MARKET IN MINUTES
Savills Research

China Investment

Investors pursue countercyclical and structural themes

Institutional investors explore add-value opportunities in the multifamily, hotel, and retail sectors, seeking unique angles or best-in-class execution to stand out.

- China-wide en-bloc transaction consideration provisionally totalled RMB280 bn in the 12 months to June 15, 2024, down 11.0% YoY.
- Office/business park transaction values fell 45% YoY in the 12 months to June 15, bringing its share of transaction value to just 27% of the total, down from 44% a year ago. Industrial/logistics transaction value fell 16% YoY, with its share of deals now also accounting for 27%.
- The hotel sector recorded the largest increase in transaction value, up 79% YoY in the 12 months to June 15. This was followed by the residential/serviced apartment sector, up 47.5%, and the retail sector up 35% YoY.
- First-tier cities accounted for 57% of the transactions in the 12 months to June 15, 2024. Shenzhen saw the most significant decline in transaction volume, down 77% YoY, while Shanghai saw a decline of 8% YoY. Beijing and Guangzhou recorded 32% and 42% of growth YoY respectively.
- 12 new REITs were approved in Q2/2024, bringing the number of approved public REITs to 48, mainly focused on business park, retail, and industrial assets.

"The investment market remains challenging as we enter the second half of 2024. End users are sustaining some deal flow in leading cities, but further price adjustments are necessary to attract institutional capital back into core asset classes."

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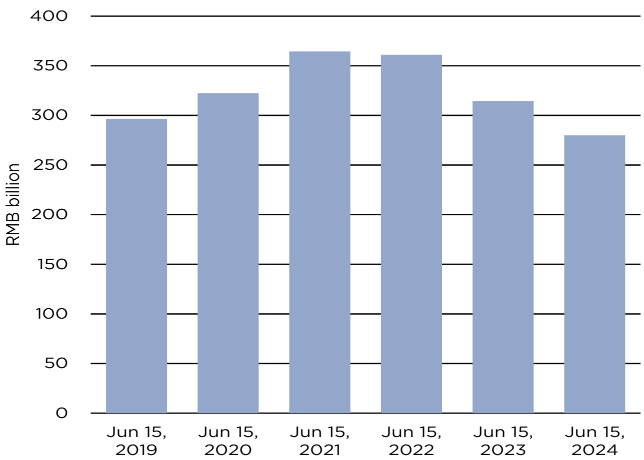
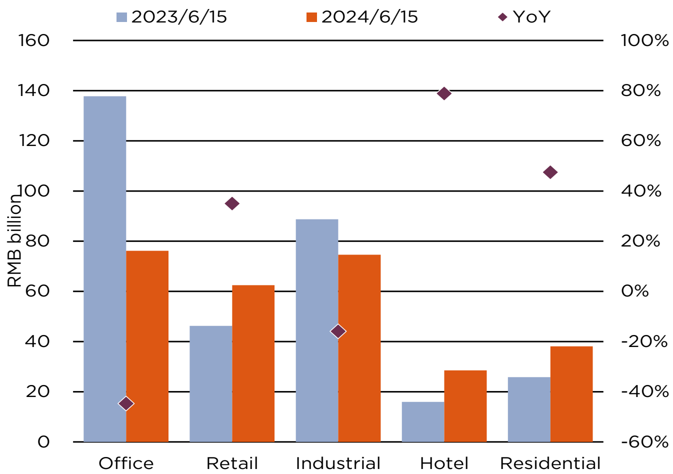
GRAPH1: Transaction Volumes Of Incoming Producing Assets, 12-mth Period To 15 June 2024



Source RCA; Savills Research

GRAPH 2: Transaction Volume By Asset Type



Source RCA; Savills Research

MARKET OVERVIEW

In the 12 months up to June 15, 2024, en-bloc transaction consideration in China reached RMB280 billion, down 11% YoY. More deals may come to light in the coming months, improving figures by 5-10%

With the weakening leasing market, office transaction volumes have declined, narrowing the gap with asset classes like hotels, retail, and multifamily, as investors shift capital. Institutional buyers are reassessing their market exposure, potentially reallocating capital to different sectors or geographies, or delaying investments until there is greater clarity or price stabilisation.

In contrast, corporate buyers, driven by occupational needs and long-term holdings rather than immediate investment returns, are incrementally increasing smaller deals, diversifying the market.

