

CHINA'S TWO SESSIONS 2021
INTERPRETATION
OF REAL ESTATE
POLICIES
IN THE 2021
CHINA GOVERNMENT
WORK REPORT

March 2021

INTRODUCTION

China's 'Two Sessions' gathering for 2021 commenced on March 4, with the Chinese People's Political Consultative Conference (CPPCC) and the National People's Congress (NPC) meetings also marking the start of the 14th Five-Year Plan (FYP) period.

The government work report, delivered by Premier Li Keqiang, was structured into three major parts. Firstly, the report reviewed the government's development goals and tasks in 2020, highlighting the response to the COVID-19 epidemic and the advancement of economic and social development in the country. Secondly, it set out major targets and tasks for the 14th FYP period ahead. And thirdly, the report detailed major tasks for 2021.

The work report reiterates the importance of creating a robust domestic market in the 14th FYP period, highlighting the prioritization of domestic economic "circulation" in the "dual circulation" economic development principle first introduced by President Xi Jinping. We can expect this doctrine to guide the direction of China's economic planning in the coming five years. Of the two economic circulation components, the strongest focus is on the domestic cycle – creating jobs, raising income levels in both urban and rural populations, and continuing to boost domestic consumption. The international cycle, relating to economic growth derived from engagement in foreign trade and investment, plays a complimentary role.

The work report also pays direct attention to the real estate market, upholding the guiding principle that home are for living in and not for speculation, and, for the first time, pledging to meet citizens' housing needs and to address prominent housing issues in large cities.

We anticipate that the actions stemming from the objectives stated in the report will have benefits for China's real estate market. In this update we interpret the work report's key messages impacting China's real estate market, with excerpts from the full text of Premier Li's speech as published in the English language *Report on the Work of the Government*.

REAL ESTATE MARKET KEYWORDS

FROM CHINA GOVERNMENT WORK REPORTS 2019 – 2021

2019

- Reformed and improved mechanisms for regulating the real estate market
- Advance new urbanization
- Develop city clusters through the development of super cities and urban agglomerations
- Continue to build government subsidized housing and rebuild depressed urban areas
- Make continued legislative progress on real estate taxation

2020

- Continue to grow GDP
- Promote the recovery of consumption
- Expand effective investment
- Support growth of emerging industries
- Strengthen the development of new urbanization
- Advocate higher-quality opening-up

2021

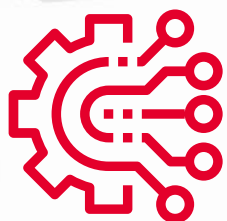
- Strengthen science and technology sectors
- Expand domestic consumption demand and deepen supply-side reform
- Advance new urbanization, expand city clusters and metropolitan areas
- Develop new and digital economy business areas such as cross-border e-commerce
- Grow the supply of subsidized accommodation available for lease and housing with common property rights, and develop the long-term property leasing market

KEY TAKEAWAYS

Key Insights for the China Real Estate Market

- ① Policy support for research and innovation will have a positive impact on the continued development of China's office property market
- ① Deepening supply-side reform and further tapping of domestic consumption potential will boost the development of the retail property market
- ① Development of cross-border e-commerce business will promote further growth in industrial and logistics real estate markets
- ① Reining in property speculation, combined with building more subsidized accommodation and developing the long-term home leasing market, should partially dampen market prices, and help stabilize land prices, housing prices and market expectations from both the supply and demand sides

