

# 2021

# MAINLAND CHINA INVESTOR INTENTIONS AND CAP RATE SURVEY

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北大光华  
中国REITs研究中心



In collaboration with:



CUSHMAN &  
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# INTRODUCTION



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As China benefits from being “first in and first out” of the COVID-19 pandemic, it has become increasingly attractive to investors both locally and from around the globe. In response, as a joint effort of our Research, Valuation and Capital Markets teams, in late 2020 we conducted an investor intentions and cap rate expectations survey, collecting valuable responses from mainland China’s largest commercial real estate (CRE) investors, both domestic and international.

The survey results revealed strong investor interest in China’s Tier 1 cities – especially in office assets in Beijing and Shanghai, as well as growing interest in business parks. Investor interest in retail assets also remained relatively solid, driven by China’s rapid recovery from the pandemic. Not surprisingly, the majority of survey respondents also demonstrated interest in logistics and data centers in Tier 1 and surrounding satellite cities. Among the major Tier 2 cities,

Hangzhou – China’s rising tech city and provincial capital city of Zhejiang, emerged as the top choice, followed by Chengdu.

In terms of cap rate expectations, cap rates for CBD office properties in Beijing and Shanghai will likely remain low in 2021, ranging between 3.9% and 4.6%. In contrast, office cap rates in Shenzhen and Tier 2 cities are expected to rise slightly. For retail investments, cap rates are expected to stay relatively steady in Shanghai, Guangzhou and the major Tier 2 cities, while an uptick in cap rate is likely in Beijing and Shenzhen. In addition, cap rates of business park properties are anticipated to remain stable across all major cities in China, while most respondents expect further compressions in cap rates of logistics facilities and data centers in and around Tier 1 cities.

This report is an extract from the China REITs Index report series, which was first published by the China REITs

Forum in March 2021. The full [Chinese language report](#) includes further information on the REITs performances of major Hong Kong and Singapore CRE investors with a presence in mainland China. The Chinese language report is also produced in collaboration with the China REITs Forum, the China REITs Research Center of Guanghua School of Management of Peking University, and GSUM Fund Management.

Finally, we’d like to offer our sincere thanks to all the CRE investors who participated in our survey. We hope this report yields beneficial insights to interested individuals and organizations. To find out more about Cushman & Wakefield’s capital markets research and services in Asia Pacific, please visit our [APAC Capital Markets Hub](#) webpage.

