savills
第一太平戴维斯

Savills World Research
Beijing

Briefing
Office sector

November 2017

Image: Hengyi Plaza, Asia-Olympic

SUMMARY

Leasing demand was strong in the third quarter of 2017. Average rents registered their first increase after four consecutive quarters of decline.

- Two new projects entered the Grade A office market in Q3/2017, contributing approximately 100,000 sq m to the total office GFA. As a result, total Grade A office stock increased to 10.3 million sq m (including self-use GFA).

- Despite new supply entering the market, strong leasing demand for large space requirements from the financial and IT & High-Tech sectors saw citywide vacancy rates fall by 1 percentage point (ppt) quarter-on-quarter (QoQ) to 5.5%, although up by 0.6 of a ppt year-on-year (YoY).

- Stable performance in the Beijing Financial Street (BFS) and Zhongguancun (ZGC) precincts, combined with an increase in rents in the gradually maturing Wangjing and Asia-Olympic submarkets, offset the impact of rental declines in the CBD and other areas. As a result, overall average rents posted their first increase after four consecutive quarters of decline, up by 0.2% QoQ to RMB338.2 per sq m per month, though still down by 0.3% YoY.

- The Grade A office market is scheduled to welcome three new projects in Q4/2017, increasing overall stock by 190,000 sq m.

"Average rents will once again face downwards pressure with the arrival of a supply peak next year." Jack Xiong, Savills Research & Consultancy

Supply, net take-up and vacancy rate

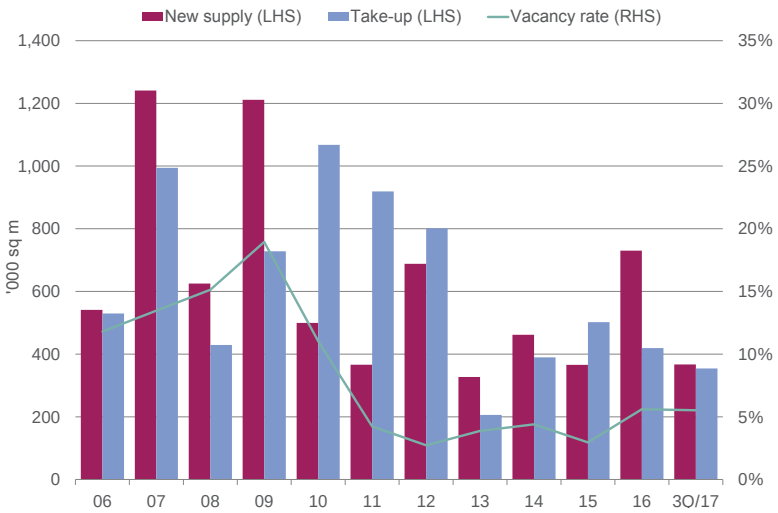
Two new projects – Hatemen Plaza East Tower (哈德门广场东塔) located in Chongwenmen, and Hengyi Plaza (恒毅大厦) located in Asia-Olympic – entered the Grade A office market in Q3/2017, contributing a combined GFA of 100,000 sq m. As a result, total Grade A office stock increased to 10.3 million sq m (including self-use GFA).

Despite new supply entering the market, strong leasing demand from the financial and IT & High-Tech sectors saw citywide vacancy rates decrease by 1 ppt QoQ to 5.5%, although up by 0.6 of a ppt YoY.

The rapid rise of the internet economy continues to fuel demand for office space in the city. Demand is mainly driven by tenants from the technology, media and telecom (TMT) sector, with unicorns, and start-ups in the artificial intelligence (AI) space increasingly making headlines. Notable transactions during the quarter included: Alibaba leased 28,000 sq m in Radiance, Wangjing district; Toutiao, a news and information content platform powered by AI technology, expanded by 5,000 sq m in Weitong Tower, ZGC district; Yitu Technology, an AI developer focused on facial

