SUMMARY

Existing projects in the CBD and its vicinity, especially those with lower building profiles, continue to suffer from tenant withdrawal, in particular from foreign companies.

- Three new projects totalling 166,000 sq m entered the Grade A office market in Q4/2016, raising overall stock to approximately 9.8 million sq m (including self-use office GFA).

- The overall Grade A Office market vacancy rate further edged up by 0.7 of a percentage point (ppt) to 5.6% during the period.

- Grade A office rents continued to decline, down 0.1% quarter-on-quarter (QoQ) to RMB336.9 per sq m per month by the end of Q4/2016.

- The Grade A office market is expected to continue to see intensive supply in 2017, with the majority of new projects located in non-core business districts.

- Average rental growth is expected to become more constrained, while the rental gap between traditional and emerging business districts will further narrow.

“Leasing demand from foreign companies may be further weakened amidst global economic uncertainty. However, demand from domestic companies is expected to remain strong, backed by the rapid development of the tertiary sector.” Jack Xiong, Savills Research & Consultancy
Supply, net take-up and vacancy rate

Three new projects totalling 166,000 sq m entered the Grade A office market in Q4/2016, raising overall stock to approximately 9.9 million sq m (including self-use office GFA). The majority of new supply was located in the vicinity of the CBD, including the Emperor Group Center (英皇集团中心) and the retail-to-office conversion of Pacific Century Place (盈科中心商改办). The Wangjing area also received one new project, with Radiance (金辉大厦) making its debut during the quarter. As a result, total Grade A office supply reached 730,000 sq m in 2016, almost double the level of 2015.

The overall Grade A office market vacancy rate further edged up by 0.7 of a ppt to 5.6% during the period. This was largely due to relatively high vacancy levels in new projects, which pushed up the market average. In addition to this, existing projects in the CBD and its vicinity, especially those with lower building profiles, continued to suffer from tenant withdrawal, in particular from foreign companies. Consequently, the average occupancy level in the market suffered downwards pressure.

In general, leasing demand was relatively weak in the second half of the year and continued to decrease during the quarter. The finance sector continued to be the dominant demand driver, with active expansions being seen from banks and investment firms. Notable transactions during the period included China Huarong Asset Management’s commitment to establish a company headquarters in approximately 22,000 sq m (4F–16F) in the newly-delivered Emperor Group Center, and Hawtai Motor Finance signing more than 1,000 sq m in SK Tower in the CBD.

Coming in second only to the finance sector, the IT and High-Tech sector also showed a strong appetite during the period. Major transactions included DDN Global Supply Chain’s lease of approximately 1,500 sq m in the CCT Centre in the Wangjing area, and NETSOL Technologies commitment to 500 sq m in the Yintai Center in the CBD.

The professional services sector also displayed relatively strong demand, which predominately stemmed from the legal industry. Notable transactions included DHH Law Firm’s lease of 1,700 sq m in the Yintai Center in the CBD, while Grandall Law Firm expanded by an additional 350 sq m in the Tai Kang International Building in BFS.

### TABLE 1

<table>
<thead>
<tr>
<th>Project Name EN</th>
<th>Project Name CN</th>
<th>Location</th>
<th>Grade</th>
<th>Office GFA (sq m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pacific Century Place (Retail-to-Office)</td>
<td>盈科中心商改办</td>
<td>CBD’s Vicinity</td>
<td>Grade A</td>
<td>50,000</td>
</tr>
<tr>
<td>Radiance</td>
<td>金辉大厦</td>
<td>Wangjing</td>
<td>Grade A</td>
<td>69,000</td>
</tr>
<tr>
<td>Emperor Group Center</td>
<td>英皇集团中心</td>
<td>CBD’s Vicinity</td>
<td>Grade A</td>
<td>47,000</td>
</tr>
</tbody>
</table>

