CUSHMAN & WAKEFIELD
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THE FORECAST REPORT 2024

DECEMBER 2023

GREATER CHINA COMMERCIAL REAL ESTATE – WHAT TO WATCH IN 2024

Greater China Research

CONTENTS

EXECUTIVE SUMMARY

- ***Macro economy*** – *In 2024, the Chinese mainland economy will gradually recover. Challenges, however, will still be posed by the sluggish global economy;*
- ***Hot themes and alternatives*** – *Sustainability will continue to be at the forefront of real estate decision making in Greater China. A couple of interesting alternative assets investors and developers might want to consider in 2024 are boutique neighbourhood hotels and battery storage parks;*
- ***Office*** – *In the next two years, there will be a peak in supply in most of the major cities in the Chinese mainland region, and this will inevitably lead to an increase in office project absorption pressure and a steady downward adjustment in rents. Landlords will need to strengthen their market competitiveness to attract tenants;*
- ***Retail*** – *The consumption structure of Chinese mainland residents has gradually shifted from spending on necessity-focused goods and services to spending on leisure-focused goods and services over recent years. Retail sales volume related to concertgoing, performance entertainment, tourism, sports and F&B saw double digit growth over the past year;*
- ***Industrial logistics*** – *Top warehouse operating logistics enterprises in Greater China have begun to further explore the application of digital technology and integrated platforms, which will improve distribution efficiency;*
- ***Real estate investment*** – *A growing number of domestic investors have increased their allocation into commercial real estate assets, especially in Chinese mainland Tier 1 cities, as they seek stable long-term returns. We expect this trend to continue in 2024 given the relatively low interest rate environment for domestic capital and the recent expansion of C-REITs.*

INTRODUCTION

The commercial real estate market in Greater China has been influenced by a number of factors over the last couple of years, not least by the macro economy, relevant policies, domestic demand and technology progress. Our report generally examines the real estate industry in Greater China and looks to provide an understanding of the aspects that will influence new business opportunity generation in the region in 2024. In particular, the report focuses on the following aspects:

- *Macro economy;*
- *Hot themes and alternatives;*
- *The office sector;*
- *The retail sector;*
- *The industrial logistics sector;*
- *Real estate investment, and;*
- *The city markets, including:*
  Beijing / Shanghai / Shenzhen / Guangzhou / Chengdu / Wuhan / Hong Kong / Taipei

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FORECAST

01

THE MACRO ECONOMY

GDP Growth

In 2023, economic growth in the Chinese mainland achieved its target, but given some anticipated sluggishness in the global economy in 2024, we expect this to pose some challenges to the region's economic growth next year. In 2024, the Chinese mainland economy will gradually recover and reach a GDP growth rate of 4.9%.

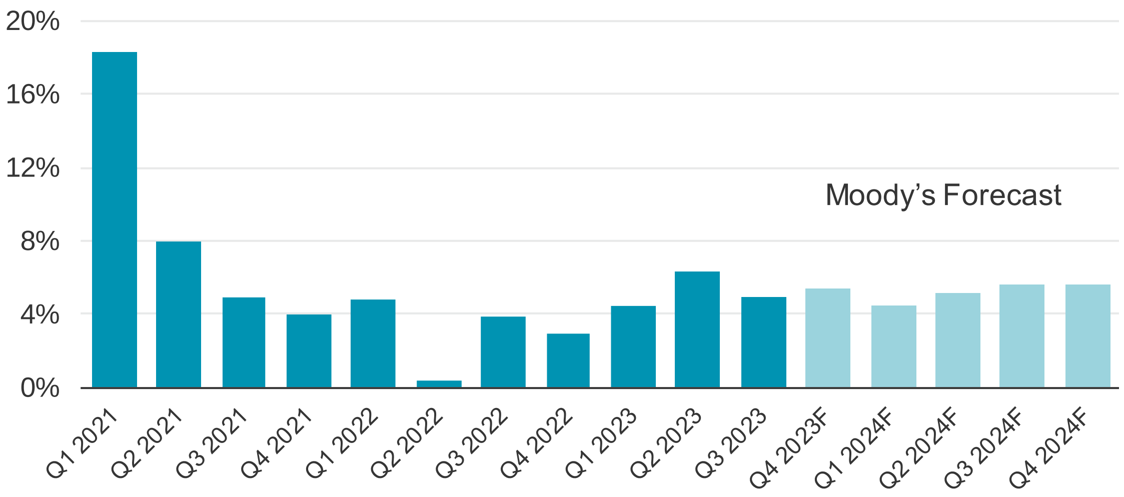
The Property Market

Defaults by real estate companies have put a drag on economic growth in the Chinese mainland region. In 2024, the government will increase financial support to real estate enterprises, and preferential policies on the demand side will continue. The market in the Chinese mainland region is expected to bottom out by 2024 and achieve a price rebound by the end of the year.

Retail Consumption

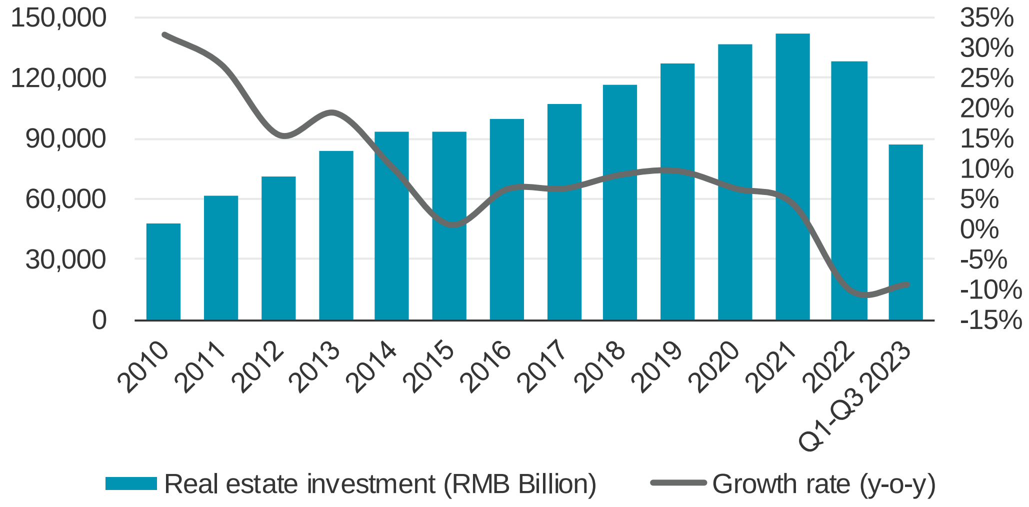
The contribution of consumption to economic growth in the first three quarters of 2023 in the Chinese mainland region reached 83.2%. To achieve the 2024 economic growth target, the government will continue to introduce measures to boost household consumption and further tap into domestic demand.

Figure 1: Chinese mainland GDP growth (Q1 2021-Q4 2024F)



Source: National Statistics Bureau, Moody's Analytics, Cushman & Wakefield Research

Figure 2: Chinese mainland real estate investment (2010-Q3 2023)



Source: National Statistics Bureau, Cushman & Wakefield Research

02

HOT THEMES AND ALTERNATIVES

Sustainability Importance to Endure

With ESG continuing to be an important initiative undertaken by an ever-increasing number of parties in the real estate sector in Greater China, so the importance of sustainability will continue into 2024 and beyond. Alongside this trend, sustainable buildings will be more appealing to environmentally conscious consumers and tenants, who are willing to pay a premium for sustainable properties.

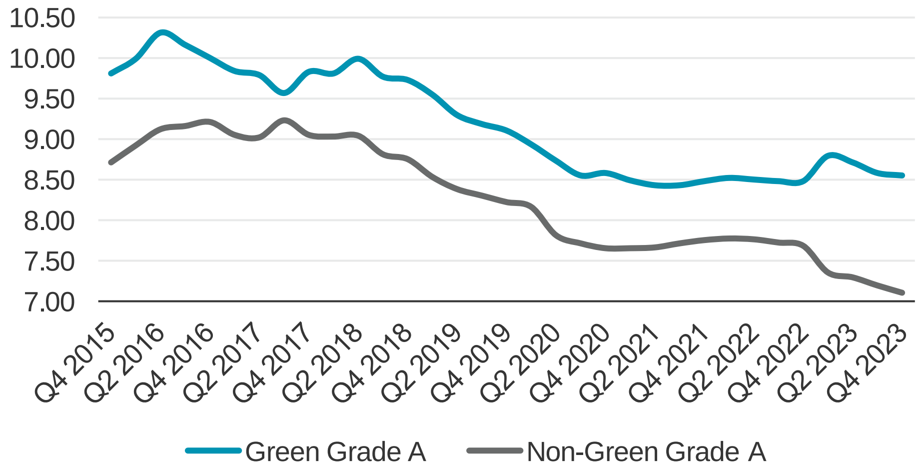
Boutique Neighbourhood Hotels – Stay Experience to be Key

Boutique neighbourhood hotels are a fairly new concept in Greater China but given a greater emphasis on the overall stay experience by a cross-section of hotel guests in the region, this type of hotel is expected to be increasingly favoured for both leisure and business stay accommodation.

Battery Energy Storage System (BESS) Parks to Capture Attention

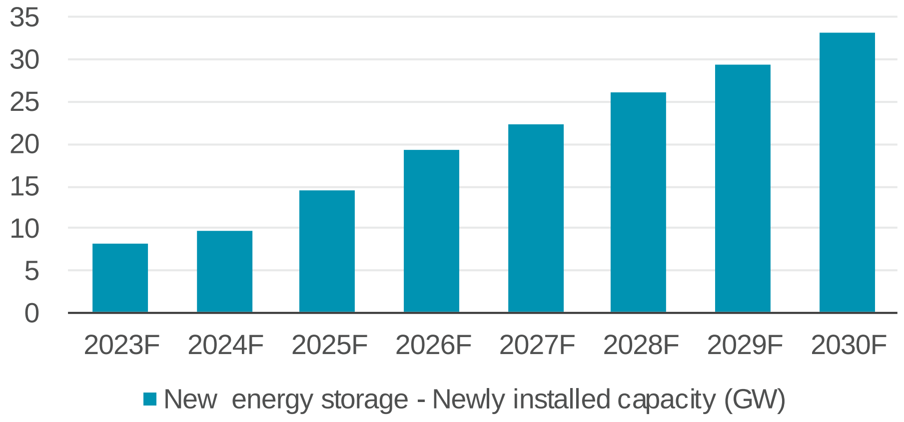
The BESS market in Greater China is very new but it is now capturing attention and it is set for growth. In 2024, we do expect investors to begin to look deeper into this emerging market.

