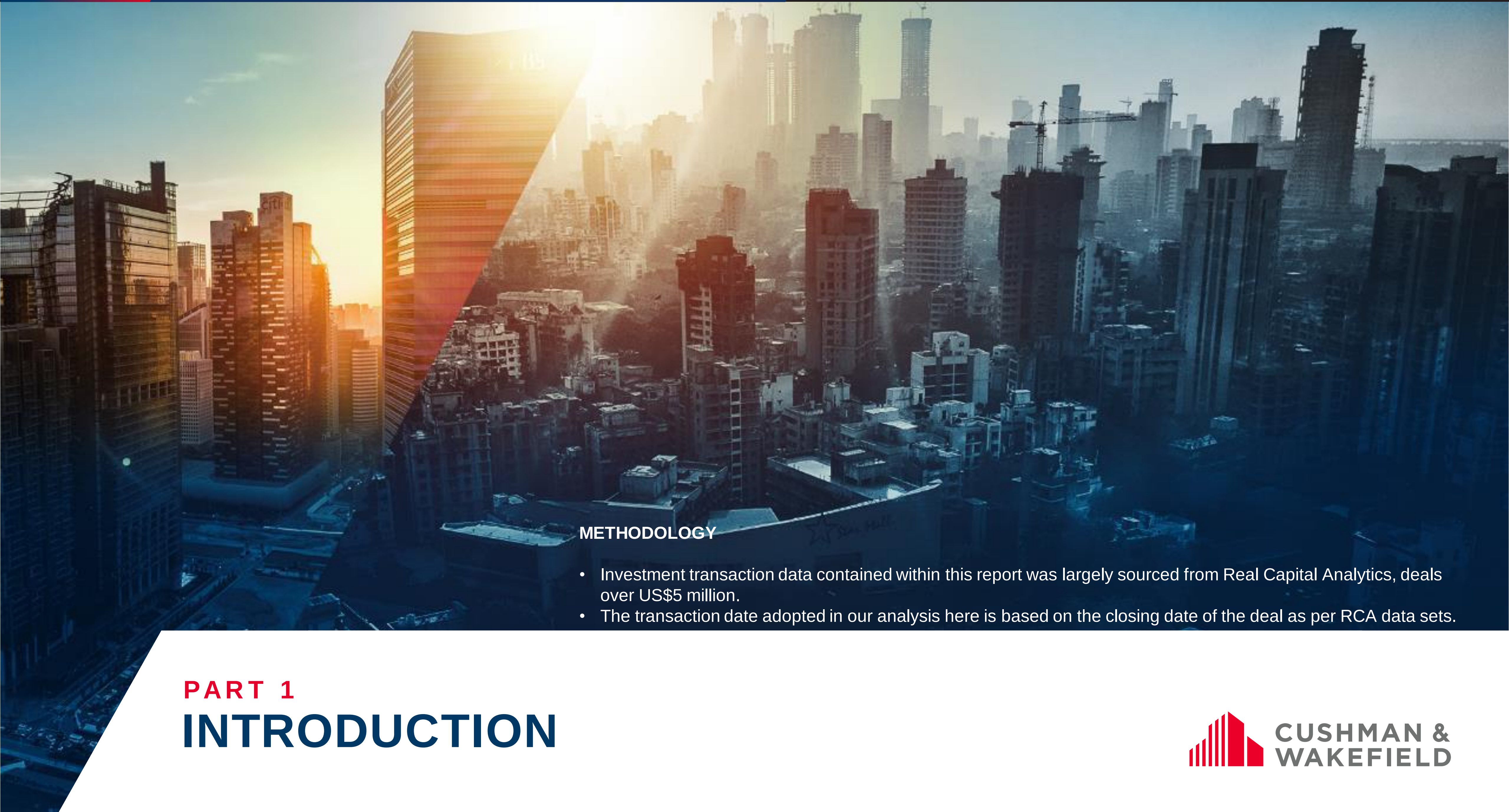
INVESTOR INTENTION SURVEY

CHINA OUTBOUND INVESTMENT

2020

CUSHMAN & WAKEFIELD



METHODOLOGY

- Investment transaction data contained within this report was largely sourced from Real Capital Analytics, deals over US$5 million.
- The transaction date adopted in our analysis here is based on the closing date of the deal as per RCA data sets.

PART 1

INTRODUCTION

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EXECUTIVE SUMMARY

In the past decade, the rise and fall of mainland Chinese investment in global real estate markets has created quite a stir amongst the international real estate community. However, in recent years overseas real estate investment activities of this group of investors has shifted from overseas acquisitions to disposals, with 2019's total overseas investment volume down 79% since the peak in 2017.

Cushman & Wakefield Research has been tracking activity and deals over US$5 million, through the highs to the current lows. In early 2020 Cushman & Wakefield launched the fifth annual *China Outbound Real Estate Investor Intentions Survey*. Over 40 senior real estate investors contributed to the survey. In this report we look at recent investment activity, and discuss and contrast this with the findings of the 2020 China Outbound Real Estate Investor Intentions Survey.

While this survey was underway the COVID-19 situation first emerged. Much has changed since then, but this is a global pandemic and as such we do not expect it to impact investor sentiment by destination. However, the economic downturn caused by COVID-19 will have a significant impact on deal volume in 2020, and some international markets may recover and become accessible more quickly than others. The subsequent impact on global asset pricing on specific sectors such as retail, hotels and senior care facilities may create sector- specific distress, but at the same time will generate opportunity.

Sources: Real Capital Analytics, Cushman&Wakefield Research

Figure-1: Annual Outbound Transaction Volume

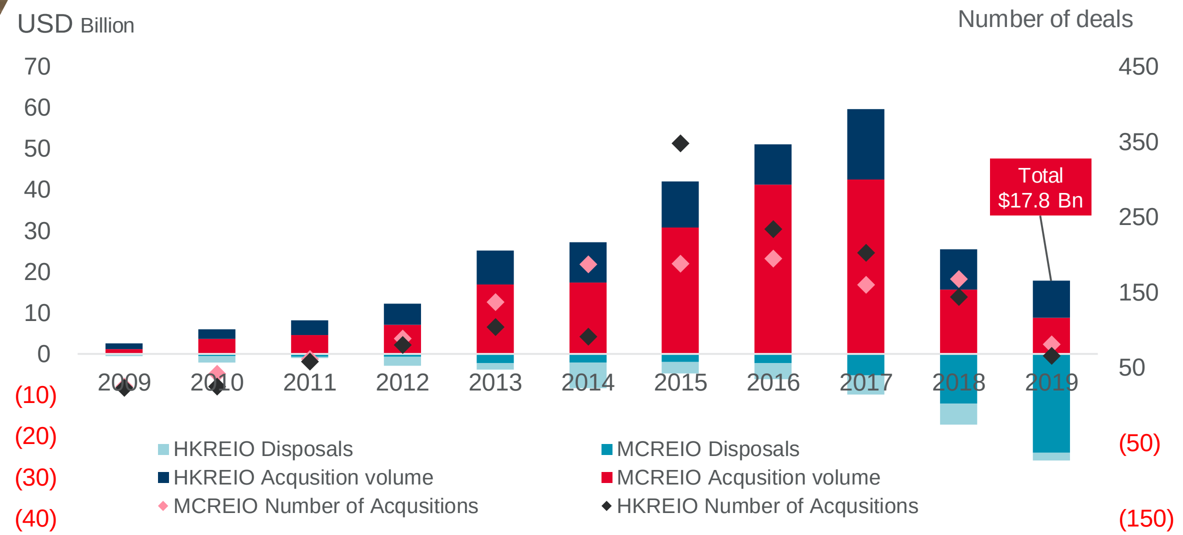
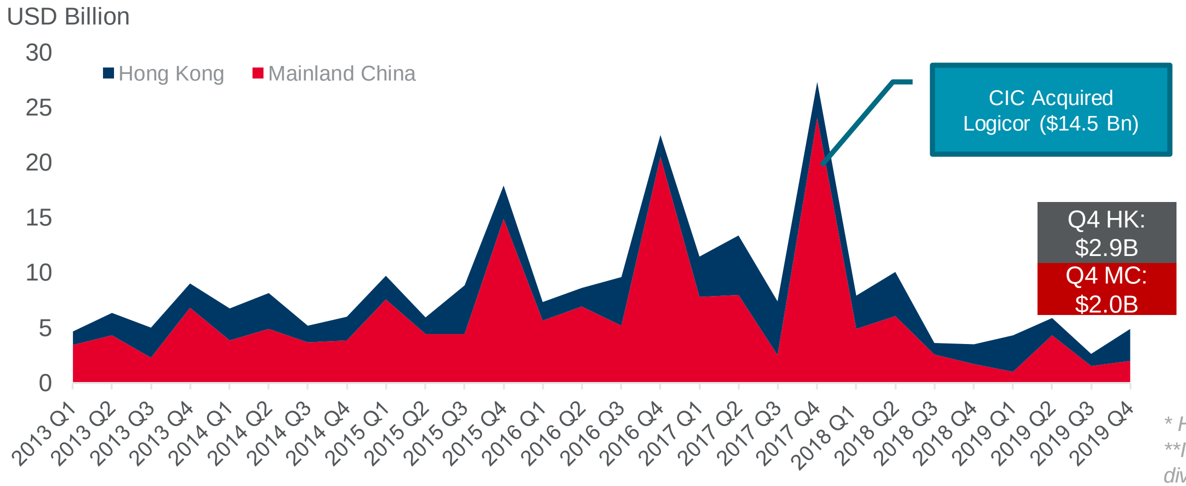