Source: Savills Research & Consultancy

### TABLE 2

<table>
<thead>
<tr>
<th>Company</th>
<th>Industry</th>
<th>Nationality</th>
<th>Project</th>
<th>Location</th>
<th>GFA (sq m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Huarong</td>
<td>Finance</td>
<td>Domestic</td>
<td>Emperor Group Center</td>
<td>CBD’s Vicinity</td>
<td>20,000</td>
</tr>
<tr>
<td>Hawtai Motor Finance</td>
<td>Finance</td>
<td>Domestic</td>
<td>SK Tower</td>
<td>CBD</td>
<td>1,100</td>
</tr>
<tr>
<td>Dadaniu Supply Chain</td>
<td>IT and High-Tech</td>
<td>Domestic</td>
<td>CCT Centre</td>
<td>Wangjing</td>
<td>1,500</td>
</tr>
<tr>
<td>DHH</td>
<td>Professional Service</td>
<td>Domestic</td>
<td>Yintai Center</td>
<td>CBD</td>
<td>1,700</td>
</tr>
<tr>
<td>OCBC Wing Hang Bank</td>
<td>Finance</td>
<td>Overseas</td>
<td>Gemdale Plaza</td>
<td>CBD</td>
<td>500</td>
</tr>
<tr>
<td>MetLife</td>
<td>Finance</td>
<td>Overseas</td>
<td>Landgent Centre</td>
<td>CBD</td>
<td>500</td>
</tr>
</tbody>
</table>

Source: Savills Research & Consultancy
The serviced office and co-working sector also displayed brisk activity during the period, with several major players revealing ambitious expansion plans. Regus launched a new serviced office occupying approximately 1,200 sq m in Tengda Plaza in ZGC, and confirmed plans to open five more centres in the near future. WeWork, headquartered in New York City, committed to approximately 2,500 sq m in Office Park in the CBD, which is scheduled to debut in 1H/2017.

Leasing demand continued to be dominated by domestic companies, while the performance of foreign companies was relatively weak, marred by the growing prevalence of divergent strategies towards the China market.

Tightening rental budgets saw some foreign consultancy firms and Fast Moving Consumer Goods (FMCG) companies either contract or relocate from traditional business districts to emerging areas. For instance, several foreign companies in the New China Insurance Tower downsized their space requirements and relocated to the newly-opened Regus serviced office in the same building, while a FMCG company in Parkview Green also cut their leasing space during the quarter. Foreign financial institutions were relatively active during the quarter, due to the rapid growth of the city-wide financial sector. Deals during the quarter included OCBC Wing Hang Bank’s 500 sq m expansion in Gemdale Plaza, and MetLife securing an additional 500 sq m in the Landgent Center.

**Rents**

Grade A office rents continued their quarterly decline, by 0.1% QoQ to RMB336.9 per sq m per month by the end of Q4/2016. While some high-quality projects with good occupancy rates were able to maintain relatively high rental levels, the general tightening of tenant budgets saw many landlords in traditional business districts in Eastern Beijing renew leasing contracts with discounts or without rental hikes. As a result, overall rental growth in the market was constrained during the period.

**Submarket rents and vacancy rates**

**Traditional business districts**

The CBD and its vicinity saw vacancy rates further increase by 0.3 and 1.9 ppts QoQ to 4.8% and 6.1%, respectively, during the period. Average rents for the two precincts registered a decline of 0.5% and 0.7% QoQ to RMB366.7 and RMB297.2 per sq m per month. While the retail-to-office conversion of Pacific Century Place was almost fully committed upon delivery, the Emperor Group Center recorded a pre-commitment rate of only 70%. This, combined with several cases of tenants, predominately foreign companies, choosing to downsize or relocate to other areas during the period, saw average vacancy rates in the precincts increase. In response to this, landlords extended greater flexibility on rental terms and pricing agreements as they sought to both attract and retain tenants.

Compared with the previous quarter, the occupancy rate in BFS held largely stable at 2.1%, due to robust demand and a limited availability of space. Average rents in the precinct edged up 0.3% QoQ to RMB542.6 per sq m per month. With low levels of new supply scheduled for the submarket, it is expected that some landlords will consider raising their asking prices in the coming quarters.