Sincerely,  
Catherine Chen

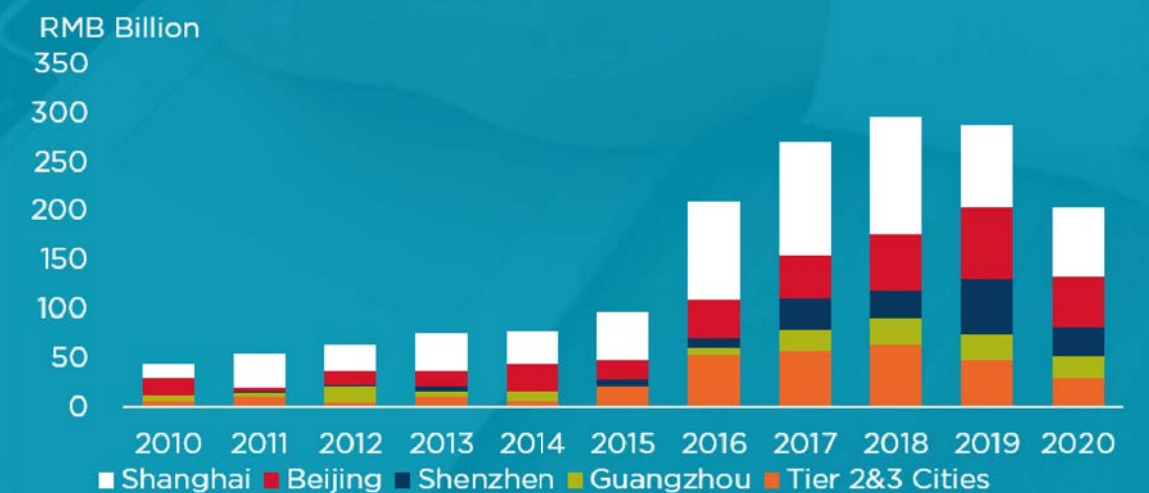
## PART 1

# OVERVIEW OF THE COMMERCIAL REAL ESTATE INVESTMENT MARKET IN MAINLAND CHINA IN 2020

### Nationwide market outperformed expectations, driven by active Q4 transactions

According to Cushman & Wakefield research, despite the challenges of the spread of COVID-19 in 2020 and increased economic uncertainty, the real estate market in mainland China remained relatively active with a recorded transaction value of RMB204.7 billion. This was the lowest of the past five years and down 29% from 2019. However, overall performance was still better than expected. There were approximately 180 transactions, basically the same as the previous year. On a quarterly basis, the transaction values from Q1 to Q4 in China were RMB57.0 billion, RMB40.1 billion, RMB41.8 billion and RMB65.8 billion respectively. Since Q3, the market has demonstrated a trend towards recovery. In Q4 it reached a peak, up 57% q-o-q, paving the way for the market to rebound in the coming year.

### 2010-2020 Mainland China CRE Transaction Volume by Market



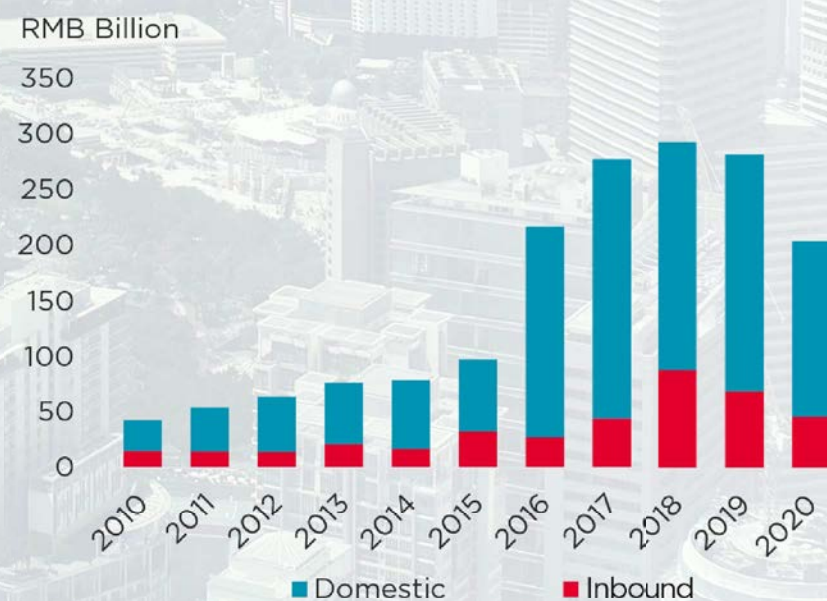
Source: Cushman & Wakefield



In terms of the market performance throughout the year, the COVID-19 pandemic exerted a more significant impact on foreign investors. There were only 34 investment transactions from foreign capital, totaling RMB46.4 billion, down 32% y-on-y. The deals accounted for about 23% of the total market investment, the lowest of the past three years. By city, Beijing was most favored by foreign capital in 2020, with overseas investment representing up to 30% of transactions for the year, surpassing Shanghai for the first time. In contrast, inbound investment in Shanghai accounted for just 15% of the total investment volume, representing the lowest share within the past five years. Strict quarantine measures for incoming international travelers made it challenging for foreign-funded groups lacking senior decision-makers in China to inspect projects and implement transaction details.

The impact of COVID-19 weakened the competitiveness of foreign investors, providing a rare investment opportunity for domestic players, especially for buyers with self-use needs. In 2020, the acquisition of properties by self-use buyers accounted for 40% of total transaction volume for the year, a significant rise compared with the approximately 15% seen in previous years. Self-use buyers in Shanghai were particularly active, with transaction volume rising threefold from 2019. The transaction volume from self-use buyers in Shenzhen also doubled. Most self-use buyers came from financial institutions such as banks, securities firms and insurance companies. Moreover, some leading hi-tech companies also became self-use buyers, and their willingness to expand their office space by purchasing properties was significantly strengthened in 2020.

