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Savills World Research
Beijing

Briefing
Office sector

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Image: AIIB Headquarter, BFS, Xicheng district

SUMMARY

While the P2P financing sector continues to fuel demand for Grade A office space, landlords of quality projects have begun to display a hesitance towards introducing newly-launched financial companies due to their instability.

- Two new projects were handed over in the fourth quarter of 2015, adding a combined office GFA of 113,000 sq m to the market and enlarging Grade A office leasable stock to 10.1 million sq m, remaining the largest in mainland China.

- Grade A office rents remained largely stable, up only 0.5% quarter-on-quarter (QoQ) and 0.9% year-on-year (YoY) to RMB319.8 per sq m per month by the end of Q4/2015.

- Despite new supply this quarter, strong performance of other recently launched projects saw net take-up reach 110,000 sq m in Q4/2015, bringing the year's total to 420,000 sq m. Consequently, vacancy rates declined 0.1 of a percentage point (ppt) to 3.6% during the period.

- The next three years will see the Grade A office market receive an influx of new supply, with around 1.8 million sq m of office GFA scheduled to enter the market. Approximately 740,000 sq m of the new supply will be positioned in non-prime markets, namely Wangjing and Asia-Olympic. The arrival of the new supply, combined with the rapid development of suburban areas and infrastructure, is expected to speed up the decentralisation trend in the market.

"Demand is not expected to be able to absorb an influx of supply in 2016. With supply expected to outweigh demand, city-wide occupancy rates and rents are both anticipated to fall over the coming year." Jack Xiong, Savills Research & Consultancy

Supply, net take-up and vacancy rate

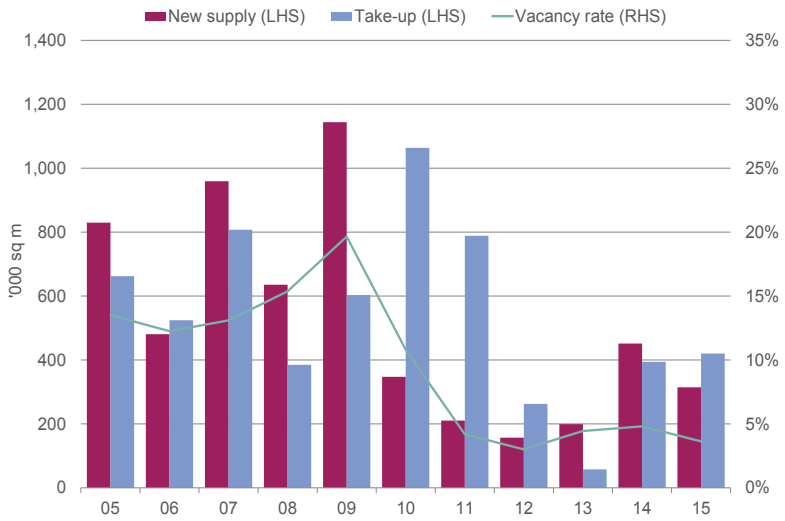
The Grade A office market welcomed two new projects in the fourth quarter of 2015, with CCT Centre (诚盈中心) located in the Wangjing area and Damei Central Plaza Towers 1 & 2 (达美中心广场1 & 2座) located in the CBD Vicinity area, contributing an office GFA of 53,000 sq m and 60,000 sq m respectively. As a result, leasable Grade A office stock expanded to approximately 10.1 million sq m by the end of Q4/2015, remaining the largest market in Mainland China.

Despite new supply, strong performance of other recently-launched projects witnessed net take-up reach 110,000 sq m in Q4/2015, bringing the year's total to 420,000 sq m.

Financial companies continued to be the strongest demand driver for Grade A office space, accounting for 34% of all recorded transactions in 2015. The rapid development of the P2P financing sector appears to be largely backing this trend. However, while demand from the financial sector remains strong, landlords of quality projects have begun to display a hesitance towards introducing newly-launched financial companies to their projects due to their instability. IT & High-Tech companies continued to display a strong appetite, accounting for 25% of the year's transactions. Domestic companies continued to dominate demand,

