

China Investment



Market decline but rising expectations

Sustained activity in the retail and hotel sectors, while investors in other areas hold off for better opportunities.

- China-wide en-bloc transaction consideration provisionally totalled RMB295 bn in the 12 months to Sep 15, 2024, down 7.0% YoY.
- Office/business park recorded the largest decrease in transaction values, falling 34% YoY in the 12 months to Sep 15, bringing its share of transaction value to just 27% of the total, down from 38% a year ago.
- The hotel sector recorded the largest increase in transaction value, up 82% YoY in the 12 months to Sep 15. The retail sector also recorded a growth of 50% YoY during the same period.
- First-tier cities accounted for 56% of the transactions in the 12 months to Sep 15, 2024. Shenzhen saw the most significant decline in transaction volume, down 65% YoY, while Guangzhou saw a decline of 37% YoY. Shanghai and Beijing recorded growth of 4% and 18% YoY respectively.
- 7 new REITs were approved in Q3/2024, including three in the industrial asset sector, bringing the number of approved public REITs to 55.

“Despite the challenging economic environment, there are signs of increased activity in the investment market. This improvement is driven by the availability of more high-quality assets, continued monetary easing, and asset repricing.”

JAMES MACDONALD, SAVILLS RESEARCH

Savills team

Please contact us for further information

RESEARCH

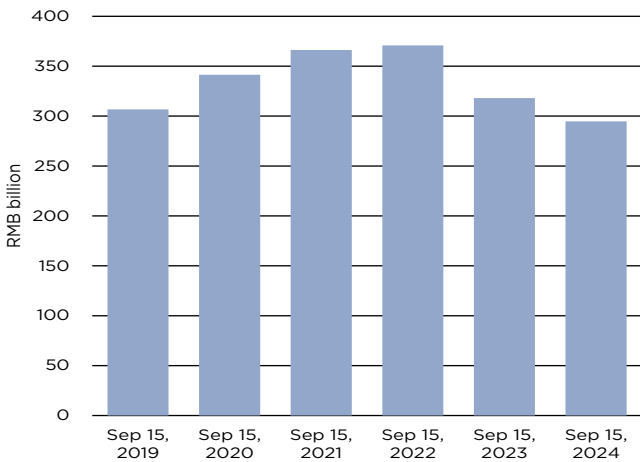
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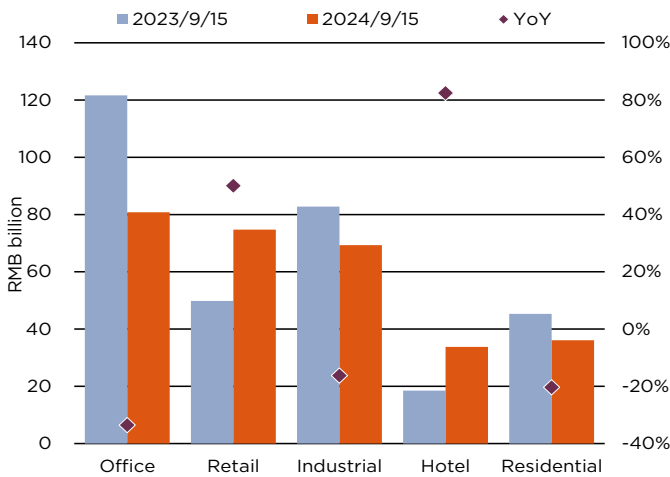
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GRAPH1: Transaction Volumes Of Incoming Producing Assets, 12-mth Period To 15 Sep 2024



Source RCA; Savills Research

GRAPH 2: Transaction Volume By Asset Type



Source RCA; Savills Research

MARKET OVERVIEW

In the 12 months leading up to Sep 15, 2024, en-bloc transaction consideration in China totalled RMB295 billion, a 7% decline YoY. Considering that there are still several transactions may be confirmed in the near future, the total value could increase by 5-10% as additional deals emerge.

Office transaction volumes in Q3/2024 have fallen to their lowest levels in recent years. A sluggish economy has weakened leasing fundamentals, leading to elevated vacancy rates and continued rent declines. Despite higher yields, investors remain understandably cautious about entering the sector based on risk considerations.

In contrast, retail and hotel transaction volumes surged during the same period. Under debt pressure and other factors, developers continue to divest high-quality retail and hotel assets, attracting institutional, local state-owned, and private enterprises.

The multifamily market, meanwhile, began to cool after an active two-year period, as investors reassess the supply-demand dynamics within the sector. This shift is driven by the accelerated rollout of rent-controlled housing and softer occupancy rates, particularly in key markets like Shanghai and Hangzhou, where increased supply has impacted performance.