**2010-2020 Mainland China Investment Transactions by Capital Source**



Source: Cushman & Wakefield

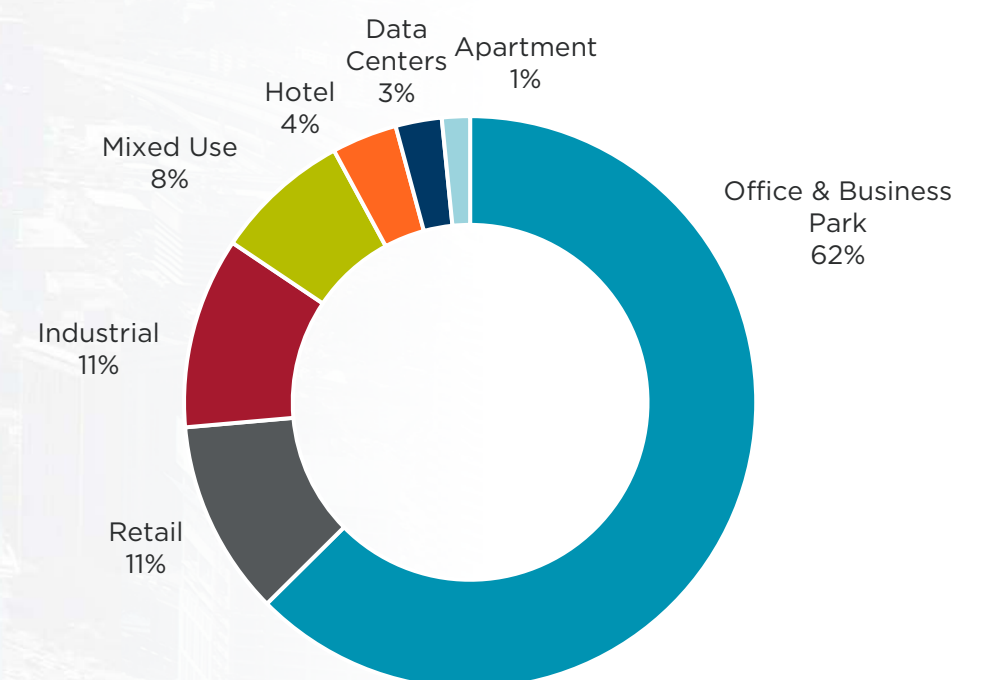
Looking ahead into 2021, with COVID-19 under effective control domestically, and combined with steady economic recovery, mainland China can now be viewed as one of the most stable investment destinations worldwide. It is expected that the domestic real estate market will usher in more projects jointly acquired by domestic and foreign investors. On one hand, as China has intensified its supervision over real estate financing, the injection of foreign investment has not only strengthened the financing weak links for local investors, but also enhanced their asset management and operational capabilities. On the other hand, for foreign-funded investors, cooperation with local investors has also increased the feasibility of competing for a share in urban renewal or policy-oriented projects. In addition, under the “three red lines” financing restrictions, highly leveraged domestic developers are now expected to release more high-quality commercial and office properties for sale, bringing a new round of investment opportunities to the market.

## Office, logistics and data center projects favored in the market

Market uncertainties brought by COVID-19 steered investors towards asset categories with stable cash flow, strong anti-risk ability, clear industry orientation or favorable policy support, such as Grade A office properties, business parks, logistics and data centers. In 2020, investment in office properties (including Grade A office and business parks) accounted for 62% of total transaction volume, up 9% from the 53% seen in 2019. In contrast, investment in retail assets accounted for just 11% of the total. COVID-19 had a significant impact on specific retail formats such as shopping malls and department stores, in turn shifting investors’ attention to smaller scale community businesses or commercial projects with potential for

upgrading or redevelopment. At the same time the accelerated growth of industries such as e-commerce, livestreaming, remote office and cloud classrooms made logistics storage and data center assets the new market hotspots for 2020. Transaction volumes for the year for logistics centers and data centers reached RMB22.0 billion and RMB5.3 billion respectively, quadrupling and doubling the considerations in the previous year, respectively. It is evident that the double impact of COVID-19 and slower economic growth have turned investors’ interest on projects demonstrating a clear industry direction and relatively high yields.

