Ample supply and falling rents support steady occupier expansion

+5.2%
GDP
(FY 2023, Y-o-Y)

+2.6%
Retail Sales
(Jan to Feb 2024, Y-o-Y)

+9.4%
Fixed Asset Investment
(Jan to Feb 2024, Y-o-Y)

Source: CBRE Research, Beijing Municipal Statistics Bureau,. Apr 2024

Executive Summary

- **Office:** One new office project came on stream in Q1 2024. New leasing volume declined as relocations continued to dominate. As large-scale surrender cases became rare, citywide net absorption tripled. The decline in Grade A rents surpassed that for the Grade B segment.
- **Retail:** New openings included the newly renovated Wangfujing XIYUE. Mall owners were seen increasing their efforts to attract F&B brands to generate footfall. A consumption recovery underpinned rental growth, led by the CBD, Wangfujing and Sanlitun.
- **Logistics:** One new project was completed in Shunyi. Net take-up was negative for the first time in 10 quarters. Rents fell for the first time since 2010, led by declines in Pinggu.
- **Business Park:** R&D manufacturing properties performed well this quarter. Life sciences occupiers accounted for 40% of all new leases. Greater ZGC led the rental decline but rents in life sciences parks were stable.
- **Investment:** Nine deals were recorded. The two largest deals were for offices, both of which involved institutional investors acquiring assets from property funds. Private and corporate investors favoured retail and hotel investment. Office cap rates climbed further.

Table 1: Quick Statistics

Office	q-o-q	y-t-d	y-o-y
Rent	-2.0%	-2.0%	-6.2%
Vacancy	+0.3 pp	+0.3 pp	+2.9 pp
Retail	**q-o-q**	**y-t-d**	**y-o-y**
Rent	+0.5%	+0.5%	+1.1%
Vacancy	-0.3 pp	-0.3 pp	-1.0 pp
Logistics	**q-o-q**	**y-t-d**	**y-o-y**
Rent	-1.4%	-1.4%	-0.9%
Vacancy	+1.4 pp	+1.4 pp	+0.8 pp
Business Park	**q-o-q**	**y-t-d**	**y-o-y**
Rent	-0.8%	-0.8%	-3.5%
Vacancy	+0.8 pp	+0.8 pp	+3.4 pp
Investment	**q-o-q**	**y-o-y**	**y-t-d total, y-o-y**
Total volume	+24.3%	-7.0%	-7.0%
Domestic	-21.9%	-1.8%	-1.8%

Note: Office rent is the weighted average striking face rent for GFA, excl. mgmt. fee and incl. tax. Retail rent is the simple average shopping mall G/F asking rent for NLA, excl. mgmt. fee and incl. tax. Logistics rent is the weighted average asking rent for GFA, incl. mgmt. fee and excl. tax. Business Park rent is the weighted average asking rent for GFA, incl. mgmt. fee and incl. tax. Transactions include deals above US$10 million in the office, retail, mixed, industrial, hotel and other commercial sectors.

Source: CBRE Research, Q1 2024.

Office

Net Absorption
72,700 sq. m.

Vacancy
+0.3 pp q-o-q

Face Rent
-2.0% q-o-q

Landlords intensify efforts to retain tenants

This quarter saw the completion of just one new office project in the non-traditional office district of Xizhimen. The property achieved a 15% pre-leasing rate upon opening.

