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# CHINA CROSS-BORDER CONSUMPTION RECOVERY TRENDS

August 2023

# INTRODUCTION

As the sustained impact of the pandemic on regular business and social activities in China has gradually subsided, intercity connectivity has returned to pre-COVID norms, and this renewal of societal engagement has been accompanied by a steady recovery in cross-border travel and consumption.

At the start of the year, China's Ministry of Commerce designated 2023 as the *Year of Consumption Revitalization*, and the central government introduced policies and measures to accelerate the recovery and expansion of consumption at the local level.

With these support measures in place, national domestic consumption has staged a revival, with total consumer retail sales growing by 8.2% y-o-y in the first half of 2023. In particular, Hong Kong-mainland China cross-border consumption has shown notable signs of recovery, and is now emerging as a highlight in the China retail market.

However, since the full border reopening, the post-pandemic era has seen a marked change from the prior status quo, with the number of outbound Hong Kong residents crossing the border now outnumbering mainland compatriots coming south. This reverse trend of Hongkongers heading north for leisure and shopping is generating increasing attention from both traditional media and on social channels.

Within China, the Guangdong-Hong Kong-Macao intersection is the most popular area for cross-border consumption. Observing and analyzing the evolving retail trends in this triangle provides insights into the overall recovery of China cross-border consumption, and yields an understanding of the effectiveness of measures to promote consumption and boost demand.



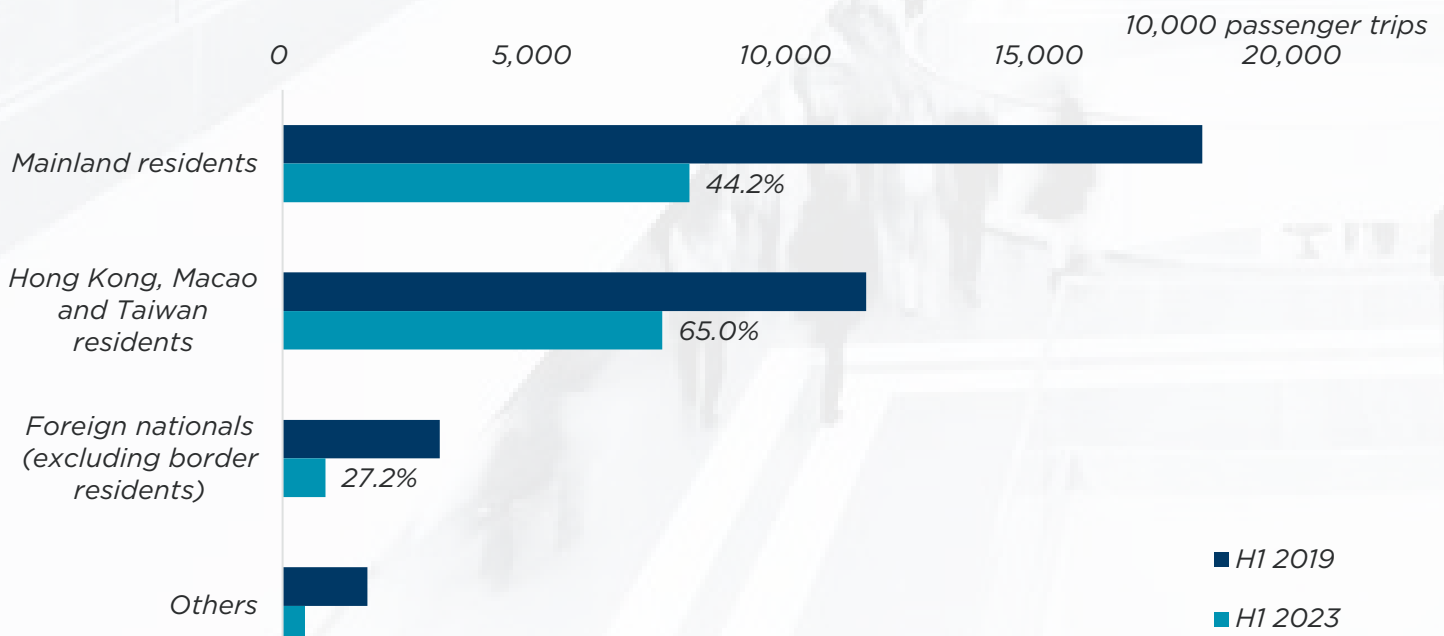
## Drivers of cross-border consumption recovery

Major international sporting and business events such as the 2023 Chengdu FISU World University Games and the Hangzhou Asian Games, together with the China International Import Expo, have helped drive a growing return of international travelers to China, in turn further spurring recovery of cross-border consumption.

In terms of overall arrivals into mainland China, National Immigration Administration (NIA) data shows that 168 million visitor entries were recorded in the 1H 2023 period, which is around 48.8% of the performance in the same period in 2019. Of these total visitor entries, 74.9 million trips were completed by Hong Kong, Macao and Taiwan residents, representing about 65.0% of the comparable figure in 1H 2019, and indicating that these three markets are a key driving force behind cross-border consumption.

We can also expect that the accelerated pace of Hong Kong and Macao residents travelling to the mainland for consumption activities will contribute to the further interconnection and integration of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), which was previously disrupted by the pandemic.

**Chart 1. Mainland China total arrival and departure numbers breakdown: 1H 2023 vs. 1H 2019**



Source: National Immigration Administration, Cushman & Wakefield Research

# HONG KONG RESIDENTS EMBRACE MAINLAND TRAVEL FOLLOWING BORDER REOPENING

## **Shenzhen witnessed an average inflow of more than 900,000 Hong Kong resident trips per week following border reopening**

According to the Hong Kong Immigration Department, between February 6 and the end of July this year, Hong Kong residents completed more than 22.45 million passenger trips into Shenzhen via the six land boundary control points of Lo Wu, Heung Yuen Wai, Man Kam To, Lok Ma Chau, Lok Ma Chau Spur Line and Shenzhen Bay. This suggests an average weekly inflow of about 900,000 trips, and this figure could potentially reach 1 million if the Express Rail Link and sea boundary control points are included.

## **Weekend mainland travel by Hong Kong residents a new norm, beyond same-day visits**

Land and sea crossings are the major channels for Hong Kong residents to travel to and from mainland China, particularly within the Guangdong-Hong Kong-Macao GBA.