Figure-2: Quarterly Chinese Real Estate Investment Overseas



Source: Real Capital Analytics, Cushman & Wakefield Research

In 2019, ***Mainland Chinese Real Estate Investment Overseas*** *and* ***Hong Kong Real Estate Investment Overseas***, hereafter referred to as ***MCREIO*** *and* ***HKREIO****, continued to trend downwards. A total of US$8.8 billion and US$9 billion worth of MCREIO and HKREIO respectively was deployed in 2019, dropping 44% and 9% y-o-y, respectively. The MCREIO 2019 transaction volume fell to its lowest point since 2012.

Although overall transaction volume slowed in 2019, MCREIO did see some major transactions this year. In Q2 US$4.3 billion was deployed, though largely driven by two deals: CR Land and Poly Group JV acquired a Hong Kong development site in Kai Tak for US$1.6 billion, while Hengli Group in conjunction with Gaw Capital acquired a Hong Kong office portfolio from Swire Pacific for US$1.9 billion.

However, despite this flurry of MCREIO activity in Q2 2019, it is clear that the impact from a series of control policies on outbound real estate investment introduced from the second half of 2017, the tightened lending environment seen in 2018 and 2019, and prevailing global economic uncertainty have brought renewed challenges to many Chinese investors.

These difficulties have been a major factor in softening acquisition activity and are now also clearly driving disposals. For the first time since our survey began we saw the year's disposals outweigh acquisitions, with over US$20 billion of overseas properties being sold by mainland Chinese investors*.

HKREIO also faced downwards pressure in 2019, albeit less severe, weighed down by global economic uncertainty and local unrest. Compared to 2018, total HKREIO investment volume declined 9% y-o-y to US$9 billion in 2019, marking the second consecutive y-o-y contraction from 2018.

** HKREIO excluding investment to Mainland China*
***It should be noted that some 2019 disposals may have been driven by policy guidance rather than typical vendor motivations. Such divestments may have helped repatriate foreign exchange back to China and reduce foreign currency loan exposure. Such transactions had an impact on disposal activity in the USA, UK and the EU.*

In our survey we wanted to understand in more detail the drivers of this cooling of activity and to what extent these would further impact activity in 2020.

When asked how intensified policy control since 2017 had impacted their ability to invest overseas, we found that the number of MCREIO investors experiencing a severe impact, where it had become impossible to invest in overseas real estate, had dropped from 24% to 16%, whereas those experiencing limited impact or no change had risen from 36% to 42% of respondents. Though this still represents a relative minority it is an encouraging signal with a noticeable improvement in sentiment since our survey of 2019.

Figure-3: As a result of outbound investment policy control, how difficult has it become for you to convert to invest overseas?

	Severe impact, it has became impossible for us to transact overseas, our funds are likely to remain in China this year	Significant impact, we are finding it extremely difficult but still hope to transact this year	Limited impact, we are still able to transact but the approval process is slow	No change, we are still able to transact overseas
2020's survey result	16%	42%	26%	16%
2019's survey result	24%	41%	22%	14%

Figure-4: Policy restrictions will ease

AGREE	13%
NEUTRAL	42%
DISAGREE	45%

Despite the shift towards slightly more positive responses above, when asked whether in future outbound real estate investment policy restrictions might ease, just 13% agreed.

Source: Cushman & Wakefield Research

Another factor impacting activity through 2019 was the tightened domestic lending environment. This has been affecting not just MCREIO investors' ability to make acquisitions, but more importantly the ability of some investors to refinance and hold assets -- a major factor which has contributed to the recent flurry of disposal activity of global assets. However, according to the respondents, this may now be having a less severe impact than we previously assessed, with only 29% of respondents citing this as having a significant impact at the current time. However, looking to the future, we asked investors about the debt outlook and found that only 13% anticipated the debt situation to improve.

Figure-5: How did tight lending policy impact your global investment in 2019?

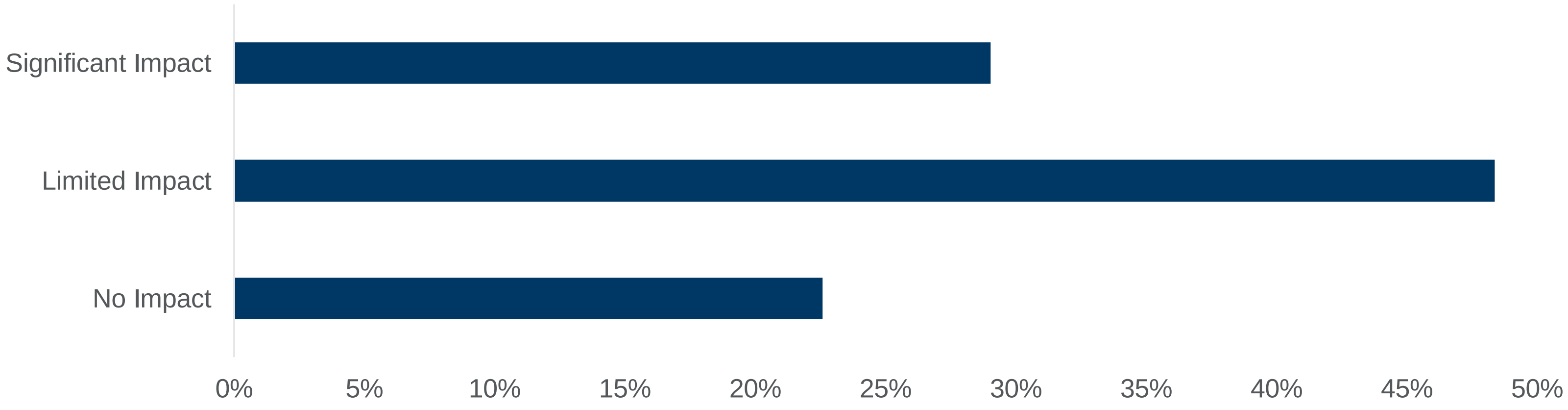
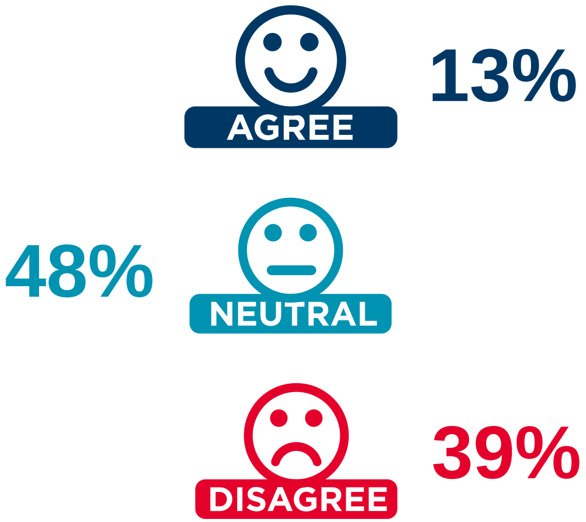