NEWS

Monetary and fiscal stimulus arrives

As expected, Chinese authorities implement a series of stimulus measures at the end of the third quarter in a bid to revive the economy,

stock markets, and property sector ahead of year-end.

On September 24, the People’s Bank of China (PBoC) cut reserve requirements to release RMB 1 trillion and lowered the policy rate by reducing seven-day reverse repos by 20 basis points to 1.5%. They also accelerated mortgage rate cuts, established a lending facility for listed companies’ share buybacks, and introduced a swap facility to provide liquidity to financial institutions for increased stock purchases.

Two days later, on September 26, the Politburo held an unscheduled meeting to further support the economy. They announced enhanced fiscal and monetary policies, including issuing long-term treasury and local government bonds to drive investment. The Politburo aimed to stop the property sector’s decline by restricting commercial housing construction and removing barriers for funds from social security and insurance to enter the market. Additionally, policies were introduced to raise the incomes of middle- and low-income groups to boost consumption.

These measures led to an immediate 24% surge in the Shanghai Stock Exchange in the days before the holidays, while the effects on the real estate sector are expected to take more time to materialize.

12-MONTH ANALYSIS OF INCOME-PRODUCING ASSET DEALS

Asset class analysis

Office Transaction volumes continued to decline, dropping 34% YoY in the 12 months ending Sep 15, 2024, to just

TABLE 1: Notable Deals, Q3/2024

City	Project	Asset type	Buyer	Seller	Price (RMB mn)
Guangzhou	Guangzhou TaiKoo Hui Cultural Centre	Retail	Swire Properties	Guangzhou Daily Newspaper Group	2,100
Shanghai	Shanghai Nanxiang Incity MEGA (48% share)	Retail	GIC	Zhangjiang Group	2,000
Shanghai	Shanghai Landmark Center (40% share)	Office & Retail	Sinar Mas	Sinochem	1,720
Shanghai	Sansheng Hongye Building	Office	Individual Buyer	Sansheng Hongye Investment Group	831
Shanghai	China Overseas Center Block D (F9-13)	Office	Satchi	China Overseas	295

Source Savills Research

RMB81 billion, the lowest level seen since the market was considerably smaller. Despite the office sector remaining the largest contributor to transaction volumes, its dominance has diminished, with office sales accounting for only 27% of the total, down 11 ppts YoY.

The office market fundamentals remain weak, with vacancy rates reaching decade-highs, even in first-tier cities. Demand is subdued, as many corporations have frozen hiring and prioritise cost-saving measures. The steady influx of new supply further exacerbates the situation. While the willingness of owners to sell is high, expectations of the valuation remain somewhat different from investors. Meanwhile, investors are wary of their ability to maintain or improve occupancy rates without offering substantial rental discounts.

As a result, transactions are mainly focused on assets with high price reductions or stable lease expectations (longer weighted average lease expiries or rental guarantees extending over the next few years). Other opportunities are arising from speculative conversion projects, distressed disposals, and properties attractive to end-users. Buyers are predominantly end-users, joint venture partners acquiring remaining stakes, and opportunistic investors.

Retail

Retail transaction volumes reached RMB75 billion in the 12 months ending Sep 15, 2024, up 50% YoY. This marks the second consecutive year of growth, pushing volumes to their highest level in four years, with the retail sector reclaiming its position as the second most traded asset class, surpassing the industrial sector. The Huaxia Joy City REIT was approved in Q3/2024, bringing the total number of retail REITs to seven. Its underlying asset, Chengdu Joy City, opened in 2015 and has maintained an occupancy rate above 96% over the past three years.

Retail REITs are typically underpinned by assets with strong locations, mature operations, and

robust management capabilities. The successful exit route provided by these REITs for high-quality retail assets has undoubtedly bolstered investment confidence in the sector and motivated further investor interest.

Industrial/Logistics/Data Centres

Industrial, logistics, and data centre transaction volumes declined by 16% YoY in the 12 months ending Sep 15, 2024, representing 24% of total transaction consideration, a decrease of 3 ppts YoY. Despite weakening fundamentals, long-term investors such as insurers and sovereign wealth funds continue to cautiously explore opportunities in the sector, with deals concluded by Ping'an Insurance, GIC, Dajia Insurance, and AIA over the past year. Cross-border investors accounted for approximately one-quarter of transaction volumes, the highest proportion among all asset classes.

A significant portion of logistics demand in South China has been driven by cross-border e-commerce over the past four to five years. Landlords are now heavily exposed to shifts in this business model and the fortunes of individual businesses. One of the largest markets, though not the only one, is the United States, which is currently considering lowering the De Minimis Policy threshold to \$200, though this remains above the average purchase price on platforms like Temu and Shein. E-commerce platforms are also building out their own warehouses in South China and destination markets, potentially reducing demand for other landlords' projects.