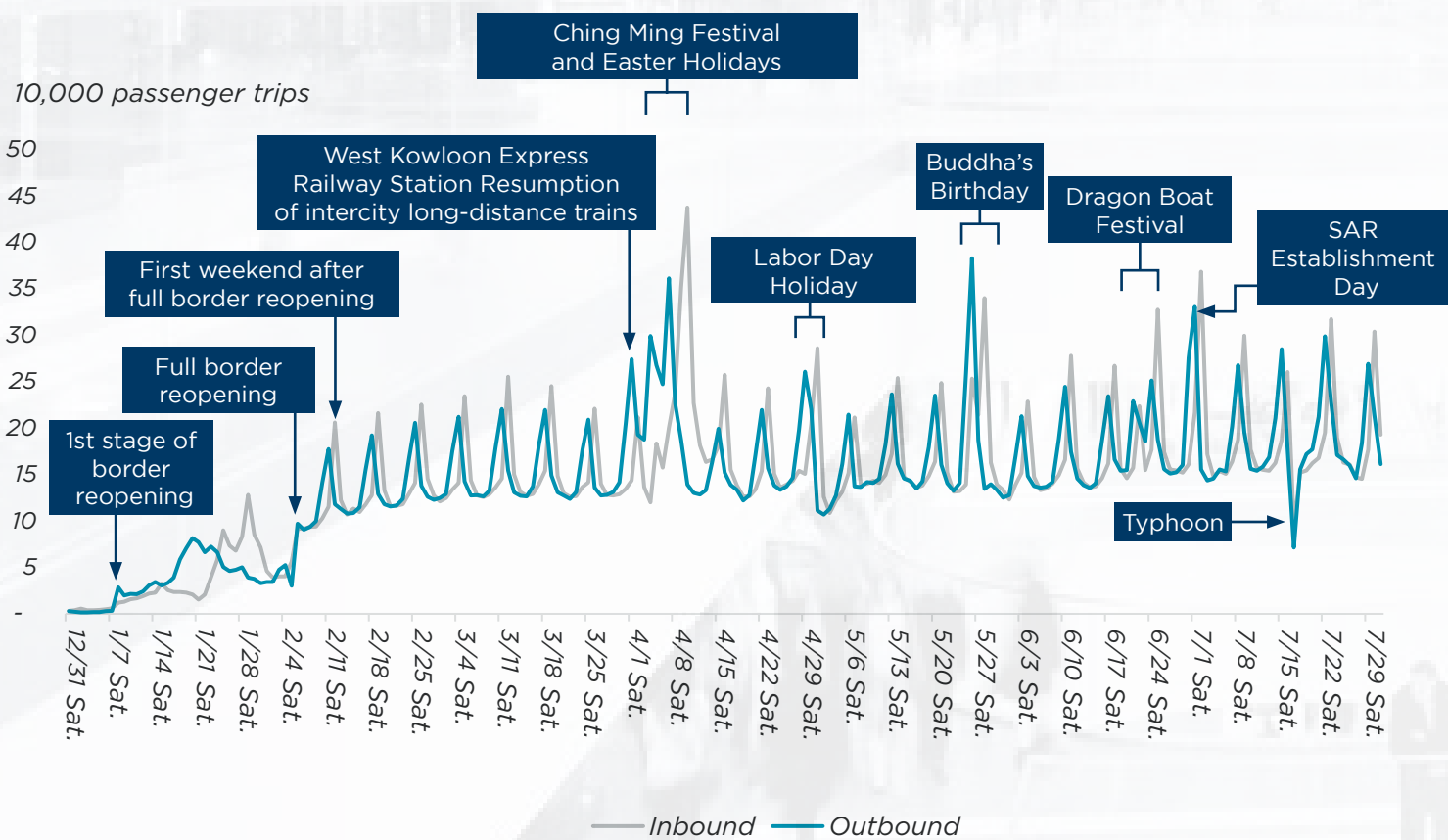
Hong Kong Immigration Department data reveals that Hong Kong residents' travel patterns to the mainland via land and sea control points exhibit regular cyclical trends. From Monday to Thursday, daily inbound and outbound travel numbers by Hong Kong residents remain relatively consistent, averaging around 120,000 to 150,000 passenger trips. Departures from Hong Kong demonstrate a noticeable rise on Fridays, exceeding 170,000, and then peak on Saturdays, reaching approximately 200,000 to 250,000. Since July 2023, this Saturday peak number has risen to almost 300,000.

However, growth in daily returning numbers to Hong Kong has been comparatively slower. The data shows that on Sundays, departure numbers from Hong Kong fall, while the number of inbound passenger trips increase, often surpassing Saturday's figures. This suggests that Hong Kong residents are increasingly extending mainland day trips into weekend travel, staying overnight and returning to Hong Kong on the Sunday.

## Public holidays and festival periods bring peaks of mainland travel

During each of the Hong Kong public holidays of Good Friday, The Buddha's Birthday, and Hong Kong SAR Establishment Day, more than 330,000 Hong Kong residents made trips to the mainland, of which more than 240,000 visitors entered Shenzhen through the six land boundary control points.

**Chart 2: Daily flow of Hong Kong residents entering and leaving the mainland via land and sea boundary control points**



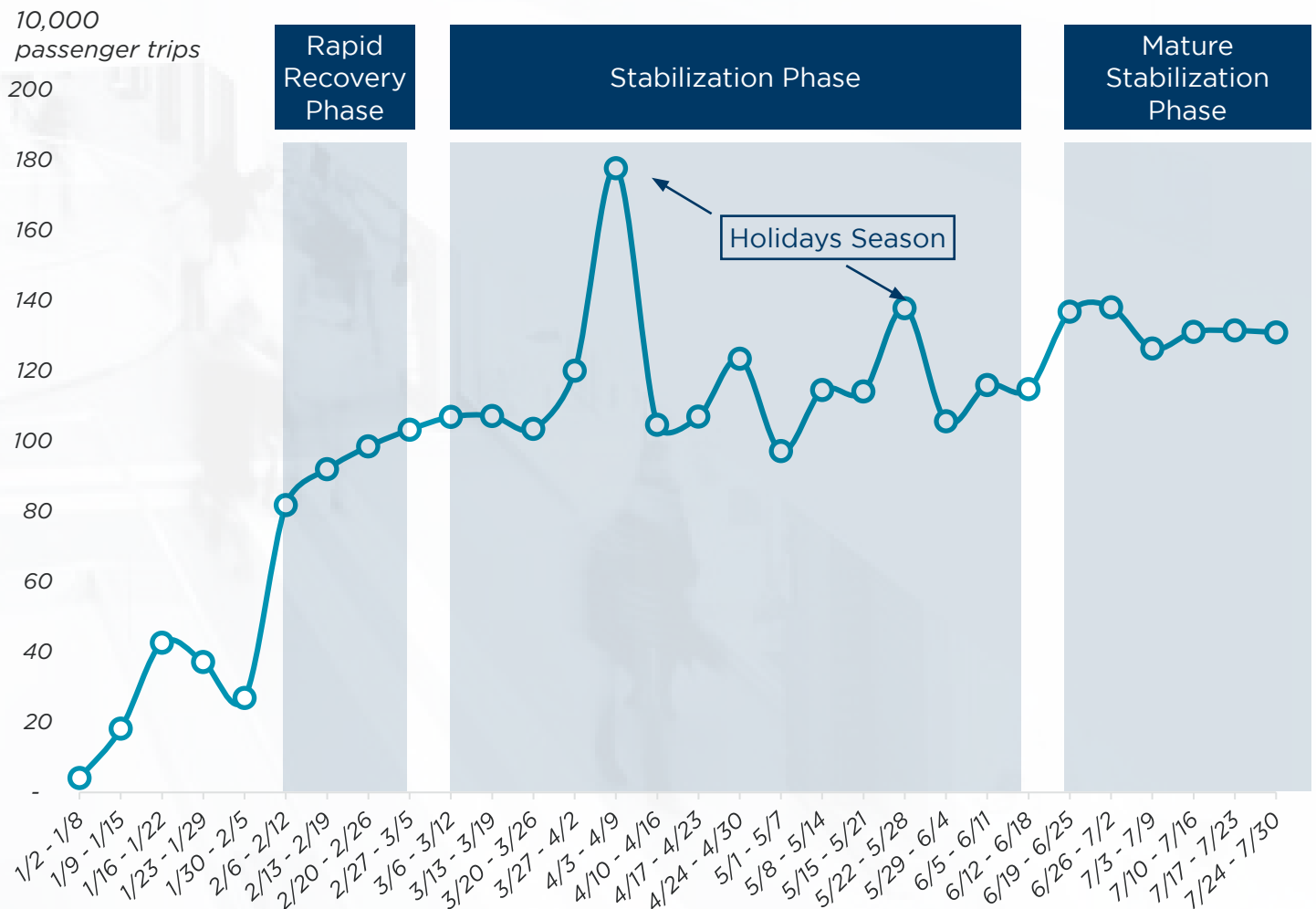
Source: Hong Kong Immigration Department, Cushman & Wakefield Research

In terms of the recovery of China cross-border travel numbers, the average weekly flow of Hong Kong residents departing the city via land and sea boundary control points rapidly returned to approximately 1.05 million passenger trips within one month after the full border reopening, and remained at an average of 1.1 million for the following three months, with the exception of major public holiday spikes.

