



Office market performs better than expected

The quarterly absorption significantly rebounds but the market still needs time to destock.

- The Grade A office market in Beijing saw the absence of new projects in Q1/2024 and the citywide Grade A office stock remained at 15.21 million sqm (including self-use areas).
- In the quarter, market demand showed signs of recovery, and as a result, quarterly net absorption recorded 30,550 sqm, up 47.0% from the previous quarter.
- Due to the lack of new supply and decent absorptions, Beijing Grade A office vacancy rate edged down by 0.2 percentage points (ppts) quarter-on-quarter (QoQ) to 20.2%.
- Meanwhile, Grade A office rents declined by 2.5% QoQ to an average of RMB295.7 psm pmth, down 8.1% year-on-year (YoY).
- Demand saw decent rebound in the Beijing office market at the beginning of 2024. This will prompt landlords to seize the opportunities to accelerate the destocking process.

“At the beginning of 2024, the Beijing Grade A office market showed signs of recovery and performed better than expected. Due to the lower supply volume than previous years, the office market has a great opportunity to boost absorption, rebalance the supply and demand and hopefully regain market confidence.”

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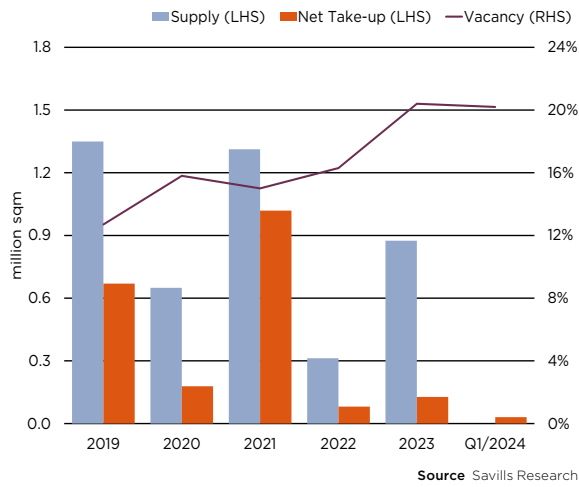
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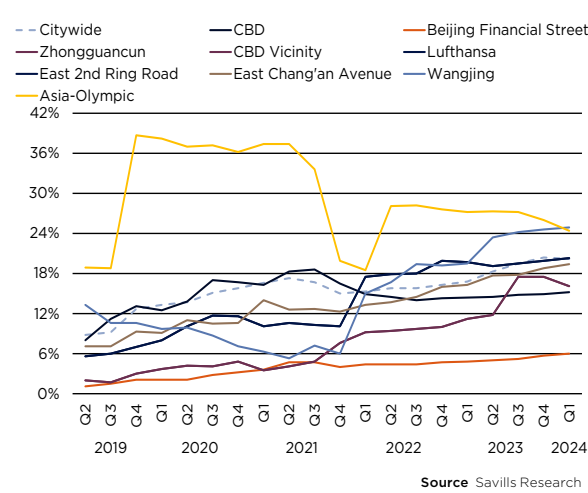
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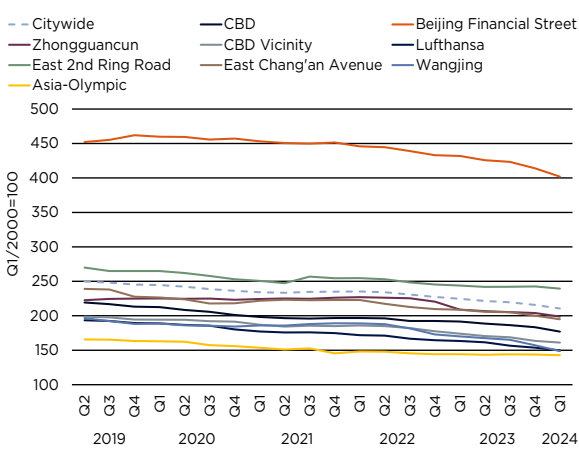
GRAPH 1: Supply, Take-up And Vacancy, 2019 to Q1/2024



