

# POST-LOCKDOWN RECOVERY

Outlook and emergent opportunities for the  
real estate market in mainland China

June 2022

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# 01. EXECUTIVE SUMMARY

# EXECUTIVE SUMMARY

## WHAT TO EXPECT



### THE ECONOMY, POLICY AND OUR SURVEY

#### MAIN POINTS

- Q2 economic performance will be impacted by the epidemic, with quarterly GDP growth set to be the lowest in 2022.
- If the epidemic is effectively contained, manufacturing, the service sector and consumption will gradually regain market dynamism in the second half of the year and help drive further economic recovery growth.
- The government has introduced a package of economic stimulus measures, including tax cuts, the issuance of consumer vouchers to encourage consumption, and lower interest rates on house loans to boost domestic investment and consumption confidence.
- China remains an important market for both domestic and overseas companies. In the short term, some companies will experience business difficulties but in the long-term, given the recovery, business will get back to a normal footing.



### REAL ESTATE OUTLOOK AND OPPORTUNITIES

#### MAIN POINTS

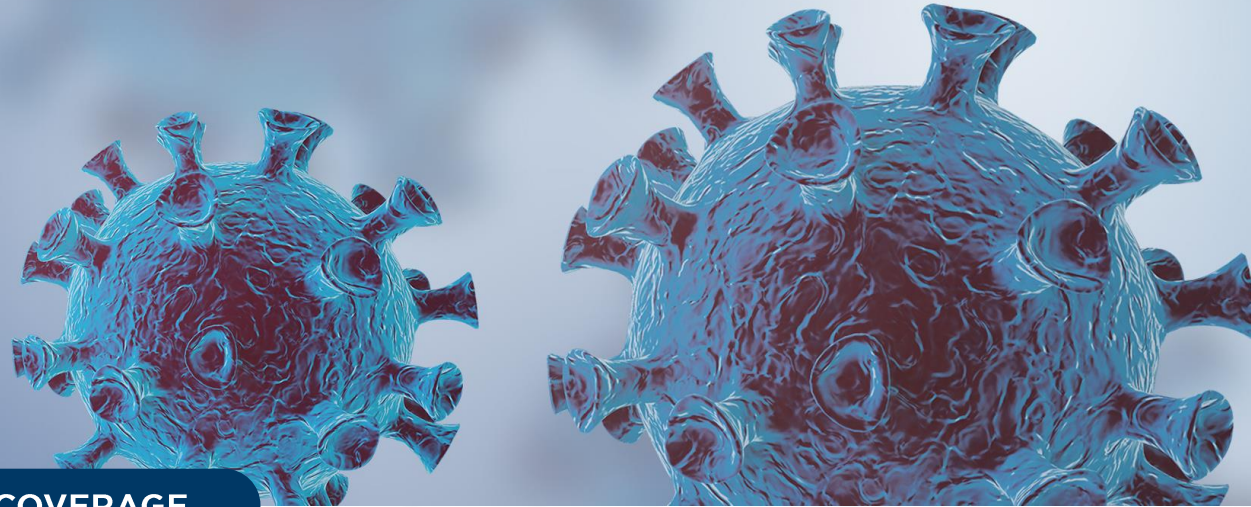
- Into Q2, real estate investment in mainland China is expected to see volume dips in certain real estate sectors while others will continue to pique investor interest.
- Office market supply volume is expected to slow, with demand expected to rebound in H2.
- Neighbourhood retail and the interaction between on- and off-line shopping will be strengthened.
- After the resumption of production, the logistics industry will quickly recover. Investment in warehousing space will be a focus for many investors investing in mainland China real estate.
- Residences with a greater amount of common area green space for activities are expected to become more popular with buyers.



# 02. INTRODUCTION

# INTRODUCTION

## OUR REPORT



### COVERAGE

#### THE CENTRAL TOPICS

In 2022, there have been several COVID-19 Omicron variant outbreaks, which have had a major impact on production and life in general in some Chinese cities.

Local governments have taken active measures to deal with the epidemic and effectively promote steady economic growth. As production and markets reopen in cities like Shanghai, we believe economic recovery is at hand.

To provide a picture of the market in mainland China after lockdown, Cushman & Wakefield Research conducted an in-depth analysis of the impact of the lockdown. In this report, we analyse the following:

- The macro-economy;
- Government policy;
- The sentiment of investors, developers and occupiers, and;
- The real estate market.

# 03. THE MACRO- ECONOMY

# THE MACRO-ECONOMY OUTLOOK

## GDP

### ANALYSIS

#### Q1 2022 GDP increased by 4.8% year-on-year.

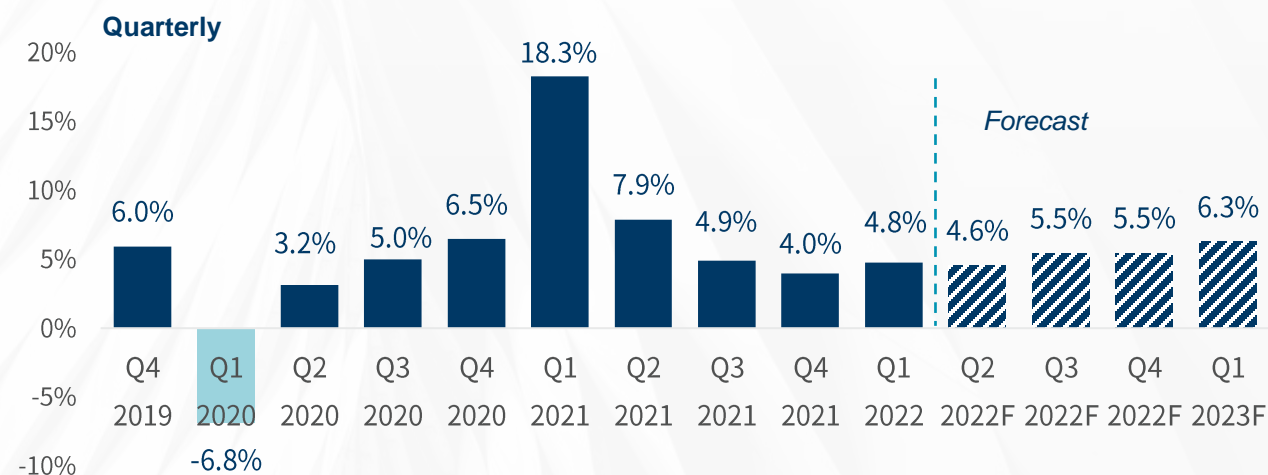
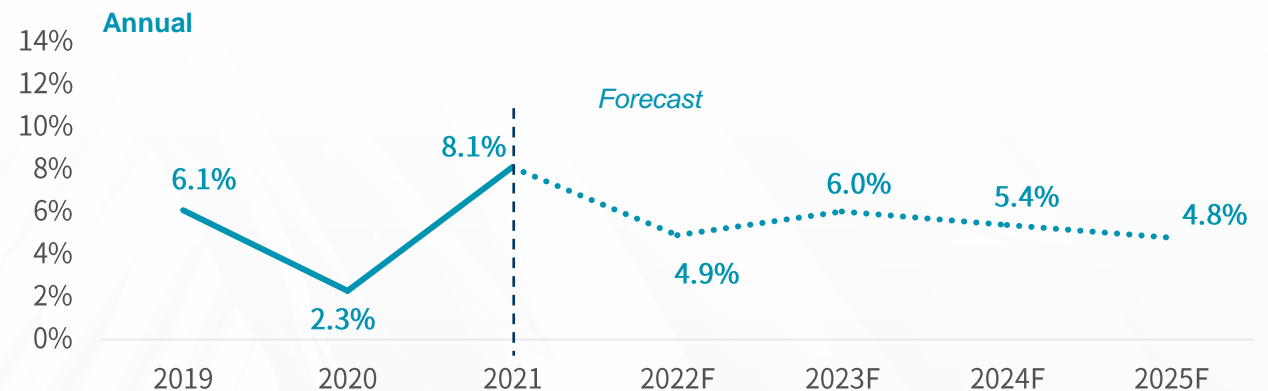
- The epidemic spread to major cities (Beijing, Shanghai, Shenzhen, etc.) and severely affected work and production.
- Volatility in other parts of the globe has also impacted GDP performance recently.
- First-quarter GDP was below the national growth target of 5.5% due to multiple domestic and overseas pressures.

#### The Q2 economy is bound to be affected by the epidemic, with estimated GDP growth to be the lowest in 2022.

#### Q3 and Q4 GDP will be significant regarding full-year GDP growth.

- The performance in the second half of the year will be the most critical factor in achieving this year's goal.
- The development theme will be 'Ensuring steady economic growth', with infrastructure, real estate and consumption being growth support engines.

## MAINLAND CHINA GDP GROWTH AND FORECAST



Source: Moody's Analytics, National Bureau of Statistics of the PRC (Updated on 29 April 2022), Cushman & Wakefield Research



# THE MACRO-ECONOMY OUTLOOK

## THE SERVICE SECTOR

### ANALYSIS

Service sector growth slowed in Q1 2022 due to the epidemic outbreak.

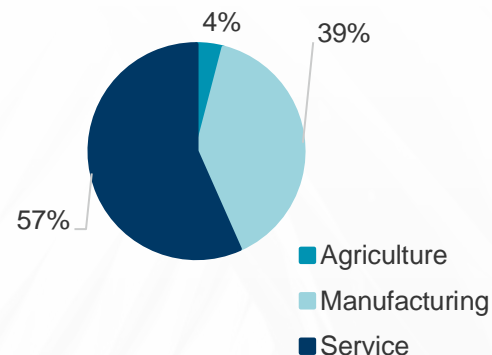
- The service sector added value accounted for 56.6% of the national GDP in Q1 2022, contributing 2.4% to GDP growth.
- The service economy rose by 4.0% year-on-year in Q1 but reduced by 0.6% month-on-month in March. Meanwhile, service sector fixed-asset investment grew by 6.4% year-on-year.

The contact-based industries (retail, catering, etc.) were deeply affected by the epidemic lockdown, with drops in production indexes.

The modern service industry maintained momentum. The IT service sector and the financial sector led growth of the service sector in March.

If the epidemic is effectively contained, contact-based industries may gradually regain market dynamism in the second half of the year and drive further recovery growth in the service sector.

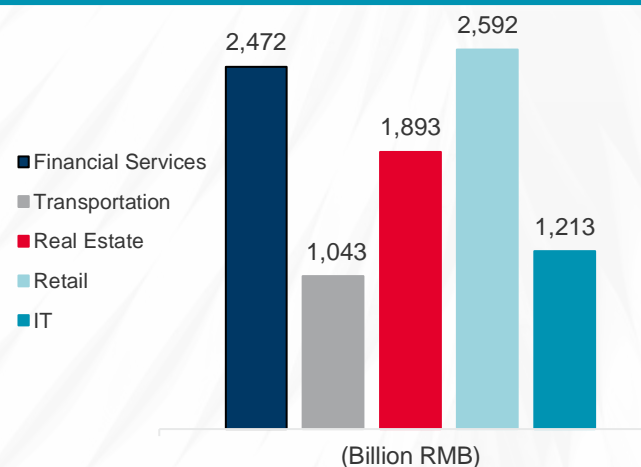
## SECTORS AS A % of GDP GROWTH (Q1 2022)



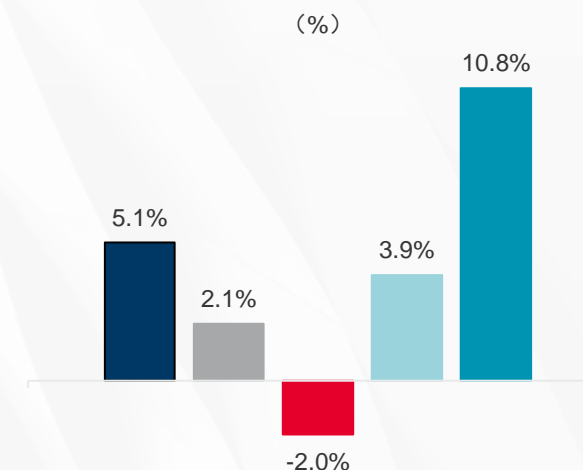
## PERFORMANCE (MARCH 2022)

Index	YOY
12.8% IT PRODUCTION INDX (Mar.)	▲
5.5% FINANCIAL SERVICES PROD. INDX. (Mar.)	▲
-2.1% OFFLINE RETAIL SALES (Mar.)	▼
-16.4% CATERING REVENUE (Mar.)	▼
-8.1% TRANSPORTATION, STORAGE AND POSTAL PROD. INDX.(Mar.)	▼

## SERVICE SECTOR GDP VALUES (Q1 2022)



## YEAR-ON-YEAR GROWTH



# THE MACRO-ECONOMY OUTLOOK

## MANUFACTURING

### ANALYSIS

**Market supply and demand has contracted. The PMI has remained below the 50% mark for the previous two months.**

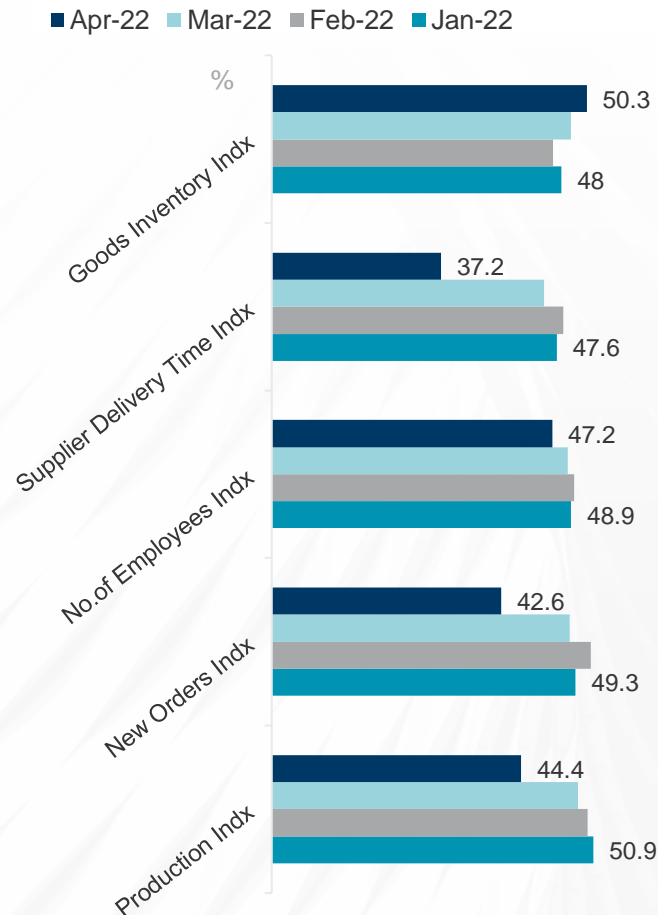
- The PMI stood at 49.5% in March and fell to 47.4% in April.
- Under the epidemic, many enterprises had to close, which caused drops in new orders and production when compared to the beginning of the year.
- Movement restrictions have led to stuck deliveries and a large backlog of inventories, resulting in increasing pressure on business operations.