ZGC continued to post a relatively low vacancy level, registering 3.9% by the end of the quarter. Though some tenants of ZGC relocated to the emerging areas such as Wangjing and Asia-Olympic during the period, the mature business environment continued to attract start-ups, helping to fill vacant space. Average rents in the precinct stabilised at RMB274.7 per sq m per month.

**Non-prime markets**

The Wangjing area continued to record a strong performance during the quarter, backed by increasing demand from the IT & High-Tech, high-end manufacturing, and e-commerce sectors, in particular from domestic companies. Despite the delivery of a new project with a relatively high vacancy level, several large leasing transactions by

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**GRAPH 2**

**Grade A office rental indices, Q1/2006-Q4/2016**

- **Overall**
- **Lufthansa Area**
- **East 2nd Ring Road**
- **CBD**
- **CBD’s Vicinity**
- **East Chang’An Avenue**
- **ZGC**
- **Wangjing**

**Source:** Savills Research & Consultancy

**GRAPH 3**

**Submarket rents and vacancy rates, Q3/2016 VS Q4/2016**

**High-Tech companies and business incubators in existing projects, namely the POSCO Center, saw the vacancy rate in the precinct only increase by 6.1 ppts to 13.1% by the end of the period. Average rental in the precinct increased by 0.7% QoQ to RMB251.4 per sq m per month.**

A spate of new project deliveries in recent quarters has raised the average building profile as well as strengthened tenants’ general outlook on the Asia-Olympic precinct. Largely fuelled by growing demand for space in Panggu Plaza, the precinct witnessed a further decline in the overall vacancy rate during the quarter. Average rental in the precinct further edged up by 0.6% QoQ during the period.

Meanwhile, other precincts, namely Lufthansa, East Second Ring Road...
and East Chang’an Avenue, posted largely stable performances over the same period.

**Market outlook**

A supply peak is expected to occur in 2017, with 15 projects with a combined office GFA of over one million sq m (including self-use space) in the pipeline. The majority of new deliveries, approximately 85% of the total new supply, will be located in non-core business districts. However, it is worth noting that projects may be pushed back due to construction delays.

Amid global economic uncertainty, it is forecast that leasing demand from foreign companies may further weaken. Macroeconomic factors, such as exchange and interest rate movements, are likely to exert influence on their business development in China and their expansion strategies in the city.

Despite the city’s economic growth forecast to further decline in line with the national trend, the tertiary industry, in particular the finance, IT & High-Tech and professional services sectors, is expected to maintain its relatively strong growth momentum. As a result, these sectors are expected to drive the majority of leasing demand from domestic companies going forward.

Existing supply in traditional business districts, especially older projects with lower building quality, may face greater pressure going forward as they will have to compete with premium projects both within the precinct and in emerging areas. To combat this, landlords will likely need to extend rental incentives to remain competitive. As a result, the overall rental gap between traditional business districts and emerging areas is expected to further narrow and rental growth to be largely constrained in the coming years.

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**TABLE 3**

<table>
<thead>
<tr>
<th>Project name</th>
<th>COFCO Plaza C (中粮广场C座)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location</td>
<td>East Chang’an Avenue</td>
</tr>
<tr>
<td>Owner</td>
<td>COFCO Land</td>
</tr>
<tr>
<td>Office GFA</td>
<td>16,000 sq m</td>
</tr>
<tr>
<td>Typical floor plate</td>
<td>3,990 sq m</td>
</tr>
<tr>
<td>Typical ceiling height</td>
<td>2.7 m</td>
</tr>
<tr>
<td>Office stories</td>
<td>F2 – F5</td>
</tr>
<tr>
<td>Completion date</td>
<td>Q1/2017</td>
</tr>
</tbody>
</table>

Source: Savills Research & Consultancy

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