Beijing malls morph into office spaces

Demand fed by expanding businesses and new startups makes leasable work areas more lucrative for property investors than tired retail premises

Cyclists ride along a road near the China Central Television headquarters in Beijing. There is a lot of interest in converting shopping complexes and similar realty into office spaces in Beijing this year. PROVIDED TO CHINA DAILY

By **CHEN MEILING** and **HU YUANYUAN**

Interest in converting shopping complexes and similar realty into office spaces remains high in Beijing this year, industry insiders said.

Property firms see higher gains arising from growing demand for offices as various businesses are expanding while new startups are being set up everywhere, according to a recent report from JLL, an international real estate research firm.

Hence, in 2017, buyers showed great interest in converting many old or aging Beijing properties housing retailers and other commercial establishments like hotels into leasable office spaces, given the latter's lucrative nature, it said.

The 27-year-old North Star Shopping Center, once owned by North Star group, a State-owned enterprise, was closed down in January after a string of losses.

North Star group said the shopping center generated sales of 1.2 billion yuan ($190 million) back in 1997. However, the property failed to survive as e-commerce and emerging New Retail companies caused a sharp drop in footfalls, which in turn led to closure of shops and exodus of tenants, industry insiders said.

Similarly, Parkson Retail Group announced closure of its shopping mall in Taiyanggong, Beijing, in October 2016. The property was taken over by realty investment fund ZRiver Capital, which is renovating it to install rentable office desks, according to a report in *Beijing Youth Daily* in late January.

China Vanke, a realty firm, bought a branch of Xidan Department Store in Shilipu, Beijing, in 2016 to convert it into an office complex, it said.

Despite increased supply, not many office spaces are vacant. In fact, vacancy rate in the office building segment in Beijing remained under 10 percent in recent years (under 5 percent in core commercial areas).

Monthly rental for such spaces was up to 400 yuan per square meter, according to data from Cushman & Wakefield, a provider of property services.

With last year's GDP growth rate touching a healthy 6.9 percent, around 341,000 square meters of office space in Beijing was rented out in 2017, up 77 percent from 2016, according to real estate consultancy Colliers International.

Property conversion projects somewhat rescued developers hit by tightened regulations and policies on construction land, experts said.

In September last year, the State Council, China's cabinet, approved the Beijing local government's plan to control expansion of newly added construction land. The State Council said that land for rural and urban construction in Beijing would be decreased to 2,860 square kilometers by 2020 and to 2,760 sq km by 2035.

According to Colliers International, 11 new office realty projects will be completed this year, with a gross area of 1 million square meters.

Increased supply may result in a slight decrease in the rental of grade A offices, which would likely be welcomed by cost- and location-conscious tenants, it said.

Last year, the average monthly rental level grew 0.4 percent to reach 331.8 yuan per sq m, due to steady demand and the introduction of new offices with relatively high rents into the market, it said.

Demand was mainly from domestic companies in diverse industries, including finance, consulting, information technology, real estate, media and manufacturing.

Contact the writers at chenmeiling@chinadaily.com.cn