Figure-6: The domestic lending environment will improve in future

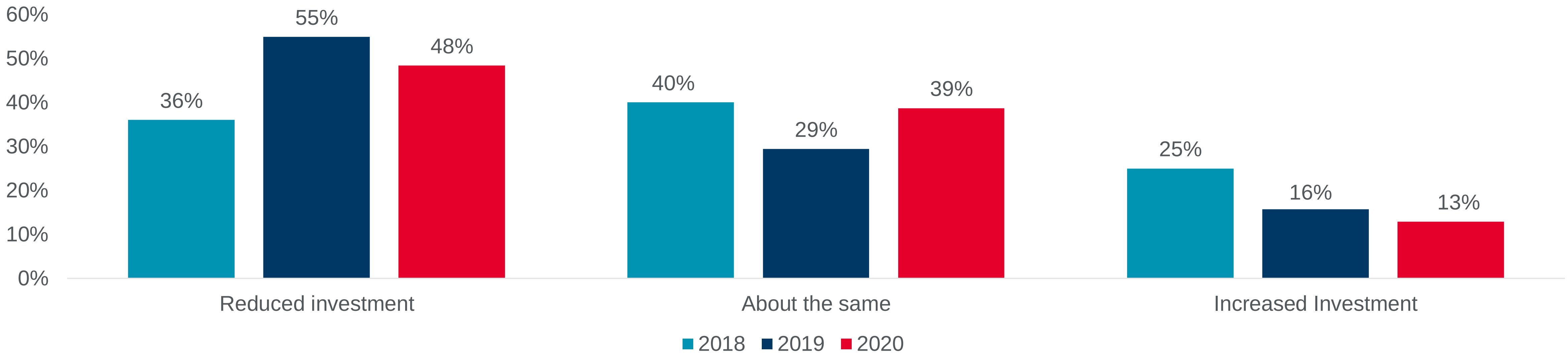


Nevertheless, when combining the results of two survey questions on policy (Figure-3) and debt (Figure-5), those mainland Chinese respondents who were experiencing a significant or severe challenge from a policy perspective and those who were experiencing significant impact in respect of debt, or both, represented 65 percent of respondents. No surprise then that we saw investment volumes plummet and disposal activity spike in 2019. Though it appears sentiment is improving since last year's survey, with only 13% of respondents anticipating an improvement in policy, and debt situation remaining tight, a rebound of MCREIO acquisition activity is not on the immediate horizon.

Source: Cushman & Wakefield Research

The challenges faced with regards to policy and debt was echoed when MCREIO investors were asked about the change in fund allocation to overseas real estate investment in 2020 compared to 2019. For the third year in a row, the number of investors that were increasing their overseas investment declined, now down to just 13% of respondents. Those indicating plans to reduce their investment in the year ahead significantly outweighed those looking to increase investment, with nearly half indicating a pull back from international markets.

Figure-7: How will your fund allocation to overseas real estate change in 2020 compared to 2019?



Despite this apparent pull back, when looking at investment on a destination-by-destination basis we observed some stark differences, with certain locations appearing to be attracting more MCREIO attention than in previous years.

Source: Cushman & Wakefield Research

PART 2

DESTINATION

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Hong Kong accounted for 49% of the total MCREIO transactions in 2019. However, we note that the majority of activity occurred in the first half of the year. Australia took second place, overtaking the USA with a 13% share and 19 deals.

Benefiting from business relocations, as well as trade and investment diversion caused by recent trade frictions, investment into Asia markets such as Japan and Singapore appeared more appealing, as investors increasingly sought to weight their portfolios towards security and stability.

