Briefing
Office sector

January 2015

Image: Posco Centre, Wangjing area, Chaoyang district

SUMMARY

The supply shortage witnessed in core areas over the past four years eased during Q4/2014, with four new projects handed over. Despite this, rents maintained a moderate appreciation, supported by steady demand.

- Grade A office leasable stock increased by 272,000 sq m to 9.8 million sq m, as four projects were handed over in Q4/2014. As a result, annual supply totalled 451,000 sq m, 1.4 times the average annual supply witnessed between 2011 and 2013.

- Net take-up increased to 130,000 sq m in Q4/2014, up from 123,000 sq m in the previous quarter. This was largely due to stable demand, stemming from an increasingly stable economy. Consequently, total net take-up achieved a three-year high of 394,000 sq m, nearly seven times the take-up witnessed in 2013.

- City-wide vacancy rates increased 1.3 percentage points (ppts) to 4.8%, up 0.4 ppt year-on-year (YoY) due to new supply.

- Grade A office rents grew 0.5% QoQ and 2.2% YoY to RMB317.1 per sq m per month by the end of 2014, largely supported by landlords' bargaining power in traditional areas.

- The Grade A office market is expected to witness a supply influx in 2015, with ten projects scheduled to hand over a total GFA of 606,000 sq m. Both occupancy rates and rents are expected to moderately decline due to the increase in supply.

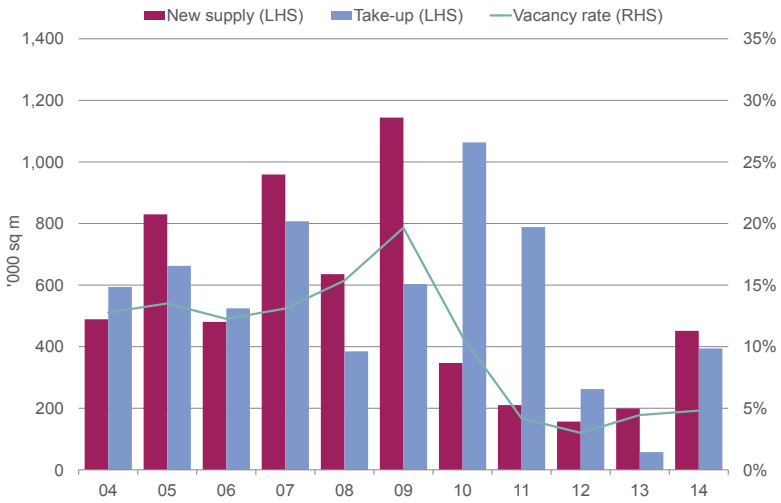
"An increasingly stable economy, coupled with growing confidence, influenced demand, with net take-up reaching its highest level for the past three years." Joan Wang, Savills Research

Supply, net take-up and vacancy rate

The undersupply situation in traditional business districts eased in the fourth quarter of 2014, with four new projects – Guanghua Lu SOHO II (光华路SOHO2号), ZGC Internet Financial Centre (中关村互联网金融中心), Raycom Infotech Park Tower B (融科资讯中心B座) and Posco Centre (浦项中心), located in CBD, ZGC, ZGC and Wangjing, respectively, handed over, adding a total office GFA of 272,000 sq m to the Beijing Grade A office market. Another two projects, Dreamsfount 35 (锦什坊街柒号) located in the BFS area and Nuo Centre (诺金中心) located in the Wangjing area, postponed their completion dates to March 2015.