Figure 3: Shanghai Grade A Office Rental – Green Grade A vs. Non Green Grade A (RMB/sq m/month)(Q4 2015-Q4 2023)



Source: Cushman & Wakefield Research

Figure 4: China's Newly Installed Capacity of New Energy Storage (2023F-2030F)



Source: IEA, EESA, Cushman & Wakefield Research

03

THE OFFICE SECTOR

Hybrid Office

Post-pandemic, the hybrid office working system has taken root in many enterprises around the globe. In the Chinese mainland region, the concept still needs to be further considered in depth from the perspectives of policy support, space re-configuration, and resource incorporation.

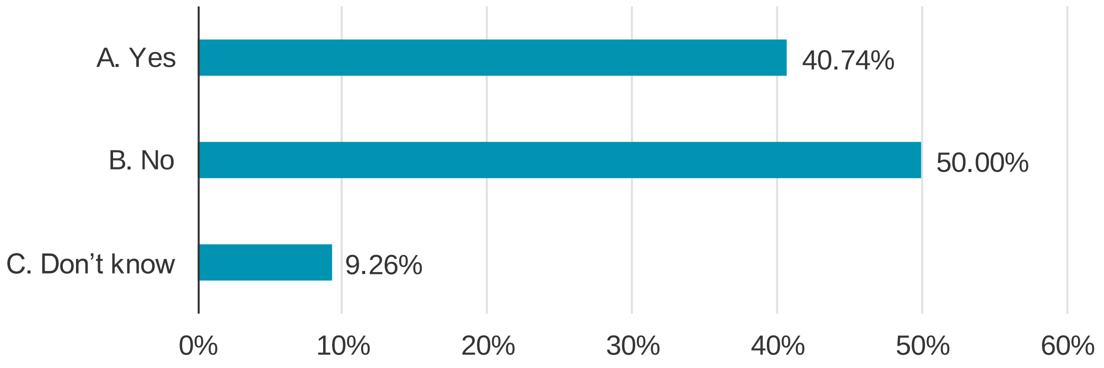
Future Supply

In the next two years, there will be a peak in supply in most of the major cities in the Chinese mainland region. This supply volume will inevitably lead to an increase in office project absorption pressure and a steady downward adjustment in rents. Landlords will need to strengthen their market competitiveness to attract tenants.

Main Tenants

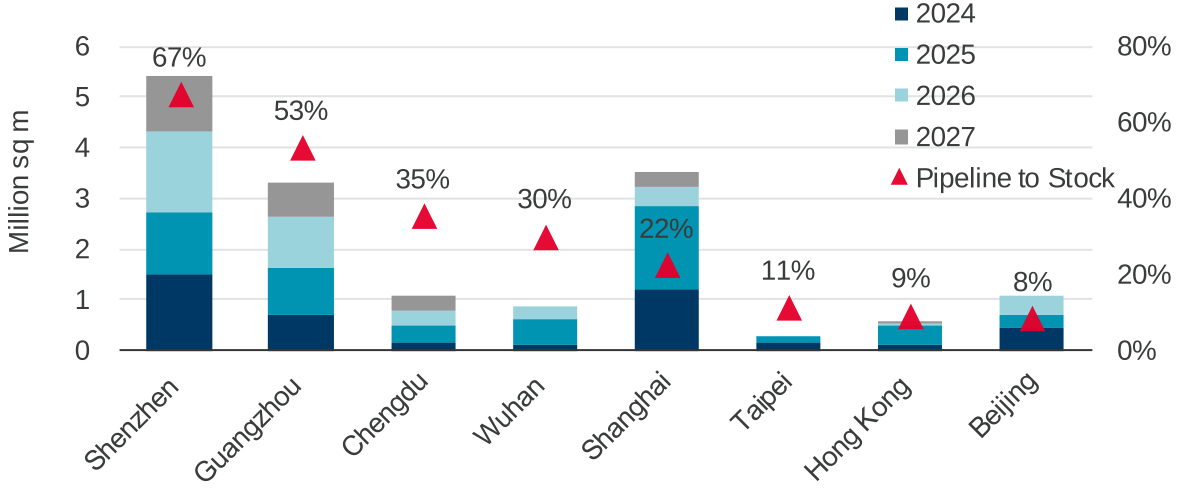
Finance, professional services and TMT will remain the main industry sector demand drivers for leased office space in the first-tier cities in the Chinese mainland region. Tenants in nationally supported industries such as life sciences and high-end equipment manufacturing are expected to be more active as well.

Figure 5: The Chinese mainland – Has your organisation adopted or is thinking of adopting a hybrid office working system? (Please choose one option) (2023)



Source: Cushman & Wakefield Research

Figure 6: Greater China – Office supply pipeline and supply percentage of current stock in selected cities (2024-2027)



Note: Wuhan data as of Q3 2023.
Source: Cushman & Wakefield Research

04

THE RETAIL SECTOR

Residents' Consumption Structure Upgrading

The consumption structure of residents has gradually shifted from spending on necessity-focused goods and services to spending on leisure-focused goods and services over recent years. Retail sales volume related to concertgoing, performance entertainment, tourism, sports and F&B saw double digit growth over the past year.

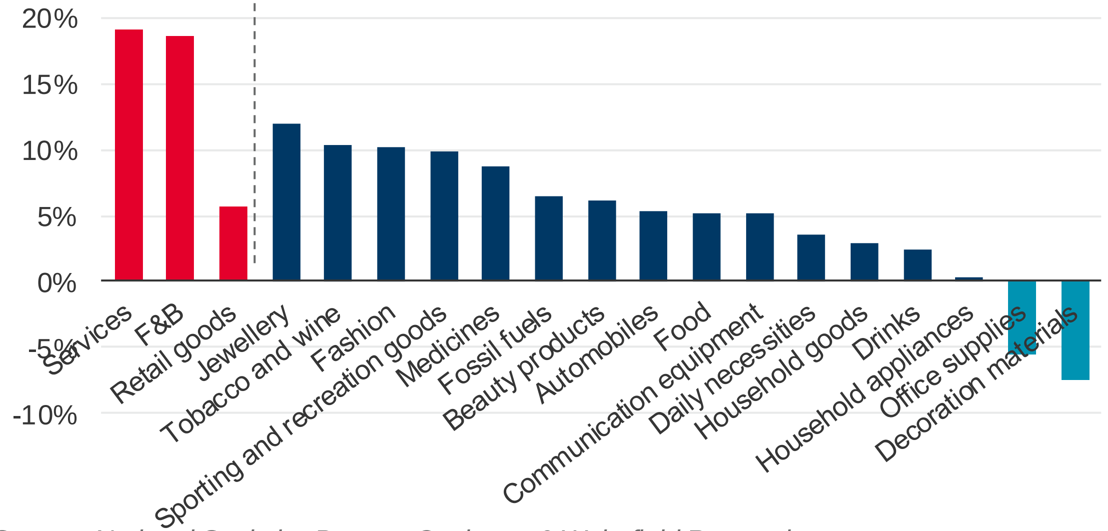
"Reverse Consumption"

With the Internet and the transparency of information, consumers in the Chinese mainland region are experiencing a change in the way they consume retail goods as they further adopt the idea of "reverse consumption". "Reverse consumption" is when consumers are no longer willing to simply buy premium brands but are now closely examining product quality and cost performance.

Shopping Centre Fairs

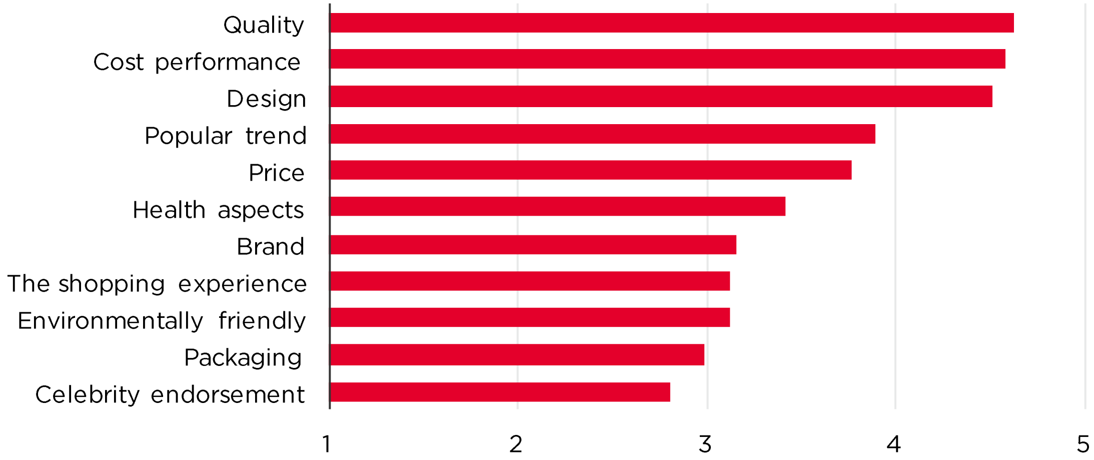
Shopping centres in the Chinese mainland are now using the mall atrium or idle public space to carry out shopping fair activities, which can attract greater footfall traffic, enrich the variety of retail goods for sale, enable consumers to enjoy a more diversified shopping experience, and help the shopping centre to rapidly improve its popularity and rental income.

Figure 7: The growth rate of retail sales by category in the Chinese mainland region (Jan-Oct 2023)



Source: National Statistics Bureau, Cushman & Wakefield Research

Figure 8: The major factors for consumers to buy products (2023)



Note: 1 is very unimportant; 2 is unimportant; 3 is medium of importance; 4 is important; 5 is very important.
Source: Cushman & Wakefield Research

05

THE INDUSTRIAL LOGISTICS SECTOR

Manufacturing Leasing Demand Continues to Grow

The Chinese mainland has maintained its position as the world's number one manufacturing region for 13 consecutive years. By 2022, manufacturing industry added value in the region accounted for nearly 30% of the world's total, reaching RMB40.16 trillion. The rapid development of the manufacturing industry has released increasing logistics demand, promoting the continuous development of the industrial logistics sector in the Chinese mainland region.