**The logistics prosperity index remained low in March and April, falling from 48.7% to 43.8%.**

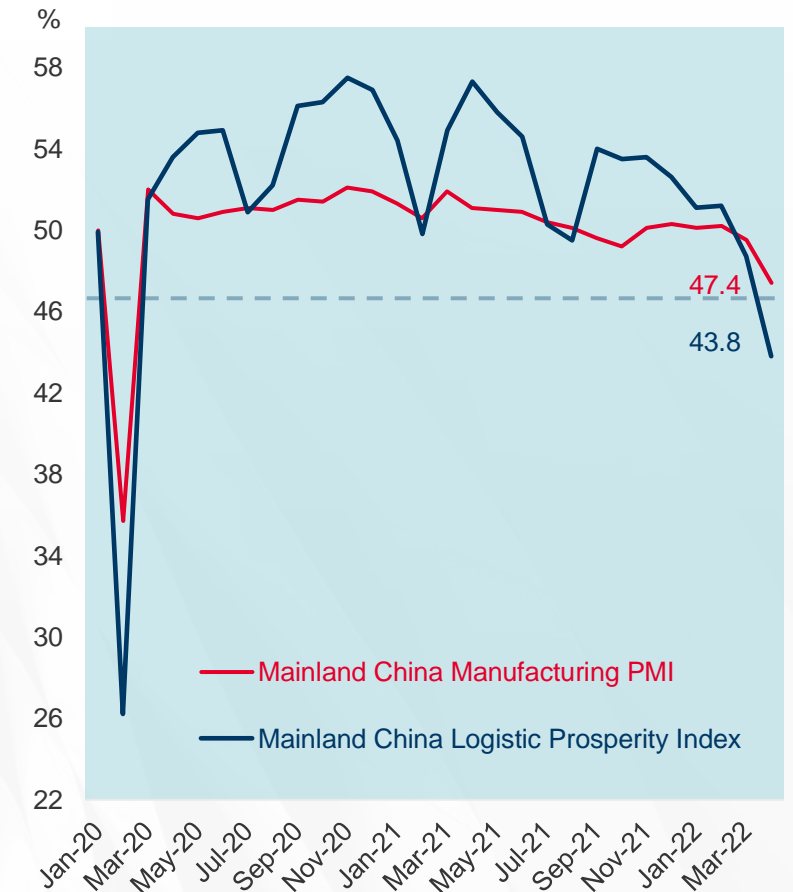
The Yangtze River Delta region contains a large number of industries and enterprises. The epidemic lockdown restrictions there have highly influenced logistics distribution.

**Regional policies may change at any time. It will take time for the manufacturing sector to fully recover. Uncertainties and difficulties will continue to exist and will need time to resolve.**

## The MONTHLY PMI – DETAILS (2022)



## The PMI AND LOGISTICS PROSPERITY INDEX



# THE MACRO-ECONOMY OUTLOOK

## CONSUMPTION

### ANALYSIS

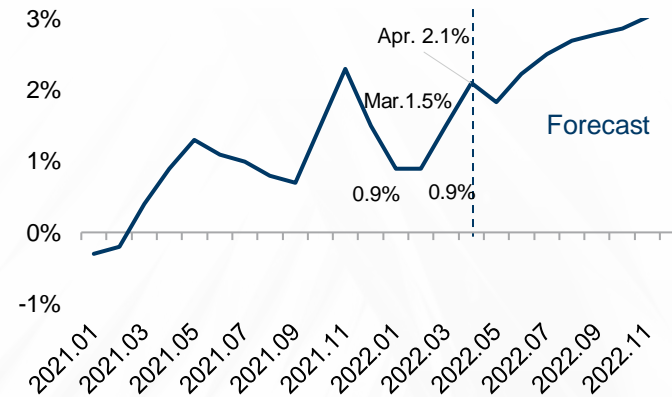
**The national consumer price index increased, with a continued rise expected.**

- The CPI rose by 2.1% year-on-year in April, with food increasing by 1.9% non-food by 2.2%. The epidemic and rise in international commodity prices are the main influencing factors.
- China continues to make efforts to stabilise prices, particularly food and energy. A number of price stabilisation measures have been applied. Prices are predicted to rise but in a stable manner in the future.

**Q1 retail sales increased, with a decline in March. Online consumption will continue to promote market recovery.**

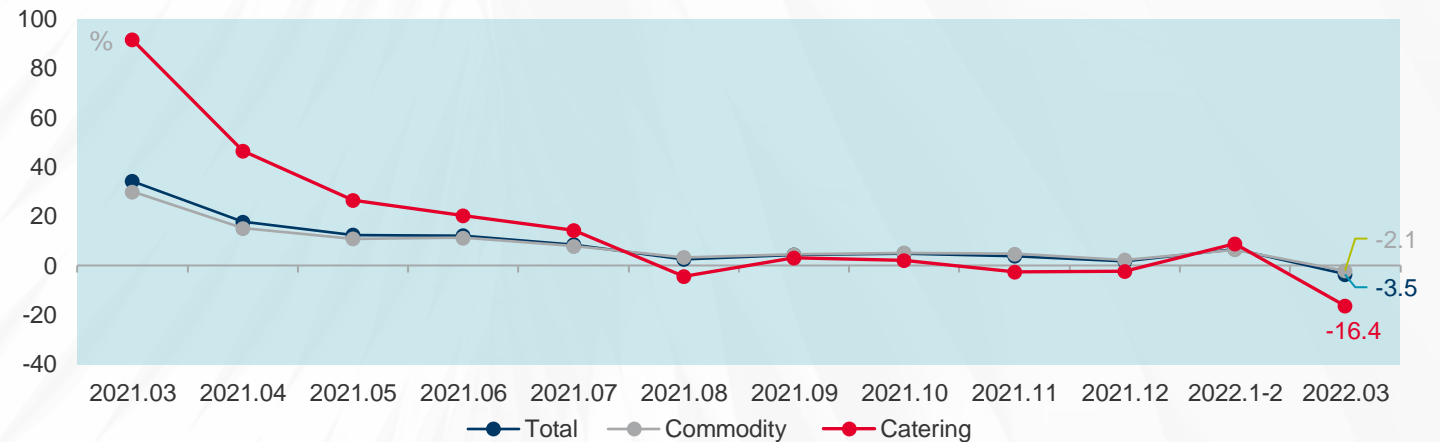
- Q1 national total retail sales of consumer goods grew 3.3% year-on-year. Basic household goods and upgraded consumption maintained high demand.
- The restricted movement of people in March brought much impact on offline sales, particularly in catering.
- Online retailing continued to grow with an increased share of the retail market. Online sales occupied a 23.2% share of total retail sales of consumer goods in Q1.

## CONSUMER PRICE INDEX GROWTH



Category	YOY Growth
Q1 TOTAL RETAIL SALES GROWTH (NOMINAL)	3.3% ▲
Q1 CATERING REVENUE	0.5% ▲
Q1 COMMODITY RETAIL SALES	3.6% ▲
Q1 ONLINE RETAIL SALES	8.8% ▲
Q1 POSTAL EXPRESS BUSINESS VOLUME	10% ▲

## CHINA'S TOTAL RETAIL SALES - YEAR-ON-YEAR (BY CONSUMPTION TYPE)



# 04. GOVERNMENT POLICY

# GOVERNMENT POLICY

THUS FAR

## MACRO

### ANALYSIS

The current economic development policies are there to ensure steady and progressive growth by:

- Facilitating import/export trade and transportation.
- Helping the disadvantaged.
- Tackling employment issues.
- Reasonably expanding the use of special bonds.
- Promoting the continued expansion of the digital economy.
- Issuing comprehensive measures to unleash consumption potential and promote a sustained consumption recovery.
- Launching an intensive series of epidemic-related policies at the central and local level.

## SELECTED SUPPORTING MACRO POLICIES IN 2022

Date	Department	Policy Content/Focus
8 February 2022	The People's Bank of China, The State Administration for Market Regulation (SAMR), etc.	<i>The Fourteenth Five-Year Plan for the Development of Financial Standardisation</i>
18 February 2022	The National Development and Reform Commission, The National Energy Administration, etc.	<i>The Notice on the Issuance of Several Policies to Promote Stable Growth of the Industrial Economy</i>
1 March 2022	The 24th meeting of the Central Committee for Comprehensively Deepening Reform	Deepening the structural reform on the supply side of finance and allocating more financial resources to key areas and weak links
14 March 2022	The Ministry of Industry and Information Technology	Placing more prominence on stabilising growth and making every effort to keep the industrial economy running smoothly
21 March 2022	Executive meetings of the State Council	The scale of retained VAT refunds this year will be about RMB1.5 trillion
24 March 2022	The Ministry of Finance, The State Taxation Administration (STA)	The notice on VAT exemption for small-scale VAT payers
29 March 2022	Executive meetings of the State Council	To expedite the issuance of the remaining local government special debt quota
30 March 2022	First quarterly regular meeting of The People's Bank of China	To strengthen cross-cycle and counter-cyclical adjustments and increase the implementation of prudent monetary policy
11 April 2022	The China Securities Regulatory Commission, The State-owned Assets Supervision and Administration Commission of the State Council (SASAC), The All-China Federation of Industry and Commerce	<i>The Notice on Further Supporting the Healthy Development of Listed Companies</i>
11 April 2022	The State Council	<i>The Notice on Effectively Doing a Good Job in Freight Logistics to Ensure Access and Smoothness</i>
13 April 2022	Executive meetings of the State Council	Strive to stabilise current consumption and adopt comprehensive measures to release consumption potential
19 April 2022	The 25th Meeting of the Central Committee for Comprehensively Deepening Reform	Strengthen the construction of digital government and promote the reform of the sub-provincial fiscal system
20 April 2022	Executive meetings of the State Council	Stable employment and stable prices are emphasised to support to keep the economy running at reasonable range regarding performance and growth
20 April 2022	The Ministry of Transport	To better serve work related to logistics to ensure the smooth flow of traffic and goods distribution
25 April 2022	The State Council	<i>Opinions on Further Unleashing Consumption Potential to Promote Sustained Recovery of Consumption</i>
26 April 2022	The eleventh meeting of the Central Finance and Economics Committee	Comprehensively strengthening infrastructure construction to build a modern infrastructure system
26 April 2022	The Ministry of Industry and Information Technology	<i>The Notice on Improving Industrial Quality and Brand Building in 2022</i>
5 May 2022	Executive meetings of the State Council	The difficulties related to medium, small, and micro-sized enterprises and individual entrepreneurs have increased, and more effort should be made to assist them
11 May 2022	Executive meeting of the State Council	The revitalisation of infrastructure and other stock assets is conducive to broadening social investment channels, expanding effective investment while reducing government debt risks

Source: Government Departments of PRC, Cushman & Wakefield Research

# GOVERNMENT POLICY

## THUS FAR

### REAL ESTATE

#### ANALYSIS

- Real estate risks to be diffused.
- Financial support to be strengthened.
- Issuance of local support policies and measures.
- Optimise the supervision of pre-sale funds for commercial properties.
- Adherence to the 'No Speculation in Housing' policy.
- Support rigid and improved housing demand.
- Mortgage relief support to homeowners affected by the epidemic.
- Differentiated housing credit policy implementation.
- Improve long-term rental policies and expand the supply of subsidised rental housing.
- Rental – Eligible small- and micro-sized enterprises and individual entrepreneurs will receive a three or six-month rental reduction.

