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Savills World Research
Beijing

Briefing
Office sector

April 2015

Image: Beijing Financial Street, Xicheng district

SUMMARY

Despite two new projects entering the market, city-wide vacancy rates continued to drop to just 4.2%. Meanwhile, effective rents appreciated for the fourth consecutive quarter to an average of RMB320.7 per sq m per month.

- Two new projects were handed over in the first quarter of 2015, adding an office GFA of 89,000 sq m to the market and enlarging Grade A office leasable stock to 9.88 million sq m, remaining the largest in mainland China.

- Net take-up totalled 142,000 sq m in Q1/2015, marginally up from that witnessed last quarter and up 163.5% year-on-year (YoY). This marked the sixth consecutive quarter of positive growth.

- City-wide vacancy rates fell 0.6 of a percentage point (ppt) to 4.2% quarter-on-quarter (QoQ), due to positive pre-commitment rates in new projects and further digestion of vacant space in recently-launched projects.

- Grade A office effective rents grew for the fourth consecutive quarter by 0.6% QoQ to an average of RMB320.7 per sq m per month, representing a YoY increase of 3.1%.

- The Grade A office market is expected to welcome a further seven projects this year, with a total leasable office GFA of 452,000 sq m, fuelling the decentralisation trend as approximately half of this new supply is to be located in non-prime markets. This is expected to place a downward pressure on both rents and occupancy rates in the short term. Meanwhile, traditional business areas are expected to remain stable in terms of vacancy rates and rents.

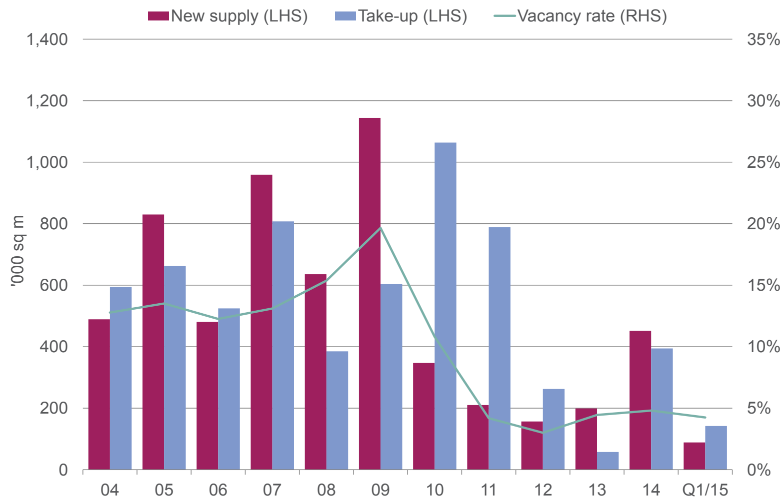
"Beijing's office market is expected to further decentralise in 2015 given nearly half of new supply will be located in non-prime markets." Joan Wang, Savills Research

Supply, net take-up and vacancy rate

The Q1/2015 saw the Grade A office market welcome two new projects with a combined office GFA of 89,000 sq m. Located in the BFS area, Dreamsfount 35th (锦什坊街柒号) was handed over in March. The project offers 59,000 sq m of Grade A office space and predictably has already achieved a positive occupancy rate given the undersupply situation of the BFS area. Nuo Centre (诺金中心) located in the Wangjing area, launched in late March, contributing 30,000 sq m of new supply to the area. The project is a mixed use complex, offering office space alongside both a five star hotel (Nuo Hotel) and business hotel (Tangram

GRAPH 1

Supply, net take-up and vacancy rate, 2004–Q1/2015



Source: Savills Research

TABLE 1

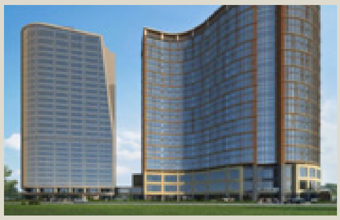
Grade A office leasing market key indicators, Q1/2015

	Stock (sq m)	Vacancy rate (%)	Take-up (sq m)	Supply (sq m)	Rent (RMB per sq m per month)
Q1/2015	9,875,000	4.2	142,000	89,000	320.7
QoQ change (%/ppts)	+0.9	-0.6	+9.0	-67.5	+0.6
YoY change (%/ppts)	+5.8	+0.3	+163.5	-	+3.1

Source: Savills Research

TABLE 2

New supply, Q1/2015

Project name	ZGC Internet Financial Centre	Guanghualu SOHO II
		
Location	BFS	Wangjing
Completion date	Q1/2015	Q1/2015
Landlord	SASAC	Beijing Tourism Group
Grade	Grade A	Grade A
Leasable office GFA (sq m)	58,500	30,000
Floor plate (sq m)	5,000	1,857-1,920
Asking rent (RMB per sq m per month)	650	450
PM fee (RMB per sq m per month	34	33

Source: Savills Research

Hotel). As a result, leasable Grade A office stock expanded to approximately 9.88 million sq m by the end of Q1/2015, remaining the largest market in Mainland China.