**2020 Mainland China CRE Transaction Volume by Sector**



Source: Cushman & Wakefield



PART 2

# 2021 INVESTMENT INTENTIONS SURVEY

Introduction to the survey

This is the second survey conducted by Cushman & Wakefield on investment intentions and expected cap rates within the mainland China real estate market. The survey respondents included leading conducted in the domestic and international real estate investment communities. This survey was completed in Q4 2020, with completed responses from more than 50 real estate investment companies. The interviewees included domestic and overseas real estate fund companies, insurance institutions, developers, and Singapore and Hong Kong listed REITs. Of total participants, the ratio of domestic firms to foreign firms was approximately four to one. In terms of the investment period requirement, target asset holding periods for less than 3 years, 3-6 years, and 6 years or more

accounted for 14%, 55%, and 31% of respondents, respectively.

The survey comprised two categories of questions: the investment preference section focused on the degree of attention that interviewees expect to pay to city levels and asset types in 2021, while the cap rate questions aimed to learn the reasonable cap rate levels identified by participants targeting different asset classes, both from the buy-side and sell-side.

Methodology

Firstly, to take account of the different expectations of buyers and sellers on asset pricing in the real estate block trading market, the questionnaire set up three types of roles: buyer, seller, and both. Interviewees could give their reasonable cap rate ranges for various assets from the perspectives of buyer and seller. Our analysis tracks the overlapped cap rate recognized by both buyer and seller.

Secondly, the major second-tier city category refers to the nine major cities of Hangzhou, Nanjing, Suzhou, Chongqing, Chengdu, Tianjin, Wuhan, Xi'an, and Dalian. In addition, considering the characteristics of the Beijing and Shanghai Grade A office markets, the survey subdivides these city markets into CBD and non-CBD submarkets for the purposes of studying the

Grade A office cap rate. By definition, the Beijing CBD submarket includes the China World Trade Center area, Beijing Financial Street, East Second Ring Road, Lufthansa Area and Zhongguancun. The core-submarket for Grade A offices in Shanghai includes Lujiazui CBD, People's Square, Nanjing West Road, Xuhui District, Zhuyuan, Xintiandi, and Changning Zhongshan Park.

Finally, for logistics storage and data center assets, the surveys were performed across the two city ranges: 1) first-tier cities and the surrounding satellite cities, and 2) all others.

Cap Rate = 
$$\frac{\text{NOI}}{\text{Current Market Value}}$$

# SURVEY FINDINGS

Investment intentions

In terms of cities, Beijing and Shanghai assets received the highest degree of attention from investors, reflecting the market's investment preferences and the cities' superior asset liquidity. Guangzhou and Shenzhen were next, followed by major second-tier cities. In response to the impact of the overall economic uncertainty caused by COVID-19 and the tightening of domestic real estate financial market in recent years, many investors tended to choose more stable markets in first-tier cities as investment destinations, seeking to reduce investment risks.

Although factors such as COVID-19 and a near-term rise in supply have exerted pressure on the office leasing market in some cities, in general, Grade A office projects remain the first preference among all property sectors for

investors considering an investment project. Interviewees exhibited clear city preferences for office investment opportunities, with Beijing and Shanghai in the first echelon.

More than 70% of investors were considering investing in Grade A office projects in these two cities, while about 40% of interviewees expressed interest in office projects in Guangzhou and Shenzhen and only 12% in major second-tier cities. In the four major first-tier cities, office properties remained an indispensable part of the asset allocation for many investors due to their stable rental income, low operational difficulty, and good asset liquidity. The current trend of market price retracement is a further factor bringing more market entry opportunities for investors considering office property assets.