### SELECTED POST-LOCKDOWN REAL ESTATE-RELATED POLICIES

#### IN MAINLAND CHINA

- 6 February 2022 *Individual Income Tax Policy on Support for the Prevention and Control of Pneumonia Outbreaks Associated with Novel Coronavirus Infection*
- 18 February 2022 *Several Policies on Promoting the Recovery and Development of Industries in the Service Sector*
- 28 February 2022 *Notice on the Renewal of the Implementation of Deferred Payment of Certain Taxes and Fees for Medium-, Small- and Micro-sized Enterprises in the Manufacturing Sector*
- 4 March 2022 *Notice on the Further Implementation of the Policy of 'Six Taxes and Two Fees' for Small- and Micro-sized Enterprises*
- 23 March 2022 *Notice on the Implementation of Rent Reduction and Waiver for Small- and Micro-sized Enterprises and Individual Enterprises in the Service Industry in 2022*
- 11 April 2022 *Notice on Further Supporting the Healthy Development of Listed Companies*
- 18 April 2022 *Notice on Improving Financial Services for Epidemic Prevention and Control and Economic and Social Development*
- 19 April 2022 *Notice on Improving Financial Services for Epidemic Prevention and Control and Economic and Social Development*

Source: Government Departments of PRC, Cushman & Wakefield Research

#### IN SHANGHAI

- 8 February 2022 *Several Policies and Measures to Combat the Epidemic and Support Enterprises to Promote Development*
- 28 March 2022 *Several Policy Measures for Supporting the Stable and Healthy Development of Service Enterprises in Shanghai to Prevent and Control the Epidemic*
- 29 March 2022 *Several Policies and Measures to Promote the Development of Enterprises through Combating the Epidemic*
- 31 March 2022 *Implementation Rules for Shanghai State-owned Enterprises to Reduce and Waive Housing Rents for Small- and Micro-sized Enterprises and Individual Entrepreneurs and Several Policy Measures to Fully Support the Healthy Development of Cultural Enterprises in the City in the Fight Against the Epidemic*
- 1 April 2022 *Shanghai's Financial Support Initiatives to Fight the Epidemic and Help Enterprises Promote Development*
- 2 April 2022 *Several Measures to Fully Support the Healthy Development of Science and Technology Enterprises in Combating the Epidemic*
- 4 April 2022 *Notice on Further Supporting Foreign Trade and Economic Enterprises in Combating the Epidemic and Promoting Their Development*
- 8 April 2022 *Several Measures on Intellectual Property Rights Work to Fully Support Enterprises in Combating the Epidemic and Promote Their Development*
- 16 April & 4 May 2022 *Guidelines on Prevention and Control of the Epidemic in Shanghai – Industrial Enterprises Resuming Work and Production (First Edition & Second Edition)*
- 5 May 2022 *Notice on Speeding up the Resumption of Work by Business Enterprises in the City*
- 29 May 2022 *Shanghai's Action Plan for Accelerating Economic Recovery and Revitalisation*

# 05. OUR SURVEY



# OUR SURVEY

## Introduction

### INTRO AND BREAKDOWN

#### ANALYSIS

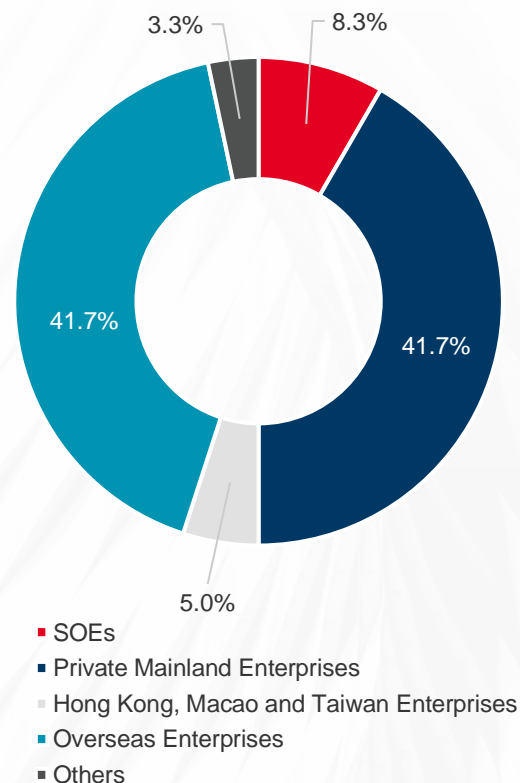
From 1 May to 15 May 2022, Cushman & Wakefield Research conducted a questionnaire survey by interviewing executives across a broad spectrum of real estate-related enterprises in China. Through this survey, we were able to gain an understanding of the current confidence these enterprises have in the Chinese market and what their future business development strategy will be in the short- to medium-term.

#### The surveyed enterprises comprised the following:

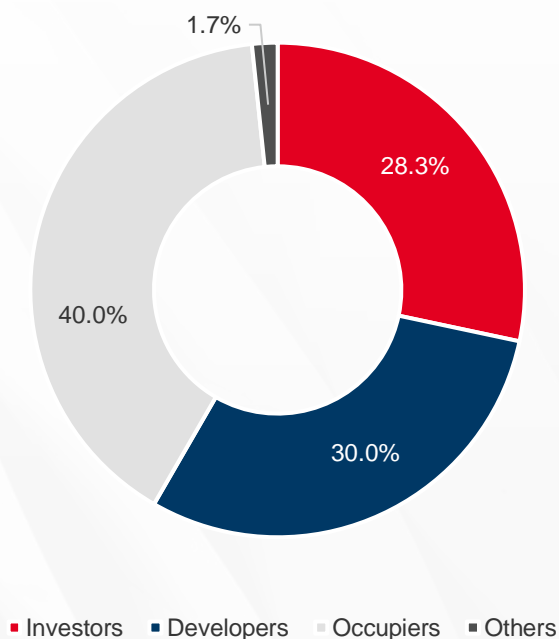
- 1: Among the surveyed enterprises, private mainland enterprises and overseas enterprises accounted for the highest proportion, at 41.7% and 41.7%, respectively. State-owned enterprises and Hong Kong, Macao and Taiwan enterprises accounted for 8.3% and 5%, respectively.
- 2: The business types of the surveyed enterprises mainly consisted of real estate investors, developers and occupiers, accounting for 40%, 28.3% and 30%, respectively.

### A BREAKDOWN OF THE SURVEYED ENTERPRISES

Enterprise types



Business types





# OUR SURVEY

## CURRENT OPINIONS

### LANDLORDS

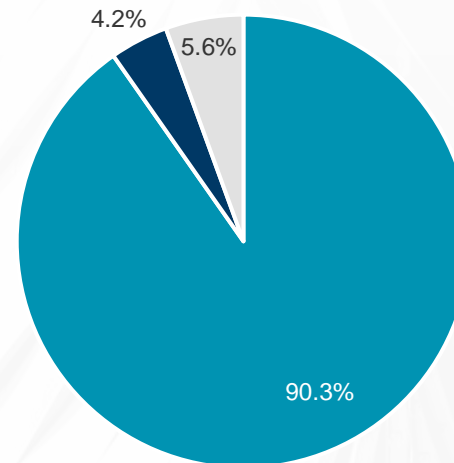
#### ANALYSIS

Post-lockdown in Shanghai, China will continue to be an important market for both domestic and overseas real estate investors and developers.

Post-lockdown in Shanghai, real estate investors and developers do have a varied opinion on their real estate investment strategy:

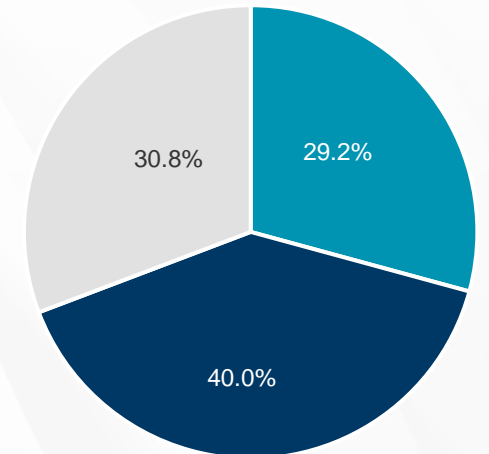
- 1: Nearly a third of surveyed enterprises will look to increase their investment. Many believe now is a good time to seek bargains in China's real estate market.
- 2: About 40% of surveyed enterprises will maintain a stable operation and uphold their original investment scale.
- 3: Meanwhile, even though China is considered an important market, around 30% of surveyed enterprises are not sure what their immediate future investment strategy holds. Some enterprises are worried that repeated future epidemic and lockdown measures could affect the Chinese real estate market. For this group, it's a wait-and-see game until the future picture becomes clearer.

POST-LOCKDOWN IN SHANGHAI, WILL CHINA CONTINUE TO BE AN IMPORTANT MARKET FOR YOUR REAL ESTATE INVESTMENT?



■ Yes ■ No ■ Don't know

IF YES, WILL YOU LOOK TO INCREASE YOUR REAL ESTATE INVESTMENT IN CHINA OR ALLOW THE LEVEL OF REAL ESTATE INVESTMENT TO REMAIN THE SAME?



■ Increase investment ■ Remain the same ■ Don't know

# OUR SURVEY

## CURRENT OPINIONS

### OCCUPIERS

#### ANALYSIS

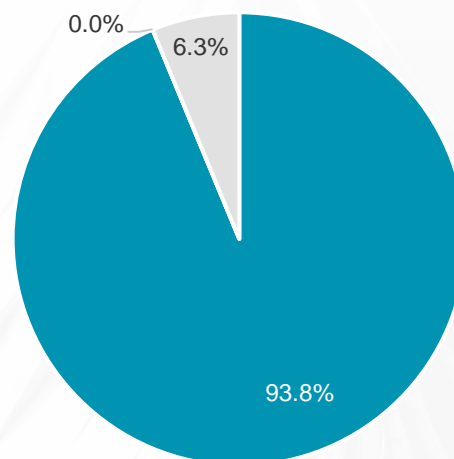
Post-lockdown in Shanghai, China will continue to be an important market for occupiers of real estate.

Private and small enterprises have been more susceptible to business risks posed by lockdown. The service, retail, F&B, hotel and tourism industries have been greatly impacted:

- 1: 42% of enterprises are not sure which direction their immediate future leasing footprint size will take. At the height of the lockdown, some were concerned that their supply chain and capital chain would be compromised under the impact of the epidemic. Some were not sure whether they could maintain a normal mode of operation for much longer.
- 2: Having said this, most enterprises (at nearly 58%) will either keep their leasing footprint size the same or pursue an expansion strategy. Their requirements for leased property will, however, be more stringent than before.

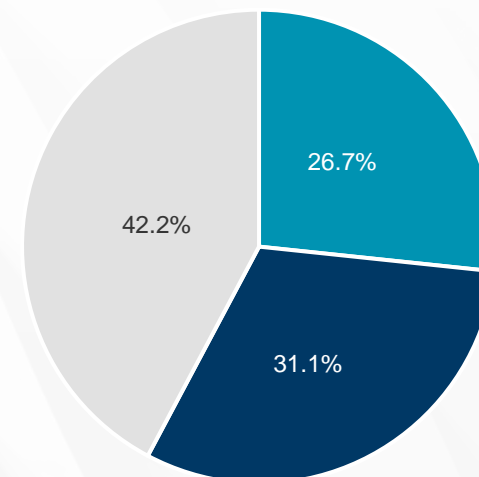
Market-boosting measures issued by the government, such as reducing the tax pressure on enterprises, exempting rent for three-six months, providing financial and credit support for small- and micro-sized enterprises, and guiding work resumption in key industries have injected more confidence.

POST-LOCKDOWN IN SHANGHAI, WILL CHINA CONTINUE TO BE AN IMPORTANT MARKET FOR YOUR BUSINESS?



■ Yes ■ No ■ Don't know

IF YES, WILL YOU LOOK TO INCREASE YOUR REAL ESTATE LEASING FOOTPRINT AREA OR ALLOW YOUR REAL ESTATE LEASING FOOTPRINT AREA TO REMAIN THE SAME?



■ Increase footprint area ■ Remain the same ■ Don't know

# OUR SURVEY

## CURRENT OPINIONS

### REAL ESTATE SECTOR BREAKDOWN

#### ANALYSIS

In April 2022, investment in the real estate market continued to fall. The number of new projects and land transactions significantly decreased. Mainly due to the following reasons:

- 1: Developer capital shortage and low sales of real estate have led to a weakening of investment ability and willingness.
- 2. The COVID-19 outbreaks have restricted project construction and sales activities in Q1.

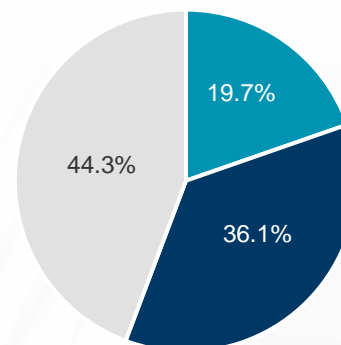
Investors and developers are now more cautious as COVID-19 has repeatedly hit the office, retail and residential real estate markets.

Logistics warehousing, life sciences-related facilities and data centres are areas of opportunity. Over 35% of industrial space investors are looking to increase their real estate investment in China.

Local governments have issued support policies related to both the supply and demand of real estate to bolster and push for the smooth recovery of this pillar industry in China.