From late June 2023 onwards, the average weekly visitor traffic began to climb again, driven by public holidays such as the Dragon Boat Festival and the Hong Kong SAR Establishment Day. This period also saw the rise of popular mainland China media reports and social media posts around the topic of Hong Kong residents “crowding” or “occupying” Shenzhen. By mid- to late-July, despite the adverse impacts of typhoons and the absence of further public holiday boosts, average weekly traffic numbers from Hong Kong into mainland China reached approximately 1.3 million visits.

Looking ahead, with improved accessibility to mainland cities via the West Kowloon Express Rail Link (XRL), we can expect to see Hong Kong residents further expand their mainland travel itineraries, with Shenzhen and GBA cities likely to become jump-off points to cities further inland.

**Chart 3: Weekly flow of Hong Kong residents’ outbound travel to the mainland via land and sea boundary control points**



Source: HK Immigration Department, Cushman & Wakefield Research



## **CROSS-BORDER CONVENIENCE, VALUE, AND DIVERSIFIED CONSUMER EXPERIENCES ARE KEY ATTRACTIONS FOR HONG KONG VISITORS**

As the nearest mainland China city to Hong Kong SAR, Shenzhen is normally the first stop for Hong Kong residents travelling north, and it also records the highest number of inbound Hong Kong visitors. But why is Shenzhen, a city not particularly known for its tourism resources, able to attract such an influx of Hongkongers, especially during weekends?

### **Travel convenience via connecting land and sea borders**

Shenzhen and Hong Kong are neighboring cities, seamlessly connected via seven land border crossings, two passenger seaport crossings, and one high-speed rail crossing. Public transportation options are also readily available at border points, with the Lo Wu and Futian control points directly connected by the Mass Transit Railway (MTR) networks of both Shenzhen and Hong Kong. From Hong Kong it takes less than 20 minutes to reach the Shenzhen city center via high-speed rail, and providing convenient access to the extensive transportation network linking to other parts of Shenzhen and neighboring cities within the GBA. As a result, same-day travel between Hong Kong and Shenzhen has become increasingly popular, establishing a seamless travel experience supporting the development of the “weekend economy.”





**Chart 4: Map of Shenzhen boundary control points and transportation infrastructures**



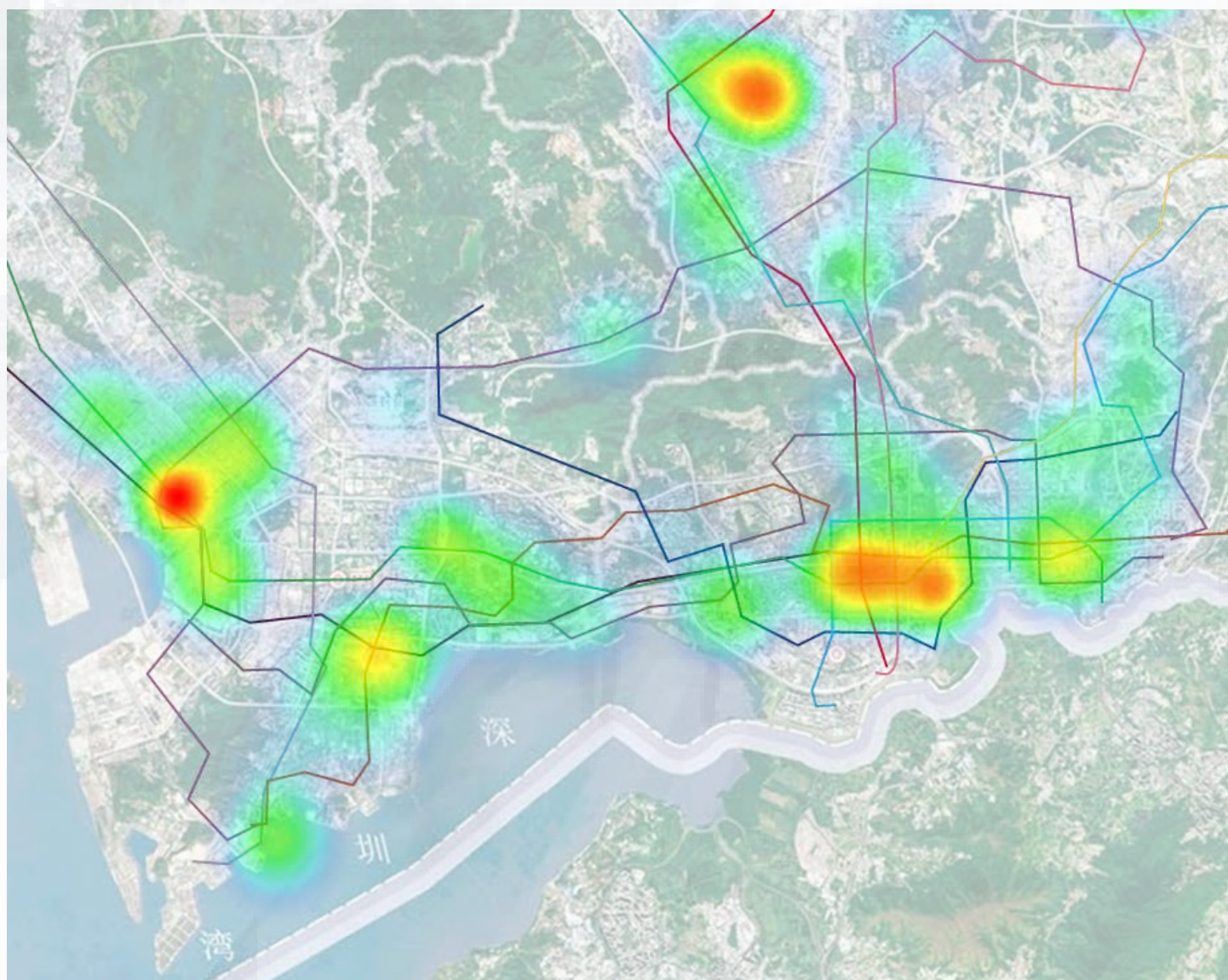
Source: Shenzhen Port Office, Shenzhen Municipal Bureau of Transportation, Shenzhen Metro, Cushman & Wakefield Research

Note: Diagram is for schematic reference only.

Transportation convenience is crucial to facilitating further cross-border consumption. Before the implementation of the *Northbound Travel for Hong Kong Vehicles* scheme – which allows eligible Hong Kong private cars to travel between Hong Kong and Guangdong via the Hong Kong-Zhuhai-Macao Bridge without the need to obtain regular quotas – public transportation served as the main transit option for Hong Kong residents travelling to Shenzhen.

Within Shenzhen, high-end shopping centers are located in core areas such as Luohu, Futian, and other districts near the Hong Kong border crossing points. Many of these retail malls are part of transport-oriented development (TOD) projects and are connected to MTR stations, enhancing accessibility and travel convenience for tourists and domestic consumers.

**Chart 5: Heat map of premium shopping malls in Shenzhen's core submarkets**



Source: Shenzhen Metro, Cushman & Wakefield Research

Note: Data as of mid-2023, dark red areas indicate concentration of commercial space. Map is for indicative purposes only.

