

This live webinar will begin shortly...

GREATER CHINA CAPITAL MARKETS WEBINAR

WHAT'S NEXT FOR CHINA'S CRE INVESTMENT MARKET

MAY 2020

AGENDA

INTRODUCTIONS



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1. GREATER CHINA MARKET OVERVIEW

MODERATOR



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2. HONG KONG SAR MARKET OVERVIEW

3. Q & A



Francis Li

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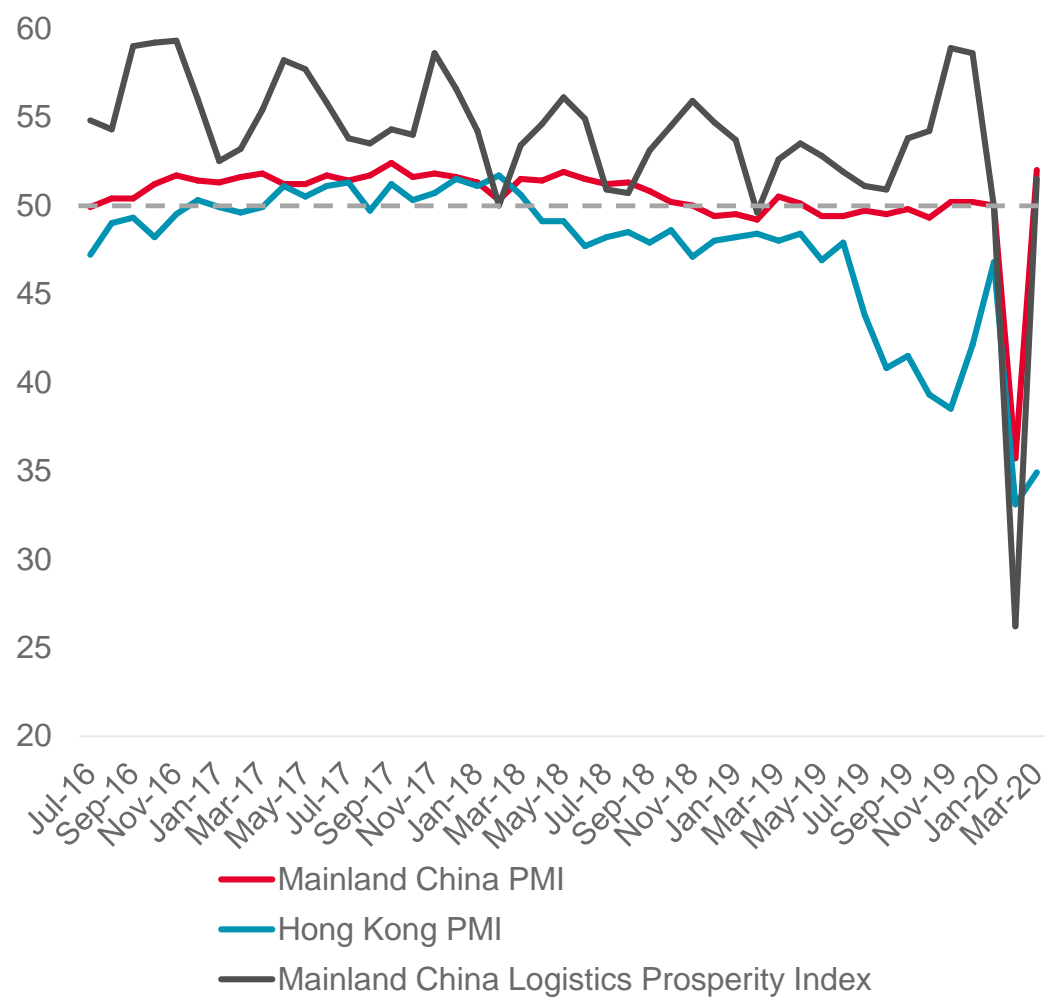
Gordon Marsden

Regional Director
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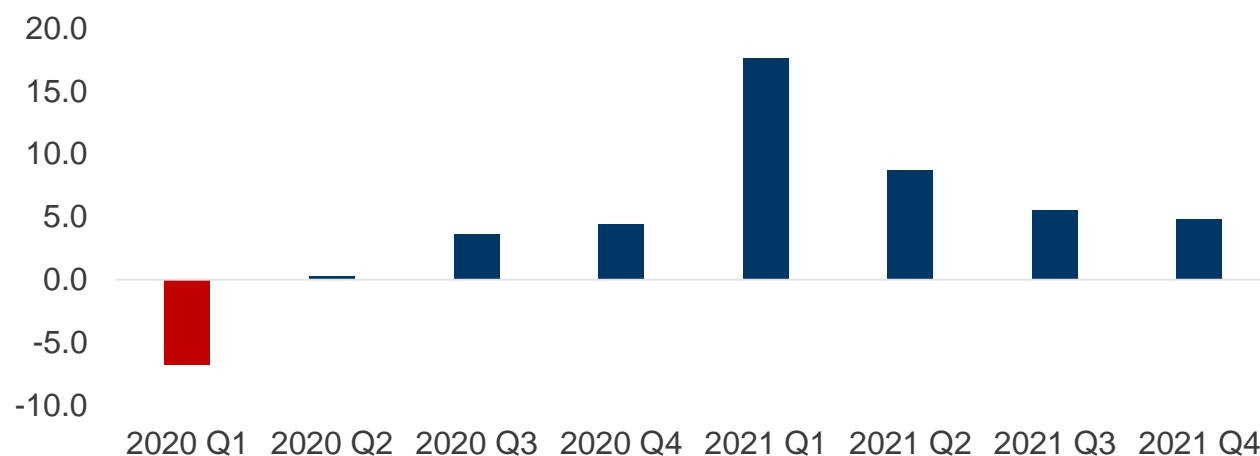
COVID-19 OUTBREAK

