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Savills World Research
Beijing

Briefing
Office sector

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Image: CBD area, Chaoyang district

SUMMARY

City-wide vacancy rates hovered at the lowest level in China despite the market receiving one sizable project during this quarter. Meanwhile, net take-up rose to the highest level of the past ten quarters.

- Wangjing SOHO Tower 3, the first supply seen in Wangjing area since 2011, was handed over in the third quarter adding 124,000 sq m of office space to the market. As a result, total leasable stock expanded to approximately 9.5 million sq m.
- Net take-up surged to 123,000 sq m in Q3/2014 up from 87,000 sq m in the previous quarter recording the highest growth seen over the past 10 quarters and doubling that of FY2013.
- City-wide vacancy rates stabilised at 3.5%, remaining the lowest level in Mainland China even though one sizable project entered the market.
- Rents appreciated for the second consecutive quarter by 0.9% quarter-on-quarter (QoQ) to RMB316.8 per sq m per month, representing a year-on-year (YoY) growth of 1.0%.
- The situation of under-supply seen over the past four years is expected to change in the last quarter of 2014. Six new projects are scheduled to be handed over, bringing a total office GFA of 335,000 sq m, nearly 50% more than the annual supply between 2010 and 2013.

"Rents appreciated for the second consecutive quarter as overall demand remained stable." Joan Wang, Savills Research

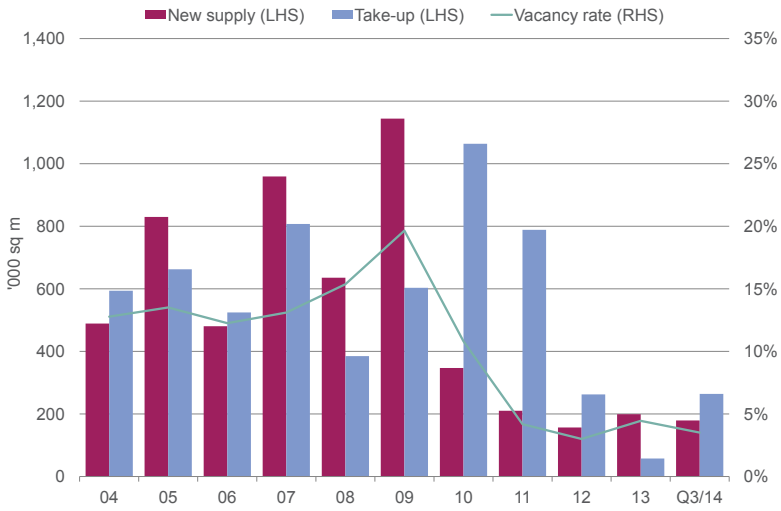
Supply, net take-up and vacancy rate

In the third quarter, the Grade A office market received its first new supply in the Wangjing area since 2011. Wangjing SOHO Tower 3 was handed over, adding 124,000 sq m of office space. As a result, leasable Grade A office stock expanded to approximately 9.5 million sq m, still the largest market in Mainland China.

With Wangjing SOHO Tower 1 and Tower 2 already completed, Tower 3 was handed over in September. Developed by SOHO China, Wangjing SOHO has a total GFA of 520,000 sq m with office and retail components contributing around 364,000 sq m and 32,000 sq m respectively. Unlike Tower 1 and Tower 2 which were sold as strata-title, Tower 3 is held by SOHO China for leasing. Strong demand from IT and high-tech and manufacturing companies in Wangjing office properties has seen Tower 3 achieve a positive pre-commitment rate of over 50%. Major tenants include Hammer Technology and Beijing Chukong Technology Co. Ltd.

GRAPH 1

Supply, net take-up and vacancy rate, 2004–Q3/2014



Source: Savills Research

TABLE 1

Grade A office leasing market key indicators, Q3/2014

	Stock (sq m)	Vacancy rate (%)	Take-up (sq m)	Supply (sq m)	Rent (RMB per sq m per month)
Q3/2014	9,515,000	3.5	123,000	124,000	316.8
QoQ change (%/ppts)	+1.3	0	+40.1	122%	+0.9
YoY change (%/ppts)	+3.6	0	-	152%	+1.0

Source: Savills Research

TABLE 2

New supply – Wangjing SOHO Towers 3

Location	Wangjing
Owner	SOHO China
Office GFA (sq m)	124,000
No. of storeys	44
Ceiling height (m)	3.6-4.2
Raised floor (mm)	80
Passenger lifts	29
Car park	1,809
Asking rent	RMB210-240 per sq m per month
Management fee	20 (exclusive of air conditioner fee)
Major tenants	Hammer Technology, Beijing Chukong Technology Co. Ltd. and CJ

Source: Savills Research

Demand remained stable as net take-up surged to its highest level in 10 quarters at 123,000 sq m in Q3/2014, up from 87,000 sq m in the previous quarter and doubling the figure in FY2013. As a result, year-to-date (YTD) net take-up totalled 264,000 sq m, nearly five times the total in 2013.

