



Beijing office market remained stagnant

Continued weakening demand drove vacancy rates higher again.

- Beijing Grade A office market welcomed four new projects to the market in Q2/2023, including two for urban renewal and two newly constructed, bringing 244,000 sqm of new supply to the market.
- As a result of weakening demand, the Beijing office market experienced a slower recovery than expected.
- Citywide net absorption turned negative again in Q2/2023 with 13,460 sqm of space handed back to the market, the third consecutive quarter recording negative since Q4/2022.
- New supply and sluggish demand resulted in the citywide vacancy rate rising 1.5 percentage points (ppts) quarter-on-quarter (QoQ) in Q2/2023 to 18.3%, up 2.5 ppts year-on-year (YoY).
- Grade A office rents continued to decline by 2.9% QoQ to an average of RMB312.5 psm pmth, down 7.4% YoY.
- Beijing Grade A office market will see an influx of supply of 510,000 sqm in H2/2023. The market will still face challenges and pressures during the slowing recovery.

“Beijing office market underperformed and failed to rebound in Q2/2023. As of mid-year, the market suffered from lacklustre demand, prevented by adverse conditions. New supply in the second half of the year will continue to bring pressure on the market, but the decent pre-commitment from the upcoming projects is expected to boost overall market performance in the remainder of 2023.”

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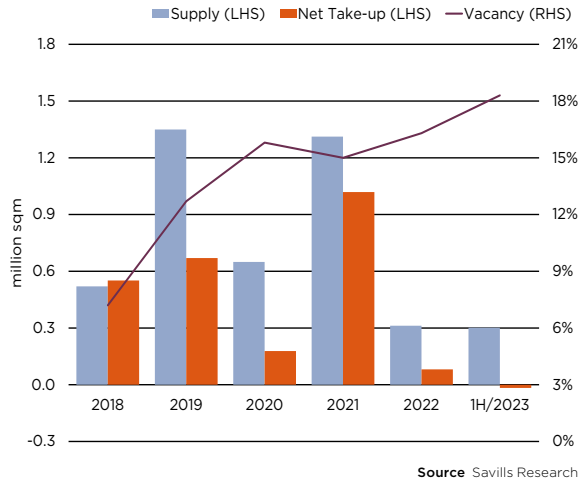
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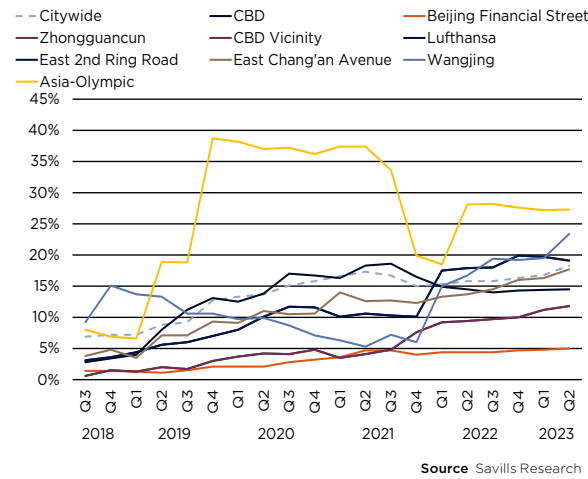
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GRAPH 1: Supply, Take-up And Vacancy, 2018 to 1H/2023



