

“Beijing’s Grade A office market was handed its first supply for the year in the third quarter, causing vacancy rates to rise slightly. Nevertheless, tight overall supply and strong demand continued to support rental growth, albeit at a slower rate.”



Image: Phoenix Plaza, Lufthansa, Chaoyang district

- Three Grade A office projects were handed over in the third quarter, adding 165,400 sq m to the market and ending the two consecutive quarters without new supply.
- Net take-up decreased by 30% quarter-on-quarter to 122,300 sq m, largely due to a shortage of leasable stock.
- Grade A office rents increased by 7.9% quarter-on-quarter to an average of RMB258.7 per sq m per month, representing an appreciation of 42.5% year-on-year.
- New supply pushed the overall vacancy rate up by 0.4 of a percentage point quarter-on-quarter to 6.3%. However, new supply was concentrated in emerging areas and was, therefore, unable to relieve the tight supply in primary business areas.
- Rents and capital values are expected to continue to appreciate in the mid term, albeit at a slower rate, as the introduction of additional supply continues to dilute demand.

Market commentary

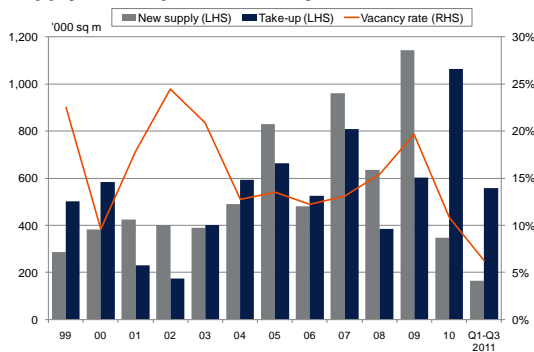
Following two consecutive quarters with no additional supply, three projects were launched in the third quarter, adding 165,400 sq m to the market. Grade A office rents, however, continued to rise, albeit at a slower rate, increasing by 7.9% quarter-on-quarter to an average of RMB258.7 per sq m per month.

Grade A office market, Q3/2011

	Stock (sq m)	Vacancy rate (%)	Take-up (sq m)	Supply (sq m)	Rent (RMB per sq m per month)
Q3/2011	9,035,000	6.3	122,300	165,400	258.7
QoQ change	-	0.4	-30%	-	7.9%
YoY change	-	-5.3	-77%	64.8%	42.5%

Source: Savills Research & Consultancy

Supply, take-up and vacancy, 1999–Q3/2011



Source: Savills Research & Consultancy

In Q3/2011, three projects were launched, bringing a total of 165,400 sq m of leasable stock to the market.

Indigo, a 176,000-sq m, mixed-use project comprising retail, office and hotel components, added a leasable Grade A office GFA of around 50,000 sq m to the market. The project is located in Jiuxiangjiao, Chaoyang district, near the Wangjing area, and had an approximate one-third commitment rate at handover.

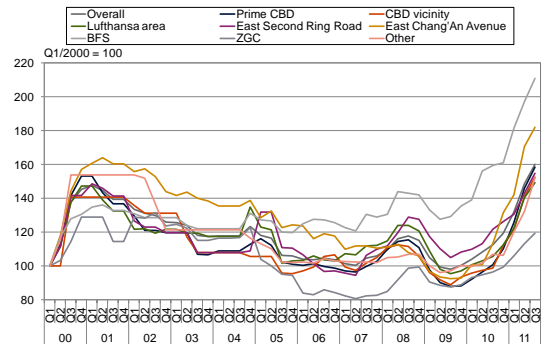
Phoenix Place City's last phase, Towers F and H, was handed over to the market in the third quarter, adding 46,000 sq m of lease-only supply to the market.

China Overseas Property Plaza added 69,400 sq m of leasable space to the market. The 64-m high office tower is located on the South Second Ring Road.

Over the past year, vacant office space in Beijing has been quickly absorbed by strong demand. As a result, leasable space has been increasingly scarce, leading to a quarter-on-quarter fall in net take-up volume to 122,300 sq m in Q3/2011.

New supply increased the overall vacancy rate by 0.4 of a percentage point quarter-on-quarter to 6.3%. Located in emerging districts, the new office space did little to help relieve tight supply in primary business areas.

