

Office



Beijing office market in new adjustment cycle

The slowdown in market recovery and increased vacancies intensify the pressure.

- In Q4/2023, the Grade A office market in Beijing saw three new projects and 192,000 sqm of new supply. By the end of 2023, the citywide Grade A office stock reached 15.21 million sqm (including self-use areas).
- Throughout 2023, the overall new supply of Grade A office in the city reached 875,000 sqm, approximately 2.8 times of that last year. The substantial increase in supply continued to escalate the pressure for absorption.
- In the quarter, market demand weakened from the previous quarter, recording a net absorption of 21,000 sqm, down 83.2% from the previous quarter.
- Nevertheless, the total absorption of Beijing Grade A office market in 2023 showed a decent increase compared with last year, reaching approximately 127,000 sqm, an increase of 56.7% over last year.
- Beijing Grade A office vacancy rate continued to rise by 0.9 percentage points (ppts) quarter-on-quarter (QoQ) to 20.4%, up 4.1 ppts year-on-year (YoY).
- Meanwhile, Grade A office rents continued to decline by 2.3% QoQ to an average of RMB303.2 psm pmth, down 6.9% YoY.

“In Q4/2023, Beijing Grade A office market did not continue the positive trend from the previous quarter and experienced a decline in leasing demand. Throughout the year, the office market saw substantial new supply, totalling 875,000 sqm during the post-pandemic stage. The supply provided multiple choices for tenants, but also directly intensified market competitions, placing landlords under increasing pressure to destock.”

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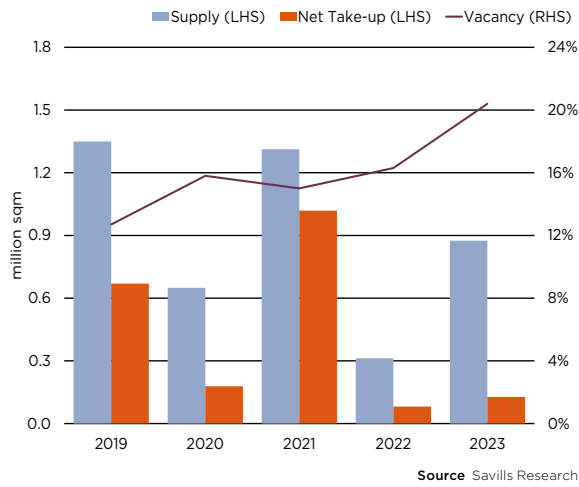
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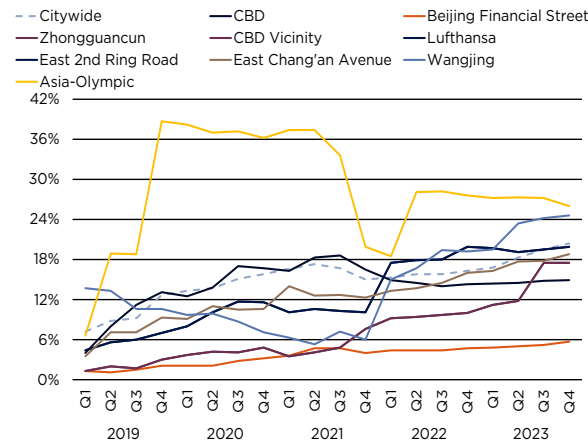
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GRAPH 1: Supply, Take-up And Vacancy, 2019 to 2023



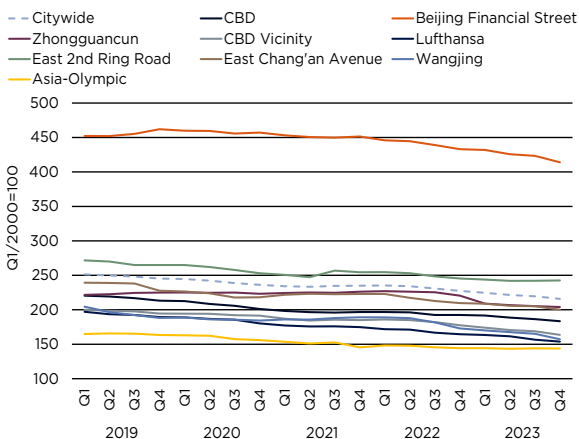
Source Savills Research

GRAPH 2: Vacancy Rates In Each Submarket, Q1/2019 to Q4/2023



Source Savills Research

GRAPH 3: Rental Indices In Each Submarket, Q1/2019 to Q4/2023



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

In Q4/2023, the Grade A office market in Beijing welcomed three new projects, namely Lijin Center in Lize area, Pacific Eagle Center in Shijingshan District, and Beijing Financial Technology Center, an urban renewal project in Xicheng District. The supply added approximately 192,000 sqm of new office space to the market. By the end of 2023, the total stock of Grade A office space in the city reached 15.21 million sqm (including self-use area).

