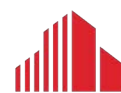


2020

MAINLAND CHINA COMMERCIAL REAL ESTATE INVESTOR INTENTIONS SURVEY



**CUSHMAN &
WAKEFIELD**



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INTRODUCTION

Looking back at past crises, the impact of SARS in 2003 was not prolonged, as China's economy was in a period of rapid growth, and, although the global financial crisis of 2008 took a toll on the global economy, with a fire sale of assets in many countries, China's real estate market rebounded rapidly afterwards due to high liquidity in real estate projects and a healthy financial market.

With the Covid-19 outbreak, now officially classified by the World Health Organization as a pandemic, investors are showing mixed attitudes towards the market. Business activities have slowed, impacted by the pandemic, and yet a plot of land in Xuhui Riverside Area in Shanghai recently sold for a record high RMB31.05 billion. Against this backdrop, in February 2020 the Cushman & Wakefield Capital Markets team launched a mainland China investor intentions survey. The survey took the form of one-to-one interviews, with senior management of the most active investment institutions in mainland China over the last three years invited to participate. The project accumulated 122 valid survey completions and analyzed them to provide investors in commercial real estate (CRE) and other sectors with timely market intelligence.

The survey results demonstrate significant market confidence. More than 60% of respondents believe that investment activities will rebound within six months post Covid-19, and 99% of respondents express their willingness to continue investing in mainland China after the pandemic. In terms of investment in cities, investors are more enthusiastic about Tier 1 cities, especially foreign investors, with 100% of respondents from foreign institutions stating they have plans to invest in Shanghai in the next 12 months. Despite the impact of the pandemic most investors have confidence in the market and are optimistic about the long-term development of the CRE market in mainland China.

Today, most investors have become accustomed to turbulence. The straight rise in asset values over the past few years has kept investors waiting for new market entry opportunities should a correction arise. With the China government's concerted effort to control the coronavirus, and with the support of economic stimulus measures, we are hopeful that its impact will only be short-term. Experienced investors may find this an opportunity to expand their footprint in China, and to achieve long-term growth.

Alvin Yip

President of Capital Markets in Greater China
and Head of Capital Markets in China, Cushman & Wakefield

PROFILE OF SURVEY RESPONDENTS

The survey invited key decision makers in senior management in the most active investment institutions in mainland China over the past three years. Nearly half of the institutions currently have total CRE assets of RMB10 billion or more in mainland China (Figure 1). Sixty-three of the survey respondents are from foreign-funded institutions, 55 from domestic-funded institutions, and 4 from joint venture institutions. In terms of business type, 71 of the respondents are from real estate fund companies, 21 from real estate developers, 21 from insurance companies, and 9 from private enterprises/individual investors or other classifications. (Figure 2).

Among the firms involved in the survey the 21 insurance companies are all domestic-funded enterprises, accounting for 33% of the total number of domestic companies involved. About three-quarters (76%) of all the foreign-funded companies involved are real estate fund companies (Figure 3).

Figure 1: Total CRE assets the respondents' investment institutions hold in mainland China