CBD rental index, Q1/2000–Q3/2011



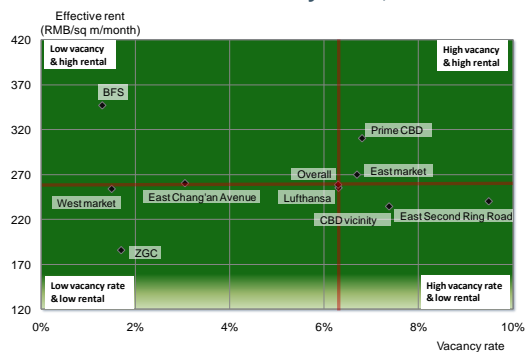
Source: Savills Research & Consultancy
NB: BFS = Beijing Financial Street; ZGC = Zhongguancun

Grade A office rents increased by 7.9% quarter-on-quarter to an average of RMB258.7 per sq m per month, representing a 42.5% increase year-on-year.

Non-prime rents, while recording a similar year-on-year growth rate to the wider market, performed much stronger in the third quarter, growing 15.2% to RMB204.9 per sq m per month. Rental growth in these areas is believed to have been supported by a shift in take-up amid scarce vacant leasable stock in primary business districts.

In the eastern market¹, average rents increased by 7.8% quarter-on-quarter to an average of RMB269.9 per sq m per month, while vacancy rates fell by 0.7 of a percentage point to 6.7%. The East Second Ring Road area reported the highest vacancy rate of the eastern markets, at 9.5%.

Submarket rents and vacancy rates, Q3/2011



Source: Savills Research & Consultancy

In the western market², the vacancy rate fell by 0.8 of a percentage point quarter-on-quarter to 1.5%. BFS vacancy rates increased 0.8 of a percentage point quarter-on-quarter to 1.3%, as a handful of tenants chose to relocate to other parts of Beijing. ZGC vacancy rates fell by 2.3 percentage points quarter-on-quarter to 1.7%, with net take-up reaching 27,500 sq m.

Selection of leasing transactions, Q3/2011

Company	Building	Location	GFA (sq m)
VW Automobile Financial	International Finance Centre	Prime CBD	9,000
AstraZeneca	International Finance Centre	Prime CBD	3,350
Sharp	Phoenix Plaza (Ph 3)	Lufthansa	3,000
Monsanto	Phoenix Plaza (Ph 3)	Lufthansa	2,800
JP Morgan	The Excel Centre	BFS	2,400

Source: Savills Research & Consultancy

¹ Eastern market: CBD, CBD vicinity, Lufthansa area, East Second Ring Road, East Chang'an Avenue

² Western market: BFS, ZGC

In 2009 the Beijing municipal government commenced planning of a new financial district for Beijing named the Lize Financial Business District (FBD). The purpose of the scheme is to maintain the development of the capital's financial services industry while relieving current pressure on the BFS office submarket. The FBD is located in Fengtai district between the West Second and Third ring roads. The scheme has a site area of 8.1 sq km, a planned GFA of approximately 9 million sq m and an underground GFA of 2.3 million sq m.

Submarket introduction: Lize Financial Business District, Fengtai



Source: Savills Research & Consultancy

The FBD is divided into six phases, with the first phase, located on the south side, having a total buildable GFA of 1.29 million sq m and having already been cleared by the government. In Q4/2010, three commercial-zone plots from this first phase, approximately 233,000 sq m of buildable GFA, were sold for a total consideration of RMB3.03 billion with an average accommodation value of RMB13,000 per sq m.

Land market

In July 2011, eight plots in the core CBD were sold for a total of RMB20.0 billion, covering a total site area of 65,500 sq m, with a buildable GFA of 950,000 sq m.

CITIC group was the biggest purchaser, acquiring three plots through joint ventures. Samsung Group was the only foreign buyer, acquiring plot Z2b. The 14 plots (including the plots sold in Q4/2010) are expected to add 2.1 million sq m of commercial area (office, retail, serviced apartments and hotels) from 2015 to 2020.

Market outlook

Plots	Leading buyer	Site area (sq m)	Buildable GFA (sq m)	Consideration (RMB million)
Z8	China Investment and CITIC	8,468	150,000	2,880
Z9	An Bang Insurance	7,411	120,000	2,292
Z10	Founder and CITIC	8,046	150,000	3,450
Z12	Taikang Insurance and CITIC	8,427	140,000	3,080
Z13	China Life and Vanton Group	7,840	120,000	2,656
Z1a	China Intl Future Co, Ltd	8,796	60,000	1,201
Z2a	Yangguang Insurance	8,264	90,000	1,872
Z1b	Samsung Group	8,223	120,000	2,533

Source: Savills Research & Consultancy

Borui Building, located in the CBD vicinity, is expected to be the only project to be handed over in the fourth quarter. The 78,400-sq m, mixed-use project includes 44,700 sq m of Grade A office space and a 34,000 sq m retail podium. The timely completion will bring full-year office supply to 210,000 sq m, representing a 39% decrease year-on-year.