GRAPH 1

Supply, net take-up and vacancy rate, 2006–Q3/2017



Source: Savills Research & Consultancy

TABLE 1

New supply, Q3/2017

Project Name EN	Project Name CN	Location	Grade	GFA (sq m)	Usage
Hatemen Plaza East Tower	哈德门广场东塔	Others	A	25,000	Leasing
Hengyi Plaza	恒毅大厦	Asia-Olympic	A	75,000	Leasing

Source: Savills Research & Consultancy

TABLE 2

Major leasing transactions, Q3/2017

Company	Industry	Nationality	Project	Location	GFA (sq m)
Alibaba	IT and High-Tech	Domestic	Radiance	Wangjing	28,000
Taikang Group	Finance	Domestic	Hatemen Plaza East Tower	Others	7,000
Toutiao.com	Culture and Media	Domestic	Weitong Building	Zhongguancun	5,000
ZEG	Finance	Domestic	Poly International Plaza	Wangjing	5,000
Accenture	Professional Services	Overseas	World Finance Center	CBD	4,000
Beijing Oriental Wall-E Robot	IT and High-Tech	Domestic	Posco Center	Wangjing	2,300

Source: Savills Research & Consultancy

recognition, leased 700 sq m in Raycom Infotech Park, ZGC district.

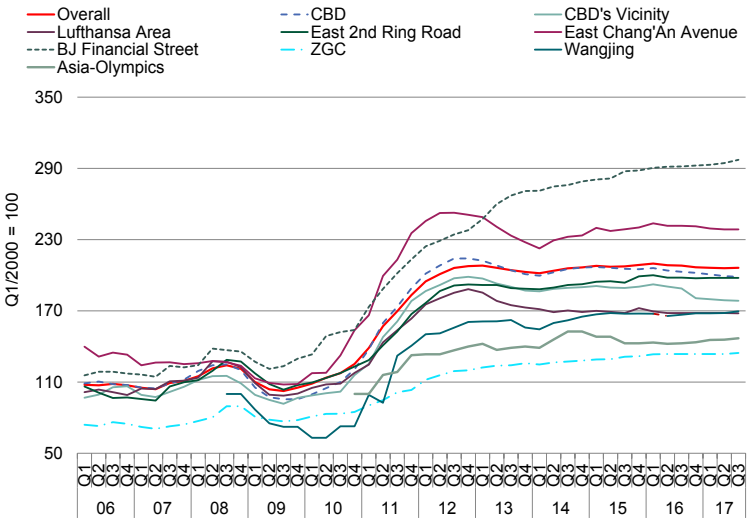
The fintech wave continues to revolutionise the financial industry, with big data, AI and other technologies rapidly redefining the once traditional industry. Fintech companies looking to reshape the payment value chain through mobile payment have been particularly active during the quarter. Key leasing activity witnessed: QFPay leased 1,800 sq m in Wangjing SOHO; China DAAS took up 1,080 sqm in Zhongguancun Capital Building in ZGC.

Meanwhile, the traditional financial sector continued to display strong performance, with insurance, investment and fund companies with domestic backgrounds showing a healthy appetite. Leasing deals during the quarter included: Taikang Life leased 7,000 sqm in Hatemen Plaza East Tower; ZEG leased three entire floors in Poly International Plaza T1 in Wangjing; Beijing Huafu Jiachen Investment Fund leased 2,000 sqm in China World Trade Center III Tower B.

The sharing economy continues to rapidly mature in Beijing, with co-working offices continuing to expand throughout the city. Deals during the quarter have seen: WeWork launch in Wangjing in August, marking their third store in the city; KRSpace leased 5,000 sqm in Kaisa Plaza and 2,000 sq m in HNA Building; Naked HUB leased a commercial building unit in SOLANA.