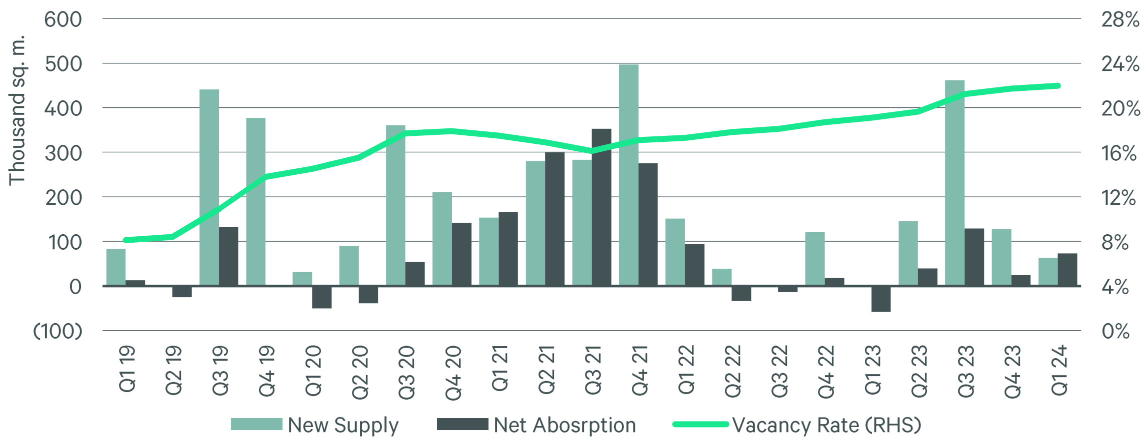
Landlords are stepping up efforts to retain tenants by offering rental and service incentives to improve the success rate of lease renewals. With the first quarter traditionally being a quiet period for leasing activity, new leasing volume declined q-o-q. Relocations continued to dominate, accounting for three quarters of total new leasing volume, with non-prime office buildings attracting the bulk of activity. The CBD, Olympic and Lize submarkets attracted relocation demand from decentralised locations, while relocation activity in ZGC was driven by domestic flight-to-quality demand. Finance was the most active sector, accounting for 31% of new leases, driven by consolidation and relocation by insurance firms and funds. TMT followed with 21% of the total, led by small-sized software, cloud computing, and big data companies seeking spaces below 2,000 sq. m.. Consumer products ranked third, with several large-sized upgrading and relocation transactions completed this quarter.

Rental decline accelerates with falls in Grade A segment surpassing Grade B

With large-scale surrender cases increasingly rare, citywide net absorption tripled q-o-q. Tech hubs including ZGC and Olympic, as well as emerging submarkets such as Lize, Tongzhou, and Shijingshan, all achieved net take-up of over 10,000 sq. m. as they attracted tenants looking to relocate. The addition of new supply pushed up the overall vacancy rate 0.3 pps. q-o-q to 22.0%. Average face rents edged down by 2.0% q-o-q on a like-for-like basis to RMB 283.3 per sq. m. per month, driven by Wangfujing, CBD, Financial Street, Wangjing and Lufthansa. During the quarter, several premium buildings lowered rents to attract high-profile tenants, ensuring the decline in Grade A rents surpassed that in the Grade B segment for the first time in seven quarters.

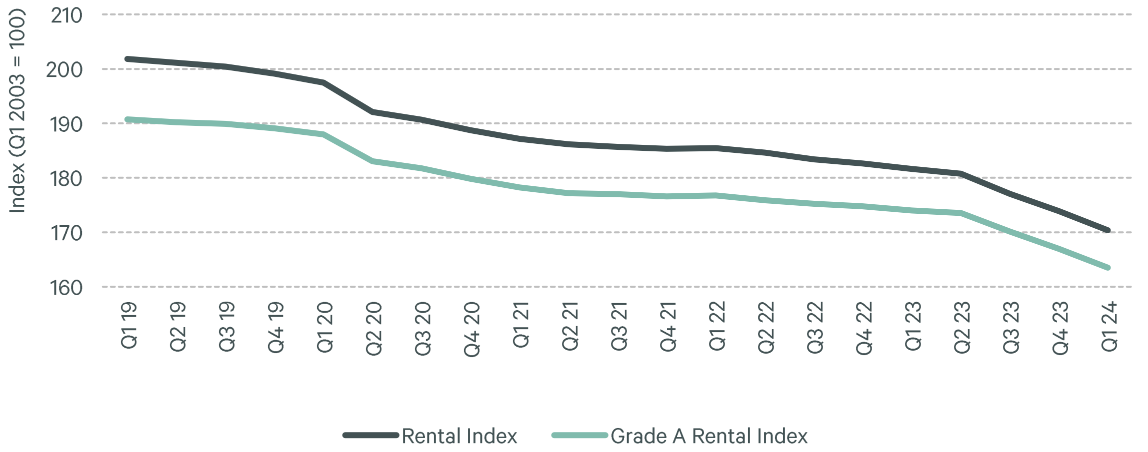
As no new supply is due to come on stream over the next six months, tenants' site selection will mainly focus on existing buildings. In the short term, competition for relocating tenants will continue to exert downward pressure on rents both for Grade A and Grade B buildings. In the longer term, recent policies introduced by the Beijing Municipal Government to promote start-up companies and fund the development of high-tech and small and medium-sized enterprises, are expected to boost business confidence, drive a demand recovery and result in lower vacancy.