MAJOR TARGETS AND TASKS



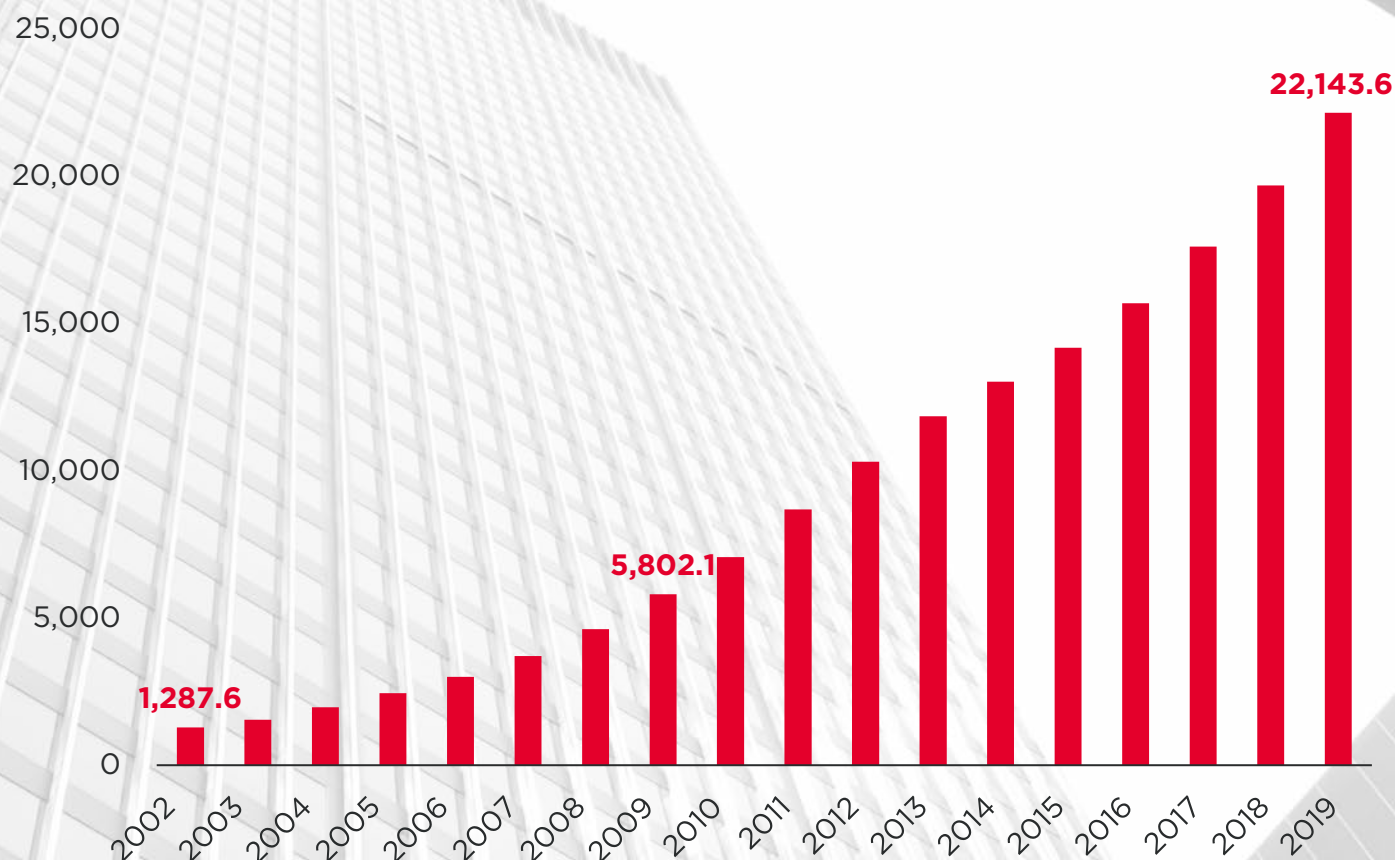
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Pursuing innovation-driven development and accelerating modernization of the industrial system

“We will strengthen our science and technology capabilities to provide strategic support for China’s development.”

Since its accession to the WTO, China has continuously expanded its investment into technology R&D. Data from the National Bureau of Statistics show that China’s expenditure on research and development in 2019 reached RMB2.21 trillion, 3.8 times that of 2009 and 17 times the investment in 2002. In 2020, the number of patent applications from China at the World Intellectual Property Organization numbered 68,720, despite the COVID-19 pandemic, making China the world’s leader for patent applications for two consecutive years.

Figure 1:
China research and development spending 2002-2019: A rise of 281% from 2009 to 2019 (RMB billion)

