Asian Cities - 1H 2023

SPOTLIGHT
Savills Research

Beijing Offices

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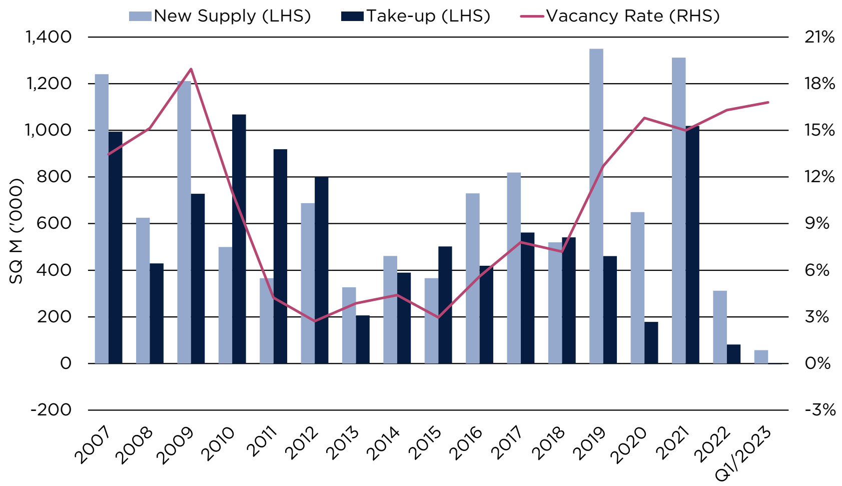
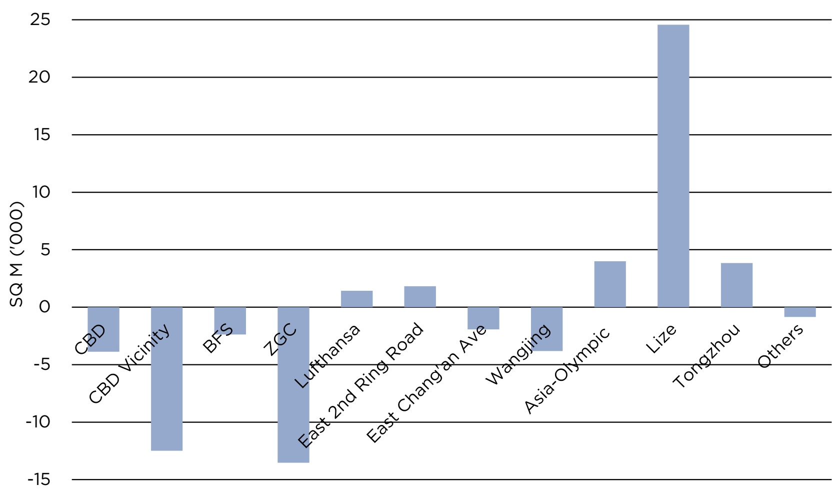
Beijing office market sees slow recovery

GRAPH 1: Supply, Net Absorption and Vacancy Rates, 2007 to Q1/2023



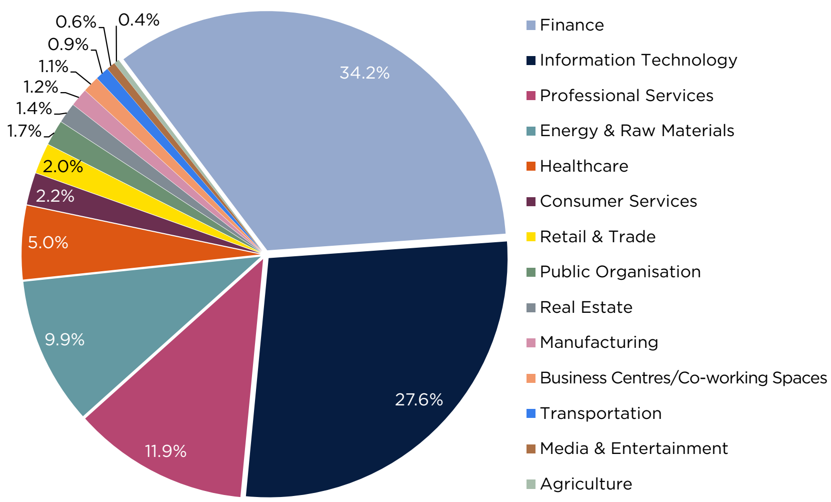
Source Savills Research

GRAPH 2: Absorption by Submarket, Q1/2023



Source Savills Research

GRAPH 3: Absorption by Tenant Category, Q1/2023



Source Savills Research

MARKET OVERVIEW

Beijing office market kicked off with a slow start in 2023. The removal of COVID restrictions guaranteed business activities back to normal while enterprises resumed their leasing plans. Grade A office leasing inspections in Beijing rebounded swiftly, but it is still expected to take time for this to translate into new leases or for self-sustaining momentum to gain sufficient steam.