## Value for money lifestyle options

Value for money is a significant factor driving cross-border consumption. Since the onset of the COVID-19 pandemic, both mainland China and Hong Kong have experienced substantial impacts on their economies and subsequently on real incomes, leading to the adoption of rational consumption concepts.

At the same time, disparities in income levels and prices between the mainland and Hong Kong have remained. Consequently, for Hongkongers, earning their income in Hong Kong and spending it in Shenzhen has become a cost-effective lifestyle option, especially so for service-based consumption such as F&B, spa treatments, and health, beauty and dental services.

In addition, the exchange rate of the Hong Kong dollar (HK\$) against the Chinese Renminbi (RMB) has been consistently rising since the border reopening. According to the State Administration of Foreign Exchange, the median price of the HK\$ against the RMB reached a high of 92.2 on July 6 this year, similar to the level observed in 2008. This indicates an appreciation of 7.7% compared to the exchange rate of 85.6 in early February. This upward trend in the exchange rate has further boosted the purchasing power of Hong Kong residents choosing to shop in mainland China.

**Chart 6. Movement of HK\$ vs RMB exchange rate**



Source: State Administration of Foreign Exchange, China Foreign Exchange Trading Center



## Enhancement of consumer travel patterns and expansion of diversified consumer offerings

Prior to the pandemic, economic integration between Hong Kong and Shenzhen had been strengthening with the further development of the Guangdong-Hong Kong-Macao GBA and its related transportation network. Initially, cross-border consumption between mainland residents and Hong Kong was predominantly one-way inbound flows into Hong Kong.

However, over time this pattern gradually shifted to include both inbound and outbound visitors from both sides of the border. The opening of the high-speed rail line has further accelerated Hong Kong residents' travel north to the mainland for leisure consumption, especially in retail areas neighboring border entry point areas and rail hubs, and during weekends. The surge in popularity in such travel is certainly due to pent-up demand resulting from the three year border closure, but is also driven by the enhanced and upgraded consumer environment now offered in the mainland.

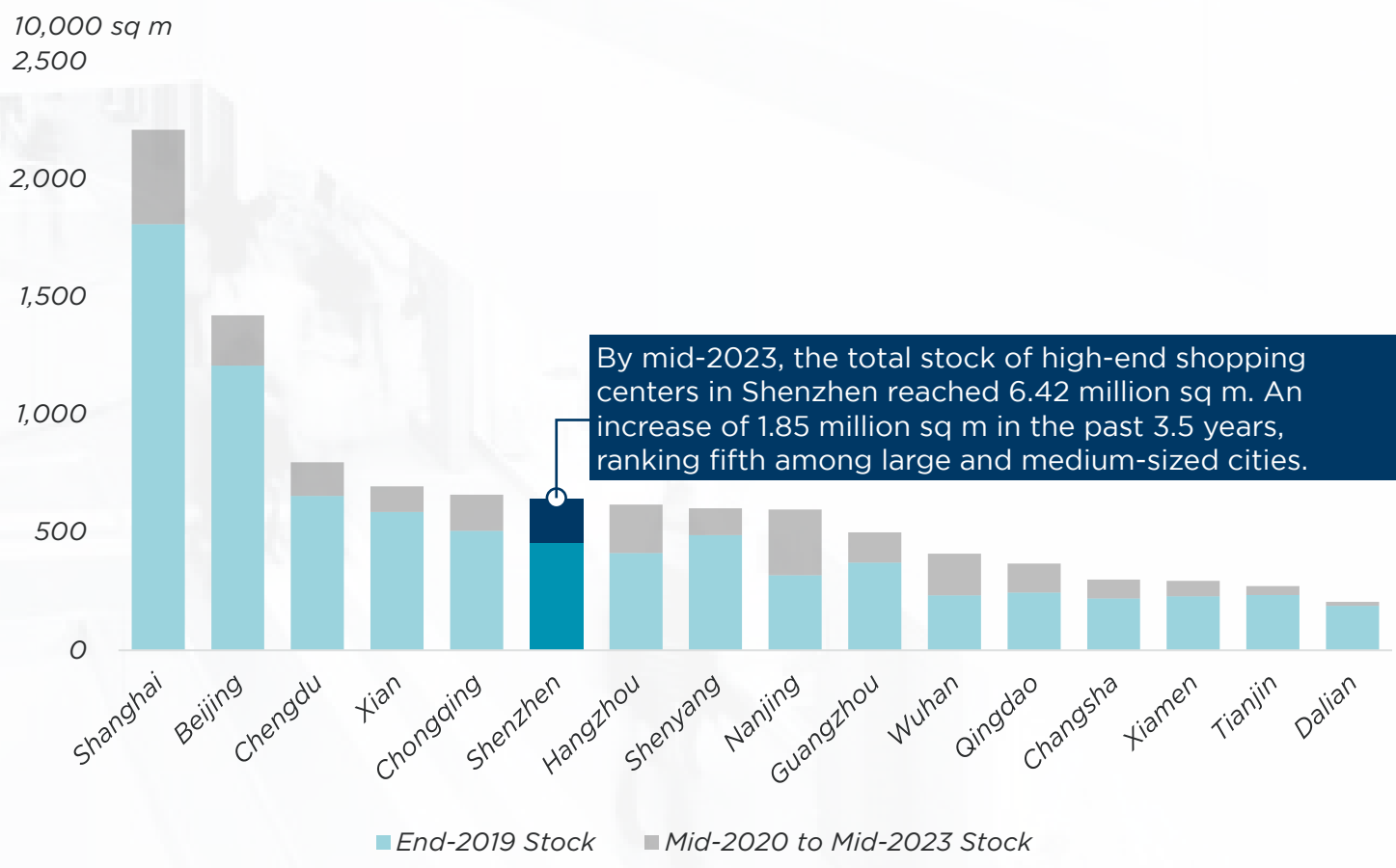
In the three and a half years from 2020 to mid-2023, approximately 1.85 million sq m of new high-quality retail space entered the Shenzhen market, including shopping centers such as C Future City, Houhai Harbour, and MixC+, which integrate multiple elements including technology, art, youth activities, culture, food, and bazaars, into a single retail destination. In addition, non-traditional commercial clusters such as OH Bay offer a diverse tourism experience encompassing seafront views, parks, and ecology and costal-based activities.

As for the retail brand landscape, apart from introducing traditional retail brands, original brand names and personalized products, retail operators are also enhancing the landscape and the consumer experience via social interactions, experiences, wellness offerings and other innovative ideas. Examples such as membership schemes at Sam's Club and Hema Xiansheng, new Chinese bakeries such as Master Bao, new tea beverages such as Ah Ma Handmade, local specialties such as Sichuan and Hunan cuisine, as well as Xinjiang cuisine and other F&B concepts, have all become recent hot spots for Hong Kong consumers.



Finally, a diverse range of innovative retail concepts, such as shared gaming services, mini KTV booths, self-service massage chairs, and experiential offerings are now located throughout Shenzhen’s shopping districts, providing Hong Kong residents with enhanced and unique shopping experiences.

