

# BEIJING | 2017 MARKET REVIEW & 2018 OUTLOOK

7 February 2018

Accelerating success.

## A more dynamic property market in 2018

North China Research

Supported by a more optimistic outlook for economic growth, we expect a more dynamic property market in 2018 even though the office and retail property sectors both face pressure on the average rental and occupancy rate due to the abundant supply. Diversification of the tenant mix is likely to benefit both sectors and should help offset the supply pressure. We expect the industrial sector to see the strongest upward pressure on rents, given strong demand and a tight supply pipeline. In addition, we expect an active investment market due to the firm economic growth and relative maturity of the property market.

### Summary of forecasts for Beijing property markets for 2018

Figure 1: Rent outlook

	Grade A Office	-1.2%
	Retail	-0.5%
	Industrial	+ 3.6%

Source: Colliers International

Figure 2: Vacancy outlook

	Grade A Office	+6.1 pts to 14.4%
	Retail	+0.7 ppt to 3.8%
	Industrial	To stay at 0.0%

Source: Colliers International

### Firm economic growth set to drive a more active property market

Beijing recorded real GDP growth of 6.7% in 2017, the same level as in 2016. However, tertiary industry (i.e. services) recorded a 7.3% YOY growth rate, up 0.2 percentage points (ppts) YOY. In addition, the proportion of total GDP represented by tertiary industry reached 80.6%, 0.3 ppts higher than in 2016, indicating the buoyant conditions in the services sector. This should strongly support the development of the office market.

According to the latest "Beijing City Master Plan for Years 2016-35" (Beijing Master Plan) released at the end of September 2017, Beijing should be positioned as the national political centre, cultural centre, international communication centre, and scientific and technical innovation centre. Based on this positioning, Beijing plans to strengthen investment in the above-mentioned sectors. As a result, we have noticed that the growth rate of added value in IT-related industry increased 1.3 ppts to 12.6% YOY in 2017. We foresee that will provide a further boost to demand for leased office property.

Retail sales were recorded at RMB1,157 billion (USD177 billion), up 5.2% YOY. The per capita disposable income increased to RMB 57,230 (USD 8,758) in 2017, up 8.9% YOY, and the growth rate accelerated from 8.4% in 2016. The per capita expenditure reached RMB37,425 (USD5,728) during 2017, up 5.7% ppts YOY, with the growth rate accelerating 0.9 ppts YOY. Meanwhile, the Consumer Confidence Index increased 6.4 points YOY

to 113.2, indicating consumers are more optimistic about the future.

Oxford Economics increased its 2018 forecast for the rate of real GDP growth in Beijing from 6.9% to 7.0% in last December, indicating Beijing's economy is likely to be more dynamic. This should continue to support the office leasing demand and investment demand in the property market. In addition, Oxford Economics has increased forecasts for 2018 growth in consumer spending and household disposable income in Beijing to 8.7% and 8.0%, up 0.4 and 0.8 ppts respectively compared with the forecast in September 2017.<sup>1</sup> This should support further expansion in the retail market and the logistics property market.

## Active en-bloc sales market in 2017

Beijing recorded 33 en-bloc sale transactions in 2017, the highest level over the past three years. Total transaction consideration was RMB45.4 billion (USD6.9 billion), up 24% YOY. Office properties remain perhaps the most attractive sector overall considering the stable growth rate in the past several years, strong demand, and simple operation. In total, 15 office properties (including business park offices) were transacted for combined consideration of RMB 19.2 billion (USD2.9 billion).

The retail property investment market was very different from the previous several years as nine deals were announced in 2017, the highest number in three years. The total retail en-bloc transacted GFA was recorded at 534,920 sq metres (5.8 million sq ft), accounting for 44% of total transaction GFA for all sectors, which is the largest portion. However, we have noticed that most of the transacted retail properties were properties with merely ordinary or poor performance. Several buyers appear to have plans to convert the properties into offices or other property categories.

If we look at the location of the transacted properties, 25 out of 33 properties are outside the core areas. The total transacted GFA was 785,600 sq metres (8.5 million sq ft), accounting for 65% of total transaction volume. However, core areas still attracted the attention from investors. Eight deals closed in the core areas, nearly double the figure in 2016, showing the investors are closing observe the momentum of the market. At the same time, the domestic buyers continue to dominate the market.

