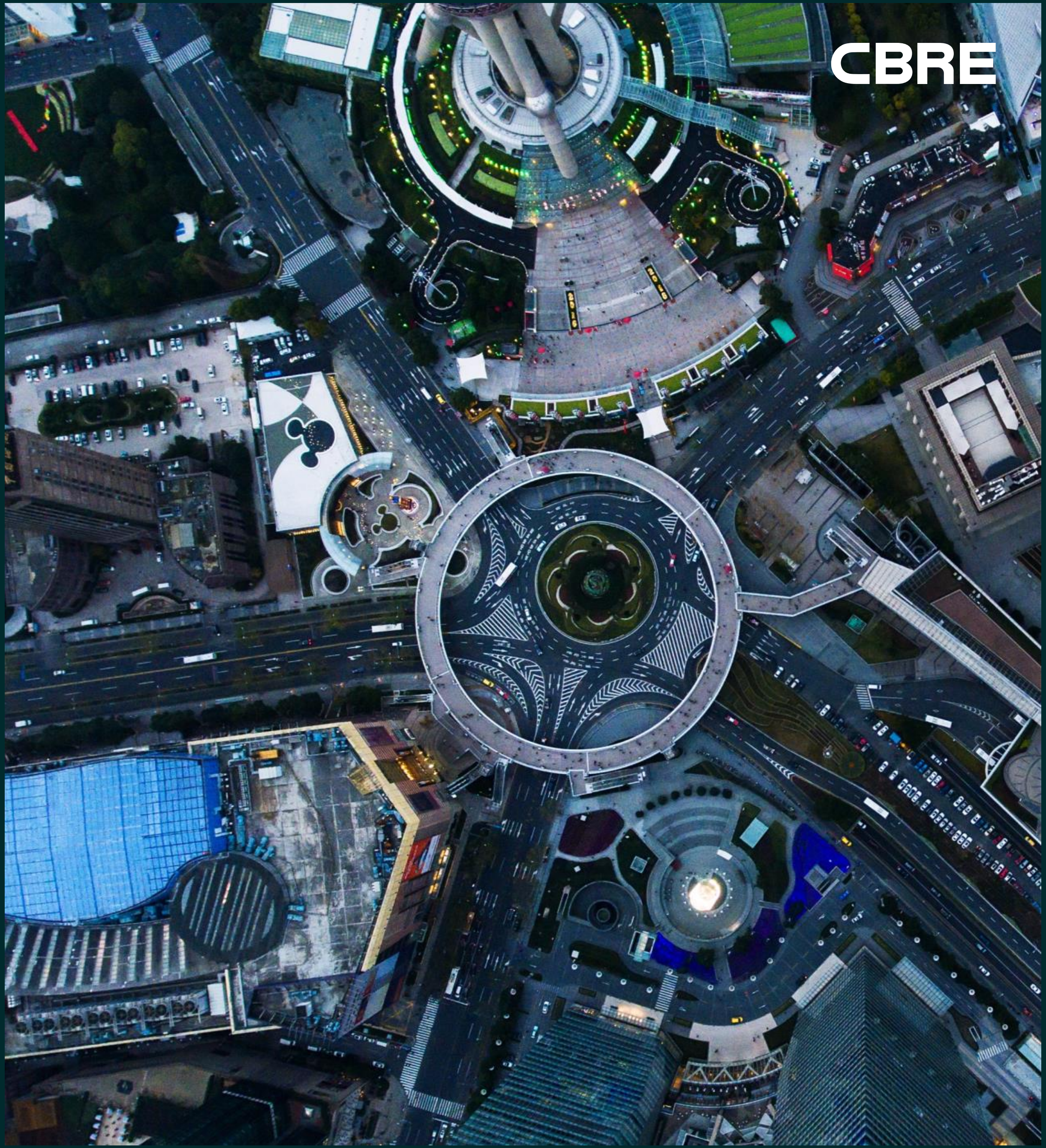
Intelligent Investment

2024
China Investor Intentions Survey

REPORT

CBRE CHINA RESEARCH
FEBUARY 2024



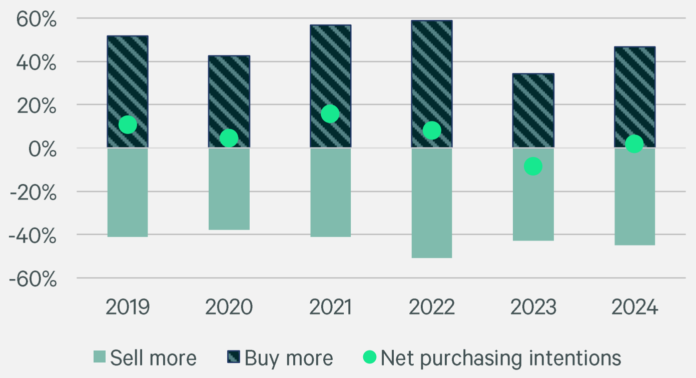
2024 China Investor Intentions Survey

CBRE

Investor Buying and Selling Intentions

Investor intentions bottom out in 2024

China investment sentiment

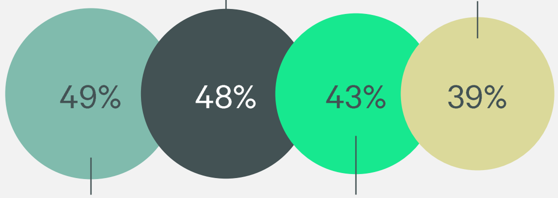


Net purchasing intentions by domestic/overseas investors

11% Domestic investors

-8% Overseas investors

Investors' top concerns



Preferred Strategies and Sectors

Risk preference shifts towards both ends

	2023	2024
Core	11%	16%
Core-plus	27%	23%
Value-add	22%	23%
Opportunistic	25%	19%
Distressed assets and NPL	12%	14%
Debt	3%	5%

Top 3 sectors for investment

#1 Industrial & Logistics

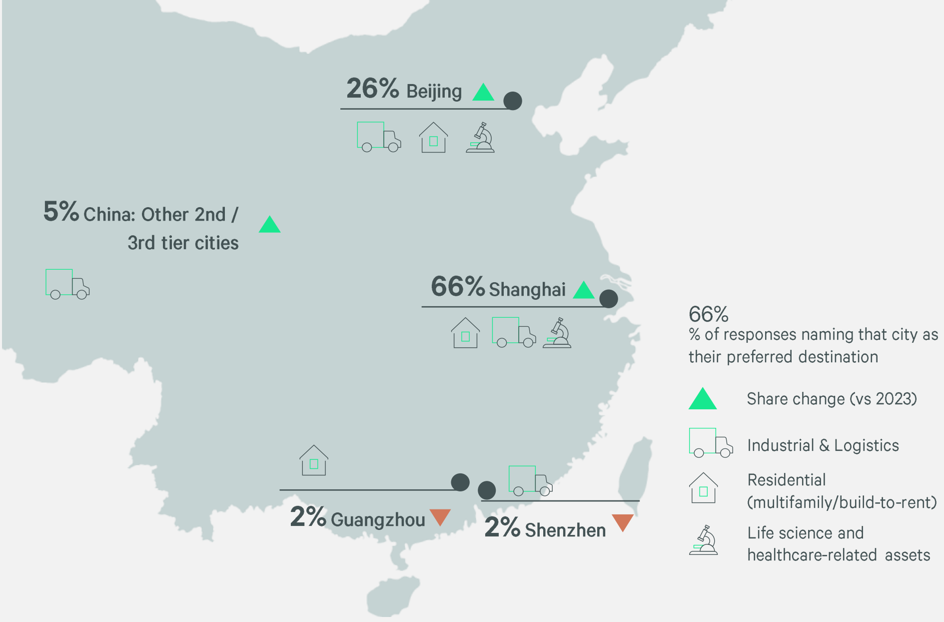
#2 Residential (multifamily/build-to-rent)

#3 Office

Top Alternative Sectors for Investment

	2023	2024
Life science and healthcare-related assets	59%	45%
Retirement living / Senior housing	29%	34%
Real estate debt	29%	31%
Data centre	38%	27%
Cold storage	48%	27%

Most Popular Cities for Investment and most preferred asset classes

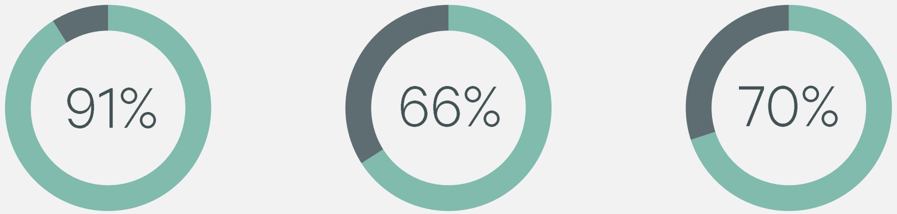


ESG

91% of respondents have adopted / plan to adopt ESG criteria in their investment decisions

66% of respondents are considering retrofitting existing buildings to be ESG-compliant

70% of respondents would be willing to pay a premium for an ESG-certified asset



CBRE RESEARCH

This report was prepared by the CBRE China Research Team, which forms part of CBRE Research – a network of preeminent researchers who collaborate to provide real estate market research and econometric forecasting to real estate investors and occupiers around the globe.