FIGURE 2: Office Supply and Demand



Source: CBRE Research, Q1 2024

FIGURE 3: Office Rental Index



Source: CBRE Research, Q1 2024

Retail

Net Absorption -8,500 sq. m.
Vacancy -0.3 pp q-o-q
Rent +0.5% q-o-q

Landlords target F&B brands to stimulate growth in footfall

New openings this quarter included the renovated Wangfujing XIYUE. However, the closure of a shopping mall and department store in secondary submarkets resulted in negative net absorption. Following the completion of tenant-mix adjustment programmes in some projects with unlet space, the overall vacancy rate fell slightly by 0.3 pps. q-o-q to 7.7%.

During the quarter, several shopping mall landlords were seen targeting F&B brands to generate higher customer footfall. The F&B sector as represented by mass catering, bakeries and café & tea continued to dominate leasing activity, accounting for 42% of new openings, with the likes of Chu Zone, Cinnamon, The Roll' ING, Tea Cat and Heytea Black all launching new outlets. Fashion maintained a steady pace of expansion, accounting for 27% of new openings. Retailers in this category are focusing on establishing a presence in landmark properties in core areas due to higher shopper footfall. During the quarter, Anta Sneaker Verse, One Moment, and Peak Performance all opened their first stores in Taikooli South, THE BOX and Chaoyang Joy City, respectively.

Consumption recovery underpins rental growth

Retail and tourism consumption registered solid growth during the Chinese New Year holidays. With consumer confidence gradually recovering, mall attendance is picking up, with landlords luring customers through the introduction of first stores, store upgrading, placemaking and themed promotions. Average shopping mall ground floor rents edged up by 0.5% q-o-q on a like-for-like basis to RMB 32.6 per sq. m. per day, led by gains in the CBD, Wangfujing and Sanlitun.

The next six months will see the completion of several new projects by leading developers in decentralised areas, including Changping Super Hopson One, Tongzhou MIXC ONE and Xibeiwang MIXC ONE. Renovations of older properties in core areas such as Sanlitun T+Mall and Xidan corridor are also well underway.

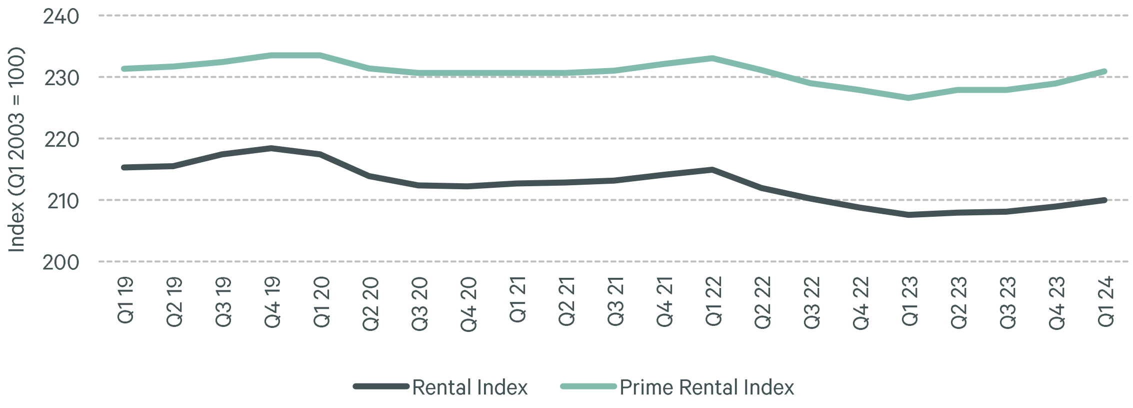
During the quarter, the Beijing Municipal Bureau of Commerce announced the launch of a scheme to promote the construction of new commercial zones and the renovation of older ones, As the city's retail market expands to include multi-centre consumption circles, retailers must take care to accurately position and differentiate their stores.