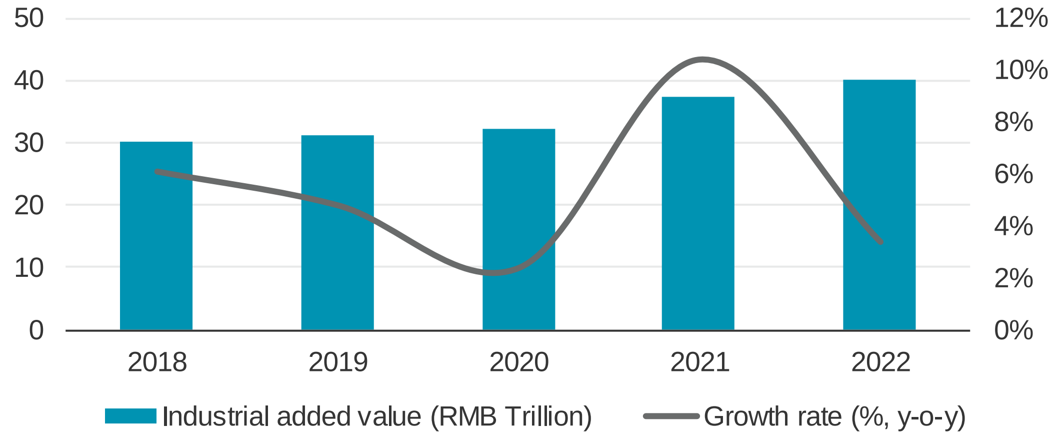
Semi-Prepared Meals are a Boon for Cold Storage

With a change in consumers' consumption preferences and, subsequently, the demand structure, the development of the semi-prepared food market will further promote expansion in the cold chain logistics and storage market in the Chinese mainland region. The development of comprehensive cold chain parks, integrating production, storage, display, and sales functions, will become an emerging market trend.

Intelligence to Further Logistics Efficiency

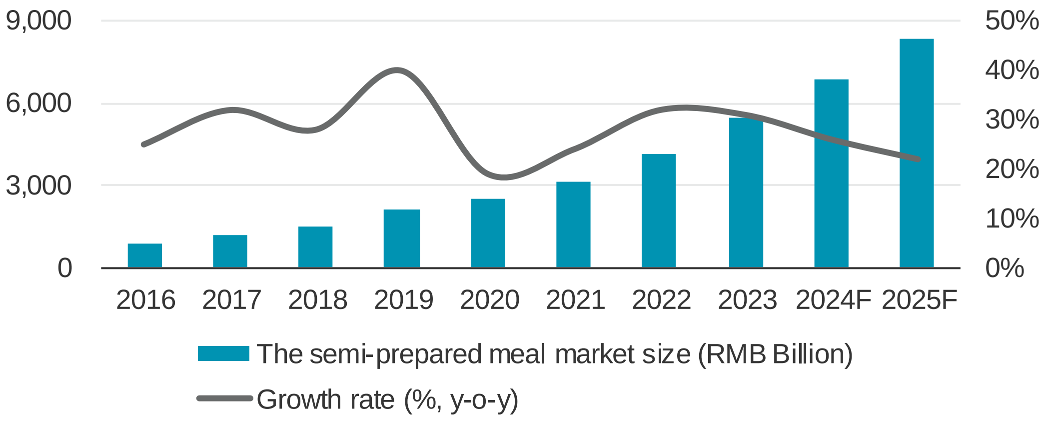
In the industrial logistics sector, digitalisation and tech intelligence have been industry hotspots for a long time. Top warehousing logistics enterprises in the Chinese mainland region will continue to explore the application of digital technology and integrated platforms to improve distribution efficiency through the use of artificial intelligence, machine learning, and big data analysis.

Figure 9: The Chinese mainland – Industrial added value and growth rate (2018-2022)



Source: National Bureau of Statistics, China, Cushman & Wakefield Research

Figure 10: The Chinese mainland – The semi-prepared meal industry market size and growth rate (2016-2025F)



Source: NCBD, Cushman & Wakefield Research

06

REAL ESTATE INVESTMENT

Investment Activity Expected to Rebound

Total CRE transaction volume in Greater China declined 14% y-o-y over the first three quarters of 2023, as a result of lower inbound investment and longer deal negotiation time. We expect investment activity to pick up in the next 12 months given the region's strong market fundamentals and increased CRE allocations by domestic investors.

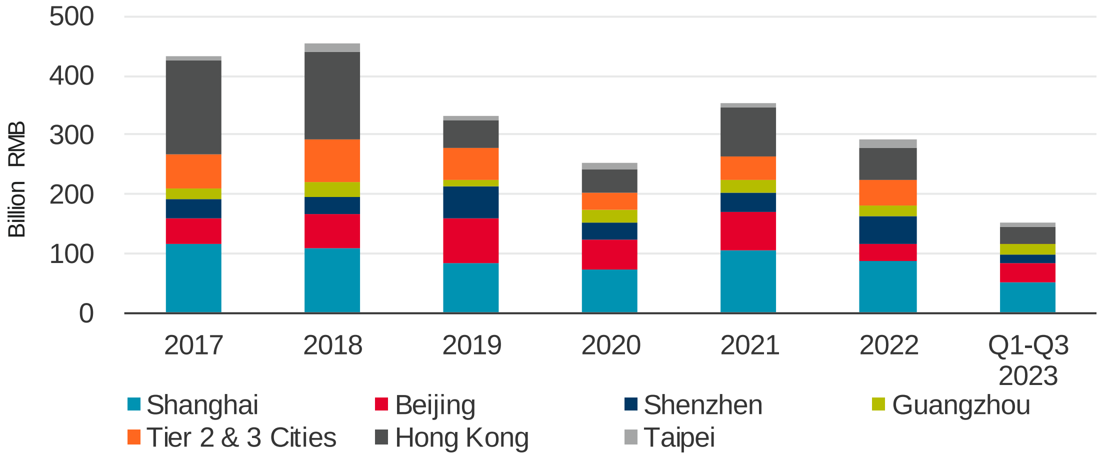
Domestic Investors Dominate

Domestic capital dominated the Chinese mainland CRE investment market, accounting for 87% of the total transaction volume over the first three quarters of 2023. The largest domestic buyers in the market include insurance companies, onshore PEREs, banks and trusts' investment arms, government platforms and SOEs, and end-user buyers.

Tier 1 Cities Remain Attractive

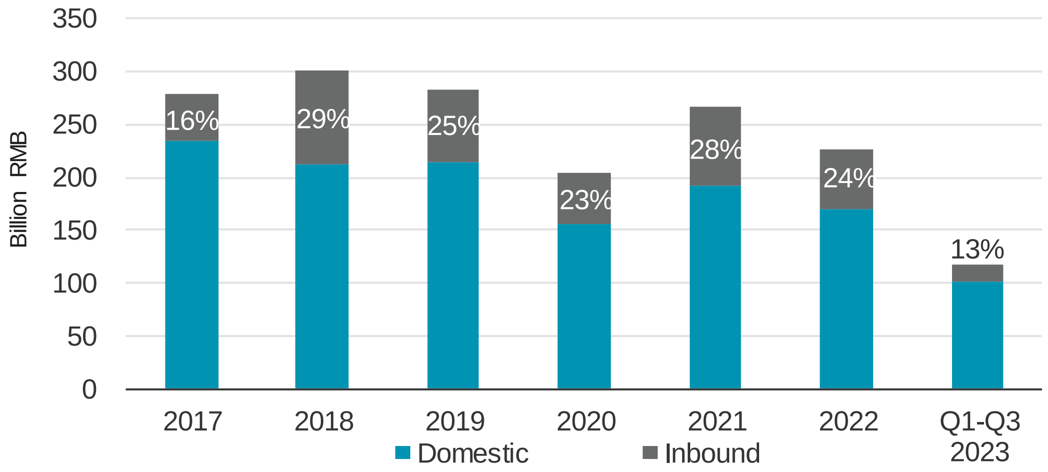
A growing number of domestic investors have increased their allocation in commercial real estate assets, especially in Chinese mainland Tier 1 cities, seeking stable long-term returns. We expect this trend to continue in 2024 given the relatively low interest rate environment for domestic capital and the recent expansion of C-REITs to include retail properties, in addition to industrial, logistics and R&D assets.

Figure 11: Greater China investment by city (2017-Q3 2023)



Source: Cushman & Wakefield Research

Figure 12: The Chinese mainland – Investment by investor origin (2017-Q3 2023)



Source: Cushman & Wakefield Research

BEIJING

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Table 1: Office, retail, industrial markets in Beijing (Q4 2023)

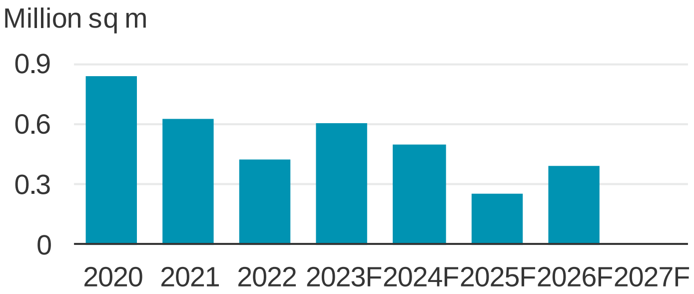
	Office	Retail	Industrial Logistics
Stock (sq m)	13,638,810	14,797,005	2,944,706
Vacancy rate	18.7%	10.3%	17.4%
Rental (RMB/sq m/month)	297.9	2,250.0	60.3
Cap rate	5.0%	5.6%	4.9%

Source: Cushman & Wakefield Research

Office

- **Supply** – Projects that were delayed by the influence of the epidemic will gradually launch in 2023 and 2024. About 500,000 sq m of new supply is expected to enter the Beijing office market in 2024 with most stemming from the Tongzhou and OGV submarkets. Due to the slowdown in land sales and development investment, the office supply will gradually decrease in 2025 and 2026.
- **Demand** – Affected by the economic downturn, market demand will continue to be weak in 2024. The market will remain tenant favourable for the next few years, and domestic tenants will continue to be the main source for the leasing market. In addition to the top three sectors of high-tech, finance and professional services, high-end manufacturing, green energy, the digital economy, and fintech will also be important supplements to the demand.