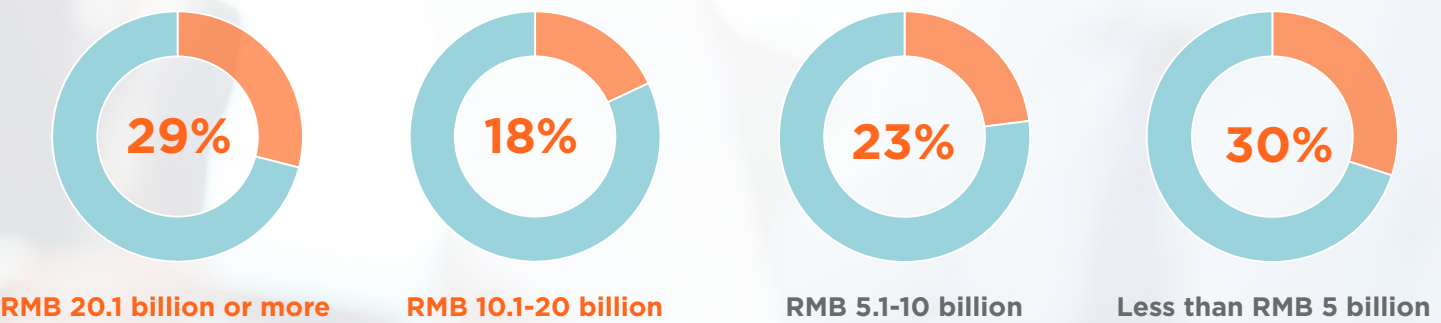


Figure 2: Respondents' investment institution types

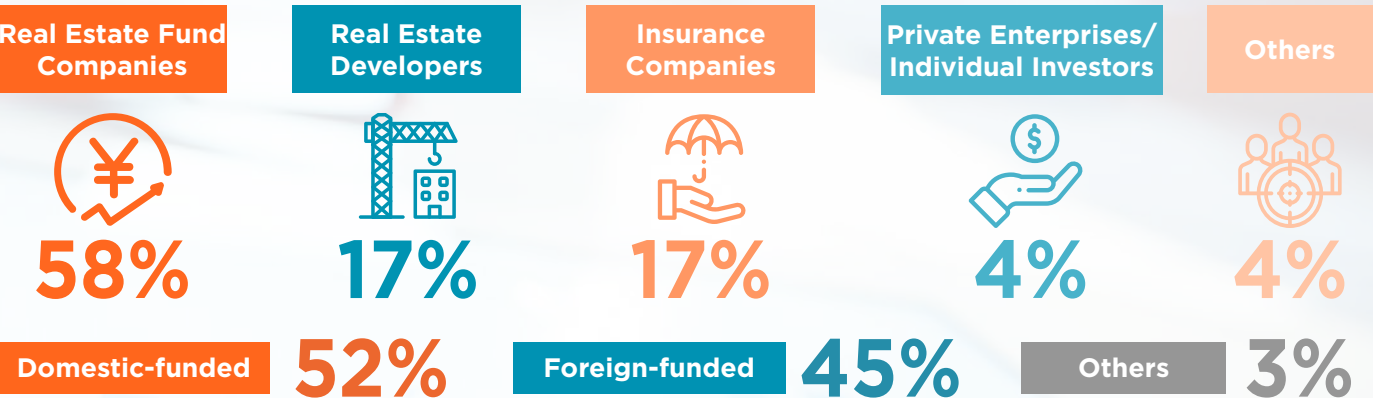
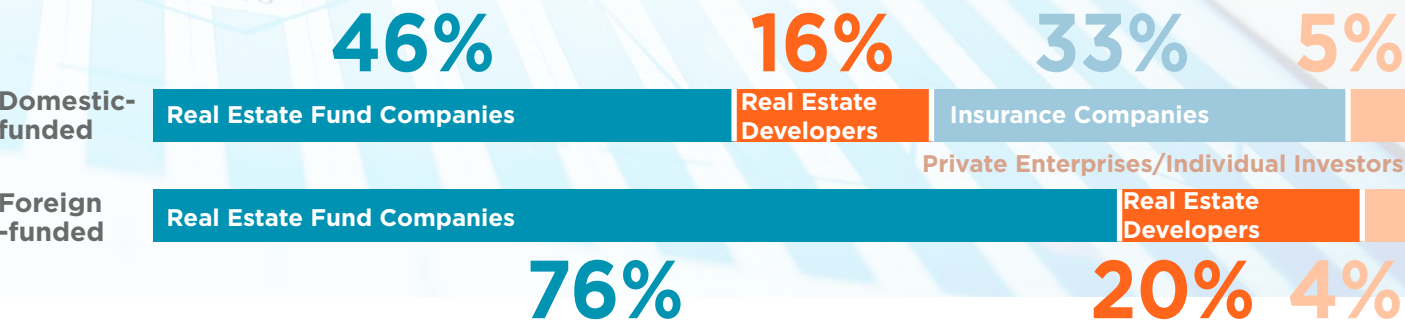


Figure 3: Proportions of different categories of domestic- and foreign-funded investment institutions



An overhead photograph of three people in an office environment. Two men are seated at a desk with two computer monitors, looking at documents. A woman stands next to them, pointing at a document. The scene is overlaid with a large orange diagonal shape. The title 'TEN KEY FINDINGS' is written in large white capital letters across the orange area. To the left of the title, there are two white chevron symbols pointing right.

TEN KEY FINDINGS

1.

ECONOMIC SITUATION

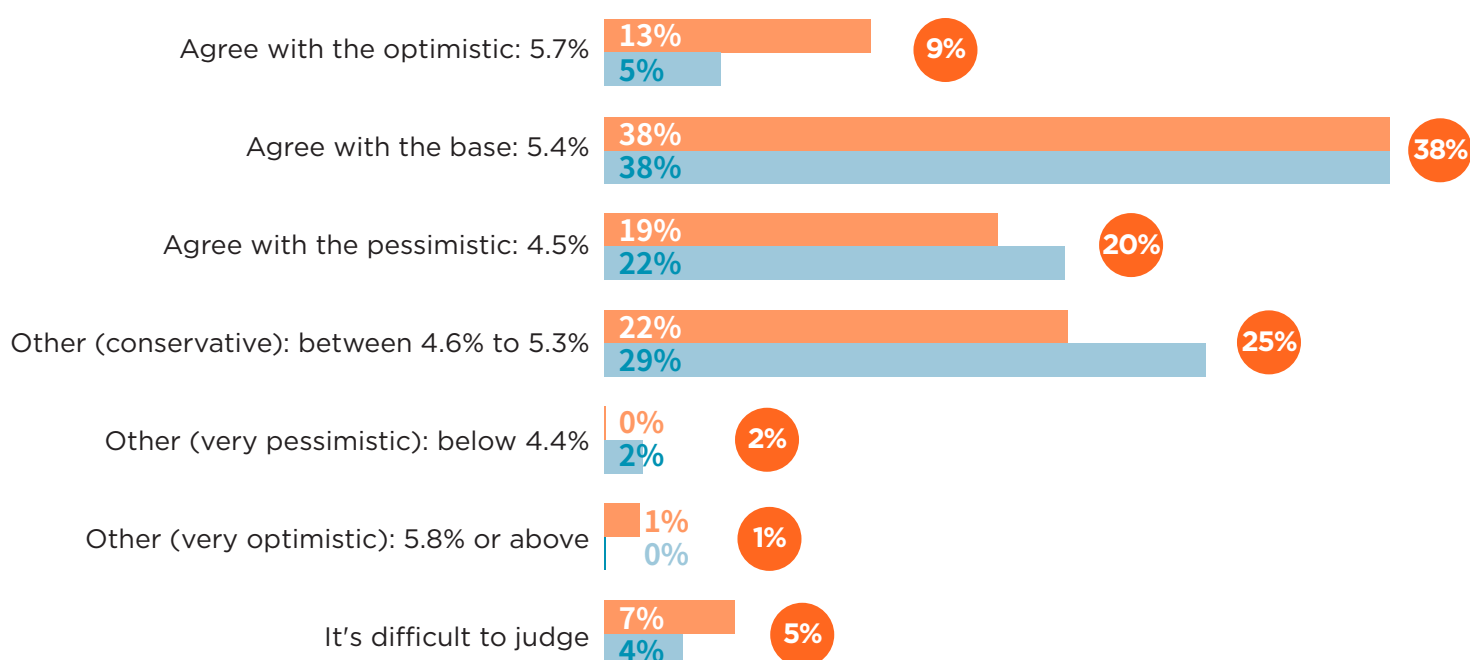


The 5.4% base forecast is recognized by most respondents

When respondents are asked about their views towards the Economist Intelligence Unit (EIU)'s forecast on the impact of Covid-19 on China's GDP growth rate in 2020, 38% agree with the EIU's base forecast of 5.4%, a 0.5bps drop from 5.9%, which was the EIU's earlier forecast on China's GDP growth rate in 2020 (Figure 4).

Compared with respondents from foreign-funded institutions, those from domestic-funded institutions are more optimistic about economic trends, with nearly 15% believing China's GDP will grow by 5.7% or more this year. Respondents from foreign-funded institutions are relatively conservative, with 29% believing this year's GDP growth rate will come between the pessimistic forecast of 4.6% and the base forecast of 5.3%.

Figure 4: Regarding the impact of Covid-19 on China's GDP growth rate in 2020, the EIU gives the following three forecasts: optimistic, base and pessimistic. What is your opinion?