Executive Summary

CBRE's 2024 China Investor Intentions Survey was conducted between November 8, 2023, and December 9, 2023. A total of 176 mostly China-based investors participated in the survey, which asked respondents a range of questions regarding their buying appetite and preferred real estate strategies, sectors, and markets for 2024.

Overall investor sentiment improved in 2024, with the proportion of respondents saying they intend to "buy more" finally bottoming out. Domestic institutional investors displayed the most positive expectations, while overseas investors remained cautious. Fear of a recession and a mismatch between buyer and seller expectations were identified as the main barriers to investment activity. Any improvement in investment activity in 2024 will rest upon the recovery of leasing demand and the closing of the price gap between buyers and sellers. Full year transaction volume is forecasted to remain almost flat on a y-o-y basis, with domestic institutions and corporations expected to stay as the major drivers of purchasing demand.

Key findings

Investor intentions

The proportion of respondents saying they intend to "buy more" increased to 47%, ensuring net purchasing intentions returned to positive territory. Domestic institutional investors displayed the most positive expectations, but overseas investors remained cautious.

Fear of a recession, tenant demand and a mismatch between buyer and seller expectations were identified as main barriers to investment activity.

Investment Strategies

Industrial and logistics remained the most preferred asset class despite weaker demand, while interest in residential (income generating) increased. Among alternative asset classes, investors displayed the strongest interest in life science and healthcare.

Most investors expect further price adjustments in major sectors except multifamily.

Risk preference has shifted towards both ends, with stronger appetite for core and distressed assets / NPLs.

Financing environment

Nearly 80% of investors expect China interest rates to fall in 2024. Rate cuts are also expected in major Asia Pacific markets (excluding Japan).

Loan size and credit spreads are the major concerns when investors source debt for investment.

ESG

91% of respondents have already adopted or plan to adopt ESG criteria in their investment decisions, with retrofitting existing buildings and acquiring green buildings the main initiatives.

Nearly 70% of investors are willing to pay premiums for ESG-certified assets.

Contents

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Investor Intentions

Investor intentions bottom out

This year's survey uncovered stronger overall investor sentiment in 2024, with the proportion of respondents saying they intend to "buy more" increasing to 47%, 13-pps. up from 2023. Net purchasing intentions returned to positive territory after last year's negative reading.

Improved market sentiment is being driven by multiple factors, including adjustments to asset prices; a sustained decline in domestic interest rates; and expectations that commercial real estate leasing demand will rebound as China's economy normalises in 2024.

The more upbeat mood among investors also partly stems from the low base effect. Full year commercial real estate investment volume by institutions and property funds amounted to just RMB 47.3 billion in 2023, a significant decline of 37% y-o-y and the lowest level since 2015.

By investor type, institutional investors displayed the most positive expectations, with net purchasing intentions among this group climbing to 33%. Strong growth in income from premiums along with the low interest environment continue to encourage domestic insurance companies to allocate funds to prime commercial real estate assets. Investment sentiment among real estate funds improved marginally in 2024, but net selling intentions among developers increased as many groups continued to experience financial stress.

Due to geopolitical tension and high financing costs, overseas investors continued to exhibit negative net purchasing intentions in 2024.

Figure 1: Buying and selling intentions from 2016-2024

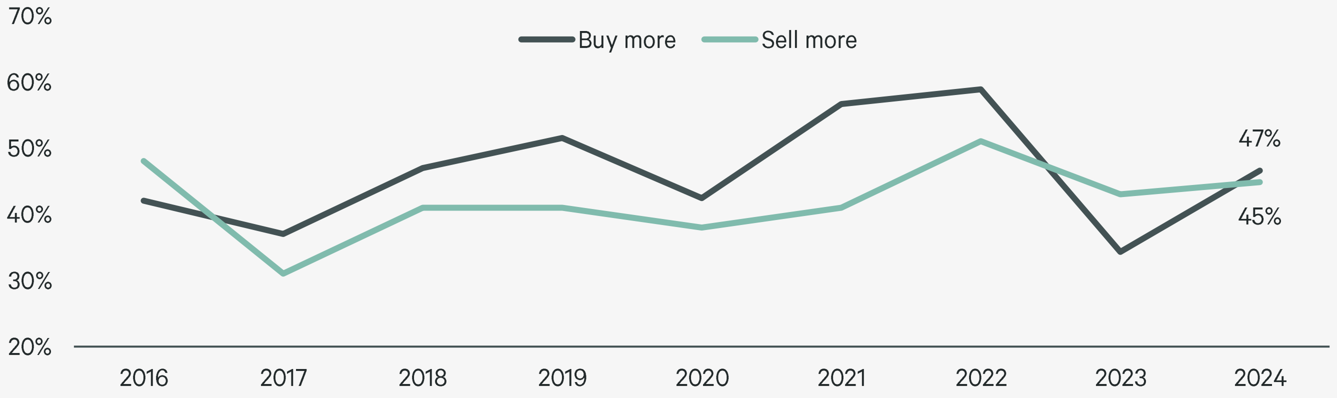
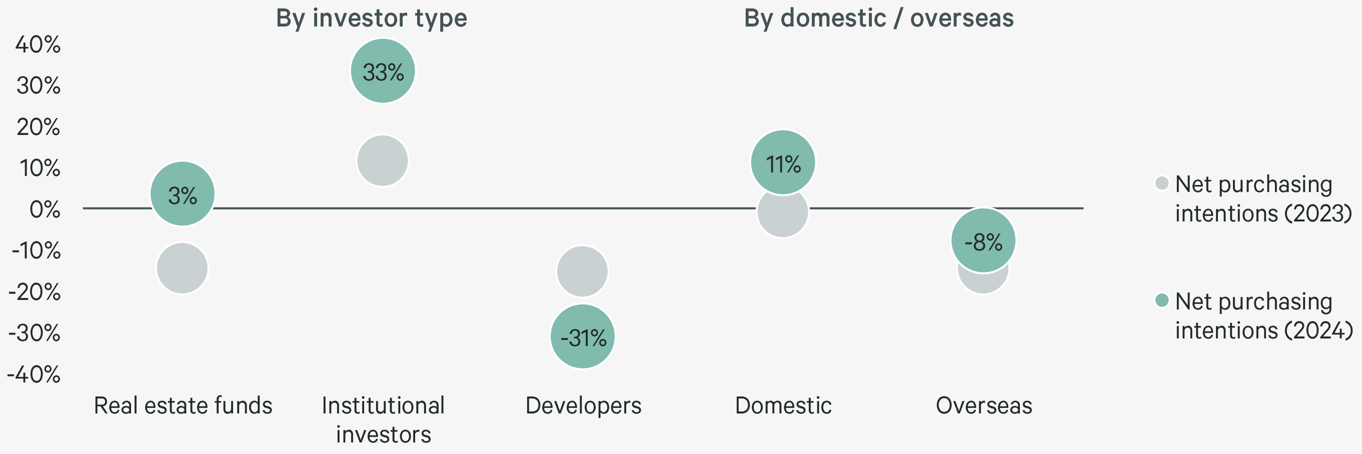


Figure 2: Net purchasing intentions[1]



Note 1 Net purchasing intentions = Percentage intending to "Buy more" – Percentage intending to "Sell more"
Source: 2024 and previous years' China Investor Intentions Survey, CBRE Research, March 2024

Fear of a recession, tenant demand and mismatch between buyer and seller expectations identified as main challenges