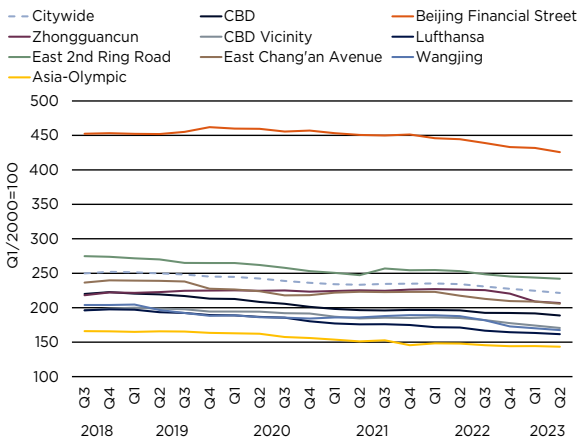
Source Savills Research

GRAPH 2: Vacancy Rates In Each Submarket, Q3/2018 to Q2/2023



Source Savills Research

GRAPH 3: Rental Indices In Each Submarket, Q3/2018 to Q2/2023



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

Four new projects were added to the office leasing market in Q2/2023, including two urban renewal projects and two newly constructed projects, adding 244,000 sqm and bringing the citywide Grade A office stock (including self-use space) to 14.64 million sqm. The two urban renewal projects include Jing IN International Centre (102,000 sqm) in the South Second Ring Road and Poly Plaza Laiguangying (57,000 sqm) in Wangjing, the other two KWG International Finance Plaza Tower 4B (27,000 sqm) and Sino-Ocean Grand Canal Place Office Tower II (58,000 sqm), both located in Tongzhou Canal Business District.

In the first half of 2023, the office market experienced a slower recovery than expected as domestic economic growth lacked momentum and leasing demand was also restrained. Citywide net absorption turned negative again in Q2/2023 with 13,460 sqm of space handed back to the market, the third consecutive quarter negative since Q4/2022. In the first half of the year, net absorption totalled negative 16,700 sqm, reflecting lacklustre demand in the market.

Two emerging markets (Lize and Tongzhou) and two sub-prime markets (East Second Ring Road and Lufthansa) saw positive net take-up in Q2/2023. It is worth noting that Lize's take-up reached over 22,000 sqm, its vacancy rate declined by 1.7 ppts on a quarterly basis. By contrast, other business districts such as Zhongguancun and East Chang'an Avenue showed varied downturn, receiving negative net take-up of 7,100 sqm and 8,900 sqm respectively, pushing the vacancy rate even higher than Q1.

RENTS AND VACANCY RATES

The half-year new supply in the Beijing Grade A office market accumulated to 302,000 sqm, up 28.2% from a year earlier, indicating that supply in the office market has returned to normal. However, mainly due to weakening demand and slowing economic growth, the citywide vacancy rate rose 1.5 ppts QoQ in Q2/2023 to 18.3%, up 2.5 ppts YoY. Vacancies in Lize, East Second Ring Road and Lufthansa declined to varied extent this quarter. Specifically, vacancy rate in Lize submarket dropped 1.7 ppts QoQ to 33.5%, the biggest decrement among all the submarkets, thanks to its outstanding building quality and favourable rental level.

Given the elevated vacancy rates, tenants maintained the upper hand in negotiations, hence landlords had to continue adjusting the leasing strategy and offer more incentives to secure limited demand, which directly prompted the citywide average rent in Grade A office to decline by 2.9% QoQ to RMB312.5 psm pmth, down 7.4% YoY. All submarkets saw their rents down by varied degree, in which Wangjing, Tongzhou and CBD Vicinity saw over 2% of rental decrease.

MARKET OUTLOOK

Looking forward, Beijing office market will welcome 510,000 square metres of new office space in the remainder of 2023 for supply. For the demand, the slowdown of domestic economy this year, as well as the leasing demand downturn has inhibited the Beijing office market from recovering. Nevertheless, the market is anticipated to bounce back in the second half of the year, mostly due to the decent pre-commitment of upcoming projects. Overall, Beijing office market is still facing significant challenges and pressures during its recovery progress.

TABLE 1: Major Leasing Transactions in Q2/2023

COMPANY	INDUSTRY	ORIGIN	PROJECT	LOCATION	GFA (SQ M)
Xiron Group	Media & Entertainment	Domestic	Vanke Times Olympia	Asia-Olympic	6,300
CSCEC 4th Division	Real Estate	Domestic	AZIA Centre	Lize	3,600
Yuexiu Property	Real Estate	Domestic	Lize Ping An Finance Centre	Lize	2,800
Sharetimes Technology	Media & Entertainment	Domestic	New Everbright Centre Tower 5A	Tongzhou	2,300
Hitachi Vantara	Information Technology	International	No. 33 Xiaoyun Road	Lufthansa	1,600

Source Savills Research