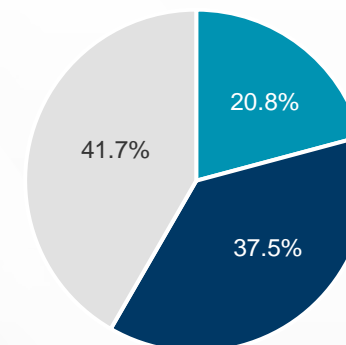
### MARKET EXPECTATION

Office



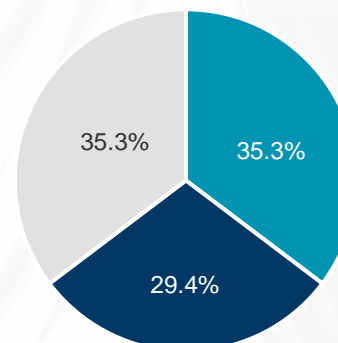
■ Increase footprint area ■ Remain the same ■ Don't know

Retail



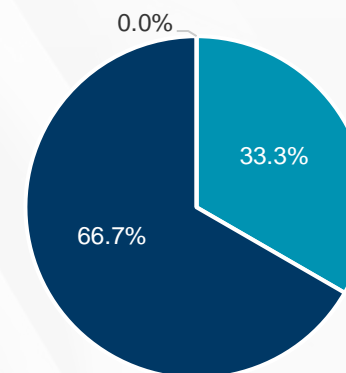
■ Increase footprint area ■ Remain the same ■ Don't know

Industrial



■ Increase footprint area ■ Remain the same ■ Don't know

Residential



■ Increase footprint area ■ Remain the same ■ Don't know

# 06. REAL ESTATE MARKET OUTLOOK AND OPPORTUNITIES

## 1. GENERAL INVESTMENT

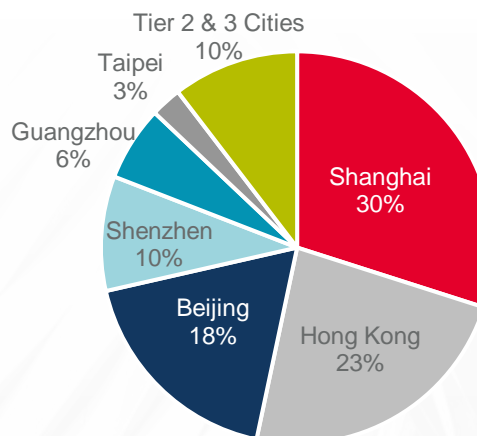
# GENERAL INVESTMENT OUTLOOK

## REAL ESTATE INVESTMENT

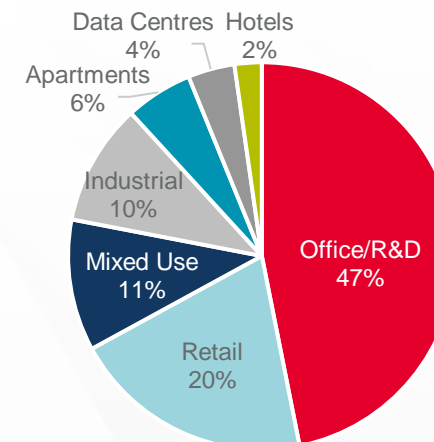
### ANALYSIS

- Real estate investment has been impacted by the epidemic in Q1 2022.
- Existing and future support policies, however, will help in the recovery of the real estate market.
- Investment buyers will be cautious, but some will look for bargains.
- Office market supply volume is slowing, while demand might rebound, presenting some underperforming project opportunities.
- Retail brand owners and landlords will find new market opportunities. The development of neighbourhood retail and on and off-line retail should conjure new business opportunities.
- Warehouses, data centres and life sciences-related real estate will continue to be looked upon favourably by investors.
- Long-term rental apartment rental rates are currently less affected. General residential housing affordability issues should increase demand for this type of housing in the future.

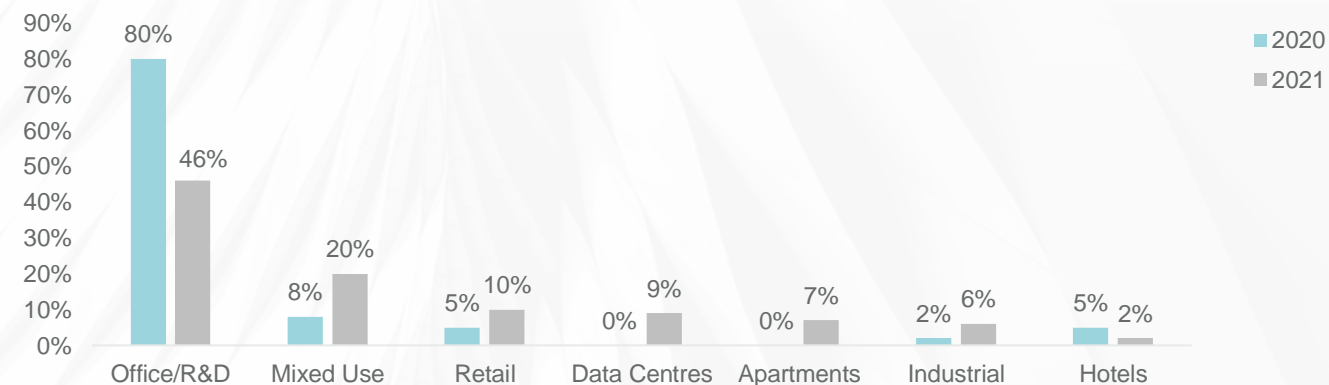
## CHINA TRANSACTION VOLUME BY MARKET (2021)



## CHINA TRANSACTION VOLUME BY SECTOR (2021)



## SHANGHAI TRANSACTION VOLUME SHARE BY PROPERTY TYPE (2020/2021)



Source: Cushman & Wakefield Research

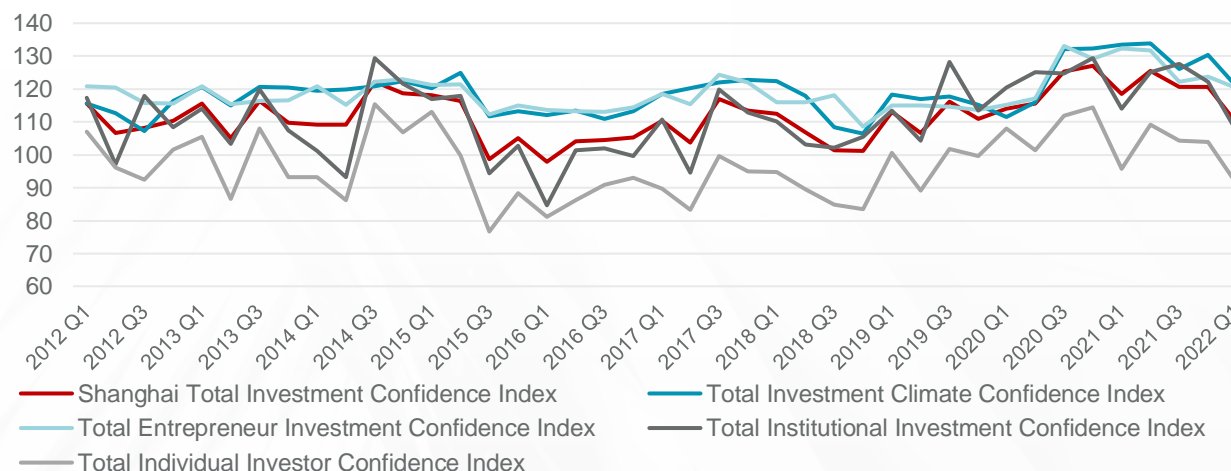
# GENERAL INVESTMENT OPPORTUNITIES

## REAL ESTATE INVESTMENT

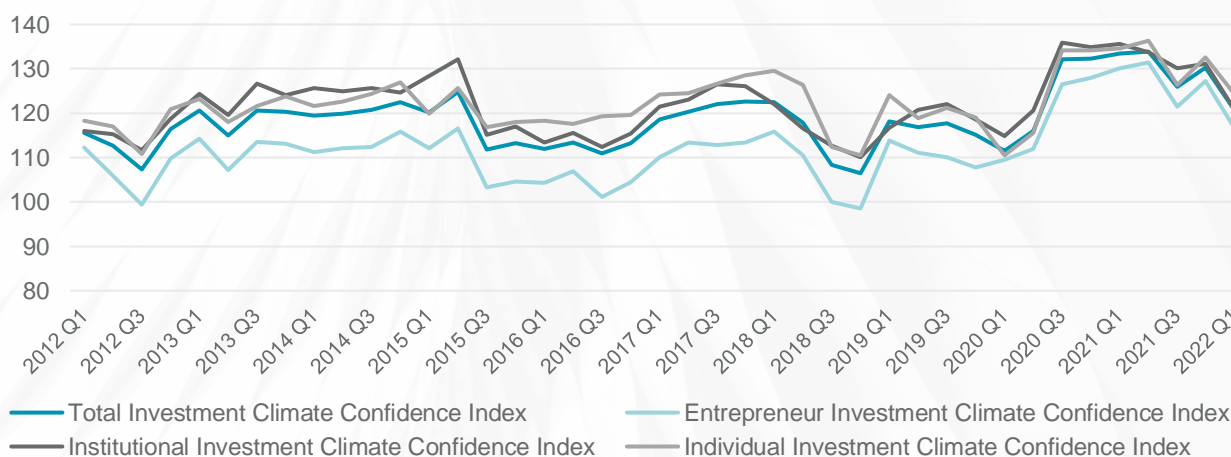
### ANALYSIS

- Highly leveraged owners have been affected by the lockdowns. This will lead to more discounted properties being made available in the market.
- The growth of the life sciences industry globally and in China is expected to provide some offices, warehousing, retail space and lab space with new occupancy, and in turn, investment opportunities.
- With support of policies, investment in TMT and growth in Internet services, data centre demand is set to grow.
- After the resumption of production, the logistics sector will quickly recover. Investment in warehousing will continue to be a focus for investors.
- Property management service levels are expected to further influence real estate asset performance, given increased expectations by owners/users.
- Residences with more public space for activities are expected to be more popular. Some restrictions on purchasing are expected to ease, which will drive steady residential market growth.

## INVESTMENT CONFIDENCE INDEX



## INVESTMENT CLIMATE CONFIDENCE INDEX



# 06. REAL ESTATE MARKET OUTLOOK AND OPPORTUNITIES

## 2. OFFICE

# REAL ESTATE OUTLOOK AND OPPORTUNITIES

## OUTLOOK

### OFFICE

#### LANDLORDS

Delayed office completions expected in 2022.

Rental subsidies for small- and micro-sized enterprises.

- State-owned enterprises prepared to cut the rental for small- and micro-sized enterprises, etc. for six months.
- A small proportion of other cases will be dependent on certain circumstances.

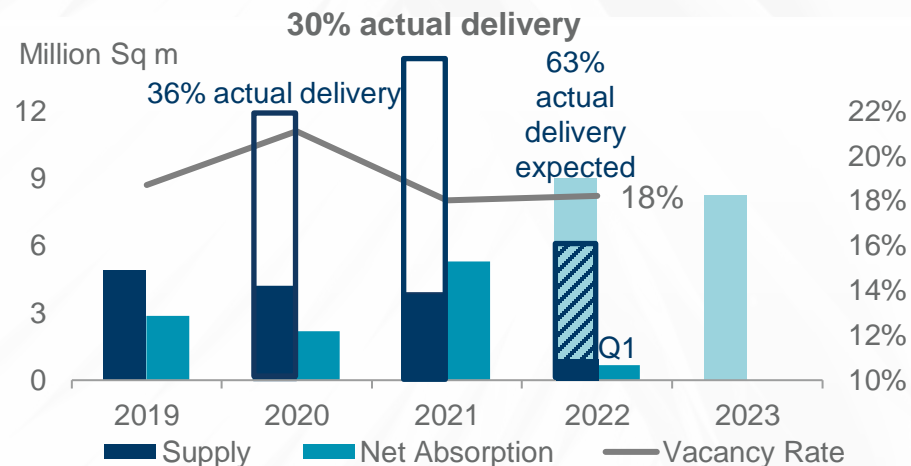
Rental – Downward pressure on average for the rest of the year.

Absorption – To rebound after several months.

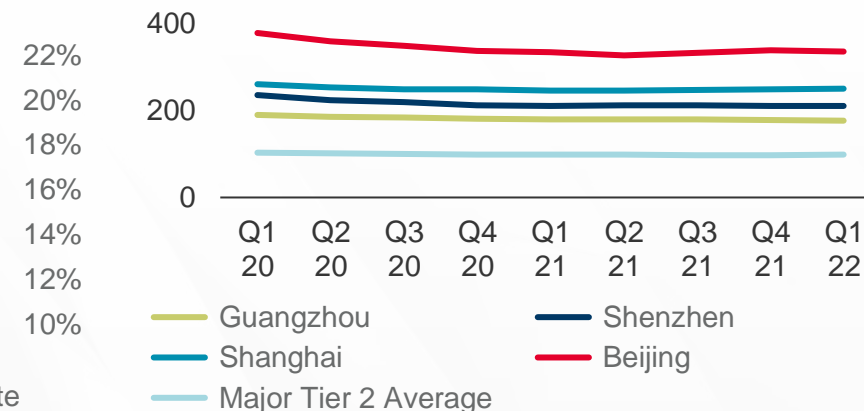
Low-vacancy projects – Preferred by capital but better to be more active in digitalisation, flexibility in rental contracts and green building certification.

New projects – Opportunities to adjust indoor facilities and focus on national strategic industries.