Note: The overall average includes four joint venture institutions.

Domestic Foreign Overall

2.

INVESTMENT ACTIVITY

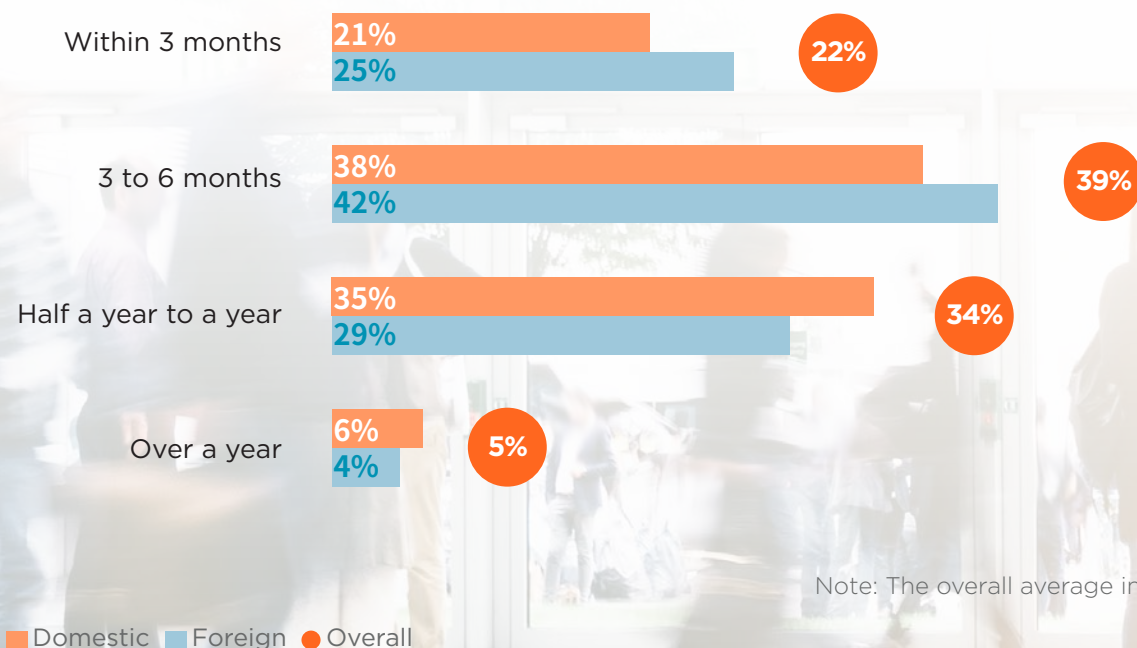


More than 60% of respondents believe investment activity will pick-up within six months post Covid-19

Regarding the time needed for investment activity to pick-up post Covid-19, most respondents (61%) think the investment market will begin to rebound within six months post Covid-19, and that the transaction volume will increase significantly. Only a few respondents (5%) believe the market will take more than a year to recover, while 34% think it will take six months to a year.

Compared with respondents from domestic-funded institutions, respondents from foreign-funded institutions believe the time required for the market to rebound will be shorter, with 25% believing it will take three months or less, and less than a third believing it will take half a year or more (Figure 5). Combining this with the first key finding, we can find that although foreign-funded institutions generally believe Covid-19 will have a considerable impact on China's GDP growth rate this year, they remain very confident about the rapid recovery ability of the CRE investment market.

Figure 5: How long do you think it will take for China's CRE investment activity to pick-up post Covid-19?



3.

VIEWS ON INVESTMENT VOLUME

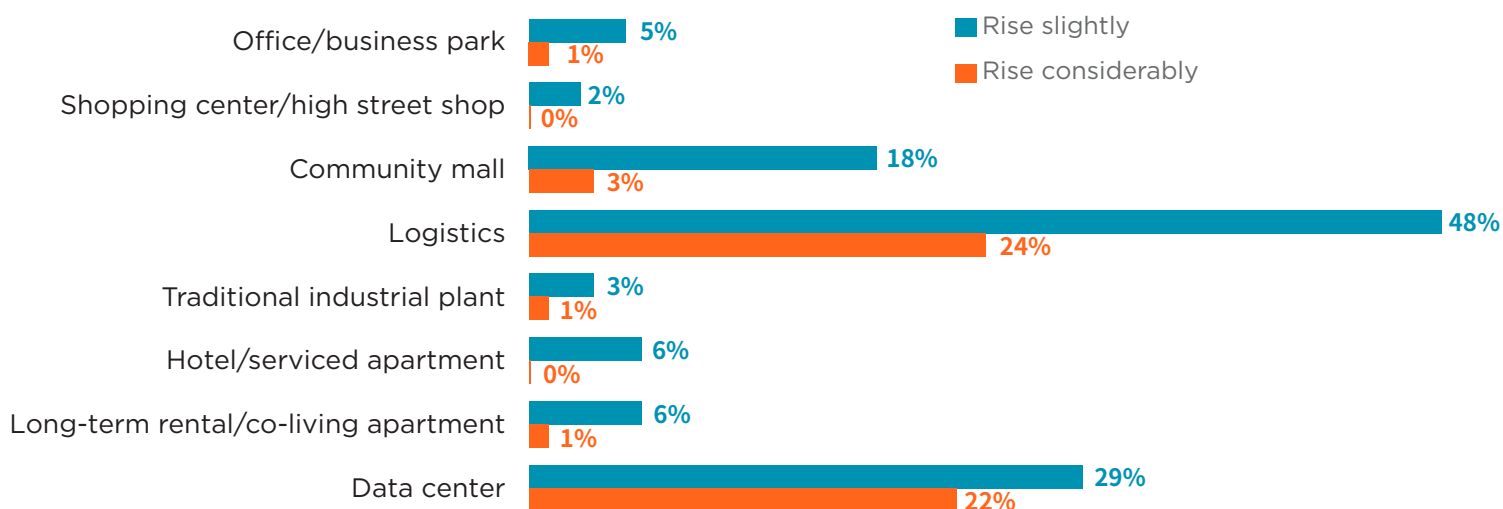


logistics and data centers may grow

When asked about their views towards investment volume in various property sectors over the next 12 months, 72% of the respondents think investment volume in logistics will increase, and 51% think demand in data centers will increase (Figure 6). The widespread practice of "quarantine at home" has led to a boost in online shopping, which will drive further growth in logistics real estate and data center markets.