GRAPH 1

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



Source: Savills Research

TABLE 1

Grade A office leasing market key indicators, Q4/2014

	Stock (sq m)	Vacancy rate (%)	Take-up (sq m)	Supply (sq m)	Rent (RMB per sq m per month)
Q4/2014	9,787,000	4.8	130,000	272,000	317.1
QoQ change (%/ppts)	+2.9	+1.3	+6.2	+120.2	+0.5
YoY change (%/ppts)	+4.8	+0.4	+140.6	+81.4	+2.2

Source: Savills Research

TABLE 2

New supply, Q4/2014

Project name	ZGC Internet Financial Centre	Guanghualu SOHO II	Raycom Infotech Park Tower B	Posco Centre
				
Location	ZGC	CBD	ZGC	Wangjing
Completion date	Oct. 2014	Nov. 2014	Dec. 2014	Dec. 2014
Landlord	Beijing Science Park Development	SOHO China	Raycom	Posco Group
Grade	Grade A	Grade A	International Grade A	Grade A
Leasable office GFA (sq m)	51,000	84,000	58,000	79,000
Floor plate (sq m)	2,100	Approx.780-1,400	3,150	1,500-2,200
PM company	DTZ	Jin Rong Property Management	Savills	Savills
Asking rent (RMB per sq m per month)	300	N/A	480	300
PM fee (RMB per sq m per month	30	20 (exclude air conditioning)	33	30

Source: Savills Research

As a result, total annual supply totalled 451,000 sq m, 1.4 times the annual average supply witnessed between 2011 and 2013, expanding total leasable stock to approximately 9.8 million sq m.

Beijing's stabilising economy, coupled with growing confidence from corporations, influenced demand. This, combined with an increase in supply, supported net take-up to reach the highest level seen since Q1/2012, achieving 130,000 sq m in Q4/2014 – up from 123,000 sq m in the last quarter. As a result, total net take-up accumulated to a three-year high of 394,000 sq m, nearly seven times that witnessed in 2013.

Financial, IT/high-tech and professional services companies continued to be the demand drivers in Q4/2014, responsible for nearly 72% of all recorded transactions. Professional services companies had a stronger appetite this quarter for new leases, while the manufacturing sector continued to shrink. Overall, financial, IT/high-tech and professional services continued to be the main source of demand, responsible for 55% of total recorded transactions in FY2014, while manufacturing firms only attributed 5% YoY, down from 13% in 2013.

Domestic companies remained the main source of demand for office space, accounting for 73% of recorded transactions in FY2014. However, in a turnaround from recent quarters, MNC activity witnessed a slight pick up in Q4/2014, accounting for 43% of recorded transactions, up from 20% in the previous quarter.

Given four new projects entered the market, city-wide vacancy rates increased 1.3 ppts QoQ to 4.8%, the highest level seen since 2012 though still the lowest level nationwide. Supported by steady demand, most submarkets maintained low vacancy rates of less than 5.0%, of which BFS recorded the lowest at 0.6%.

Rents

Landlords of projects in traditional areas continued to hold bargaining power, reflected in Grade A office rents rising for the third consecutive quarter. Grade A office rents reached RMB317.1 per sq m per month by the end of 2014, up 0.5% QoQ and 2.2% YoY.

The CBD and East Chang'an Avenue areas took the lead in rental growth in the traditional business districts, increasing 0.6% and 0.5% QoQ respectively. BFS remains the most expensive submarket, with rent averaging RMB518.0 per sq m per month.

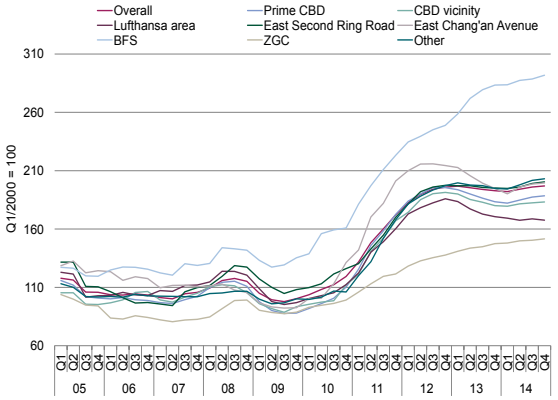
Submarket rents and vacancy rates

Traditional business districts

Guanghualu SOHO II was handed over in the last quarter of 2014, adding 84,000 sq m to the CBD and pushing vacancy rates up 3.4 ppts QoQ to 6.5%. However, as one of the three prime areas in the locality, the CBD continued to be favoured by domestic and overseas companies, achieving a total net take-up of 90,000 sq m in 2014, accounting for 23% of the city's total. Supported by stable demand, rents grew 2.8% YoY to an average of RMB363.4 per sq m per month.