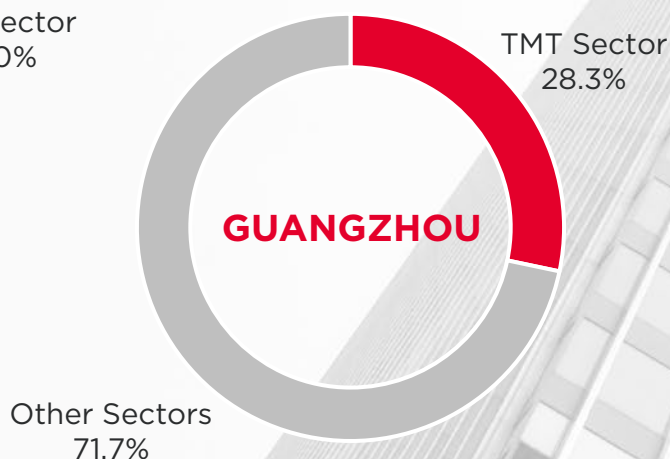
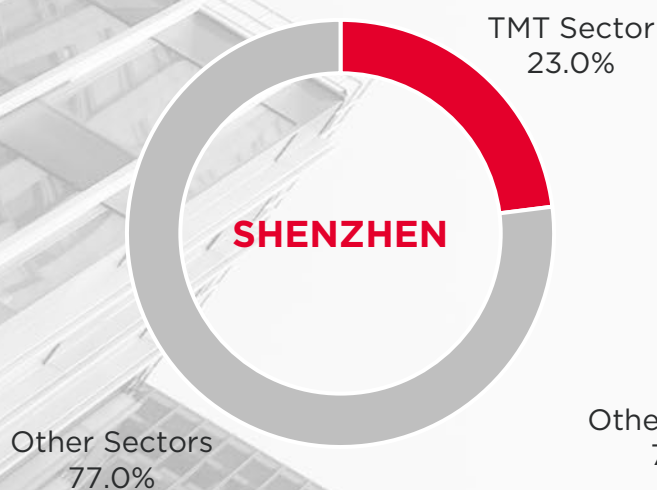
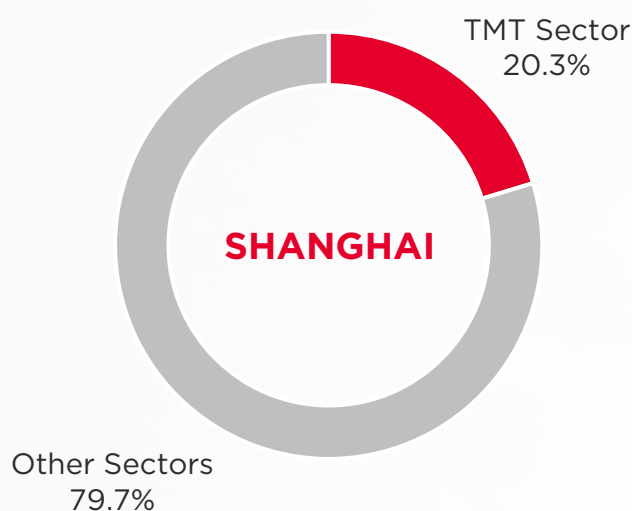
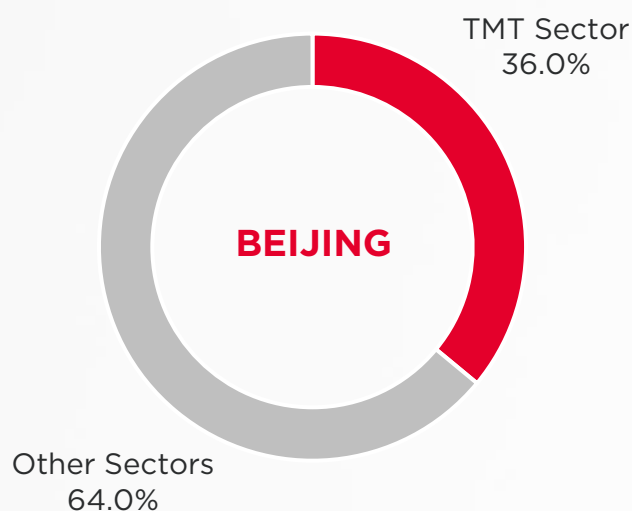


Source: National Bureau of Statistics

Despite its investment record, China still faces challenges. A growing trend of reverse globalization has emerged in recent years, in part driven by U.S. – China trade frictions as well as the impact of the COVID-19 pandemic. The actions taken by the U.S. against China in certain technological fields has again made clear to China the importance of technological independence and development, especially in high-tech fields that are crucial to the future development of the country. Consequently, achieving independent R&D capabilities in these specific technology fields has now assumed great importance.

The government's policy support in the fields of science and technology innovation will certainly help drive the development of the office market. In Tier 1 cities, the TMT industry has played a central role in the office leasing market over the past five years, with the TMT industry's share of office leasing in Beijing, Shanghai, Guangzhou and Shenzhen in 2016-2020 reaching 36%, 20.3%, 28.3% and 23% respectively. With the continued implementation of policies encouraging research and innovation, the TMT industry can be expected to continue to be a backbone of the office leasing market into the future.

