Leasing demand in Beijing skyrockets

Net absorption far exceeded expectations with transactions increasing significantly in Q2/2021.

- Four new Grade A office projects added 376,000 sq m to the market in Q2/2021, namely Taikang Group Tower in CBD, Hexa International Plaza in East 2nd Ring Road, Times Olympia in Asia-Olympic Area and Ping An Fortune Centre in Lize Financial Business District (FBD).

- Beijing’s Grade A office stock reached 13.55 million sq m (including self-use GFA) by the end of Q2/2021.

- Citywide net absorption surged to 223,700 sq m, up 34.7% quarter-on-quarter (QoQ) and more than sixfold year-on-year (YoY).

- The citywide vacancy rate increased by 0.7 of a percentage point (ppt) in Q2/2021 to 17.3%, up 3.6 ppts YoY.

- Despite the increased take up rate, vacancies remained high. Accordingly, rents remained under downward pressure. Grade A office rents fell 0.3% on an index basis in Q2/2021 to an average of RMB341.3 per sq m per month, down 3.6% YoY.

- The market is expected to receive five new projects in the second half of the year, bringing close to 700,000 sq m of new supply.

“The Beijing office market remained active in Q2/2021 with significant demand for new space, expansion or relocation causing net absorption to soar. Technology and financial firms were the main drivers of leasing activity.”

VINCENT LI, SAVILLS RESEARCH
SUPPLY AND DEMAND
Four new projects were launched onto the market in the second quarter of 2021, adding 376,000 sq m and bringing the citywide Grade A office stock (including self-use space) to 12.6 million sq m by the end of the quarter. The projects included Taikang Group Tower (140,000 sq m) in the CBD, Hexa International Plaza (56,000 sq m) in East 2nd Ring Road Area, Times Olympia (32,200 sq m) in Asia-Olympic Area and Ping An Fortune Centre (147,000 sq m) in Lize FBD.

The citywide net absorption increased 34.7% QoQ to 223,700 sq m, up six-fold YoY. This brings absorption for the first half of 2021 to 390,000 sq m, more than double the full-year absorption of just 177,000 sq m recorded in 2020.

IT and tech firms continued to be the key driver of new leasing demand despite greater regulatory oversight of tech firms with regards to financial stability, anti-competitive practices and data security. IT and tech firms accounted for approximately 30% of tracked leasing activity in the first half of 2021, while financial firms accounted for a quarter of tracked leased area. Other industries, such as professional services, healthcare and consumer services accounted for an additional 23%, meaning these five sectors accounted for more than three-quarters of leasing activity in the first half of 2021.

RENTS AND VACANCY RATES
The citywide Grade A office vacancy rate continued its climb in Q2/2021 despite the strongest take-up figures seen in six quarters. Vacancy rates touched 17.3%, the highest they have been since 2010, up 0.7% QoQ and 3.6% YoY.

The financial and tech hubs of BFS and Zhongguancun maintained sub-5% vacancy rates, by contrast, vacancies rates in East 2nd Ring Road (21.4%), Asia Olympic (37.4%) and Lize (58.6%) remained at high level. The CBD and its vicinity, by far the largest submarket in Beijing, accounting for more than three-quarters of tracked leased area. Other industries, such as professional services, healthcare and consumer services accounted for an additional 23%, meaning these five sectors accounted for more than three-quarters of leasing activity in the first half of 2021.

MARKET OUTLOOK
Approximately 700,000 sq m of new supply is expected to enter the market in 2H/2021, bringing annual supply close to 1.4 million sq m, which would equate to historical peaks in 2019 and exceed annual levels seen over the decade prior to that. Lize will receive three projects with a total GFA of 500,000 sq m, while the CBD and Zhongguancun will each receive one new project.

Given the current pace of absorption, the injection of new supply in 2H/2021 should result in a further climb in vacancy rates, continuing to place pressure on landlords. Nevertheless, 2022-23 is expected to see a lull in leasing activity as tenants reassess the relative occupation costs in their preferred submarket. Either way, landlords continue to look not just at competing buildings in their local geography but are also starting to consider more the competition between submarkets as tenants way up their options.

While tenant demand continues to recover, citywide vacancy rates remained high, giving tenants in some locations the upper hand in negotiations. Landlords in submarkets where vacancy rates are particularly high have so far typically lacked significant tech or finance business tenants that are responsible for the lion’s share of the recent increased uptake. Added to this, some are also facing significant future supply. This is not to say that submarkets are completely isolated from the wider market. We have witnessed bleeding between non-traditional submarkets where financial firms have moved or expanded from BFS to Lize and tech firms from Zhongguancun to Asia Olympics and Wangjing areas. Much of this is due to either a lack of inventory or relative occupation costs in their preferred submarket. Either way, landlords continue to look not just at competing buildings in their local geography but are also starting to consider more the competition between submarkets as tenants way up their options.

Grade A office rent declines slowed 0.3% QoQ on an index basis to an average of RMB341.3 per sq m per month down 3.6% YoY. Rental changes ranged from a growth of 3.3% in Lize FBD to a decline in rents of 1.6% in Asia Olympic.

TABLE 1: Major Leasing Transactions in Q2/2021

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>INDUSTRY</th>
<th>ORIGIN</th>
<th>PROJECT</th>
<th>LOCATION</th>
<th>GFA (SQ M)</th>
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<tbody>
<tr>
<td>Tencent</td>
<td>Information Technology</td>
<td>Domestic</td>
<td>Samsung Tower</td>
<td>CBD</td>
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<td>China Minsheng</td>
<td>Finance</td>
<td>Domestic</td>
<td>ZT International Centre A/B</td>
<td>East 2nd Ring Road</td>
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<td>Bank</td>
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<td>Nuo Centre</td>
<td>Lize</td>
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<td>Car Inc.</td>
<td>Transportation</td>
<td>Domestic</td>
<td>East 2nd Ring Road</td>
<td>Lize</td>
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<td>UCOMMUNE</td>
<td>Co-working Spaces</td>
<td>Domestic</td>
<td>Asian Financial Centre</td>
<td>Lize</td>
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<td>Tian Yuan Law</td>
<td>Professional Services</td>
<td>Domestic</td>
<td>China Life Financial Centre</td>
<td>CBD</td>
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<td>Firm</td>
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<td>Ping An Fortune Centre</td>
<td>Lize</td>
<td>1,200</td>
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