GRAPH 2

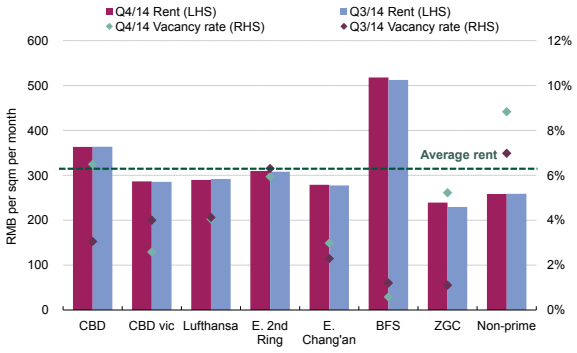
Grade A office rental indices, Q1/2005–Q4/2014



Source: Savills Research

GRAPH 3

Submarket rents and vacancy rates, Q3/2014 vs Q4/2014



Source: Savills Research

TABLE 3

Major leasing transactions, Q4/2014

Company	Building	Location	GFA (sq m)	New lease/renewal
KPMG	Pacific Century Place	CBD vicinity	26,000	New lease
Beijing Hyundai Auto Finance	Poly International Plaza Tower 1	Wangjing	14,000	Pre-lease
TOYOTA	World Financial Centre	CBD	9,000	Renewal
CapitaMalls Asia	Raffles City Beijing	East 2nd Ring Road	5,000	Renewal
Trip Advisor	Fortune Financial Centre	CBD	2,100	New lease
JD Capital	Winland Intl Financial Centre	BFS	2,000	Renewal
JLY Care	China Overseas Plaza	CBD	1,800	New lease

Source: Savills Research

Due to limited leasable space and long waiting lists of tenants waiting for renewals, BFS continued to outperform the rest of the market in terms of both rents and occupancy rates. Specifically, rents continued to take the lead in the market, reaching RMB518.0 per sq m per month, up 1.1% QoQ and 3.0% YoY, while vacancy rates fell 0.6 ppts QoQ to 0.6%, the lowest among any submarket. BFS' position as a Chinese financial hub is expected to be further strengthened, given that the Asian Infrastructure Investment Bank (AIIB) (亚洲基础设施投资银行) is expected to be established in the area in 2015 (according to the APEC meeting held in Beijing in November 2014), which will support steady demand from financial companies in the coming years. AIIB is a non-commercial, state-owned lender (政策性银行). Invested in by 21 Asian countries, with China as the largest shareholder, it focuses on financing the construction of infrastructure in Asian countries.

ZGC welcomed its first batch of new supply for five years, with the completions of ZGC Internet Financial Centre (中关村互联网金融中心) and Raycom Infotech Park – Tower B (融科资讯中心B座) adding a total of 109,000 sq m of leasable office space to this submarket. As a result, ZGC vacancy rates rose 4.1 ppts QoQ to 5.2%, up 2.9 ppts YoY. ZGC witnessed strong demand from IT and high-tech companies with total net take-up in 2014 rising to 68,000 sq m, the highest level since 2008. As a result, rents appreciated 0.7% QoQ and 2.7% YoY to RMB239.3 per sq m per month. This is mainly due to another flourishing year for the IT and high-tech industries, following a series of IPOs and financing rounds from big players such as Xiaomi and IT Juzi.

TABLE 4

Future project focus

Project name	AVIC Plaza I	Dreamsfount 35th	The Genesis	Poly International Plaza T1
				
Location	ZGC	BFS	Lufthansa	Wangjing
Owner	AVIC	SASAC	Great Ocean Group	Poly Real Estate
Office GFA (sq m)	52,000	58,500	101,000	61,000
Floor plate (sq m)	Approx.3,000	5,000	2,000-4,000	2,000
PM company	JLL	JLL	TBC	Poly Property Management Beijing Co., LTD
Asking rent	RMB 270 per sq m per month	RMB 650–700 per sq m per month	580	330
PM fee	RMB 30 per sq m per month	RMB 34 per sq m per month	TBC	RMB 33 per sq m per month