Impact on Greater China Growth

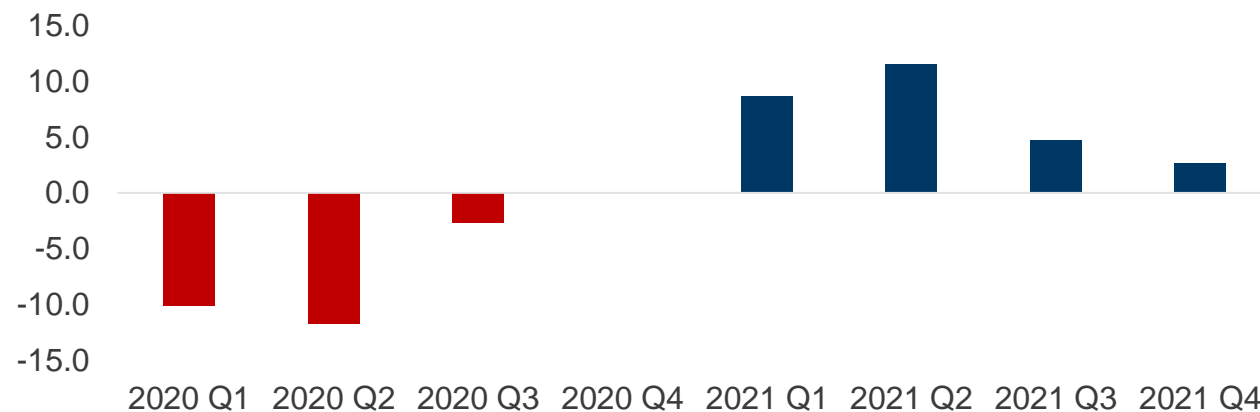
CHINA PMI



GDP GROWTH FORECAST, MAINLAND CHINA %



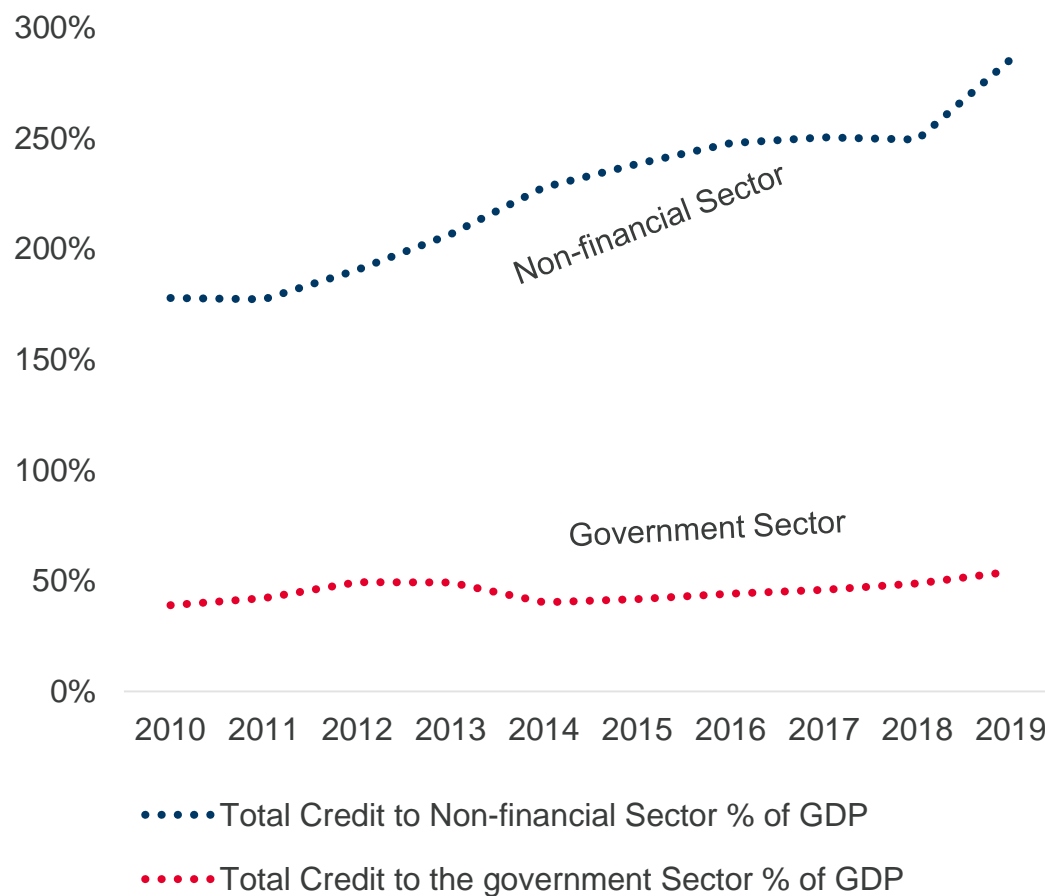
GDP GROWTH FORECAST, HONG KONG %



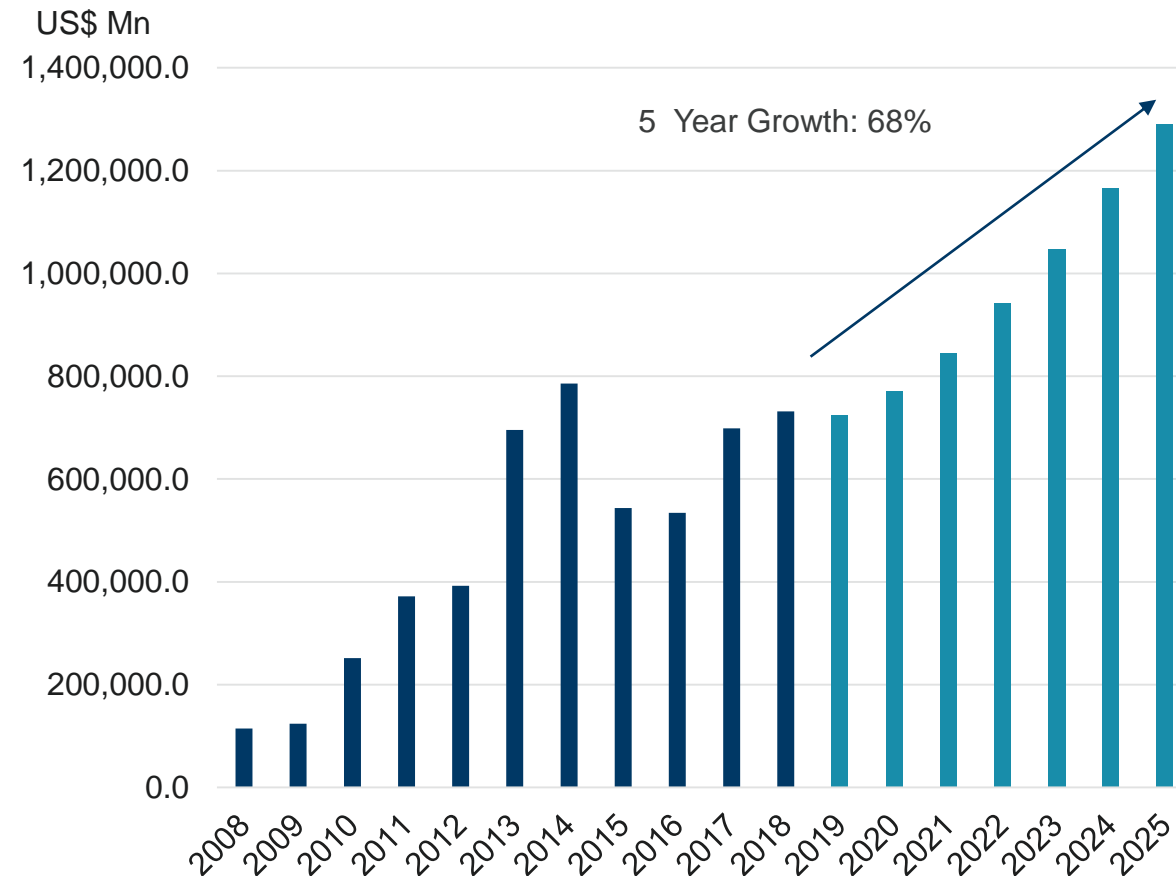
CHINA'S MOUNTING DEBT BURDEN

Growth of Debt

Total Credit to Current GDP



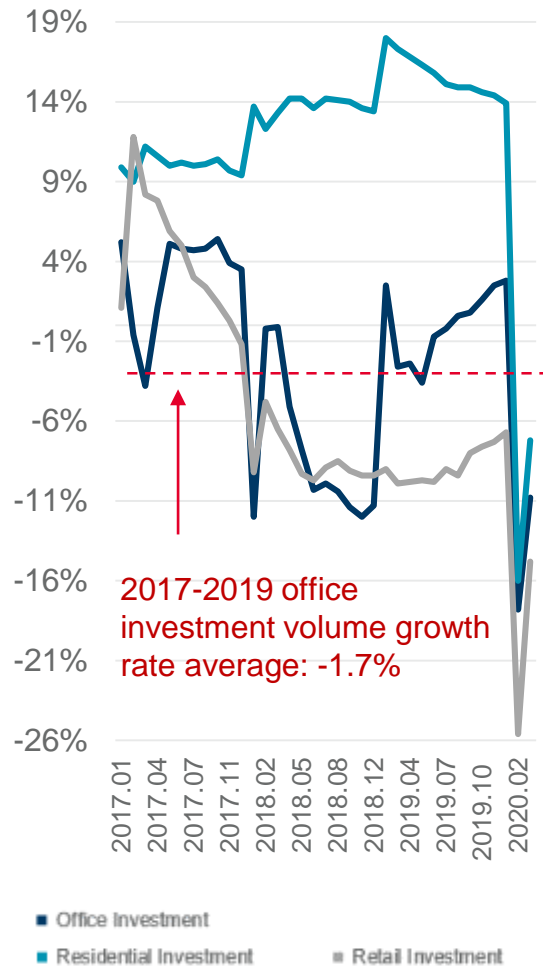
Cross-Border Loans from Foreign Banks



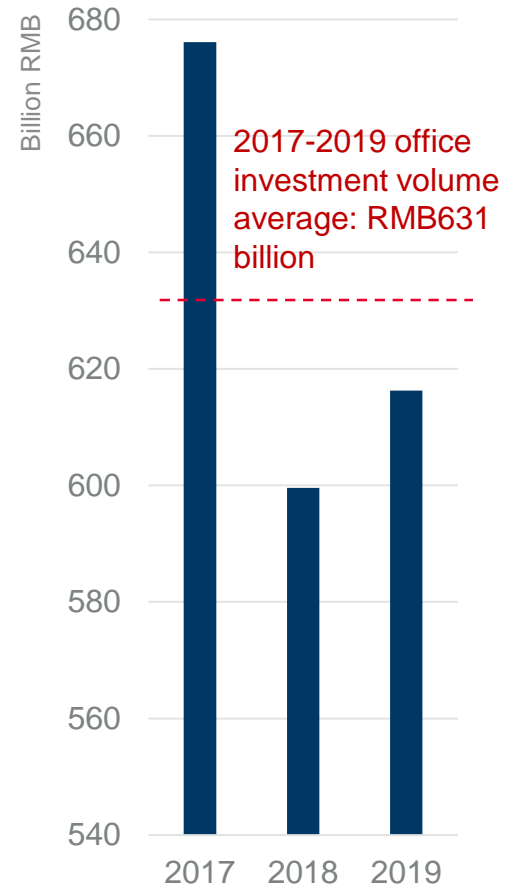
Non-financial sector: Sectoral classification that refers collectively to non-financial corporations, general government and households.
The series on credit to the government sector cover the following borrowing subsectors: central, state and local governments and social security funds.

REAL ESTATE INVESTMENT VOLUME & OFFICE PIPELINES

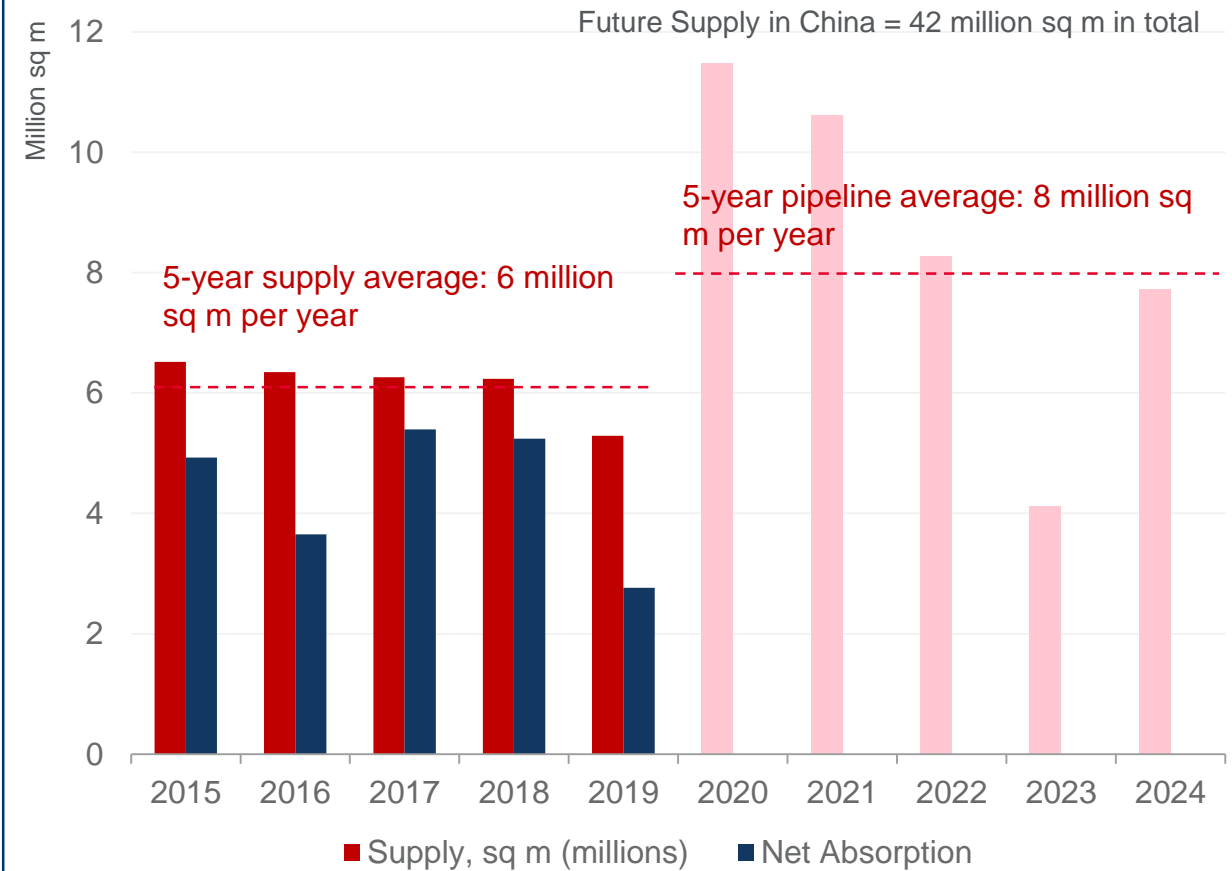
Real Estate Investment Volume Growth rate



Office Property Investment Volume (2017-2019)



