2025

China Real Estate Investment Market Outlook Mid-Year Review

REPORT

CBRE CHINA RESEARCH

JULY 2025

Mid-Year Review and Outlook

- While commercial real estate investment volume increased by 19% y-o-y in H1 2025, the number of transactions fell by 29%.
- Institutional investors displayed a strong interest in consumption and living related assets. Retail and rental housing investment volume doubled in H1 2025. Data centre demand also increased.
- The cumulative expansion of yields in tier I cities narrowed compared with H2 2024. However, short-term pressure for expansion remains.

FIGURE 1: 2025 China Real Estate Investment Market Mid-Year Outlook

	Forecast in January 2025	Forecast in July 2025		As of H1 2025 (y-o-y change)
Transaction volume (RMB bn)	250.0	250.0	→	132.1 (+19%)
Yield (%) Grade A office	5.88	5.88	→	5.71 (+19bp)
Retail	5.88	5.83	↓	5.69 (+19bp)
Logistics	5.74	5.95	↑	5.70 (+18bp)

Source: CBRE Research, July 2025.

Investment

	Forecast in January 2025	Mid-Year Review	
01	Investment sentiment is forecasted to remain cautious. More attractive asset prices and lower rates should boost investment activity this year, ensuring investment volume returns to growth.	• Commercial real estate investment totalled RMB 132.1 billion in H1 2025, an increase of 19% y-o-y. • Transactions by insurance companies and property funds accounted for 63% of investment volume in H1 2025, indicating that institutional investors maintain their strategy of purchasing high-quality real estate. However, overall market sentiment remained cautious, with the number of transactions dropping by 29%. A PAG-led consortium's acquisition of a portfolio of 48 Wanda Plazas for RMB 50 billion accounted for 38% of total investment volume in H1 2025.	✓
02	Upward pressure on cap rates will weaken as pricing of core assets displays stronger resilience.	• Average cap rates for Grade A office, retail and logistics assets in tier I cities expanded by nearly 20bps in H1 2025, with the expansion range narrowing from H2 2024. The five-year Loan Prime Rate (LPR) was cut by 10 bps during the period. The spread between cap rates of various assets in tier I cities and the 10-year government bond yield had risen to a new high of over 400bps as of end-June.	✓
03	Investors are advised to target counter-cyclical asset classes such as multifamily, regional shopping centres and modern logistics.	• Institutional investors continued to target assets in the consumption and living sectors. During H1 2025, investment volume of retail properties and rental housing increased by 166% y-o-y and 200% y-o-y, respectively, compared with the same period last year. • While investors retained a keen interest in logistics assets, U.S. tariff-related uncertainty prompted buyers to adopt a more prudent evaluation of related opportunities, leading to slower overall deal flow.	✓
04	Office buildings in tier I cities can provide investors with defensive assets and stable returns.	• Around 66% of office investment volume in H1 2025 involved properties in core locations of tier I cities. As of the end of Q2 2025, the average CBD occupancy rate in tier I cities was 5-8-pps. higher than the citywide average. The proportion of office new supply in the CBD during 2025-2027 will be just 5.5%.	✓

✓ Exceeded expectations ✓ In line with expectations ✓ Below expectations

Source: CBRE Research, July 2025.