GRAPH 2

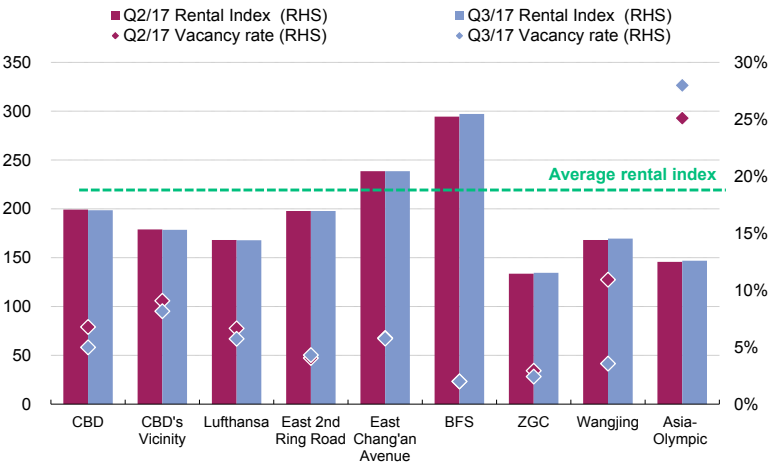
Grade A office rental indices, Q1/2006–Q3/2017



Source: Savills Research & Consultancy

GRAPH 3

Submarket rents and vacancy rates, Q2/2017 VS Q3/2017



Source: Savills Research & Consultancy

Rents

Stable performance in the BFS and ZGC precincts, combined with an increase in rents in the gradually maturing Wangjing and Asia-Olympic submarkets, offset the impact of the rental decline in the CBD and other areas. As a result, overall average rent posted the first increase, after four consecutive quarters of decline, up by 0.2% QoQ to RMB338.2 per sq m per month, though still down by 0.3% YoY.

Submarket rents and vacancy rates

Traditional business districts

Vacancy rates for the CBD and its vicinity decreased by 1.8 ppts and 0.9 of a ppt to 5.0% and 8.2% QoQ, respectively. Meanwhile, average rents were down by 0.3% and 0.2% to RMB377.3 and RMB297.4 per sq m per month, respectively.

Pre-leasing activities have kicked off in the CBD Core Plot Area, with the first wave of anticipated supply all beginning to sign leases, namely China Life Insurance, Zhengda Group and Samsung buildings. High construction standards coupled with the application of advanced smart building design has drawn attention from potential tenants and landlords in the industry. With the first spate of

new deliveries scheduled for 2018, landlords of nearby existing projects have been under greater pressure to remain as attractive options, and have proactively undertaken project upgrades. Recent examples have seen the World Financial Centre carry out a transformation of the parking lot and public areas; China Central Place make improvements to their parking lot and electrical facilities; Kerry Centre announce their intention to fit out their project with a PM2.5 air purification system. In addition, International Financial Centre and Borui Building have also carried out upgrades. While a number of projects have made value adding upgrades, some older projects have found challenges with their existing structures and subsequent limitations on their ability to upgrade facilities.

In addition to upgrading physical facilities, landlords have also been looking to provide value-added services to tenants to enhance the competitiveness of their projects. Recent examples are: COFCO Plaza launched "Coffice", an intelligent mobile app which provides a tailored full service experience of property management needs to their tenants through data and user behaviour analysis; World Finance Centre is also looking to develop their own app to enhance corporate occupiers' experience.

BFS area continues to remain saturated with the overall vacancy rate in the precinct remaining at 2% by the end of the quarter. Average rent edged up 0.9% QoQ to RMB552.4 per sq m per month. CITS Chang'an Building in the area continues to undergo renovations, which upon delivery will contribute an additional 25,000 sq m GFA to the office market. Meanwhile, Lize Business District remains under construction, but should satisfy spill over demand from the BFS precinct upon completion.

The overall vacancy rate in ZGC precinct declined by 0.5 of a ppt QoQ to 2.4% in Q3/2017. The movement was largely driven by tenant expansion demand by the tech sector. Meanwhile, limited available stock and strong demand saw some landlords raise their asking rents, and subsequently average rental in the precinct increased by 0.6% QoQ to RMB276.7 per sq m per month.