### IMPACT ON NEW PROJECTS



### Average Rental (RMB/Sq m/Mo)

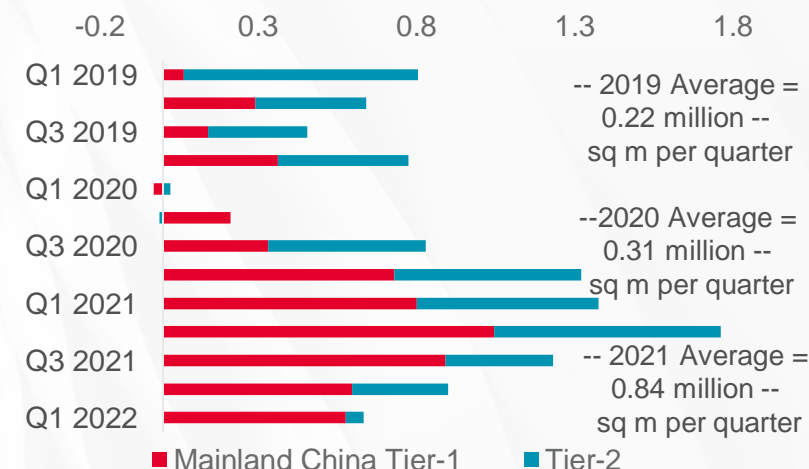


How long will current office buildings under construction by your company will be delayed due to the pandemic this time? (Q2 2022)



■ 0 ■ 0-3 months ■ 4-12 months ■ Over a year ■ Uncertain

### Absorption (Million Sq m)





# REAL ESTATE OUTLOOK AND OPPORTUNITIES

## OUTLOOK

### OFFICE

#### OCCUPIERS

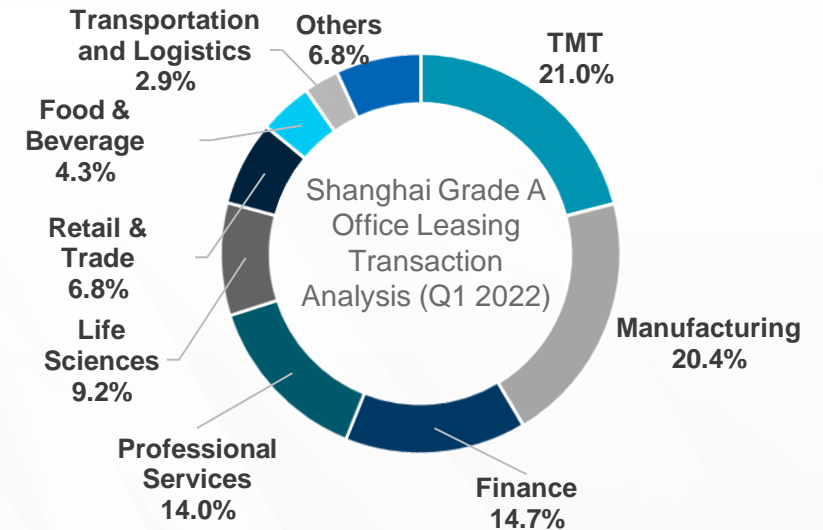
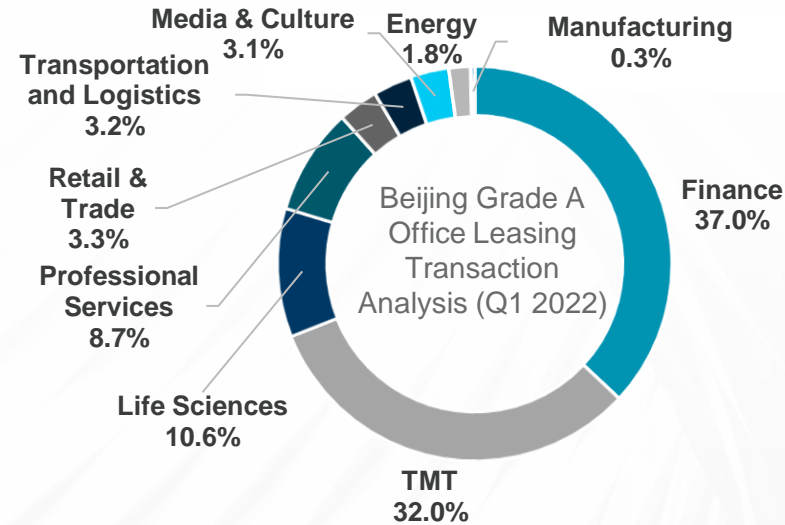
More stable markets in several months' time – Most major occupiers surveyed will allow real estate leasing footprint area to remain the same in China.

#### Necessary legal and financial support in demand:

- 1: All occupiers have been worried about logistics and supply chain issues in the country, some of which may result in possible failure to fulfil business contracts on time. Thus, necessary legal support will be in great need.
- 2: Some occupiers are hoping for financial support or subsidies for rental/management fees in the short-term future.

Industry sectors to drive office space demand – TMT, finance, life sciences, etc.

### OCCUPIER SECTORS SET TO DRIVE DEMAND



Selected Active Sub-Sectors



The Digital Economy:



Business Digitalisation (AI, Blockchain, etc.)



Industrial Digitalisation (Smart Supply Chain, Robotics, etc.)



Life Services & Entertainment Digitalisation (E-commerce, Online Gaming, etc.)



Finance (Fintech, Asset Management, etc.)



Life Sciences (R&D, Digital Healthcare, etc.)



Professional Services (Legal, Digital Consulting, Human Resources, etc.)

# REAL ESTATE OUTLOOK AND OPPORTUNITIES

## OPPORTUNITIES

### OFFICE

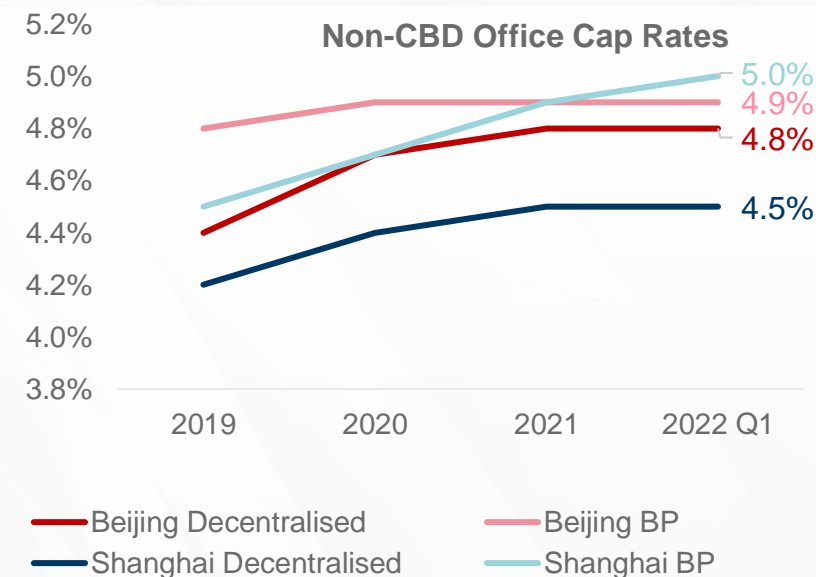
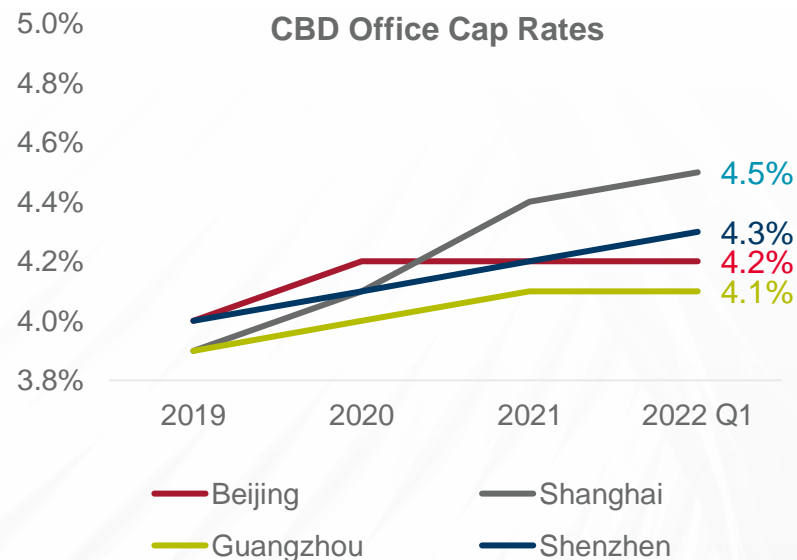
#### ANALYSIS

**Core submarkets – Mature projects have steadier capital returns regardless of the pandemic.**

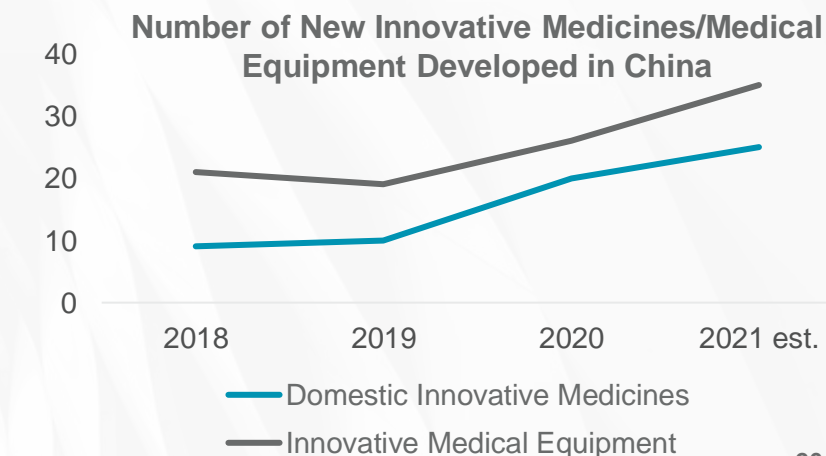
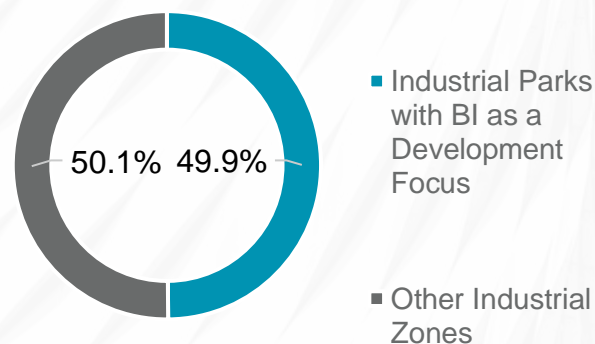
**Suburban submarkets – The initial group of enterprises to resume work will be manufacturing enterprises. Thus, many office buildings and business parks near manufacturing bases will recover earlier than ones in other locations. Following recent trends, suburban submarkets will continue be attractive to investors:**

- **Biotech parks –** As a major strategic industry in the country, life sciences has caught much attention from investors. Thus, biotech parks have been/will be popular in the investment market, especially ones which have passed the Environment Impact Assessment (EIA) by the government, such as ones in Zhangjiang and Zhoukang, in Shanghai.

### INVESTMENT OPPORTUNITIES



#### China National-level Industrial Zones Focusing on the Biopharmaceutical Industry (BI)



# 06. REAL ESTATE MARKET OUTLOOK AND OPPORTUNITIES

## 3. RETAIL

# REAL ESTATE OUTLOOK AND OPPORTUNITIES

## OUTLOOK

### RETAIL

#### LANDLORDS

Shopping centre landlords have actively put in place measures to deal with the impact of the epidemic.

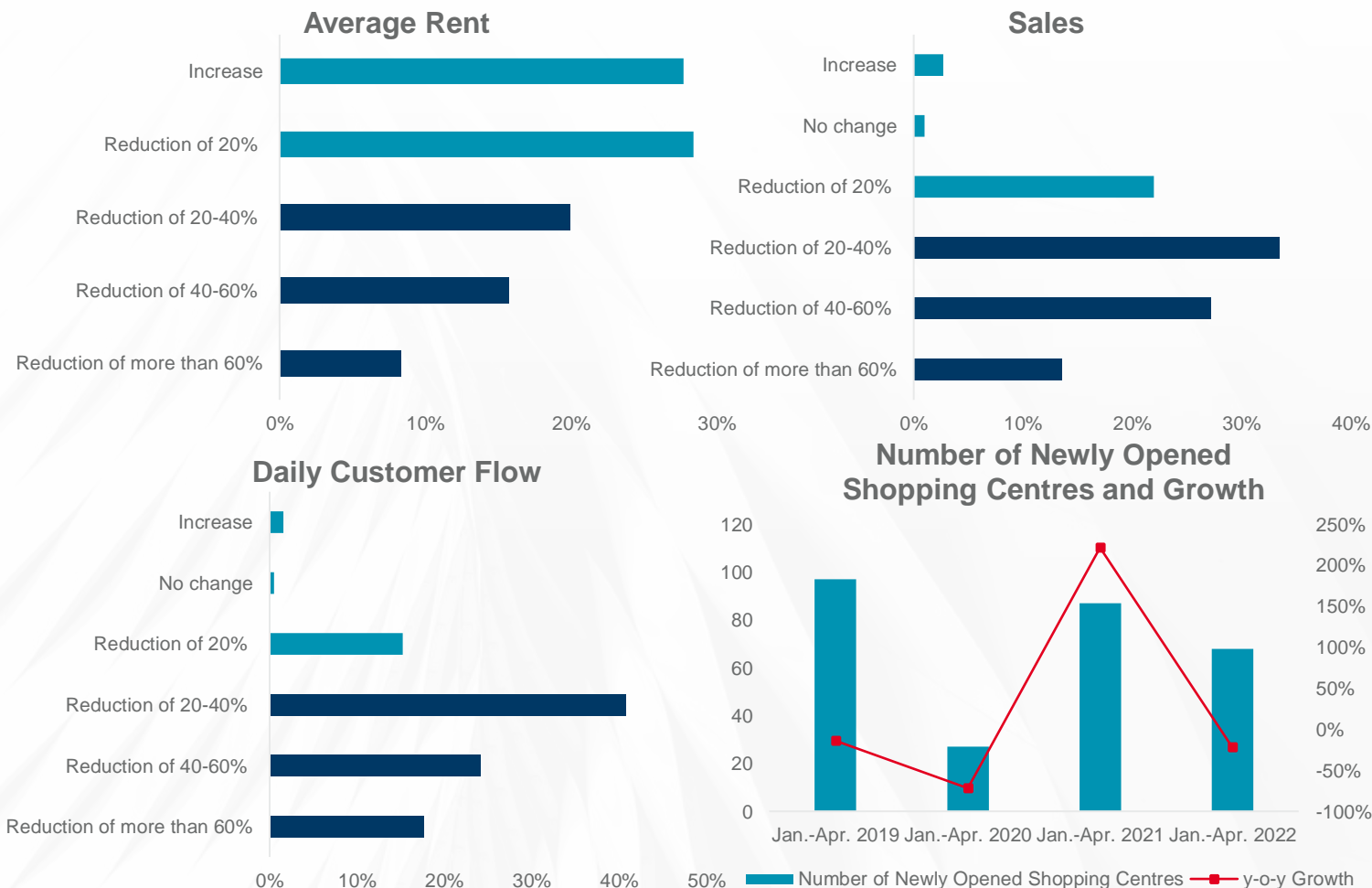
- 1: Some shopping centres have introduced measures to help with tenant operations, such as providing online platforms and working with residential property management teams to provide group purchase services during the epidemic.
- 2: Landlords will gradually introduce preferential measures, such as rent exemption/reduction and property management fee and/or utility charge exemption/reduction and other measures.