FIGURE 4: New Supply and Selected Leasing Transactions

New Supply	Submarket	GFA (sq. m.)	Landlord
Wangfujing XIYUE	Wangfujing	78,000	WFJ DS
New Openings	**Sector**	**Property**	**Submarket**
Pie Near	Bakeries	SOLANA	Lufthansa
One Moment	Fashion	THE BOX	Dongcheng Others
ANTA Sneaker Verse	Sports	Sanlitun Taikooli South	Sanlitun
Delvaux	Luxury	WF Central	Wangfujing
Chu Zone	F&B	Chaoyang Joy City	Others
Tea Cat	Café & Tea	Chaoyang Hopson One	Others
Colnago	Lifestyle	Raffles City	Dongcheng Others

Source: CBRE Research, Q1 2024

FIGURE 5: Retail Rental Index



Note: : Prime retail submarkets are CBD, Wangfujing, Sanlitun and Xidan
Source: CBRE Research, Q1 2024

Logistics

Net Absorption -18,700 sq. m.

Vacancy +1.4 pps q-o-q

Rent -1.4% q-o-q

Rents fall for first time since 2010

One new project providing 39,000 sq. m. of space was delivered in Shunyi in Q1 2024. Net take-up turned negative for the first time in 10 quarters at -18,700 sq. m.. Vacancy rose 1.4 pps. q-o-q to 16.4%. The period saw numerous 3PLs and manufacturing tenants relocate either within or out of Beijing, or withdraw due to cost reduction or downsizing of their business. Manufacturing, represented by pharmaceuticals and auto-parts, surpassed 3PLs as the main driver of leasing activity this quarter, accounting for 42% of new leases. Submarkets adjacent to the city centres like Jingnan, Shunyi Airport and BDA witnessed an increase in activity this quarter.

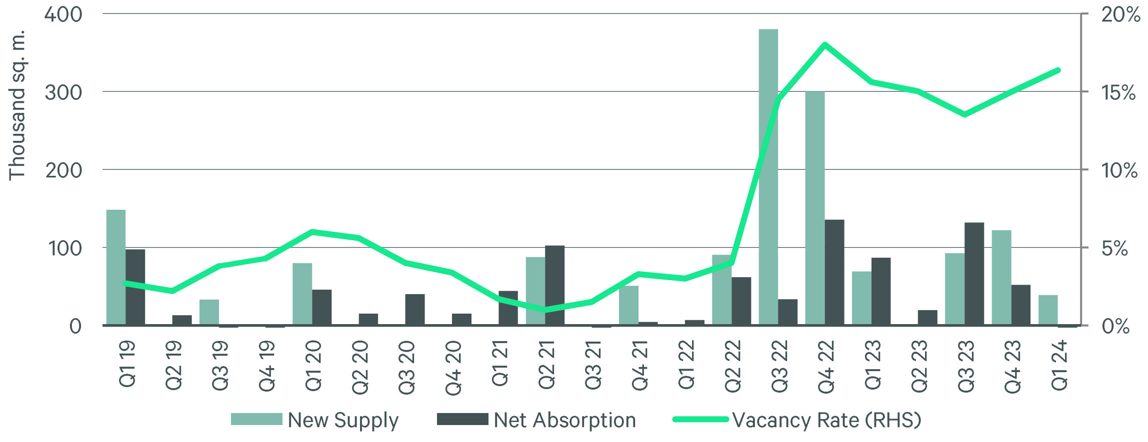
Rents declined for the first time since 2010, with average rents falling 1.4% q-o-q on a like-for-like basis to RMB 56.5 per sq. m. per month, led by Pinggu. Submarkets with high availability, such as Shunyi Others, Tongzhou and Jingnan also saw rents drop this quarter, while those in core areas with solid demand, such as Shunyi Airport and Majuqiao, remained stable.