Figure-8: MCREIO Volume by Destination 2019

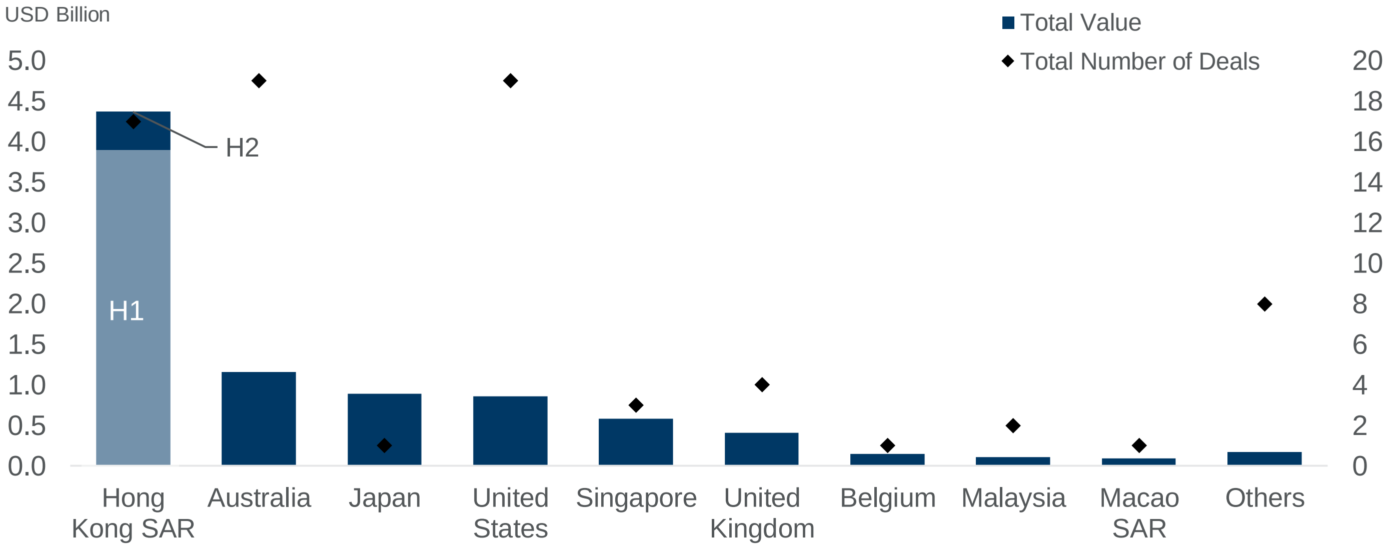


Figure-10: Investment to Japan, Singapore & SEA

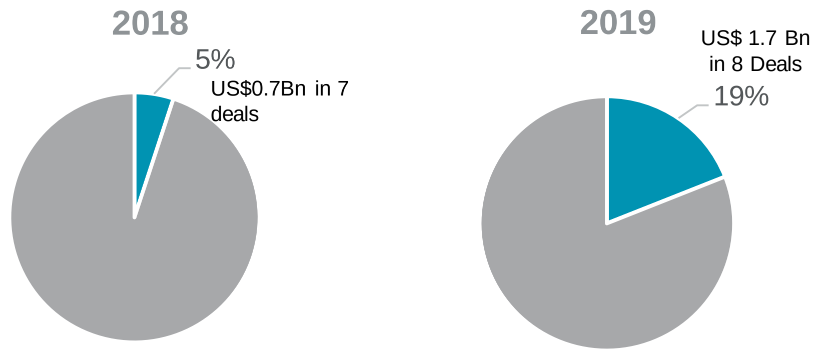
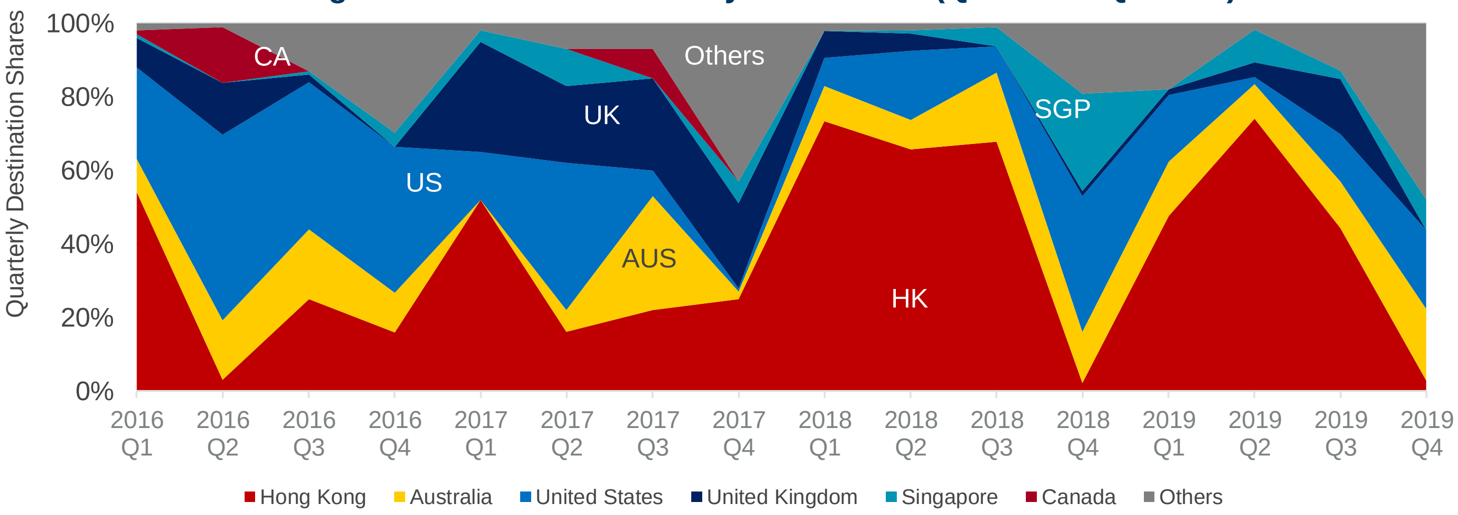


Figure-9: MCREIO Volume by Destination (Q1 2016 – Q4 2019)



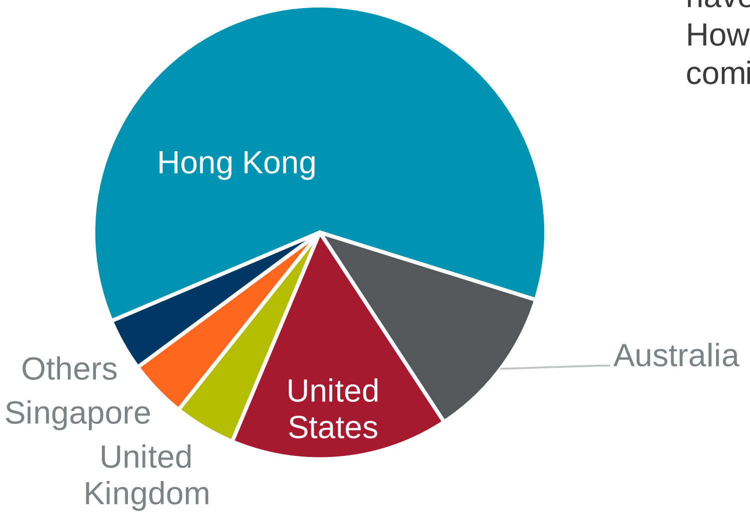
As Brexit uncertainty rolled on and trade frictions intensified, real estate investment from mainland Chinese investors into the UK and U.S slowed, decreasing 36% and 63% y-o-y respectively .

Source: Real Capital Analytics, Cushman & Wakefield Research

DESTINATION

Proportion of other markets' transaction volume

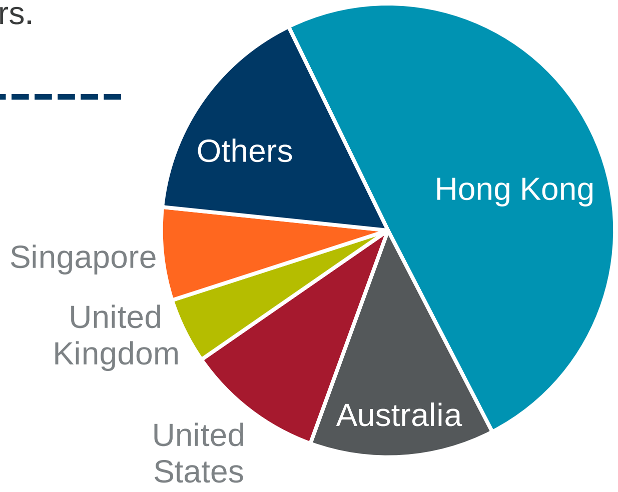
Figure-11: 167 Deals in 2018



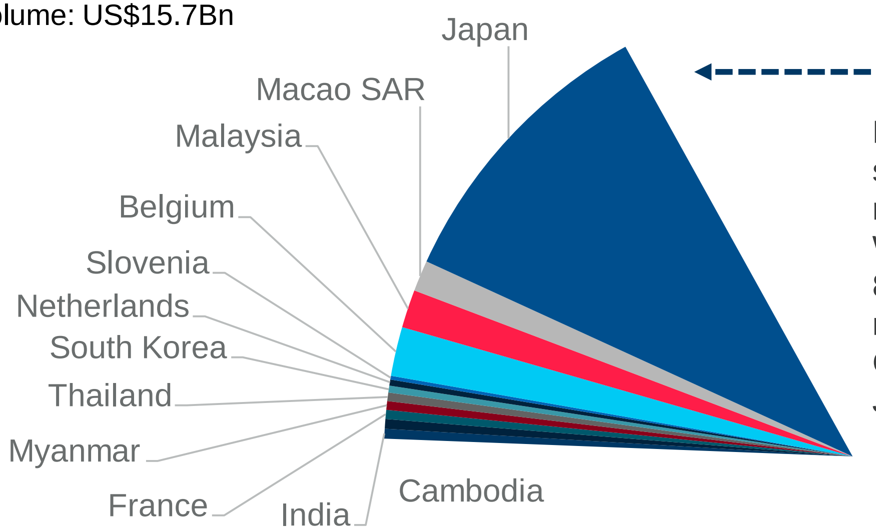
Total Acquisition Volume: US$15.7Bn

Despite investment volumes being down sharply in 2019 we have seen a greater array of destinations amongst investors. However we have yet to see if this will be sustained in the coming years, or represents a one-off.

Figure-12: 81 Deals in 2019



Total Acquisition Volume: US$8.8 Bn



However, in the case of Japan, it should be noted that this was reflected in just one deal as The Westin Tokyo was transacted at 890 million US$, therefore representing 100% of Mainland Chinese investment activity in the Japan market.