<sup>1</sup> Source: Oxford Economics City Reports, Beijing: December 2017 and September 2017

<sup>2</sup> Source: Announcement of Hopson Development Holding Limited

Noteworthy en-bloc transactions in 2017 include:

- > Golden Harmony Investments' purchase of one office property, Dongfangwehwa Art Centre, in Dongcheng District from Hopson International and BMI for RMB3.67 billion (USD554 million) through an equity transaction.<sup>2</sup> The project has an above-ground GFA of 56,161 sq m (604,512 sq ft). This was the largest transaction of 2017 ranked by consideration.
- > HT Rong Ze's acquisition of the office part of Tahoe Chang An Center Tower B in Shijingshan District for RMB1.8 billion (USD0.28 billion).<sup>3</sup>
- > Tianfu Fund Management Co., Ltd.'s purchase of the W Hotel Beijing from Rich Harbour and COFOCO BVI 17 for RMB1.98 billion (USD304 million).<sup>4</sup> The buyer plans to convert part of the project into offices to enhance revenue according to public information.

## Beijing should remain an attractive investment destination

We expect that Beijing's property market will continue to attract interest from both investors and end-users due to the firm economic growth and relative maturity of the property market.

According to the Beijing Master Plan, the local government expects to balance the development of core area and non-core areas. This implies that investment in core areas is likely to be stable while investment in non-core areas is likely to increase. As a result, we forecast that the non-core areas will be the key destination for en-bloc sales considering that more tradable properties are located there. However, we also expect more transactions in the core areas, especially for those properties with upgrade potential considering that the government is encouraging the protection of historical buildings and the upgrading low-end industries.

## Office leasing demand appeared to be diverse

In 2017, eight new buildings with a combined leasable office GFA of 390,000 sq metre (4.2 million sq ft) were completed in Beijing's Grade A office property market. These projects increased the total stock by 6.5% YOY to 6.37 million sq metres (68.6 million sq ft). The GFA of new supply in 2017 decreased by 4.0% YOY while the

<sup>3</sup> Source: Announcement of Tahoe Group (CN)

<sup>4</sup> Source: Announcement of Joy City Property Limited

total net absorption amounted to 341,000 sq metres (3.7 million sq ft), up by 77% YOY, indicating very active leasing demand. Nevertheless, affected by new projects, the overall vacancy rate edged up 0.3 ppts YOY to 8.3%. Domestic enterprises continued to be the major demand generators, while we found that leasing demand was diverse, coming not only from finance, professional services and IT, but also from the real estate, media, manufacturing and energy sectors.

Average rent for Beijing's Grade A office property market increased by 0.4% YOY to RMB331.8 (USD50.7) per square metre (psm) per month at end-2017, mainly due to above-average rents for certain new developments and firm demand. Nevertheless, some existing landlords offered rental corrections in order to achieve or maintain high occupancy rates, considering the continuous pressure from newly completed projects and forthcoming future supply.

## A highly competitive office market in 2018

As several projects have been delayed to 2018, we expect the market to receive 11 Grade A office properties with a total GFA of approximately 1.0 million sq metres (10.8 million sq ft), the highest new supply since 2008. We predict that new supply will push up the city's vacancy rate to 14.4% by end-2018.

The large volume of new supply should provide occupiers with new opportunities. Occupiers are likely to enjoy a better working environment at lower cost in the future. In our view:

- > Occupiers can take this opportunity to optimise their office location and cost.
- > Occupiers should be able to enjoy more advanced amenities and superior services, boosted by the new supply and improving infrastructure.

On the other hand, we expect that landlords will face more challenges considering the foreseeable future projects. We give landlords the following three suggestions in submarkets where competition has become intense:

- > Landlords could adopt leasing strategies more favourable to tenants, including early planning, adaptable leasing terms and flexible rental packages.
- > Both existing and future projects should provide superior facilities and customised services to secure tenants.

- > Landlords should pay attention to trends among occupiers and improve tenant mix to avoid uncertainty arising from the business cycles of different sectors.

## Active adjustment and upgrades supported retail demand

In 2017, three prime retail projects with a combined GFA of around 300,000 sq metres (323 million sq ft) entered the retail market, contributing to a 4.9% YOY increase in total stock to around 5.6 million sq metres (60 million sq ft). Active adjustment and upgrades supported demand and leasing demand became more diverse. Besides F&B, fashion and lifestyle sectors, which continued to be active with majority of new leasing and openings, new retail formats were quite popular, as witnessed by the new openings of Fresh Hema and Yonghui Super Species. As a result, the active demand pulled down the vacancy by 0.8 ppts to 3.1% by end-2017.