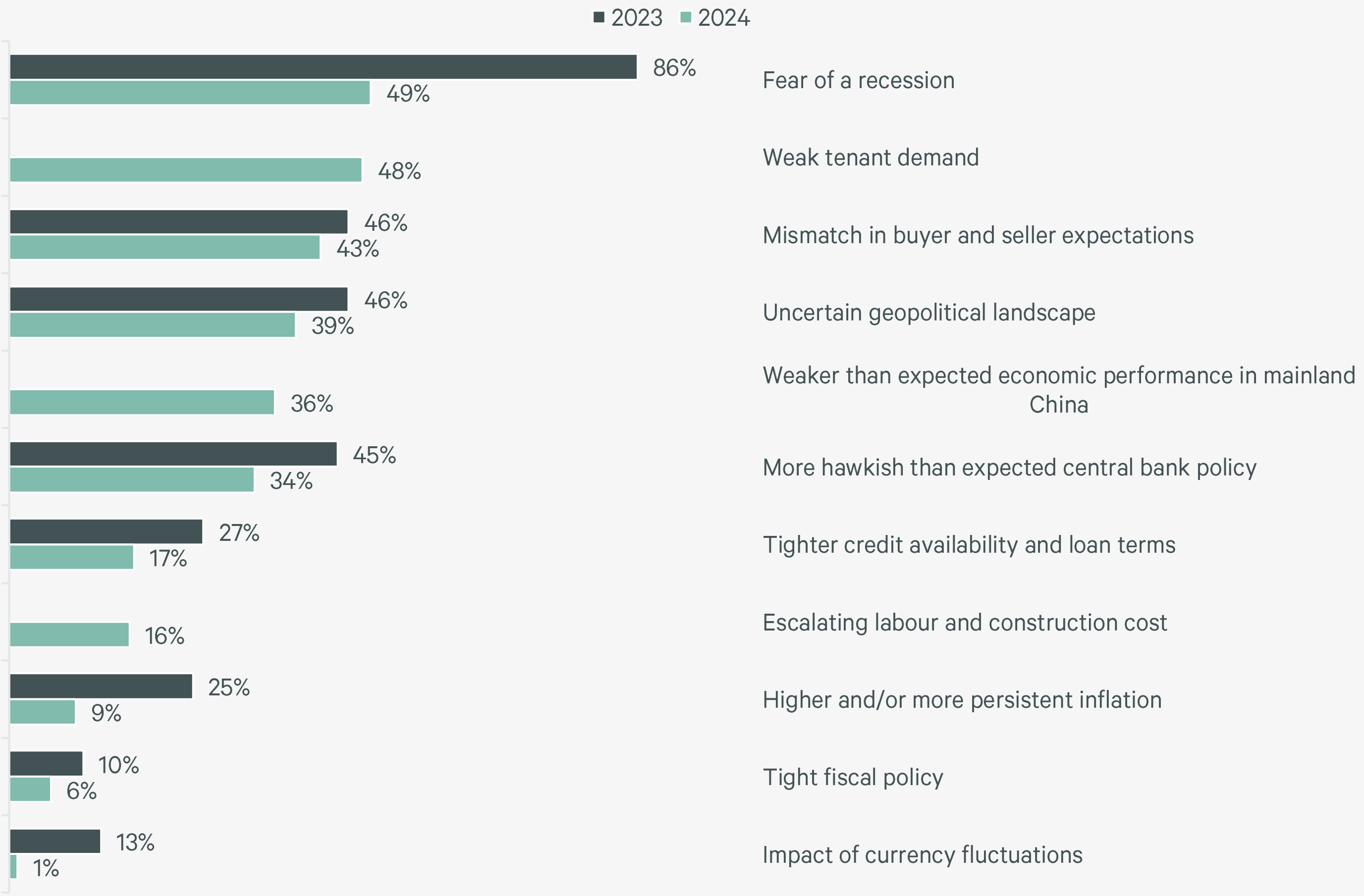
While fear of a recession remained the top barrier to real estate investment in this year's survey, the proportion of respondents selecting this factor dropped from 86% in 2023 to 49%. This finding comes as China's key economic indicators such as consumption, investment and employment showed signs of stabilisation in the last few months of 2023.

Looking to 2024, the continuous release of supportive policies such as the recent issuance of RMB 1 trillion in sovereign bonds, interest rate cuts, and real estate stimulus measures will provide support to the growth of China's economy in 2024. CBRE forecasts 2024 China's GDP to reach 4.6%, with technological innovation and consumption upgrading being the key to the structural transformation of China's economic momentum.

Weak tenant demand was named the second major challenge. Given the close connection between the commercial real estate market and economic fundamentals, demand for property in China will continue to improve in 2024 along with the gradual stabilisation of the economy. However, property performance will continue to diverge by city, location, and grade, with **investors set to adopt a more selective approach than before**.

A mismatch in buyer and seller expectations remains the major obstacle to investment. This issue is largely a consequence of leasing and financial market uncertainty, which has widened the gap between investors' views on asset prices. With **leasing fundamentals bottoming out and asset prices consolidating at the trough**, investors are recommended to focus on price discovery and through-the-cycle opportunities in 2024.

Figure 3: Major challenges for real estate investment



Source: 2024 and 2023 China Investor Intentions Survey, CBRE Research, March 2024

Share of investors expecting to increase or maintain allocations to real estate slightly expands

40% of respondents expect to increase their allocations to real estate in 2024, a rise of 2-pps. from last year. The proportion of respondents expecting to decrease allocations fell to 25%. It therefore appears that at least in the short term, there is still demand for increasing allocations to real estate.

71% of respondents planning to increase their allocations to real estate believe asset prices have fallen by a reasonable magnitude. Expectations of further price adjustment was named the top reason to reduce real estate allocations, confirming the disparate views towards asset prices currently held among investors.

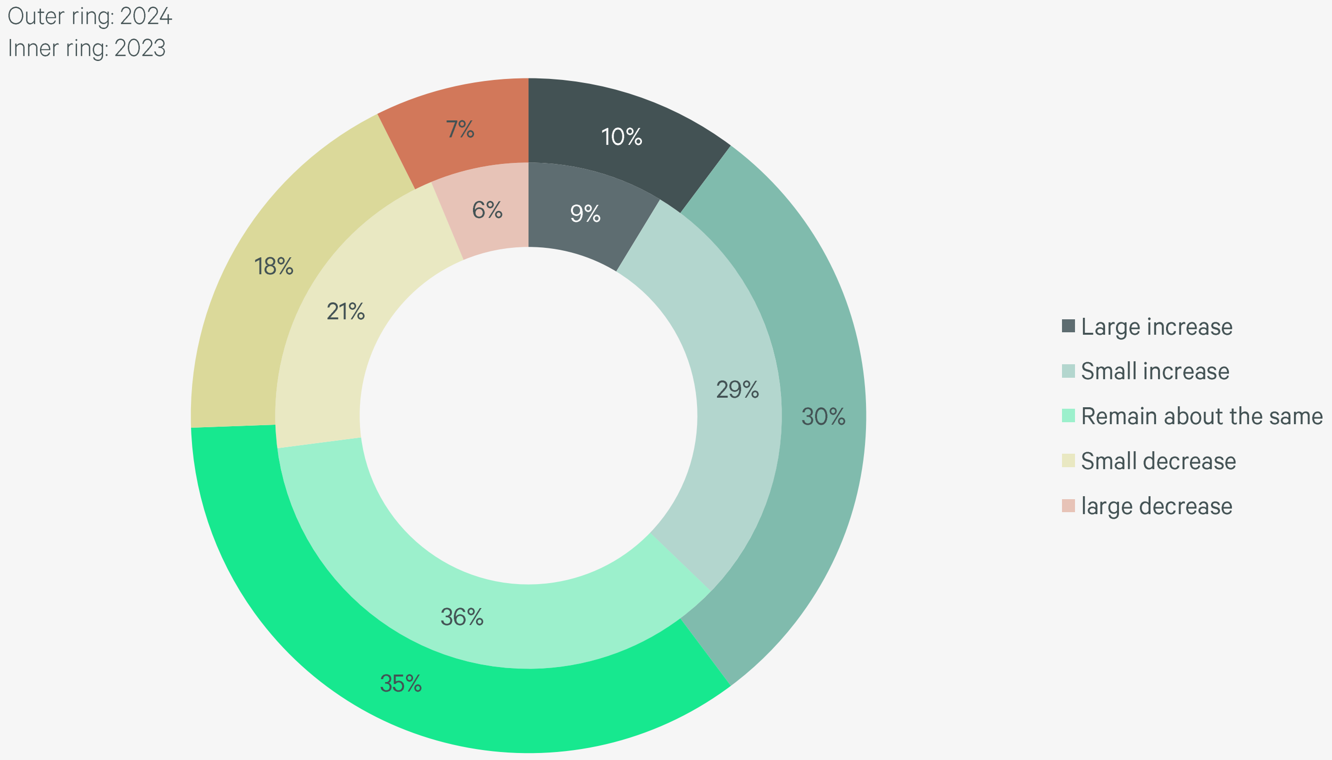
An increase in distressed opportunities ranked as the second most popular reason for increasing real estate allocations. The number of properties changing hands at auction rose significantly in 2023, accounting for 40% of the total number of commercial real estate deals for the year. Although regulatory authorities released policies to support privately-owned developers' financing needs at the end of last year, the low probability of a significant short-term improvement in new housing sales will ensure asset disposals by highly leveraged and distressed developers continue in 2024.