Despite the first quarter being marked as the traditionally slow season due to Chinese New Year, leasing transactions were largely active, with several large-size leases executed this quarter. As a result, net take-up continued its positive growth for the sixth consecutive quarter, reaching 142,000 sq m in Q1/2015, up 163.0% YoY. The majority of net take-up was contributed by projects launched in the last six months, namely Wangjing SOHO Tower 3 and Posco Centre located in Wangjing area, and Dreamsfount 35th (锦什坊街柒号) in BFS, while other older projects continued to maintain high-occupancy rates.

Q1/2015 saw financial, IT & high-tech, e-commerce and professional services companies continue to be the strongest demand drivers for Grade A office space, accounting for 73% of all recorded transactions. In contrast, demand from manufacturing companies continued to decrease, accounting for just 4% of all recorded transactions. Domestic companies began dominating demand in 2010 and have continued to do so, accounting for 75% of recorded transactions in the first quarter. On the other hand, suffering from national and global economic slowdown, overseas companies accounted for just 25% of the total.

While two new projects entered the market in Q1/2015, city-wide vacancy rate decreased 0.6 of a ppt to 4.2% compared with that seen last quarter. This was largely attributed to the positive pre-commitment rates in new projects and further digestion of vacant space in recently-launched projects. Beijing Financial Street witnessed the lowest vacancy rate of 2.0%, while other traditional business areas also recorded low vacancy rates ranging from 2.1% to 5.9%.

Rents

Grade A office rents continued to grow for the fourth consecutive quarter. Overall rents increased 0.6% to RMB320.7 per sq m per month by the end of Q1/2015, a reflection of the tightness of the market caused by undersupply.

East Chang'An Avenue registered the largest rental appreciation of 2.7% QoQ, largely due to the lack of supply in the area resulting in landlords continuing to hold the bargaining power. Traditional business areas, Beijing Financial Street and the CBD continued to command the highest rents at RMB521.0 and RMB364.7 per sq m per month, respectively.

Submarket rents and vacancy rates

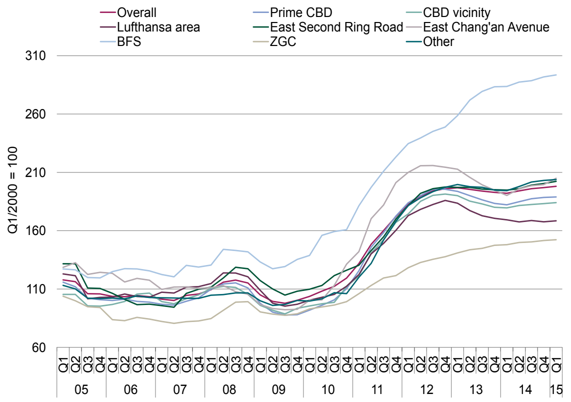
Traditional business districts

BFS welcomed is first new supply in two years, with Dreamsfount 35th being handed over in Q1/2015, contributing a total GFA of 59,000 sq m, leading to vacancy rates jumping 1.4% QoQ to 2.0%. However the new supply was inadequate to satisfy demand for the area, which was witnessed in a positive net take-up and rents increasing 0.6% QoQ to RMB521.0 per sq m.

The CBD continued to remain one of the most popular locations for many overseas corporations and leading domestic companies, due to its proximity to other businesses and ease of access. However, CBD rents largely

GRAPH 2

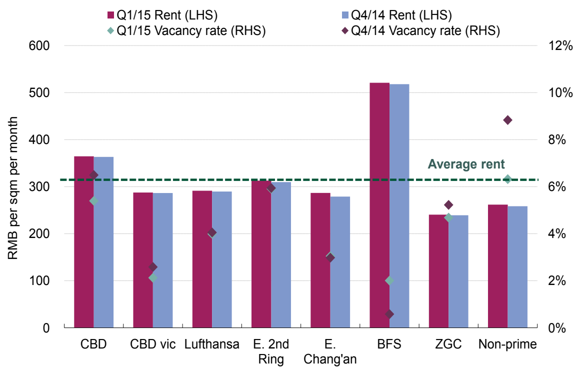
Grade A office rental indices, Q1/2005–Q1/2015