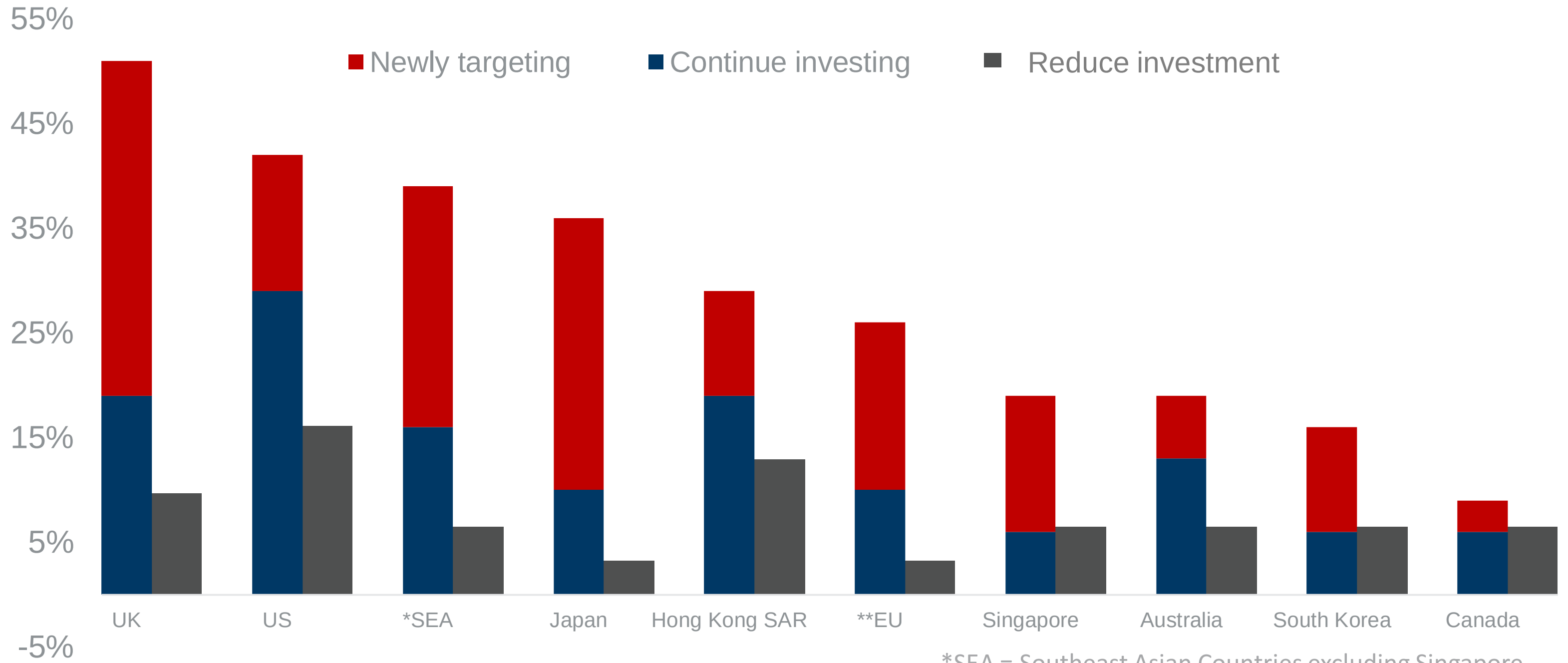
9

Source: Real Capital Analytics, Cushman & Wakefield Research

When responding on their willingness to invest in specific foreign countries in 2020, 32% of investors considered the UK as a new target market. When combined with those that were already invested in and planned to continue to hold assets in the UK, this market leads globally with over 50% of respondents.

This appetite for UK real estate was reinforced later in the survey, when 61% of investors noted that the prevailing Brexit uncertainty represented an opportunity to invest in the UK.

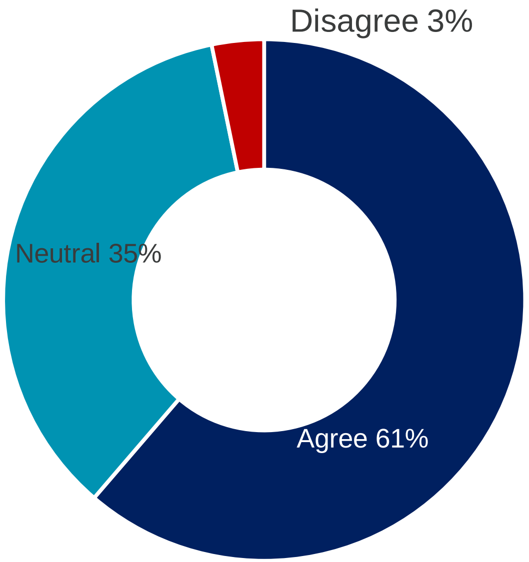
Figure-13: What are your investment intentions for 2020 for the following countries and regions?



Note: Options including "Not applicable", but does not show in this chart

*SEA = Southeast Asian Countries excluding Singapore
** EU = European Union Countries

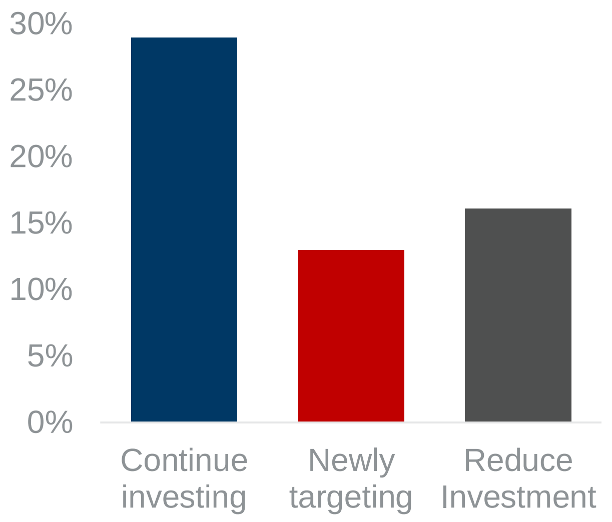
Figure-14: Brexit uncertainty represents an opportunity in the UK



In 2019, Japan, Singapore and Southeast Asian nations accounted for 19% of MCREIO investment. This growing interest was echoed in our survey with a strong showing of investors newly targeting these markets. Surprisingly, Australia appeared unattractive. This may be explained by the fact that although Australia has been on investors' radars for many years, MCREIO investors have struggled to deploy capital into the highly competitive market, which may have subdued their interest.

Source: Cushman & Wakefield Research

Figure-15: 2020 Investment Intentions – U.S.



Some might consider it reasonable to assume that the harsh rhetoric and ongoing negotiations between the USA and China over trade would have caused Chinese investors to shy away from the U.S. property market. The market did see the highest number of responses indicating a proactive reduction of exposure. However this should be noted in context, as historically the largest share of capital was deployed into the U.S., attracting 30% of total MCREIO capital deployed in the past decade according to RCA.

When asked about trade friction reducing appetite for the USA, the response appeared fairly measured with a combined 65% of MCREIO investors being either neutral or disagreeing on this point.

Figure-16: The prolonged trade dispute means we are unlikely to invest in the U.S.

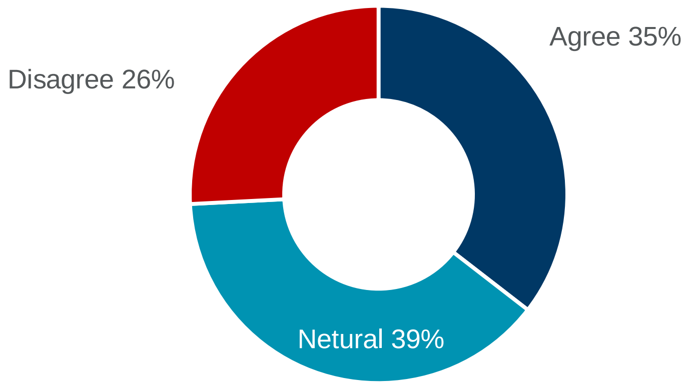
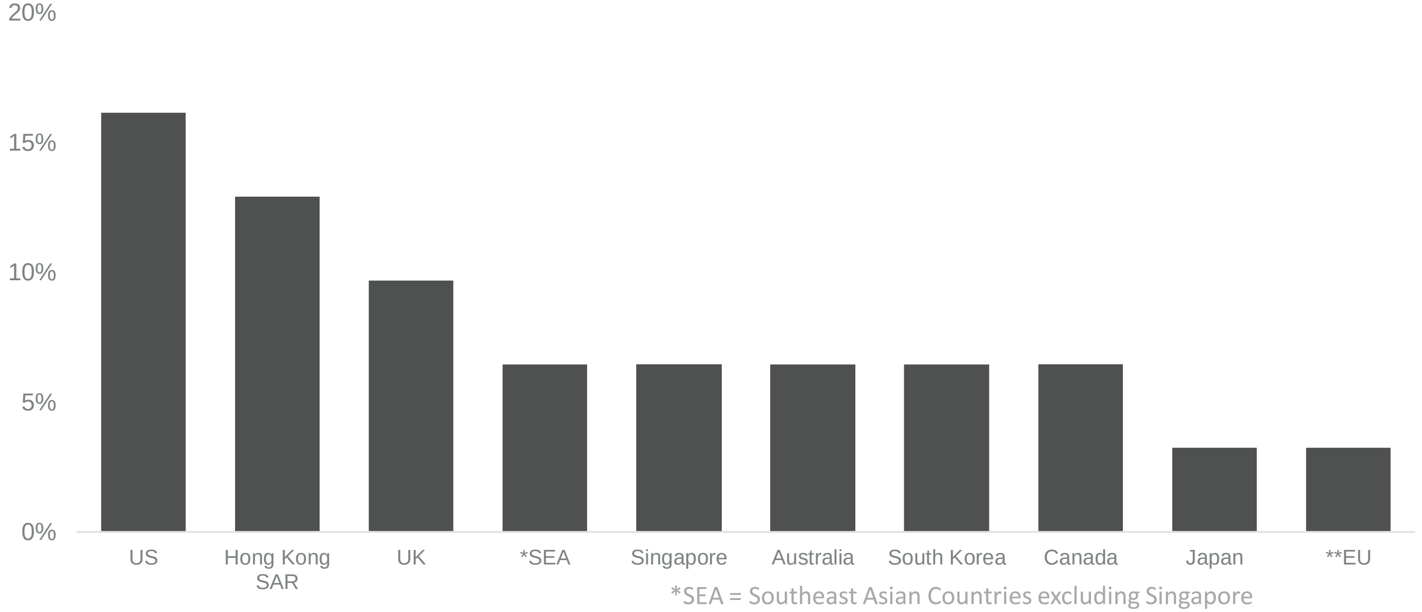