Figure 5: Top reason for increasing (left) and decreasing (right) real estate allocations in 2024

71% Reasonable price adjustment

58% Expectations of further price adjustment

Figure 4: Expected allocations to real estate in 2024



Source: 2024 and 2023 China Investor Intentions Survey, CBRE Research, March 2024

02

Investment Strategies

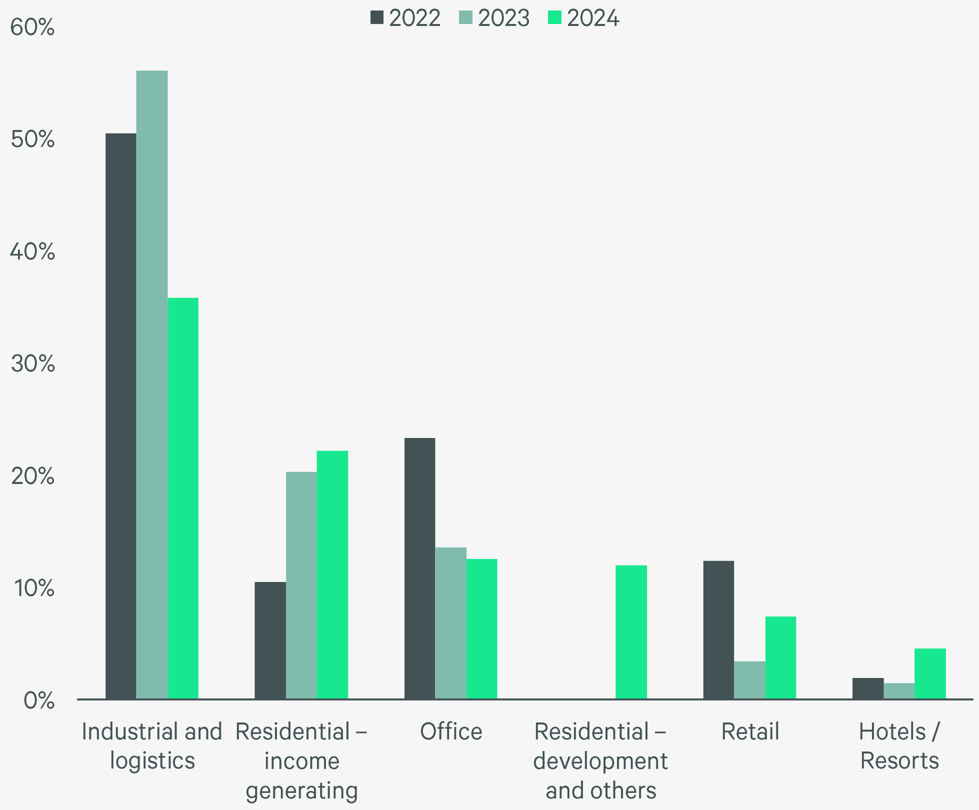
Industrial and logistics remains most preferred asset class

While industrial and logistics retained its status as the most preferred sector for the fourth consecutive year, interest in the sector weakened from 2023. Last year's new supply of over 12 million sq. m. eclipsed leasing demand and caused asset price fluctuation, leading many investors to adopt more stringent criteria for asset selection. However, recent acquisitions by Taikang and CDH, along with steady fundraising by GLP funds, indicate that investors continue to regard logistics as an attractive play. CBRE expects the rapid decline in new supply in major cities from 2024 to 2025 to significantly boost logistics market leasing fundamentals.

Interest in residential (income generating) property increased this year, ensuring the sector retained its status as the second most popular asset class. A total of 19 residential deals were completed in 2023, pushing up investment volume by 80% y-o-y to RMB 10.8 billion, fuelled by the entry of new buyers including PGIM, Ascent and Tishman Speyer. With the penetration rate of multifamily rental apartments standing at under 3%, or 10% if affordable rental houses are included, there is significant growth potential for housing consumption upgrading. This trend is especially prominent in tier I and strong tier II cities such as Hangzhou, Nanjing, Wuhan, and Chengdu, which are benefitting from strong population inflows and a rising number of middle and high-income jobs.

Supported by the steady recovery of leasing fundamentals and the accelerated development of China's public REIT market, retail and hotel investment turned more active in H2 2023. Buyers have included institutional investors such as Dajia Insurance and GSUM Fund along with more diversified groups including urban renewal funds and non-real estate private enterprises. This year's survey indicates that investors' interest in retail and hotels has now bottomed out and is starting to rebound. However, not all properties will benefit from the market recovery, with operational capability set to be an important determinant of success.

Figure 6: Preferred asset class[2] and sub-sectors for investment



Note 2 "Residential – development and others" is newly added in 2024.

Note 3 The proportion stands for share of investors choosing "modern logistics in major markets" among investors choosing "industrial and logistics" as preferred asset class. Below are the same.

Source: 2024, 2023 and 2022 China Investor Intentions Survey, CBRE Research, March 2024

63%[3]

Industrial and logistics

Modern logistics in major markets

82%

Residential – income generating

Multifamily / build-to-rent

55%

Office

Grade A office in prime location

54%

Retail

Regional/Sub-regional shopping centre

Price expectations for hotels and retail improve significantly

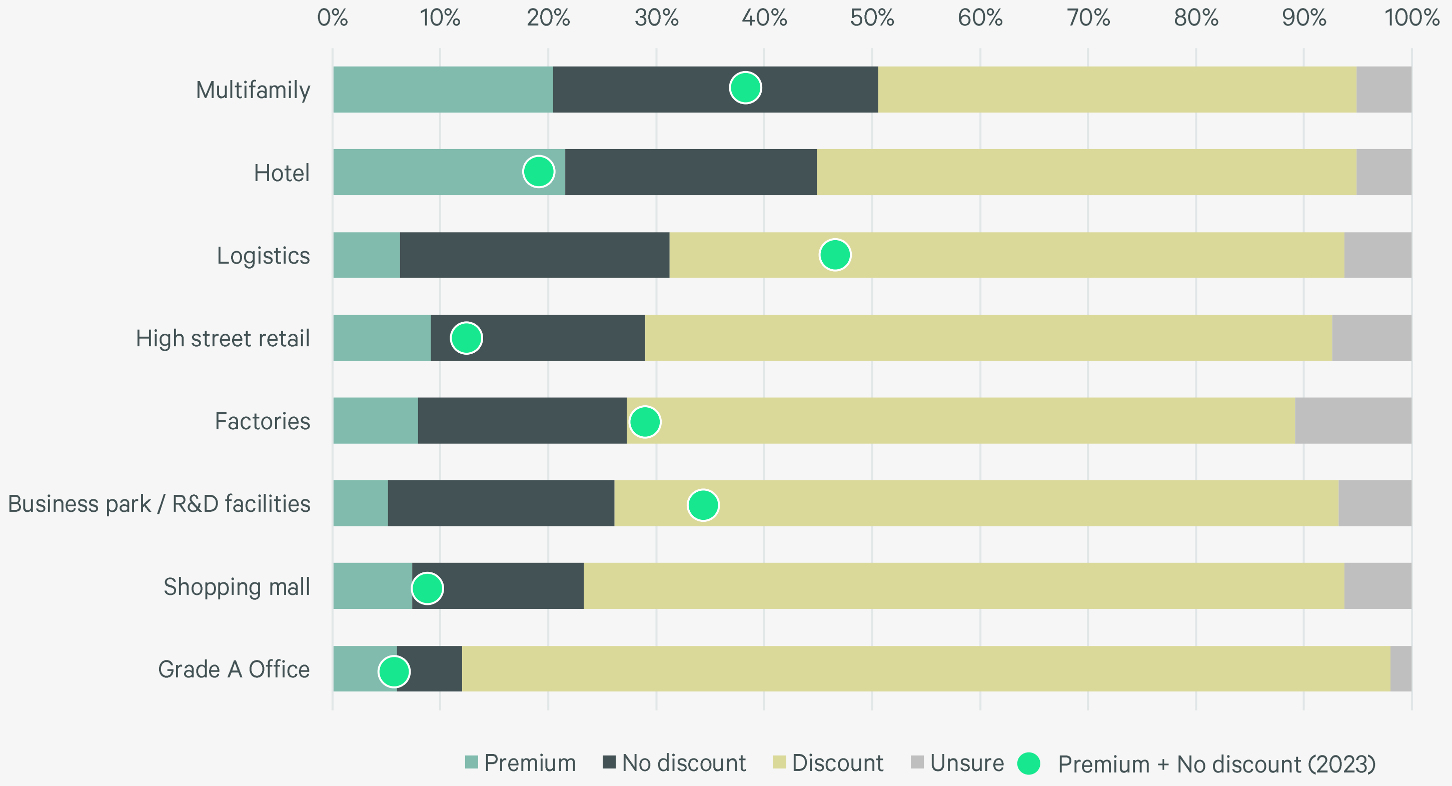
The proportion of investors expecting hotel and retail prices to appreciate increased significantly this year, mainly driven by the strong recovery in demand in both sectors.

STR data show that China hotel RevPar and occupancy for the first three quarters of 2023 stood at 96% of the level recorded in the same period of 2019. There were a total of 6,663 star rated hotels operating in China as of the end of Q2 2023, a decline of one-third compared to the same period in 2019 according to the Ministry of Culture and Tourism.