GRAPH 1

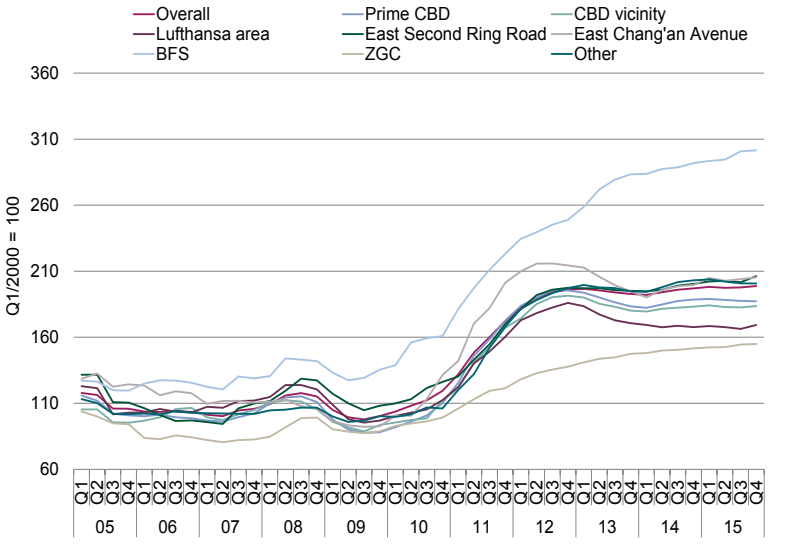
Supply, net take-up and vacancy rate, 2005–2015



Source: Savills Research

GRAPH 2

Grade A office rental indices, Q1/2005–Q4/2015



Source: Savills Research

TABLE 1

Grade A office leasing market key indicators, Q4/2015

	Stock (sq m)	Vacancy rate (%)	Take-up (sq m)	Supply (sq m)	Rent (RMB per sq m per month)
Q4/2015	10,101,000	3.6	110,000	113,000	319.8
QoQ change (%/ppts)	1.1	-0.1	18.4	117.6	0.5
YoY change (%/ppts)	3.2	-1.2	-12.6	-58.5	0.9

Source: Savills Research & Consultancy

accounting for 70% of recorded transactions in 2015.

While new supply entered the market, sustained demand for high quality projects launched within recent years witnessed city-wide vacancy rates continue to remain tight, down 0.1 of a ppt to 3.6% during the period.

Rents

As the market continues to experience a prolonged period of slow economic growth, tenants have continued to remain largely conservative with their leasing activities. As a result, Grade A office rents remained largely stable, up only 0.5% QoQ and 0.9% YoY to RMB319.8 per sq m per month by the end of Q4/2015.

East Second Ring Road registered the largest rental appreciation of 2.3% QoQ, largely due to the lack of supply in the area resulting in landlords continuing to hold the bargaining power. Beijing Financial Street continued to stand out as the rental leader in the market, with rents averaging RMB535.2 per sq m per month, while the CBD retained second place with an average rent of RMB361.7 per sq m per month.

Submarket rents and vacancy rates

Traditional business districts

The CBD Vicinity welcomed new supply this quarter, with Damei Central Plaza Towers 1 & 2 (达美中心广场1 & 2座) contributing an office GFA of 60,000 sq m. Having only launched onto the market in late December, the project experienced weak take-up which pushed vacancy rates in the CBD Vicinity area up 4.1 ppts to 5.8% by the end of Q4/2015.

The CBD continued to remain one of the most popular locations for many overseas corporations and leading domestic companies, as it is easily accessible and offers close proximity to other businesses. Steady demand witnessed rents in this area remain flat, down only 0.2% QoQ to RMB361.7 per sq m per month. Vacancy rates

TABLE 2

New supply, Q4/2015

Project	CCT Centre (诚盈中心)	Damei Central Plaza Towers 1 & 2 (达美中心广场1 & 2座)
		
Location	Wangjing	CBD vicinity
Completion date	Q4/2015	Q4/2015
Landlord	Derun International	Damei Investments
Grade	Grade A	Grade A
Leasable office GFA (sq m)	53,000	60,000
Floor plate (sq m)	700 - 1,400	2,300
Asking rent (RMB per sq m per month)	240	358
PM Fee (RMB per sq m per month)	28	32

Source: Savills Research

TABLE 3

Major leasing transactions, Q4/2015

Company	Building	Location	GFA (sq m)	New lease/renewal
China Asset Management	Yuetan Center	BFS	12,000	New Lease
SSPC	Grandyvic Building	Lufthansa	8,000	New Lease
Autohome	Avic Plaza	ZGC	7,000	New Lease
Hologic Inc.	Hyundai Motor Tower	Lufthansa	2,300	New Lease
Sourcecode Capital	Poly Int'l Plaza	Wangjing	1,900	New Lease

Source: Savills Research

witnessed a decrease of 1.5% QoQ to 2.6% by the end of the period.