Figure-17: 2020 Reducing Allocation by Destination



*SEA = Southeast Asian Countries excluding Singapore
** EU = European Union Countries

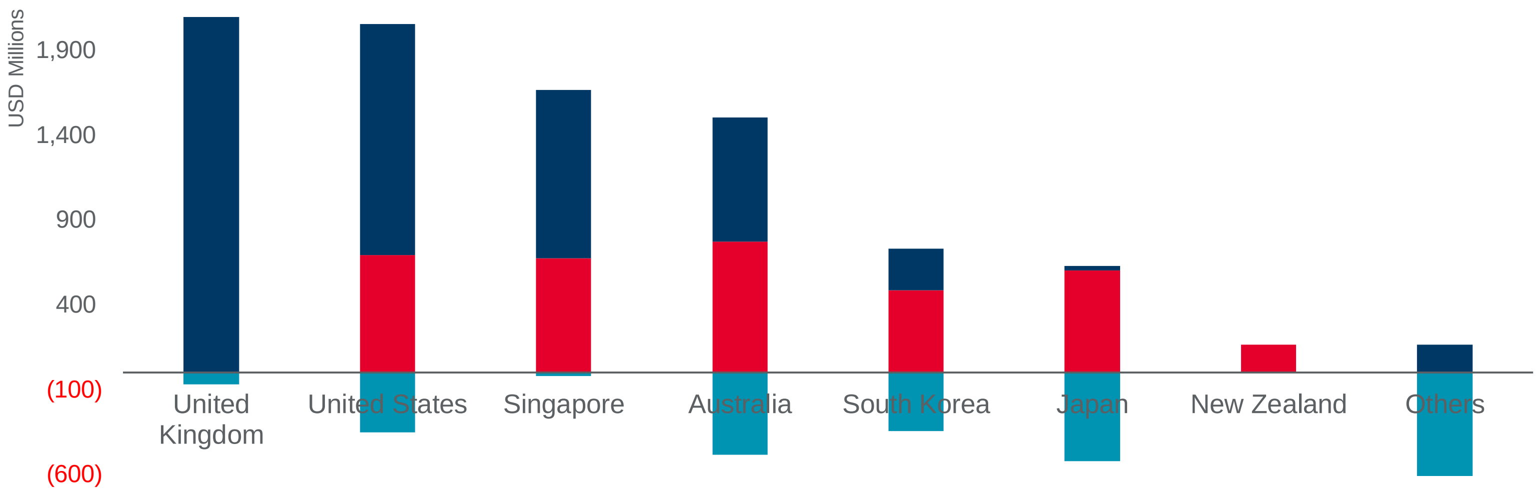
Source: Cushman & Wakefield Research

DESTINATION

Hong Kong Real Estate Investment Overseas

With a stable political environment and relatively strong office rental growth compared to other global gateway markets, in 2019 Singapore became increasingly popular with HK investors. Around US$1.7 billion was deployed in Singapore, which crept up behind the U.S. and U.K. in terms of transaction volume. This was echoed in the responses from HK investors to the statement that in 2020 Singapore will become more attractive as a real estate investment destination. Growing interest was also recorded in other regional markets including Australia and South Korea.

Figure-18: HKREIO Investment by Destination 2019



Red bar reflects the activity by the following groups:
GAW, PAG, ARCH, ESR, Phoenix and Orion Partners (all headquartered in Hong Kong).

Dark Blue bar reflects all others, encompassing developers originating from Hong Kong and private and family office capital (some of which may be pooled), and includes activity by institutions (e.g. HKMA) and HK registered REITS.

Light Blue bar reflects HKREIO disposal (all institutions)

Figure-19: HKREIO Disposal by Destination 2019

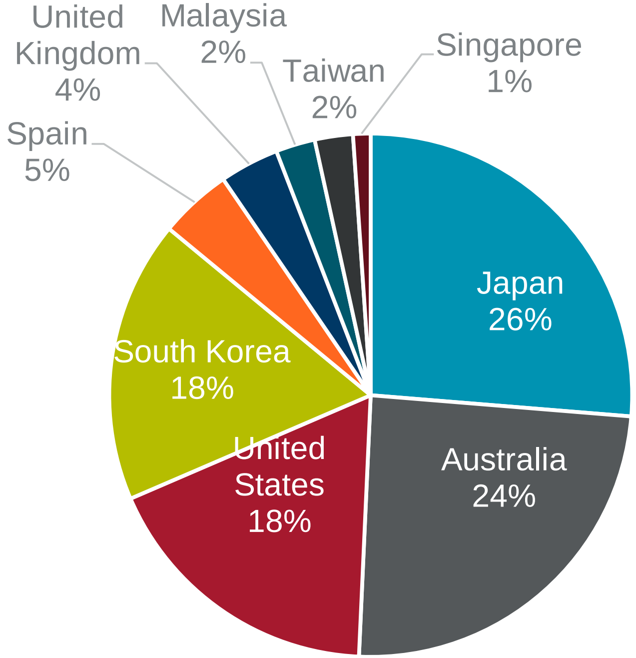
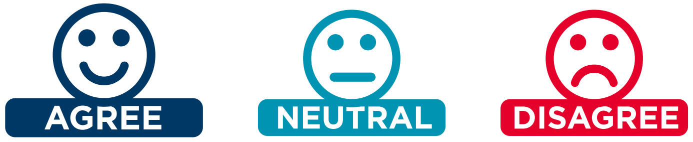


Figure-20: In 2020 Singapore will become more attractive as a real estate investment destination



50% 33% 17%

Source: Real Capital Analytics, Cushman & Wakefield Research

Despite the recent challenges in Hong Kong our survey indicated that there was no major swing in investors' appetite for global markets. Seventy-five percent of respondents indicated that their 2020 allocations by destination would remain unchanged. With 75% of respondents also indicating that core properties in global real estate markets were overpriced, this may be a factor subduing enthusiasm for increased overseas participation.

Figure-21: How will your fund allocation to overseas real estate change in 2020 compared to 2019?