One new project was launched in Q1/2023, adding a total of 57,415 sq m to the Grade A office market. The new supply and weak take-up caused the citywide vacancy rate to increase 0.5 percentage point (ppt) quarter-on-quarter (QoQ) to 16.8% while the Grade A office rent fell 1.3% QoQ to an average of RMB321.7 per sq m per month.

The proportions of the leading demand drivers for Grade A offices kept adjusting at the beginning of 2023. The main demand drivers focused on Finance, IT, Professional Services and Energy sectors. On the contrary, leasing demand from other industries were relatively limited and represented a smaller share of the market.

SUPPLY

One new project entered the Beijing Grade A office market in Q1/2023, which is Tongzhou Centre C01 tower in the Tongzhou Canal Business District, bringing a total of 57,415 sq m of new supply to the Grade A office market. The citywide Grade A office stock totalled 14.4 million sq m (including self-use space) by the end of Q1/2023.

Over 570,000 sq m of new supply is expected to enter the Grade A office market in the remainder of 2023, a result of the pandemic-related delays in the construction progress. New projects were mainly located in Asia-Olympic, East Second Ring Road, Zhongguancun and Tongzhou precincts. The increase in supply, along with the decline in demand, will unquestionably increase the pressure on the market's revitalization.

DEMAND

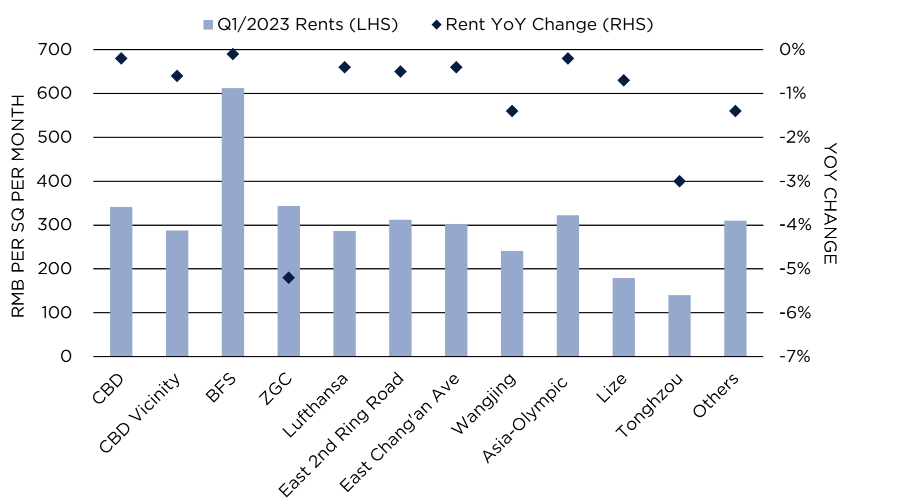
The removal of COVID restrictions has prompted business activities to return to normal and the enterprises restarted their leasing or relocating plans. Grade A office inspections rebounded quickly, but the activities still took time to translate into new leases, expansions or relocations. The market once again recorded space being handed back to the market with negative citywide net absorption of 3,220 sq m in Q1/2023. As a result, the citywide vacancy rate inched up 0.5 ppts QoQ to 16.8% and up 1.5 ppts year-on-year (YoY).

The submarkets that recorded positive net take-up in Q1/2023 included two emerging markets (Lize and Tongzhou) and three sub-prime markets (East Second Ring Road, Asian Olympic Village and Lufthansa). Lize recorded net take-up of over 24,000 sq m resulting in the vacancy rate falling by 1.9 ppts. Other submarkets, on the other hand, saw increases in terminations and lease expiries without renewals. Zhongguancun and CBD vicinity were impacted by the early termination of tenancies by internet and retail tenants, resulting in negative net take-up of 13,500 and 12,490 sq m respectively.