Source: Savills Research

TABLE 5

Future supply, 2015

Project (EN)	Project (CN)	Completion	Submarket	Leasable office space (sq m)
Dreamsfount 35th	锦什坊街柒号	Q1	BFS	59,000
AVIC Plaza I	中航广场一期	Q1	ZGC	52,000
Nuo Centre	诺金中心	Q1	Wangjing	30,000
Poly International Plaza T1	保利国际广场塔1	Q1	Wangjing	61,000
The Genesis	启皓北京	Q3	Lufthansa	101,000
Greenland Centre	绿地中心	Q4	Wangjing	61,000
Damei Central Plaza Tower 1	达美中心广场1座	Q4	CBD's Vicinity	39,000
Airchina Headquarter	国航总部大厦	Q4	Lufthansa	104,000
New Times Square – CSC Building	开元国际广场-中国建筑大厦	Q4	Asia-Olympic	60,000
New Times Square – SinoTrans Building	开元国际广场-中外运大厦	Q4	Asia-Olympic	40,000

Source: Savills Research

Non-prime markets

Largely supported by steady rental growth of the Wangjng area, non-prime markets saw a 0.7% increase in rents in Q4/2014, reaching an average of RMB258.5 per sq m per month, up 4.3% YoY. Meanwhile, vacancy rates in non-prime markets increased 1.8 ppt QoQ to 8.8%, up 5.8 ppts YoY, largely as a result of two new projects entering the market in the second half of 2014. Given that rents of core areas hovered at high levels, many companies (particularly those from IT and high-tech, manufacturing, and media and cultural industries) continued to relocate to non-prime areas for cost advantages. This was evidenced by the fact that nearly one third of total net take-up in 2014 was witnessed in non-prime areas.

Posco Centre, invested in by Korean manufacturing giant Posco Group and the second Grade A office project located in the Greater Wangjing CBD area (following Wangjing SOHO Tower 3), was completed this quarter, adding 79,000 sq m of leasable space to the Wangjing area and expanding Wangjing's Grade A & B office stock to 784,000 sq m by the end of 2014. Consequently, the Wangjing vacancy rate rose 3.1 ppts QoQ to 14.3%, up 12.8 ppts YoY.

As a result of a mature business ambiance, combined with improved accessibility to downtown areas with the operation of the eastern part of metro line 14 in late December, the Wangjing area saw strong demand from IT and high-tech and manufacturing companies, evidenced by quick absorption of vacant space in Wangjing SOHO Tower 3 and high occupancy rates within older projects. As a result, rents appreciated 2.4% QoQ and 4.3% YoY to RMB234.4 per sq m per month, the largest growth seen among any of Beijing's submarkets.

Market outlook

Dreamsfount 35 (锦什坊街柒号), located in the BFS area, and Nuo Centre (诺金中心), located in the Wangjing area, both postponed their completion dates to March 2015. As a result, Beijing's Grade A office market is expected to witness an influx of supply in 2015, with ten projects scheduled for hand-over, bringing a total of 606,000 sq m of office space to the market. This supply is nearly 1.2 times greater than the average supply witnessed in the last five years and is expected to enlarge total stock by 6.2%.

As a result of increased supply, city-wide vacancy rates are likely to increase to 7-8% over the coming year, despite the fact demand is predicted to move towards an average of the past four years. Meanwhile, landlords will be forced to offer rental discounts due to increased competition. Grade A office rents are expected to subtly decline 1-2% in the coming 12 months, with prices anticipated to hover around RMB310-320 per sq m per month.

Core business areas including the CBD, BFS and ZGC, are expected to remain stable in terms of vacancy rates and rents, given only 18% of new supply will be located in these areas. On the other hand, limited availability of supply in core business areas will further fuel the decentralisation trend. Wangjing and Asia-Olympic will welcome 152,000 sq m and 100,000 sq m of leasable Grade A office space, enlarging current stock by 19% and 46% respectively. Growing interest in these two areas is expected, as lower rents and favourable business environments from new completions provide promising development paths for corporations.

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