Figure 2:
The TMT sector's share of office leasing activity in Tier 1 cities, 2016-2020



Source: Cushman & Wakefield Research



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Creating a robust domestic market and fostering a new development pattern

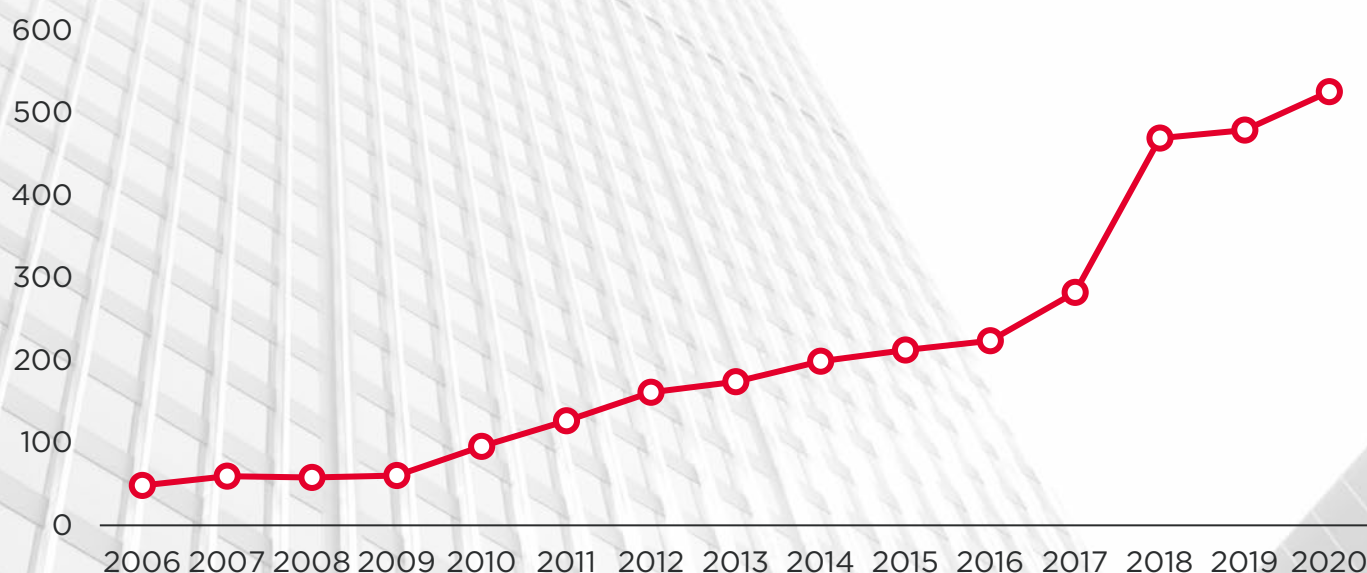
“We will pursue the strategy of expanding domestic demand and intensify supply-side structural reform, and generate new demand with innovation-driven development and high-quality supply. We will give priority to domestic circulation and work to build a strong domestic market and turn China into a trader of quality.”

The supply-side reform policies implemented in the 13th Five-Year Plan period have achieved their key objectives. The measures of “cutting overcapacity, destocking, deleveraging, reducing costs and improving weak links” have effectively cut excessive production capacities and stocks and reduced enterprise debt.

As for consumption, overseas spending by Chinese citizens had been increasing year by year, while domestic products in China struggled for a market. Consumer demands and market supply were seriously mismatched. After the adjustment made in the five years during the 13th Five-Year Plan period the situation greatly improved. Data from the China Duty Free Group shows that during the 13th Five-Year Plan period its operating revenue grew from RMB21.29 billion in 2015 to RMB52.61 billion in 2020, a jump of 147%. Although Chinese consumers are still a major force in global international consumption, they have now also become more willing to spend inside China.

Figure 3:

China Duty Free Group operating revenues from 2006 to 2020 (RMB 100 million)