**Chart 7: High-end retail malls by area in mainland China cities as of 1H 2023**



Source: Cushman & Wakefield Research

# MAINLAND VISITOR ARRIVALS TO HONG KONG YET TO FULLY RECOVER, EMERGING TREND OF EXPERIENCE-FOCUSED RETAIL CONSUMPTION

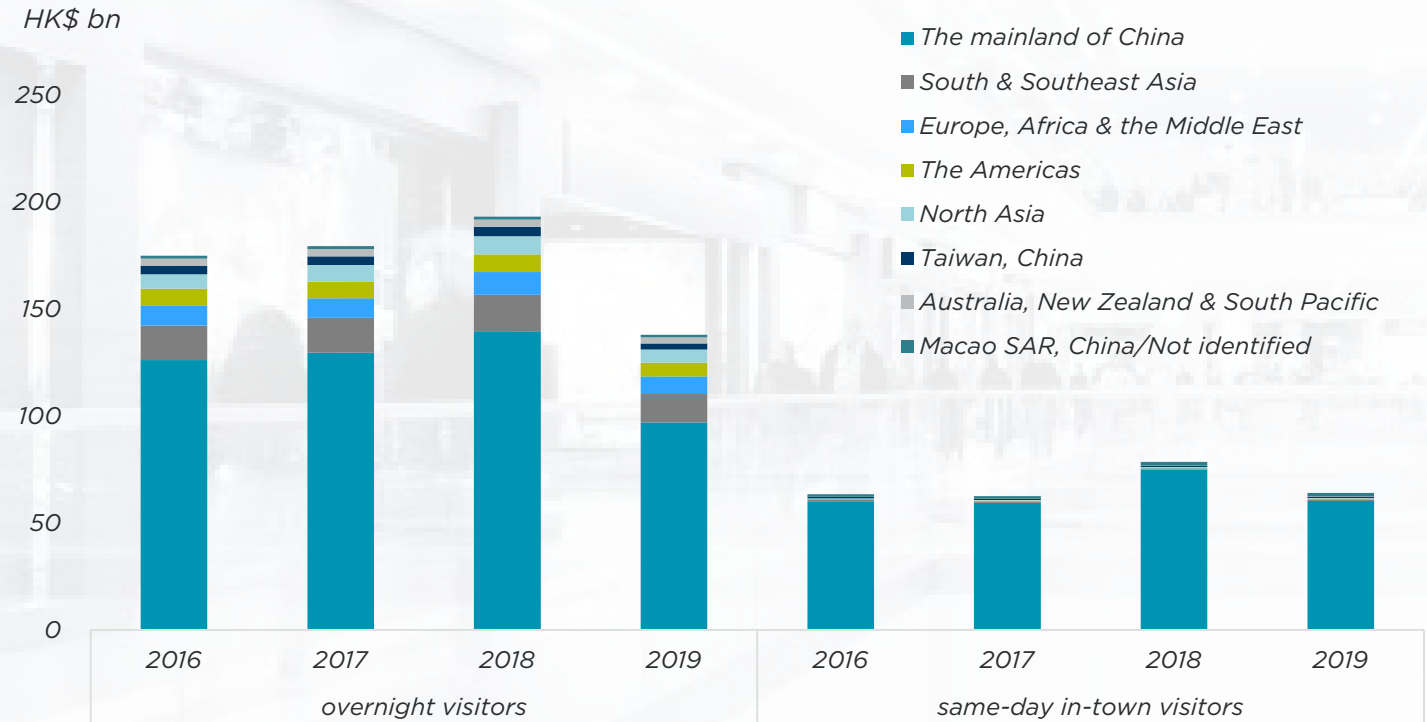
Despite the full reopening of the border at the beginning of 2023, mainland China visitor arrival numbers into Hong Kong in the 1H 2023 period had yet to recover to pre-pandemic levels. According to the Hong Kong Immigration Department, during the half-year between February 6 and the end of July 2023, approximately 12.7 million mainland visitors travelled to Hong Kong through air, land and sea ports. This compares with 51.04 million arrivals in 2018 and 43.77 million in 2019, according to Hong Kong Tourism Board data. These numbers reflect the fact that the inflow of mainland visitors to Hong Kong is still in a recovery stage, and has yet to return to the level witnessed in previous years.

## **Shopping activities and consumer spending dominated mainland visitor activities prior to the pandemic**

Prior to the pandemic, mainland China visitors were the most important source of tourism revenue in Hong Kong. According to the HKSAR's Tourism Board, in the four years prior to the COVID outbreak, the average annual total consumption expenditure of overnight mainland visitors in Hong Kong exceeded HK\$120 billion, with an average annual per capita consumption expenditure of more than HK\$6,800, exceeding other overnight visitor groups' spending with the exception of 2019. In terms of same-day visitor arrivals into Hong Kong, mainland China visitors ranked first in both total and per capita spending in the four years prior to the pandemic.

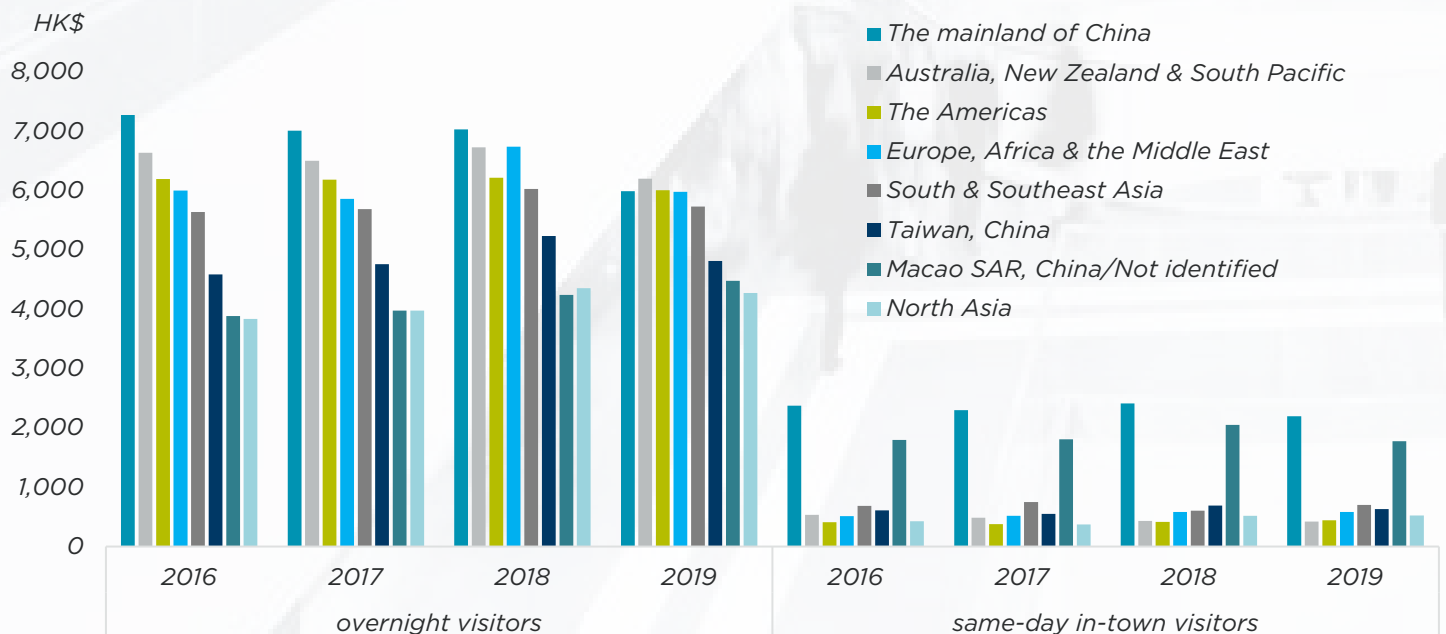


**Chart 8. Total spending of overnight/same-day inbound visitors in Hong Kong by country and region**



Source: Hong Kong Tourism Board

**Chart 9. Per capita consumption expenditure of overnight/non-overnight inbound visitors to Hong Kong by country and region**



Source: Hong Kong Tourism Board



## **Changing inbound visitor consumption patterns, as cultural and experience-based tours emerge as key trends when visiting Hong Kong**

The rapid development of the mainland China consumer industry, particularly in cross-border e-commerce, duty-free stores, and luxury retail, played a significant role in supporting consumer demand in the mainland during the pandemic period. This trend has also resulted in profound changes in the consumption outlook and consumer behavior of mainland tourists visiting Hong Kong.