Nationwide retail vacancy started to decline in H2 2023. Net absorption reached 2.6 million sq. m. in Q4 2023, a 53% q-o-q rise from Q3 2023 and a remarkable 111% increase from the low base witnessed during the same period last year. Q4 2023 marked the first time since the onset of the pandemic in early 2020 that quarterly net absorption exceeded new supply (2.55 million sq. m.). Ground floor shopping mall rents in Beijing, Shanghai and some tier II cities in the east China region with strong consumer power started to witness signs of stabilisation during the period.

Concerns about leasing market destocking pressure has led most investors to anticipate a further decline in office prices in 2024. However, Grade A office properties in core locations of tier I cities will enjoy a relatively better supply-demand balance and thus display stronger price resilience. Vacancy rates in most core CBDs of the four tier I cities currently stand below 10%. More significantly, 7% of new office supply due to be completed in tier I cities during 2024-2026 will be in core CBDs.

Figure 7: Investors' price expectations in 2024 compared to 2023



Source: 2024 and 2023 China Investor Intentions Survey, CBRE Research, March 2024

Rental growth momentum and asset prices impede multifamily investment

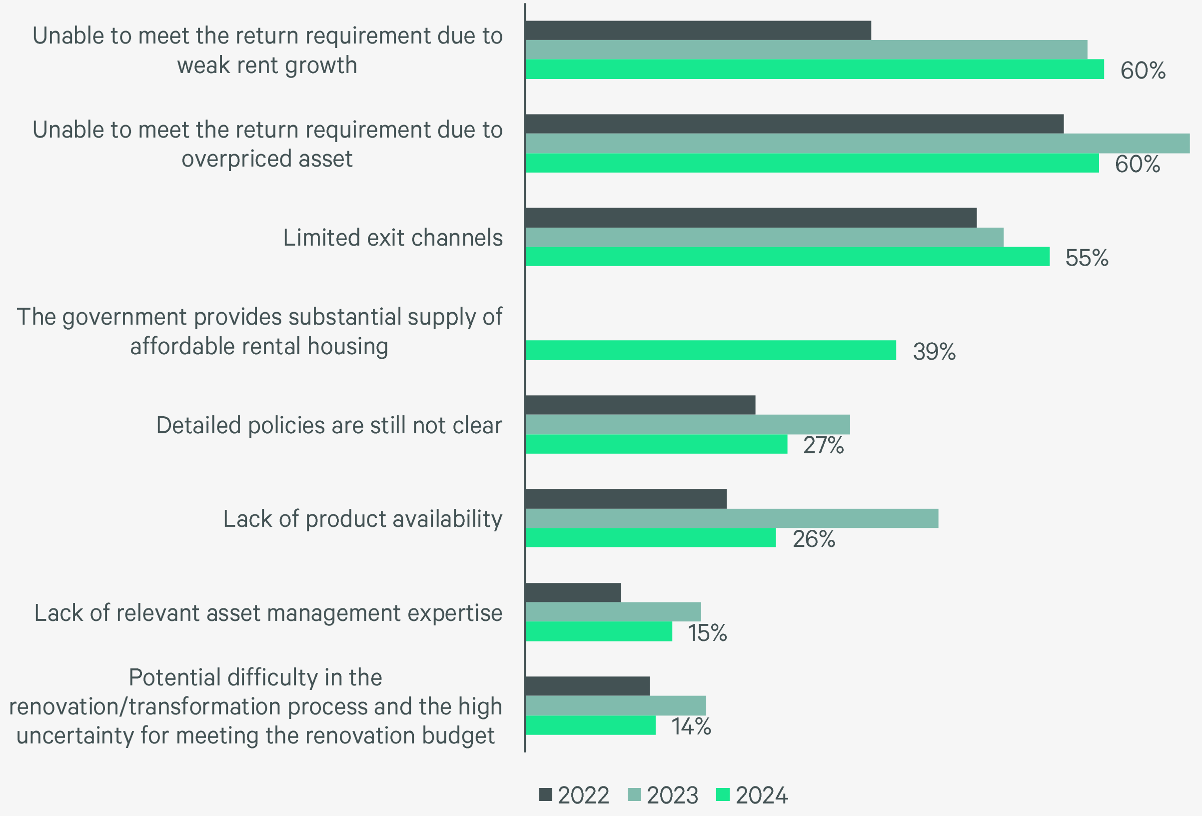
Investors retain the most optimistic price expectations towards the multifamily sector, with 50% of investors expecting prices for this asset class to remain firm in 2024, an increase from the previous year's 38%. However, rental growth momentum continues to pose an obstacle to further investment in this sector.

Centaline Property Agency's residential rental index for tier I cities fluctuated in 2023, ending the year with a slight decline of 1% y-o-y following a rebound in H1 2023 and a pullback in H2 2023. However, data provided by sources including leading operators of multifamily apartments such as Vanke and Longfor as well as publicly listed affordable rental housing REITs, show occupancy remained at over 90%, illustrating rigid demand for rental housing. With corporate confidence and employment expectations now improving, CBRE expects residential rents in tier I cities to stabilise and recover in 2024.

31% of investors believe that prices for logistics property will enjoy premiums or no discounts in 2024, marking a significant decrease from the previous year. Last year's supply peak saw logistics cap rates expand for the first time since 2012, with prices expected to further adjust in markets except for the Greater Bay Area.

The current size of the high-quality warehouse market in China is about 120 million sq. m., less than one-third of that in the U.S, indicating huge potential for further development. However, authorities will strictly limit new logistics land supply in tier I cities and key tier II cities. CBRE therefore recommends that investors prioritise through-the-cycle opportunities such as greenfield development and core assets in tier I cities, while focusing on cyclical opportunities that may become available after the reshaping of the supply demand balance from H2 2024 to 2025.

Figure 8: Major challenges involved in multifamily investment in Mainland China[4]



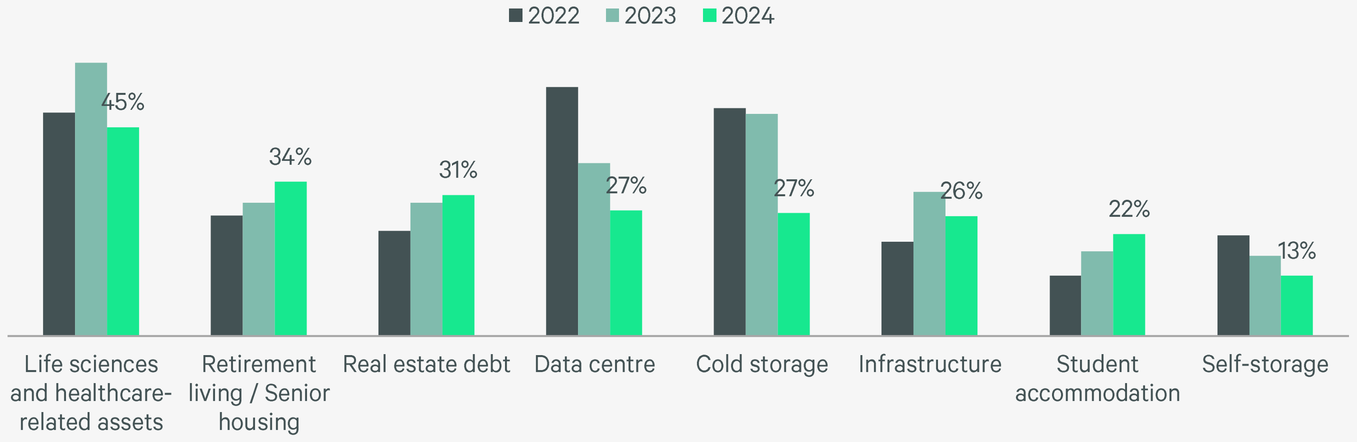
Note 4 "The government provides substantial supply of affordable rental housing" is newly added in 2024.
Source: 2024, 2023 and 2022 China Investor Intentions Survey, CBRE Research, March 2024

Life sciences and healthcare-related assets remain preferred alternative assets

Life sciences and healthcare-related assets were once again named the most popular alternatives in this year's survey. Despite the cyclical downturn in global biopharmaceutical investment and industrial development in 2023, China's ageing population, consumption upgrading, domestic industrial innovation and national medical insurance's increasing expenditure on new drugs, which rose by more than 7x from 2019 to 2022, have laid a solid foundation for the medium and long-term development of China's biopharmaceutical industry. Life sciences and healthcare-related real estate therefore possess strong demand growth potential in domestic biopharmaceutical industry clusters, especially in Shanghai and Beijing.