Due to the scarcity of supply in primary business districts, average rents and occupancy rates are expected to continue to climb, discouraging primary business district tenants from expanding. Tenants with lower budgets and larger space requirements may choose to relocate to emerging business areas such as Wangjing and Yizhuang. With limited room to expand in the downtown locations a number of companies have put their expansion plans on hold until more space is freed up in the downtown locations. Alternatively they are seeking accommodation in more decentralised locations. This moderation in demand will help to bring the rapid escalation of prices under control.

For further information, please contact:

china

Raymond Lee
CEO
Savills Greater China
+852 2842 4518
rlee@savills.com.hk

beijing

Billy Chau
Managing Director
+8610 5925 2288
billy.chau@savills.com.cn

beijing

Joan Wang
Director, Research & Consultancy
+8610 5925 2288
joan.wang@savills.com.cn

research & consultancy, asia pacific

Simon Smith
Senior Director
+852 2842 4573
ssmith@savills.com.hk

address

Savills Property Services (Beijing) Company Limited
2010 East Tower, Twin Towers
B-12 Jianguomenwai Avenue
Chaoyang District
Beijing 100022, China
T: +8610 5925 2288
F: +8610 5925 2299

corporate website

www.savills.com.cn

ASIA PACIFIC HEADQUARTERS

23/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2842 4400 Fax: (852) 2868 4386

Robert McKellar - CEO, Asia Pacific
Raymond Lee - CEO, Greater China
Chris Marriott - CEO, South East Asia
Charles Chan - MD, Valuation & Professional Services, Greater China

HONG KONG SAR

Savills (Hong Kong) Limited

23/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2842 4534 Fax: (852) 2869 6738
Contact: Raymond Lee E-mail: rlee@savills.com.hk
EA Co. Licence: C-002450

Savills Valuation and Professional Services Limited

28/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2801 6100 Fax: (852) 2501 5810
Contact: Charles Chan E-mail: ccchan@savills.com.hk
EA Co. Licence: C-023750

Savills Property Management Holdings Limited

8/F Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong
Tel: (852) 2534 1688 Fax: (852) 2851 1249
Contact: Kendrew Leung E-mail: kleung@savills.com.hk
EA Co. Licence: C-002993

Savills Guardian (Holdings) Limited

7/F Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong
Tel: (852) 2512 1838 Fax: (852) 2887 3698
Contact: Peter Ho E-mail: peterho@savillsguardian.com.hk

MACAU SAR

Savills - Macau

Savills (Macau) Limited
Suite 1310, 13/F Macau Landmark, 555 Avenida da Amizade, Macau
Tel: (853) 8506 6288 Fax: (852) 2878 1805
Contact: Franco Liu E-mail: fliu@savills.com.mo

CHINA

Savills - Shanghai

20/F Shanghai Central Plaza, 381 Huaihai Middle Road, Shanghai 200020, China
Tel: (86) 21 6391 6688 Fax: (86) 21 6391 6699
Contact: Albert Lau E-mail: albert.lau@savills.com.cn

Savills - Beijing

2101 East Tower, Twin Towers, B-12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022, China
Tel: (86) 10 5925 2288 Fax: (86) 10 5925 2299
Contact: Billy Chau E-mail: billy.chau@savills.com.cn

Savills - Guangzhou

Room 906, R & F Centre, No. 10 Hua Xia Road, Zhu Jiang New Town,
Guangzhou, 510623, China
Tel: (86) 3892 7168 Fax: (86) 3892 7030
Contact: Woody Lam E-mail: woody.lam@savills.com.cn

Savills - Shenzhen

Unit A, 5/F, Anlian Plaza, 4018 Jintian Road, Futian District, Shenzhen 518026,
China
Tel: (86) 755 8828 5707 Fax: (86) 755 8828 5676
Contact: Woody Lam E-mail: woody.lam@savills.com.cn
Offices in Chengdu, Chongqing, Dalian, Hangzhou, Shenyang, Tianjin, Xiamen, Zhuhai