Since the border reopening, mainland visitors have embraced new experiential travel approaches when visiting Hong Kong, such as urban walks that prioritize lighter consumption, and more culturally immersive activities.

Besides shopping, inbound mainland tourists are now demonstrating a preference for exploring venues with unique local styles and cultural significance, such as the Hong Kong Palace Museum and M+ Museum in the West Kowloon Cultural District. These two iconic cultural venues were newly opened during the pandemic, and have already attracted significant numbers of local and international tourists. Furthermore, smaller retail establishments such as bookstores, record and video stores, animation and comic game stores, as well as antique stores, which are often tucked away in hidden corners of Hong Kong, have become popular attractions for younger travelers and enthusiasts.



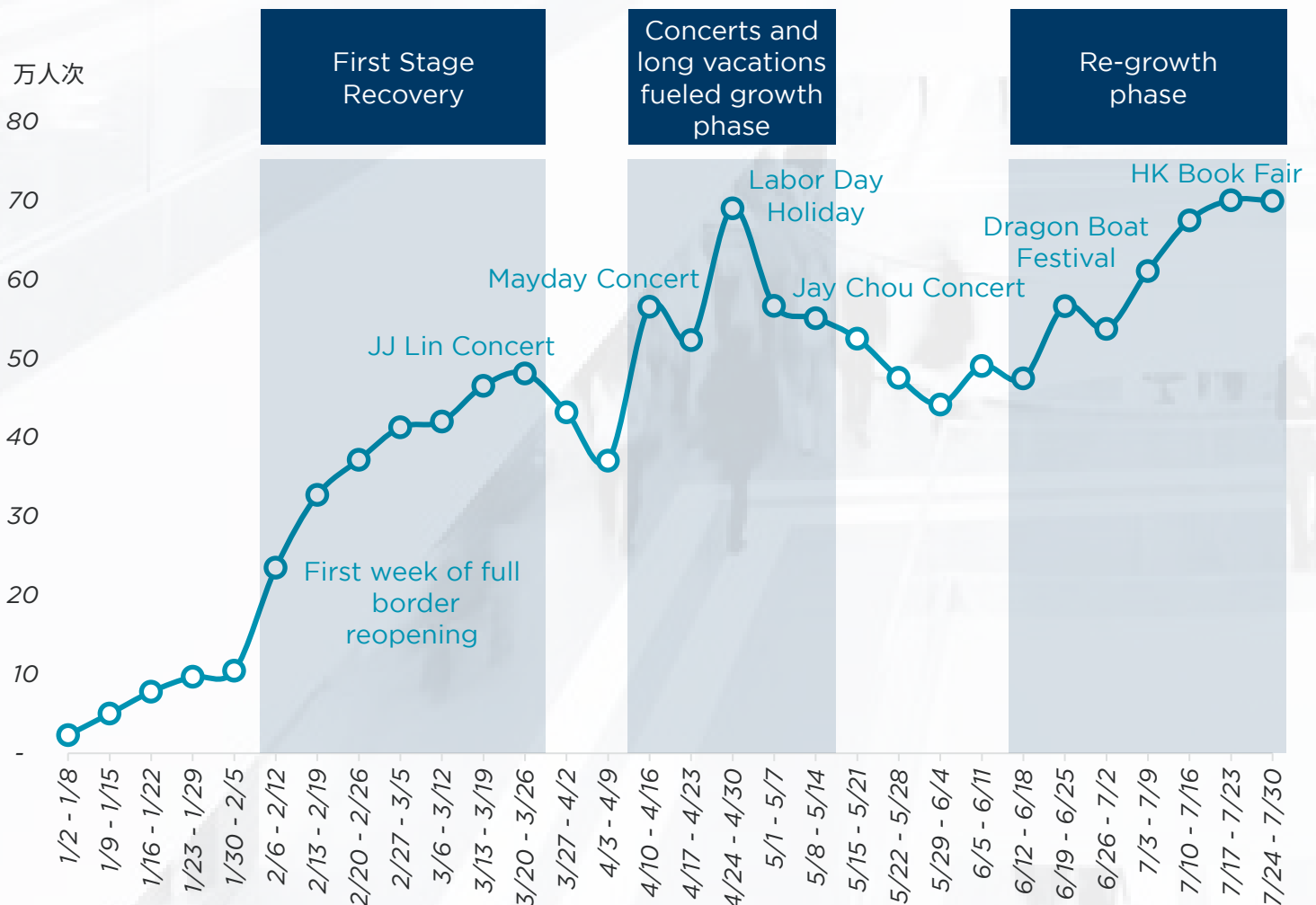
## Renewed large-scale Hong Kong cultural entertainment and exhibition events to attract mainland visitors

Apart from weekends and festival periods, mainland tourists are drawn to Hong Kong by large-scale cultural entertainment events and exhibitions. Such “mega” events have returned to Hong Kong following the pandemic, including the Clockenflap Music Festival, Art Basel Hong Kong, and concerts by the Singaporean artist JJ Lin.

These events have successfully attracted an influx of visitors from the mainland and overseas. Additionally, performance concerts by popular artists such as Mayday

and Jay Chou, and supported by the May Day Golden Week, have further boosted inbound mainland visitor numbers to Hong Kong. However, during periods when cultural and entertainment events are not taking place, inbound tourism flows have tended to ease. The Hong Kong Book Fair, held in mid-July, attracted a vast number of visitors from the mainland, especially from the GBA, reaching a peak of more than 150,000 visitors on the Saturday July 22, which was the penultimate day of the Fair.

