Beijing office market reels from COVID-19
Office market sees enormous pressure due to dropped leasing activities.

- One new project was launched in Q1/2020, bringing Beijing’s Grade A office stock to 12.38 million sq m (including self-use GFA).
- The new project, Poly Metropolitan, is located in Tongzhou Canal Core Area and is the very first wholly-owned Grade A office project in the precinct, bringing 94,815 sq m to the market.
- COVID-19 lifted the citywide vacancy rate by 0.5 of a percentage point (ppt) quarter-on-quarter (QoQ) and 6.0 ppts year-on-year (YoY) to 13.2%.
- Citywide Grade A office average rent declined for the fifth consecutive quarter, pushing the rental index down 0.2% QoQ and 2.6% YoY to RMB363.0 per sq m per month in Q1.
- Net absorption was down by a remarkable 92.9% QoQ to 20,392 sq m in the first quarter due to dropped leasing activities caused by the pandemic.
- Launch times of future supply are expected to be delayed until a more stable economic circumstance. The market is expected to witness a supply influx in the second half of 2020, which will bring even more severe challenges for absorption.

“The COVID-19 outbreak severely impacted China’s economy as well as Beijing’s office market. Both landlords and tenants are facing enormous pressure from the stagnate leasing market in the first quarter and should adjust their leasing strategies accordingly to make it through the dark days caused by this pandemic.”
VINCENT LI, SAVILLS RESEARCH
THE IMPACT OF COVID-19
The current pandemic has had a greater impact on the national economy than the SARS outbreak in 2003. In the commercial real estate sector, leasing activities in Beijing’s office market were almost completely frozen, and key indicators like rent and absorption continued to soften during Q1/2020. Consequently, landlords will need to pay more attention to enhancing building quality and other services e.g., green and healthy working environments and others to a new level; moving forward, tenants will value health indicators of buildings and the property management services much more than in previous quarters.

SUPPLY AND DEMAND
One new project entered the Grade A office market in Q1/2020, bringing the citywide Grade A office stock to 12.38 million sq m (including self-use GFA). The new project, Poly Metropolitan, is located in Tongzhou Canal Core Area, and is the very first wholly-owned Grade A office project in the precinct, bringing 94,815 sq m to the market. Activities such as site inspections and interior decorations were suspended due to COVID-19. Certain tenants with original intentions to move were now inclined to stay put and renew their tenancy agreements. Hence, the net absorption of Beijing’s office market dropped 92.9% QoQ and 6.0 ppts YoY.

RENTERS AND VACANCY RATES
The stagnant leasing market lifted the citywide Grade A office vacancy rate to 13.2%, up 0.5 ppt QoQ and 6.0 ppts YoY. During Q1/2020, vacancy rates in traditional prime submarkets with relatively low tenant turnover rates like Beijing Financial Street (BFS) and Zhongguancun (ZGC) still remained low, holding at 2.1% and 3.7%, respectively; CBD, by contrast, kept a higher vacancy rate at 12.5% due to its supply influx in 2019. In terms of non-prime and emerging submarkets, Asia-Olympic exhibited slower absorption and saw its vacancy rate at 37.8% due to the Asian Financial Centre debut in Q4/2019; Lize Financial Business District started to show relatively decent absorption and edged down its vacancy rate by 1.9% QoQ and 12.7% YoY to 68.2%.

Meanwhile, landlords had to adjust leasing strategies and lower their expectations toward rent under softening demand and the stagnate leasing market, resulting in the citywide Grade A office average rent declining for the fifth consecutive quarter. The rental index was down 0.2% QoQ and 2.6% YoY to RMB363.0 per sq m per month in Q1/2020.

MARKET OUTLOOK
Launch times of future supply are expected to be postponed due to COVID-19, and the market should witness a supply influx in the second half of 2020 which will bring more pressure on absorption. The citywide vacancy rate is still anticipated to go up during Q1/2020. Consequently, the rental index is still anticipated to go up due to COVID-19, and the market should witness a supply influx in the second half of 2020 which will bring more pressure on absorption. The citywide vacancy rate is still anticipated to go up during Q1/2020. Consequently, landlords will need to first lock in quality tenants, then prioritise existing tenants and carefully choose office projects with higher standards e.g., more healthy and green building indicators.

### TABLE 1: Major Leasing Transactions, Q1/2020

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>INDUSTRY</th>
<th>ORIGIN</th>
<th>PROJECT</th>
<th>LOCATION</th>
<th>GFA (SQ M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zhen Fund</td>
<td>Finance</td>
<td>Domestic</td>
<td>China World Trade Centre Tower 1</td>
<td>CBD</td>
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<td>Finance</td>
<td>Domestic</td>
<td>World Finance Centre</td>
<td>CBD</td>
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<td>Baoduo.com</td>
<td>Information Technology</td>
<td>Domestic</td>
<td>Landgent Centre</td>
<td>CBD Vicinity</td>
<td>570</td>
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<tr>
<td>Terminus Technologies</td>
<td>Information Technology</td>
<td>Domestic</td>
<td>The Genesis</td>
<td>Lufthansa</td>
<td>560</td>
</tr>
<tr>
<td>Shenzhen Mixis Link</td>
<td>Information Technology</td>
<td>Domestic</td>
<td>Posco Centre</td>
<td>Wangjing</td>
<td>1,200</td>
</tr>
</tbody>
</table>

Note: All submarkets are based on an index value of 100=Q1/2020, excluding ZGC - 100=Q1/2002; Wangjing - 100=Q3/2008; Asia-Olympic - 100=Q4/2010, Lize starting - 100=Q4/2017

Source: Savills Research