2021 Investment Intentions



Major second-tier cities: Hangzhou, Nanjing, Suzhou, Chongqing, Chengdu, Tianjin, Wuhan, Xi'an, and Dalian  
Source: Cushman & Wakefield





The degree of attention paid to investment opportunities in business parks was similar to that of Grade A offices, reflecting the extent to which this type of property has become a strong choice, after Grade A office, for investors seeking to make an office investment. As a result of the huge demand in Beijing and Shanghai for office space, about 60% of interviewees responded that they would consider investing in business parks in these two cities, a significantly higher percentage than in Guangzhou, Shenzhen and major second-tier cities. However, unlike office investments, where location with the city is key, business parks are generally located in the city outskirts. Investors are hence usually focused more on industrial orientation and development around the business park location. Business parks with distinctive industrial

features and higher industry concentration or clustering, such as Beijing Shangdi Software Park, Shanghai Zhangjiang High-Tech Park, Shenzhen Nanshan Science and Technology Park, and Suzhou Industrial Park won the favor of investors, due to stable expected cashflows and asset value growth thanks to strong industrial support.

For retail properties, interviewees considering investment in Beijing, Shanghai, Guangzhou and Shenzhen, accounted for 47%, 53%, 39% and 37% of respondents respectively, while 29% of interviewees considered investing in retail properties in major second-tier cities, representing the highest share among all property sectors. Despite the relatively weak demand for office properties in second-tier cities, consumer demand and daily consumption needs have ensured favorable

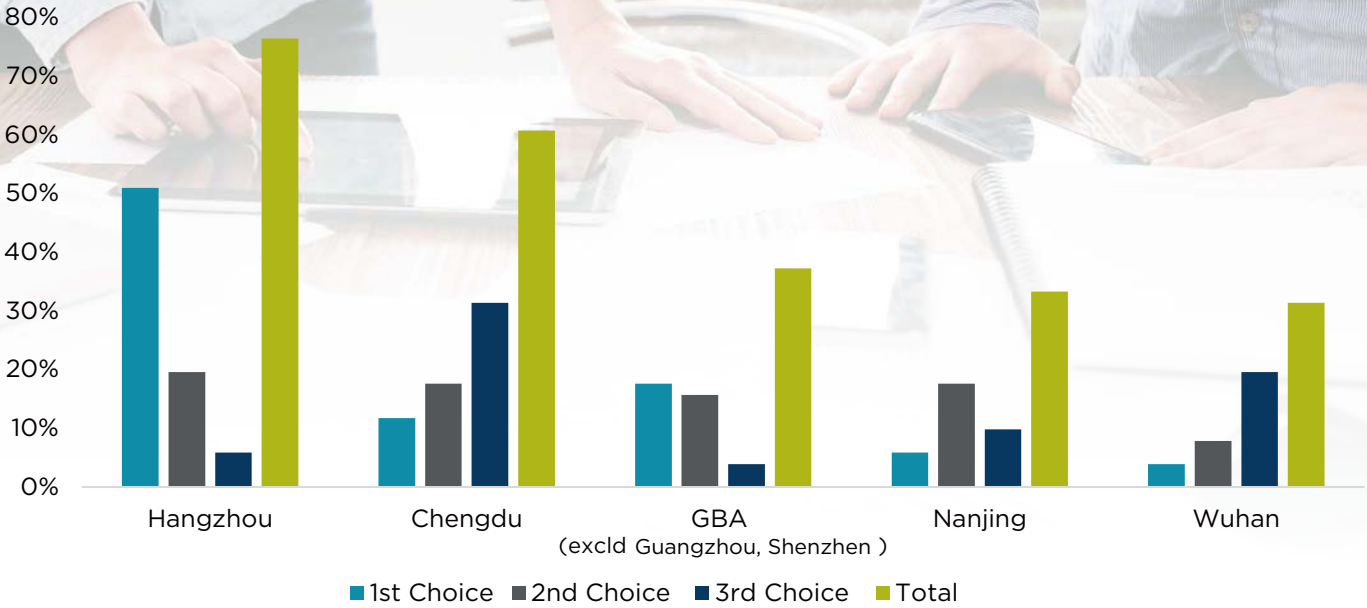
market support for retail properties, in turn attracting the attention of real estate investor to retail projects in these cities.

Investors have been more cautious in acquiring hotel and serviced apartment assets, in part due to factors such as the impact of COVID-19 on the hotel industry and frequent disruptions in the long-term leasing apartment market in 2020. In the survey, investment preference for hotels and serviced apartments in first-tier cities and major second-tier cities accounted for the least of all asset classes, with the highest share at 29% in Shanghai. Only 8% of interviewees showed interest for investment opportunities for hotels and serviced apartments in major second-tier cities.

