MARKET
IN
MINUTES
Savills Research

Office

The year gets off to a slow start

Demand remains weak, resulting in climbing vacancy rates.

- Tongzhou Centre C01 tower, located in the Tongzhou Canal Business District, was officially launched into the Beijing Grade A office market in Q1/2023, adding 57,415 sqm to the market.
- Potential client inspections picked up significantly in the first quarter with companies looking for new spaces.
- Tenants remain cautious with demand not yet fully recovered, leading to 3,220 sqm being handed back to the market.
- New supply and weakening demand resulted in the citywide vacancy rate rising 0.5 percentage point (ppt) in Q1/2023 to 16.8%, up 1.5 ppts YoY.
- Grade A office rents continued to decline, falling 1.3% QoQ to an average of RMB321.7 psm pmth, down 5.1% YoY.
- Beijing's Grade A office market will receive 570,000 sqm of new office space in 2023. The recovery in demand meanwhile is uneven with more time required to see a full recovery.

"Site inspections increased significantly as tenants resume leasing plans, nevertheless, net take-up remained negative in the first quarter and it will take longer for the market to see a full recovery."

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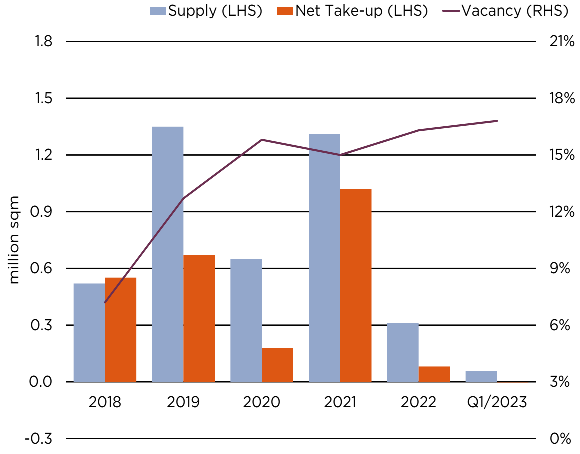
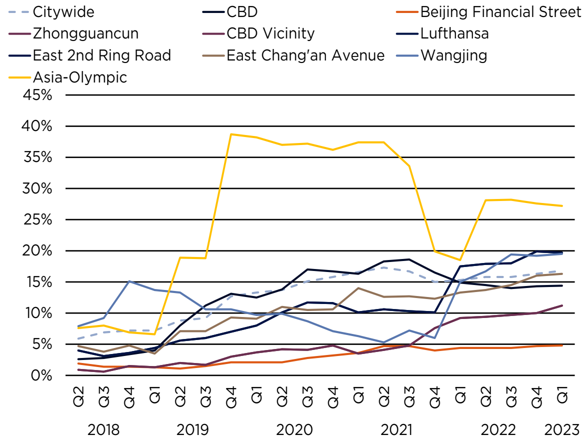
GRAPH 1: Supply, Take-up And Vacancy, 2018 to Q1/2023



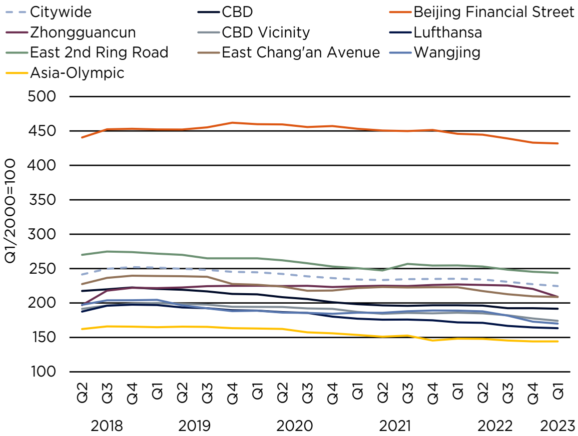
Source Savills Research

GRAPH 2: Vacancy Rates In Each Submarket, Q2/2018 to Q1/2023



Source Savills Research

GRAPH 3: Rental Indices In Each Submarket, Q2/2018 to Q1/2023



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

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

The removal of Covid restrictions has meant that business activities can return to normal while enterprises resumed leasing plans. Grade A office leasing inspections rebounded swiftly, but it will take time for this to translate into new leases or for self-sustaining momentum to build up enough steam. The market once again recorded space being handed back to the market with negative citywide net absorption of 3,220 sqm in Q1/2023.

The submarkets which 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 sqm resulting in vacancy rate falling by 1.9 ppts. Other submarkets, saw an increase 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 sqm respectively.

RENTS AND VACANCY RATES

New supply and sluggish demand resulted in citywide vacancy rate rising by 0.5 ppt QoQ to 16.8%, up 1.5 ppts YoY. Despite a rise in the citywide rate, some submarkets still saw their vacancy rates fall. Lize saw vacancy rate fall 1.9 ppts QoQ to 35.2% while vacancy rates in East Second Ring Road, Lufthansa and Asian Olympic Village fell 0.1 ppt, 0.2 ppt and 0.4 ppt QoQ respectively. Several multi-floor leases by financial institutions were signed in some of these submarkets in the quarter.

Given the elevated vacancy rates and weak leasing activity, tenants maintained the upper hand in negotiations, securing rental discounts and better services. Grade A office rents declined 1.3% QoQ to an average of RMB321.7 psm pmth, down 5.1% YoY. All submarkets saw rents fall by varying degrees, with Zhongguancun, Tongzhou and Wangjing experiencing the biggest declines, falling by 5.2%, 3.0% and 1.4% QoQ respectively.

MARKET OUTLOOK

Over 570,000 sqm of office space is expected to be added to the Beijing Grade A office market in 2023, a result of the pandemic-related delays in the construction progress. The surge in supply, coinciding with the weakened demand, will undoubtedly increase pressure on landlords.

While first quarter economic data is encouraging, the recovery is uneven, with different industries experiencing different short-term outlooks which generate different leasing requirements. Demand from finance and professional service sectors remained relatively stable, while tech and internet giants are looking to reduce their leasing demand in 2023. More time and patience will be needed to see a better balance between supply and demand. Despite a slow start to the year, there is optimism that 2023 will be a turning point for the market.

TABLE 1: Major Leasing Transactions in Q1/2023

COMPANY	INDUSTRY	ORIGIN	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
SK Lubricants Co., Ltd.	Manufacturing	International	No. 33 Xiaoyun Road	Lufthansa	1,600
IN CAPITAL	Finance	Domestic	Sunshine Financial Centre	CBD	1,000

Source Savills Research