Demand relatively stronger in Langfang compared to Tianjin

A total of 207,000 sq. m. of new supply was delivered in Langfang's Gu'an and Guangyang EDA districts this quarter. Langfang attracted relatively stronger demand than Beijing and Tianjin this quarter due to its advantages in rents and location. 3PLs, represented by supply chain and contract logistics firms, drove demand by contributing 45% of total leasing volume, followed by retailers & wholesalers. Net take-up stood at 169,000 sq. m., led by Gu'an, which is adjacent to Beijing. Vacancy fell 1.6 pps. q-o-q to 50.2%. Landlords cut rents to stimulate leasing activity, led by those in decentralised submarkets with high vacancy. Three new projects providing 317,000 sq. m. of space in Wuqing and Ninghe districts were completed in Tianjin. Weak consumption demand depressed leasing except in Beichen, Baodi and Binhai New District. Net take-up was recorded at -22,000 sq. m. while vacancy rose 3.2 pps. q-o-q to 36.5%. Rents dropped across all submarkets.

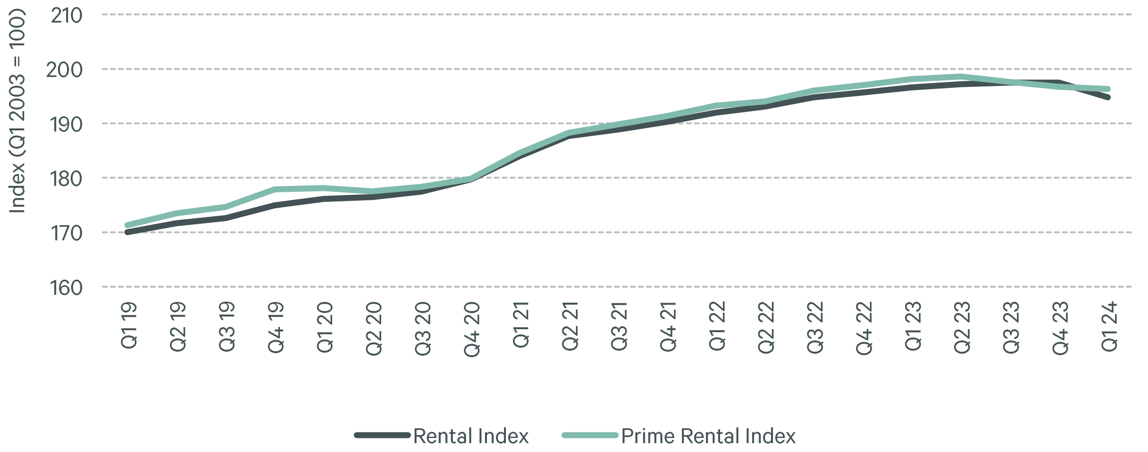
Approximately 389,000 sq. m. of new supply is expected to be completed in Beijing over the next six months, the bulk of which will be in Pinggu. Availability will remain abundant in Langfang and Tianjin, prompting Beijing-based landlords and tenants to reconsider strategies. Beijing authorities recently launched policies to improve the quality and efficiency of foreign trade live streaming e-commerce; a move that is likely to benefit demand for high-standard warehouses.