Around 278,000 people were employed in the biopharmaceutical industry in Shanghai in 2022. Government data show that the projected shortfall in talent will reach more than 400,000 by the end of the 14th Five-Year Plan[5]. Assuming that 20% of this number are R&D staff and R&D area per capita is 30 sq. m., **demand for biopharmaceutical R&D facilities in Shanghai in the coming years will exceed 2.5 million sq. m., well below current known new supply of about 1.2 million sq. m.** In addition, life sciences tenants' tendency to sign long-term leases creates strong cash flow certainty, which is another reason why life sciences and healthcare-related assets are so popular among investors.

Figure 9: Investor interest in alternative asset classes



Note 5 The White Paper on Talent Development of Shanghai Biomedical Industry, Shanghai Biomedical Industry Promotion Center, 2022

Source: 2024, 2023 and 2022 China Investor Intentions Survey, CBRE Research, March 2024

Risk preference shifts towards both ends of spectrum; stronger appetite for core and distressed assets / NPLs

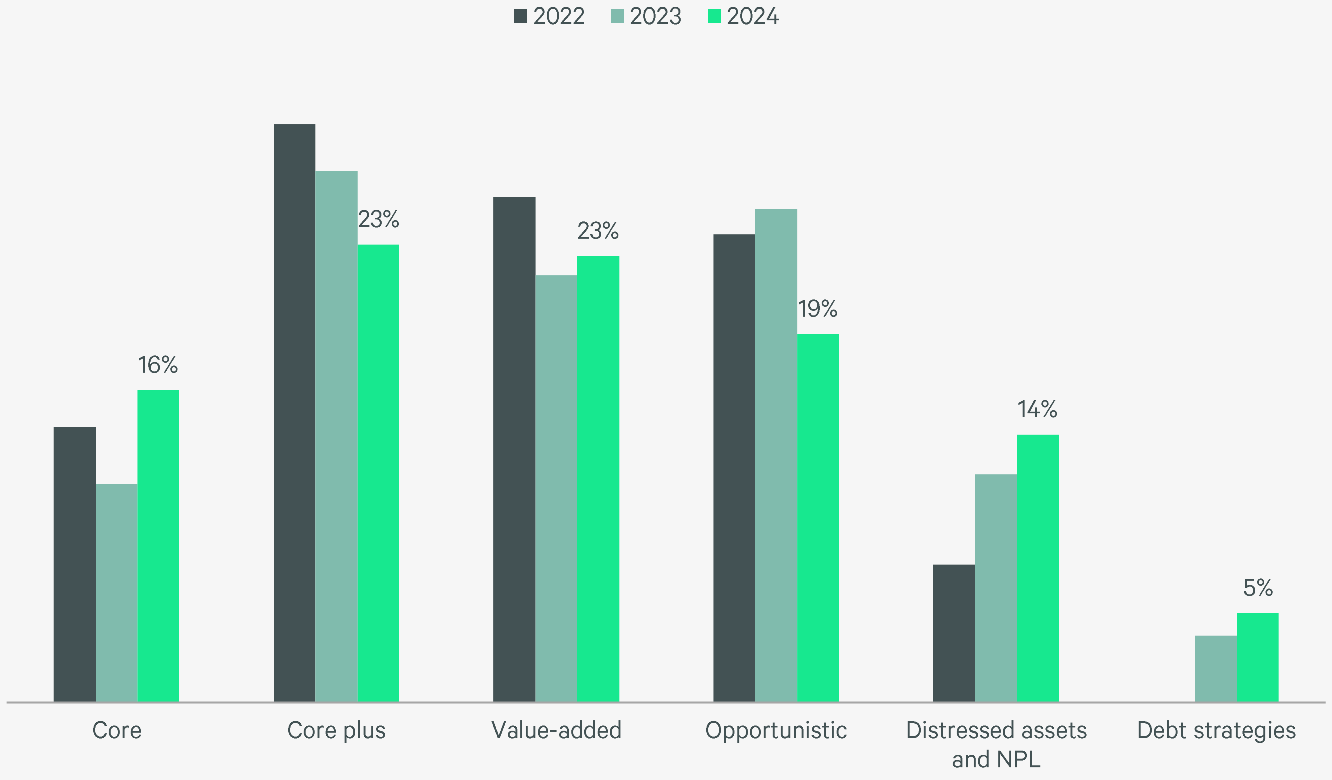
Core-plus remained the most preferred investment strategy in 2024, while risk preference shifted towards both ends of the spectrum with investors displaying a stronger appetite for core and distressed assets / NPLs.

Core strategy was most favoured among institutional investors. 40% of domestic insurance companies stated a preference for this strategy, a significant increase from the previous year's 20%. Cash flow certainty provided by core assets and China's positive carry environment will drive domestic insurance companies to focus on high-quality logistics, industrial parks, multifamily, and office assets in tier I cities in 2024. The development of a retail REIT sector will also facilitate core plus investment in pre-REITs.

Value-added strategies will remain the preferred approach for real estate funds in 2024, with opportunities such as upgrading business parks in high-tech industrial cluster cities and transforming hotels and low-grade office buildings into multifamily apartments set to attract investors' attention. CBRE data show that since 2015, a total of 35 transactions in the office, retail and hotel sectors involved a change of use. Of these properties, 22 were transformed or planned to be converted into rental housing apartments.

With domestic developers continuing to experience financial pressure and displaying strong net selling intentions, real estate debt and NPL opportunities may continue to emerge in 2024.

Figure 10: Preferred strategies for investors[6]



Note 6 "Debt strategies" is newly added in 2023.

Source: 2024, 2023 and 2022 China Investor Intentions Survey, CBRE Research, March 2024

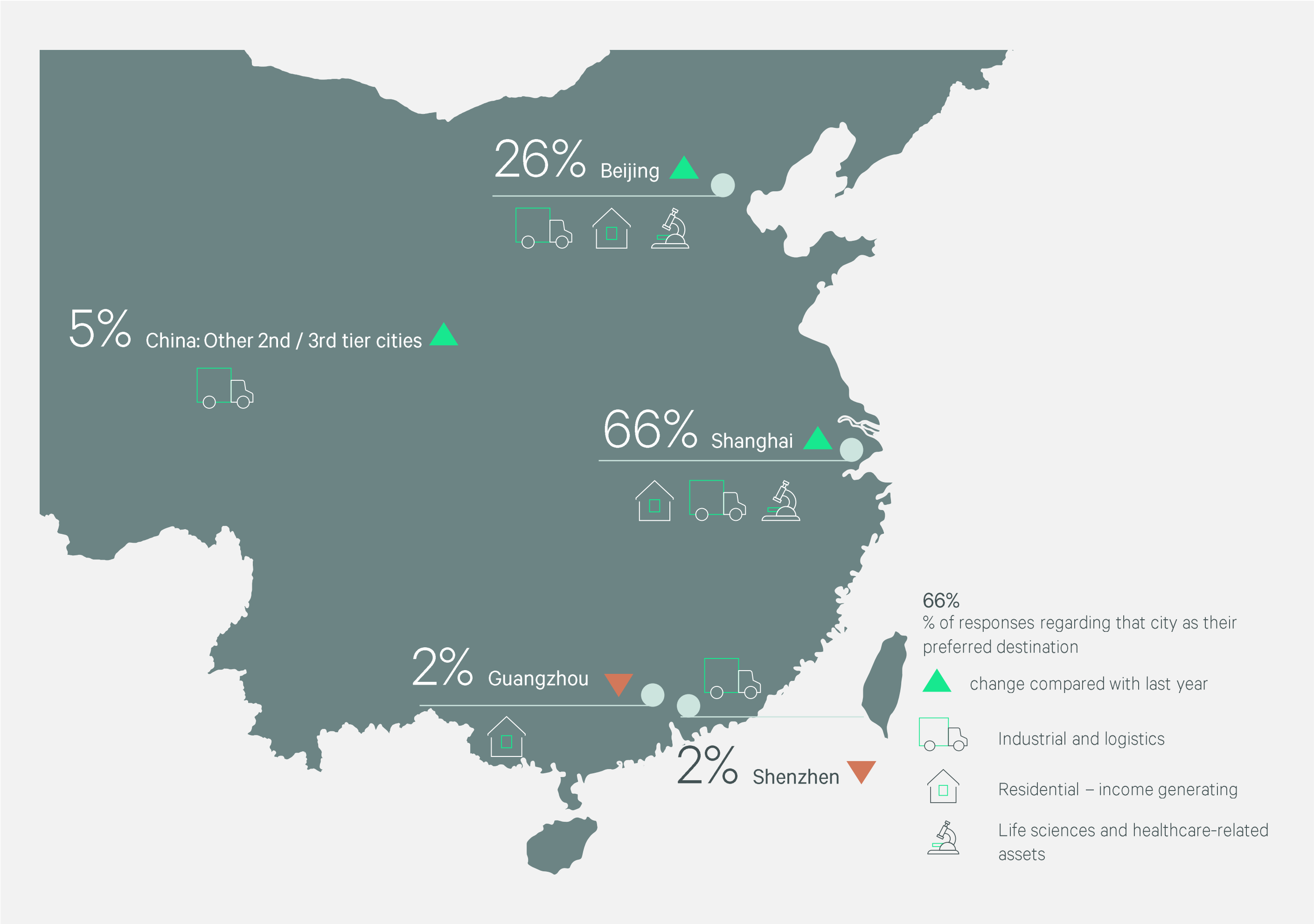
Investors target Shanghai and Beijing

66% of respondents named Shanghai as their favourite domestic investment destination in 2024, the highest rate for this market since surveys began in 2015. Beijing remained the second most popular market while increasing its share of the vote to 26% from 23% in 2023.