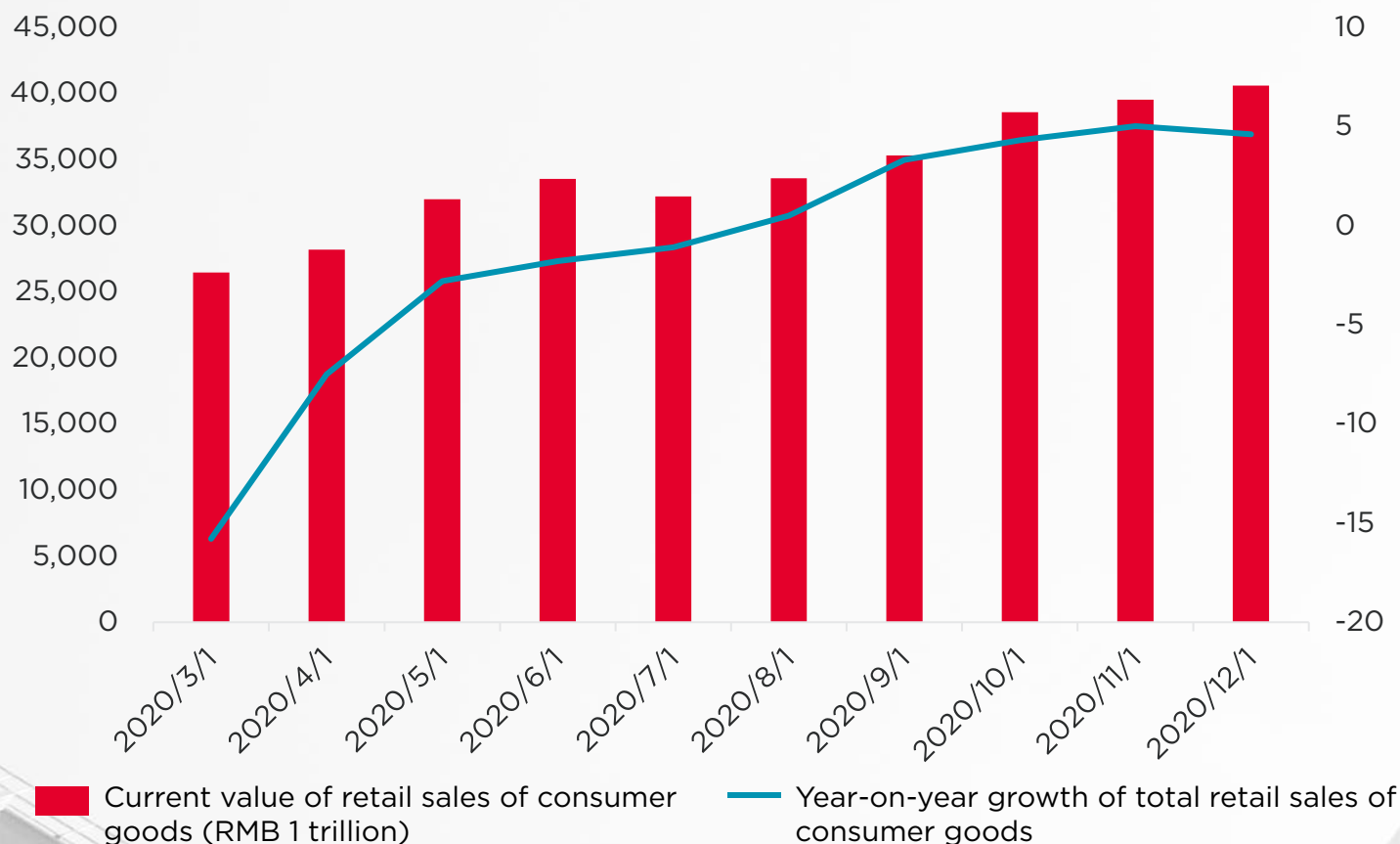


Source: Annual report of China Duty Free Group

Of the development goals for 2021, “Adhering to the strategic base point of expanding domestic demand and fully exploring the potential of domestic market” is an important factor towards realizing the economic dual circulation model. Total retail sales of consumer goods

fell significantly in 2020 due to the impact of COVID-19. However, as the pandemic gradually came under control domestically retail sales recovered somewhat, with y-o-y growth returning to positive territory in August 2020 and reaching 4.6% y-o-y by the end of 2020 (Figure 4).

Figure 4: Total retail sales of consumer goods in 2020 (RMB billion)



Source: National Bureau of Statistics

Although the travel and hospitality industries were hit hard during the COVID-19 period, in the second half of 2020 Hainan province still received 44.9 million visitors, almost on a par with 2019, with tourism income of RMB64.51 billion, up 13.7% y-o-y.

With the pandemic effectively controlled domestically the retail sector is now expected to see a strong rebound in 2021, accompanied by

development opportunities for the retail property market. Mall landlords took the opportunity presented by the spike in vacancy during the pandemic period to adjust and upgrade brand mixes and positioning, and sectors such as luxury goods, new energy vehicles, “Guochao” trend homegrown brands and on-trend F&B can be expected to demonstrate strong growth in the post-pandemic period, in turn boosting business development opportunities for retail projects.