Looking forward, dwindling demand will weaken rentals in the short term, but once lockdown ends, we should see a rebound in consumption volume.

Some new retail projects scheduled to open in 2022 will be delayed.

A number of investors, developers and brands will take the opportunity to expand market share and expand further in second- and third-tier cities in the near future.

### OPERATING STATUS OF KEY SHOPPING CENTRES IN FIRST-TIER AND SECOND-TIER CITIES IN CHINA (MARCH-APRIL 2022)



Source: Cushman & Wakefield Retail Services, Cushman & Wakefield Research

# REAL ESTATE OUTLOOK AND OPPORTUNITIES

## OUTLOOK

### RETAIL

#### OCCUPIERS

Some brands will refine their operations, some will see no change in their operations, while others might seek to expand.

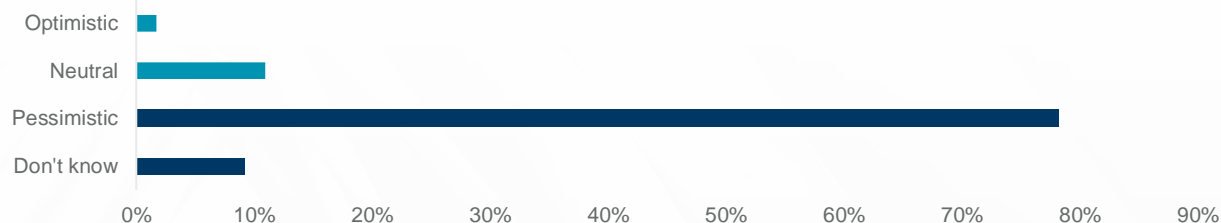
Retail and F&B brands with well-established supply chains, warehouses and central kitchens have operated with resilience during the outbreak.

Generally, brands will be more cautious in opening new stores.

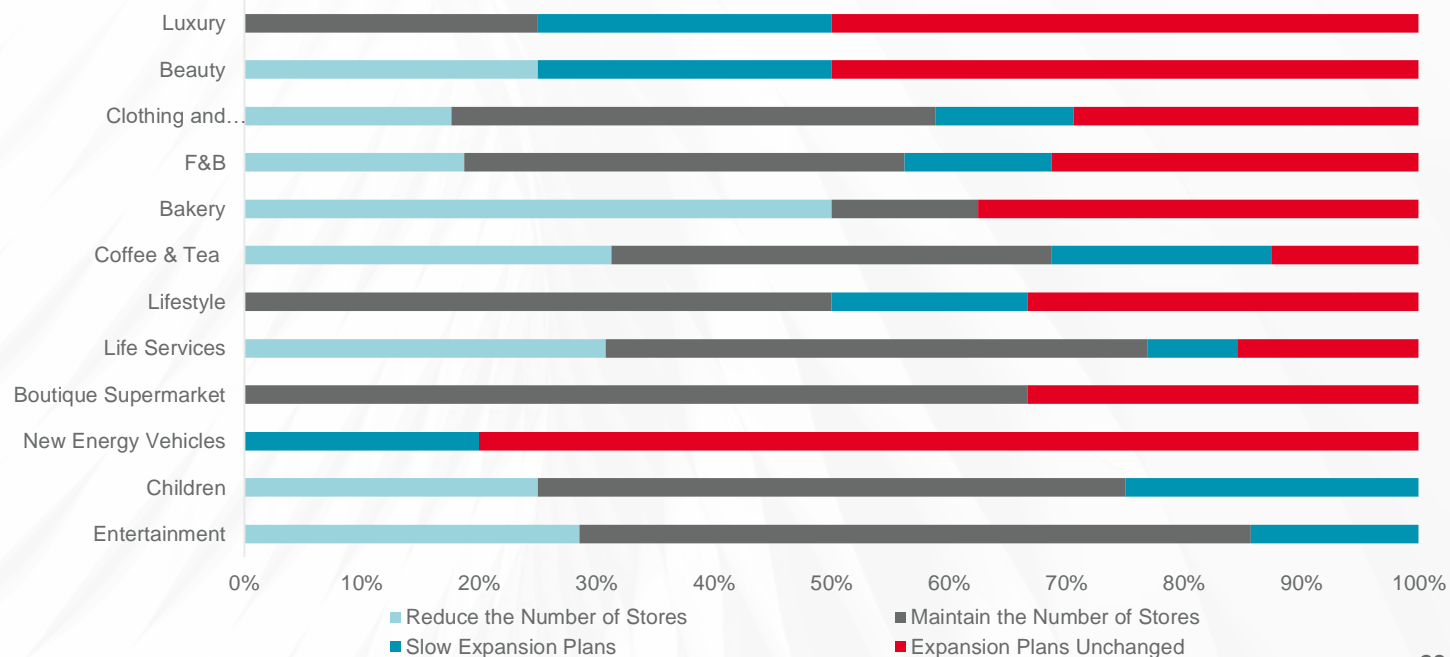
- 1: Brands will impose tougher business conditions on shopping centres, such as the explicit need for decoration subsidies, the inclusion of escape clauses and epidemic protection clauses in contracts.
- 2: Site selection for new stores by brands will become critical. More favourable leasing concessions and measures will also be sought.

Some overseas brand expansion will take the form of franchises in China's second- and third-tier city retail markets, thus reducing operating costs and risks.

#### RETAIL MARKET EXPECTATION OF BRANDS (2022)



#### EXPANSION INTENTION OF BRANDS (2022)



Source: Cushman & Wakefield Retail Services, Cushman & Wakefield Research

# REAL ESTATE OUTLOOK AND OPPORTUNITIES

## OPPORTUNITIES

### RETAIL

#### ANALYSIS

##### On-demand neighbourhood retail within a 15-minute walk.

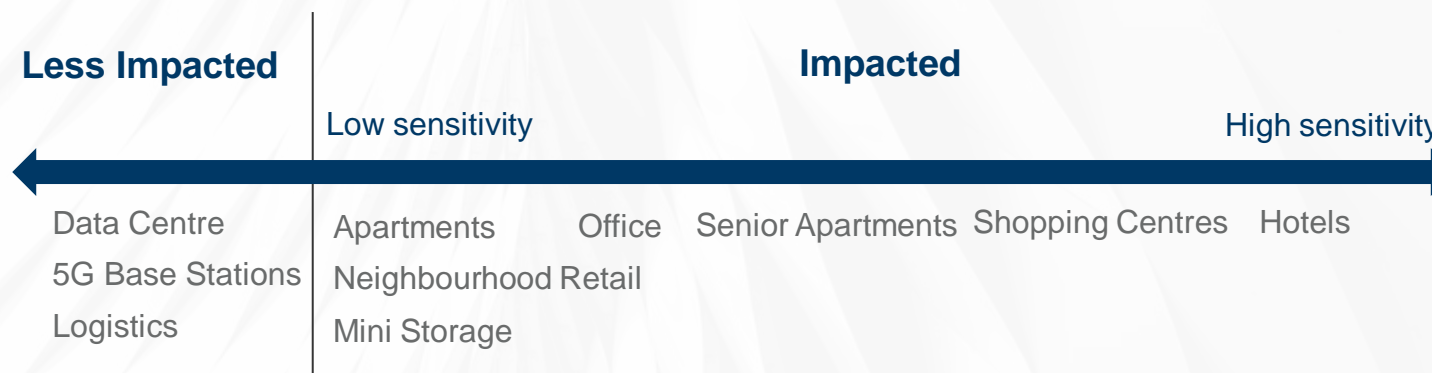
- 1: During the 14th Five-year Plan period, China will attach great importance to the development of neighbourhood retail. The central and local governments have introduced a series of policies and measures to speed up the construction and upgrading of neighbourhood retail to facilitate the daily life of residents.
- 2: Neighbourhood retail has a low sensitivity rate in terms of the impact of the epidemic as their customers are mainly residents of surrounding communities.
- 3: During the epidemic in Shanghai, some shopping centres worked closely with community management to ensure the living supplies of residents in nearby communities were met. At the same time, it effectively helped tenants in shopping centres to operate during the epidemic.

**Brands with solid supply chains will pose less of a risk to shopping centre landlords.**

#### NATIONAL POLICY FOR NEIGHBOURHOOD RETAIL (2021-2022)

Date	National Support Policies
April 2021	The Ministry of Commerce and 10 other government departments issued opinions on 'Promoting the Construction of 15-Minute Life Circle Areas'.
July 2021	The Ministry of Commerce and 10 other government departments issued the 'Construction Guidelines for 15-Minute Life Circle Areas'.
August 2021	30 pilot areas for 15-minute life circle areas (1. Dongcheng District, 2. Shijingshan District, 3. Tianjin Binhai New Area, 4. Tangshan, 5. Yuncheng, 6. Shenyang, 7. Dalian, 8. Heihe; 9. Changning District, Shanghai; 10. Putuo District, Shanghai; 11. Nanjing; 12. Suzhou, 13. Ningbo, 14. Fuzhou, 15. Xiamen, 16. Nanchang, 17. Jinan, 18. Qingdao, 19. Yantai, 20. Hebi, 21. Wuhan, 22. Huaihua city, 23. Nanning City, 24. Chongqing Liangjiang New Area, 25. Chengdu City, 26. Guiyang, 27. Xi'an, 28. Weinan, 29. Yinchuan, 30. Shihezi, Xinjiang.)
April 2022	The application for the second batch of pilot zones for '15-Minute Life Circle' areas.