Multifamily overtook logistics to become the most sought-after asset class in Shanghai in 2024, while life science parks entered the top three sectors in Beijing. With industrial and logistics properties in tier II and III cities named an attractive asset class by a small number of investors, CBRE suggests buyers focus on logistics assets and manufacturing factories in the Greater Bay Area and the Yangtze River Delta region.

Respondents to CBRE's 2024 Asia Pacific Investor Intentions Survey ranked China as the 9th most popular cross-border investment destination in the region in 2024. With overseas investors remaining cautious, domestic institutions and corporations are expected to remain as the major drivers of purchasing demand in the short term. However, global investors can still avail of diversification benefits by investing in Chinese real estate.

Figure 11: Most popular cities for investment and most preferred asset classes



Source: 2024 and 2023 China Investor Intentions Survey, CBRE Research, March 2024

03

Financing environment

Nearly 80% of investors expect China's interest rates to fall in 2024

At the end of 2023, China's Central Economic Work Conference proposed that the country's monetary policy in 2024 should be "flexible, moderate, precise and effective to maintain reasonable and sufficient liquidity," indicating the possibility of further cutes to interest rates and reserve requirement rates. This is consistent with the expectations reflected in the survey, with 76% of investors expecting the People's Bank of China (PBoC) to further lower policy interest rates this year.

At the same time, the U.S. Federal Reserve is expected to begin a cycle of interest rate cuts in 2024, which will drive down interest rates in major Asia Pacific markets, except for Japan. This will improve the financing environment for cross-border investors, which has positive implications for their investment and returns on commercial real estate in China.

70% of respondents indicated that they would maintain or increase the debt-to-equity ratio of their existing portfolio in 2024. Due to commercial banks' and other lending institutions' cautious attitude towards the leasing market and asset liquidity, investors identified less favourable lending Loan-to-value (LTV) ratios and/or credit spreads, and the decline in capital values as the main challenges they encountered while sourcing debt for investment.

While the above-mentioned financing environment will generate more demand for mezzanine bonds and asset-backed securities, the difference in financing costs based on the borrower's credit and the quality of collateral assets may further expand, which in turn will affect commercial real estate asset pricing. Lower quality assets will experience greater valuation adjustment and asset disposal pressure, while pricing for high-quality assets in core locations is expected to bottom-out.

Figure 12: Expectations for interest rates in 2024

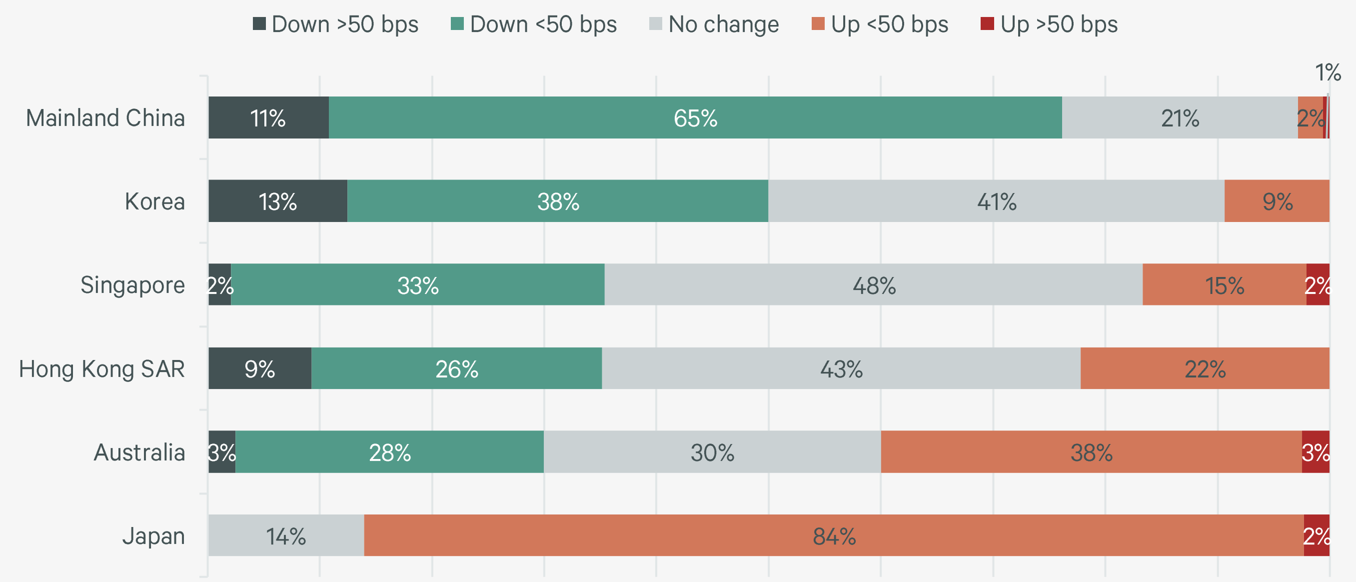


Figure 13: Major challenges when sourcing debt for investment and/or refinance

#1 Less favourable lending Loan-to-value (LTV) ratios and/or credit spreads

#2 Reduced loan size on refinancing as a result of decline in capital values

Source: 2024 China Investor Intentions Survey, CBRE Research, March 2024

04

ESG

91%

of respondents have adopted or plan to adopt ESG criteria in their investment decisions

Retrofitting existing buildings and acquiring green buildings are main ESG initiatives

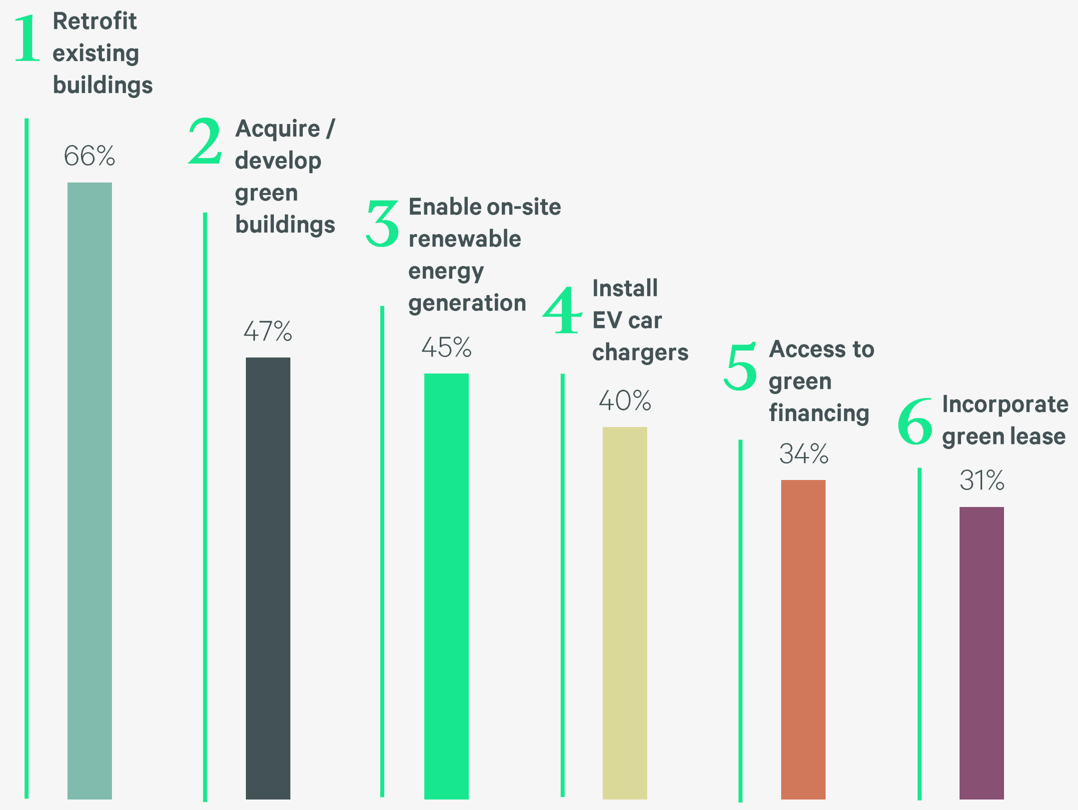
This year's survey found that 91% of investors have already adopted or plan to adopt ESG criteria in their investment decisions, an increase of 2-pps. from the previous year.