Understanding Guochao

China retail and marketing experts are pointing to the emerging influence of the Guochao trend among the valuable younger consumer demographic. The trend is defined as Chinese domestic brands incorporating aspects of Chinese style, culture and nostalgia into product design. Guochao is gaining ground with younger shoppers in particular and is viewed as an innovative business development bright spot for retail.



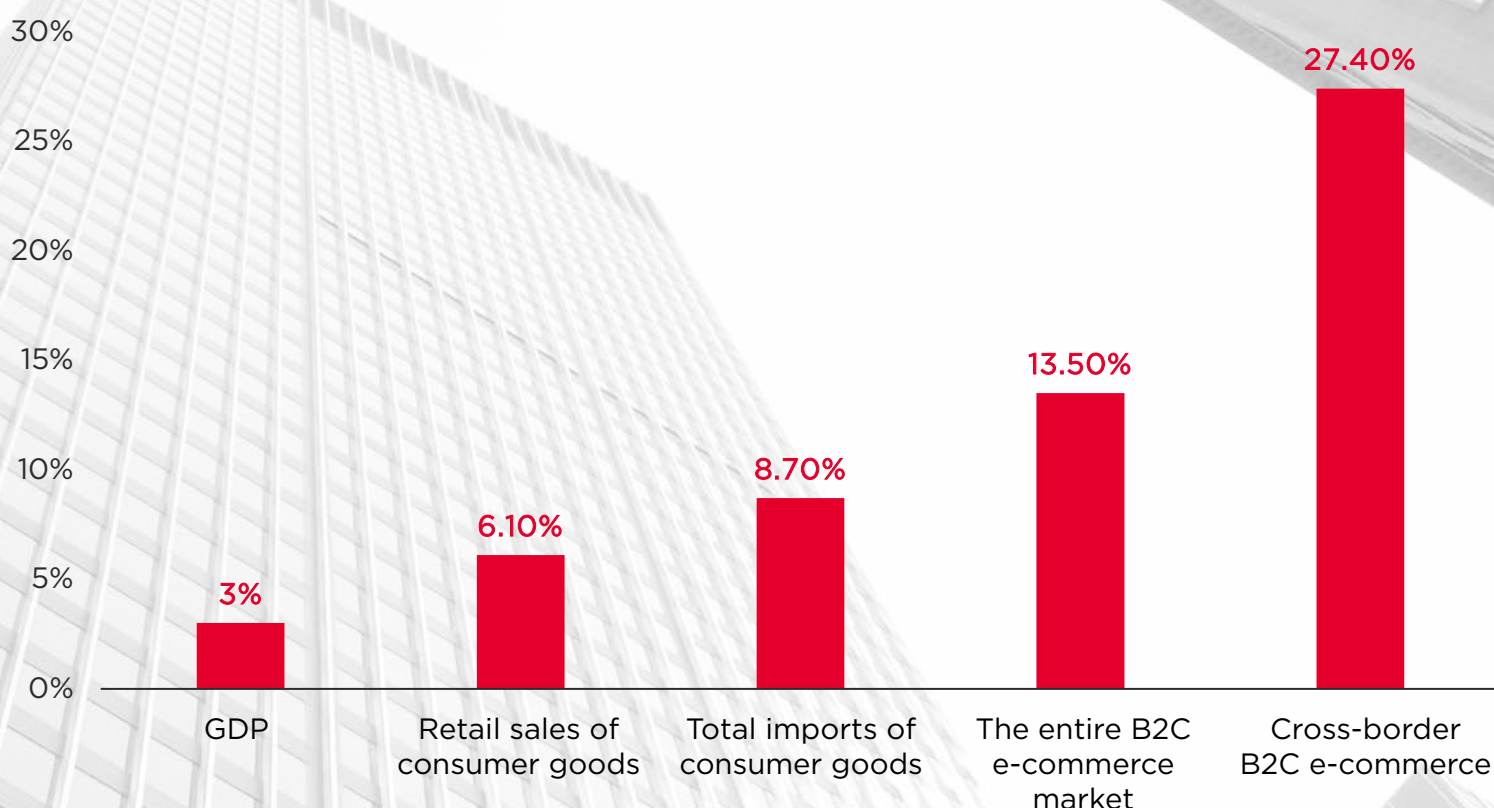
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Pursuing higher-standard opening-up and promoting stable and improved performance in foreign trade and investment

“We will keep the processing trade stable, develop new forms and models of trade such as cross-border e-commerce, and support enterprises in diversifying their markets overseas.”