FIGURE 6: Logistics Supply and Demand



Source: CBRE Research, Q1 2024

FIGURE 7: Logistics Rental Index



Note: : Prime logistics submarkets are Shunyi Airport, Majuqiao, Jingnan and Daxing Airport
Source: CBRE Research, Q1 2024

Business Park

Net Absorption
69,200 sq. m.

Vacancy
+0.8 pp q-o-q

Rent
-0.8% q-o-q

R&D manufacturing properties remain sought after

One new project consisting of several small standalone office buildings in Shunyi was completed in Q1 2024, adding 130,000 sq. m. of new space to the market.

Thanks to the continuous release of industrial demand and the finalisation of a large-scale surrender space, net absorption totalled 69,200 sq. m., an increase of 30% y-o-y. R&D manufacturing properties, especially those specialising in life sciences and advanced manufacturing, attracted strong leasing demand this quarter, with small standalone properties particularly sought after. In contrast, the vacancy rate for office-use properties continued to rise due to factors including weak additional demand and lease terminations.

The life sciences sector, represented by biotechnological and medical device companies, accounted for 40% of all new leases signed this quarter. The bulk of activity was focused on R&D manufacturing projects in BDA and Daxing submarket. TMT contributed 22% of new leases, with many firms opting to relocate to Z-Park and Shangdi due to the attractive rents on offer. Demand from 3C electronics accounted for 17% of new leases while chip manufacturing companies comprised 9%.

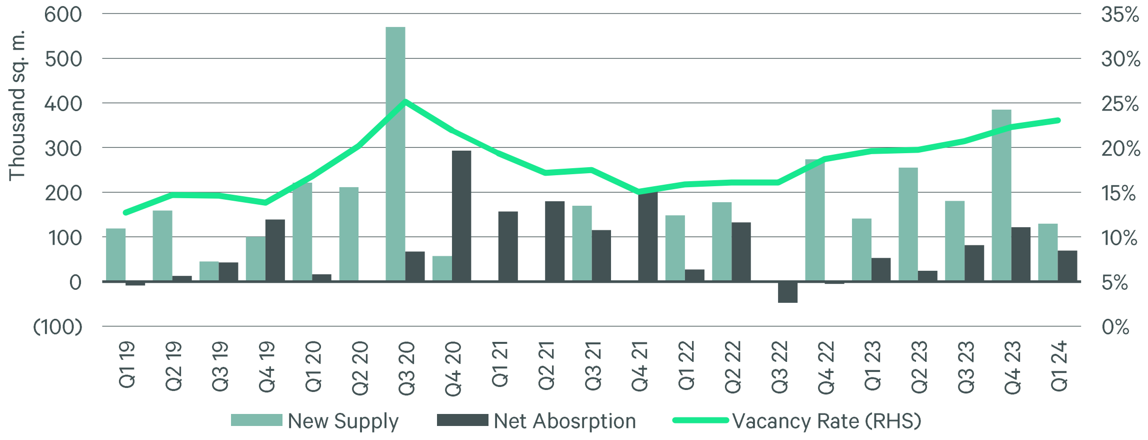
Rental decline accelerates in Greater ZGC

Average asking rents fell by 0.8% q-o-q on a like-for-like basis to RMB 155.8 per sq. m. per month, led by Greater ZGC. Rents in life sciences parks were stable at RMB 109.2 per sq. m. per month.

Three new projects providing a total of 211,000 sq. m. of space are expected to be delivered in the coming six months at Z-Park, Daxing and BDA. Two projects are intended for R&D and manufacturing purposes.