2021 Investment Intentions	Tier-1 Cities and Surrounding Area	Other Cities
 Data Center	63%	2%
 Logistics Center	65%	6%

Source: Cushman & Wakefield

Top Five Second-Tier Cities/Regions



Source: Cushman & Wakefield

This survey revealed the degree of attention paid by interviewees to investment opportunities in logistics storage and data centers assets. The findings showed that 64% and 63% of participants considered investing in logistics storage and data center projects in first-tier cities and their surrounding areas, respectively. However, in sharp contrast to such attraction, only a few interviewees in other cities expressed their investment interest, showing the distinctive market-oriented characteristics of logistics storage and data centers.

The degree of attention paid to these two asset categories in the real estate investment market has risen with the emergence of new economic opportunities and business models in the wake of COVID-19, such as remote offices

and livestreaming. Great demand has also been generated from the rapid expansion of e-commerce, and favorable policy measures identifying data centers as a component of China's new infrastructure program. As well, in April 2020 the China Securities Regulatory Commission and the National Development and Reform Commission jointly issued the Circular on Promoting the Pilot Work of Real Estate Investment Trust Fund (REIT) in the Infrastructure Sector, which included logistics storage and data centers in the pilot scheme, thus providing investors with stable project financing and exit channels, and indirectly promoting the market's enthusiasm for investment in these two types of assets.

Rapid economic development in non-first-tier cities and

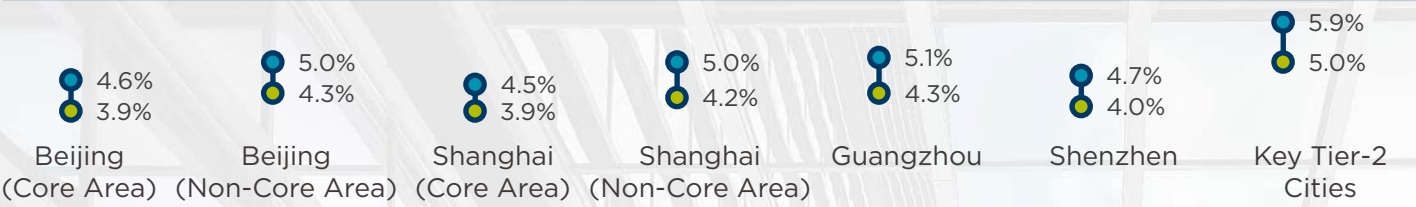
their relatively high rate of investment return has gradually attracted the attention of more real estate investment institutions. Among the major second-tier cities, the top five attracting most attention from survey participants were Hangzhou, Chengdu, Greater Bay Area (excluding Guangzhou and Shenzhen), Nanjing and Wuhan. Approximately 77% of interviewees selected Hangzhou as their investment destination. In addition, Hangzhou scored a first preference investment destination rating of 51%, higher than that of Chengdu at 12% and Greater Bay Area (excluding Shenzhen and Guangzhou) at 18%. In addition, around 30% of interviewees responded that they might consider investing in Wuhan, the city most impacted by COVID-19.



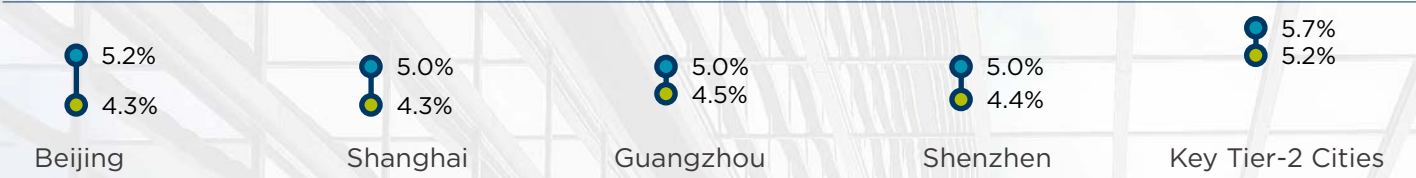
### Cap rates of different asset classes in Chinese cities

This survey observed the reasonable cap rate range of various assets in transactions from the perspectives of buyer and seller, and developed the following conclusion based on the consensus of the range.