Figure 6: What is your opinion on investment volume in various property sectors over the next 12 months under the impact of Covid-19?

Percentage of respondents choosing investment volume to rise:



Rise slightly
48%



Logistics

Rise considerably
24%

Rise slightly
29%



Data center

Rise considerably
22%

In contrast, more than 60% of respondents think demand in the office, retail (shopping centers and high street shops) and hotel sectors may drop. The sector most difficult to judge is traditional industrial plant. 65% of respondents think it is difficult to judge or that the sector will demonstrate no significant change (Figure 8).

Figure 7: What is your opinion on investment volume in various property sectors over the next 12 months under the impact of Covid-19?

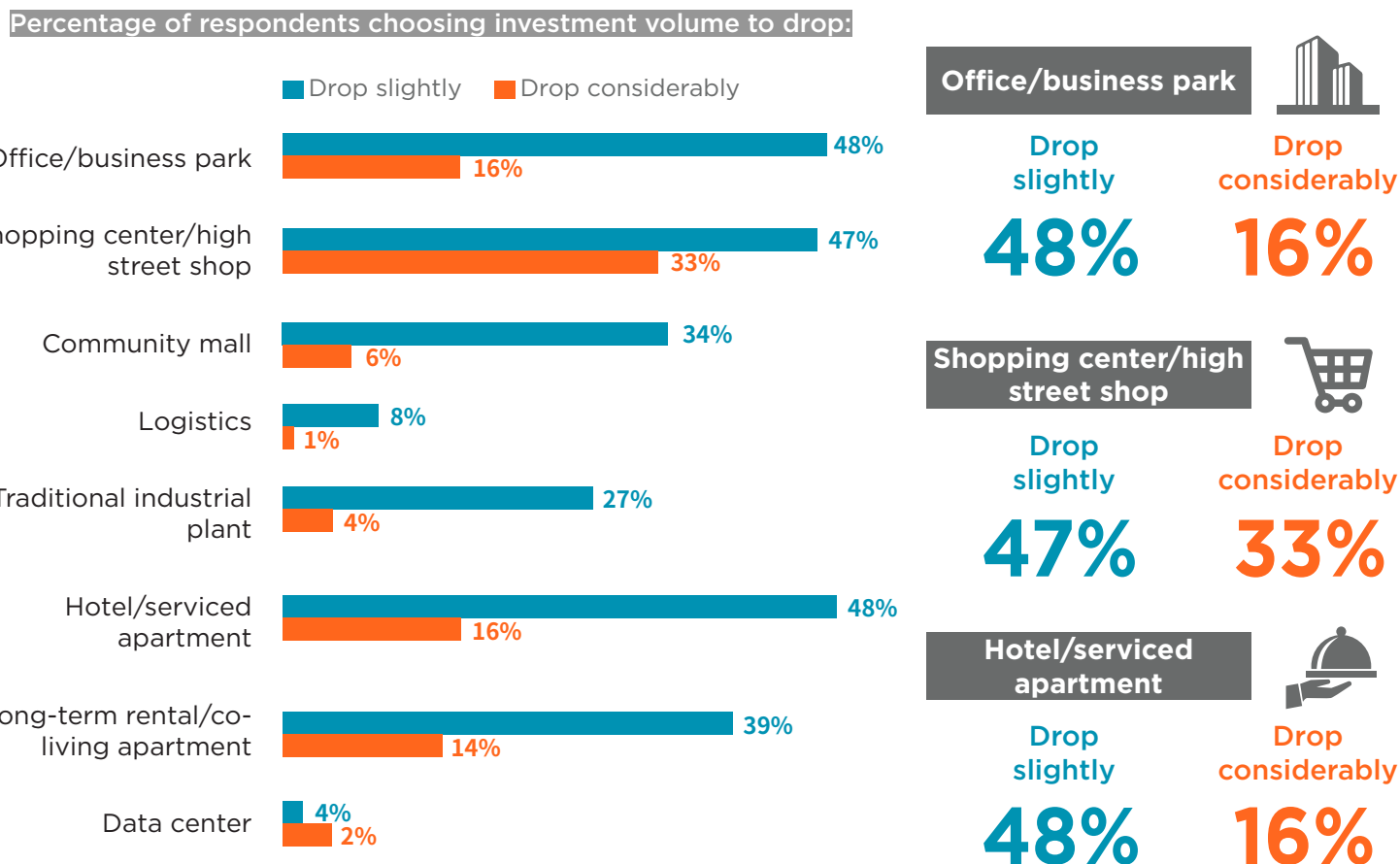
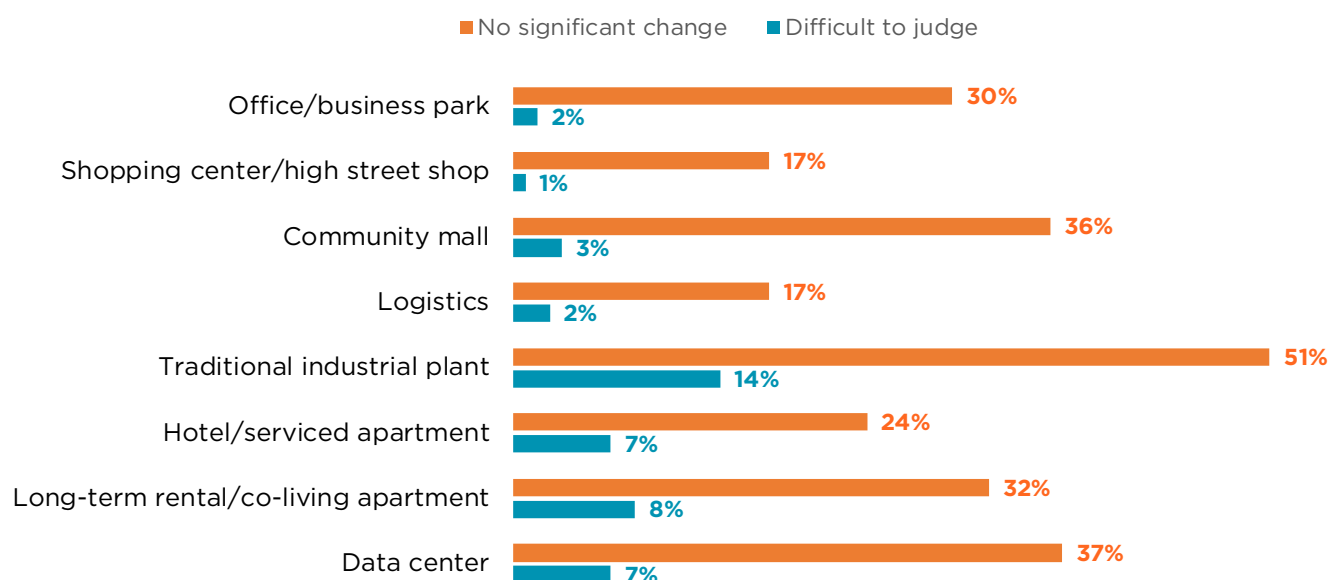