Meanwhile, retail, hotel, and multifamily transaction volumes have grown steadily as owners restructure their portfolios. The expansion of C-REITs and improved liquidity are providing new exit channels and capital allocation opportunities for both domestic and foreign investors, with increased focus on assets suitable for public REITs in the retail, apartment, and logistics sectors.

NEWS

More support provided to the broader real estate market

China has increased its support for the real estate market in recent months, though measures still fall short of expectations and focus primarily on the residential sector. Recent policies target both supply and demand. Demand-side measures include reducing the down payment ratio and lowering mortgage interest rates. On the supply side, a real estate financing coordination mechanism has been established to support the funding needs of compliant projects. These optimised credit policies and financing coordination mechanisms aim to improve market liquidity, providing developers with more financing channels and greater flexibility in funding operations.

12-MONTH ANALYSIS OF INCOME-PRODUCING ASSET DEALS

Asset class analysis

Office

Office and business park transaction volumes experienced a significant decrease of 45% YoY in the 12 months ending June 15, 2024. The transaction volume accounted for 27%, down 17 ppts YoY, losing its dominant lead over other asset classes. Uncertainty in the macroeconomic environment has led to a decline in corporate and investor demand for commercial property, particularly offices. An oversupply

TABLE 1: Notable Deals, 15 March 2024 To 15 June 2024

City	Project	Asset type	Buyer	Seller	Price (RMB mn)
Beijing	INDIGO Phase II (65% share)	Commercial Complex	China Life JV Swire Properties	Sino-Ocean Group	4,000
Shanghai	Zhangjiang Online New Economic Ecological Park (under construction)	Business Park	Dongjiu Xinyi Capital	Zhangjiang Group	2,040
Shanghai	Sinochem International Plaza (70% share)	Office	Huatai Securities	Sinochem	1,517
Guangzhou	Langham Place Hotel Nanfeng	Hotel	Haizhu Industrial Investment	Nan Fung Group	1,400
Shanghai	Building B of Fuhui Plaza	Office	Caitong Securities	Lujiazui Group	1,327

Source Savills Research

of office space and a lack of new demand persist in most cities. The market faces weak leasing demand, falling rents, and rising vacancy rates, contributing to the continued downward trend in transaction volumes.

Despite challenging conditions, high-quality office buildings in core locations remain attractive propositions to end users. Zhong'an Insurance purchased two office buildings for self-use from Rockefeller Group in Shanghai for RMB90,000 psm, totalling RMB1.44 billion.

Retail
The transaction value of retail properties increased by 35% YoY in the 12 months ending June 15, 2024, accounting for 22% of total transactions, up 8 ppts YoY, driven mostly by domestic buyers. Investors are focusing on retail projects that can serve as underlying assets for public REITs. By the end of June, six domestic retail infrastructure REITs had been approved and listed, accelerating the revitalisation of retail stock assets and expanding REIT investment options.

In July, Vanke sold 48% of MEGA, Shanghai Nanxiang Impression City, to GIC, following the sale of Vanke Plaza in Qibao.dab1

Industrial/Logistics/Data Centres
Industrial, logistics, and data centre transaction volumes declined by 16% YoY in the twelve months leading up to June 15, 2024, representing 27% of total transaction consideration, a decrease of 2 ppts YoY. Market supply remained steady, but overall leasing demand was weak. The investment market was dominated by mergers and acquisitions by domestic enterprises and developers, with institutional buyer activity not fully recovered. In Shanghai a notice on the Strengthening Joint Supervision of Equity Changes in Industry-Related Land Enterprises (Document No. 51 [2024]) was issued. This notice aims to regulate equity changes, including transfers, non-proportional capital increases, and capital reductions that alter shareholders and capital contribution ratios. It enforces existing regulations on industrial land transfers, promoting prudent assessment and compliance from buyers to enhance transparency and regulatory adherence in Shanghai's industrial land market.

Notably, during the quarter, ESR Group's AVIC E-Shanghai Warehouse & Logistics REIT was approved by the China Securities Regulatory Commission. The REIT includes three assets located in Kunshan with a combined GFA of 426,000 sqm and is expected to raise RMB2.44 billion.