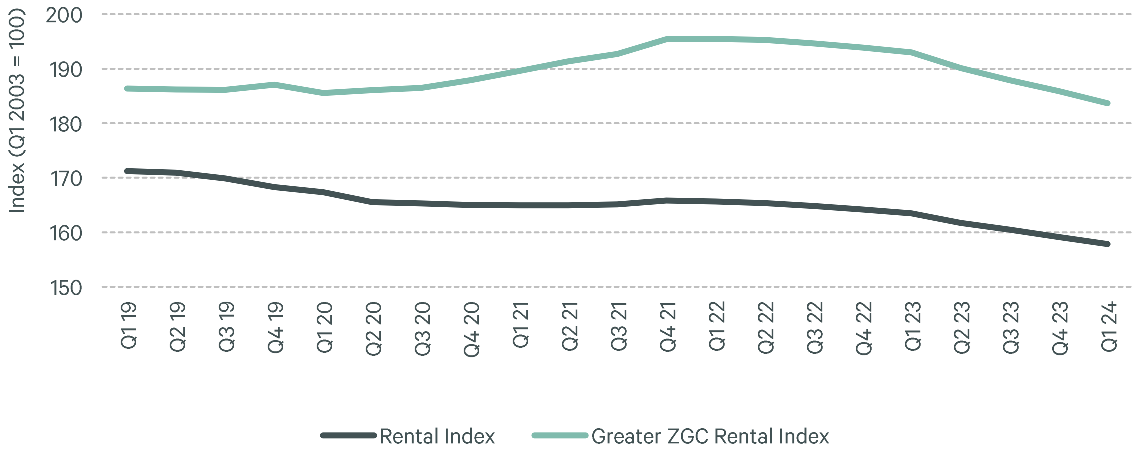
The recently released Beijing Industrial Map has further defined the industry layout of Beijing. Authorities have also introduced loan interest subsidies, insurance subsidies, incentives, and funding assistance to accelerate industrial development, including digital information, new energy vehicles, life sciences, smart manufacturing and commercial aerospace. These policies are expected to stimulate more leasing demand for manufacturing, R&D and office space in business parks.

FIGURE 8: Business Park Supply and Demand



Source: CBRE Research, Q1 2024

FIGURE 9: Business Park Rental Index



Note: : Greater ZGC contains Shangdi, Z-Park, Beiqing Road and Dongsheng
Source: CBRE Research, Q1 2024

Investment

Transaction Volume
+24% q-o-q

Transaction Number
9

Institutional investors target core office buildings

Nine commercial real estate investment deals were completed in Beijing in Q1 2024. Investment volume totalled RMB 6.45 billion, representing a rise of 24% q-o-q but a decline of 7% y-o-y.

Offices were the most active sector, accounting for five deals and 70% of total investment volume. Two office deals were completed this quarter, both of which involved institutional investors acquiring office buildings in core locations from property funds. These included AIA's purchase of a 95% stake in CapitaLand Mall located in the CBD for RMB 2.4 billion for both investment and self-use. The property was acquired as a distressed asset by CapitaLand in 2022 and then sold after upgrading and renovation. Elsewhere, Great Wall Life acquired a boutique office project named Hi Street Go High for RMB 1.02 billion for self-use. The property was formerly a community shopping mall and had undergone value-added transformation by a property fund after its acquisition in 2017.

