

Beijing Office Space Glut?

Why the big office construction boom won't go bust

By Eric Hirsch



The Olympics will be Beijing's chance to unveil its new city landscape to the world. In a short period of time, the city has overhauled its buildings, stadiums and even its subway system. Much national and international media attention has already been focused on some of the new structures, such as the CCTV Tower, the National Stadium and the National Grand Theater. All of this is a testament to the dramatic physical changes overtaking the city.

This year's Olympics and China's previous WTO entry have been the catalysts for all of this new development. In the midst of this, we should take a step back and examine some of the changes to Beijing that have occurred leading up to the Olympics. For the business community, one of most important results of this makeover will continue to be the profound effect on the city's office space market. The boom in commercial towers has created a huge surge in the number of top-flight offices. It is critical to understand how this boom will affect companies in China in the coming years.

BUSINESS ENVIRONMENT

Coinciding with the infrastructure improvements, like four new subway lines and 84 kilometers of subway track, Beijing's office market has also been going through a period of transformation. Prior to 2004, Beijing's office market was mostly populated by small representative offices. As such, there was little attention paid to where these offices were located or the overall quality of the buildings that housed them. This worked well with the exist-



Beijing's office space has more than doubled since 2005

ing office stock, which had a large proportion of lower grade buildings than one would find in comparable international cities.

In 2004, Beijing's office use started changing from representative offices to

fully functioning, income-producing entities. As a result, there was a 300 percent increase in office space occupancies that year, with many companies requiring better quality and real-estate management skills on par with what international corporations have come to expect worldwide.

This increase in demand has led to Beijing's office market doubling in size from 4.3 million square meters in the beginning of 2005 to over 8.7 million square meters as of the end of the first quarter of 2008. There is also an additional two million square meters of space that is under construction,

scheduled for completion later this year, going into 2009.

Many of these newer buildings meet the higher standards that corporate tenants demand as they continue to expand. We have also seen the true devel-

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opment of the Central Business District (CBD), growing from 600,000 square meters of office space, to over 1.8 million square meters today.

The CBD is not the only submarket that has grown rapidly. In fact, all of Beijing's submarkets have seen many new buildings coming to completion, with user-specific build-to-suit projects going up in Wangjing and Haidian. Furthermore, Financial Street in Xicheng District has received perhaps the most attention, as many international financial institutions have relocated there in the last few years. It has also seen the addition of a major retail mall, Seasons Place, and international hotels opening to service the growing business community.

With all this new construction, one has to ask if there is actually enough demand for office space to warrant such a rapid pace of development? So far, the answer to that question is yes. The total space occupied in Beijing has grown from approximately 3.8 million square meters in 2005 to over 7.3 million square meters today. Much of the growth has been in Beijing's newer of-

fice buildings, with the older, poorer quality buildings seeing tenants relocate to these newer ones.

So, who is expanding and leasing space in these new buildings? There has been an across-the-board expansion for companies in all lines of business. For example, there has been considerable growth in accounting, IT, manufacturing, legal, consulting, insurance and finance, comprising a "who's who" of Fortune 500 companies and the global 200 law firms.

MOVING FORWARD – AFTER THE OLYMPICS

Even though most cities in the past have seen a decline in office occupancy after they hosted the Olympics, Beijing's situation is unique. It is in the midst of a period of expansion driven by international firms that are gaining a foothold in China. The overall strength of the national economy has been the driving force behind the expansion. The majority of the office space being leased is not for Olympic-related purposes, but rather for the continued growth of the companies in

Beijing and China in general.

Demand should continue to be strong after the Olympics, especially considering that many financial firms have not yet expanded to the same levels seen in comparable service-sector cities. One bright spot from a renter's perspective is that with all this new construction, corporate tenants have more choices when looking at office space and may be able to negotiate more competitive terms with some landlords as a result. Furthermore, many buildings will be more accessible to the subway system, especially in eastern Beijing and Haidian. With the general outlook for Beijing still one of growth and increased maturity and stability, 2009 and 2010 will be pivotal in absorbing the new supply currently being completed. Potentially, this may lead to the city's next construction cycle.



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Marco Polo Parkside, Beijing shares the Spirit of Olympic Games



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