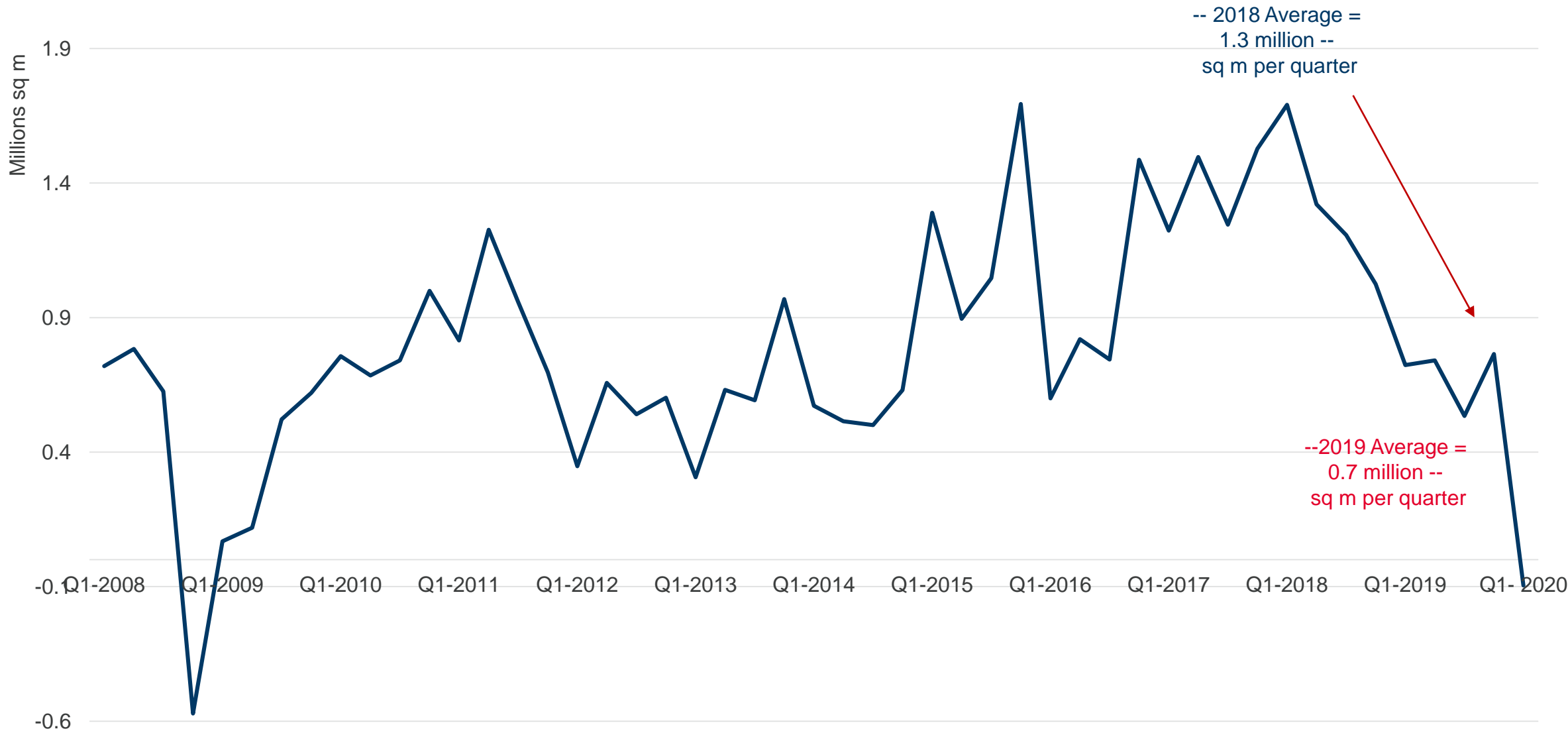
Greater China Supply & Demand



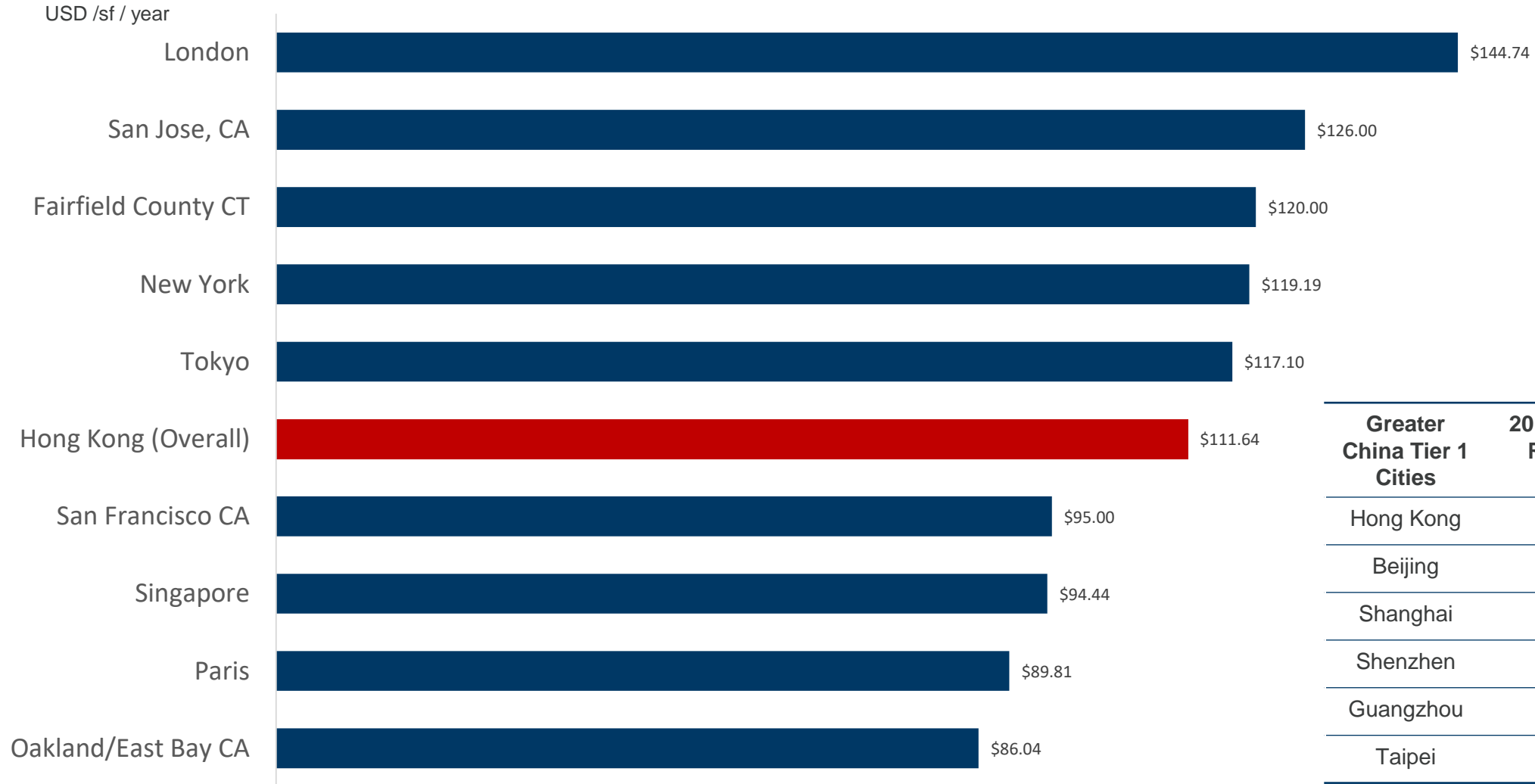
This data includes: Beijing, Shanghai, Guangzhou, Shenzhen; Changsha, Chengdu, Chongqing, Dalian, Hangzhou, Nanjing, Qingdao, Shenyang, Tianjin, Wuhan, Xiamen, Xi'an, Wuxi, Suzhou, Hong Kong, Taipei

GREATER CHINA OFFICE NET ABSORPTION

First Negative Absorption Since 2009



TOP 10 GLOBAL RENTAL RANKING 2019



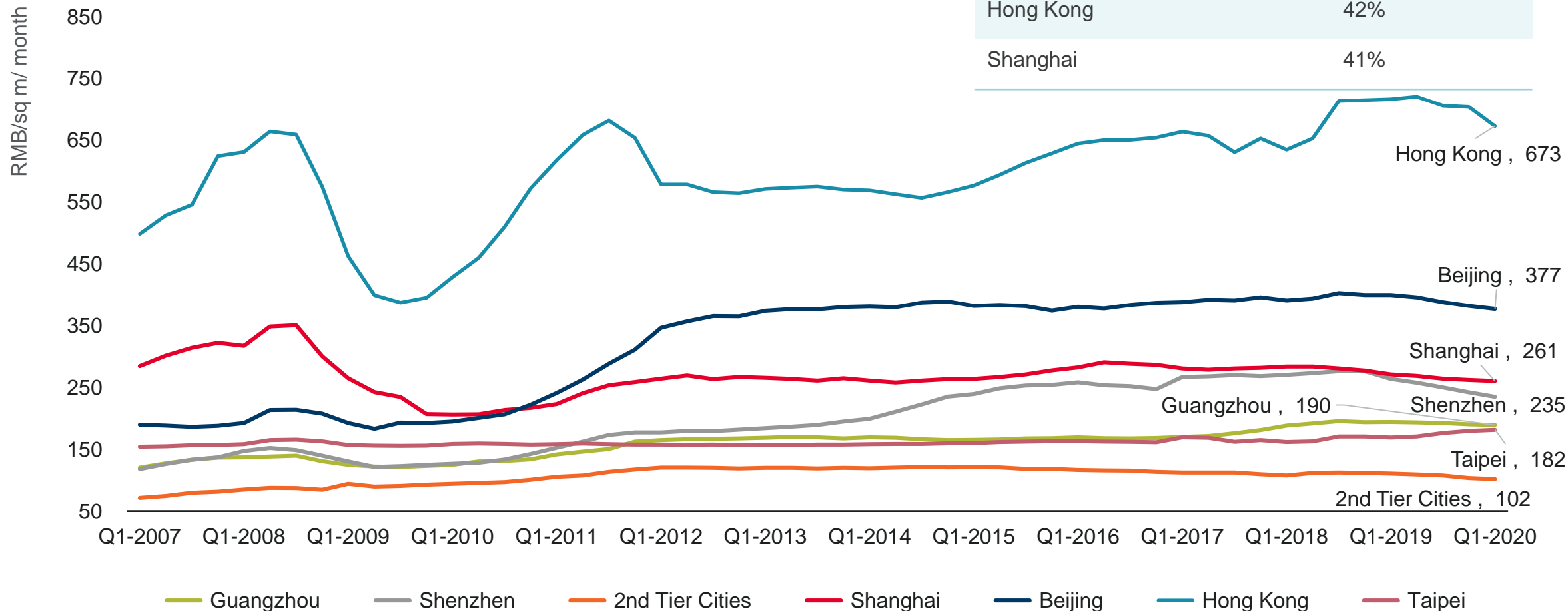
Greater China Tier 1 Cities	2018 Global Ranking	2019 Global Ranking
Hong Kong	2	6 ↓4
Beijing	15	26 ↓11
Shanghai	42	57 ↓15
Shenzhen	43	70 ↓27
Guangzhou	83	97 ↓14
Taipei	97	106 ↓9

*Red indicates Greater China market

GREATER CHINA OFFICE MARKET

Quality Office Rental Trend

Quarterly Trend: 2007 Q1 - 2020 Q1

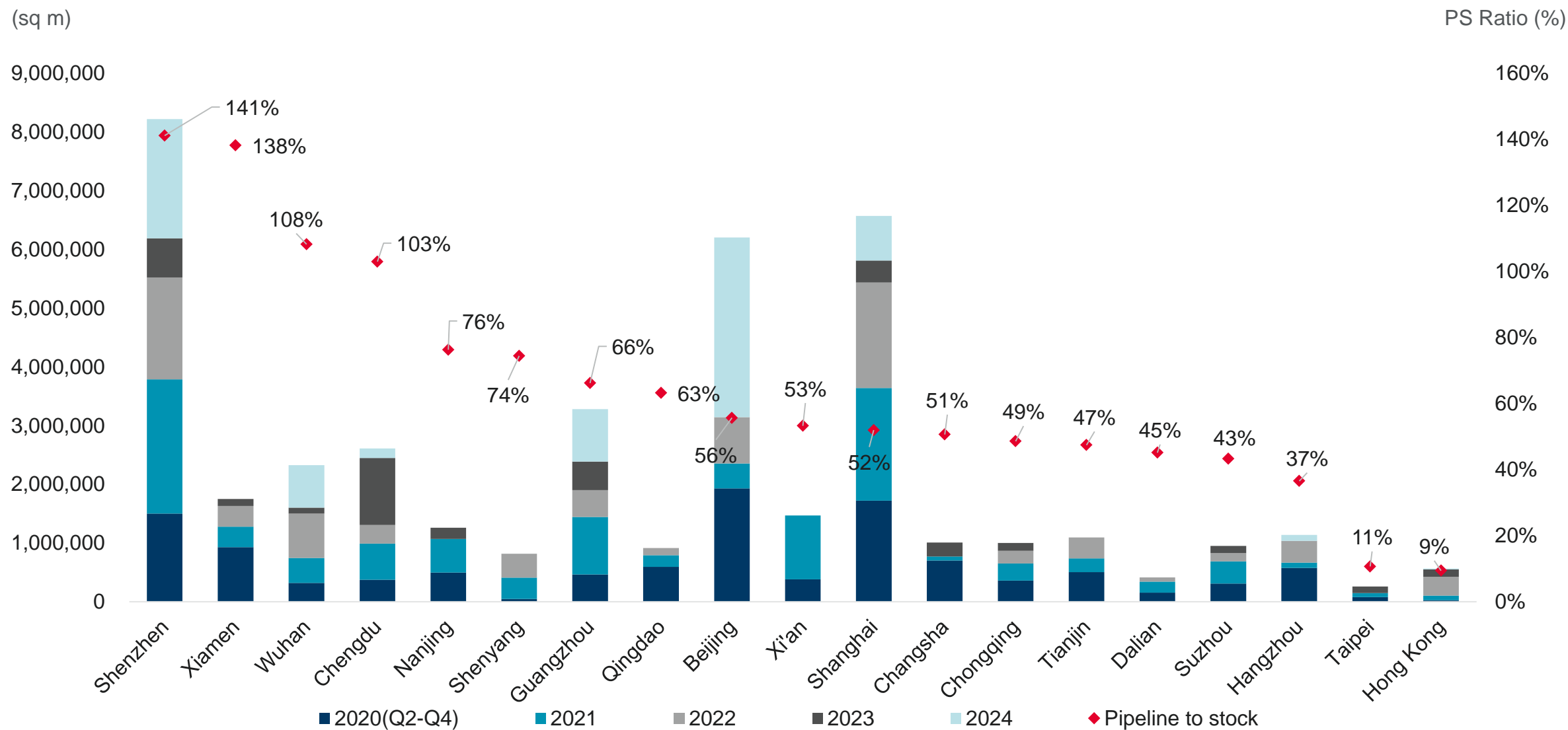


2nd Tier cities: Chengdu, Chongqing, Dalian, Hangzhou, Nanjing, Qingdao, Shenyang, Tianjin, Xiamen, Xi'an, Wuxi, Suzhou