The ZGC area continued to show a positive trend, with rents growing 0.3% QoQ and 3.3% YoY to an average of RMB245.9 per sq m per month. Strong government support for the IT & 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 2.4 ppts to 2.9% by the end of Q4/2015.

Non-prime markets

Non-prime markets rents held stable in the fourth quarter of 2015, down 0.1% QoQ to an average of RMB252 per sq m per month, a reflection of landlords continuing to avoid implementing rental hikes in order to attract and retain tenants. Comparatively higher rents in core locations have seen an increasing number of companies appear to be willing to explore non-prime areas for their significant cost advantages, this reflected in vacancy rates in non-prime markets declining 1.2 ppts YoY to 7.6%.

The Wangjing area welcomed new supply this quarter, with CCT Centre (诚盈中心) contributing an office GFA of 53,000 sq m to the market. Bad timing of the project's launch saw it perform poorly in terms of take-up, and as a result pushed up vacancy rates in the area 2.2 ppts QoQ to 12.3% during the period.

Market outlook

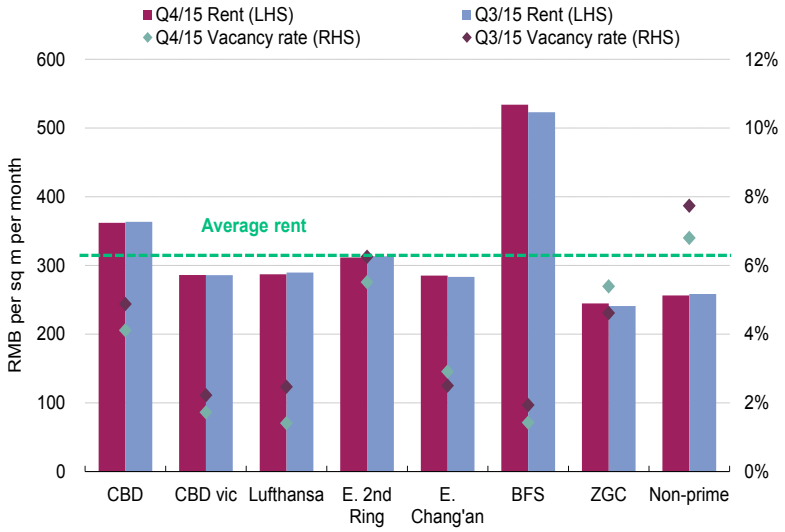
The next three years will see the Grade A office market receive an influx of new supply, with around 1.8 million sq m of office GFA scheduled to enter the market. Approximately 740,000 sq m of the new supply is to be positioned in non-prime markets, namely Wangjing and Asia-Olympic. The arrival of the new supply, combined with the rapid development of suburban areas and infrastructure, is expected to speed up the decentralisation trend in the market.

Distribution of the new supply is expected to intensify competition among landlords across the market.

Newly-launched financial companies will continue to be viewed with caution by landlords. City-wide vacancy rates are anticipated to increase mildly, while rents will likely fall slightly in the short term.

GRAPH 3

Submarket rents and vacancy rates, Q4/2015 vs Q3/2015



Source: Savills Research & Consultancy

TABLE 4

Future project focus, Q1/2016

Project name	Air China Century Plaza
	
Location	Lufthansa
Owner	Air China Group
Office GFA (sq m)	78,200
Floor plate (sq m)	3,260
Asking rent (RMB per sq m per month)	387
Management fee (RMB per sq m per month)	33

Source: Savills Research & Consultancy

TABLE 5

Future supply, Q1/2016

Project (EN)	Project (CN)	Submarket	Leasable office space (sq m)
Air China Century Plaza	国航世纪大厦	Lufthansa	78,200
Borui Building II	博瑞大厦二期	CBD Vicinity	19,800
CSCEC Grand Tower	中国建筑大厦	Asia-Olympic	Approx. 60,000
AIIB Headquarter	亚洲基础设施投资银行总部	BFS	N/A
LSH Centre II	利星行中心二期A座	Wangjing	91,780
Alibaba Headquarter Building	阿里巴巴总部大厦	Wangjing	N/A

Source: Savills Research & Consultancy

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