Figure 8: What is your opinion on investment volume in various property sectors over the next 12 months under the impact of Covid-19?



4.

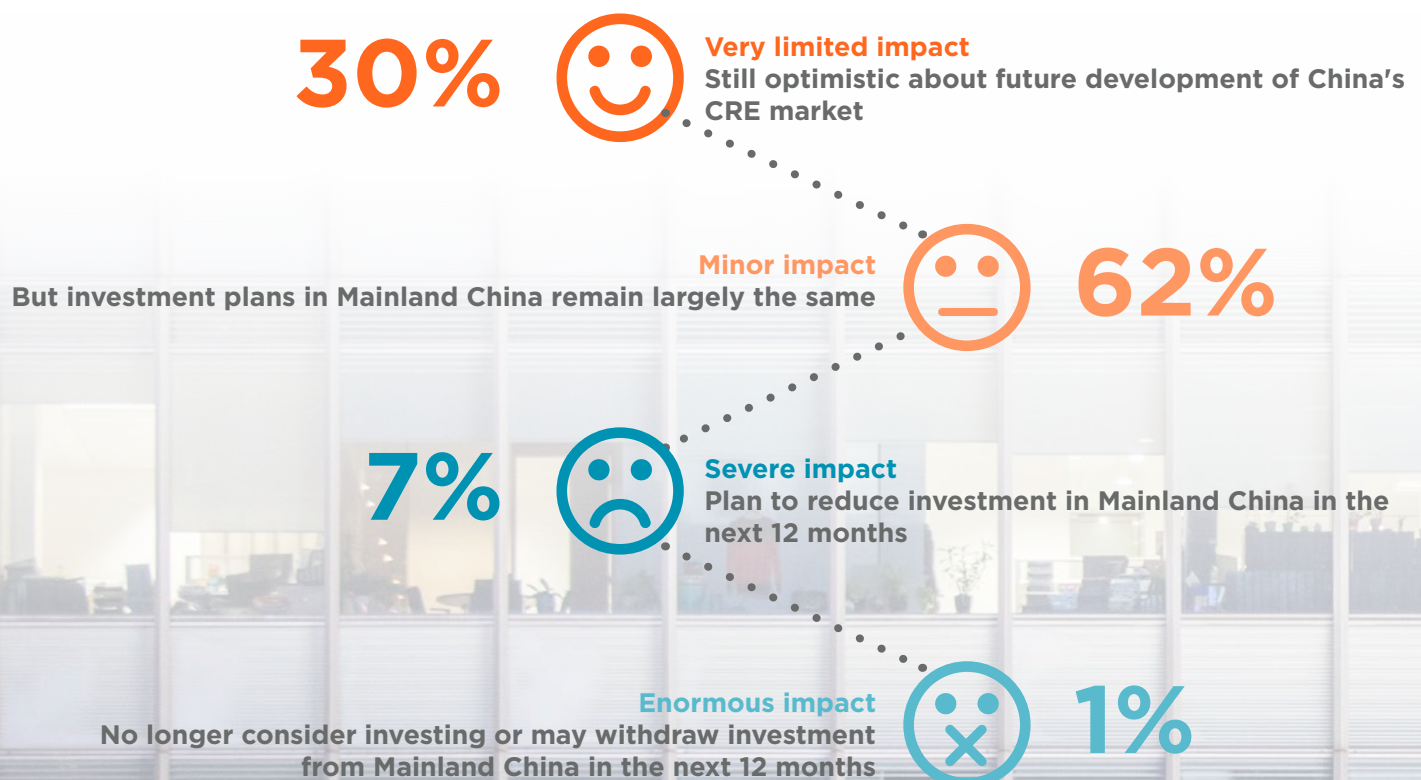
IMPACT ON INVESTMENT PLANS



99% say they will continue to invest in mainland China

In spite of the current uncertainties in the market under the impact of Covid-19, most respondents are very optimistic about the long-term development of the CRE market in mainland China. Thirty percent say the Covid-19 pandemic will have a very limited impact on their investment activities, 62% say it has a minor impact but that they will continue to invest in the mainland China market, and 7% say it has a severe impact and that they plan to reduce their investment in mainland China. Less than 1% say they will no longer consider investing or will choose to withdraw their investment from mainland China in the next 12 months (Figure 9).

Figure 9: How do you think Covid-19 will impact your company's CRE investment plans in mainland China?



5.

INVESTMENT PLAN EXECUTION



Covid-19 will not cause respondents to abandon project negotiations

When asked on the impact of Covid-19 on the execution of their current investment plans, 69% of respondents say they are delaying decision making until further clarification, while 20% say they expected little or no impact on project execution.

In terms of project execution, domestic investors are more proactive than foreign investors, with 2% of respondents from domestic-funded institutions saying that they will accelerate project progress to mitigate the impact of uncertainty, and 25% saying the situation will have minimal impact on project progress. On the other hand, 76% of respondents from foreign-funded institutions say they will delay project progress due to travel bans to mainland China and other factors resulting from the pandemic. All respondents indicate that they will not abandon project negotiations because of the pandemic (Figure 10).

Figure 10: 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%

Note: The overall average includes four joint venture institutions.

6.