**Chart 10: Weekly flow of mainland visitors entering Hong Kong via land, sea and air boundary control points**

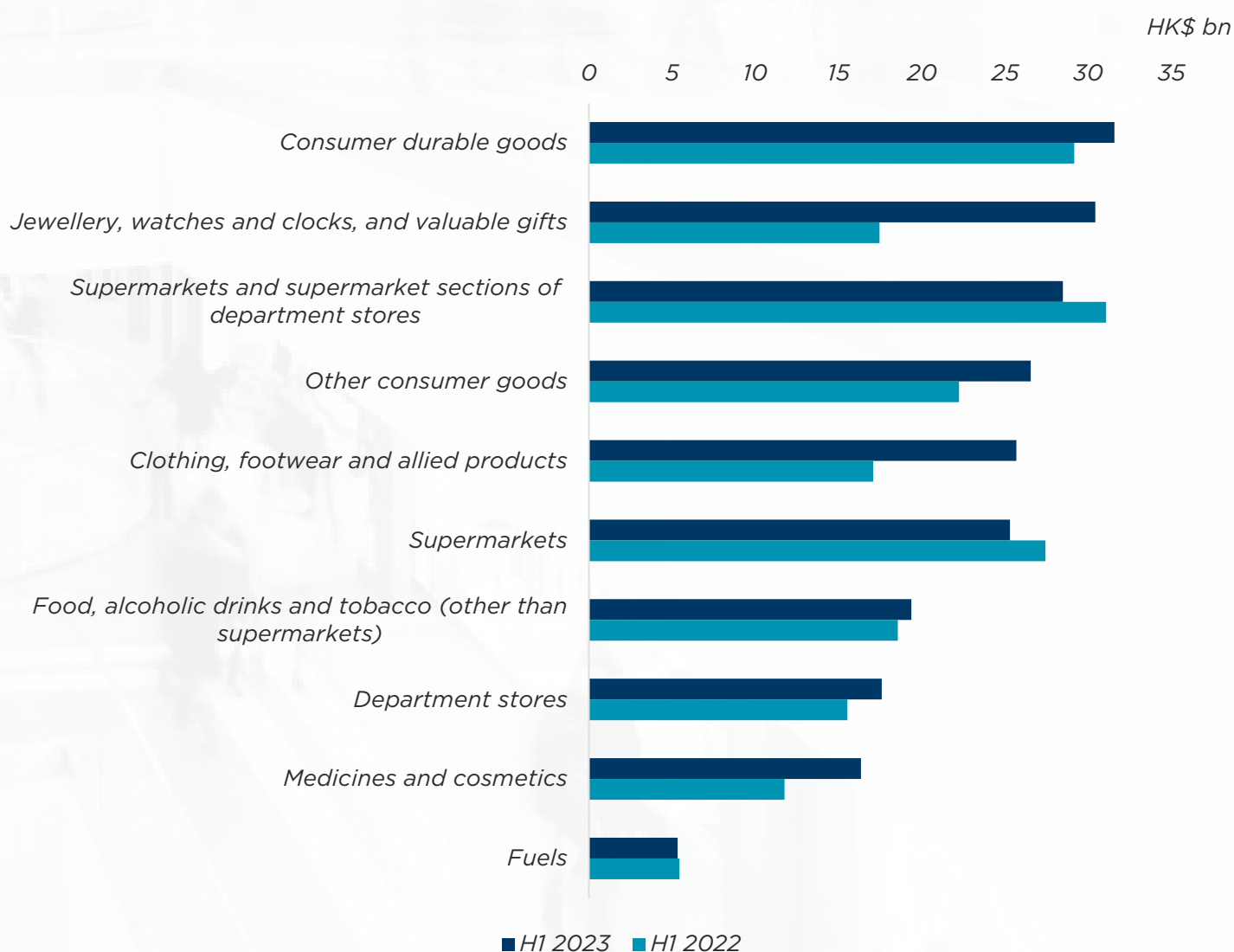


Source: Hong Kong Immigration Department, Cushman & Wakefield Research

## Hong Kong retail sector set to recover, supported by mainland tourist inflows and revived retail landscape

Despite the changing consumption habits of mainland visitors, the Hong Kong retail market has gradually recovered following the border reopening, with total consumer goods retail sales in the 1H 2023 period growing by 20.7% y-o-y. By sector, retail categories popular among tourists saw the most rapid growth, with jewelry, watches and gift products surging by 74.3% y-o-y. Clothing, footwear and related products increased by 50.4% y-o-y, while medicines and cosmetics categories rose by 39.1% y-o-y.

**Chart 11. Hong Kong's total retail sales value of selected retail categories in 2022 and 1H 2023**



Source: Hong Kong Census and Statistics Department

In recent years, Hong Kong's retail market has witnessed the emergence of new consumer facilities and experiences, becoming new hot spots for visitor arrivals into the city.

Positioned as "Hong Kong's Cultural Silicon Valley," the K11 MUSEA project, a new cultural retail landmark that opened in H2 2019, set a high standard in integrating

the brand concept of "Art, Humanity and Nature" with architecture, space and business. Other urban renewal projects such as the Tai Kwun, Central Market, Yue Man Square and Lok Fu Market projects have also emphasized renewal, conservation and revitalization elements, while balancing culture and commercialization to provide new concepts for urban renewal retail principles and transformation.



These new consumption concepts have also presented a fresh view of Hong Kong to visitors following the pandemic. Cosmetics and luxury stores, which came under notable pressure during the pandemic, have again resumed expansion or returned to Hong Kong under the expectation of recovery.

Japanese F&B and grocery store brands have also leveraged the market adjustment in Hong Kong and expanded during the pandemic, with supermarket chain Don Don Donki performing particularly well with growing sales and store expansion. As well, mainland China brands have taken opportunities to expand in Hong Kong's CBD and neighborhood malls, including Li-Ning, MINISO, Manner Coffee and Juewei.



# OPTIMIZING THE RETAIL ENVIRONMENT AND ENHANCING CONSUMPTION EXPERIENCES TO STIMULATE CROSS-BORDER SPENDING

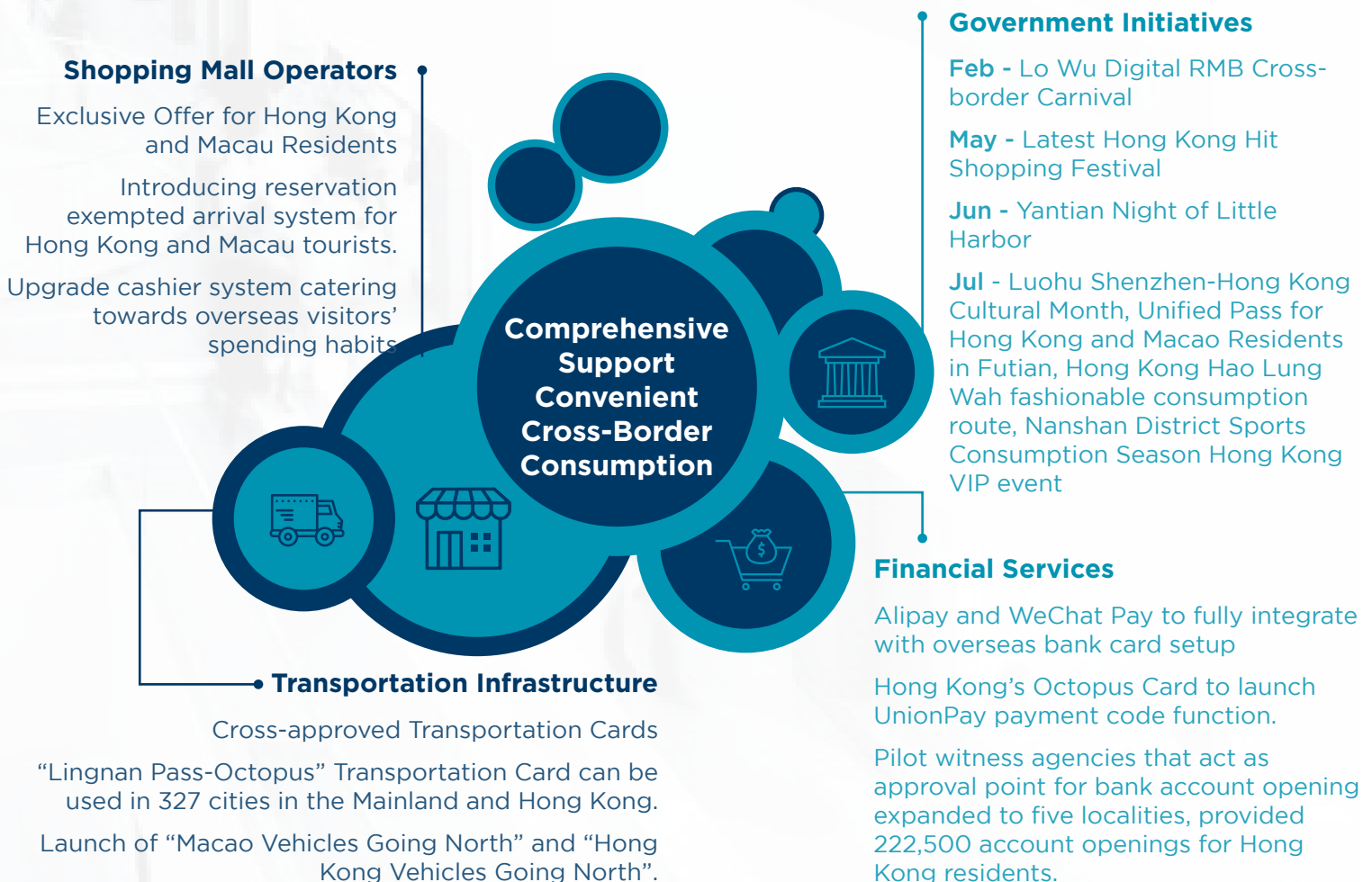
The governments and businesses of Guangdong, Hong Kong and Macao have long been committed to promoting cross-border consumption growth, with these efforts only increasing since the impact of the pandemic.