*Due to Covid-19, Wuhan and Changsha's data cannot be collected

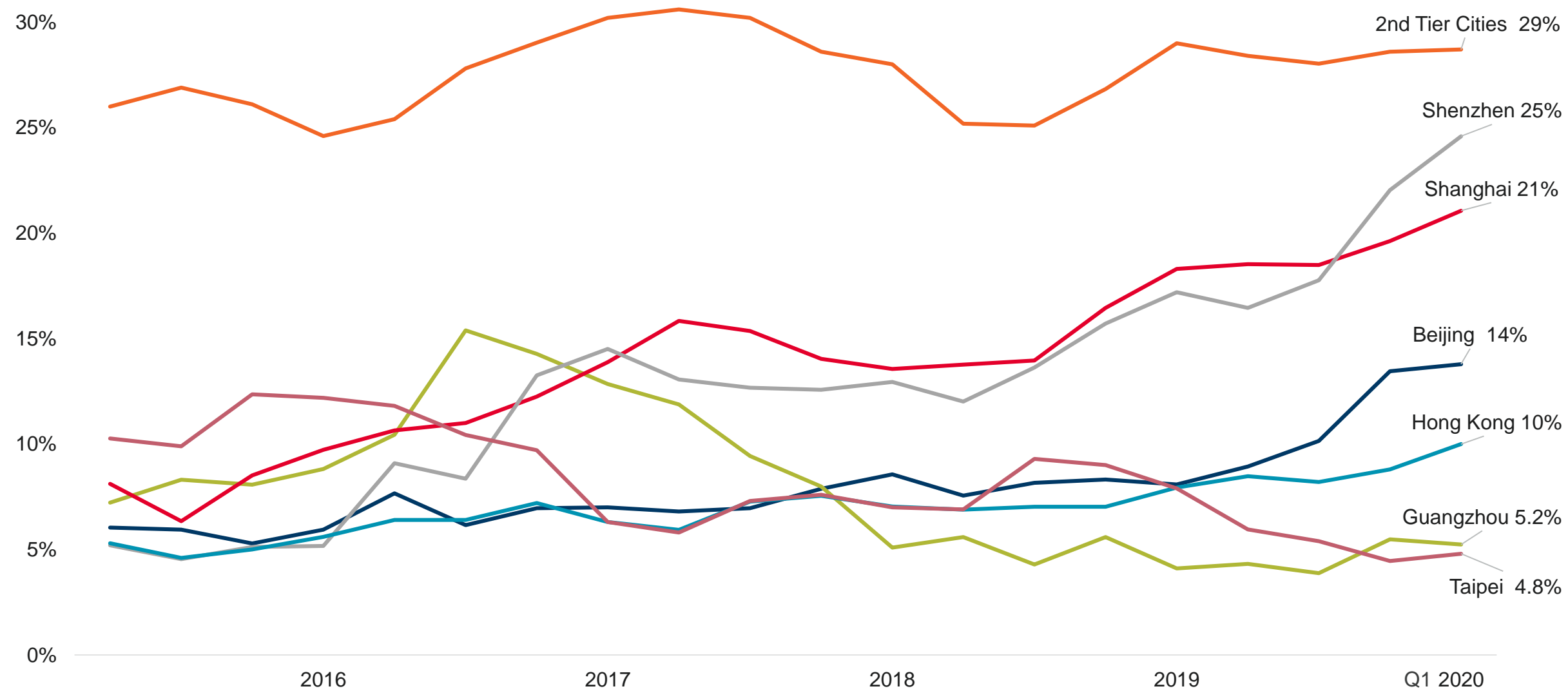
GREATER CHINA OFFICE SUPPLY PIPELINE

2020 – 2024



GREATER CHINA OFFICE MARKET

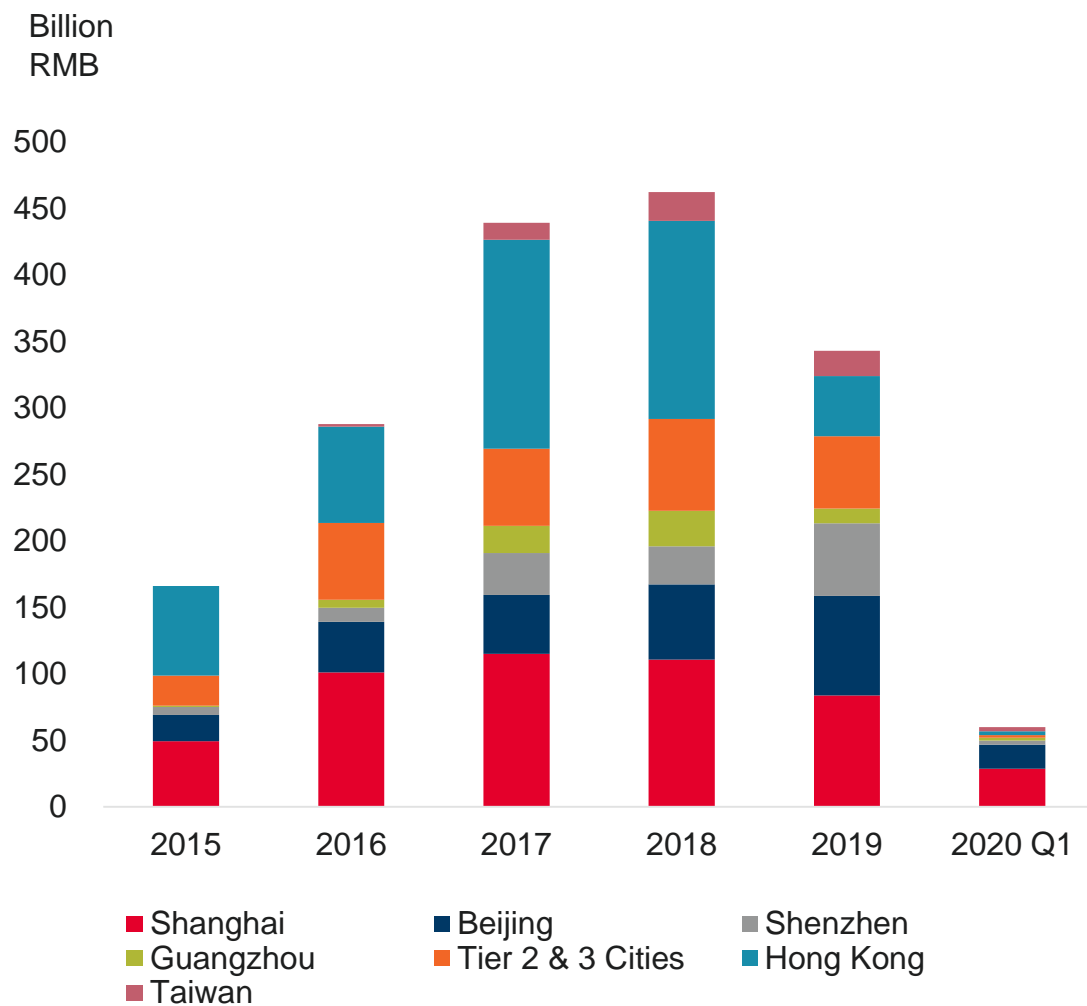
Quality Office Vacancy Rate



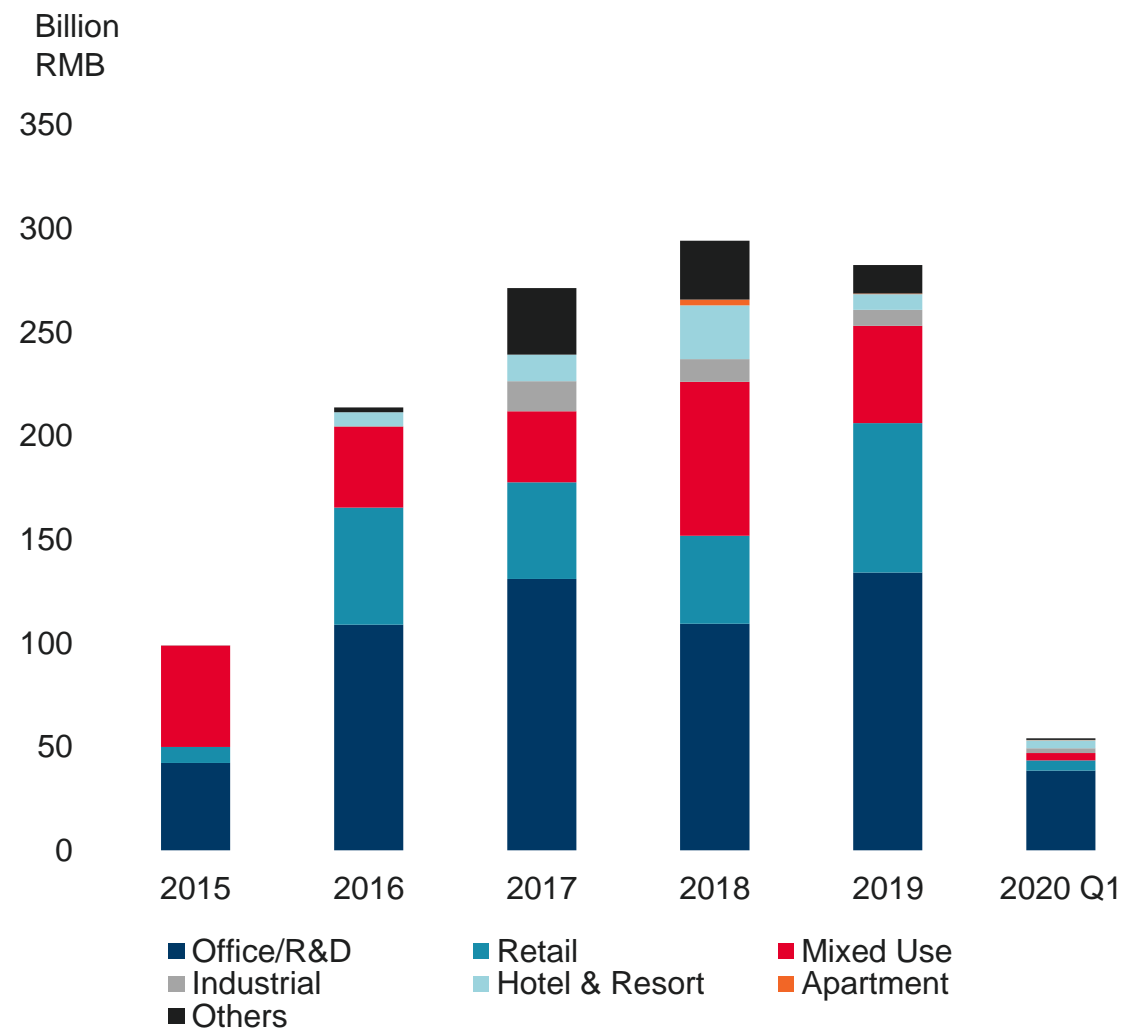
GREATER CHINA COMMERCIAL MARKET

Investment Volume

Greater China Investment Volume



Mainland China Investment Volume



KEY CITIES



- International investors remain active but have become more cautious due to impact of Covid-19, currency risks, rising office supply and vacancy and softening in rental returns.
- Office & Retail: a perception of softening price due to high levels of future supply and recent weakening in occupier demand
- Logistics assets remain highly sought-after albeit concerns on high levels of future supply and increasing participation by e-commerce operators to buy/build their own warehouses.