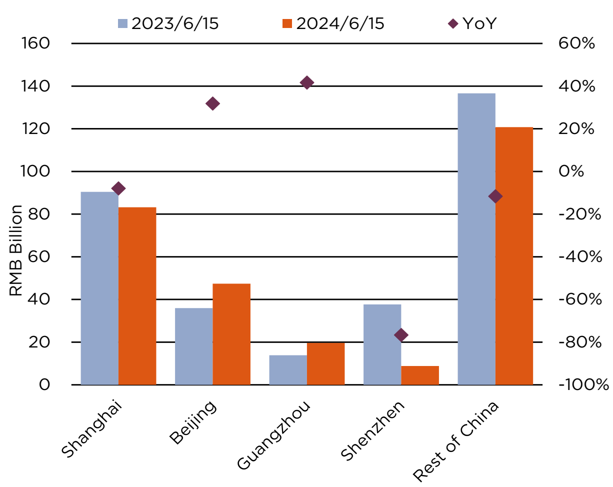
Residential Sales/Multifamily
Residential and multifamily transaction volumes surged by 48% YoY in the 12 months ending June 15, 2024, constituting 14% of total transaction consideration, marking a 5-ppt increase YoY. Tax incentives and financial policies from the Chinese government to support affordable housing have made this sector more attractive to investors. Notably, overseas buyer transactions increased by 353% YoY, as international investors pivot to better-supported markets and diversify their portfolios. Additionally, Shanghai's mid-to-high-end rental market saw a slight recovery in occupancy rates in Q2/2024, driven by a rebound in international tourism and business travel.

The long-term multifamily REITs market is expected to expand as the inclusion of the multifamily sector in the C-REITs programme progresses, improving liquidity and providing new exit routes and capital allocation opportunities. For instance, Vanke Enterprise Co. Ltd. plans to issue REITs under its long-term multifamily brand, Port Apartment, with an expected issuance size of approximately RMB1 billion.

Destination analysis
First-tier cities comprised 57% of total transaction volumes in the 12 months leading up to June 15, 2024. Shanghai led among Tier 1 cities with a relatively stable transaction value, down only 8% YoY. Meanwhile, Beijing and Guangzhou saw increases of 32% and 42% YoY, respectively. Shenzhen, on the other hand, experienced a significant contraction, accounting for only 3% of the deal flow, with volumes falling 77% YoY. Office transactions in first-tier cities fell by 42% YoY, while all other sectors grew, with hotel volumes more than doubling.

Across the rest of mainland China, transaction volumes rose by 12% YoY. Cities recording increased transaction volumes included Hangzhou, Xi'an, Chengdu, and Chongqing. Retail asset transactions in non-Tier 1 cities grew by approximately 74% YoY, accounting for 34% of total transactions, as developers accelerated asset disposals. Industrial/logistics remained the mainstay of investment in lower-tier cities, accounting for 40% of total transactions, though down 33% YoY.

GRAPH 3: Transaction Volume By City



Source RCA; Savills Research

TABLE2: Asset Type Breakdown By Capital Source, 12 Months To 15 June 2024

	Domestic (RMB bn)	YoY	Cross border (RMB bn)	YoY
Office	64.2	-38%	11.9	-65%
Retail	57.1	62%	5.3	-52%
Industrial	55.3	-21%	19.3	4%
Hotel	26.6	94%	1.9	-14%
Residential	22.9	2%	15.2	353%
Total	226.2	-8%	53.6	-22%

Source RCA; Savills Research

FUNDRAISING AND FINANCING ENVIRONMENT

Developer Debt

China's top 65 real estate developers, ranked by sales volume, secured RMB182.0 billion in financing (including bonds, loans, ABS, and perpetuals) during the first five months of 2024, a YoY decrease of 30.5%. Bond issuances amounted to RMB82.1 billion, with onshore issuance declining by 48% YoY to RMB79.8 billion and offshore issuance decreasing by 72% YoY to RMB1.3 billion. State-owned enterprises continue to dominate domestic debt issuances.