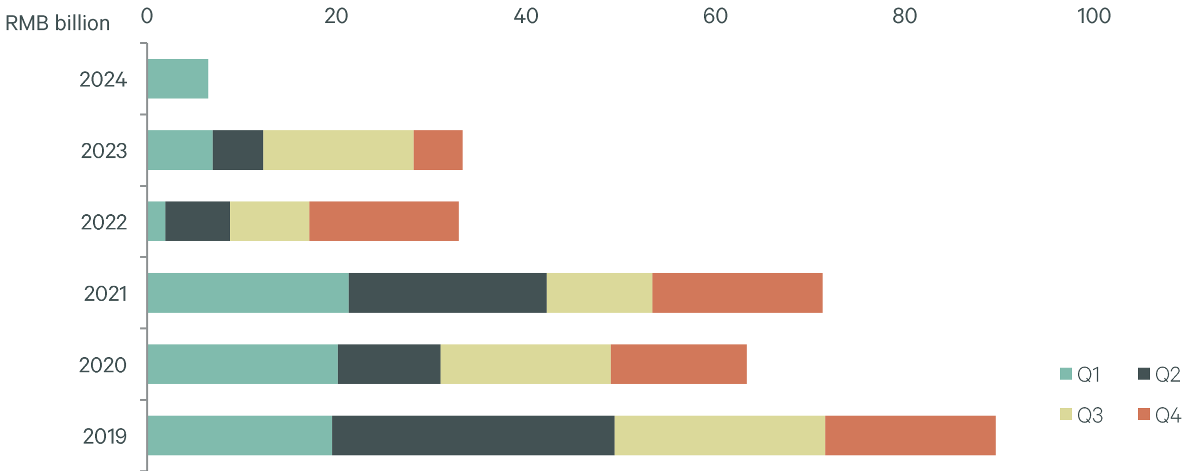
Falling asset prices stimulated interest from private and corporate investors in well located, prominent and small to medium sized retail and hotel properties. Examples include a consortium's purchase of CapitaMall Shuangjing near E3R for RMB 840 million, and a private investor's acquisition of a retail podium in a residential area in Haidian District for RMB 240 million.

Office cap rates climb

Commercial real estate investment activity in Beijing remains flat, with investment-orientated deals yet to return to pre-pandemic levels. Office cap rates continued to climb amid a subdued leasing market. Retail and logistics cap rates have shown little movement, thanks to relatively stable leasing performance and the positive impact of C-REITs.

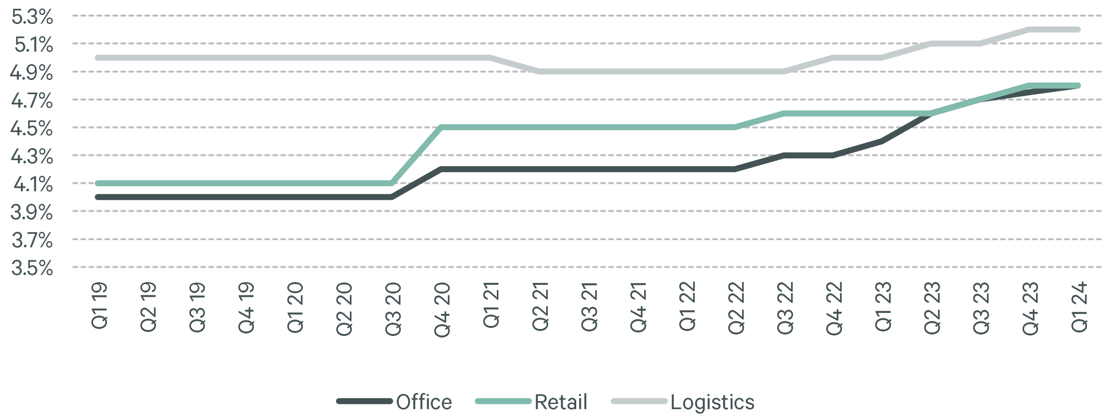
CBRE's 2024 China Investor Intentions Survey identified weak demand and a mismatch in buyers and seller expectations as the major obstacles to investment. Attractively priced and well-leased offices, along with retail, hotel, and multifamily, are expected to attract the bulk of demand over the remainder of the year.

Figure 10: Transaction Volume by Market



Source: CBRE Research, Q1 2024

Figure 11: Yield Trends



Source: CBRE Research, Q1 2024

CBRE Research

Sam Xie
Head of Research, China
Sam.xie@cbre.com

Tin Sun
Head of Research, Northern China
Tin.sun@cbre.com

Dancy Su
Associate Director, Northern China
Dancy.su@cbre.com

Kelland Lu
Manager, Northern China
Kelland.lu@cbre.com

Katie Pan
Assistant Manager, Northern China
Katie.pan@cbre.com

Business Line

Christina Liu
Regional MD, Northern China
Christina.liu@cbre.com

CBRE Office

Beijing Office
29F, North Tower, CP Center
No. 20 Jinhe East Road,
Beijing, China 100020