OFFICE

YIELDS (%) 3.5-4.5
PRICE (US\$/SF) 940-1040



- Strong forecast growth in tertiary-sector GDP and office-using employment in Beijing and Shanghai



- An influx of Grade A supply from 2020 to 2024
- Softening co-working demand



RETAIL

YIELDS (%) 3.5-4.5
PRICE (US\$/SF) 850-1500



- Relatively lower supply
- Demand for core asset remained relatively strong
- Opportunity for repositioning



- E-commerce
- Cooling economy
- Slowing population growth



LOGISTICS

YIELDS (%) 4.9-5.5
PRICE (US\$/SF) 110-130



- Steady rental growth
- Relatively higher yields
- Rapid e-commerce growth



- Softening manufacturing growth
- Trade tension
- Growth of owner occupier

KEY ECONOMIC STATS – 2020 FORECAST



GDP Growth Rate
0.7%



Employment Growth
-0.2%



Population Growth
0.4%



5-yr Interest Rate
3.3%



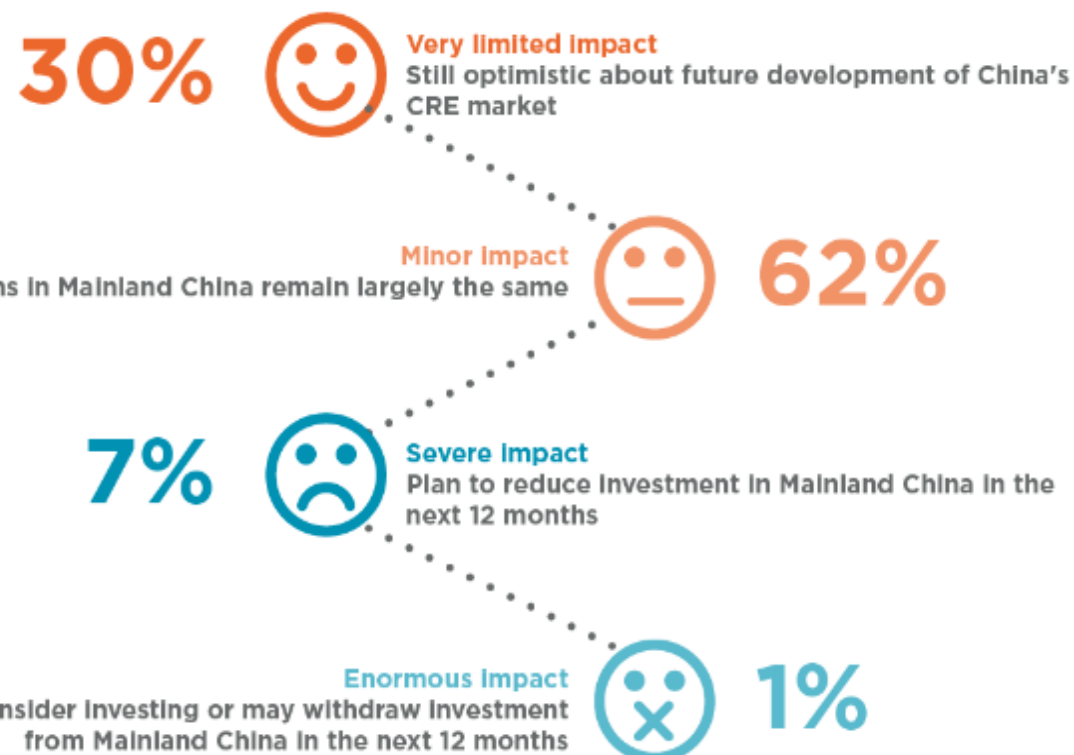
Retail Sales Growth
9.6%



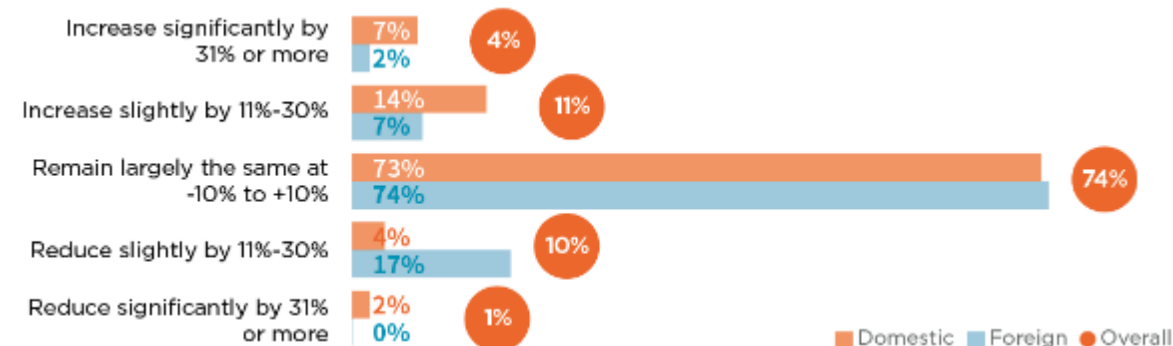
FX Outlook



HOW DO YOU THINK COVID-19 WILL IMPACT YOUR COMPANY'S CRE INVESTMENT PLANS IN MAINLAND CHINA?



HOW WILL YOUR COMPANY PLAN TO CHANGE YOUR 2020 TARGET INVESTMENT AMOUNT IN CRE IN MAINLAND CHINA COMPARED TO 2019?



HOW IS YOUR COMPANY'S PROGRESS IN INVESTMENT PROJECTS UNDER NEGOTIATION IMPACTED BY COVID-19?

	Overall	Domestic	Foreign
Accelerate the progress	1%	2%	0%
Minimal impact	20%	25%	13%
Wait-and-see	69%	64%	76%
Renegotiate business conditions	10%	9%	11%
Consider giving up on project negotiations	0%	0%	0%

2020 OUTLOOK FOR HONG KONG ALREADY GLOOMY AT START OF YEAR

Following a year marked by US-China trade tensions and social unrest

GDP

19Q3 ↓ 2.9%
19Q4 ↓ 3.4%

2020F – As of January

↓ **1.3%**



Source: Oxford Economics

Purchasing Managers' Index (PMI) (<50 indicates a contraction)

Escalating decline
since August 2019

NOV 2019

38.5

Lowest level since SARS



Source: IHS Markit

Hotel Occupancy

5-star hotel
occupancy rates plummeted

Q4 2019

56%

Lowest level since SARS



Source: HK Tourism Board

Retail Sales

Average monthly visitor
arrivals in Q4 2019

3.0M ↓ 51%

Retail sales in Q4 2019

↓ **22.4%**



Source: Hong Kong Census & Statistics
Department and Hong Kong Tourism Board

COVID-19 DEALS HONG KONG ECONOMY A THIRD BLOW

As border closures, mandatory quarantines, and social distancing take a toll

GDP

2020F – As of April

↓ **6.0%**



Source: Oxford Economics

Purchasing Managers' Index (PMI) (<50 indicates a contraction)

Plummets after a brief recovery in Dec/Jan

Feb 2020

33.1

Lowest level on record



Source: IHS Markit

Hotel Occupancy

5-star hotel occupancy rates drop even further

Mar 2020

12%

Lowest level on record



Source: HK Tourism Board

Retail Sales

Visitor arrivals in Mar 2020

82,285

Retail sales in Mar 2020

↓ **42%**

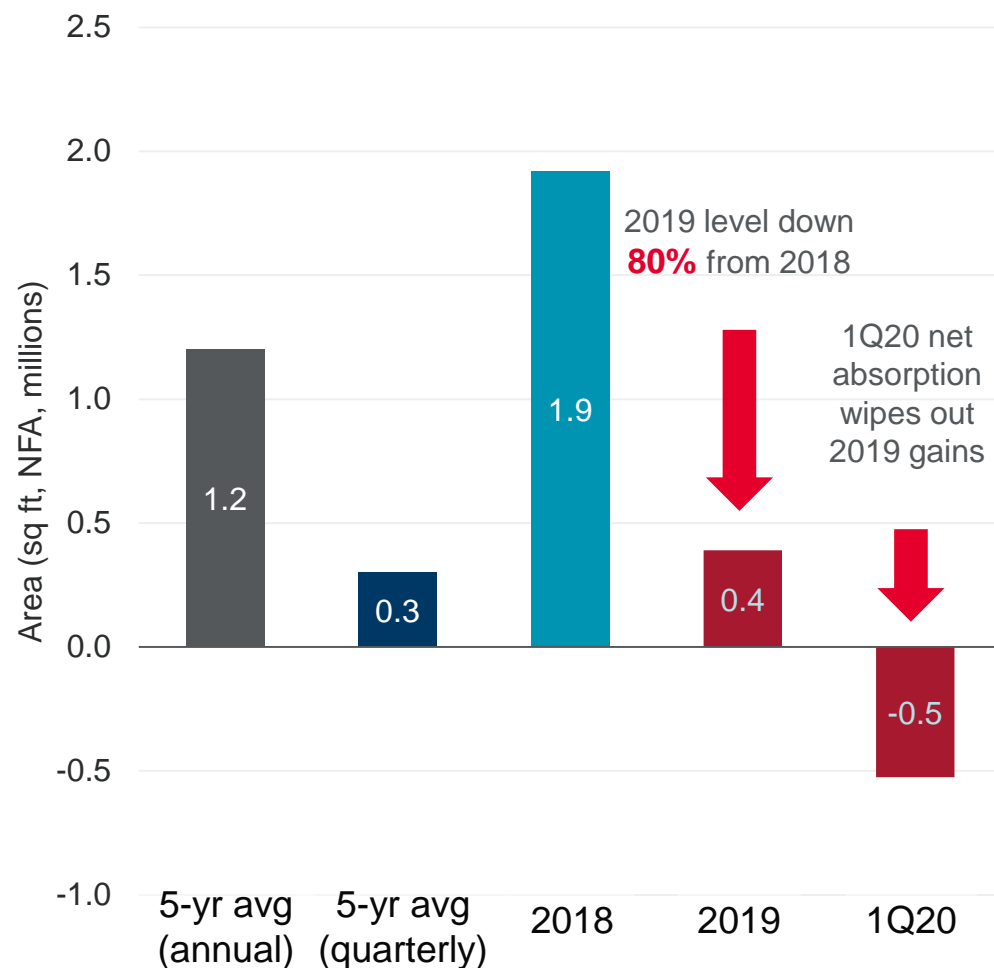


Source: Hong Kong Census & Statistics Department and Hong Kong Tourism Board

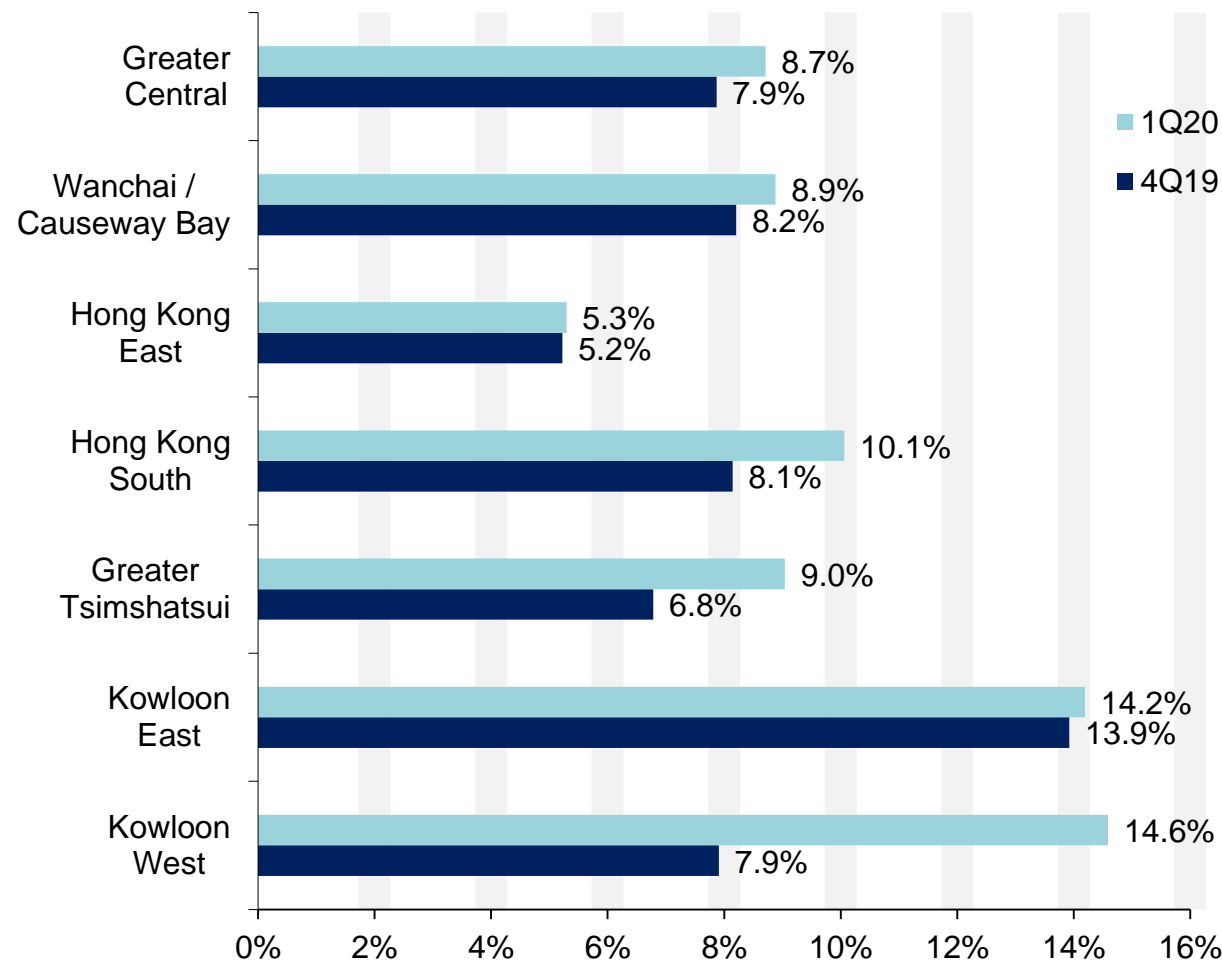
GRADE A OFFICE DEMAND IN Q1 SHRINKS BY MOST IN 18 YEARS