The global B2C cross-border e-commerce market has developed rapidly in recent years and is expected to sustain rapid growth ahead. The size of the cross-border e-commerce market has scaled up quickly, from US\$230 billion in 2014 to close to US\$1 trillion in 2020, boasting average annual growth of 27.4% (Figure 5).

Figure 5:
Comparison of the growth rate of global cross-border B2C e-commerce vs related indicators*



*The growth rate comparison is based on compound annual growth rate from 2014 to 2020

Source: 2020 Report on the Trend of Global Cross-border E-commerce released by Ali Research and Accenture

Data from the United Nations Conference on Trade and Development (UNCTAD) shows that China's cross-border B2C sales reached US\$79 billion in 2017, ranking second after the United States worldwide. However, this figure accounted for just 3.5% of total exports and 7.5% of B2C sales, lower than the global average of 10.7%.

The government work report for 2021 highlights the development of cross-border e-commerce,

aiming to realize a high-quality import and export structure, further expand consumption, promote the development and upgrading of an open economy, and create new economic growth points. The development of cross-border e-commerce will undoubtedly boost demand for logistics properties, in turn promoting the development of the industrial and logistics real estate market, especially in regions where import and export trade is the main economic driver.

Table 1: Ranking of global cross-border B2C e-commerce sales

Ranking	Country/ region	Cross-border B2C sales (100 million US dollars)	Proportion of total exports (%)	Proportion of B2C sales (%)
1	United States	1,020	6.6	13.5
2	China	790	3.5	7.5
3	UK	310	7.0	15
4	Japan	180	2.6	12.2
5	Germany	150	1.0	17.1
6	France	100	1.8	10.6
7	Canada	80	1.8	12.7
8	Italy	40	0.7	16.2
9	South Korea	30	0.5	3.8
10	Netherlands	10	0.2	5
Sum of the top 10		270	3.0	10.7
Global		412	2.3	10.7

Source: UNCTAD



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Advancing rural revitalization across the board and improving the new urbanization strategy

“The strategy of new, people-orientated urbanization will continue to be pursued. We will move faster to grant permanent urban residency to people who move to cities from rural areas, and raise the percentage of permanent urban residents to 65% of the population. We will expand city clusters and metropolitan areas, implement an action plan for urban renewal, and improve the housing market and housing support system. These moves will enable us to achieve higher quality urbanization.”

Urbanization will continue to serve as an important driver of stable and long-term economic development in China. The urbanization rate surpassed the 60% milestone in 2019 to reach 60.6%. In the past decade, an average of 17.86 million people has moved from rural areas into China's cities every year.

The 14th Five-Year Plan does point to an adjustment in strategy, with a lower rate of continuing urbanization to prevail. However, there is still considerable room for growth to achieve the eventual target of a stable urbanization rate of 70%. A likely scenario could still see 16 million people moving to cities every year. Under this premise, city renewal and the planned implementation of inter-provincial urban agglomerations and city clusters will be a key development trend. For the real estate market, the continuing movement of rural populations into cities will increase housing demand and stimulate consumption, in turn benefiting the regional retail real estate market.



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Improving living standards and steadily advancing social development

“We will strive to meet people’s housing needs. Upholding the principle that housing is for living in, not for speculation, we will keep the prices of land and housing as well as market expectations stable. We will address prominent housing issues in large cities. By increasing land supply, earmarking special funds and carrying out concentrated development schemes, we will increase the supply of government-subsidized rental housing and shared ownership housing. We will ensure the well-regulated development of the long-term rental housing market, and cut taxes and fees on rental housing. We will make every effort to address the housing difficulties faced by our people, especially new urban residents and young people.”