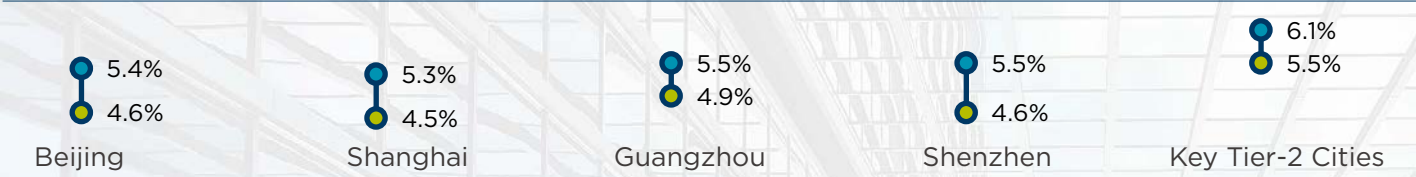
#### Grade A Office Cap Rate



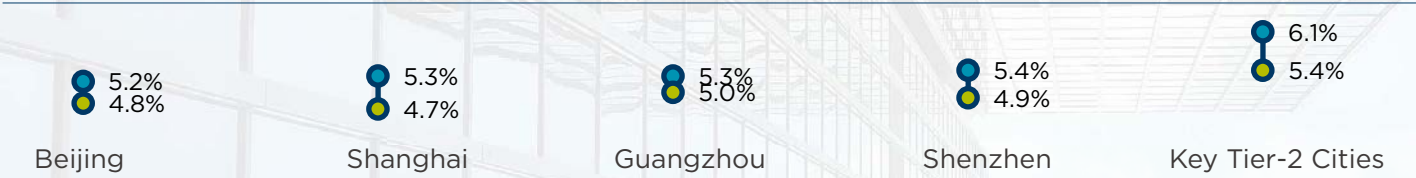
#### Retail Cap Rate



#### Business Park Cap Rate



#### Hotel / Serviced Apartment Cap Rate



#### Logistics Cap Rate



#### Data Center Cap Rate



The survey results show that there is a general consensus among market participants on the pricing of Grade A office as the most liquid and highly regarded trade format in the domestic real estate investment market. Investors thus tend to use it as a benchmark to reflect the investment risk and return requirements of different trade formats, by comparing the cap rate difference with other property types.

The cap rates of Grade A offices in core areas of Beijing and Shanghai are the lowest among all cities and regions, in the ranges of 3.9% to 4.6% and 3.9% to 4.5% respectively. Interviewees' return requirements on Grade A offices in major second-tier cities show a clear risk premium derived from city level, with cap rates in the range of 5.0% to 5.9%, which is 1.1 p.p. to 1.4 p.p. higher than those in core areas of Beijing and Shanghai.

Compared to offices, the overall difference in cap rates of retail properties is smaller between cities. Retail properties receive the highest attention in all property sectors in Guangzhou and major second-tier cities, and the difference between the cap rates for retail properties and Grade A offices in the two regions is also the smallest.

Although the market as a whole requires a higher cap rate for business parks than for Grade A offices, for some core assets located in industrial clusters, their stable rental income and value growth expectations enable investors to accept a lower cap rate, even close to the level of Grade A offices in core areas.

The limited new supply of logistics storage projects in China's major cities and the expanding per capita demand for logistics have generated continued growth in the popularity of logistics storage assets in the real estate investment market. This widespread interest and the increasing number of transactions have led to transparency in the pricing basis and cap rate levels. The results of this survey show that the cap rate requirements of buyers and sellers for logistics storage in and around first-tier cities are in the ranges of 4.9% to 5.8% and 4.7% to 5.6%, respectively, an overlap rate of 4.9% to 5.6%. In recent years, there have been few investment





opportunities in high-standard logistics centers located in major logistics hubs in first-tier cities. Sale transactions of high-quality logistics assets are likely to place additional downward pressure on the market average cap rates, as such transactions will likely attract strong competition for capital.