Figure 13: Office new supply (2020-2027F)

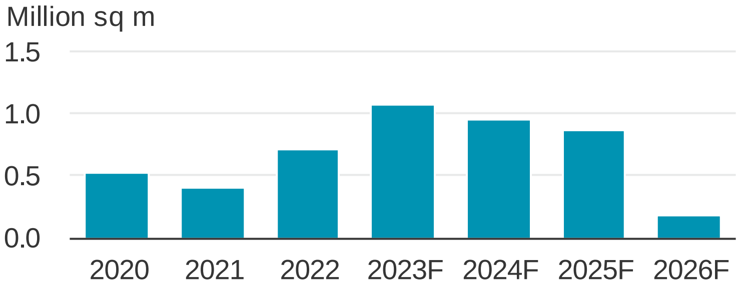


Source: Cushman & Wakefield Research

Retail

- **Supply** – With the gradual recovery of the consumer market, the Beijing retail market welcomed a surge in new supply with the annual new supply reaching 1.07 million sq m in 2023. It is expected that nearly 1 million sq m of quality retail space is scheduled to hit the market in 2024. Community retail projects in suburban areas are still the main supply source, while supply in core submarkets are mainly urban renewal projects, which will help to promote the quality of the overall market.
- **Demand** – In 2023, new store openings were less active, but did see a rise in high-end boutique openings and brand first store launches. Main submarkets and shopping centres are constantly optimizing and adjusting by furthering the introduction of brand first stores and flagship stores. We expect this trend will continue in 2024, and new completions will aim to create more experiential consumption spaces, bringing more diversified consumption experiences to consumers.

Figure 14: Retail new supply (2020-2026F)

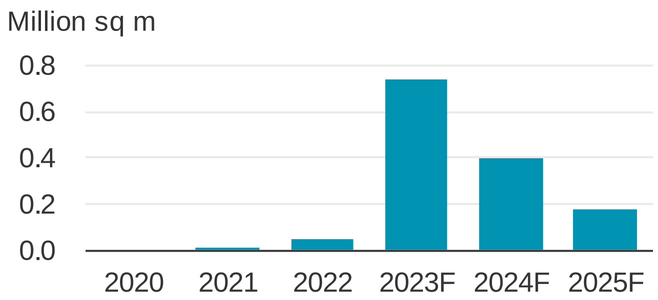


Source: Cushman & Wakefield Research

Industrial Logistics

- **Supply** – In 2023, new supply in the Beijing logistics market increased significantly over the past few years. As of Q3, about 560,000 sq m of new supply entered the market. It is expected that nearly 1 million sq m of future supply will enter the market in the next two years, mainly concentrated in Pinggu, Daxing and Shunyi districts. This will improve the short supply situation in the Beijing logistics market.
- **Demand** – Although new supply has pulled up the vacancy rate, the overall market demand is still relatively strong. Third party logistics, e-commerce and cold chain are still the main demand drivers. With the increase in new supply, the market average rent will face some downward pressure. Tenants will consider more about the balance between cost and usability, and operational capability and customer stickiness will become increasingly important for operators.

Figure 15: Logistics new supply (2020-2025F)

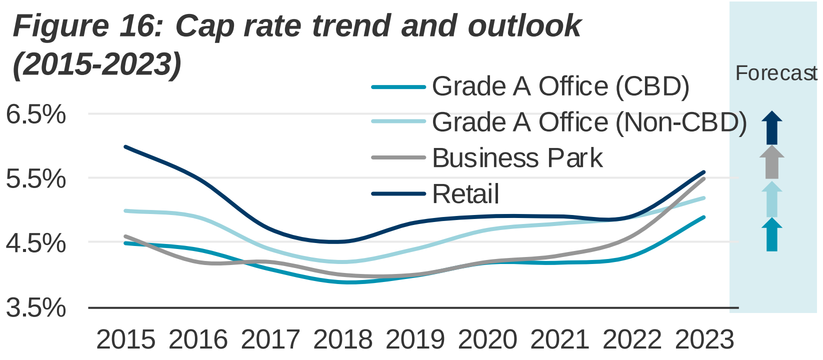


Source: Cushman & Wakefield Research

Investment

- **Market Gradually Recovers** – In the first three quarters of 2023, a total of 39 transactions were completed with total transaction volume at RMB32.3 billion, up 31.5% y-o-y. Supply of projects for sale in 2023 has expanded significantly compared with previous years. Ahead, as the market recovers, office buildings will still take up the bulk of transactions.
- **Investors Seeking More Opportunities** – With consumer infrastructure public REIT development in the domestic market gradually maturing, retail and apartment projects are attracting greater investor attention. In the future, enterprises will strengthen capital reserves by selling non-core assets to reduce debt ratios. As a result, Beijing will have more high-quality assets on the sales block, with buyers seeking bottom-fishing opportunities.

Figure 16: Cap rate trend and outlook (2015-2023)



Source: Cushman & Wakefield Research

Table 2: Beijing outlook

		Office	Retail	Industrial Logistics
Outlook (2023-2024 Change)	Supply	→	↑	↑
	Absorption	↑	→	↑
	Vacancy	↑	↑	↑
	Rental	↓	↓	↓
The Market (2024)	Tenant / Landlord	Tenant	Tenant	Landlord

Source: Cushman & Wakefield Research

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Table 3: Office, retail, industrial markets in Shanghai (Q4 2023)

	Office	Retail	Industrial Logistics*
Stock (sq m)	16,423,198	22,974,925	10,476,000
Vacancy rate	21.8%	9.6%	15.1%
Rental (RMB/sq m/month)	239.5	1,873.3	49.3
Cap rate	Core4.5% Sub.4.8%	Core4.5% Sub.4.8%	4.8%

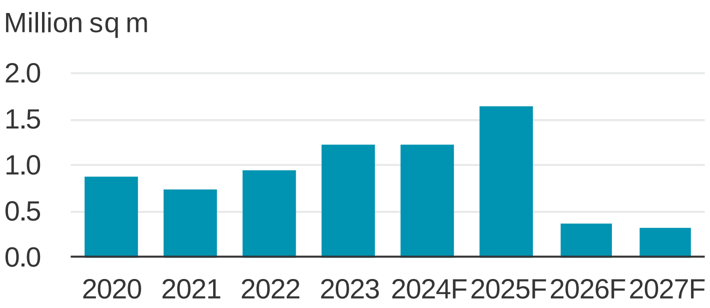
** Industrial logistics updated to Q3 2023*

Source: Cushman & Wakefield Research

Office

- **Supply** – More than 1.22 million sq m of new space will enter the market in 2024. Amongst this volume, a large amount of new supply will be in suburban areas. In terms of submarkets, Fringe Xuhui will see the largest number of completions, with several landmark projects entering the market.
- **Demand** – New supply will provide tenants with more choices, while driving tenants' willingness to relocate. Against the large amount of supply, the office market will remain tenant favorable in 2024. Financial, professional services and TMT tenants will consistently dominate leasing demand.

Figure 17: Office new supply (2020-2027F)

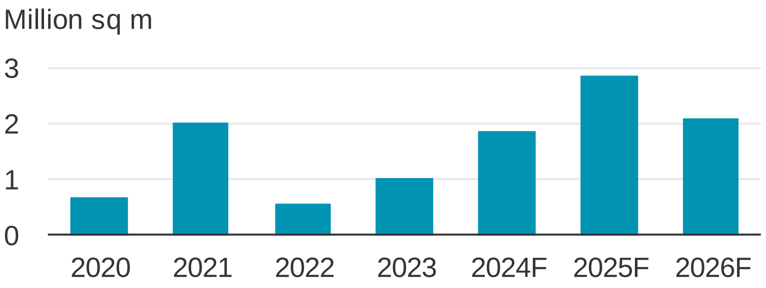


Source: Cushman & Wakefield Research

Retail

- **Supply** – The large amount of new supply will drive further competition among shopping centres to compete for consumers and desirable tenants. Combined with the challenges from e-commerce, several landlords will be forced to upgrade their shopping centres in order to keep their market competitiveness.
- **Demand** – The downturn in the global economy will eventually have an impact on Shanghai's retail market, though that would be mitigated somewhat by the measures from China's central and local governments to stimulate domestic consumption demand. Therefore, retailers will remain cautious towards expansion in 2024.

Figure 18: Retail new supply (2020-2026F)

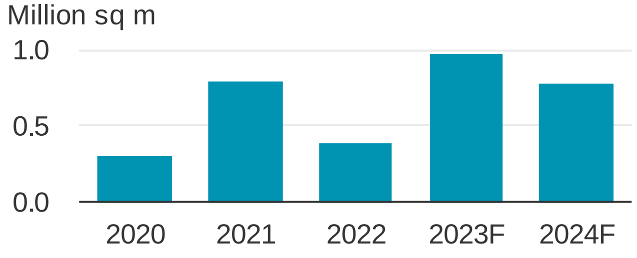


Source: Cushman & Wakefield Research

Industrial Logistics

- **Supply** – Shanghai is expected to see approximately 0.8 million sq m of prime logistics property complete in the market in 2024, which might place some leasing pressure. By district, new supply will be mainly launched in Jinshan, followed by Pudong and Fengxian.
- **Demand** – The steady growth of the consumer market and the manufacturing sector will bring sufficient development potential to the Shanghai premium warehouse market. The e-commerce, third-party logisitcs, express delivery and manufacturing sectors will be the key drivers. In addition, with the development of the semi-prepared meals market, this sector will drive up demand for cold chain warehousing.

