Asian Cities - 1H 2021

SPOTLIGHT
Savills Research

Beijing Offices

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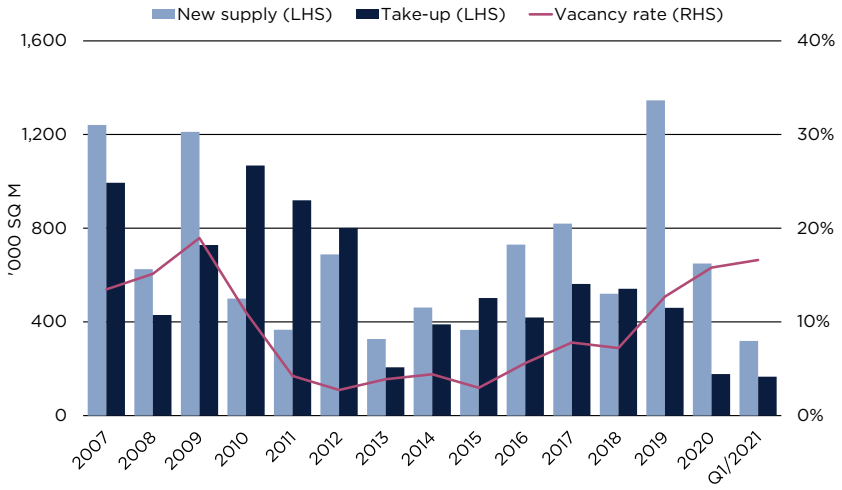
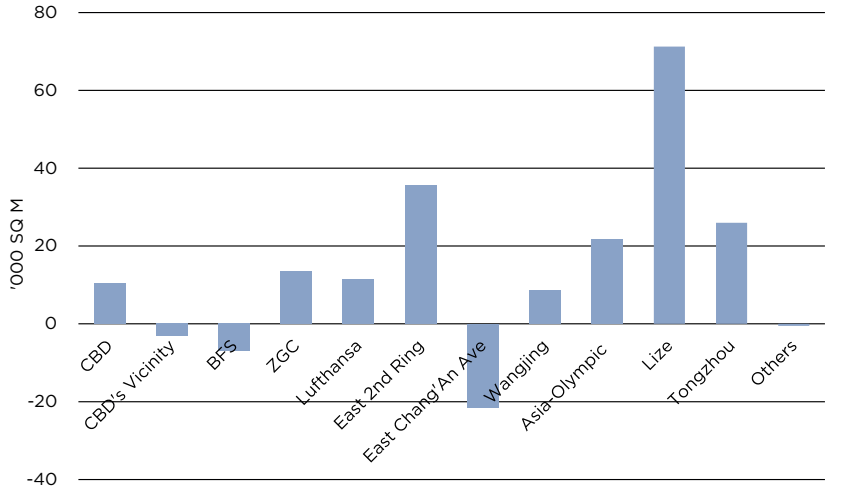
Beijing's office market rebounds in the post-pandemic era

GRAPH 1: Supply, Net Absorption And Vacancy Rates, 2007 to Q1/2021



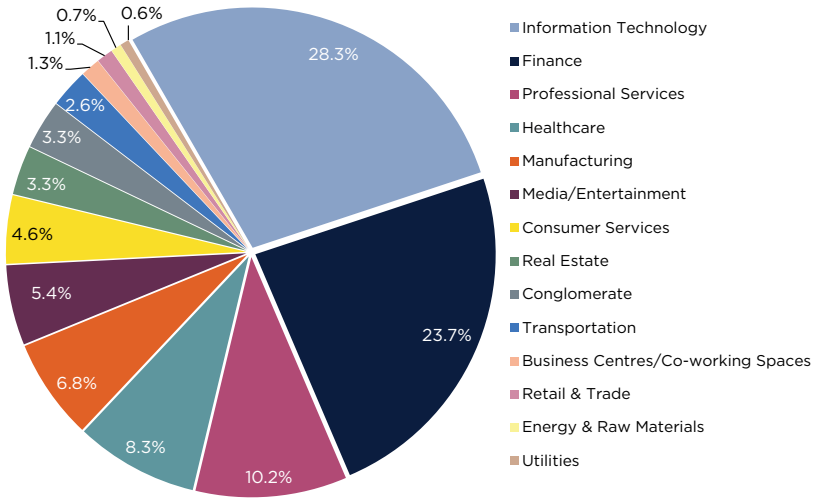
Source Savills Research

GRAPH 2: Absorption By Submarket, Q1/2021



Source Savills Research

GRAPH 3: Absorption By Tenant Category, Q1/2021



Source Savills Research

MARKET OVERVIEW

As the pandemic was effectively contained in China, the domestic economy rebounded with GDP's double-digit growth in Q1/2021. Meanwhile, Beijing's Garde A office market also bounced back at the beginning of the year. As a result, the citywide net absorption in the first quarter soared to 166,034 sq m. More impressively, the Q1 absorption rate was equal to 94% of the total annual absorption for 2020.

