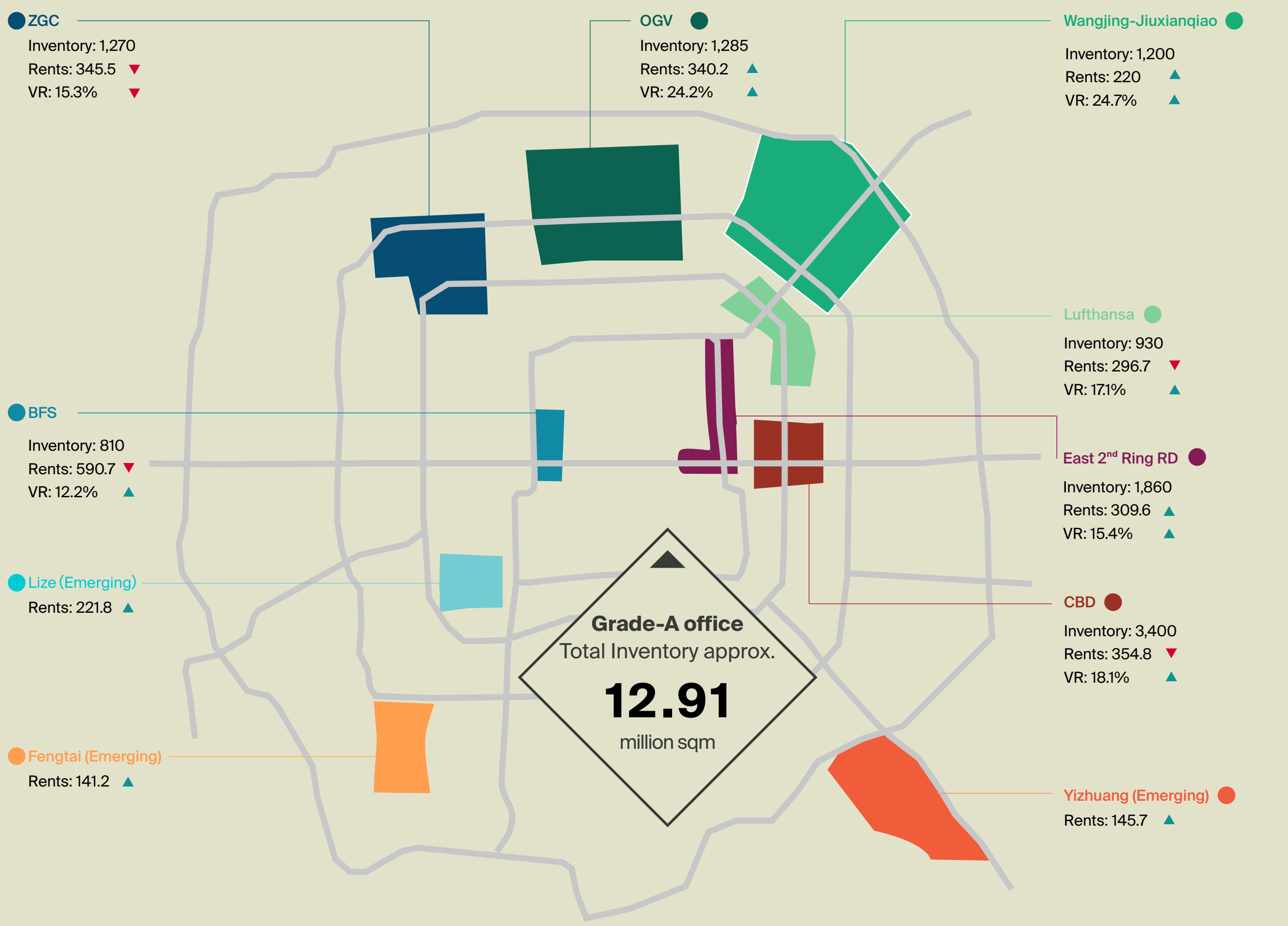
Active office sector

In Q4, Beijing's en-bloc office investment market was active, and office buildings continued to attract more attention than other property types. Three transactions were recorded in the en-bloc office investment market in Q4.

On 10 November, Shaanxi Huabin Real Estate transferred the 15th–17th floors of Block A and the 5th floor of Block B, as well as 11 underground parking spaces, in Beijing Galaxy SOHO, in Chaoyangmen, Dongcheng District, to Imperial Industrial Holdings. The transfer price is unknown at present. Galaxy SOHO is a landmark mixed-use property located in the Chaoyangmen neighbourhood of Beijing. A total area of 10,652.85 sqm was transferred.

Beijing Grade-A office market dashboard Q4 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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