Figure 19: Logistics new supply (2020-2024F)

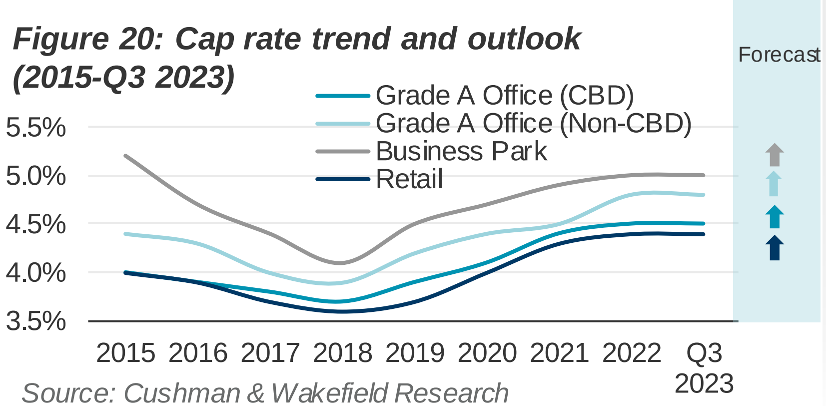


Source: Cushman & Wakefield Research

Investment

- **State-Owned Enterprise Buyers Active** – During the first three quarters of 2023, the proportion of domestic buyers rose to a historical highpoint, becoming the key force within the Shanghai capital market. Ahead, state-owned enterprises are expected to remain active in 2024, with office buildings, business park offices, residential apartments, and industrial properties expected to be favoured.
- **Bargain Hunting Expected** – The office market will continue to undergo an adjustment phase into the rest of this year. With an upward trend in the capitalisation rate, pricing is expected to further decrease, thereby creating further opportunities for bargain hunting. In addition, with the anticipated changes in housing policy, the residential sector in Shanghai is likely to regain market attention.

Figure 20: Cap rate trend and outlook (2015-Q3 2023)



Source: Cushman & Wakefield Research

Table 4: Shanghai outlook

		Office	Retail	Industrial Logistics
Outlook (2023-2024 Change)	Supply	↑	↑	↑
	Absorption	↑	↑	↑
	Vacancy	↑	↑	↑
	Rental	↓	↓	→
The Market (2024)	Tenant / Landlord			

Source: Cushman & Wakefield Research

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Table 5: Office, retail, industrial markets in Shenzhen (Q4 2023)

	Office	Retail	Industrial Logistics*
Stock (sq m)	8,089,175	6,599,412	1,702,485
Vacancy rate	26.06%	8.95%	1.33%
Rental (RMB/sq m/month)	186.45	802.95	51.16
Cap rate	4.8%	4.8%	5.0%

** Industrial logistics updated to Q3 2023*
Source: Cushman & Wakefield Research

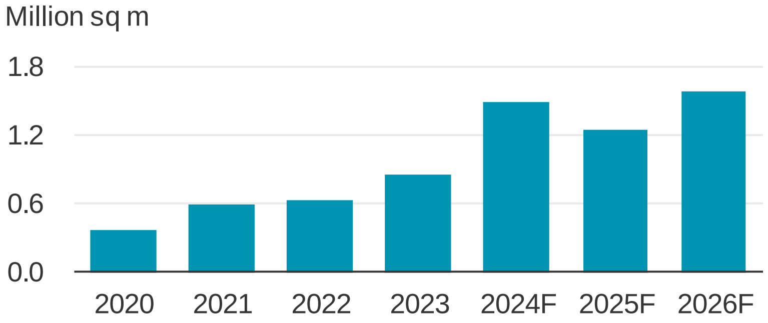
Office

- **Supply** – Office supply in Shenzhen's Grade A market reached a record high in 2023, and the supply peak is expected to continue in 2024-2026, with annual completions averaging more than 1 million sq m, exerting strong pressure on the market.
- **Demand** – As the economy continues to recover in 2024, the relatively sluggish new demand for Grade A offices is expected to improve. The finance, TMT and professional services sectors will remain the major pillars of demand, and emerging subsectors such as AI, fintech and autonomous vehicles may see better performance.

Retail

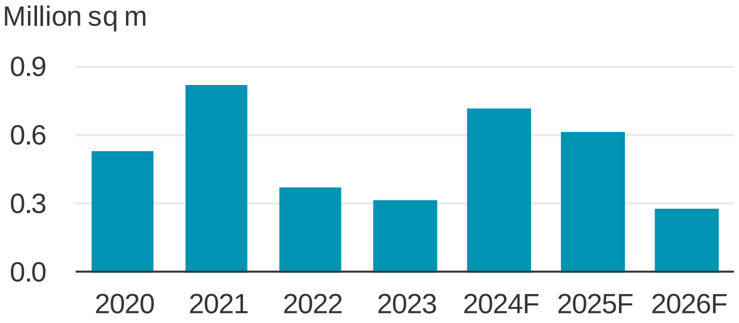
- **Supply** – About 0.7 million sq m of new supply is scheduled to launched in 2024, most of which will be urban renewal projects and mega projects of over 100,000 sq m. Both the traditional core area including Luohu, Futian and Nanshan, and emerging submarkets like Shajing and Bantian will welcome new prime shopping centres in 2024, further strengthening the multi-core pattern in the city.
- **Demand** – The steady recovery of the local consumer market and the sustained boom in cross-border consumption by Hong Kong citizens will continue to drive demand in 2024. The F&B sector, with strong social attributes, will remain active. Additionally, the experiential retail sector is expected to expand.

Figure 21: Office new supply (2020-2026F)



Source: Cushman & Wakefield Research

Figure 22: Retail new supply (2020-2026F)

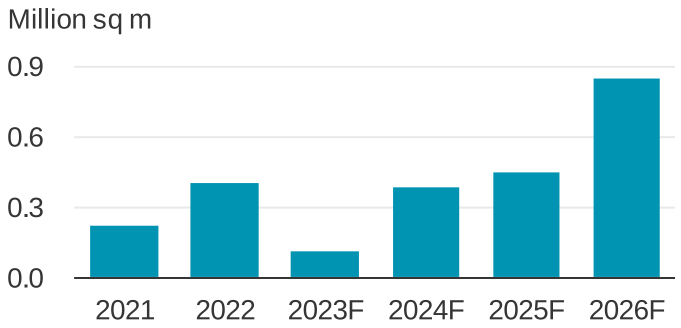


Source: Cushman & Wakefield Research

Industrial Logistics

- **Supply** – Two prime projects with a total area of 390,000 sq m will complete in 2024, which will alleviate the supply shortage in Shenzhen's prime logistics market to some extent.
- **Demand** – The e-commerce and manufacturing sectors are the major tenants within the market. Although the demand for prime logistics properties in Shenzhen is strong, the prolonged shortage of available space has diverted potential demand to nearby cities in the Greater Bay Area. With the increasing future supply in 2024-2026, the high demand for prime logistics properties in Shenzhen will be better satisfied.

Figure 23: Logistics new supply (2021-2026F)

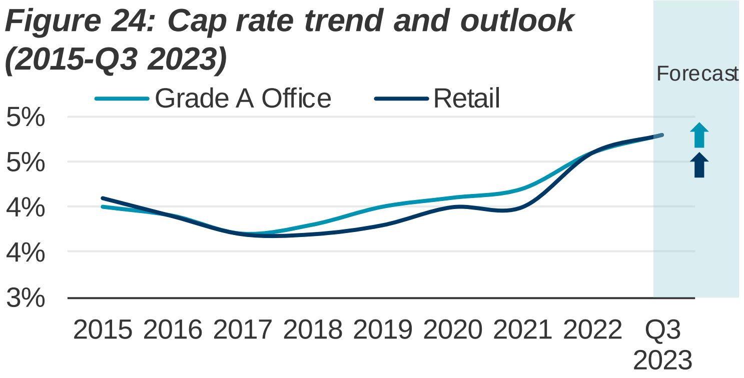


Source: Cushman & Wakefield Research

Investment

- **Surging Judicial Auctions** – Covering all traditional property types such as apartments, hotels, retail, offices, and factories, the number of judicial auction properties with starting bids above RMB100 million rose markedly in 2023 due to economic volatility. The number of transactions completed through the judicial auction channel is expected to increase in 2024.
- **REITs** – As the scope of China's REIT pilot programme has been formally expanded to include commercial real estate, institutional investors and real estate operators are expected to become more active in Shenzhen in investing in the potential underlying assets for REITs, such as rental housing, logistics, industrial parks, and shopping centres.

Figure 24: Cap rate trend and outlook (2015-Q3 2023)



Source: Cushman & Wakefield Research

Table 6: Shenzhen outlook

		Office	Retail	Industrial Logistics
Outlook (2023-2024 Change)	Supply	↑	↑	↑
	Absorption	→	↑	↑
	Vacancy	↑	↑	↑
	Rental	↓	→	→
The Market (2024)	Tenant / Landlord	Tenant	Tenant	Landlord

Source: Cushman & Wakefield Research

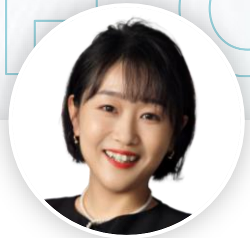


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Table 7: Office, retail, industrial markets in Guangzhou (Q4 2023)

	Office	Retail	Industrial Logistics*
Stock (sq m)	6,494,944	5,660,086	3,524,362
Vacancy rate	18.68%	7.23%	2.47%
Rental (RMB/sq m/month)	149.71	710.28	42.49
Cap rate	4.5%	4.4%	5.0%

** Industrial logistics updated to Q3 2023*
Source: Cushman & Wakefield Research

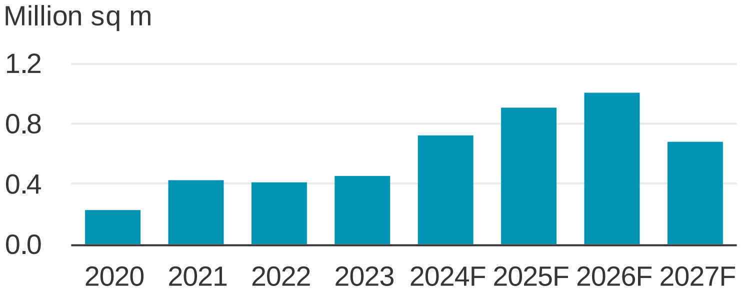
Office

- **Supply** – By the end of 2024, 0.7 million sq m of new supply is expected to enter the market. Much of this supply will be concentrated in Pazhou and Financial Town, two important emerging business districts. The peak in new supply will continue to put pressure on the market.
- **Demand** – Business strategies focused on cost reduction will continue to influence corporate office leasing decisions. The market will remain tenant favourable through 2024. Intense competition will create opportunities for companies with upgrading needs. A full recovery in leasing demand will still depend on macroeconomic and political support.