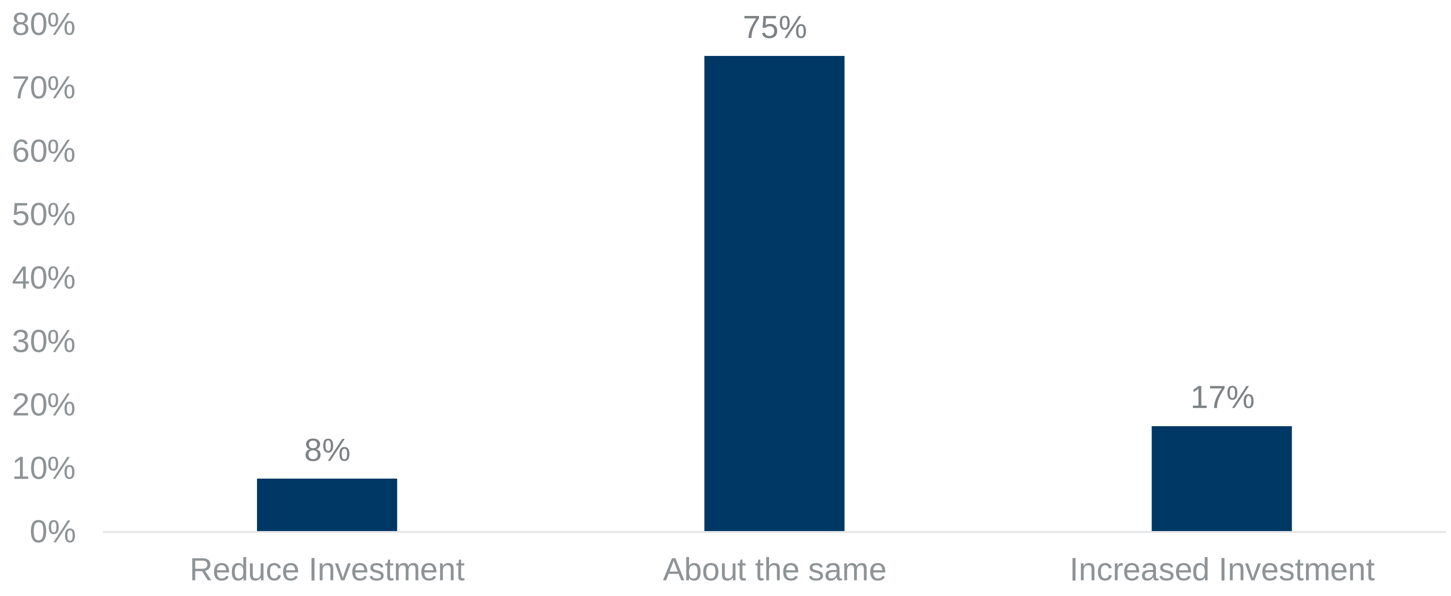
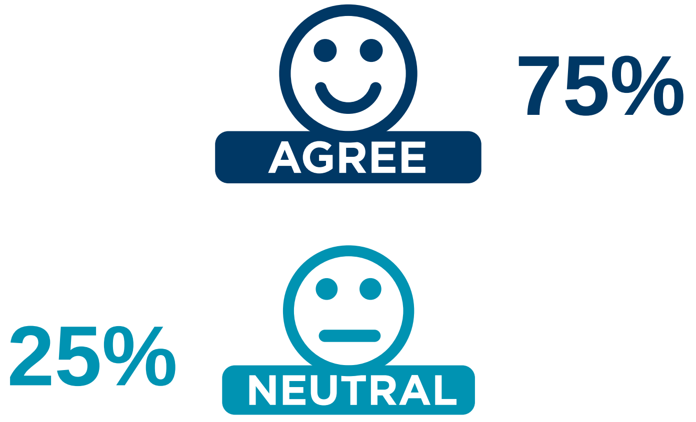


Figure-22: Core properties in the global market are overpriced



Source: Cushman & Wakefield Research

MCREIO investment was weighted to development sites and the office sector in 2019. Since 2017 our survey has identified a slow decline in appetite for the office sector, perhaps unsurprising given the government's stance towards the acquisition of overseas trophy assets overseas. Likewise, with the government's tendency to encourage value-added sectors such as R&D, investors' interest in this sector has grown to 13%.

Figure-23: Investor Intentions by Asset Class

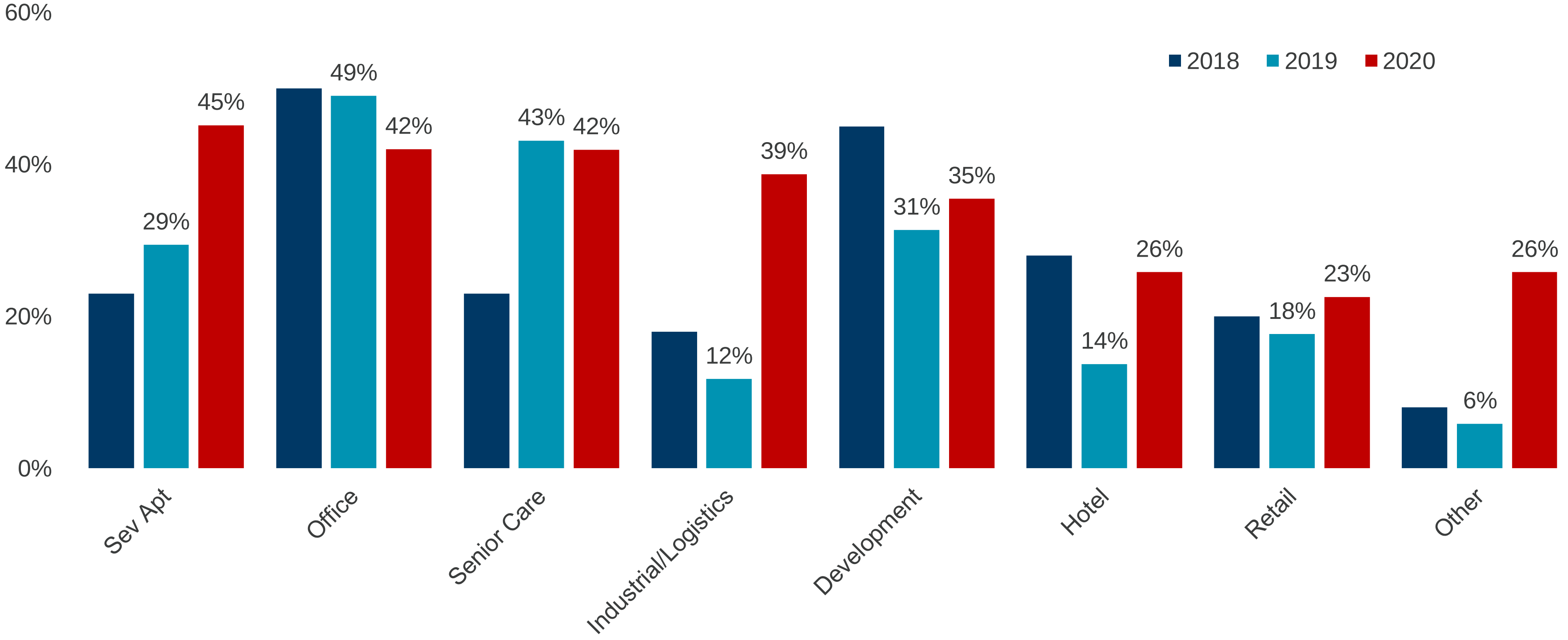
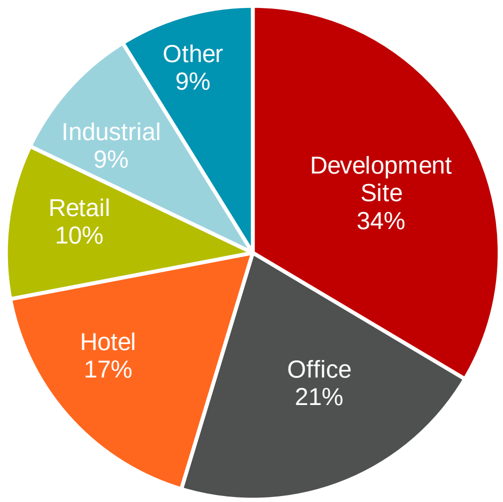


Figure-24: MCREIO Investment by Asset Class 2019



The most stark change in sentiment since the previous survey was a spike in MCREIO investor appetite for industrial and logistics, again unsurprising given the governments' softer stance towards what may be considered as a value-added sector.