CHANGES IN INVESTMENT BUDGET



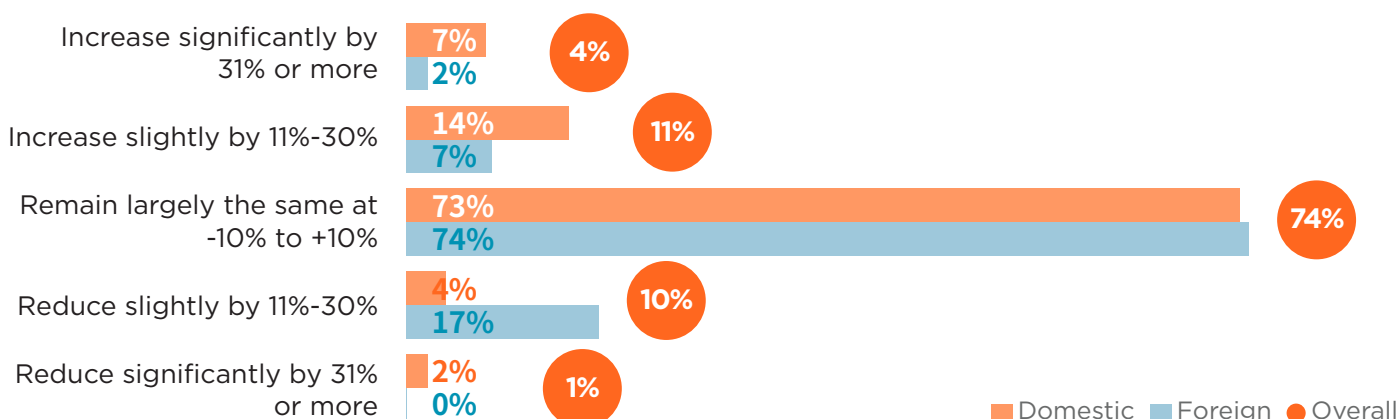
Nearly 90% of respondents say their investment budget will remain largely the same as for 2019 or increase significantly

Compared to their 2019 investment levels, 15% of respondents say they will increase their target investment budget in mainland China this year, while 74% say their investment plans will remain largely the same. It is worth mentioning that 11% of the respondents say they will raise their 2020 investment volume by 11% - 30% from their 2019 level, and 4% say they will increase by 31% or more. In contrast, only 10% of respondents indicate a reduction of 11% to 30%, and 1% indicate a drop of 31% or more (Figure 11).

Compared with foreign-funded institutions, the proportion of domestic-funded institutions planning to increase their 2020 investment budget is higher, at 21%. Among them, 14% plan to increase their investment by 11% - 30%, while 7% plan to raise their investment by 31% or more. Affected by the Covid-19 outbreak, most foreign-funded enterprises have significantly slowed project progress, which provides domestic-funded enterprises with opportunities to accelerate their pace of acquisition.

The survey results (in key finding 5) also confirm this behavior. Twenty-seven percent of respondents from domestic-funded institutions say the pandemic has no immediate impact on their current project progress, or they will accelerate project progress, while most foreign-funded institutions say their progress will be slowed. In addition, driven by a series of policies to reduce enterprises' burdens during the pandemic, some domestic-funded enterprises may enjoy better financing policies than before, thereby achieving higher net project returns.

Figure 11: How will your company plan to change your 2020 target investment amount in CRE in mainland China compared to 2019?



7.

INVESTMENT PLANS IN SPECIFIC MAINLAND CHINA CITIES

Over 90% say they are optimistic about Beijing and Shanghai and 11% are willing to invest in Wuhan

Almost all respondents (96%) indicated that they are planning to invest in Shanghai over the next 12 months, followed by Beijing (92%), Shenzhen (68%) and Guangzhou (61%). For Wuhan, the city most seriously impacted by the pandemic, 11% of respondents still express optimism and say they are planning to invest in the city over the next 12 months (Figure 12). Most of the respondents choosing to invest in Wuhan are from insurance companies and real estate developers, with a few from real estate fund companies. In general, investors are calm about the short-term impact of Covid-19, have confidence in the government's policy to control the pandemic, and have full confidence in the future development of China's Tier 1 and Tier 2 cities.

Figure 12: Which of the following cities will your company consider to invest in over the next 12 months?



Note:
the overall average
includes 4 joint ventures.

8.

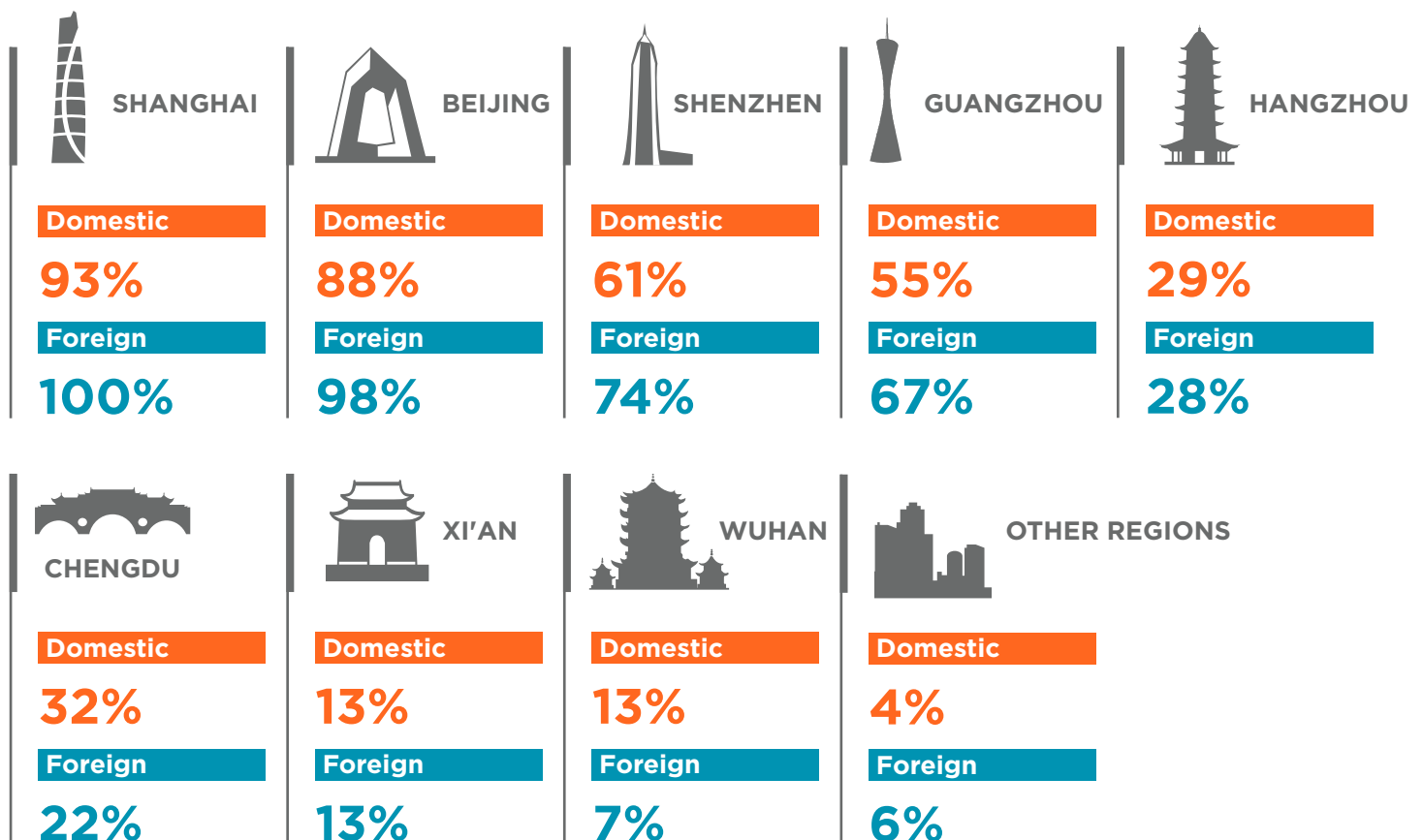
INVESTMENT PLANS IN SPECIFIC MAINLAND CHINA CITIES