Pushing availability to a 10-year high

Grade A Office Net Absorption



Grade A Office Availability



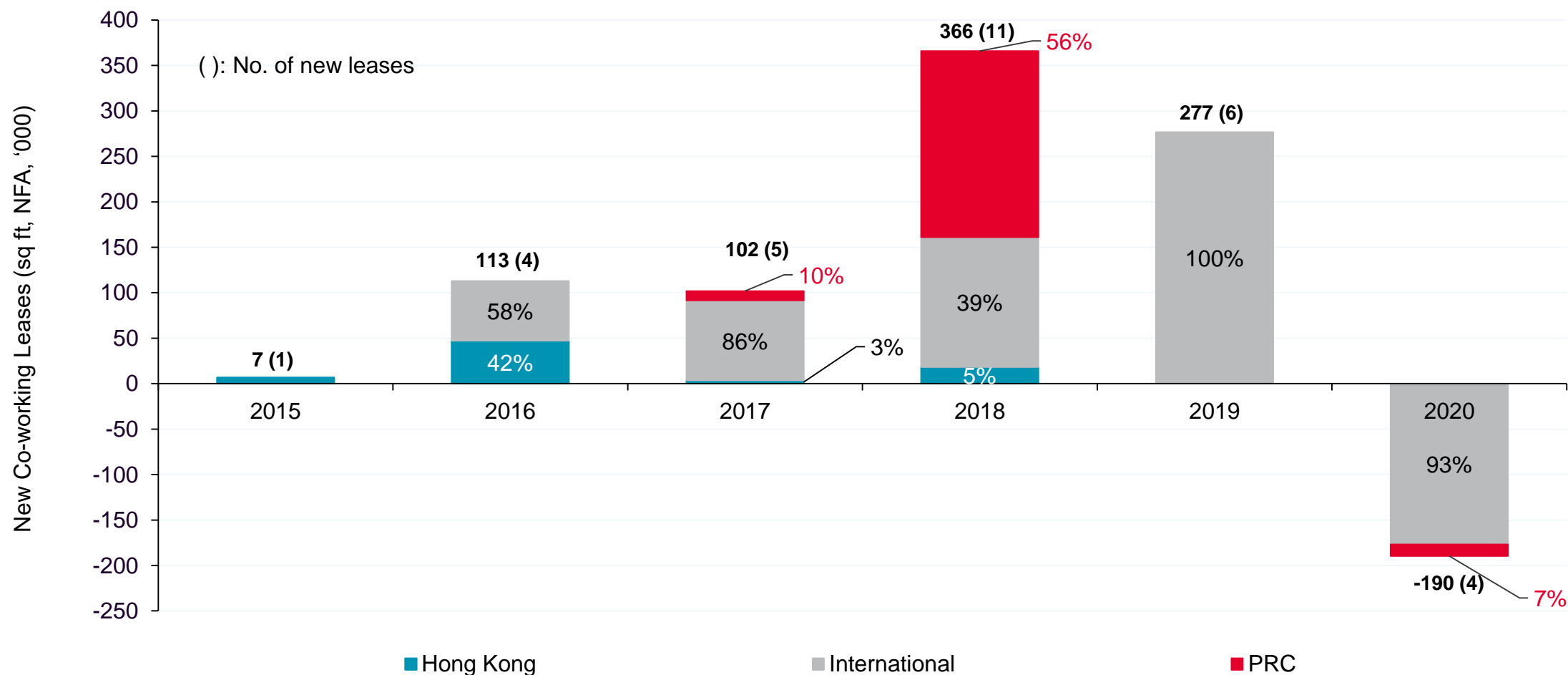
Note: All figures are rounded to the nearest hundreds

