MARKETBEAT

SHANGHAI

Capital Markets Q4 2019

CUSHMAN & WAKEFIELD

	YoY Chg
84.12B YTD Investment Volume (RMB)	-23%
70,980 Office Capital Value (RMB/sq m)	-1.1%
4.4% Office Gross Yield	-20 bps

ECONOMIC INDICATORS Q3 2019

	YoY Chg	12-Mo. Forecast
6.0% GDP growth (annualized)	▲	▲
2.2% CPI growth	▬	▬
3.0% 5-year government bond rate	▼	▬

Source: Shanghai Statistics Bureau, Cushman & Wakefield East China Research, the forecast is based on Oxford Economics

Investment Volume Down in Cautious Environment

Peak deal-completion time failed to materialize in Q4 as investors continued to adopt a wait-and-see attitude. Just six deals were closed in Q4, continuing the downward trend. Consequently the market added a total of RMB6.07 billion of transaction value for the quarter, raising the total consideration in 2019 to approximately RMB84.12 billion – down 22.6 percentage points y-o-y. The underperforming transaction volume of the last quarter, down 53.1% from Q3 and 85.3% from the previous year, was influenced by the U.S. - China trade dispute and the slowing economy, and the consequent impact on the city's prime office and retail markets.

Mainland Investors Take the Lion's Share

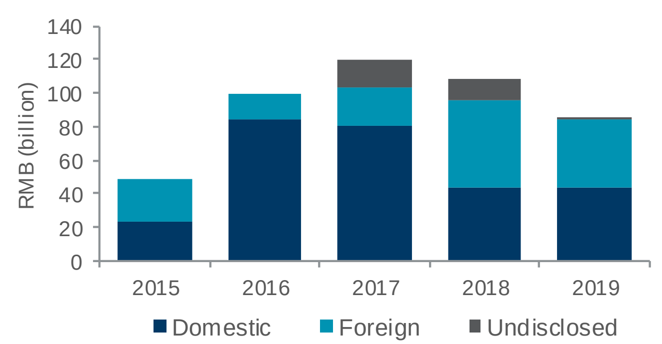
Overseas investors were following the Renminbi exchange rate during the quarter. Many were holding out for a better rate, even though it had been hovering at a 10-year low. Thus, out of the six recorded deals, four were executed by domestic investors. However, the Renminbi has strengthened in recent weeks, beating pessimistic expectations, and this trend is likely to continue for the foreseeable future with international trade negotiations back on track. In response we may see greater interest from overseas investors in the near-term as they see the exchange rate bottoming out.

Investors Interested in More Sectors

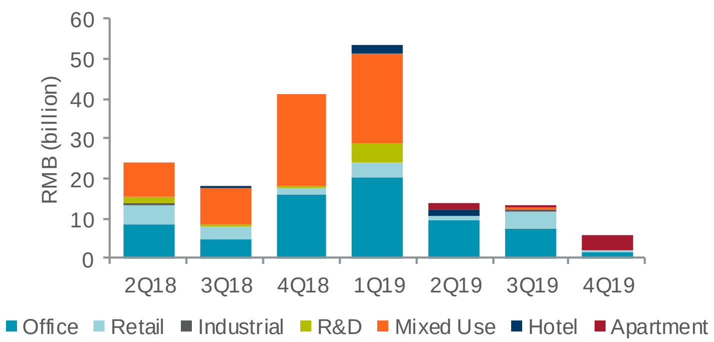
Investors showed interest in a variety of property types and entered more sectors in Q4. The apartment sector ranked first, taking 63.8% of the total market consideration in the quarter. The office and retail sectors followed, with 27.9% and 6.6%, respectively. However, for the full year of 2019 the office sector remained the most favored asset class in the Shanghai capital market, with nearly half of total capital flowing into the sector.

Finally, some investors are seeking capital value growth through change of use. For example, in Q4, one investor purchased a hotel project with the intention to reposition the project into a high-quality long-term leasing apartment. Ahead, we expect more change-of-use investment deals of this nature to be executed in Shanghai.