The average ground floor fixed rent in Beijing's mid to high-end shopping centres increased by 1.2% YOY to RMB 816.1 (USD 125.1) psm per month in Q4 2017. The rent in prime submarkets increased by 1.5% YOY to RMB 1,189.2 (USD 182.2) psm per month, mainly driven by the active adjustments and upgrades. The rent in emerging submarkets rose by 2.4% YOY to RMB 583.8 (USD 89.5) psm per month due to the strong consumer demand, indicated by the recording of almost 300,000 sq metres (3.2 million sq ft) of net absorption and 9.3% YOY decrease in vacancy.

## We expect a more diversified retail market in 2018

We project that F&B and kids-related sectors will remain the most active sectors in both new projects and existing properties. In addition, we notice that international and famous brands are proceeding to expand in prime submarkets, given their location, reputation and market influence. Meanwhile, more domestic brands, especially popular street fashion brands and designer brands may make their debut in properties in emerging areas, especially those with good location and developer background as the abundant new supply in emerging area provides more opportunities.

The ample new supply may well intensify competition among existing projects. Consequently, we expect that nearly all the projects will adjust and upgrade their tenants more frequently with the intention of making their character unique. Besides, against a background in which shopping centres tend to be homogeneous both in sectors and brands introduced, landlords will probably

achieve differentiation by creating more themed space, including featured theme stores from different sectors such as street fashion brands and themed restaurants.

Due to the government's prohibition on development of new shopping centres in major downtown areas and stronger potential purchase power of consumers in emerging areas, we expect that developers will build more properties in emerging submarkets. We estimate that over 80% of new supply in 2018 will lie in emerging submarkets, where the rents are below the market average. We therefore predict that the overall rent level in 2018 will decrease by 0.5% to RMB 812.4 (USD 125.8) psm per month. However, the rental level for mature projects still has the potential to increase moderately.

## Buoyant demand and booming rent for warehouse properties

In 2017, two prime logistics properties were launched, the Beijing BLOGIS International Park and the GLP Park Pinggu Phase II. As a result, the total stock of Beijing's prime logistics property market increased by 4.2% YOY to 1.95 million sq metres (21 million sq ft).

Demand was buoyant for warehouses in Beijing through 2017, especially in the second half of the year. Given the launch of several online shopping festivals as well as the closing of illegal low-end warehouses in Beijing at the end of 2017 for safety reasons, e-commerce retailers, 3PL providers and other tenants were eager to find leasable space. As a result, the overall vacancy rate declined 6.2 ppts to effectively 0.0%.

The average rent for Beijing's prime logistics market witnessed remarkable growth and reached an historical high, jumping by 10.2% YOY to RMB42.8 (USD6.56) psm per month. This was mainly due to the continuous strong demand as well as the very limited supply, which offered landlords enough bargaining power. By submarkets, the Beijing Jingnan Logistics Harbour

achieved the highest rental growth level, surging by 16.5% YOY to RMB41.6 (USD6.38) psm per month. Rents for Beijing Airport Logistics Park ranked second at RMB44.7 (USD6.86) psm per month, up 9.4% YOY.

## Logistics: short supply will continue whilst demand should remain strong

Colliers forecasts that totally four new projects in the Beijing Tongzhou Logistics Park and Beijing Jingnan Logistics Harbour, with a combined GFA of about 200,000 sq metres (2.15 million sq ft), will enter the market in 2018. We should note that around 85% of the total space for the new supply has already been pre-leased. Given the robust demand, we believe that the remaining space will be absorbed quickly. Meanwhile, Colliers expects the rental growth to be steady. We further recommend that:

- > Tenants, especially those who are cautious about cost or need large space, should consider relocating to nearby cities and emerging areas between the Beijing New Airport and the Xiong'an New Area, since further supply in Beijing is very limited and rents are likely to be rising continuously.
- > Landlords should also take action to improve quality of their facilities, given the age of some warehouses which were launched in the mid to late 2000s. Meanwhile, we recommend that landlords to consider to provide additional services, for instance, upgrading property management services, in order to match with the rapid growth of rental level.

### For more information:

**Jie Li**  
Managing Director  
North China  
+86 10 8518 1593  
[jie.li@colliers.com](mailto:jie.li@colliers.com)

**Andrew Haskins**  
Executive Director  
Research | Asia  
+852 2822 0511  
[andrew.haskins@colliers.com](mailto:andrew.haskins@colliers.com)

**Emily Cao**  
Head of Research  
North China  
+86 10 8518 1633 \*601  
[emily.cao@colliers.com](mailto:emily.cao@colliers.com)

Copyright © 2018 Colliers International.  
The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.



Accelerating success.