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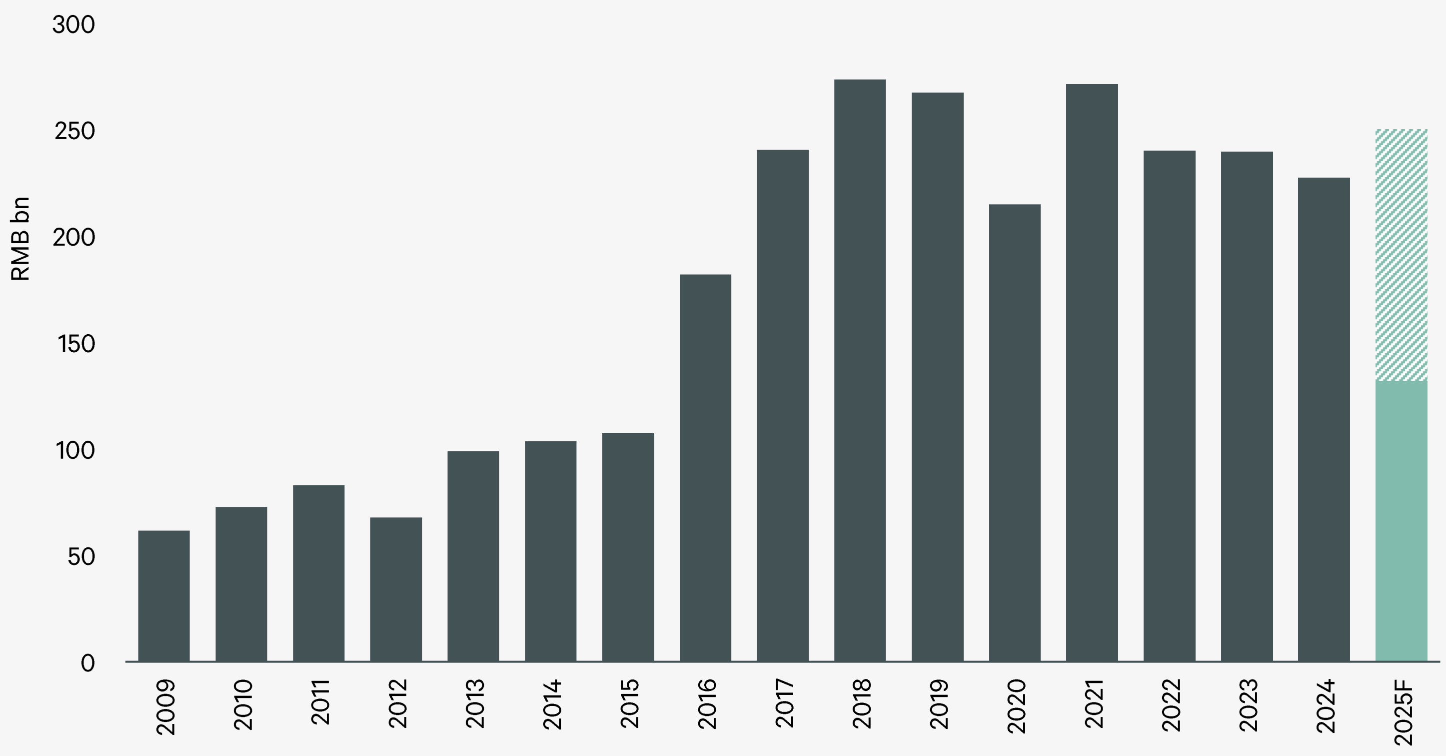
Investment recommendations

- Driven by rising risk premiums and an increase in the number of assets for sale, CBRE expects purchasing activity to improve in H2 2025. We maintain our original forecast of 5-10% y-o-y growth in investment volume.
- Fundraising and asset securitisation have gained momentum in recent months. ESR Logistics REIT was listed earlier this year, while CapitaLand and Prologis recently filed for consumption and logistics REITs, respectively. These avenues offer efficient exits for foreign investors.
- The consumption and living sectors will remain key in H2 2025. Post-buffer period tariff fallout and potential domestic demand stimulus will boost logistics investment, with east and south China being focus areas for investors. Rapid AI will boost data centre investment in tier I cities and surrounding markets.
- CBRE data show that since 2022, average capital values of office buildings in tier I cities have fallen by a cumulative 43%. Core office buildings with ample safety margins will continue to attract long-term capital.

FIGURE 2: China Commercial Real Estate Investment Volume



Source: CBRE Research, July 2025.

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Cap rates

- U.S. tariffs are weighing on logistics leasing demand, prompting investors to seek higher risk premium compensation. Cap rates for high quality logistics assets are expected to rise by 20-30bps in H2 2025, 10bps higher than CBRE's initial forecast made at the beginning of the year.
- While office and retail property cap rates will experience slight upward pressure in H2 2025, the year-end forecast remains basically unchanged. Investors' current risk aversion means that upward room for core asset cap rates will be more limited.
- The People's Bank of China's (PBoC) quarterly meeting at the end of June did not mention "timely RRR and interest rate cuts", meaning that the probability of rate cuts in Q3 2025 is low. Whether further rate cuts will be implemented within this year will depend on changes to the external trade and financial environment as well as domestic real estate market performance.

FIGURE 3: Cap Rates for Major Asset Classes in Tier I Cities

	Grade A Office			Retail			Logistics		
	Q4 24	Q2 25	Q4 25	Q4 24	Q2 25	Q4 25	Q4 24	Q2 25	Q4 25
Beijing	5.50%	5.60%	5.75% ▲	5.50%	5.60%	5.75% ▲	5.75%	5.85%	6.15% ▲
Shanghai	5.50%	5.65%	5.75% ▲	5.50%	5.65%	5.75% ▲	5.75%	5.85%	6.05% ▲
Guangzhou	5.60%	5.80%	6.00% ▲	5.50%	5.70%	5.80% ▲	5.50%	5.80%	6.10% ▲
Shenzhen	5.50%	5.80%	6.00% ▲	5.50%	5.80%	6.00% ▲	5.10%	5.30%	5.50% ▲

Note: Cap rate refers to the medium of the range. Cap rates vary depending on different qualities and locations.
Source: CBRE Research, July 2025.

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