Supported by positive pre-commitment rates of Wangjing SOHO Tower 3, the Wangjing area witnessed the highest net take-up of 66,000 sq m, accounting for more than half of the city-wide total. Meanwhile, improved occupancy rates in the high-zone area of Fortune Financial Centre launched in Q4/2013 combined with stable performances in other existing projects saw the CBD area record a net take-up of 39,000 sq m, the second highest in the city.

Financial, IT and high-tech and professional services companies were the major demand drivers in the third quarter, collectively responsible for nearly 70% of all recorded transactions.

The financial sector continued to record the highest proportion of these volumes. IT and high-tech continued to outperform in the market, with representative deals including Alibaba's commitment to approximately 16,000 sq m in Wangjing Shoukai Plaza. Meanwhile domestic companies, particularly the private sector, continued to dominate market demand, responsible for 80% of recorded transactions. Demand from overseas companies continued to be rather weak as companies remained cautious about expansion plans.

Despite the launch of one sizable project, the support of stable demand saw city-wide vacancy rates stabilise at 3.5%, remaining the lowest level in the country. Largely a result of improved occupancy rates in recently launched projects, Beijing's CBD witnessed the largest fall in vacancy rates, dropping 1.7 percentage points (ppts) QoQ to 3.1%. Non-prime area vacancy rates grew 4.4 ppts QoQ to 7.0%, a result of new supply.

Rents

Rents appreciated, for the second consecutive quarter, by 0.9% QoQ to RMB316.8 per sq m per month, representing a YoY growth of 1.0%. Rising demand, combined with limited new supply, saw all submarkets witness rental growth ranging from 0.3% to 1.9%.

Supported by the improved performance of several projects, East Second Ring Road witnessed the highest increase among all the submarkets, with rents appreciating 1.6% QoQ to RMB277.6 per sq m per month. Meanwhile Beijing CBD, the most desirable area for many corporations, continued to see rents appreciate 1.4% QoQ to RMB363.7 per sq m per month.

Submarket rents and vacancy rates

Traditional business districts

In the third quarter, the CBD performed well in three key indicators: rent, occupancy rate and net take-up as this remains a desirable location for many enterprises. As a result of insufficient new supply and steady demand, CBD rents have continued to rise with average rents increasing 1.4% QoQ to RMB363.7 sq m per month, a similar increase to that seen last quarter. CBD net take-up reached nearly 39,000 sq m, which accounted for more the 30% of the entire recorded net absorption, the highest level of all traditional submarkets. No new supply and the continuous absorption of existing space has seen overall vacancy rates fall 1.7 ppts to 3.1%.

Demand in Beijing Financial Street (BFS) remained strong, resulting in the highest rent levels in the overall market and the second lowest vacancy rates. Office rents recorded a 0.4% QoQ growth to RMB512.0 per sq m per month while vacancy rates remained stable at 1.2%. Strong demand in BFS office market was also seen in the high land prices in the area. One transaction saw China Huarong Asset Management Co., Ltd. successfully win the Financial Street Huajia Hutong plot on 20 August 2014. The total transaction value reached RMB7.4 billion, with the actual accommodation value recorded at

TABLE 3

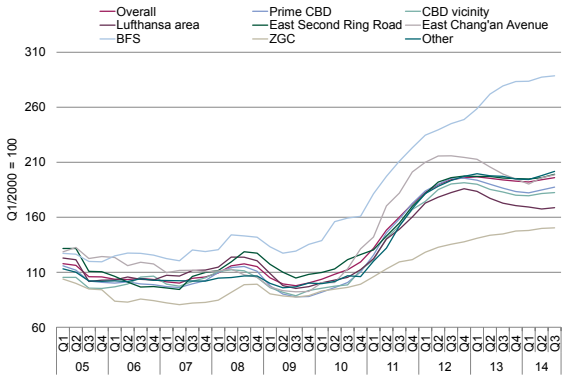
Major leasing transactions, Q3/2014

Company	Building	Location	GFA (sq m)	New lease/ renewal
Alibaba	Wangjing Shoukai Plaza	Wangjing	16,000	New lease
Huarong securities	Zhaoyang Plaza	CBD vicinity	10,000	New lease
Hammer technology	Wangjing SOHO Tower 3	Wangjing	8,000	New lease
China Development Bank	Yuanyang Building	BFS	8,000	Renewal
CITIC Prudential Life Insurance Company	World Financial Centre	CBD	6,000	Renewal
Beijing Kangda Law Firm	Shoukai Xingfu Plaza	CBD vicinity	5,000	New lease
Baker Hughs	Guohua Investment Plaza	East 2nd Ring Road	4,000	New lease