GRAPH 2: Vacancy Rates In Each Submarket, Q2/2019 to Q1/2024



GRAPH 3: Rental Indices In Each Submarket, Q2/2019 to Q1/2024



Note All submarkets are based on an index value of 100=Q1/2000, excluding: ZGC - 100=Q1/2002; Wangjing - 100=Q3/2008; Asia-Olympic - 100=Q4/2010; Lize starting - 100=Q4/2017

Source Savills Research

SUPPLY AND DEMAND

In Q1/2024, the Grade A office market in Beijing saw the absence of new projects, indicating less annual supply than previous years. As a result, the total stock of Grade A office space in the city remained at 15.21 million sqm (including self-use area).

On the demand side, the market witnessed increasing new leasing and relocation activities, a sign of leasing demand returning to the market, resulting in a significant 47% QoQ increase of the net absorption to 30,550 sqm. This is the third consecutive quarter for the Beijing Grade A office market to receive positive absorptions since 2H/2023.

In terms of submarkets, Zhongguancun, Asia-Olympic and Lize demonstrated outstanding performances this quarter. Specifically, prime market Zhongguancun and sub-prime market Asia-Olympic both recorded positive absorptions at 18,000 sqm and 15,000 sqm, respectively. Meanwhile, emerging market Lize maintained a steady destocking process and saw approximately 24,000 sqm of office space leased.

However, other submarkets underperformed. Tongzhou Canal Business District saw 15,000 sqm of office space handed back to the market, due to surrender from anchor tenants, resulting in a negative regional absorption.

VACANCY RATES AND RENTS

Due to the lack of supply and decent absorptions, the citywide Grade A office vacancy rate edged down 0.2 ppts QoQ to 20.2%, but still up 3.4 ppts YoY. Some

precincts, including Zhongguancun, CBD Vicinity, Asia-Olympic and Lize were able to see their vacancies decline. The vacancy rates in Asia-Olympic and Lize fell by 1.6 ppts and 1.7 ppts respectively. By contrast, the vacancy rate in Tongzhou rose 3.6 ppts QoQ to 65.8%, the highest level across the capital city, mainly because of the massive leasing terminations.

Despite the increasing demand, landlords continued to offer rental discounts or more favourable conditions aiming to secure quality tenants. Consequently, average rents in all the submarkets declined compared to the previous quarter. The citywide average rent in Beijing Grade A office decreased by 2.5% QoQ to RMB295.7 psm pmth. Sub-prime market Wangjing achieved the largest rental decrease in Q1, down 5.6% QoQ to 207.6 psm pmth, whilst Asia-Olympic and Lize saw mild quarterly rent declines, down 0.7% and 1.0% QoQ respectively.

MARKET OUTLOOK

After the supply peak in 2023, the annual supply of Beijing Grade A office in 2024 is expected to be modest. Tenants remain cautious about new leases and expansions despite a slow recovery in leasing demand since the second half of last year. Instead, integrating existing leasing resources, reducing costs and improving cost performances become priorities. In turn, the office market may continue to accelerate the supply-demand balance in the short term to restore the market confidence.

TABLE 1: Major Leasing Transactions in Q1/2024

COMPANY	INDUSTRY	ORIGIN	PROJECT	LOCATION	GFA (SQ M)
Orion	Retail & Trade	International	Poly Plaza	Wangjing	14,000
China Post Fund	Finance	Domestic	Global Trade Center	Asia-Olympic	5,000
Medtronic	Healthcare	International	Parkview Green	CBD Vicinity	4,200
FreeWheel	Information Technology	International	Orient Financial Centre	Wangjing	4,000
Huawei	Information Technology	Domestic	Raycom InfoTech Park	Zhongguancun	3,500

Source Savills Research