

SHANGHAI

Capital Markets Q4 2020



	QoQ Chg	3-Mo. Forecast
20.9 B Q4 Transaction Volume (RMB)	▲	▲
4.1% Office (CBD) Cap Rate	▬	▬
4.7% Business Park Cap Rate	▬	▬
4.0% Retail Cap Rate	▬	▬

Source: Cushman & Wakefield

ECONOMIC INDICATORS Q3 2020

	QoQ Chg	12-Mo. Forecast
-0.3% GDP growth (YTD)	▲	▲
2.3% CPI growth	▼	▬
3.3% 10-year government bond rate	▲	▼

Source: Shanghai Statistics Bureau, China Foreign Exchange Trade System, Oxford Economics

A Road Ahead to Full Market Recovery

The Shanghai investment market recorded 59 transactions in 2020, with total volume registering RMB72.2 billion, down 13.5% y-o-y. Of the full-year total, 15 deals totaling RMB20.9 billion were recorded in Q4, a leap of 446.1% q-o-q. Although the capital market has been steadily recovering from the impact of COVID-19, the aftermath persists, and it will take some time to return to pre-pandemic levels of investment activity.

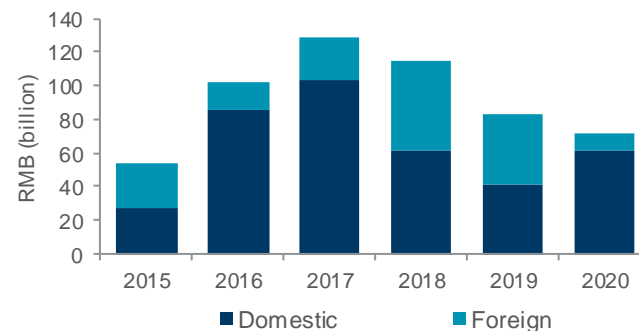
By real estate sector, office assets remain the most favored category for investors, accounting for 85% of total transaction volume in Q4. Hotel assets took a 15% share, followed by business parks at 10%, although we should note that the latter is likely to continue to attract investor attention due to stable rentals and occupancy rates.

Urban Renewal Projects And Auctioned Assets Gain Investor Attention

Domestic buyers took the lion's share of the capital market in 2020, at 85.4% of total volume, up significantly from around 50% in the prior two years. More than 66% of domestic buyer acquisitions were for self-use. International buyers remained largely on the sidelines during the year, but picked up activity in Q4, returning to a double-digit share of transactions. On the demand side, financial and pharmaceutical buyers were active, both increasing their share of volume in the quarter.

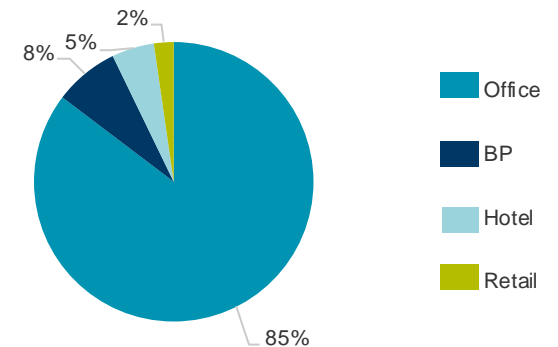
Investors also actively sought viable urban renewal projects in the period. A notable deal was Blackstone's RMB1.02 billion acquisition of the Xiangyi Flower City Phase III project in Q4, with a view to redesigning and converting the property into long-term leasing apartments to achieve rental and capital value growth. Non-performing assets available via auction also attracted interest, with Guosheng's win at auction of the 7-32F commercial space of Tomorrow Plaza for RMB1.99 billion being a prime example.

TRANSACTION VOLUME BY INVESTOR TYPE



Source: Cushman & Wakefield

TRANSACTION VOLUME BY SECTOR (Q4 2020)



Source: Cushman & Wakefield

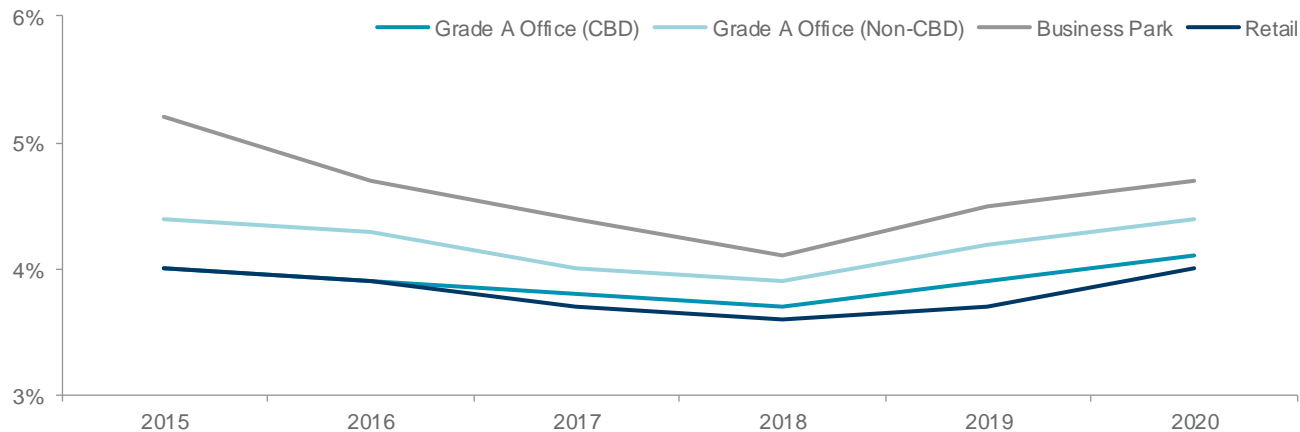
Three Red Lines Measures to Guide Buyers And Sellers to More Conservative Investment Approach

Under the strict "Three Red Lines" finance control regulations to be implemented in January 2021, real estate developers must meet new limitations on asset liabilities and debt and ensure that their liquidity can meet short-term liabilities. We can expect that developers will comply with the doctrine of "stabilizing expectations" in the market. As a result, the cap rate is expected to remain stable or to rise slightly. Looking ahead, we can expect continued investor enthusiasm for alternative assets such as logistics projects and data centers, while fluctuating rentals and occupancy rates in the traditional office market ensuing from the pandemic period may dictate more of a cautious approach towards the dominant asset category.

KEY SALE TRANSACTIONS (Q4 2020)

PROPERTY	LOCATION	SECTOR	PRICE (RMB BN)	VENDOR	PURCHASER	DEAL TYPE
Greenland Bund Centre T4	Huangpu	Office	5.17	Greenland	CCB Life	Owner Occupation
No.5, Star Building	North Bund	Office	2.13	CSC Group	Aeon Life	Owner Occupation
7-32F, Tomorrow Square	People's Square	Office	1.99	CEFC Energy	Guosheng	Investment
Xiangyi Flower City Phase III	Putuo	Hotel	1.02	Sunac	Blackstone	Investment

CAP RATE TREND



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