#### PROPERTY SENSITIVITY UNDER THE IMPACT OF THE EPIDEMIC





# 06. REAL ESTATE MARKET OUTLOOK AND OPPORTUNITIES

## 4. INDUSTRIAL (LOGISTICS)

# REAL ESTATE OUTLOOK AND OPPORTUNITIES

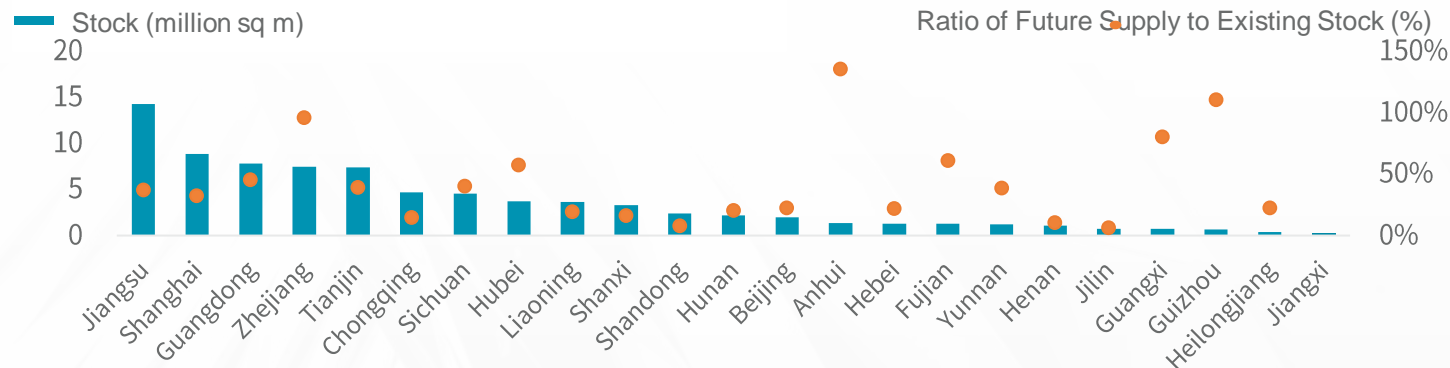
## OUTLOOK

### LOGISTICS

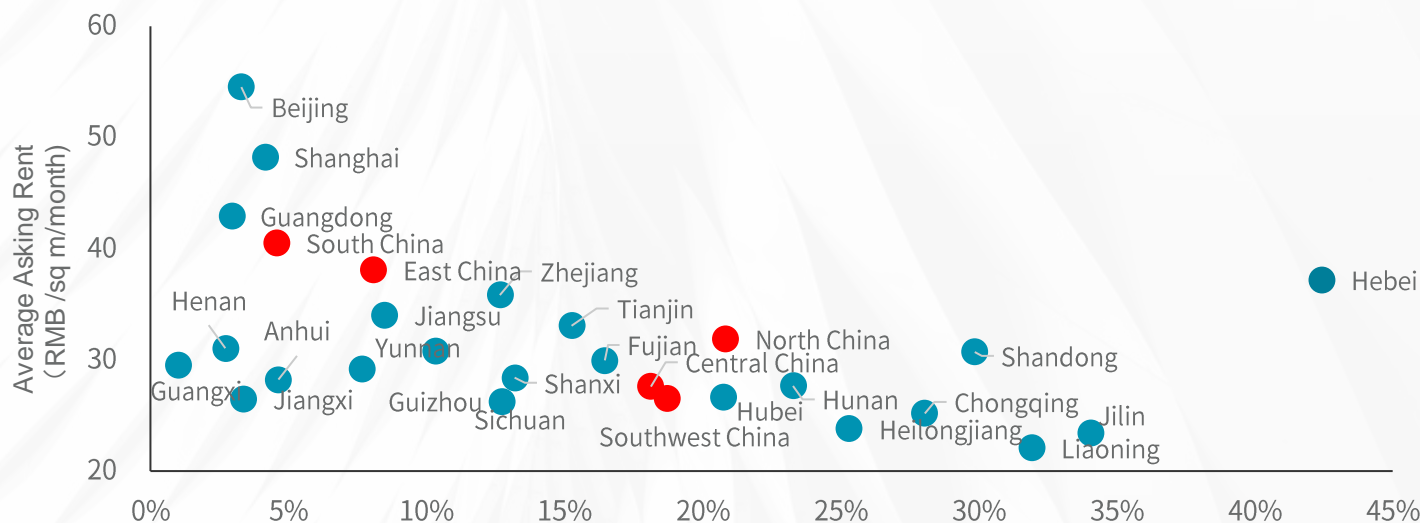
#### LANDLORDS

- **Future Supply:** Less affected by the epidemic, by the end of 2023, more than 34.12 million sq m of new volume will be added. Although a high number, distribution will be more optimised.
- **Market Segments:** Jiangsu, Shanghai, Guangdong and Zhejiang will still be key targets for investors. However, the government's requirements for taxation will be tight, and acquiring land will be a challenge for investors.
- **Rent:** Due to strong demand, the rental growth rate in the first-tier city markets and inland logistics hub cities is expected to rise 3%-5% in 2022.
- **Vacancy Rate:** The overall vacancy rate in mainland China is expected to rise slightly by 0.8-1.5 percentage points in 2022, given the new supply volume.
- **Suggestions:** Continue to develop in first-tier city markets and in inland logistics hub cities. Focus on customisation and cold chain demand. Increase investment in smart logistics supply chain systems. Incorporate ESG into your core strategy and promote green and low-carbon logistics supply chains.

### MAINLAND CHINA – STOCK AND FUTURE SUPPLY (2021-2023)



### MAINLAND CHINA – RENTAL AND VACANCY RATES (Q3 2021)



Source: Cushman & Wakefield Research



# REAL ESTATE OUTLOOK AND OPPORTUNITIES

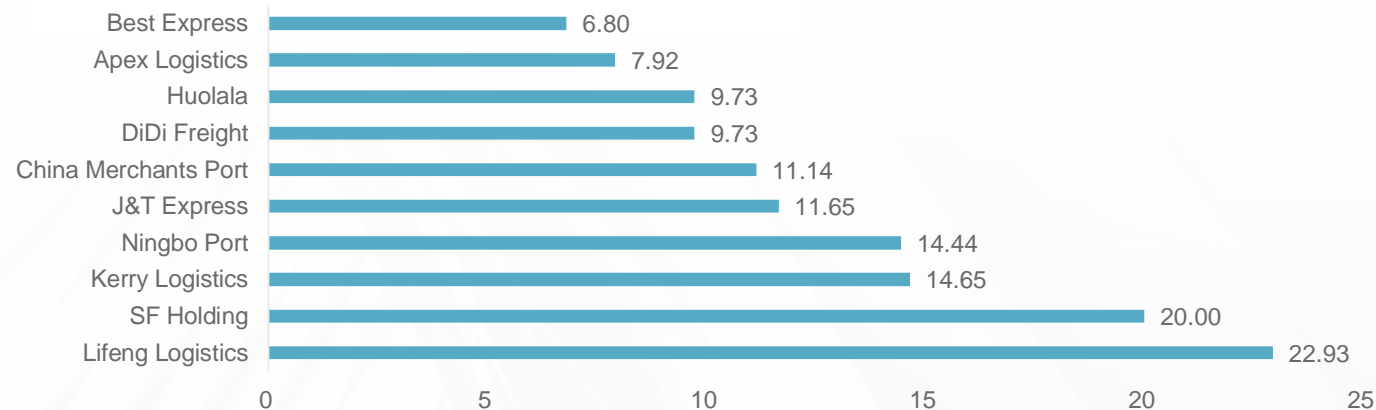
## OUTLOOK

### LOGISTICS

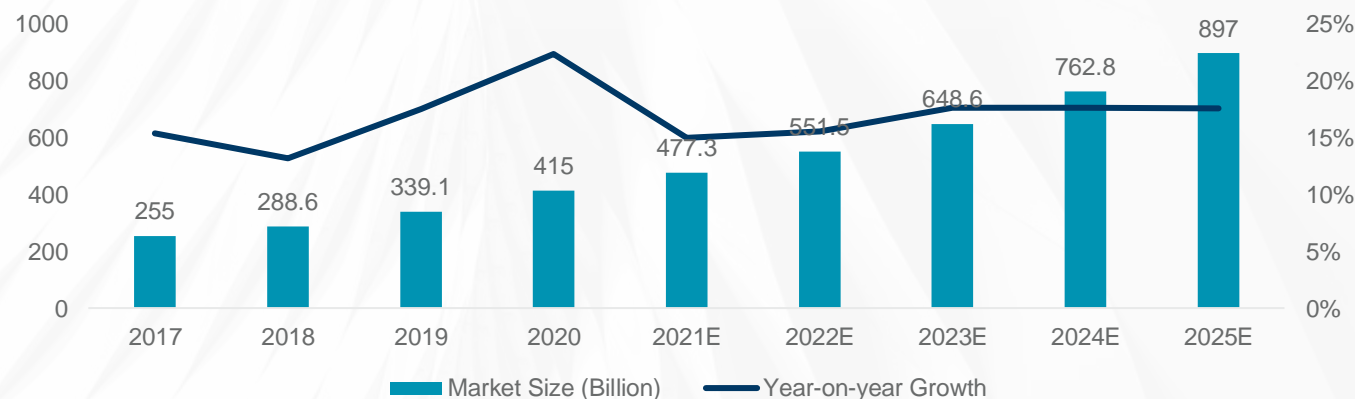
#### OCCUPIERS

- **Anchor Tenants:** E-commerce, third-party logistics and manufacturing will remain the main demand drivers for prime warehouses in mainland China.
- **Industry Integration:** More leading enterprises will enhance their differentiated competitiveness in the logistics and supply chain industry, through mergers and acquisitions, equity investment and self-built logistics.
- **Cold Chain:** With the development of fresh food e-commerce and the large-scale transportation of vaccines, cold chain demand will continue to expand. Considering the future growth momentum, China's cold chain logistics market is expected to further increase to about RMB897 billion by 2025.
- **Suggestions:** Seize the opportunity of the supply peak period in 2022 in the first-tier city markets and in inland logistics hub cities and lock in long-term leases in advance. Secure quality cold chain space before availability is at a minimum. Improve the construction of digital and intelligent logistics infrastructure and deeply cultivate integrated supply chain logistics services. Closely combine site selection plans with ESG goals.

### MAJOR M&A DEALS IN CHINA'S LOGISTICS MARKET IN 2021 (RMB BILLION)



### CHINA'S COLD CHAIN INDUSTRY MARKET SIZE AND GROWTH



# REAL ESTATE OUTLOOK AND OPPORTUNITIES

## OPPORTUNITIES

### LOGISTICS

#### ANALYSIS

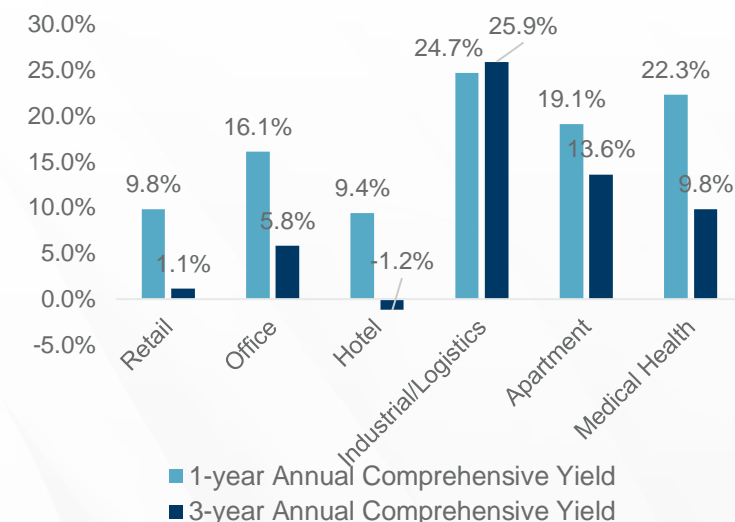
- Government Policy:** The government has issued a series of supporting policies and laid a solid foundation for the sustainable development of the warehouse logistics market. Released documents include 'Opinions on Accelerating the Construction of a Unified National Market' and the '14th Five-Year Plan for Technological Innovation in Transportation'.
- REITs:** Warehouse logistics REITs are expected to offer a high-quality investment choice. In the Asia Pacific region, industrial/logistics REITs performed the best in 2021, recording 1-year and 3-year annual comprehensive yield of 24.7% and 25.9%, respectively.
- Logistics 5.0:** With the wide application of emerging technologies, such as the Internet of Things, Big Data, Cloud Computing, and Artificial Intelligence, the logistics industry will gradually turn to the 'unmanned' mode through the implementation of smart logistics systems.
- Regional Comprehensive Economic Partnership (RCEP):** The implementation of RCEP will stimulate cross-border trade in the region and promote the demand for logistics warehouse space in China's eastern coastal and southwestern regions.

### POLICIES RELATED TO CHINA'S LOGISTICS WAREHOUSE INDUSTRY

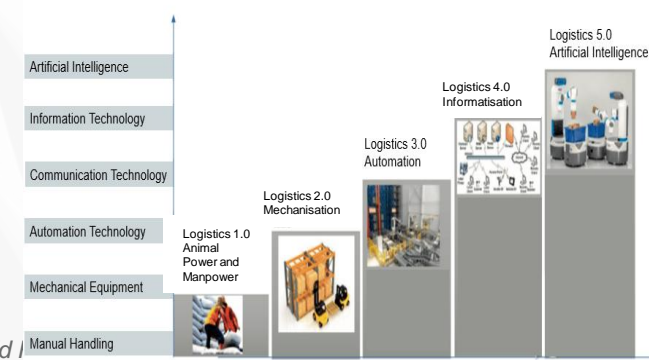
Release Date	Policy
Mar 2020	'Announcement on Continuing the Implementation of Preferential Policies for Urban Land Use Tax on Land Used by Logistics Enterprises for Bulk Commodity Storage Facilities'
Mar 2020	'Notice on the Construction of the First Batch of National Backbone Cold Chain Logistics Bases'
Mar 2021	'Outline of the 14th Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Vision for 2035'
Dec 2021	'The 14th Five-Year Plan for Cold Chain Logistics Development'
Apr 2022	'Implementation of Opinions on Accelerating the High-quality Development of Cold Chain Logistics Transportation'
Apr 2022	'The 14th Five-Year Plan for Technological Innovation in Transportation'
Apr 2022	'Opinions on Accelerating the Construction of a Unified National Market'