Residential Sales/Multifamily

Residential transaction volumes fell 20% YoY in the 12 months ending on Sep 15, 2024, constituting 12% of the total transaction consideration, down 2 ppts YoY. The transactions were predominantly concentrated in first- and second-tier cities, with Beijing and Shanghai together representing 42% of total residential transactions, up 14 ppts YoY. High-end residential assets in central locations, where land availability is limited, have been seen

as relatively defensive investments due to their stable long-term value. This asset class continues to attract private buyers, including High Net Worth Individuals, Non-Traded REITs, and Developer/Owner/Operators, who are focused on wealth preservation amid weak economic fundamentals.

Meanwhile, the multifamily housing market is facing challenges from the expansion of government-subsidized rental housing, leading to lower occupancy rates in cities such as Shanghai and Hangzhou during the first three quarters of the year. Nevertheless, as competition increases, multifamily properties that offer stable cash flow and high revenue per square metre remain the preferred choice for investors.

Destination analysis

The trends in China's real estate market show notable disparities between first-tier cities and other regions. In the year leading up to mid-September 2024, first-tier cities accounted for 56% of total transaction volumes. Within these, Shenzhen experienced a significant drop in transaction volumes, down 56% year-on-year (YoY), driven largely by declines in the office and residential sectors. Guangzhou also saw a 37% YoY decrease. Conversely, Beijing and Shanghai displayed modest growth, with transaction volumes rising by 18% and 4% respectively.

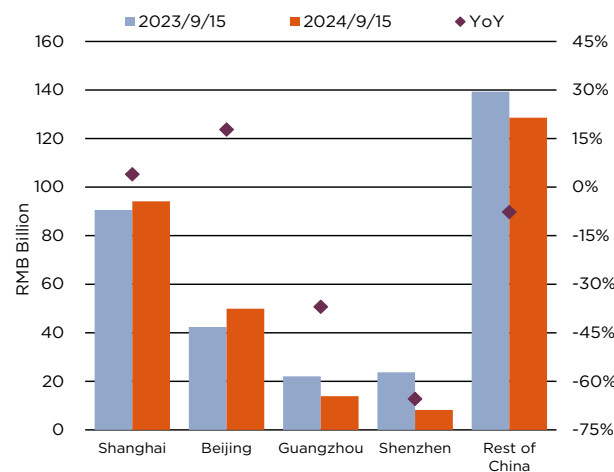
In the rest of mainland China, transaction volumes fell by 8% YoY. All asset classes reported declines except retail, which grew by 23%. The office sector was the hardest hit, with a 33% YoY decline. Lower-tier cities continued to struggle with a persistent supply-demand imbalance, an issue that has become more apparent as economic growth decelerates.

FUNDRAISING AND FINANCING ENVIRONMENT

Developer Debt

China's top 65 developers (by sales volumes) raised RMB305.3 billion in financing (comprising

GRAPH 3: Transaction Volume By City



Source RCA; Savills Research

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

	Domestic (RMB bn)	YoY	Cross border (RMB bn)	YoY
Office	67.4	-25%	13.4	-58%
Retail	60.6	51%	14.1	47%
Industrial	52.6	-19%	16.7	-4%
Hotel	31.1	77%	2.7	180%
Residential	29.3	-11%	6.8	-46%
Total	240.9	-2%	53.8	-26%

Source RCA; Savills Research

bonds, loans, IPOs, ABS, and perpetuials) during the first eight months of 2024, marking a 31.2% YoY decrease. Bond issuances amounted to RMB141.7 billion, with onshore issuance down 35% YoY to RMB137.7 billion and offshore issuance down 36% YoY to RMB4 billion. Enterprises issuing onshore bonds are still mainly state-owned enterprises.

Recent quarters have seen advancements in the real estate financing coordination mechanism, shifting support from general enterprise financing to targeted project-based financing, alleviating liquidity pressures for real estate firms. As of mid-September, 297 prefectural-level cities had established these mechanisms, with over 5,700 “white-listed” projects approved for financing, amounting to RMB1.43 trillion. The Politburo meeting on 26 September also emphasised the need to increase lending for these “white-listed” projects. This was followed up by a meeting of the Ministry of Land & Resources on

October 17 when they announced an increase in the scale of financing for “white-listed” projects to RMB4 trillion.

Additionally, recent monetary easing by the People’s Bank of China (PBoC), including cuts to policy rates and the reserve requirement, suggests a continued loosening of monetary policy. This environment is expected to help real estate companies reduce financing costs and restructure their debt.