This survey finds that market perceptions of cap rates of data centers vary widely. The data center sector is an emerging asset class in real estate investment, and there are few mature data center transactions in mainland China. Most M&A cases are either projects that have just been granted energy quotas or are in the process of development and construction. Together with factors such as limited disclosure of transaction information and inclusion of non-asset elements in the consideration, the market generally lacks a transparent pricing basis for data centers, which is the fundamental reason for the large difference in interviewees' opinions. Responses from buyers show that the cap rates of data centers in and around first-tier cities range from 5.5% to 10.0%. To ensure the reliability of the survey conclusion, only the rates submitted by those who had past investment experience in data center assets are used as a statistical sample. After analysis, the survey also found that there is a significant difference between buyers' and sellers' expectations on the cap rates of data centers. The range of acceptable cap rates for projects in and around first-tier cities was found to be in the range of 8.0% to 9.1% for buyers and 7.3% to 8.3% for sellers, with an overlap of 8.0% to 8.3%, demonstrating the deviation in price expectations between the two parties.

### Outlook & Forecast

The majority of survey participants expressed a relatively cautious attitude towards the trends for cap rates for Grade A office, retail, business park, and hotel/serviced apartment assets for 2021. Cap rates for business parks are forecast to remain at the same level in all cities, while the cap rates for the three other asset types show an upward trend in at least one city or city category.

in and around first-tier cities will continue to drop, reflecting the market's positive outlook towards both asset types. The current cap rates of logistics storage assets in and around first-tier cities are in the range of 4.9% to 5.6%, and if the rates decline further in the near future, they may be on par with those of business parks in first-tier cities.

However, interviewees generally believe that the cap rates of logistics and data center assets

### 2021 Cap Rate Movement Expectations

	Beijing	Shanghai	Guangzhou	Shenzhen	Tier-2 Cities
Grade A Office	→	→	→	↑	↑
Retail	↑	→	→	↑	→
Business Park	→	→	→	→	→
Hotel/Serviced Apartment	→	→	→	→	↑
Tier-1 Cities and their surrounding area				Other Cities	
Logistics Storage	↓			→	
Data Centers	↓			→	

↑ indicates cap rate increase   → indicates cap rate doesn't change   ↓ indicates cap rate decrease





# SURVEY CONCLUSIONS

- 1** In terms of cities, all types of assets in Beijing and Shanghai attract the most investor attention, reflecting the market's investment preference for the two cities given better asset liquidity. Among second-tier cities, the top five cities/regions with the highest level of investor interest are Hangzhou, Chengdu, the Greater Bay Area (excluding Guangzhou and Shenzhen), Nanjing, and Wuhan.
- 2** In terms of asset type, Grade A office remains the most popular among investors, but the market has a strong investment preference for projects in Beijing and Shanghai. Retail properties receive the highest level of attention among all asset classes in Guangzhou and major second-tier cities. Interest in investment opportunities in business parks is close to that of the Grade A office across cities. Logistics and data center projects are sought after by the market thanks to favorable policies and new economic patterns, although investor interest is concentrated in and around first-tier cities.
- 3** The survey results show that buyers and sellers share the most common expectations in office cap rates, among all asset classes. The cap rates of Grade A offices in core areas of Beijing and Shanghai are the lowest in all cities and regions, in the range of 3.9% to 4.6% and 3.9% to 4.5%, respectively. In Guangzhou and Shenzhen the cap rates of Grade A offices are in the range of 4.3% to 5.1% and 4.0% to 4.7%, respectively.
- 4** There is a significant difference between buyers' and sellers' expectations on the cap rates of data center assets, as shown by the acceptable cap rate range for projects in and around first-tier cities being 8.0% to 9.1% for buyers and 7.3% to 8.3% for sellers, exhibiting an overlap of 8.0% to 8.3%.
- 5** The majority of survey participants expressed a relatively cautious attitude towards cap rate trends in 2021, but they generally believe that the cap rates of logistics and data center projects in and around first-tier cities will continue to decline.



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#### About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 50,000 employees in over 400 offices and 60 countries. Across Greater China, 22 offices are servicing the local market. The company won four of the top awards in the Euromoney Survey 2017, 2018 and 2020 in the categories of Overall, Agency Letting/Sales, Valuation and Research in China. In 2020, the firm had revenue of \$7.8 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit [www.cushmanwakefield.com](http://www.cushmanwakefield.com) or follow @CushWake on Twitter.

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