Three new projects were launched in Q1/2021, bringing a total of 318,363 sq m to Beijing's Grade A office market. The average vacancy rate stayed at a relatively high level of 16.6%, and the average rent dropped 4.2% year-on-year (YoY) to RMB344.9 per sq m per month in Q1/2021.

Information technology, finance, professional services and healthcare companies were the top demand drivers for office space, collectively accounting for 70.5% of the total leased area in Q1/2021.

SUPPLY

Three new projects were launched in Q1/2021, namely Beijing Innovation Centre located in the Asia-Olympic area, and Sino-Ocean Rayzone and Jintang Westlink Plaza located in Lize FBD, bringing 318,363 sq m to Beijing's Grade A office market. Citywide Grade A office stock reached 13.17 million sq m (including self-use GFA) by the end of Q1/2021.

Over 1.3 million sq m new supply is scheduled to be launched in 2021, and the majority will be concentrated in the CBD core area and Lize Financial Business District. With this supply influx, landlords are actively adjusting leasing strategies by offering rental discounts or incentive options to attract or retain tenants.

DEMAND

Beijing's Grade A office market showed a strong recovery in Q1/2021, with the net absorption increasing by 83.3% quarter-on-quarter (QoQ) to 166,034 sq m. Thanks to the strong take-up, the c itywide vacancy rate inched up 0.8 of a percentage point (ppt) QoQ and 3.3 ppts YoY to 16.6% by the end of Q1/2021, given the large new supply from the three new projects.

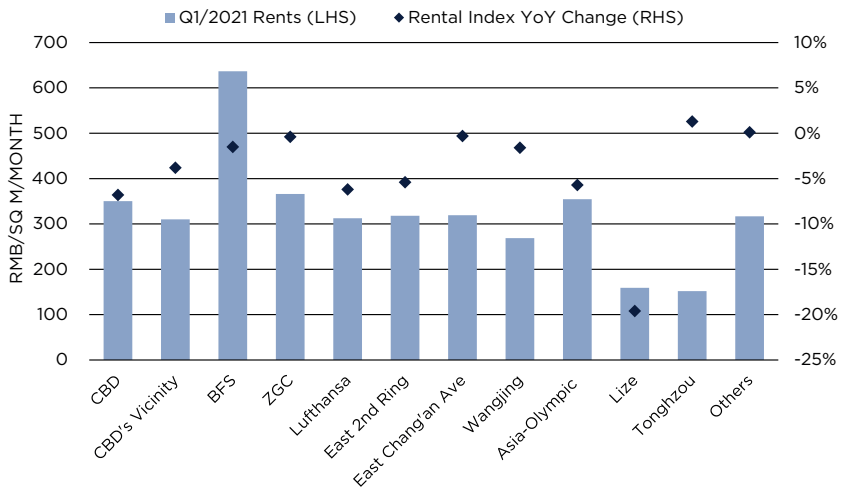
In terms of submarkets, leasing transactions were relatively active in emerging markets, including Lize and Tongzhou, while prime markets like CBD, Zhongguancun (ZGC), East 2nd Ring Road and Asia-Olympic also showed decent take-up in Q1/2021. Basically, these submarkets either saw supply influxes

or provided sufficient vacant spaces, hence becoming preferred choices for potential tenants to carry out new leases, expansions or relocations.

In terms of leasing demand by industry category, information technology and finance accounted for 28.3% and 23.7%, respectively, of the citywide total during Q1/2021. Together with professional services (10.2%) and healthcare (8.3%), these four industries accounted for 70.5% of the total absorbed space in Q1/2021. By contrast, leasing demand from other traditional industries was relatively limited and constituted similar market shares (less than 7%) in Q1/2021.