Source: Asia Pacific Real Estate Association, Sohu, Cushman & Wakefield

### ANNUALISED COMPREHENSIVE YIELD IN THE ASIA PACIFIC REITS MARKET (AS OF DECEMBER 2021)



### 'LOGISTICS 1.0' TO 'LOGISTICS 5.0'



# 06. REAL ESTATE MARKET OUTLOOK AND OPPORTUNITIES

## 5. DATE CENTRES

# REAL ESTATE OUTLOOK AND OPPORTUNITIES

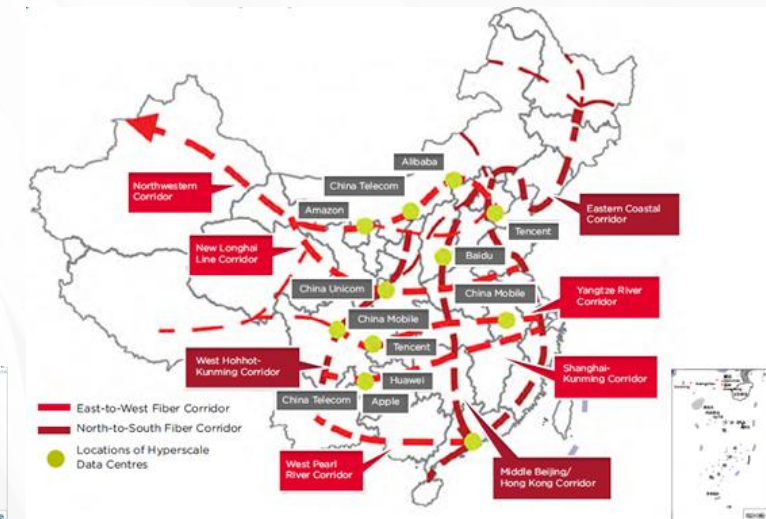
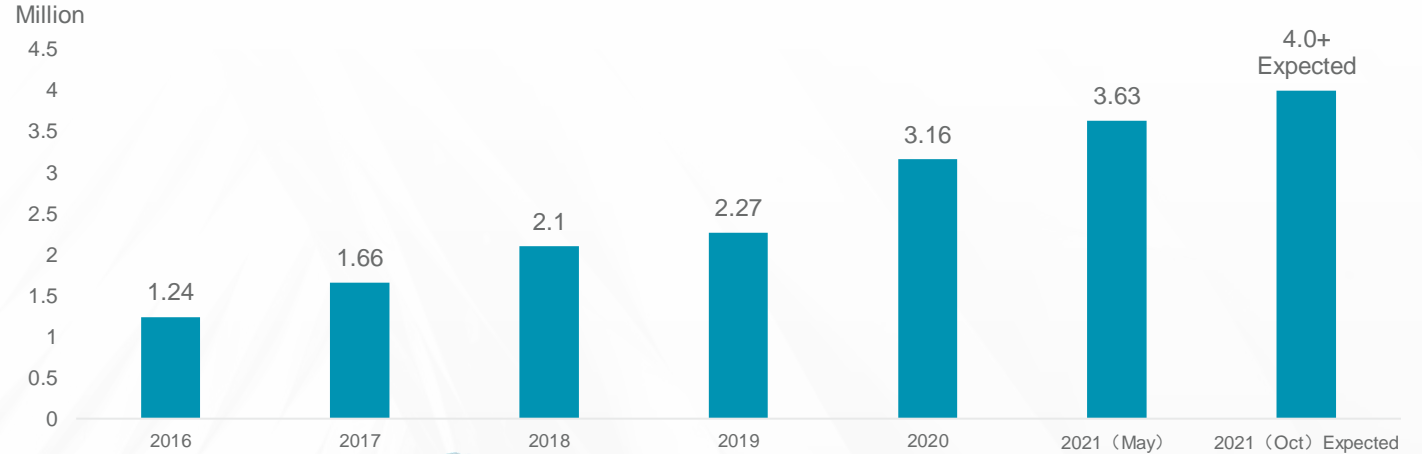
## OUTLOOK AND OPPORTUNITIES

### DATA CENTRES

#### INVESTORS

- Data centres have been less affected by the epidemic. Beijing, Shanghai and the Greater Bay Area are the main data centre hubs in the region. Appetite for services continues to grow. Currently, mainland China has just over a billion Internet users with an Internet penetration rate of over 71%. This has spurred hyperscale data centre development in the country with AWS, Microsoft Azure, Google Cloud, Alibaba Cloud and Tencent Cloud all having a presence in the region.
- At the beginning of 2021, cabinet stock in mainland China was 3.6 million. This is expected to surpass 4 million by beginning of 2022. Looking to the future, the Eastern Data and Western Computing project will focus on the construction of data centre and computing network architecture nationwide.
- Domestic data centre financing channels in mainland China are diversified. They are mainly divided into equity financing and debt financing. Using hybrid financing can cushion the impact on the capital structure.
- Cloud computing providers are a key driver of data centre development in China. Related companies will continue to increase their investments, including in large data centres.

### CABINET STOCK, DISTRIBUTION AND THE EAST-WEST DATA CENTRE PLAN IN MAINLAND CHINA



# 06. REAL ESTATE MARKET OUTLOOK AND OPPORTUNITIES

## 6. RESIDENTIAL (LONG-TERM RENTAL APARTMENTS)

# REAL ESTATE OUTLOOK AND OPPORTUNITIES

## OUTLOOK AND OPPORTUNITIES

### LONG-TERM RENTAL APARTMENTS

#### INVESTORS

##### Market-based long-term rental apartments (Operated by brands):

- City centre rental apartments will continue to expand after the lockdowns, especially in first-tier cities. As target clients change, they (e.g., Mofang) are transitioning their businesses to mid- and upper-level markets.
- Decentralised rental apartments will continue to be the mainstay of rental supply. Comprehensive industry regulations will help to achieve high-quality development standards.

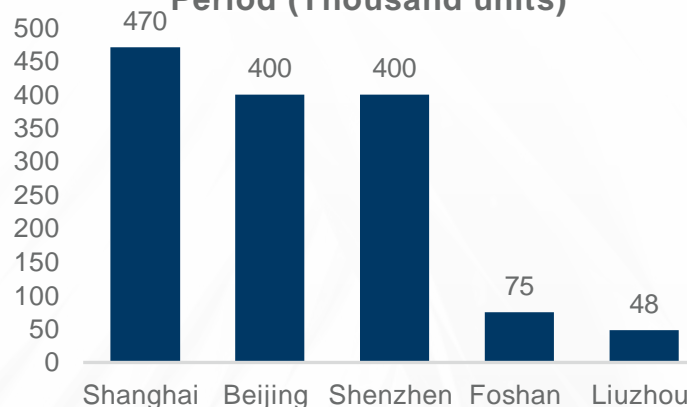
##### Planning-based long-term rental apartments (Planned by the government):

- Rental-use land supply is increasing. State-owned enterprises have land acquisition advantages. Over 70% of the floor area for rental-use land transactions in April is for government-subsidised rental housing.
- Changsha launched a policy to utilise existing housing stock to promote the development of rental apartments.
- The first two government-subsidised rental housing REITs declared recently.

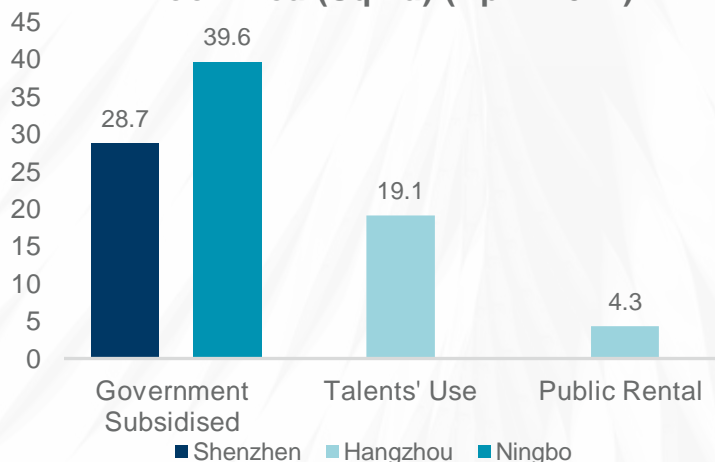
**Residences with a greater amount of common area green space for activities are expected to become more popular with buyers.**

### NEW GOVERNMENT-SUBSIDISED RENTAL HOUSING

Goals During the 14th Five-Year-Plan Period (Thousand units)



Rental-Use Land Transactions by Floor Area (Sq ha) (April 2022)



Source: CREIS, CAIC Research, Cushman & Wakefield Research

### NEW CENTRALISED RENTAL APT.

Apt. Brands	Q1 2022 Shanghai (Units)
Ziroom Apt.	2,724
Cjia Apt.	1,167
Lujiazui Leju Apt.	1,116
Baohouse	1,014
Vlinker Community	1,000
Mofang Apt.	688
Lofter	540
The Ascott Service Apt.	427
Wowqu	283
Shangkun Shangyu	220
Vanke Boyu	208
Baodi Youjian Apt.	77

# 06. REAL ESTATE MARKET OUTLOOK AND OPPORTUNITIES

## 7. REITS (INFRASTRUCTURE)

# REAL ESTATE OUTLOOK AND OPPORTUNITIES

## OUTLOOK AND OPPORTUNITIES

### INFRASTRUCTURE REITS

#### INVESTORS

As of May 2022, 12 national infrastructure REITs were established. They have performed well with steady growth and high market demand. We expect this situation to remain the same after the lockdowns.

- Capital involved in the first batch of subscriptions stemmed from various sectors, including insurance, banking, etc. Most of the subscribers are institutional investors. Individual investors are able to trade through online subscriptions.

#### Short-term changes will not cause strong market fluctuation.

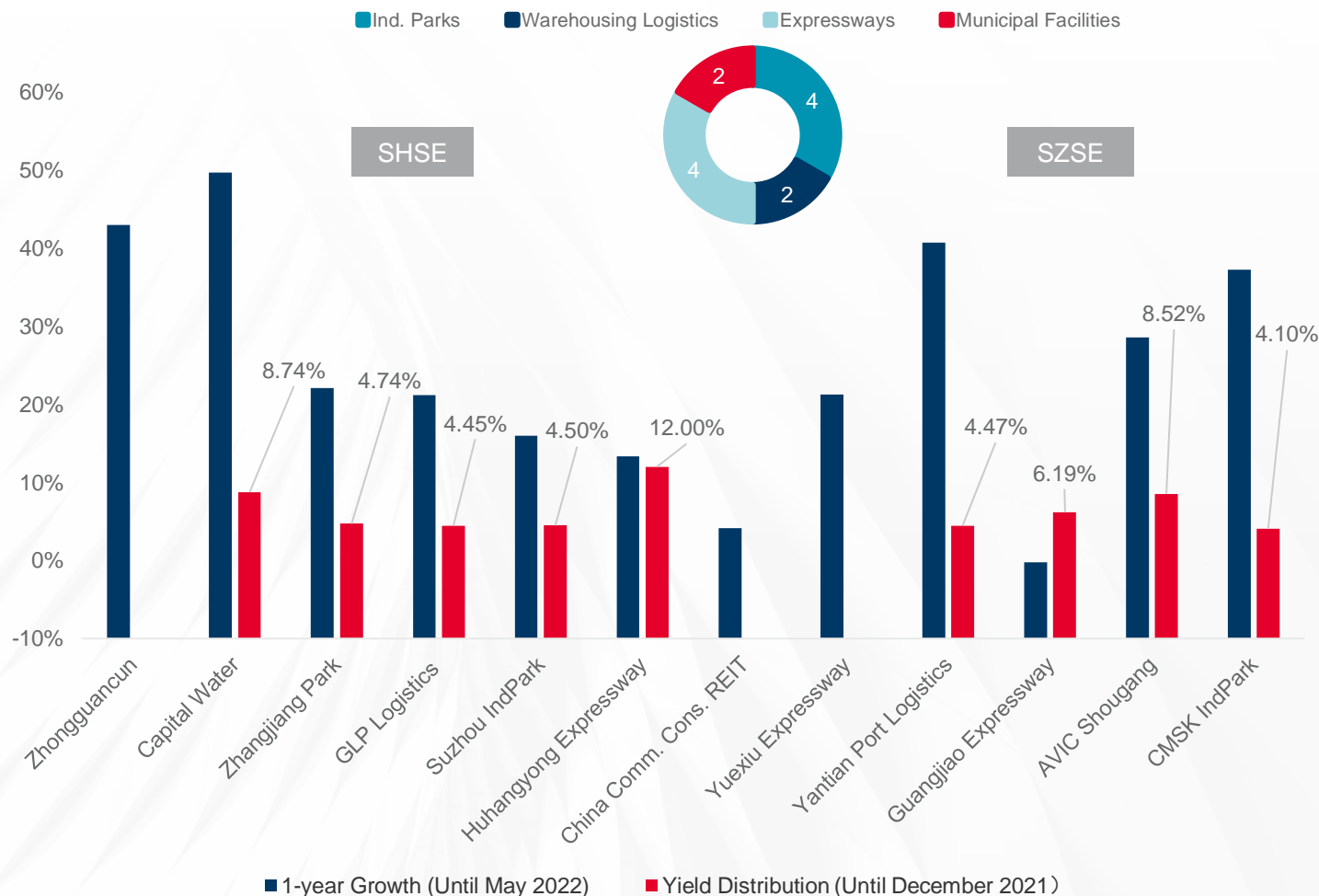
- Long closure periods and decades-long property rights resist short-term difficulties. Such long-term projects also balance the risks from small-scale investments.

#### The SHSE and SZSE recently opened for commentary on the rules about the expansion of subscriptions.

- The entire infrastructure REITs market in China is set for new opportunities. More asset types will subsequently be involved.

After the epidemic, we recommend investors to diversify asset packages geographically to alleviate the impact of inevitable influences on cash flows.

### LISTED REITS PERFORMANCE AND ASSET TYPES





# 05. KEY TAKEAWAYS

# KEY TAKEAWAYS

## KEY POINTS TO PROCESS



### THE ECONOMY, POLICY AND OUR SURVEY

#### MAIN POINTS

- Q2 economic performance will be impacted by the epidemic.
- Manufacturing, the service sector and consumption could regain market dynamism in the second half of the year.
- The government has introduced a package of economic stimulus measures to boost domestic investment and consumption confidence.
- China remains an important market for both domestic and overseas companies.



### REAL ESTATE OUTLOOK AND OPPORTUNITIES

#### MAIN POINTS

- Into Q2, real estate investment in mainland China is anticipated to witness volume drops in certain real estate sectors while others will continue to attract investor interest.
- Office market supply volume is expected to slow, with demand expected to bounce back in H2.
- Neighbourhood retail and the interface between on- and off-line shopping will be fortified.
- Investment in warehousing space will be a focus for many investors investing in mainland China real estate.
- Residences with a greater amount of common area green space for activities are anticipated to become more popular with buyers.

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