Retail

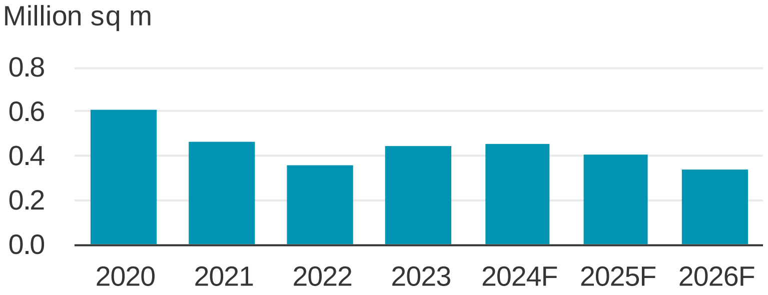
- **Supply** – Guangzhou is expected to add 0.5 million sq m of new supply by 2024, all of which will be located in the non-core area. The gradual expansion of commercial facilities in emerging areas will stimulate consumption upgrading and economic growth. In addition, the renovation and upgrading of some existing projects in the core area will also release more retail space, bringing more leasing choice to the market.
- **Demand** – The willingness of chain brands to expand has increased. F&B and retail are expected to remain the mainstay of market demand, including several Chinese F&B and fashion retail brands. Moreover, the service-oriented sector is expected to grow as consumers continue to increase their travel and socialisation needs.

Figure 25: Office new supply (2020-2027F)



Source: Cushman & Wakefield Research

Figure 26: Retail new supply (2020-2026F)



Source: Cushman & Wakefield Research

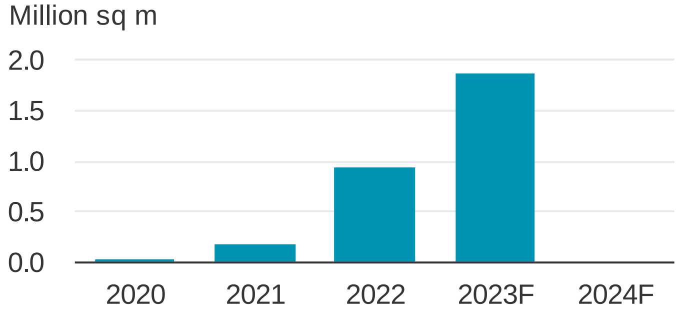
Industrial Logistics

- **Supply** – Some delayed delivery projects may come into use in 2024. By the end of 2024, more than 1.7 billion sq m of prime logistics space is expected to enter the Guangzhou market. In the short term, the increase in supply will put pressure on market vacancy and rents.
- **Demand** – E-commerce and third-party logistics will remain an important source of demand. From January to October 2023, the city's total import and export value and total retail sales of consumer goods grew by 3.2% and 6.4% y-o-y, respectively. The expected continued growth of export trade and recovery in consumer demand will be a boon for market absorption.

Investment

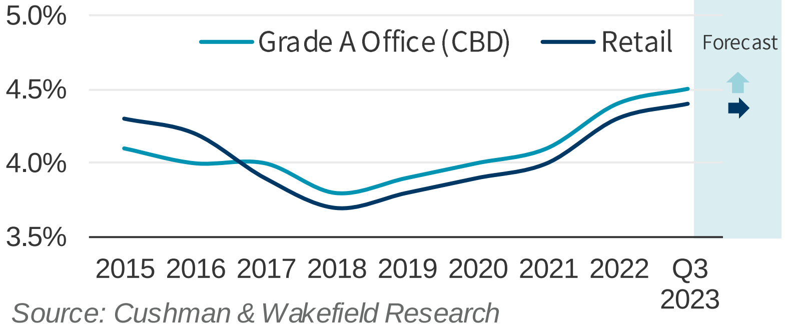
- **Increase in Assets for Sale** – The number of available assets for sale has continued to increase due to financial pressure on some owners. Prices for some assets have decreased, and asset types have diversified as sellers have become more willing to obtain quick cash flow for reasonable prices.
- **Domestic Buyers Dominate** – Domestic buyers will continue to dominate Guangzhou's capital market. In addition to traditional market hotspots such as office buildings and industrial parks, shopping centres may attract attention due to the policies related to REITs for consumer infrastructure. Asset allocation opportunities are also expected to emerge from companies with self-occupancy needs.

Figure 27: Logistics new supply (2020-2024F)



Source: Cushman & Wakefield Research

Figure 28: Cap rate trend and outlook (2015-Q3 2023)



Source: Cushman & Wakefield Research

Table 8: Guangzhou outlook

		Office	Retail	Industrial Logistics
Outlook (2023-2024 Change)	Supply	↑	↑	↑
	Absorption	↑	↑	↑
	Vacancy	↑	↑	↑
	Rental	↓	→	→
The Market (2024)	Tenant / Landlord	Tenant	Tenant	Tenant

Source: Cushman & Wakefield Research

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Table 9: Office, retail, industrial markets in Chengdu (Q4 2023)

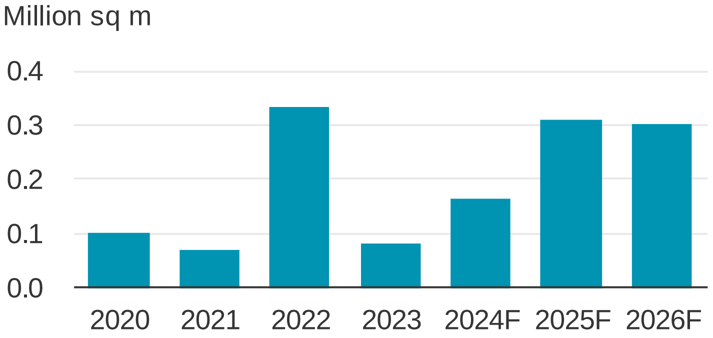
	Office	Retail	Industrial Logistics*
Stock (sq m)	3,116,076	7,987,923	5,790,805
Vacancy rate	22.4%	6.5%	5.3%
Rental (RMB/sq m/month)	103.42	617.73	27.33
Cap rate	5%-6%	4%-5%	5%-7%

** Industrial logistics updated to Q3 2023*
Source: Cushman & Wakefield Research

Office

- **Supply** – The Chengdu Grade A Office market recorded new supply of 80,000 sq m in 2023. Amid prevailing economic uncertainty, there is more than 700,000 sq m of office supply in the pipeline for the next three years. Therefore, the market is likely to face some downward pressure on rent into 2024.
- **Demand** – Demand will continue to be high in Financial City and Da Yuan next year. Meanwhile, due to the heavy industry clustering effect, the leasing market will be active in the south of Chengdu in the future.

Figure 29: Office new supply (2020-2026F)

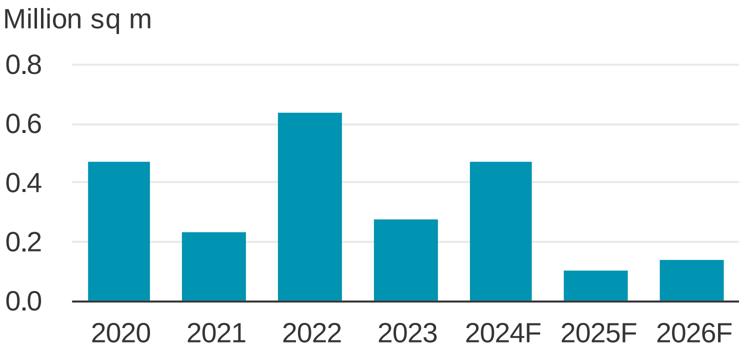


Source: Cushman & Wakefield Research

Retail

- **Supply** – Over 400,000 sq m of new prime retail supply is scheduled to be delivered in Chengdu next year. At that time, Chengdu's retail stock will push past the 8 million sq m mark. Once this supply is completed, all market projects will be under further pressure to capture customer sales and store leasing demand.
- **Demand** – Trendy brands which are either niche, original, and smart, or all of the mentioned, have not only captured the attention of young consumers but have also rapidly expanded in Chengdu. Examples include 1807, BM, BF, etc. Against this backdrop, traditional brands have become more cautious about expansion. On the other hand, in addition to traditional shopping centres, historic and cultural neighbourhoods that have been recently renovated have become important magnets for trendy brand store locations in the city.

Figure 30: Retail new supply (2020-2026F)

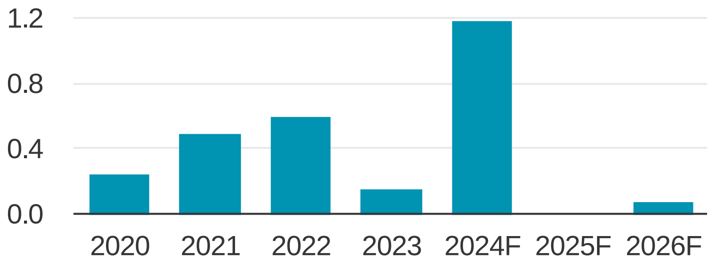


Source: Cushman & Wakefield Research

Industrial Logistics

- **Supply** – Newly added premium logistics warehouse space in Chengdu has been mainly distributed in Qingbaijiang District and Jianyang City (Eastern New Area), which is basically consistent with the location of the main railway and aviation hubs in Chengdu. According to predictions, Chengdu premium logistics warehouse space will be further expanded in Qingbaijiang District, with this district ranking first in terms of predicted future supply volume. In addition, new supply will also enter the market in the city's eastern new area, i.e., in Shuangliu, and in Wenjiang.
- **Demand** – The E commerce, third-party logisitcs and city express sectors were the key drivers of demand in 2023. Ahead, the increasing segmentation and scale of leasing demand expansion will pose challenges. These challenges, however, are expected to be mitigated by the further adoption of business efficiency-boosting tech.

Figure 31: Logistics new supply (2020-2026F)



Source: Cushman & Wakefield Research

Investment

- **Wait-and-See Sentiment Prevailing** – Owing to soft market conditions, financial pressure, asset restructuring, strategic adjustments and so on, some high-quality property assets have begun to be put on the sales block. However, macroeconomic uncertainty has led to a strong wait-and-see sentiment in the market.
- **New Investment Targets Favoured** – In the context of macroeconomic uncertainty, investors are beginning to favour new investment targets that are more stable and have long-term returns, such as warehousing, industrial parks, etc. Ahead, the full reactivation of investment activities will depend on the improvement in economic expectations.