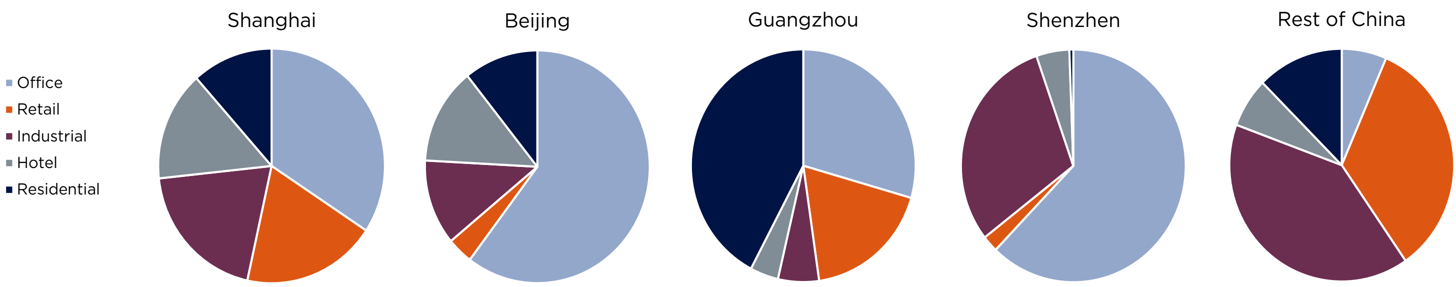
The PBOC recently announced a RMB300 billion affordable housing refinancing programme to support state-owned enterprises in acquiring completed and unsold residential properties at reasonable prices for use as affordable housing, a policy expected to be augmented by RMB500 billion of bank lending. Additionally, real estate financing "white list" projects are accelerating nationwide. As of mid-May, commercial banks approved "white list" project loans amounting to RMB935 billion across 297 cities.

OUTLOOK

As we approach the fourth anniversary of the announcement of the three red line guidelines, developers are accelerating asset disposal and capital recovery. Continued asset clearance may increase investment opportunities in discounted assets, though a depressed leasing market may still pose challenges for sellers in finding willing buyers.

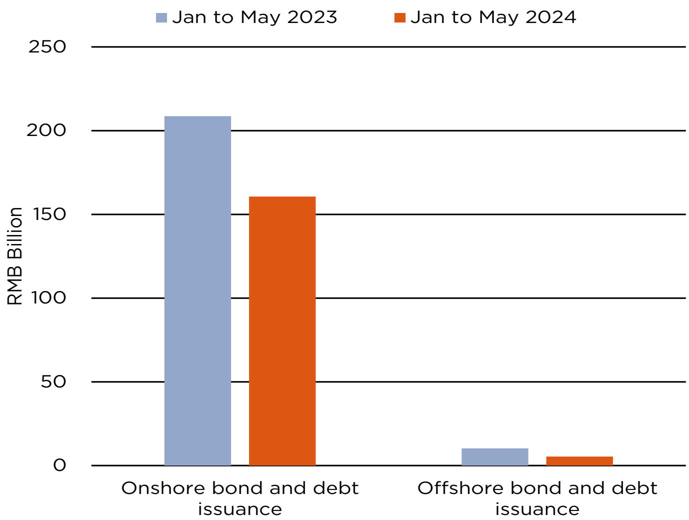
With ongoing policy support and accelerated asset restructuring by developers, investors are gradually shifting to other asset classes, including rental housing, hotels, and retail properties, while end users maintain interest in first-tier core office buildings.

GRAPH 4: City Transaction Breakdown Of Each Asset Type, 12 Months To 15 June 2024



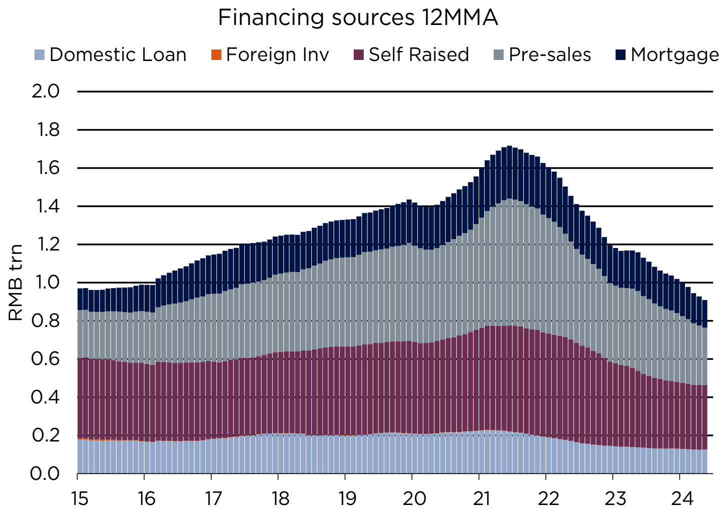
Source RCA; Savills Research

GRAPH 5: 65 Largest Developers (By sales Volume) Newly-issued Bond and Debt



Source CRIC; Savills Research

GRAPH 6: Developer financing sources



Source National Bureau of Statistics; Savills Research