ASIA

Savills - Japan

Savills Japan Co., Ltd.
CR Kamiyacho Building 10F, 1-11-9 Azabudai, Minato-ku,
Tokyo 106-0041, Japan
Tel: (81) 3 5562 1700 Fax: (81) 3 5562 1705
Contact: Christian Mancini E-mail: cmancini@savills.co.jp

Savills - Korea

Savills Korea
11/F Seoul Finance Center, 84 Taepyungro-1-ga,
Chung-gu, Seoul, Korea 100-768
Tel: (82) 2 2124 4201 Fax: (82) 2 2124 4188
Contact: Moonduck Kim E-mail: mdkim@savills.co.kr

Savills - Malaysia

Savills Rahim & Co
Level 17, Menara Uni. Asia, 1008 Jalan Sultan Ismail, 50250
Kuala Lumpur, Malaysia
Tel: (60) 3 2691 9922 Fax: (60) 3 2691 0096
Contact: Robert Ang E-mail: robertang@savillsrahim-co.com

Savills - Singapore

Savills (Singapore) Pte Ltd.
30 Cecil Street, #20-03 Prudential Tower, Singapore 049712
Tel: (65) 6836 6888 Fax: (65) 6836 2668
Contact: Chris Marriott E-mail: cjmarriott@savills.asia

Savills - Taiwan

Savills (Taiwan) Limited
17F-1, Exchange Square, No. 89, Sung Ren Road
Xin-Yi District, Taipei, Taiwan
Tel: (886) 2 8789 5828 Fax: (886) 2 8789 5929
Contact: Cynthia Chu Email: cchu@savills.com.tw

Savills - Thailand

Savills (Thailand) Limited
26/F Abdulrahim Place, 990 Rama IV Road,
Silom, Bangrak, Bangkok 10500, Thailand
Tel: (66) 2 636 0300 Fax: (66) 2 636 0339
Contact: Robert Collins E-mail: robertc@savills.co.th

Savills - Vietnam

18/F, Fideco Tower, 81-85 Ham Nghi Street,
District 1, Ho Chi Minh City, Vietnam
Tel: (84) 8 3823 9205 Fax: (84) 8 3823 4571
Contact: Brett Ashton E-mail: bashton@savills.com.vn
Office in Hanoi

AUSTRALIA

Savills - Australia

Savills (Aust) Pty Ltd.
Level 7, 50 Bridge Street, Sydney, Australia
Tel: (61) 2 8215 8888 Fax: (61) 2 8215 8899
Contact: Paul McLean E-mail: pmclean@savills.com.au
Offices throughout Adelaide, Brisbane, Canberra, Gold Coast, Liverpool, Melbourne, Parramatta, Perth, Sunshine Coast and Sydney.

NEW ZEALAND

Savills - New Zealand

Barfoot & Thompson
Level 5, 50 Kitchener Street, Auckland, New Zealand
Tel: (64) 9 307 5523 Fax: (64) 9 303 1689
Contact: Peter Thompson E-mail: peter@barfoot.co.nz

NORTH AMERICA

Savills - New York

Savills LLC
599 Lexington Avenue, 36th Floor, New York, NY 10022
Tel: (1) 212 328 2800 Fax: (1) 212 328 2828
Contact: John D. Lyons E-mail: jlyons@savills.com

UNITED KINGDOM / EUROPE / South Africa

Savills - Europe

20 Grosvenor Hill, London W1K 3HQ, U.K.
Tel: (44) 207 499 8644 Fax: (44) 207 495 3773
Contact: Jeremy Helsby E-mail: jhelsby@savills.com
Offices throughout the United Kingdom, Belgium, France, Germany, Hungary, Italy, Netherlands, Poland, Spain and Sweden. Associate offices in Austria, Greece, Norway, Portugal, Russia, Turkey and South Africa.



Savills, the international real estate advisor established in the UK since 1855 with over 200 offices and associates worldwide.

This document is prepared by Savills for information only. Whilst reasonable care has been exercised in preparing this document, it is subject to change and these particulars do not constitute, nor constitute part of, an offer or contract; interested parties should not rely on the statements or representations of fact but must satisfy themselves by inspection or otherwise as to the accuracy. No person in the employment of the agent or the agent's principal has any authority to make any representations or warranties whatsoever in relation to these particulars and Savills cannot be held responsible for any liability whatsoever or for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document. This publication may not be reproduced in any form or in any manner, in part or as a whole without written permission of the publisher, Savills. © Savills (Hong Kong) Limited. 2011. (1/1)