INVESTMENT VOLUME BY CAPITAL SOURCE



INVESTMENT VOLUME BY SECTOR



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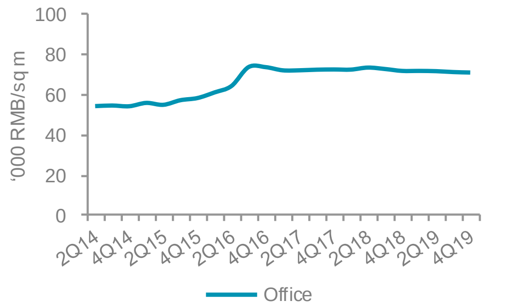
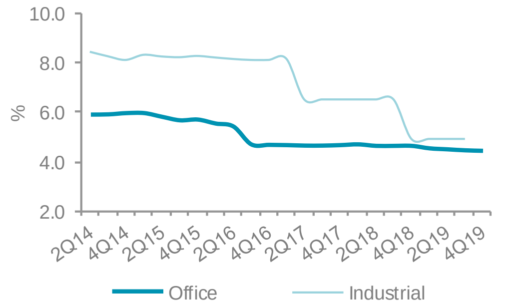
Capital Value



Gross Yields



Yields Rebound Against Capital Value Compression

Yields in the office sector adjusted to a new normal, changing from compression to growth. Yield in the retail sector was relatively stable in 2019. Given the high capital value, yield compression is expected to continue during the coming quarters.

Office and Retail Rents Experience Further Downward Pressure

Limited new office supply launched in Q4 and overall leasing demand in the Grade A market was strong. TMT, Professional Services and Finance were the top three industry sectors driving leasing demand. Despite robust demand, newly completed projects drove the city's overall vacancy rate to 19.6% (13.6% in the core area; 29.9% in the suburban area). The vacancy rate was up by 1.13% q-o-q. By 2023, a total of 5.9 million sq m of new Grade A office space is expected to be completed in Shanghai, with the core area future supply only accounting for 29.5% of the supply.

Demand from the fashion and F&B sectors for prime retail space remained strong during the quarter. Absorption was further stimulated by renovations and brand mix adjustments at mature retail properties. The city's average ground floor monthly rent dropped to RMB902 per sq m, pulled down by competitive rentals at new projects in the emerging submarkets. However, in mature shopping malls monthly rentals rose by 0.9% to RMB1,985 per sq m, driven by renovations, tenant adjustment and high occupancy rates. Thirty-seven new retail projects with nearly 3,724,000 sq m of GFA are scheduled to launch in 2020. The wave of new supply will exert downward pressure on the city's average rent.

Decentralized Business Districts to Attract More Interest

Two-thirds of deals in Q4 were in decentralized areas. Given high prices and uncertainty in capital value growth in the city's core areas a growing number of investors now prefer DBD assets with rental growth potential. Mature emerging areas which will continue to gather investor interest over the coming year include Hongqiao Hub and Zhangjiang.

Finally, in November, China's State Council issued policies to further protect and stimulate foreign investment in the country, and this will go a long way to support investment property investment growth in cities such as Shanghai in the future.

Key Sale Transactions

PROPERTY	LOCATION	PURCHASER	VENDOR	SECTOR	PRICE (RMB BN)
Riverside International Plaza #2	Yangpu	Lian Insurance	Shanghai Oriental Pearl	Office (En-bloc)	1.70 (50,000 psm)
Belvedere Serviced Apartment	Changning	Greystar	Gohigh	Serviced Apartment	1.62 (45,000 psm)
Xietu Road Retail Podium	Huangpu	PGIM	Private Owner	Retail	0.30 (35,000 psm)
Xingfulai Business Hotel	Baoshan	Jingrui Holdings	Private Owner	Hotel	0.10 (20,367 psm)
Lvshihui (Building Materials) Home Furnishings Market	Baoshan	Shanghai Rong Guang Group	Private Owner	Retail	0.10 (5,000 psm)

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