100% of respondents from foreign-funded institutions will consider to or are planning to invest in Shanghai

When comparing the investment plans of domestic- and foreign-funded investment institutions in the next 12 months, respondents from foreign-funded institutions are particularly optimistic about Tier 1 cities, with 100% indicating they are considering to or have plans to invest in Shanghai, and 98% indicated interest in Beijing (Figure 13). While they have confidence in Tier 1 cities, respondents from domestic-funded institutions are also interested in Tier 2 cities such as Chengdu (32%), Hangzhou (28%), Xi'an (13%) and Wuhan (13%).

Figure 13: Which of the following cities will your company consider to invest in over the next 12 months?



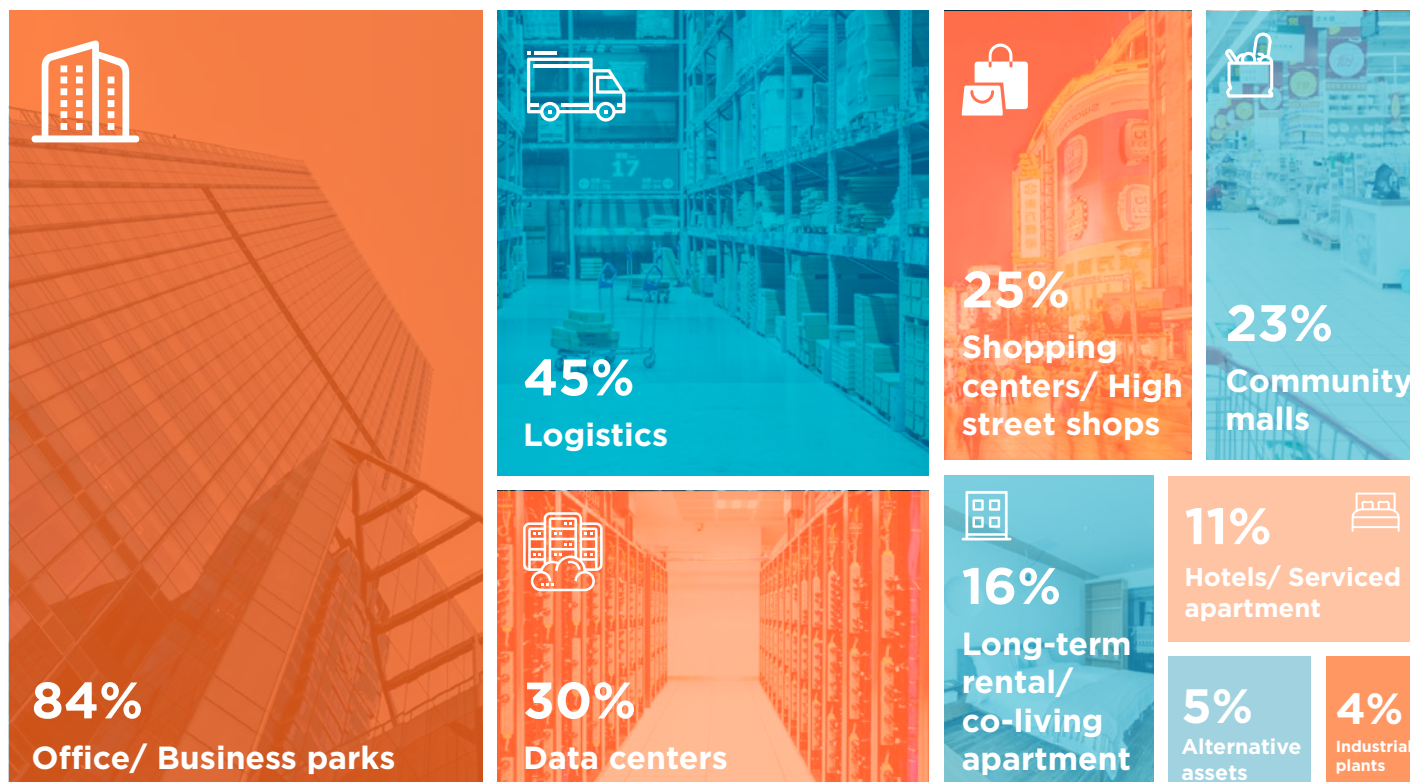
9.