Throughout 2023, the accumulated new supply of Grade A office reached 875,000 sqm, approximately 2.8 times the overall supply level in the previous year. In short, the Beijing office market led the supply recovery.

On the demand side, the market did not continue the positive trend from the previous quarter. The overall leasing demand in the market declined, resulting in a significant 83.2% QoQ decrease in net absorption to 21,000 sqm. Lize and Asia-Olympic demonstrated outstanding performance this quarter, with positive absorption recorded at 13,000 sqm and 12,000 sqm, respectively.

Throughout 2023, the annual net absorption of citywide Grade A office space reached approximately 127,000 sqm, a 56.7% increase compared with last year. Despite a relatively terrible market performance with continuous negative absorptions in the first half of 2023, the market recovered in the second half, driven by favourable pre-leasing of new projects, which in turn pushed absorption from negative to positive. However, it cannot be ignored that the Beijing office market has entered a new round of deep adjustment cycle.

VACANCY RATES AND RENTS

The citywide Grade A office vacancy rate continued to climb mainly due to abundant supply and weakening leasing demand. The citywide vacancy rate rose 0.9 ppts QoQ in

Q4/2023 to 20.4%, up 4.1 ppts YoY. Only the Asia-Olympic and Tongzhou submarkets experienced vacancy rate decreases this quarter. Specifically, the vacancy rate in Asia-Olympic dropped 1.2 ppts QoQ to 26.0%, and Tongzhou had 1 ppt QoQ decrease to 62.2%.

Throughout the whole year, landlords have adjusted their leasing strategy and rent expectations, aiming to secure limited leasing demand by offering rent cuts or more favourable conditions. Consequently, the average rent in most submarkets, whether prime, sub-prime, or emerging business districts, experienced varying degrees of decline compared to the previous quarter. In Q4/2023, the citywide average rent in Beijing Grade A office decreased 2.3% QoQ to RMB303.2 psm pmth, down 6.9% YoY. Only East Second Ring Road and Lize Business District achieved positive rental growth in Q4. Other submarkets saw quarterly rent declines, with Wangjing experiencing the largest 5.1% decrease.

MARKET OUTLOOK

Over the next three years, the annual supply of Beijing Grade A office is expected to average around 600,000 sqm, maintaining a modest level on the supply side. However, from the demand side, tenants are becoming more cautious about new leases and expansions. Integrating the existing leasing resources and reducing the costs become a primary consideration. It is foreseeable that in the short- and medium-term, the office market may struggle to see a strong rebound or explosive growth in demand, instead facing further adjustments and rebalancing.

For landlords, confronting tenants with constrained budgets and increasing pressure for destocking, enhancing competitiveness through upgrading hardware, improving the quality of property services and adopting more flexible leasing strategies are crucial to better adapt to the current market and seek breakthroughs in the downturn of the market's recovering process.

TABLE 1: Major Leasing Transactions in Q4/2023

COMPANY	INDUSTRY	ORIGIN	PROJECT	LOCATION	GFA (SQ M)
State Grid Network Technology	Information Technology	Domestic	Jing IN International Center	South 2nd Ring Road	19,000
soyoung.com	Healthcare	Domestic	Poly Plaza Laiguangying	Wangjing	9,500
Xiangdixian Computing Technology	Information Technology	Domestic	CSCEC International Centre	Asia-Olympic	5,000
Kuaikan Comic	Media & Entertainment	Domestic	Poly Plaza Laiguangying	Wangjing	3,500
AURORA Group	Professional Services	Domestic	Lanin Tower	East Chang'an Avenue	1,500
BUCCG Survey, Design and Research Institute	Real Estate	Domestic	Vanke Times Olympia	Asia-Olympic	1,400

Source Savills Research