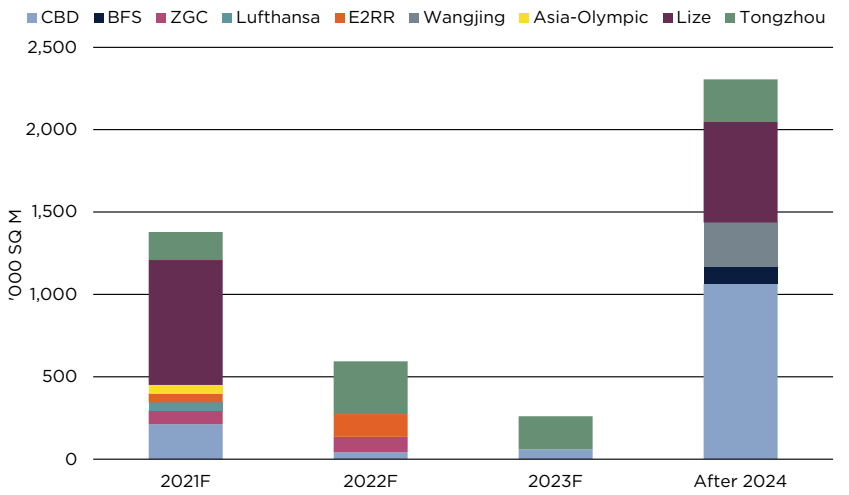
The Beijing Grade A office market will continue to face significant pressure in the medium-to-long term as over 1.3 million sq m of new supply is expected in 2021.

GRAPH 4: Beijing Grade A Office Rents And Growth Rates, Q1/2021



Source Savills Research

GRAPH 5: Grade A Office Future Supply, 2021 to 2024



Source Savills Research

RENTS

Though China's economy continues its recovery, landlords are still facing fierce competition due to the supply flux and a relatively high vacancy rate. Therefore, most landlords had to lower their rental expectations, resulting in the citywide Grade A office average rent declining for the ninth consecutive quarter since Q1/2019. The overall rental index was down 0.9% QoQ and 4.2% YoY to RMB344.9 per sq m per month in Q1/2021.

BFS is still the most expensive office submarket around the capital city, with the average rent at RMB636.6 per sq m per month in Q1/2021, thanks to solid demand and low tenant turnover from the finance industry. ZGC has the second-highest rental level of RMB366.2 per sq m per month in Q1/2021 due to increasing demand from the IT and internet industry. Another important reason that rental levels in these two submarkets showed strong resilience in the past year is mainly because of the limited availability of leasable space in most projects in the precincts.

By contrast, some precincts in the east side of Beijing witnessed negative rental growths YoY due to the intense market competition. CBD, Lufthansa, East Chang'an Avenue and Asia-Olympic submarkets saw their rental indices down by 6.8%, 6.2%, 5.4% and 5.7% YoY, respectively, in Q1/2021.

In terms of emerging submarkets, Lize saw its average rent down by 19.6% YoY to RMB159.2 per sq m per month in Q1/2021 due to short-term oversupply and a vacancy rate as high as 61.4%.

MARKET OUTLOOK

With the pandemic effectively under control, and the economy rapidly recovering, demand in Beijing's office market is gradually back on track with increased leasing activities. However, the annual Grade A office new supply in 2021 is anticipated to reach over 1.3

TABLE 1: Major Leasing Transactions In Grade A Office Market, Q1/2021

NAME	INDUSTRY	DOMICILE	PROJECT	LOCATION	GFA (SQ M)
China Three Gorges Corporation	Conglomerate	Domestic	Poly Metropolitan	Tongzhou	26,000
Dentons	Professional Services	Domestic	ZT International Centre A/B	East 2nd Ring Road	15,000
Alibaba	Information Technology	Domestic	Ronsin Technology Center	Wangjing	12,000
Honor	Information Technology	Domestic	M Tower	Lize	8,400
Amazon	Information Technology	International	Indigo	Wangjing	7,000
Sony	Conglomerate	International	Ping An International Financial Centre	Lufthansa	7,000
Roche	Healthcare	International	CP Centre	CBD	5,000
Gaosheng Wealth Holding Group	Finance	Domestic	Beijing Cheng Ao Plaza	Asia-Olympic	4,840

Source Savills Research

million sq m, which is expected to bring significant pressure on landlords. New supply in 2021 will be mainly focused in CBD, Lize and Tongzhou submarkets, which is forecasted to push up the vacancy rates as high as 20% and suppress rental levels in these precincts.

However, the annual new office supply in 2022 and 2023 is expected to gradually decline to a relatively lower level of around 600,000 sq m and 300,000 sq m, respectively. These two years with limited supply will provide a great opportunity for landlords to adjust leasing strategies and accelerate the pace of absorbing vacant space.

Beijing is positioned as the national centre of politics, culture, international exchanges and scientific and technological innovation. It has a huge attraction from leading enterprises and talents around the world. Both information technology and finance industries have experienced rapid growth in recent years. As for the Grade A office leasing market, information technology and finance firms will continue to show strong demand and are expected to dominate the leasing market in the foreseeable future in Beijing.

Meanwhile, it is an apparent trend that an increasing number of tenants have started to re-evaluate or initiate plans for new leases, relocations, expansions or integrations, with the tenants taking advantage of the downward rental trend in the market to reduce leasing costs in their future tenancy agreements.

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