Source: Savills Research

GRAPH 3

Submarket rents and vacancy rates, Q4/2014 vs Q1/2015



Source: Savills Research

TABLE 3

Major leasing transactions, Q1/2015

Company	Building	Location	GFA (sq m)	New lease/renewal
Taikang Asset Management	The Excel Centre	BFS	4,500	New-lease
Apple	International Financial Centre	CBD	3,500	Renewal
Mizuho Bank	World Finance Centre	CBD	3,000	Renewal
Yiwang	SOHO Galaxy	East Second Ring Road Area	1,500	New lease

Source: Savills Research

remained flat, just up 0.2% QoQ to RMB364.7 per sq m per month, due to landlords' incentives to retain quality tenants. Vacancy rates witnessed a decrease of 1.1% QoQ to 5.4%, down 0.2% YoY.

ZGC continued to show a positive trend, with rents growing 0.5% QoQ to an average of RMB240.6 per sq m per month, representing a YoY appreciation of 2.9%. Strong government support for the IT and high-tech sector as well as promising developments in terms of intellectual property protection have fuelled strong demand for the area, reflected in vacancy rates dropping 0.5 of a ppt QoQ to 4.7%.

Non-prime markets

Non-prime markets experienced growth across the board inQ1/2015 with rents increasing 0.4% QoQ to an average of RMB261.9 per sq m per month, up 4.9% YoY. Meanwhile, vacancy rates in non-prime markets dropped 2.5 ppts QoQ to 6.3%, up 3.0 ppts YoY. As rents continue to rise in core locations, an increasing number of companies are willing to explore non-prime areas for their significant cost advantages, increasingly convenient accessibility and rapidly growing business atmosphere.

Wangjing welcomed new supply this quarter, with the Nuo Centre adding 30,000 sq m of Grade A office space to the market. While not enough to significantly impact the submarket this quarter, with rents increasing by 0.9 QoQ to RMB242.9 per sq m per month and vacancy rate falling by 4.8 ppts to 9.5%. The remainder of 2015 is expected to see another 122,000 sq m of new supply with Poly International Plaza T1 and Greenland Centre releasing 61,000 of new supply

TABLE 4

Future project focus, Q2/2015

Project name	AVIC Plaza I	Dreamsfount 35th
		
Location	ZGC	Wangjing
Owner	AVIC	Poly Real Estate
Office GFA (sq m)	52,000	61,000
Floor plate (sq m)	Approx.3,000	2,000
Asking rent (RMB per sq m per month)	270	330
Management fee (RMB per sq m per month)	30	33

Source: Savills Research

TABLE 5

Future supply, Q2-Q4/2015

Project (EN)	Project (CN)	Completion	Submarket	Leasable office space (sq m)
AVIC Plaza I	中航广场一期	Q2	ZGC	52,000
Poly International Plaza T1	保利国际广场 (T1)	Q2	Wangjing	61,000
Air Cchina Century Plaza	国航总部大厦	Q3	Lufthansa	78,000
Damei Central Plaza Tower 1	达美中心广场1座	Q3	CBD's Vicinity	39,000
The Genesis	启皓北京	Q4	Lufthansa	101,000
Greenland Centre	绿地中心	Q4	Wangjing	61,000
New Times Square – CSC Land Building	开元国际广场-中建大厦	Q4	Asia-Olympic	60,000

Source: Savills Research

each. Upon release this is likely to see vacancy rates rise in the short term, as well as a decline in rents as landlords are placed under increasing competition to attract tenants.

Market outlook

The remaining three quarters of 2015 will see the Grade A office market receive an influx of supply, with seven new projects scheduled for handover, adding 452,000 sq m of office GFA, 66% more than the average annual supply over the past five years.

With approximately half of new supply to be located in non-prime markets, such as Wangjing and the Asian & Olympics areas, traditional business areas are expected to remain stable in terms of vacancy rates and rents. Meanwhile, the relatively limited availability of new supply in core business areas will further fuel the decentralisation trend, with non-prime markets expected to witness decreases in both rents and occupancy rates in the short term.

By the end of the year, city-wide vacancy rates are expected to increase to approximately 7-8% as a result of this new supply. Landlords will be forced to be more competitive in pricing structures to attract tenants, which will see Grade A office rents fall to around an average of RMB310-320 per sq m per month.

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