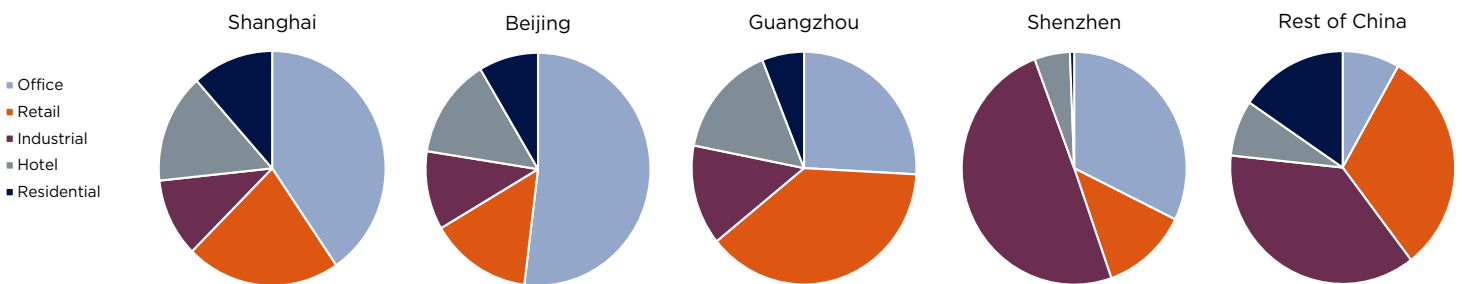
OUTLOOK

In September, the Politburo meeting marked a significant policy shift by explicitly prioritising the goal of “bringing the property market out of recession and back to stability” for the first time. The government has also rolled out a series of proactive fiscal and monetary policies aimed at supporting this objective. These measures are expected to gradually alleviate the financial stress on local developers over the coming quarters,

which could, in turn, reduce the urgency for them to engage in distressed asset sales. This approach reflects a broader commitment to stabilising the real estate sector, recognising its critical role in economic health.

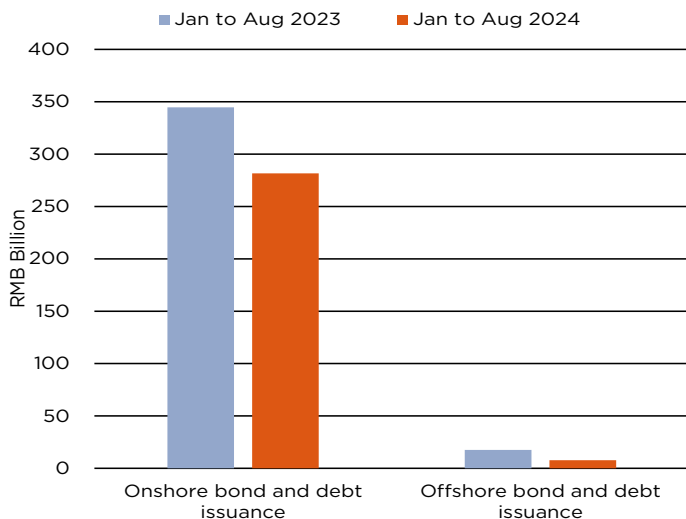
Despite these positive steps, a degree of caution is warranted. Key economic indicators, such as the high youth unemployment rate and deflationary pressures, continue to pose challenges and have yet to show significant improvement. These mid- and long-term factors are vital for underpinning sustainable growth and influencing overall market sentiment. Given this context, a cautiously optimistic outlook on the real estate market’s recovery is more appropriate, recognising the potential for progress while remaining mindful of underlying risks that could affect the pace and extent of a rebound.

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



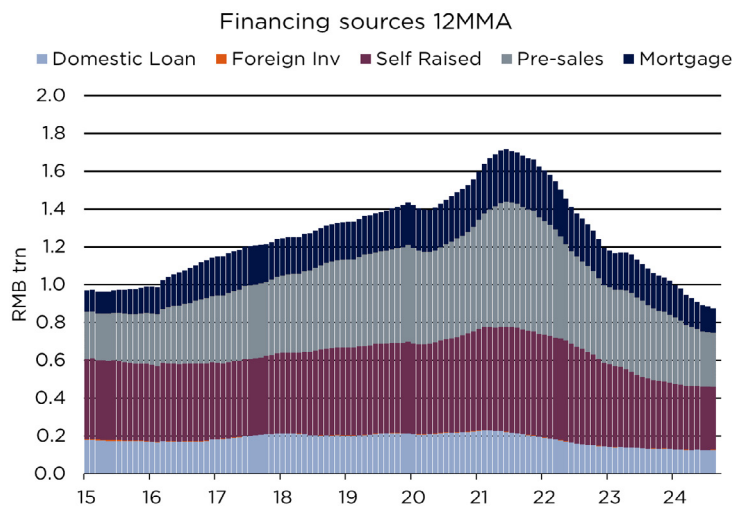
Source RCA; Savills Research

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