The breakdown of leasing demand from different industries in the office market continued to adjust at the beginning of 2023. Specifically, Finance, Information Technology, Professional Services and

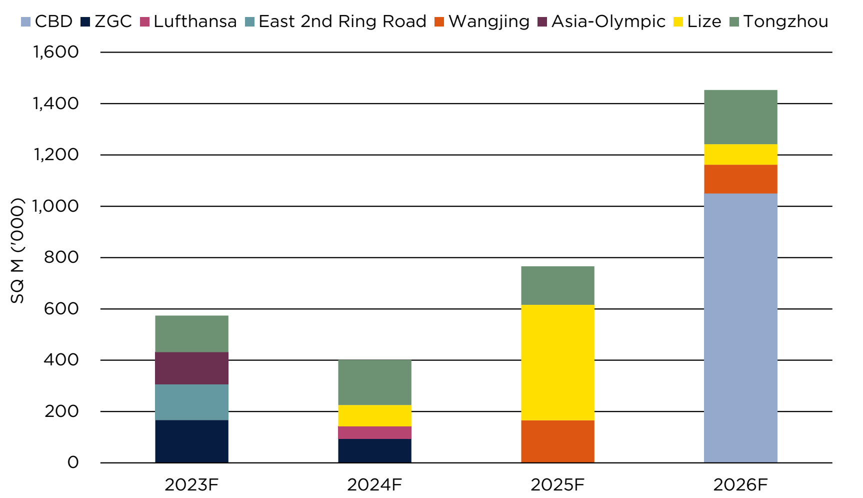
Leasing demand saw negative absorptions in the first quarter and will need more time and patience to bounce back. In the post-pandemic era, Beijing Grade A office market will take longer time to fully recover.

GRAPH 4: Grade A Office Rents and Growth Rates, Q1/2023



Source Savills Research

GRAPH 5: Grade A Office Future Supply, 2023 to 2026



Source Savills Research

Energy tenants were the top demand drivers in the quarter. Financial firms maintained their expanding appetite and accounted for 34.2% of the total leasing deals tracked in Q1/2023, compared with 29% in Q1/2022. Demand from IT also picked up 4.5 ppts YoY to 27.6% compared with 23.1% in the corresponding period last year. The Finance and IT sectors, along with Professional Services (11.9%), Energy & Raw Materials (9.9%) and Healthcare (5%) accounted for 88.6% of the total absorbed space in Q1/2023. However, leasing demands from other traditional industries were relatively limited and constituted smaller market shares (less than 5%).

RENTS

Given the elevated vacancy rates and weak leasing activity, tenants maintained the upper hand in negotiations, securing rental discounts and better services. As a result, Grade A office rents declined 1.3% QoQ to an average of RMB321.7 per sq m per month, down 5.1% YoY.

All the submarkets experienced negative growth in average rents in Q1, mainly because landlords had to lower rents or provide more incentives (rent-free periods or fit-out subsidies) to attract quality tenants. Despite the decline in rents, BFS remained the most expensive office submarket in the capital city with rents averaging at RMB612.2 per sq m per month. Meanwhile, Zhongguancun received the biggest rental decrease by 5.2% QoQ to 343.5 per sq m per month, followed by Tongzhou, down 3.0% QoQ to 139.7 per sq m per month, and Wangjing, falling 1.4% QoQ to 241.5 per sq m per month.

By far, vacancy rates in major precincts ranged between 10% and 35% and leasing demand remained sluggish. Rents, as a result, decreased as tenants looked for more price cuts and improved incentives. However, the overall rent is anticipated to stabilise when the market is ready to return to normal.

TABLE 1: Major Leasing Transactions in Grade A Office Market, Q1/2023

NAME	INDUSTRY	DOMICILE	PROJECT	LOCATION	GFA (SQ M)
ICBCCS	Finance	JV	Glory Star Financial Towers	Lize	10,000
Chengtong Securities	Finance	Domestic	Jiaming Centre	CBD Vicinity	9,000
Veritas	Information Technology	International	Raycom InfoTech Park Tower C	Zhongguancun	2,160
China Foreign Economic and Trade Trust	Finance	Domestic	Ping An Fortune Centre	Lize	1,660
SK Enmove	Manufacturing	International	No. 33 Xiaoyun Road	Lufthansa	1,600
IN CAPITAL	Finance	Domestic	Sunshine Financial Centre	CBD	1,000

Source Savills Research

MARKET OUTLOOK

Over 570,000 sq m of new supply is expected to enter the Beijing Grade A office market in the remainder of 2023, and the new projects mainly are located in Asia Olympic Village, East Second Ring Road, Zhongguancun and Tongzhou. Compared with the annual supply of over 312,000 sq m in 2022, it is unavoidable that the pressure on landlords would intensify due to the surge in supply that coincides with the increasing vacancies.

While the economic data in the first quarter is encouraging, the recovery in the office market is still uneven, with different industries experiencing different short-term outlooks that generate varied leasing requirements. Demand from Finance and Professional Service sectors remain relatively stable, while high-tech and internet giants are looking to reduce leasing demand in 2023. It will take more time and patience to better balance between supply and demand. Therefore, it is forecast that the citywide vacancy rate will rise to a relatively high level. The overall rent is expected to drop in the short term. The market has experienced a rough start this year, but there is optimism that 2023 will be a turning point for the market.

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