Retrofitting existing buildings and acquiring green buildings were identified as investors' main ESG initiatives. CBRE's data show that the penetration rate of LEED certified office buildings in the 18 major cities in China as of the end of 2023 was 24%, with the penetration rate in Shanghai and Beijing over 40% and that in all other cities lower than 30%. Compared to leading cities such as Sydney, Tokyo, and Singapore, which enjoy a green building penetration rate of over 70%, China possesses significant potential for growth.

Green energy facilities are rising up the investor agenda, with 45% and 40% of respondents considering "enable on-site renewable energy generation" and "install EV car chargers", respectively, as ESG initiatives.

According to data published by the China Passenger Car Association (CPCA), the sales penetration rate of electric vehicle (EV) passenger cars in China reached 35.7% in 2023, an increase of 8.1-pps. from the previous year. **CBRE expects EV car chargers to become essential infrastructure components of commercial real estate assets in future.**

Figure 14: ESG initiatives considered for real estate investment



Source: 2024 China Investor Intentions Survey, CBRE Research, March 2024

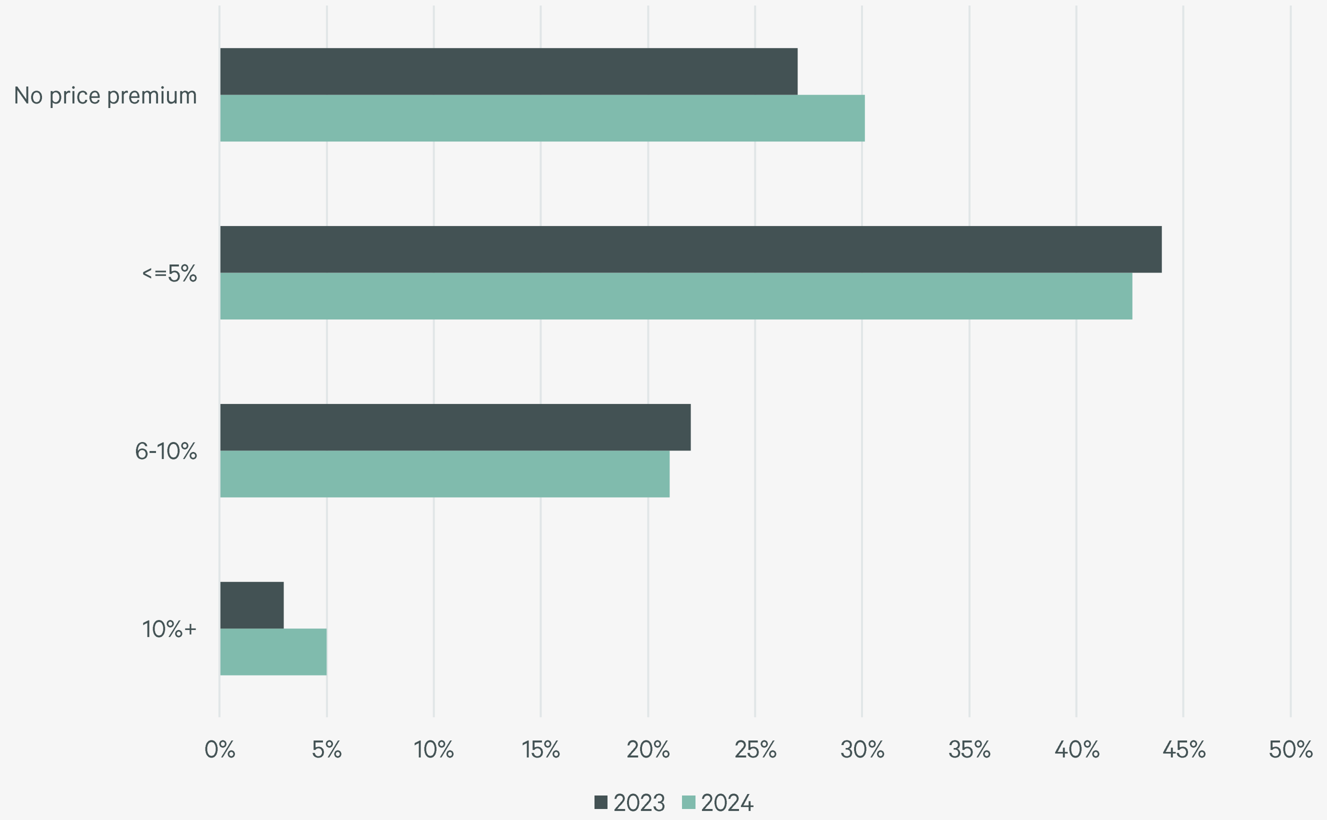
Nearly 70% of investors willing to pay a premium for ESG-certified assets, some at the higher end

Nearly 70% of investors said they would be willing to pay a premium for ESG-certified assets, a slight decrease from the previous year. The proportion of investors willing to offer high premiums (10%+) increased, driven by overseas real estate funds and developers.

CBRE believes this trend is closely related to increasing demand from tenants for green certified buildings. CBRE's 2023 China Office Occupier Survey found that 66% of respondents expressed an interest in relocating to green-certified buildings if rents are about the same as now or higher[7], a significant increase of 16-pps. from 2022. 28% of respondents indicated a willingness to allocate a certain amount of capital towards upgrades and eco-friendly modifications for existing buildings (e.g. increases in property management fees).

Note 7 50% of respondents expressed an interest in relocating to green-certified buildings if rents are about the same, while 16% of respondents expressed an interest in relocating to green-certified buildings if rents are higher.

Figure 15: Price premium investors would be willing to pay for an ESG asset (compared to a non-ESG asset)



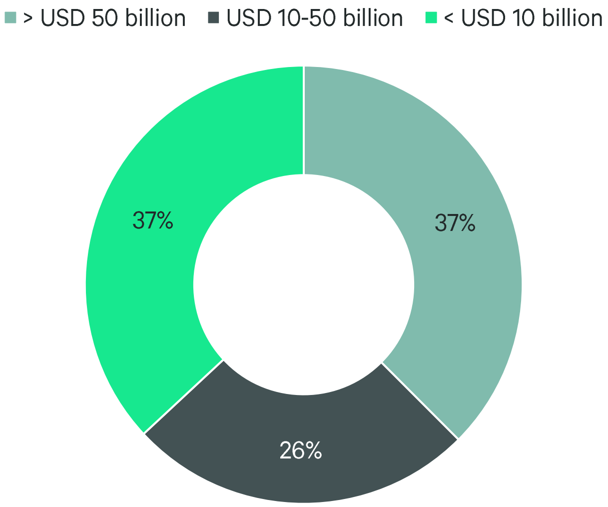
Source: 2024 and 2023 China Investor Intentions Survey, CBRE Research, March 2024

05

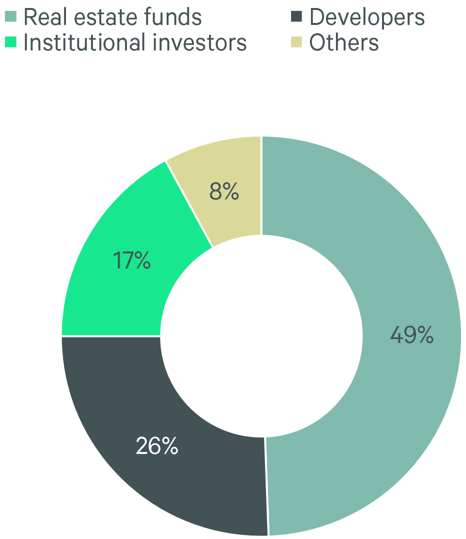
Respondent Profile

Respondent Profile

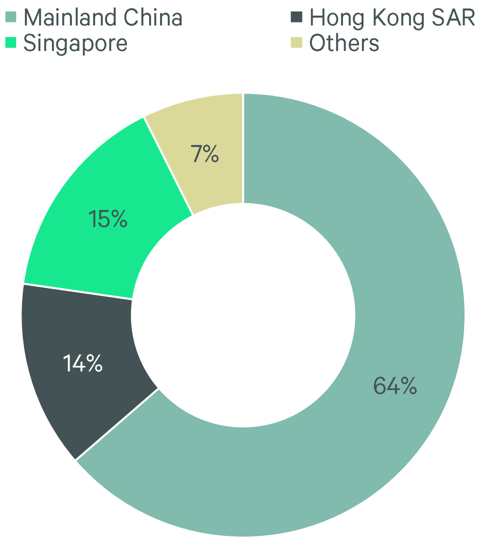
Respondents by AUM



Respondents by type[8]



Respondents by geographical location[9]



Note 8 Institutional investors include insurance companies, pension funds, sovereign wealth funds and REITs; others include high net worth individuals and others.

Note 9 Others include Japan, Taiwan, Indonesia and Korea.

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Source: 2024 China Investor Intentions Survey, CBRE Research, March 2024

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