Although we expect the office and retail markets to record abundant new supply in 2019, a healthy demand is likely to support the development of all the sectors:

- We expect the technology, finance, and flexible workspace sectors to be the major demand drivers for office space.
- Theme-branded shopping malls with a higher ratio of experiential shops should be more successful in 2019.
- Logistics tenants seeking large space in 2019 should consider serving Beijing from a base in Tianjin in particular.
- We recommend international investors turning their attention to Beijing and expect more investment deals to be recorded in 2019.

> In 2019, we expect record-high new supply of 840,000 sq m, nearly 3x net absorption of 287,000 sq m. The new supply will probably drive Beijing’s vacancy rate up to 16% by the end of 2019, while rents should also be pushed down.

> Although we expect a supply peak in 2019, vacant space should still be absorbed quickly due to robust demand. With the impact of new supply in emerging areas, rents are likely to increase by only 0.3% yoy.

> Colliers forecasts the warehouse demand in Beijing to continue to be buoyant. The overall vacancy rate should remain nearly zero while rents should increase 5.8% yoy.

> A continued credit tightening policy will probably push more property holders to sell their assets to raise cash for business operations. We expect more deals to be closed in 2019.

### Summary & Recommendations

- **Office**
  - Vacancy: -0.4%
  - Capital Value: 3.4%
  - Rent: $1/sq ft

- **Retail**
  - Vacancy: 6.0 ppts
  - Capital Value: 0.9%
  - Rent: $0.3/sq ft

- **Logistics**
  - Vacancy: 5.8 ppts
  - Capital Value: 8.1%
  - Rent: $5.8/sq ft

- **Investment Sales**
  - Office Yield: -14 bps
  - Industrial Yield: -11 bps
  - Retail Yield: -1 bp

### Source
Colliers International

Note: USD1 to RMB6.86 as of end-2018. 1 sq m = 10.76 sq ft; ppts is short for percentage points; bps is short for basis points.
OFFICE

2019: Slow absorption amid supply peak

In 2019, a record high 840,000 sq metres (9.0 million sq feet) of new supply is scheduled to enter the market, of which 84.4% is located in the CBD and Lize submarkets. However, the lack of reliable power supply in the CBD core area and the immaturity of Lize will likely restrain leasing in these areas in 2019. Thus, we expect the city’s vacancy rate to increase to 16.0% by the end of 2019, a 6.0 percentage points yoy increase. The new supply should also drag down average rent by 0.4% yoy. Given this, we believe that:

> Landlords in submarkets with heavy new supply should be flexible in rental negotiations to secure major tenants; landlords of older buildings should upgrade their properties and services.

> Tenants could take this opportunity to upgrade to preferable buildings or locations with favourable rents. With the continued buildout of the subway, we expect Lize to be increasingly attractive from late 2020.

Price-sensitive tenants should consider an early entry into Lize to take advantage of the new supply and increased bargaining power.

2018: Heavy new supply pulled up vacancy rate

In 2018, Lize, an emerging submarket, emerged in Beijing’s Grade A office market with the launch of two new projects. Including these, a total of six new buildings entered the market in 2018 and expanded the city’s total stock to 6.9 million sq metres (74.4 million sq feet), an increase of 8.6% yoy.

While we saw robust demand from the technology, finance, and flexible workspace sectors in 2018 that resulted in a 12.0% yoy growth of total net absorption, the heavy new supply pulled up the overall vacancy rate to 10.0% by year end, a 1.7 percentage point increase.

In 2018, Beijing’s average rent dropped by 1.4% yoy to RMB327.1 (USD47.70) per sq metre per month. This is primarily due to the below-average rents offered by several new buildings. The pressure of high-quality new buildings and abundant future supply also led landlords of older projects to lower their expectations. Meanwhile, in emerging submarkets and submarkets with tight supply, we observed continuous rental increases.
RETAIL

2019: Experiential retail is key to success

Theme-branded shopping malls with a higher ratio of experiential retail should be more successful as consumers turn to experience-focused retail. Online-to-offline integration will probably also become a more widespread strategy, expanding to all different categories with the retail sector. The redesign of interior space to set up themed space is likely to increase a mall’s attractiveness and hence traffic. Notably, mixed-sector stores, like a bookstore which includes a cafe, should see new growth in 2019. Meanwhile, we expect sectors to be increasingly narrowly defined, the expansion of Chinese style crawfish restaurants being an example of consumers’ higher expectations being discovered and developed.