Figure 32: Cap rate trend and outlook (2023-2025F)

	2023	2024F	2025F
Cap rate	4%-6%	→	↑

Source: Cushman & Wakefield Research

Table 10: Chengdu outlook

		Office	Retail	Industrial Logistics
Outlook (2023-2024 Change)	Supply	↑	↑	↑
	Absorption	↑	↑	→
	Vacancy	↑	→	↑
	Rental	↓	↑	↑
The Market (2024)	Tenant / Landlord	Tenant	Tenant	Tenant

Source: Cushman & Wakefield Research

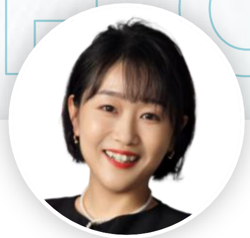


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Table 11: Office, retail, industrial markets in Wuhan (Q3 2023)

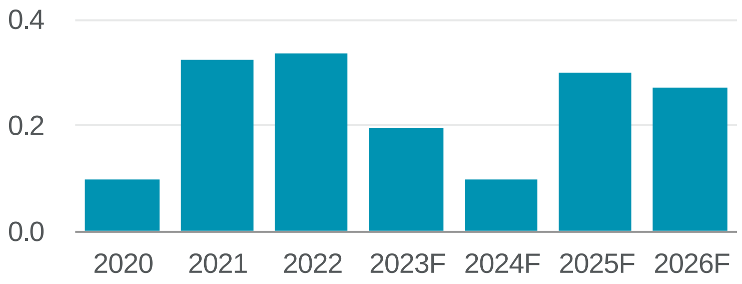
	Office	Retail	Industrial Logistics
Stock (sq m)	3,007,267	4,053,399	4,583,832
Vacancy rate	35.9%	13.8%	21.9%
Rental (RMB/sq m/month)	94.8	463.9	25.8
Cap rate	6.0%	5.2%	5.8%

Source: Cushman & Wakefield Research

Office

- **Supply** – Wuhan is expected to welcome around 0.2 million sq m of newly completed Grade A office property by the end of 2024. Over 80% of this property will be launched in Wuguang Business District.
- **Demand** – The number of companies that reduced office space increased in the second half of 2023. It is expected that 2024 demand will likely contract due to continued uncertainty in the general economic environment during the year. The competition in the Wuhan Grade A office market will remain intense, and the overall average rent is highly likely to continue to decline.

Figure 33: Office new supply (2020-2026F)

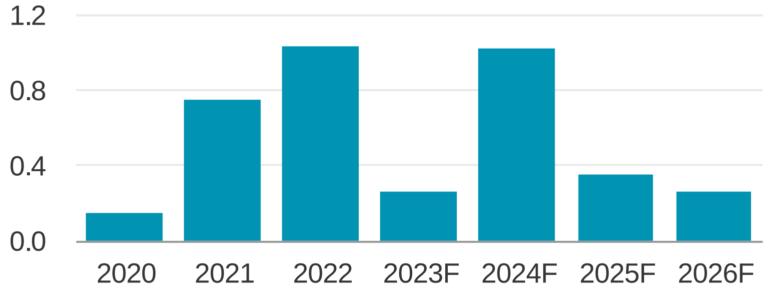


Source: Cushman & Wakefield Research

Retail

- **Supply** – Several projects scheduled to open in 2023 have been delayed, thus more than 1.0 million sq m of retail space is expected to delivered in 2024. The majority of these projects will be launched in emerging markets, with Xudong, Sixin, and Zhongnan ranking as the top three, representing 32.5%, 22.1%, and 19.0% of the total supply, respectively.
- **Demand** – The total retail sales of consumer goods in Wuhan increased 8.5% y-o-y in the Q1-Q3 period of 2023, indicating a stable recovery in the retail market. The F&B sector has shown a strong recovery with a growth rate of 13.0%. The overall vacancy rate within core business circles in Q3 2023 has decreased by 1.6 percentage points from end-2022. Wuhan's prime retail property market is expected to further recover in 2024.

Figure 34: Retail new supply (2020-2026F)

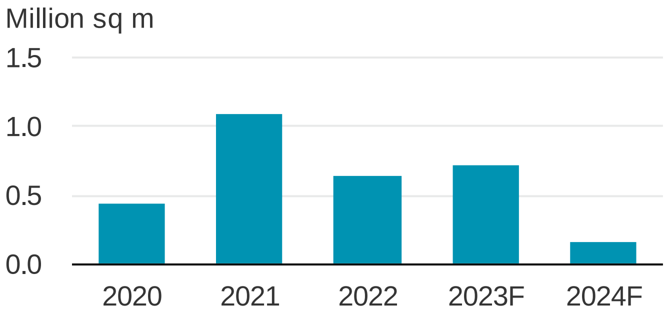


Source: Cushman & Wakefield Research

Industrial Logistics

- **Supply** – More than 0.4 million sq m of new supply is expected to enter Wuhan in 2024, with the majority being launched north of the Yangtze river. The top three regions for supply will be Yangluo, Dongxihu and Hannan, accounting for 31.6%, 30.3% and 19.9%, respectively.
- **Demand** – The north Yangtze River region currently accounts for over 70% of the total stock of prime warehouses in Wuhan, indicating an uneven spatial distribution. The vacancy rate also differs, with 24.6% in the North River region and 13.7% in the South region. In 2024, most of the new supply will still be launched in the North region. It's expected that the total vacancy rate will continue to increase, and average rent will decrease.

Figure 35: Logistics new supply (2020-2024F)



Source: Cushman & Wakefield Research

Investment

- **Construction-in-Progress Assets Are Favoured** – Assets under construction received the highest investment share, accounting for 78% in Q1-Q3 of 2023. The most notable deal was China Resource's acquisition of Wuhan Yangtze River Center from CFLD. Office assets accounted for 18.1%. Retail and industrial assets accounted for only 3.0%.
- **SOEs Dominated the Market** – In 2023, buyer side demand was dominated by SOEs, reflecting the fact that private enterprises have tended to be cautious in real estate investment as the industry has entered a period of adjustment. It's expected that the main demand within Wuhan investment market in 2024 will still stem from various SOEs.

Figure 36: Cap rate trend and outlook (2023-2025F)

	2023	2024F	2025F
Cap rate	5%-6%	↑	→

Source: Cushman & Wakefield Research

Table 12: Wuhan outlook

		Office	Retail	Industrial Logistics
Outlook (2023-2024 Change)	Supply	↓	↑	↓
	Absorption	→	↑	→
	Vacancy	↑	↓	↑
	Rental	↓	↓	↓
The Market (2024)	Tenant / Landlord	Tenant	Tenant	Landlord

Source: Cushman & Wakefield Research

HONG KONG

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Table 13: Office, retail, industrial markets in Hong Kong (Q4 2023)

	Office*	Retail	Industrial Logistics**
Stock (sq ft)	68,312,500	N/A	35,250,900
Vacancy Rate	18.0%	8.2%	7.5%
Rental (HK$/sq ft /month)	48.2	616.0	14.8
Cap rate	2.5%***	2.8%	3.2%

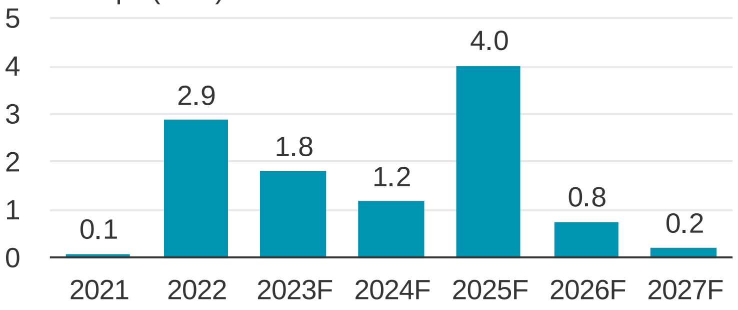
* Office data as of Nov 2023, using availability rate instead of vacancy rate
** Referring to prime warehouse
*** Office cap rate as of Q3 2023

Source: Cushman & Wakefield Research

Office

- **Supply** – In 2024, five new office projects totalling circa 1.2 million sq ft are expected to enter Hong Kong. Two in Kowloon East, and one each in Greater Central, Wanchai / Causeway Bay and Kowloon West. The availability is forecasted to stay at a double-digit level given the elevated supply pipeline in the coming years.
- **Demand** – Hong Kong's office sector may continue to face headwinds with cost-saving remaining the key theme. New demand will likely remain slow with occupiers mainly focused on renewal activities. Occupiers will likely stay cautious amid the slow recovery of the economy and the high-rate environment. High availability will continue to weigh on rental performance, with the overall average rent forecasted to decline by 7 to 9% by end-2024.

Figure 37: Office new supply (2021-2027F)

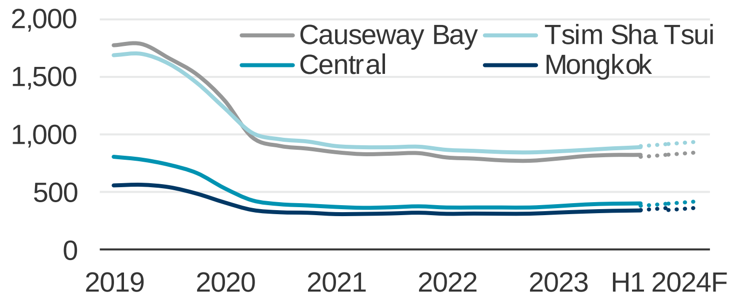


Source: Cushman & Wakefield Research

Retail

- **Supply** – Landlords and retailers have started to offer customers more diverse retail experiences at their shopping centre projects and stores, given that consumers are increasingly opting for retailtainment, sports and wellness offerings, as well as experiential concepts.
- **Demand** – With the support of the tightened vacancy rates across districts, we expect high street rents to maintain single-digit growth at 2% to 7% in 1H 2024. While jewelry and watch shops and pharmacies are still expanding, mainland Chinese retailers are likely to continue to expand their footprint in Hong Kong in the coming year, as local people have become more acquainted with mainland brands after traveling more frequently to nearby mainland cities since border reopening.