Source: Cushman & Wakefield Research

CO-WORKING OPERATORS STARTED TO DOWNSIZE

After two years of aggressive expansion

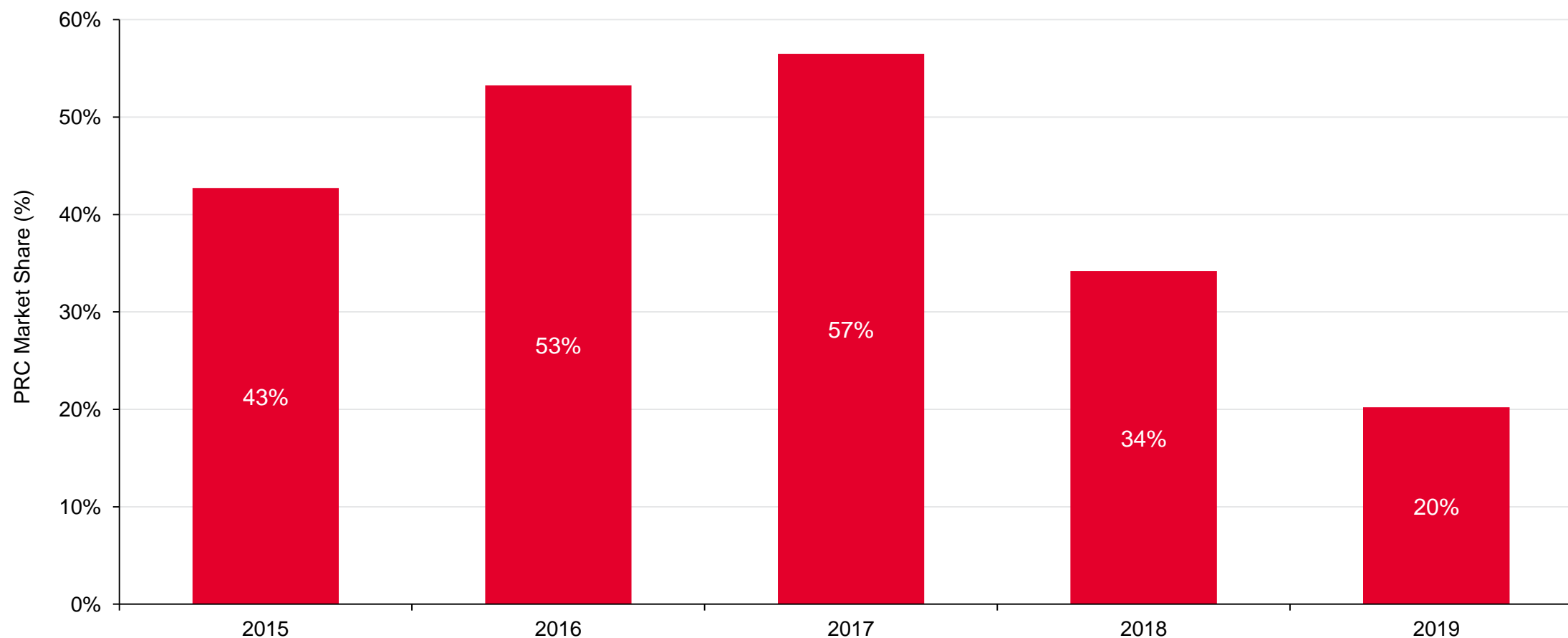
Total Grade A Office Areas Leased



PRC OFFICE DEMAND DROPPED TO A 5-YEAR LOW

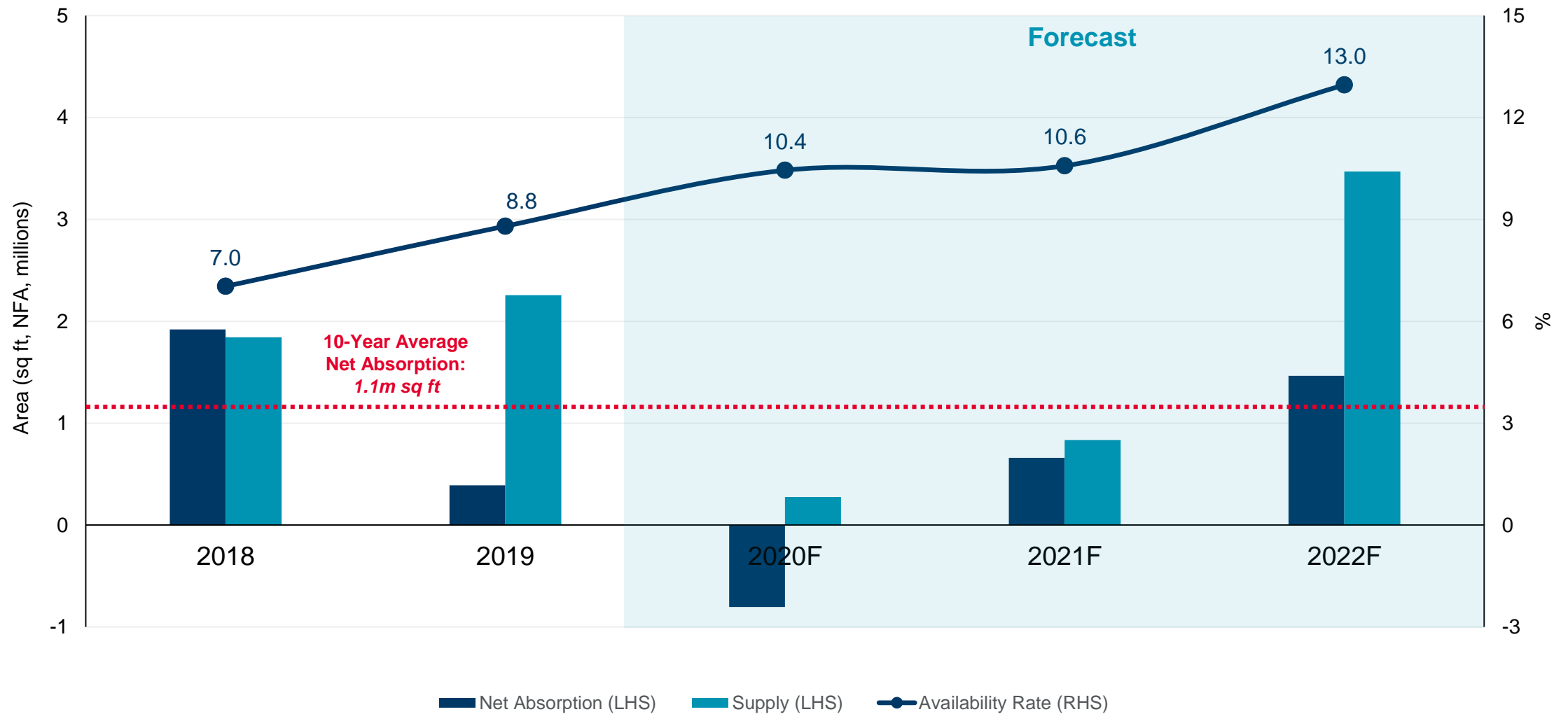
Unlikely to recover over the near-term

Market Share of PRC Requirements to New Leases in Greater Central



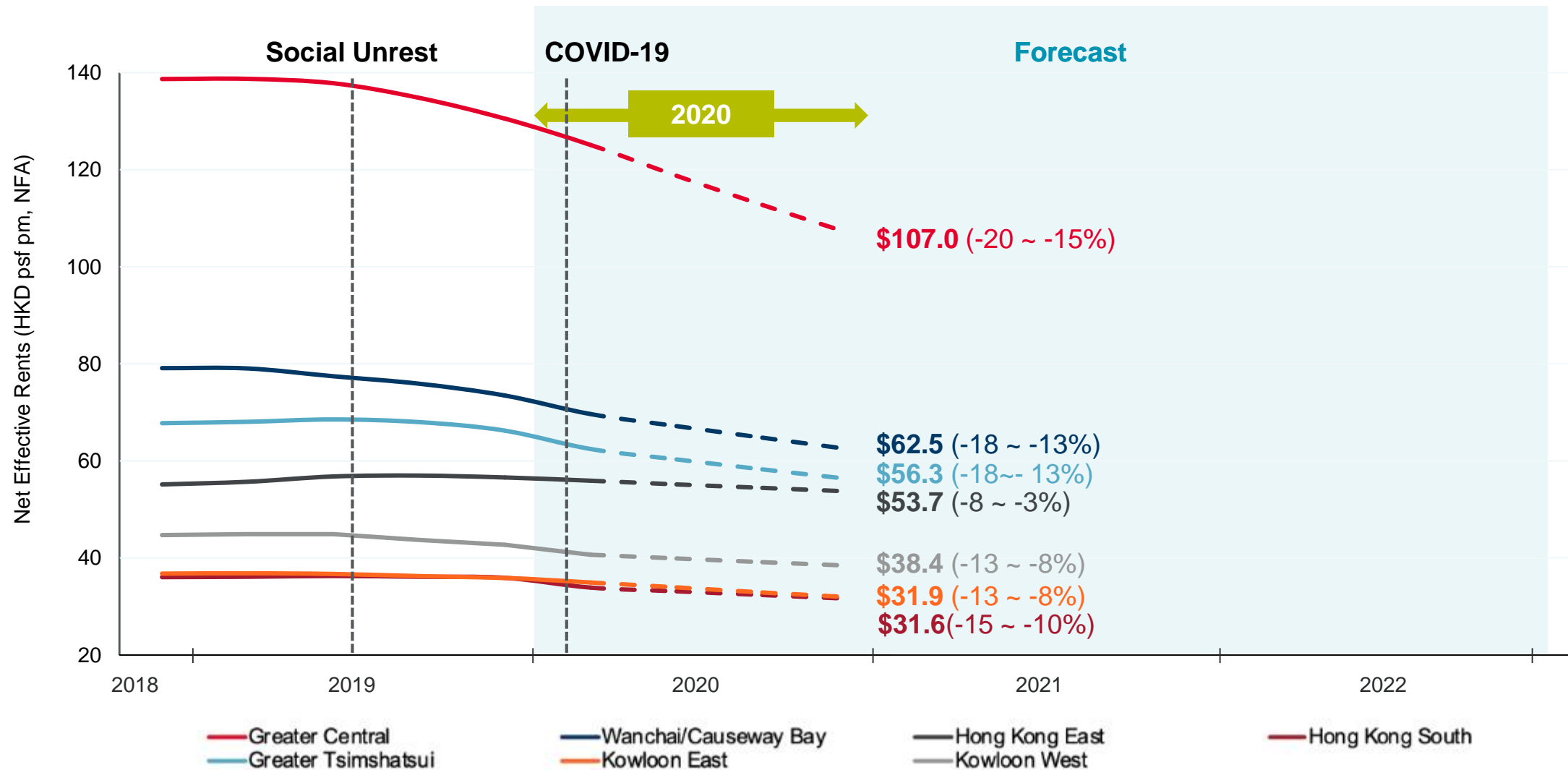
WHAT'S THE OUTLOOK FOR THE MARKET?

Limited new supply over the next two years... but also limited supply



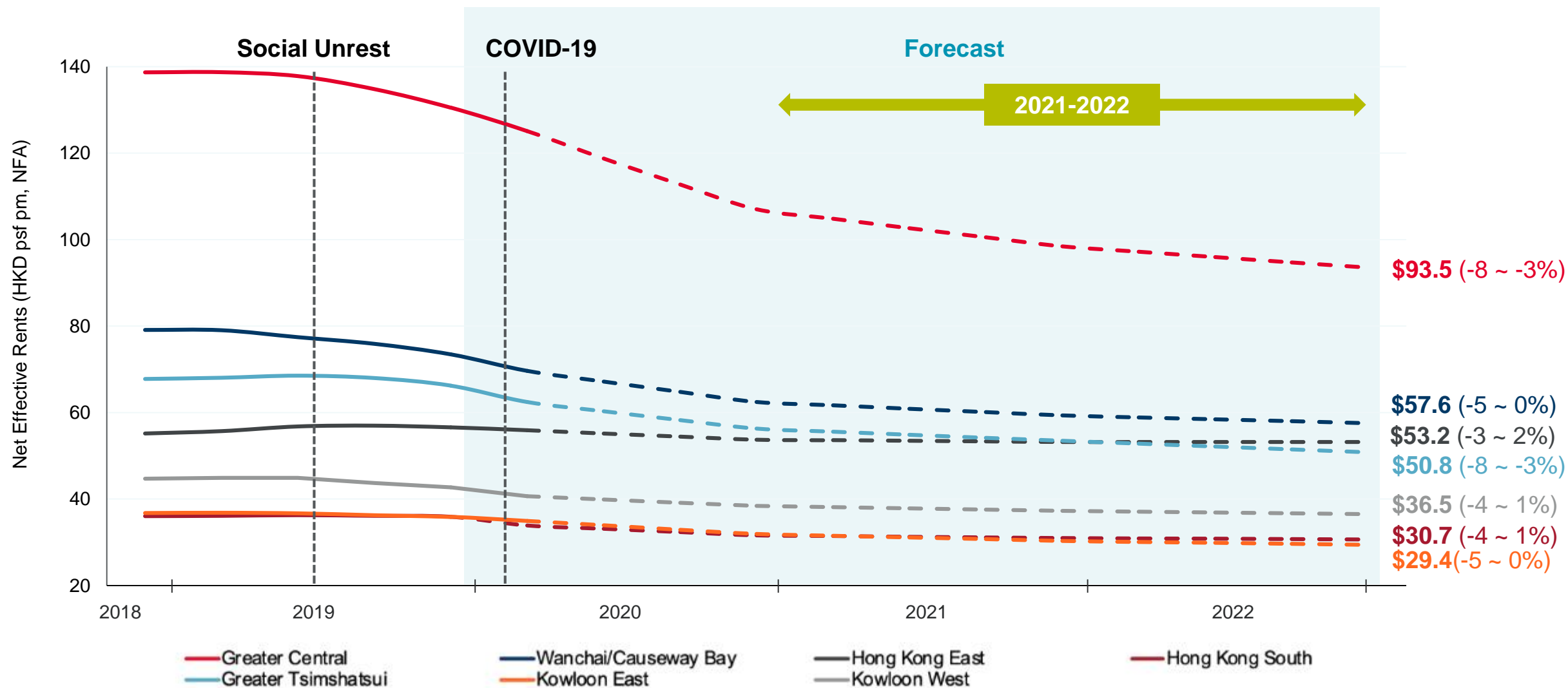
RENTS TO FALL SHARPLY IN 2020

COVID-19 outbreak adds to uncertainties weighing on markets



RENTAL DECLINES TO CONTINUE THROUGH 2022

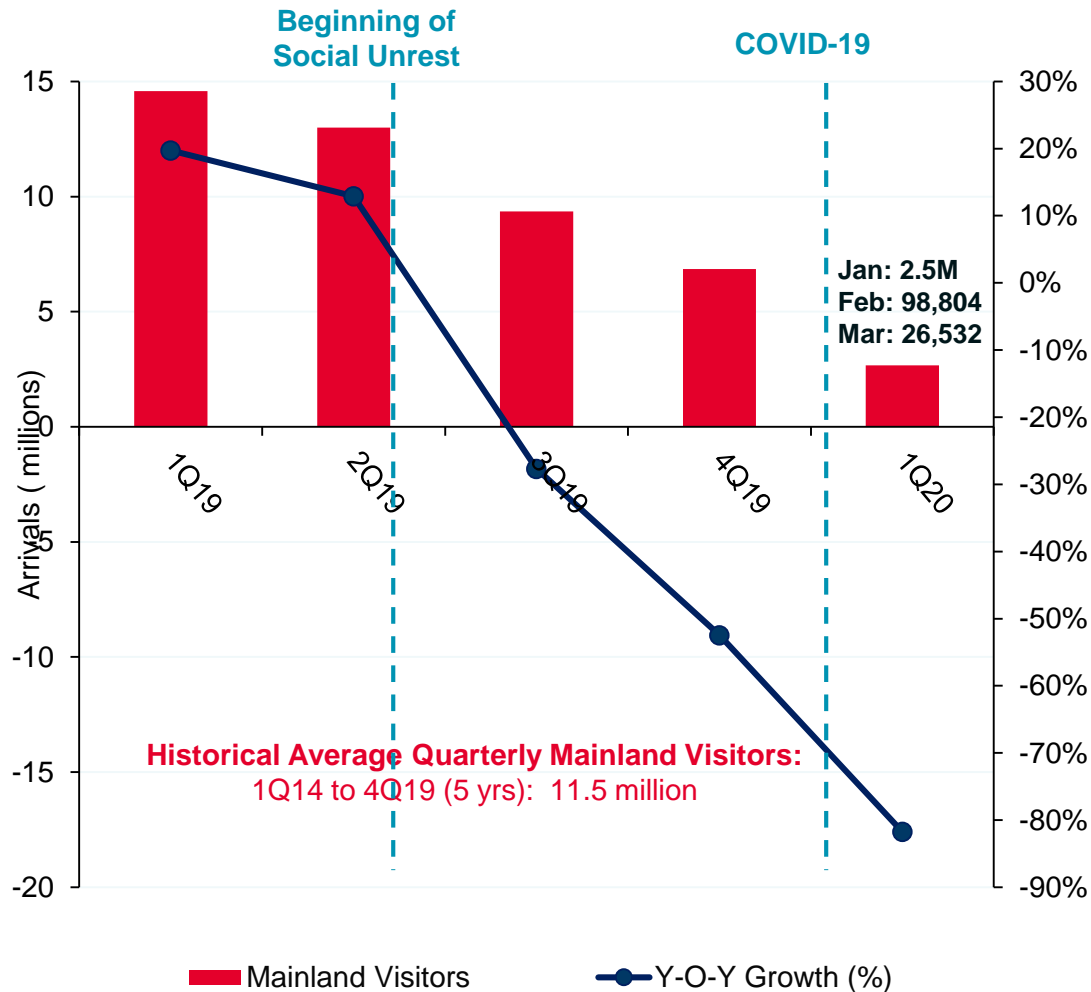
As a wave of new supply is set to hit the market