Non-prime markets

The overall vacancy rate in the Lufthansa area declined by 0.9 of a ppt to 5.7% during Q3/2017, largely the result of Ping'an International Financial Centre converting vacant leasing space into self-usage. Meanwhile, looking to encourage leasing activity in their projects, some landlords have begun to extend rental discounts, namely Lufthansa Center and Air China Plaza. As a result, average rents in the precinct declined by 0.2% QoQ to RMB297.9 per sq m per month.

The overall vacancy rate in Wangjing district decreased during the quarter, down by 7.4 ppts to 3.6%. The sharp decline was mainly attributed to large-scale leasing activities in the precinct, in particular Alibaba's significant take-up of space in Radiance. Meanwhile, the considerably lower vacancy rate in the area has seen some landlords raise their asking rents, and as a result average rental increased by 0.9% to RMB256.9 per sq m per month in Q3/2017. The vacancy rate is expected to mildly increase with a significant level of supply on the way, with Ronsin Technology Center planning to launch before year-end and Meritus Tower scheduled for delivery in 2018.

Weak pre-leasing performance in the newly delivered Hengyi Building saw the overall vacancy rate in Asia-Olympic area increase by 2.9 ppts to 28%. However, overall demand in the precinct continues to remain active. Sinotrans Building enjoyed a particularly strong performance, with the initial signing of ZTE being followed by a number of new leases from ZTE subsidiary companies. Average rent in the area increased by 0.8% QoQ to RMB336.0 per sq m per month.

Market fundamentals remained largely stable in the East Second Ring Road and East Chang'an Avenue submarkets during the period. The newly launched Hatemen Plaza East Tower, located south of East Chang'an Avenue already achieved an occupancy rate of 80%, with domestic financial firms, Taikang Life and Huanghe Asset Insurance both taking up leases.

Market outlook

The Grade A office market is scheduled to welcome three new projects in Q4/2017 – Ronsin Technology Center (融新科技中心), ZRT Plaza Beijing (中融信托广场) and CSCEC International Center (中海国际中心). Meanwhile, the emerging Lize Financial Business District continues to develop, with its first new deliveries on the way – Jinshang Lianhe Tower (晋商联合大厦) is scheduled to launch by the end of the year while Glory Star Financial Towers (聚杰金融大厦) will debut early next year.

In August, authorities in Beijing issued a strict order aimed at curbing air pollution levels in the Beijing-Tianjin-Hebei region. The announcement requires Beijing's six urban districts and surrounding suburbs to suspend construction and demolition work that may increase dust pollution levels during the winter heating season. The production and supply of construction materials such as cement and steel in the North China region will also be restricted. Subsequently, it is expected that some new projects will have to delay

their deliveries to market.
The delay in project deliveries is expected to see average rental remain stable in the short term. However, this dynamic is forecast to change with the arrival of the new wave of supply peak which will see rents face downwards pressure.

The rise of intelligent building design and growing importance on work-life balance will continue to see traditional office space be upgraded. Landlords will look to transform their projects in order to attract tenants. Meanwhile, faced with high rents, tenants themselves will be innovative as they work to achieve greater efficiency and flexible use of their space.

TABLE 3

Future supply focus, Q4/2017

Project Name	CSCEC International Centre Tower (中海国际中心)
	
District	Asia-Olympic
Developer	CSCEC Group
Office Floors	20
Office GFA	48,800 sq m
Typical Floor Plate	1,600 sq m
Typical Ceiling Height	2.8 m
Estimated Completion Date	Q4/2017

Source: Savills Research & Consultancy

Definitions

Rent: Achievable effective rents for a 500-sq m unit in the mid-zone of an office building signed for a three-year lease.
Rental index: A reflection of rental movement of a representative sample of projects.

Please contact us for further information

Research

James Macdonald
Director
+8621 6391 6688
james.macdonald@savills.com.cn

Agency

Anthony McQuade
Senior National Director
+8610 5925 2002
anthony.mcquade@savills.com.cn

Research & Consultancy

Jack Xiong
Director
+8610 5925 2042
jack.xiong@savills.com.cn

Commercial

Gary Wen
Senior Director
+8610 5925 2064
gary.wen@savills.com.cn