Figure 38: Retail rents in major submarkets (2019-H1 2024F)



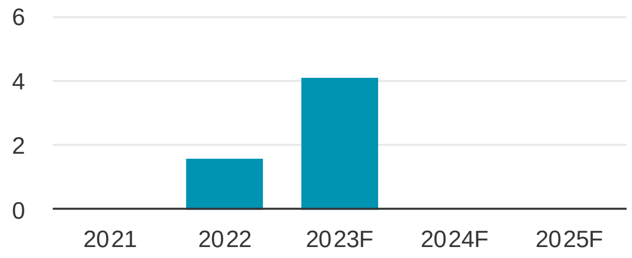
Source: Cushman & Wakefield Research

Industrial Logistics

- **Supply** – A prime warehouse new supply project, Cainiao Hong Kong Smart Gateway, situated at the Hong Kong International Airport, completed in Q4 2023. This development introduced 4.1 million sf of new logistics space to the market. No new supply is expected in 2024.
- **Demand** – High interest rates will continue to have an impact on business sentiment and the global economy, dampening trade recovery and purchasing power. Businesses requiring warehouse space are expected to remain more cautious in 2024. Despite the challenging trade and economic environment, prime warehouse rents in 2024 are still expected to see mild single-digit growth at around 3%. This growth will be supported by the limited availability of available-for-lease warehouse inventory.

Figure 39: Logistics new supply (2021-2025F)

Million sq ft (GFA)

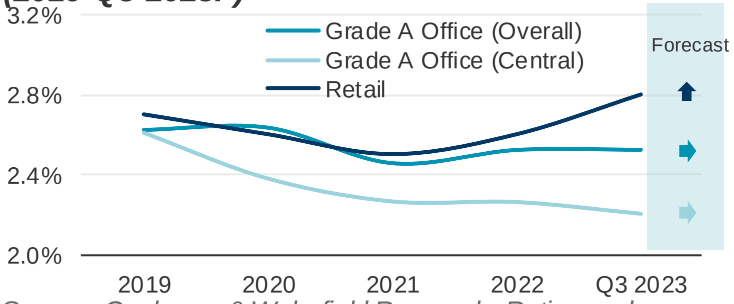


Source: Cushman & Wakefield Research

Investment

- **End-Users and Capital-Rich Buyers to Dominate Buy-Side Demand** – As the high interest rate environment is expected to persist in 2024, the investment market is expected to be mainly driven by end-users with long-term real estate needs, as well as capital-rich local investors with fewer assets in their portfolio, who would like to bargain hunt before interest rates fall and property prices rise again. For instance, we could see more end-users or occupiers purchasing properties for self-use purposes to hedge long-term occupancy cost.
- **Hotels and Alternative Assets to Be of Interest** – With the return of tourists and growing rental housing demand from incoming professionals and students, hotel assets in good locations or with conversion potential into co-living, multi-family and student accommodation properties are likely to be sought after by investors in the coming year.

Figure 40: Cap rate trend and outlook (2019-Q3 2023F)



Source: Cushman & Wakefield Research, Rating and Valuation Department

Table 14: Hong Kong outlook

		Office	Retail	Industrial Logistics
Outlook (2023-2024 Change)	Supply	↓	→	→
	Absorption	↑	↑	↑
	Vacancy	↑	↓	↓
	Rental	↓	↑	↑
The Market (2024)	👥 Tenant 🏢 Landlord	👥	🏢	🏢

Source: Cushman & Wakefield Research

TAIPEI

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Table 15: Office, retail, industrial markets in Taipei (Q4 2023)

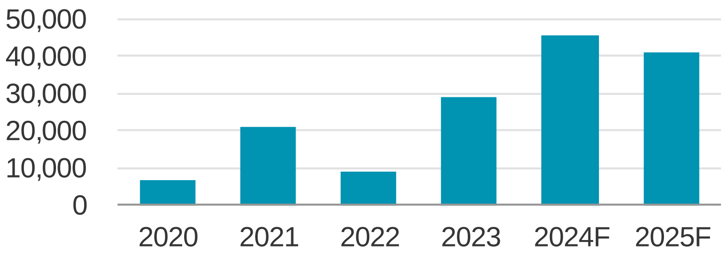
	Office	Retail	Industrial Logistics
Stock (ping)	788,330	N/A	1,007,580
Vacancy rate	6.1%	7.2%	N/A
Rental (NTD/ping/ month)	2,710	11,200	700-800

Source: Cushman & Wakefield Research

Office

- **Supply** – Anticipated in 2024, an estimated 46,000 pings of office space will lead to a gradual rise in vacancy rates. However, the concentration of new buildings in prime areas will elevate the average rental level.
- **Demand** – Driven by economic growth, overall office demand remains strong. With the emergence of hybrid working, companies are prioritising physical office locations with efficient transportation to reduce commuting costs. Additionally, creating spaces that strike a balance between openness and privacy, bridging the gap between physical and remote work, will become a key factor for talent retention and recruitment.

Figure 41: Office new supply (2020-2025F)

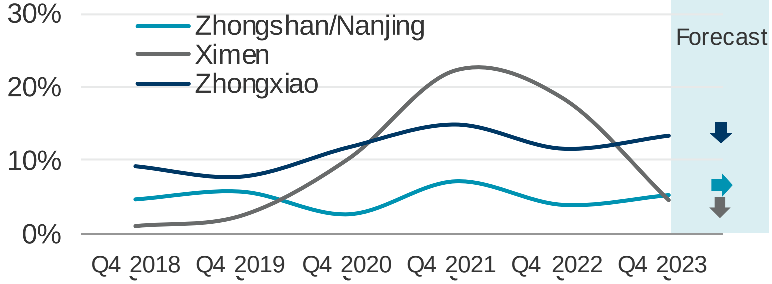


Source: Cushman & Wakefield Research

Retail

- **Supply** – In 2024, it is anticipated that two large-scale shopping centres totaling nearly 80,000 pings will enter the market in Taipei. Located in Nangang District and Xinyi District, respectively, they promise to bring new dynamics to the retail sector.
- **Demand** – It is expected that the vacancy rates in retail hubs will gradually return to pre-pandemic levels in 2024. Among them, the Zhongxiao shopping district is poised to benefit from the opening of the Shin Kong Mitsukoshi Diamond Tower and the Taipei Dome at the end of 2023, potentially accelerating the recovery of this commercial area.

Figure 42: Vacancy rate in primary retail hubs (Q4 2018-Q4 2023)

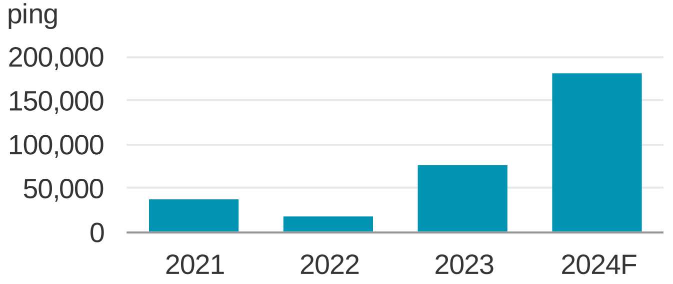


Source: Cushman & Wakefield Research

Industrial Logistics

- **Supply** – By the end of 2024, it is projected that Taiwan will see an increase of approximately 181,600 pings in new supply of high-quality logistics and warehouse facilities.
- **Demand** – Given the changing consumer behavior and the continuous expansion of the online shopping market, there remains robust demand for e-commerce, third-party logistics, and cold chain logistics. Furthermore, as the demand for logistics continues to rise, it will drive the transformation of aged traditional factories into logistics and warehouse facilities.

Figure 43: Logistics new supply (2021-2024F)

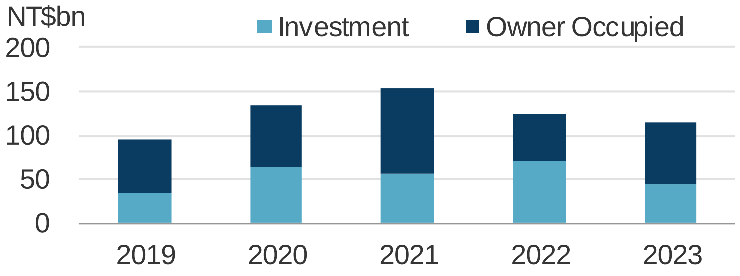


Source: Cushman & Wakefield Research

Investment

- **Funding to Remain Tight** – While the interest rate hike cycle is coming to an end, funding remains tight. Coupled with the impact of real estate policies taking effect in the latter half of 2023, it is anticipated that investment momentum will continue to be weak, with self-use buyers remaining a key market force. The ability of funds to re-enter the market on a large scale in 2024 will hinge on factors such as interest rate fluctuations and post-election policies.
- **Market Trend** – In response to international ESG sustainable development goals, the overall market will place an increased emphasis on sustainable investment in green buildings. Additionally, diverse investment channels, such as joint development with metro projects and publicly initiated urban renewal, are expected to continue to be alternative options for developers, aside from direct land acquisitions.

Figure 44: Investment volume by capital source (2019-2023)



Source: Cushman & Wakefield Research

Table 16: Taipei outlook

		Office	Retail	Industrial Logistics
Outlook (2023-2024 Change)	Supply	↑	→	↑
	Absorption	↑	↑	↑
	Vacancy	→	↓	→
	Rental	→	→	↑
The Market (2024)	Tenant / Landlord	Tenant	Tenant	Landlord

Source: Cushman & Wakefield Research

KEY TAKEAWAYS

- ***The Economy*** *– In 2024, the Chinese mainland's economy will gradually recover with challenges posed by the sluggish global economy.*

- ***The Real Estate Market*** *– The real estate market in Greater China will be a mixed picture in 2024 but if occupiers and investors are adaptable and nimble, they will be able to position themselves for success.*

CUSHMAN & WAKEFIELD

FORECAST

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To better serve our clients our China Research Team has established Centres of Excellence in various focus areas, such as Capital Markets, Industrial, Logistics and Retail. Shaun leads the Research Centre of Excellence for Greater China Occupier Research. If you have any queries related to Occupier Research in Greater China, please contact:

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