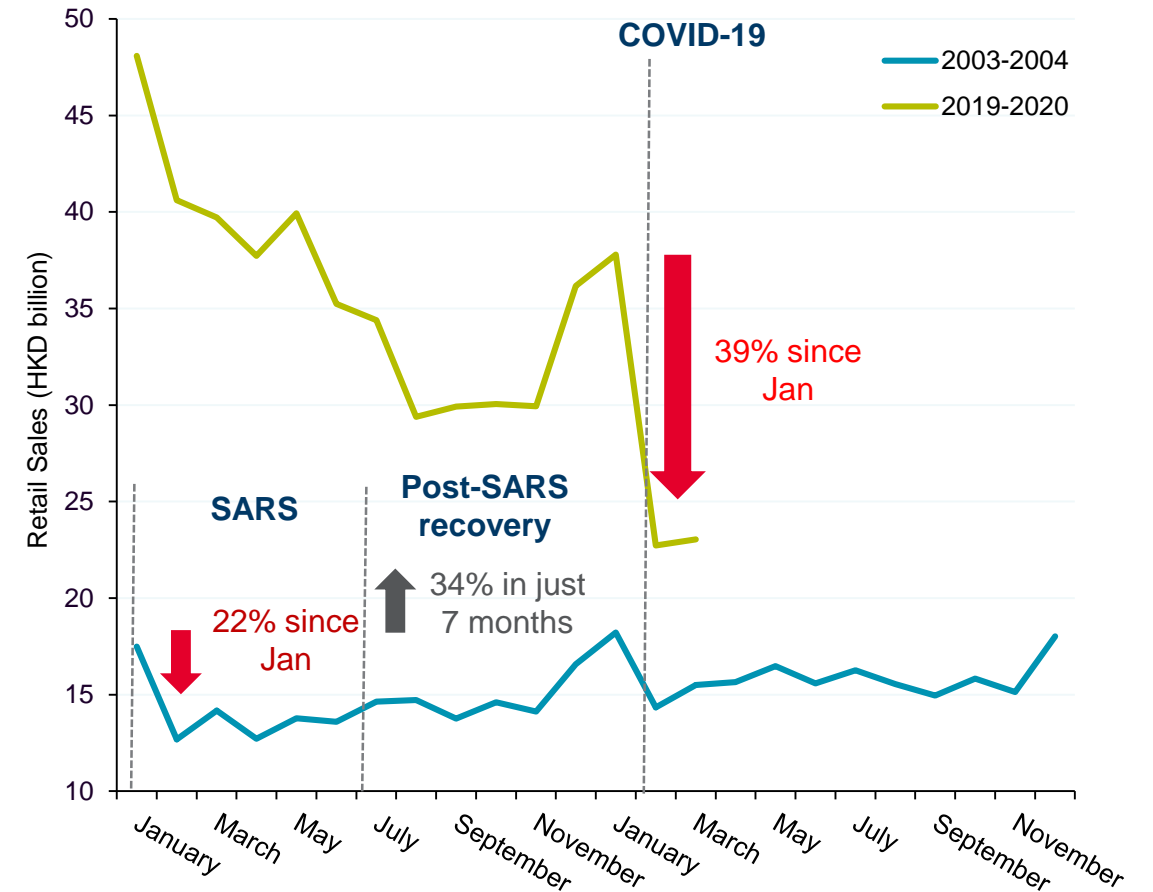
MAINLAND CHINESE VISITOR ARRIVALS PLUMMET DUE TO BORDER CLOSURES

Hitting retail sales hard

Mainland Chinese Visitor Arrivals

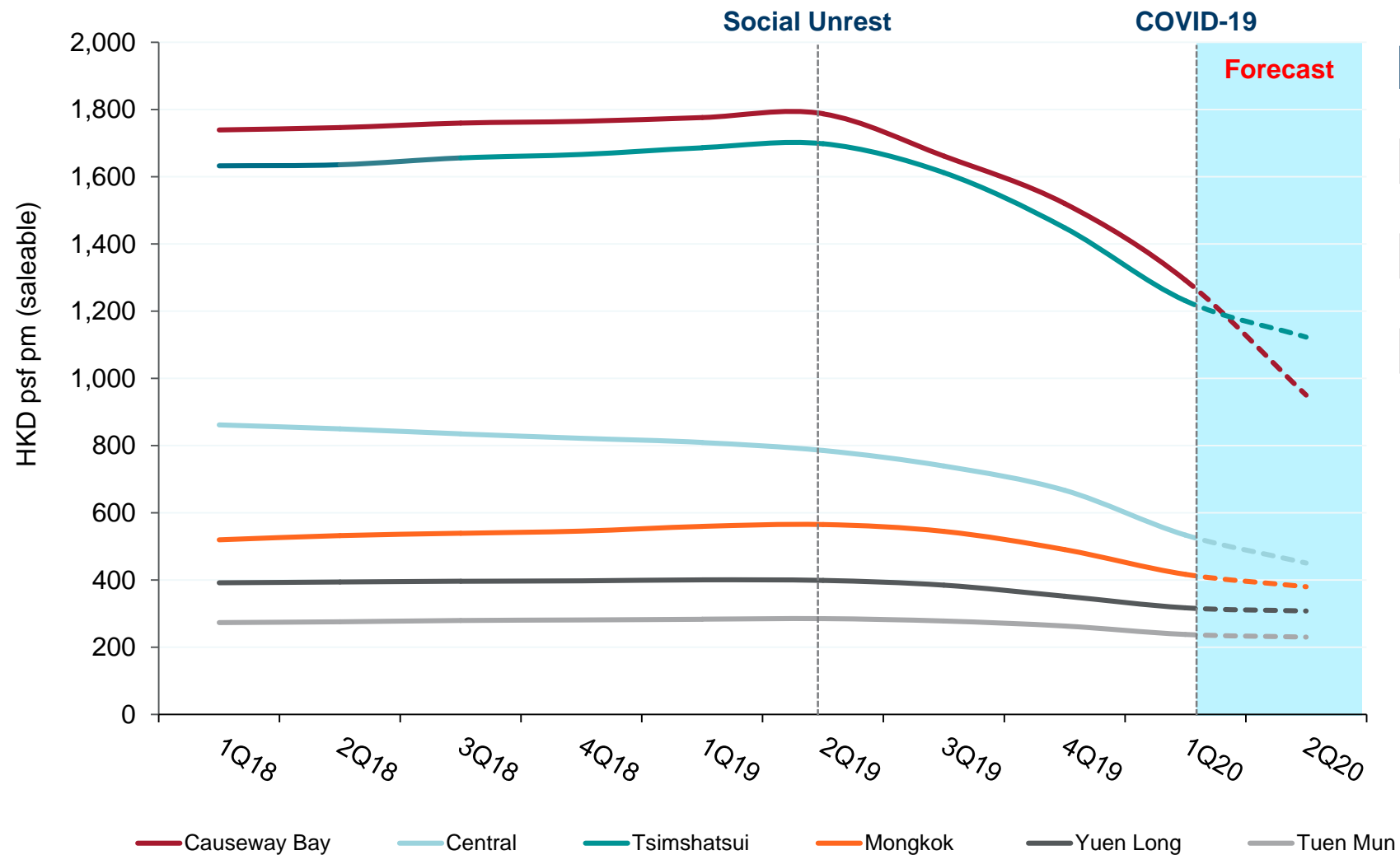


Total Retail Sales 2019/20 vs. 2003/04



RETAIL RENTALS SEE STEEP DECLINES ACROSS ALL DISTRICTS

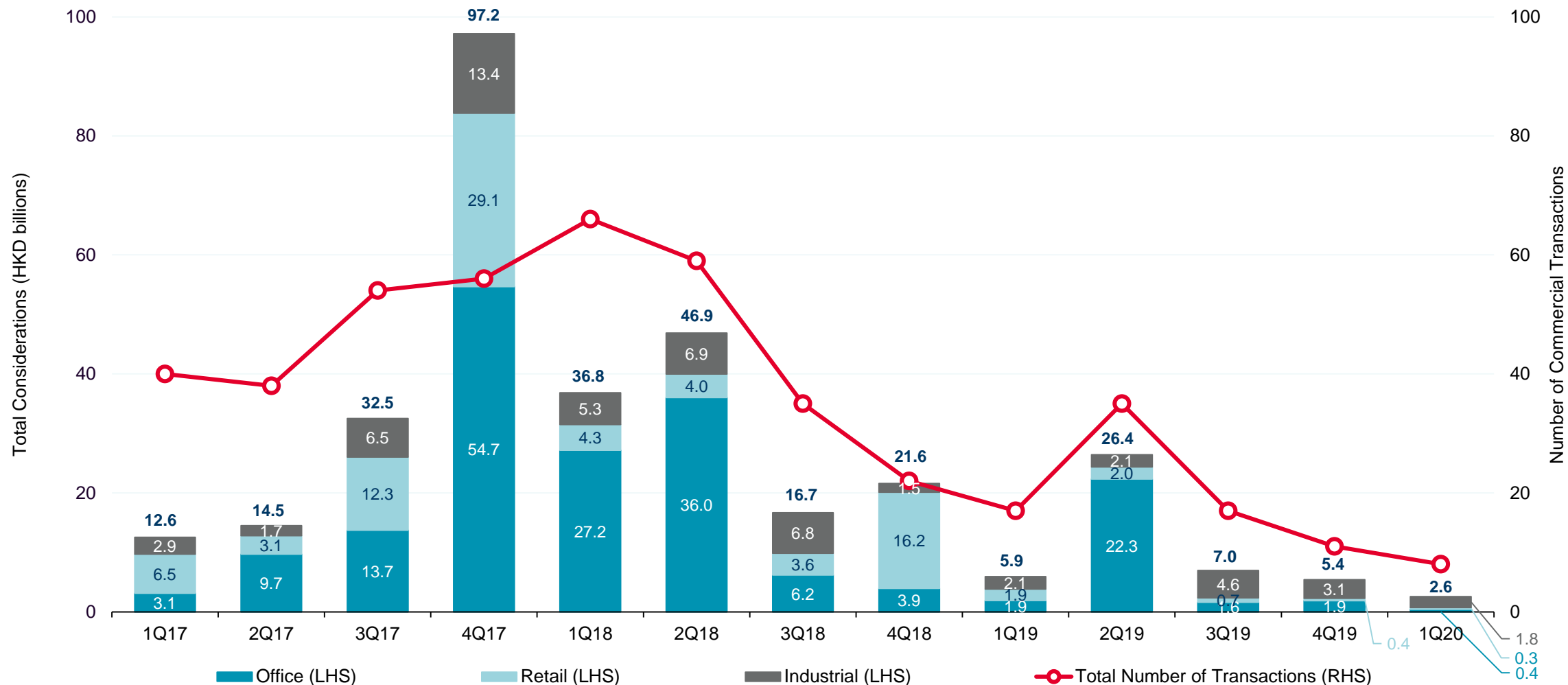
Downward adjustment is expected to continue in 2H 2020



Districts	Q-o-Q Δ	1H2020F
Causeway Bay	-15%	-40 ~ -35%
Central	-20%	-35 ~ -30%
Tsimshatsui	-15%	-25 ~ -20%
Mongkok	-15%	-25 ~ -20%
Yuen Long	-10%	-20 ~ -15%
Tuen Mun	-9.5%	-15 ~ -10%

INVESTMENT VOLUME FELL TO ITS LOWEST LEVEL SINCE THE GFC

Retail was the weakest sector; office fared little better; industrial was relatively more resilient



Note Only include transactions over HKD 100 million

Source: HKEx; EPRC; Media articles; Company websites; RCA; Cushman & Wakefield Research

KEY CITIES



OFFICE

YIELDS (%) 2.6-3.2 **PRICE (US\$/SF)** 1,300-3,900 **SPREADS (BPS)** 230-290



- Limited new Grade A supply before 2021



- Demand set to remain weak over near term
- Rents now in downward cycle



RETAIL

YIELDS (%) 3.0-3.5 **PRICE (US\$/SF)** 4,200-5,500 **SPREADS (BPS)** 270-320



- Some signs of new market entrants/bargain hunters
- Non-discretionary retail relatively resilient



- COVID-19 has resulted in steep drops to tourism
- Rents to drop further



LOGISTICS

YIELDS (%) 3.0-3.5 **PRICE (US\$/SF)** 500-700 **SPREADS (BPS)** 270-320



- Limited premium warehouse supply
- Growing demand for e-commerce



- Demand being hit by impacts to supply chains
- Limited tradeable stock

- Investment activity has slowed significantly in Q1 as the COVID-19 outbreak has disrupted business and weakened sentiment
- All major players, including the previously-active PERE funds, are now on the sidelines
- Transaction volumes have fallen to historic lows, with prices to remain under pressure

KEY ECONOMIC STATS – 2020 FORECAST



GDP Growth Rate
-6.0%



5-yr Interest Rate
0.8%



Employment Growth
-4.5%



Retail Sales Growth
3.3%



Population Growth
0.8%



FX Outlook



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Q&A

*Please click on the Q&A icon on the top right hand corner
of your window to submit your questions.*

This live webinar has now ended.

THANK YOU

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