Source: Cushman & Wakefield Research

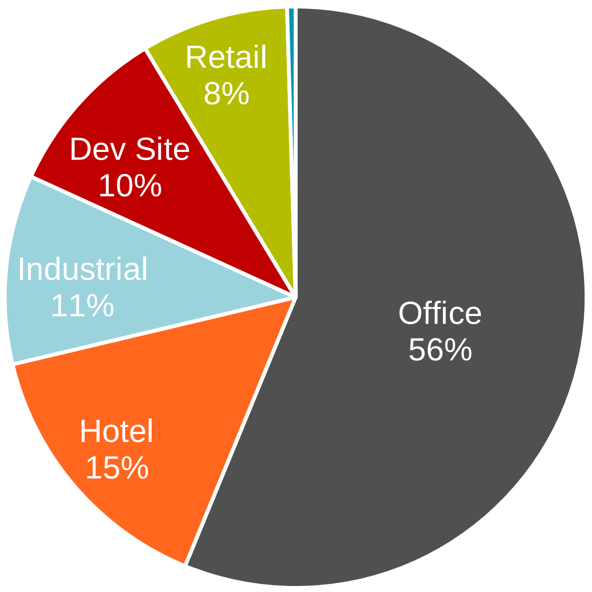
INVESTMENT ALLOCATION

HKREIO by Asset Class

For Hong Kong investors in overseas markets the office sector still remained highly attractive recording a 56% share of overall investment in 2019. Key deals included Gaw Capital's office acquisitions: including the GreenOak Tokyo Aoyama Office Portfolio in Japan for US$574 million in March, and the office property at 77 Robinson Road in Singapore acquired from Citic for US$521 million.

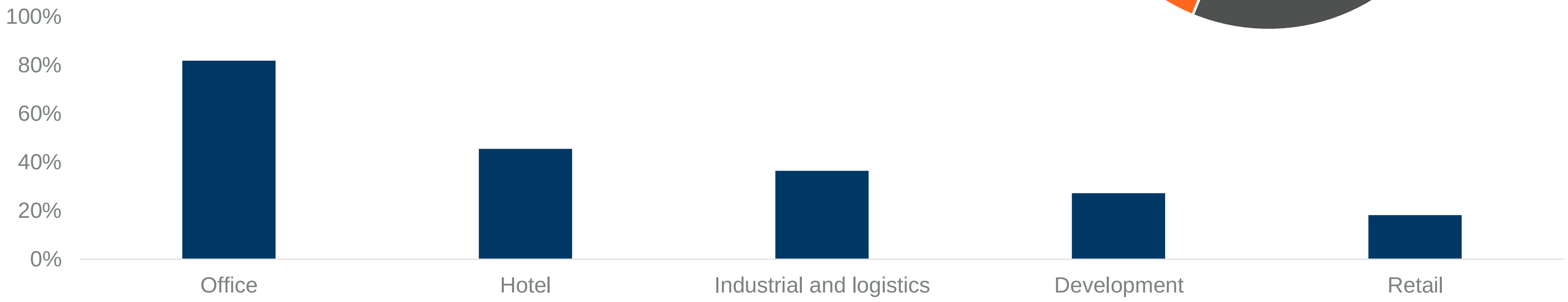
The hotel sector saw increased interest, accounting for 15% of total investment by sector in 2019. Notably, PAG Asia partnered with Korean asset management firm Inmark AM to acquire the Grand Hyatt Seoul for US$481 million. Ascott REIT sold Ascott Raffles Place in Singapore to a HK private investor for US$260 million in May. And Far East Consortium International acquired Oakwood Premier OUE in Singapore for US$213 million.

Figure-26: HKREIO Investment by Sector 2019



Source: RCA, Cushman & Wakefield Research

Figure-25: Regarding your real estate investments outside of HK in 2020, what sectors do you favor?



Source: Real Capital Analytics, Cushman & Wakefield Research

Figure-27: Core properties in the global market are overpriced

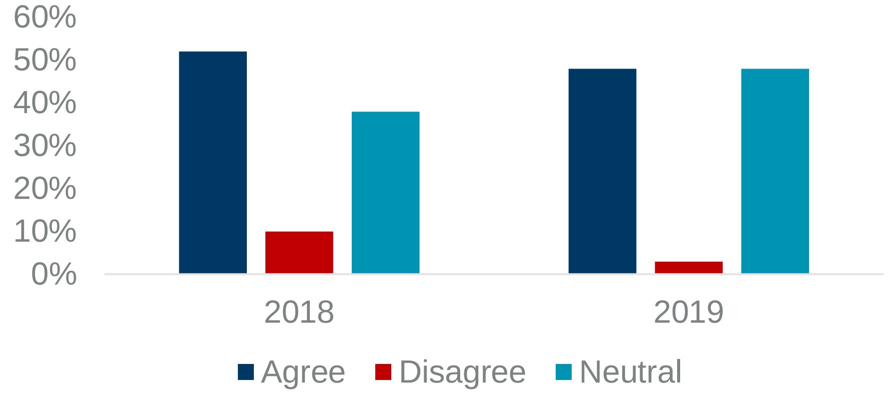
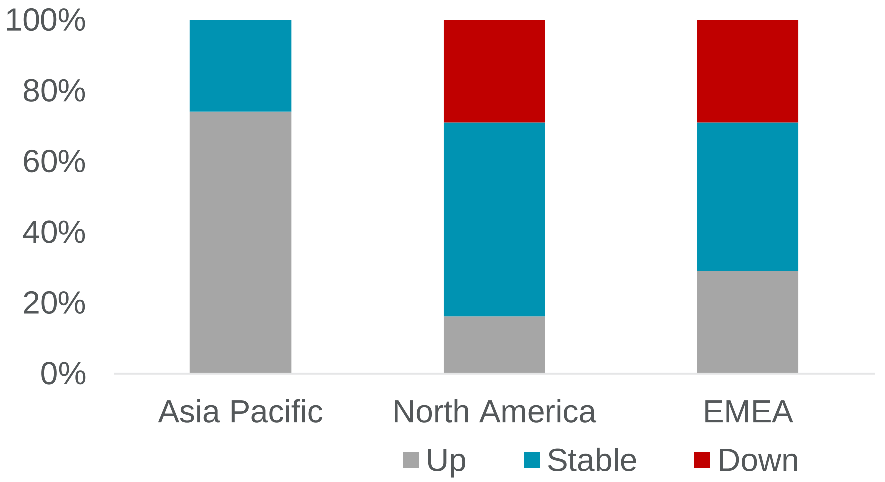


Figure-28: 2020 Global Investment



Source: Real Capital Analytics, Cushman & Wakefield Research

1. For the first time since our survey began, in 2019 we saw the year's disposals outweigh acquisitions, with over US$20 billion of overseas properties being sold by mainland Chinese investors.
2. We note a significant jump in interest in the UK -- with most mainland China investors seeing Brexit uncertainty creating opportunity -- Japan, Singapore and other South East Asian markets also saw increased interest.
3. Cooling of activity is largely due to policy control and a tightened lending environment, with 65% of respondents citing either or both these as a severe or significant challenge. Only 13% of investors anticipate easing of either of these in the near term.
4. Chinese investors from either location have relatively similar appetite for markets and sectors, though Hong Kong investor interest is more heavily weighted to the office sector, while mainland investors' interest in industrial and R&D facilities has spiked.
5. No rebound in sight, with 48% of investors planning to reduce investment in overseas markets in 2020. Despite RCA figures suggesting a outflow of around US$21 billion from the USA by mainland Chinese investors in 2019, ongoing trade friction is not as significant a barrier as may have been reported. Only thirty-five percent of mainland based investors see the trade tensions as prohibitive to ongoing investment, and just 16% plan to reduce exposure to the US market.
6. The most stark change in sector sentiment since the previous survey was a spike in MCREIO investor appetite for industrial and logistics.

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Note: Thanks to the contribution from **Simon Graham**.