Since the border reopening, the GBA cities, and especially the Shenzhen government, have ramped up their retail promotional activities targeting Hong Kong and Macao consumers, while local retail businesses

have been introducing exclusive offers for Hong Kong and Macao residents.

Policies facilitating transportation infrastructure and financial services have also continued to support further integration and connectivity. These initiatives have provided a strong precedent for mainland China and GBA cities committed to developing global consumption nodes and enhancing cross-border activities.

**Chart 12. Multi-dimensional efforts by government, businesses, infrastructure and other services to facilitate cross-border consumption**



## CREATING WIN-WIN SCENARIOS FOR CROSS-BORDER CONSUMPTION VIA STRONGER GBA INTEGRATION

Industry observers believe there is still room for enhancement of the existing cross-border retail experience. For instance, during the border entry process, the screening of health declaration QR codes can be optimized via installing security machines to shorten the waiting time. On the payment front, cash payment channels should be retained, while other payment methods such as the inclusion of overseas bank cards should be further explored.

For tourist attractions and cultural facilities, a determined quota of walk-in tickets should be retained to enhance cross-border travel experiences. And for retail mall operations, property owners should actively enhance their services, upgrade bilingual/multilingual navigation systems, expand the scope of payment systems, and provide customer guidelines and services, as to capitalize on the opportunities arising from the new wave of cross-border spending.

The trend of cross-border consumption between Hong Kong, Macao and the GBA cities has evolved from a focus on pursuing value for money purchases to a deeper understanding of culture, lifestyle and habits. This win-win scenario of cross-border consumption promotes domestic demand and spending, but it also plays a role in facilitating mutual cooperation and integration between the GBA cities.

Hong Kong, Macao and the Pan-Pearl River Delta region share the same origin and have similar cultural ties. Historically, regardless of local and global geopolitical changes, interactions among the three localities have always been close. Since the opening of mainland China and the resumption of sovereignty over Hong Kong and Macao, integration of the three places has been deepening and cross-border exchanges have become more active.

Since the *Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area* released in February 2019, this integration has further accelerated, including the completion of key transportation infrastructure such as the Hong Kong-Zhuhai-Macao Bridge and Hong Kong's West Kowloon High-Speed Rail Station, as well as the newly opened boundary crossing facilities such as the Liantang / Heung Yuen Wai Cross-boundary Control Point, the Qingmao Checkpoint, and the Pazhou Passenger Terminal. Together, these developments have further strengthened the GBA's "hardware connectivity."



For “software connectivity,” the Guangdong Free Trade Zone-Nansha New Area, Qianhai Shekou Area, and Zhuhai Hengqin New Area are set to take the lead in realizing free trade zones and the mutual recognition of professional qualifications. Additionally, the Bay Area Social Security initiative and integration of public service systems will gradually come to fruition, accompanied by the implementation of cross-border financial facilitation measures.

The impact of the pandemic over the past three years has certainly created headwinds to this integration movement. But with greater certainty ahead, mainland China is now seeing a renewed influx of northbound consumption by Hong Kong and Macao residents, marking a new chapter in cross-border exchanges.

This new trend has transformed the previous “unilateral-led” consumption pattern, in which mainland tourists were the key driving force, to a mutual consumption phase, where Hong Kong and Macao residents have begun to explore the mainland for cross-border consumption. Starting from border control points and neighboring areas, these inbound consumers are now further penetrating into GBA cities with the support of an enhanced transportation network, in turn bringing new impetus to strengthen GBA integration.

We expect that the strengthening of interconnectivity and closer interaction brought about by cross-border consumption will complement previous policy-driven and business-driven cooperation. With continued expansion and deepening of interaction and mutual trust at the local level, these developments could well shape the GBA to evolve as a cohesive retail mega-cluster.



## CONCLUSION

The full reopening of China's borders in early 2023 ended the country's near three-year isolation and brought relief to an economy struggling under the weight of the zero-COVID policy.

Open movement within and into China has been vital in enabling regular business and social activities to resume, and crucially, to kickstart a recovery in consumption, held by the government to be the engine of economic growth and long-term national development.

Indeed, 2023 has been designated as the *Year of Consumption Revitalization*, with central government support for the recovery and expansion of consumption. In turn, national domestic consumption has strengthened, total consumer retail sales rising by 8.2% y-o-y in the first half of 2023.

Pre-COVID, cross-border consumption was an important component of overall consumer demand in China, and it is now viewed as a key driver of continued sales growth, with the southern Guangdong-Hong Kong-Macao intersection emerging as a highlight in the retail market.

However, in the new era, consumer activities and preferences, and associated retail trends, in the Guangdong-Hong Kong-Macao area have evolved in some significant ways. Analysis of these trends yields valuable insights into the current state of cross-border consumption in China, and gives pointers towards how the country may strive to continue to promote consumption and boost long-term demand.

**Hong Kong residents are embracing mainland travel.** Hong Kong residents are completing an average of 900,000 visitor trips into Shenzhen per week, with public holidays and festival periods bringing peaks of cross-border travel. Hongkongers are also staying longer, with weekend trips becoming increasingly normal.





**Travel convenience, value for money and new experiences are key draws for Hong Kong consumers.** Shenzhen's multiple crossing points, high-speed rail link and integrated MTR network make it the prime choice for Hongkongers seeking a fast and convenient cross-border trip. Hong Kong income levels, coupled with the strength of the HK\$ against the RMB, also means their money goes further in the mainland, while the scale of Shenzhen's retail landscape offers high-quality, spacious, diverse and innovative consumer experiences.

**Mainland visitor numbers into Hong Kong are still recovering, with experience-focused consumption an emerging trend.** The inflow of mainland visitors into Hong Kong is still in a recovery stage, and lags pre-COVID numbers. Inbound visitor consumption trends have also changed, with "shop till you drop" intentions giving way to a desire for local culture and experience-based touring. Hong Kong is responding by introducing large-scale entertainment, events and exhibitions schedules and progressing cultural retail and urban renewal projects.

**Enhancing the cross-border retail experience to further boost spending.** The governments and businesses of Guangdong, Hong Kong and Macao are redoubling efforts to promote cross-border consumption growth in the post-pandemic era. Multi-faceted efforts encompass shopping mall operators, transportation infrastructure, government initiatives and financial services.

**Creating win-win scenarios for cross-border consumption via GBA integration.** Acceleration of integration within the GBA has strengthened connectivity within the region, prompting growth of cross-border exchanges. This trend has transformed the previous "unilateral-led" consumption pattern, with mainland tourists the key drivers, into a mutual consumption phase, where Hong Kong residents are exploring the mainland for cross-border consumption.



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