We predict a peak of about 500,000 sq metres (5.38 million sq feet) of new supply to enter the market in 2019, with one-quarter scheduled to be in prime submarkets, bringing up the vacancy rate by 0.8 percentage points yoy to 2.9%. Meanwhile, given the rental impact of new supply in emerging areas, overall rents will probably see only a marginal 0.3% yoy increase.

2018: Focus on quality led to active tenant adjustments

In 2018, four shopping malls entered the market, increasing total stock to 5.93 million sq metres (63.8 million sq feet). The leasing market remained active, as landlords have been constantly improving their tenant mix. Therefore, despite the new supply of 317,000 sq metres (3.41 million sq feet), the overall vacancy rate declined 1 percentage point yoy to 2.1%. Consumers are becoming less price-sensitive and more focused on quality. Brands that offer a refreshing visual and sensual experience are more favoured. Designer brands and trendy brands were the most active sectors, while tea drinks, coffee and light meals also expanded aggressively. The incorporation of technology into retail is also a strategy employed to draw customers’ attention and improve the shopping experience.

With fierce market competition comes an active adjustment of the tenant mix. Therefore, in 2018, the average ground floor fixed rent in Beijing’s mid to high-end shopping malls rose 1.3% yoy to RMB826.8 (USD120.5) per sq metre per month.
LOGISTICS

2019: Vacancy remains almost zero; tenants should consider surrounding areas

In 2019, four projects are scheduled to be launched, which should add around 232,000 sq metres (2.5 million sq feet) to the market. However, we believe this will not ease the difficulty of warehouse leasing in Beijing; the majority of the new supply has already been preleased. As a result, the vacancy rate should remain near zero while rent should experience robust yoy growth of 5.8%. With Beijing implementing strict policies on leasing and acquiring new land plots for logistics properties, we expect tenants to consider Tianjin, Langfang and other markets surrounding Beijing due to their ample space and lower rents. Colliers also recommends that:

> Tenants seeking large space in 2019 should pay special attention to Tianjin. Nine projects with a total GFA of 474,000 sq metres (5.1 million sq feet) are scheduled to be completed in Tianjin in 2019, the largest amount over the past three years. Although some of these projects are pre-committed, space is still more readily available in Tianjin than in Beijing.

2018: Rent surged amid high demand & short supply

In 2018, two new projects with a total GFA of 214,000 sq metres (2.3 million sq feet) were completed. The total stock thus increased to 2.16 million sq metres (23.2 million sq feet). Demand for warehouse properties in Beijing, which was mainly driven by e-commerce and 3PL tenants, continued to be extremely buoyant in 2018. The imbalance between supply and demand intensified. The limited vacant space available was quickly absorbed while most new projects were pre-leased. The vacancy rate remained low throughout 2018, closing at 1.5%. In line with the robust demand as well as limited new supply, Beijing’s rent surged in 2018 with a 12.6% yoy increase to RMB48.4 (USD7.06) per sq metre per month.
INVESTMENT

2019: We expect more deals

The continued credit tightening measures aimed at curbing speculation will probably loosen property owners’ asking prices, which have been firm so far, exchanging their properties for cash to fund future business operations. In addition, with more en-bloc deals transacted in 2018, Beijing is now becoming a spotlight for international investors, and the focus will likely continue in 2019 when we expect more deals to be closed. Colliers also recommends investors focus on the following sectors:

> **Office and business park**: due to their simple business model with stable returns.
> **Retail properties**: properties in prime locations with the potential for refurbishment.
> **Long-term lease apartments**: government is supporting the development of the house leasing market.

2018: Record transaction value

Despite a relatively quiet H1, several high value en-bloc deals were recorded at the end of 2018, pushing up the whole year transaction value to RMB57.3 billion (USD8.3 billion), an increase of 31% yoy base on Colliers data. Total transacted GFA was 1.46 million sq metres (15.7 million sq feet), up 30% yoy.

By asset type, office and related investments dominated the market with 43% of transaction value. Retail properties accounted for 14% of total transaction value, as highlighted by LinkReit’s purchase of Beijing Jingtong Roosevelt Plaza from ARA for RMB2.56 billion (USD373.2 million)\(^1\). Mixed-used properties accounted for 31% of total transaction value, with the most notable deal being Gaw Capital’s sale of Pacific Century Place to Lianjia for an 84% premium over its price in 2014.

Emerging submarkets, such as Lize and Tongzhou, accounted for 18 deals out of the 32 deals in 2018, which we believe indicates landlords’ willingness to hold their assets for future capital gains. Domestic buyers continued to dominate the market in 2018, as 75% of the transaction value was from Chinese investors.

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