INVESTMENT PLANS IN VARIOUS PROPERTY SECTORS

Office is still the most popular

Office properties remain the top choice for respondents' investment plans over the next 12 months, with 82% of respondents saying they plans to invest in office and/or business parks, followed by logistics (45%) and data centers (30%). From the generally held view that Covid-19 will slow the growth of overall office investment volume, we find that although the proportion of office properties in asset allocations may be reduced, it remains an indispensable aspect for many investors. Compared with the past trend of rapid rises of office asset values, investors are now waiting for new opportunities to enter the market when a correction materializes. In contrast, the share of asset allocations in logistics real estate and data centers, which have previously usually been minor, now increase significantly under the impact of the pandemic. These two categories of properties now rank among the top three most popular assets (Figure 14).

Figure 14: Which of the following property types will your company consider to invest in over the next 12 months?



10.

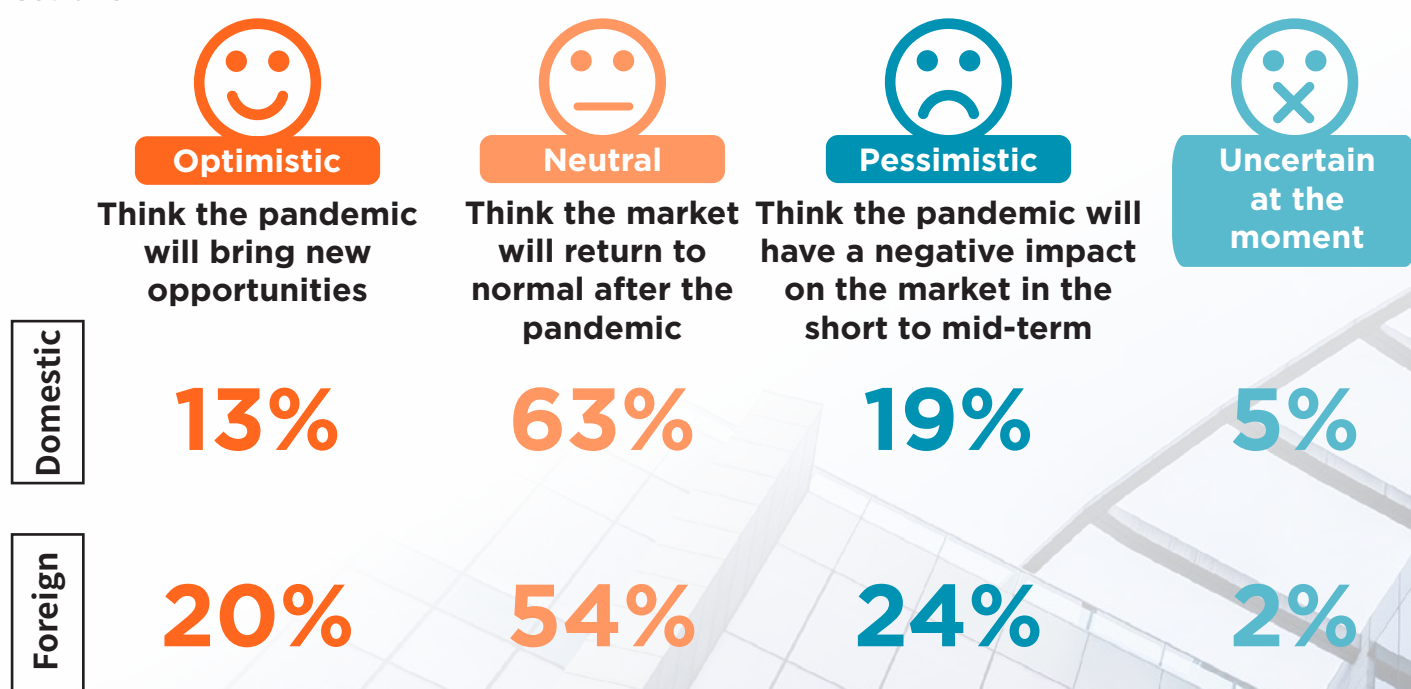
MARKET OUTLOOK



16% of respondents are optimistic and believe new demand created by the pandemic will bring new opportunities to the market

Overall, the majority (59%) of respondents believe the market will return to normal following the pandemic. Regarding market changes stemming from the pandemic, most respondents from domestic-funded institutions take the same position and remain neutral, while the position of respondents from foreign-funded institutions is more divergent, with the proportion of optimistic and pessimistic views higher than that of respondents from domestic-funded institutions (Figure 15). Although a total of 21% of respondents from both domestic- and foreign-funded institutions expressed a pessimistic view on the impact of Covid-19 on the market, the survey shows that the short- to mid-term impact of the pandemic on the market will not cause investors to abandon their investment. Instead, some investors intend to take this opportunity, with the expectation of potential price drops, to obtain better long-term returns.

Figure 15: what is your overall attitude towards the CRE market in mainland China under the impact of Covid-19?





CONCLUSION



Catherine Chen

Director of Asia Pacific Research
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We can see from the findings of this survey that investors generally have an objective view on the impact of Covid-19. They believe that the pandemic will have certain negative impacts on the market in the short-term, especially in the office, retail and hotel sectors, but this short-term impact will not cause them to abandon their investment. On the contrary, the survey results indicate that most investors are very optimistic about the long-term development of China's CRE market, especially in Tier 1 cities, with their strong economic foundations and high liquidity, and the great majority of respondents indicate their plan to invest in these cities over the next 12 months.

Under the impact of the pandemic some industries are experiencing rapid growth in demand, such as online retail and services, artificial intelligence and big health. We anticipate that this growth will lead to the further development of the CRE sectors supporting these industries, including data centers, logistics and R&D centers. By taking on board the expectation that average prices in the office, retail and hotel sectors will likely soften in the short-term, investors now have more room to invest in other asset classes to diversify risk.

Throughout the Asia-Pacific region, China is in a leading position in terms of both market size and economic strength, and is a market closely watched by many international investors. Especially for investors who are based in Asia, China is an important part of their portfolio allocation in the Asia-Pacific region. We expect that there will be a range of investment opportunities in the market when the pandemic situation gradually becomes clearer, and transaction volume may rebound in the second half of the year.

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About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 53,000 employees in 400 offices and 60 countries. Across Greater China, there are 22 offices servicing the local market. The company won four of the top awards in the Euromoney Survey 2017 and 2018 in the categories of Overall, Agency Letting/Sales, Valuation and Research in China. In 2019, the firm had revenue of \$8.8 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

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