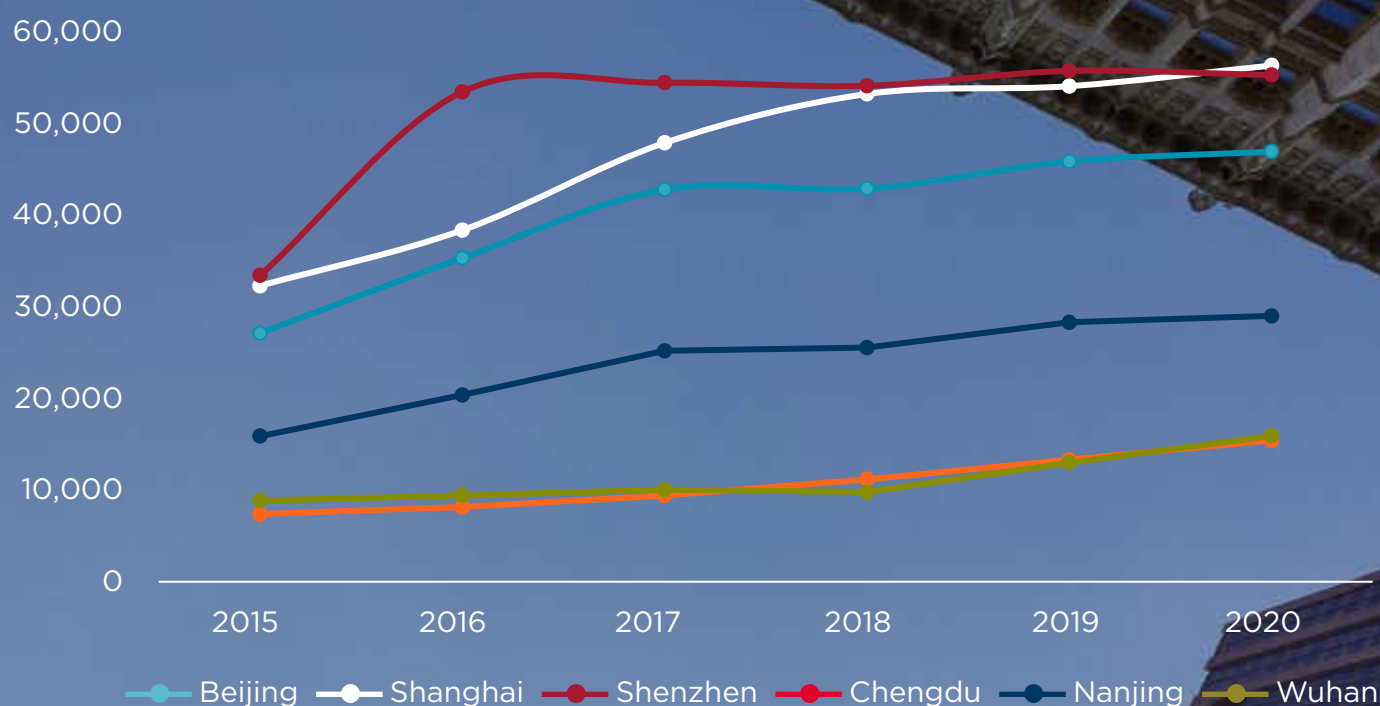
For the first time, the government work report proposes to help resolve housing problems experienced by new urban registered citizens and young people in big cities, where subsidized accommodation and homes with common property rights will become the key development initiative. Sustained high residential prices in Tier 1 cities have seriously eroded residents’ spending power or opportunities for business startups. High accommodation costs have specifically impacted new urban residents and younger age groups, diminishing their overall quality of life.

In contrast, emerging Tier 2 cities have been becoming increasingly attractive to new college graduates and young talent in recent years, drawn by stable housing prices and lower living costs. In 2020, new home prices in Chengdu and Wuhan were less than 30% of those in Shanghai and Shenzhen. Prices in Nanjing were around 50% of those in Shanghai and Shenzhen.

In order to tackle the housing problem faced by new citizens and young people in big cities, the government is expected to supply more leasable housing in areas where demand is concentrated.

The development of the residential leasing market is expected to focus more on the expansion of accommodation available for long-term leasing, with the government implementing supportive fiscal and financial policies.

Figure 6: Residential price trends in major cities, 2015 to 2020 (RMB / sq m)



Source: China Index Academy

CONCLUSION:

Twenty twenty-one is the first year of the 14th Five-Year Plan, and it is also when the foundations for China's economic and social development for the next five years will be laid. The key policies in the Plan will be implemented this year, with the roll-out of measures and actions gradually commencing. We expect that the central objectives of the Plan – strengthening science and technology sectors, fully exploring the consumption potential of the domestic market, developing cross-border e-commerce, maintaining the principle that homes are not for speculation, developing the long-term housing leasing market, and effectively addressing the accommodation needs of new urban residents and young people – will significantly influence the sustained development of the office, retail, logistics and residential real estate markets in China.

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