Source: Savills Research

GRAPH 2

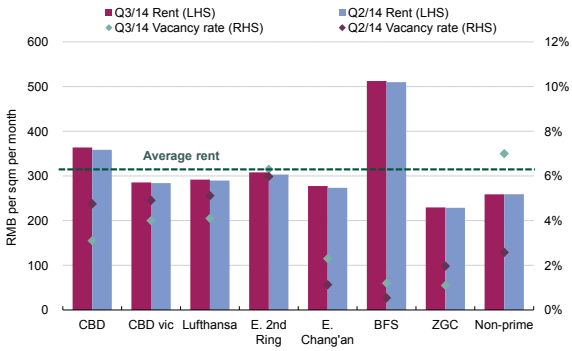
Grade A office rental indices, Q1/2005–Q3/2014



Source: Savills Research

GRAPH 3

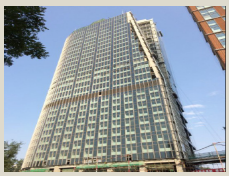
Submarket rents and vacancy rates, Q2/2014 vs Q3/2014



Source: Savills Research

TABLE 4

Future project focus

Project name	Guanghualu SOHO II	Nuo Centre
		
Location	CBD	Lufthansa
Owner	SOHO China	Beijing Tourism Group
Office GFA (sq m)	63,000	30,000
No. of storeys	14	15 (11F-26F)
Floor plate (sq m)	Approx.780-1400	1,860-1,920
Whole-floor efficiency (%)	68%	67%
Ceiling height (m)	3.85	2.65-3.6
Raised floor (mm)	80	100
Passenger lifts	34	9
Car park	768	745
Asking rent	RMB300-330 per sq m per month	RMB450 per sq m per month
Management fee	RMB20 per sq m per month (excl air conditioner fee)	RMB33 per sq m per month

Source: Savills Research

TABLE 5

Future supply, Q4/2014

Project (EN)	Project (CN)	Completion	Submarket	Leasable office space (sq m)	Self-use space (sq m)
Posco Centre	浦项中心	Q4	Wangjing	74,000	15,000
Guanghualu SOHO II	光华路SOHO2号	Q4	CBD	63,000	-
Dreamsfount 35th	锦什坊街叁拾伍号	Q4	BFS	59,000	-
Raycom Infotech Park – Tower B	融科资讯中心B座	Q4	ZGC	58,000	-
ZGC Internet Financial Centre	中关村互联网金融中心	Q4	ZGC	51,000	-
Nuo Centre	诺金中心	Q4	Lufthansa	30,000	

Source: Savills Research

nearly RMB100,000 per sq m. This is considered the 'land king' in China in terms of accommodation value in 2014, with premium rates reaching 110%.

ZGC recorded the lowest rents of any submarket as IT and high-tech industry, with their comparatively lower affordability than financial and professional services, continued to make up a high proportion of the tenant base in the area. However, supported by robust demand combined with limited availability, ZGC rents appreciated 0.3% to QoQ to RMB229.6 per sq m per month. Vacancy rates continued to decrease, falling 0.9 of a ppt to 1.1%, recording the lowest level in the Beijing Grade A office market.

Non-prime markets

Supported by strong demand, overall average rent rates in non-prime markets grew 1.9% QoQ to RMB259.0 per sq m per month. Meanwhile, vacancy rates increased to 7.0%, up 4.4% QoQ, largely a result of new supply.

Wangjing area welcomed its first supply since 2011, with the completion of Wangjing SOHO Tower 3, bringing an office GFA of 124,000 sq m to the submarket and expanding Wangjing Grade A & B stock to 661,000 sq m. Wangjing remained the most active in terms of transaction activity among emerging areas which can be attributed to quality leasable space and low rents. With its convenient accessibility from the CBD and Beijing International Airport, Wangjing area remains a popular location for many manufacturing, IT and high-tech and e-commerce enterprises with weaker affordability but make up a significant proportion of demand. As Wangjing area transitions into a mature business district, effective rents are expected to continue an upward trend and increased 1.9% QoQ to RMB228.8 per sq m per month while vacancy rates rose 8.8 ppts to 11.2%, largely a result of the vacant space within the new project.

Market outlook

The situation of under-supply experienced over the past four years is expected to change in the Q4/2014 with six new projects scheduled to be handed over, adding a total office GFA of 335,000 sq m, nearly 50% more than the annum supply between 2010 and 2013.

Limited new supply in western markets during the past few years is expected to ease, with the entry of the first new supply seen in ZGC since 2011. Two new projects, ZGC Internet Financial Centre and Raycom

Infotech Park (Tower B) are expected to enter ZGC area, adding 109,000 sq m. Dreamsfount 35th (BFS E9 project) is expected to be handed over within BFS, the first new supply since the beginning of 2013, adding 59,000 sq m.

Given that all the projects will be located in traditional business districts such as CBD, BFS, ZGC and Lufthansa, and hot emerging areas such as Wangjing, most projects have achieved relatively healthy pre-commitment rates of between 20% - 50%. As a result, city-wide vacancy rate is expected to largely stabilise at around 5%, still the lowest level across China.

Meanwhile, rents are predicted to hover at current levels until the market welcomes another supply peak between 2015 and 2018 when annum supply is expected to surge to 843,000 sq m. This will see landlords forced to offer rental discounts under mounting competition. ■

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