

FIGURES | CHINA | Q1 2024

Office demand remains weak; retail property investment nears historic peak

+5.3%

GDP
(Q1 2024, Y-o-Y)

+4.7%

Retail Sales
(Q1 2024, Y-o-Y)

+4.5%

Fixed Asset Investment
(Q1 2024, Y-o-Y)

Source: National Municipal Statistics Bureau, CBRE Research, Apr 2024

Executive Summary

- **Office:** Around 1.3 million sq. m. of new office supply came on stream in Q1 2024, an increase of 6% q-o-q and 51% y-o-y. Seasonal factors and more cautious decision-making ensured nationwide net absorption fell by 44% q-o-q to 540,000 sq. m. in Q1 2024, although this represented y-o-y growth of 60% due to Q1 2023's low base. Nationwide office vacancy rose by 0.3-pps. q-o-q to 24.8%, marking an historical high. Nationwide average face rents dropped by 1.2% q-o-q.
- **Retail:** New retail supply totalled 410,000 sq. m. in Q1 2024, a decline of 84% y-o-y. Net absorption reached 470,000 sq. m., an increase of 82% y-o-y. The further improvement in the supply and demand structure ensured overall vacancy fell for a third consecutive quarter, dropping 0.2-pps. q-o-q to 8.4%. Average nationwide ground floor shopping mall rents were unchanged and now appear to have bottomed out.
- **Logistics:** National warehouse net absorption grew by 4% y-o-y to 1.47 million sq. m., underpinned by steady expansion by cross-border e-commerce, Third-Party Logistics (3PL) and manufacturing firms. New supply totalled 1.53 million sq. m., a sharp decline on both a q-o-q and y-o-y basis, dragging down vacancy by 0.3-pps. q-o-q to 21.6%. The nationwide rental decline accelerated amid pressure from the current supply peak and continued destocking.
- **Investment:** Commercial real estate investment volume totalled RMB 44.7 billion in Q1 2024, representing a decline of 37% q-o-q and 23% y-o-y. Activity was led by purchases by domestic corporations and developers. Institutions and property funds remained cautious, accounting for just 17% of total transaction volume.

FIGURE 1: Quick Statistics

Office	q-o-q	y-t-d	y-o-y
Rent	-1.2%	-1.2%	-4.0%
Vacancy Rate	+0.3 pps	+0.3 pps	+1.6 pps
Retail	q-o-q	y-t-d	y-o-y
Rent	+0.0%	+0.0%	+0.1%
Vacancy Rate	-0.2 pps	-0.2 pps	-0.9 pps
Logistics	q-o-q	y-t-d	y-o-y
Rent	-1.6%	-1.6%	-3.9%
Vacancy Rate	-0.3 pps	-0.3 pps	+1.4 pps
Investment	q-o-q	y-t-d total, y-o-y	y-o-y
Total volume*	-36.9%	-23.2%	-23.2%

*Transactions include deals above US\$10 million in the office, retail, mixed, industrial, hotel and other commercial sectors
Source: CBRE Research, Q1 2024.

Economy

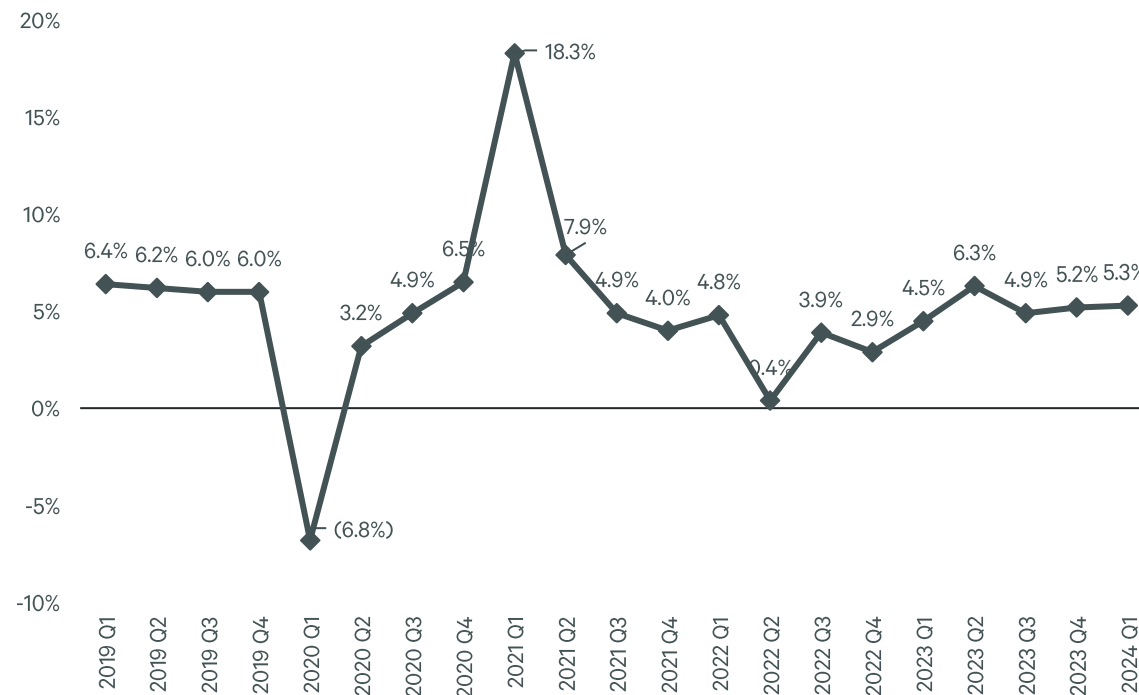
Q1 GDP growth reaches 5.3%, exceeding expectations

China’s GDP grew by 5.3% y-o-y and 1.6% q-o-q in Q1 2024, significantly exceeding market expectations and indicating that the economy is sustaining its recovery momentum.

Fixed asset investment grew at a rapid pace in Q1 2024, logging a y-o-y increase of 4.5%, a 1.5-pps. improvement over full year 2023. Growth was mainly supported by infrastructure and manufacturing investment as supportive policies including special sovereign bonds and large-scale equipment renewal began to take effect. Infrastructure investment increased by 6.5% y-o-y and manufacturing investment rose by 9.9% y-o-y, representing growth of 0.6-pps. and 3.4-pps., respectively, from full year 2023. Manufacturing PMI returned to expansion territory in March after five months in the negative zone. However, the property market remained subdued in Q1 2024, with property development investment falling by 9.5% y-o-y, and new property sales declining by 27.6% y-o-y.

Due to the high base effect and the release of consumer demand during the Spring Festival, retail sales increased by 3.1% y-o-y in March, a decline of 2.4-pps. compared with the first two months of the year. Growth rates of catering revenue and consumer goods revenue both lost momentum, while CPI fell to 0.1% y-o-y the same month. In April, the Ministry of Commerce and 13 other government departments jointly issued an action plan to promote the trade-in of consumer goods, aiming to establish a mechanism to facilitate the scrapping of used goods including automobiles and home appliances in exchange for smart, green and low-carbon products. The initiative is also intended to spur the upgrading and renovation of old residential accommodation, which is expected to support the consumer market.

FIGURE 2: China GDP Growth (% Y-o-Y)

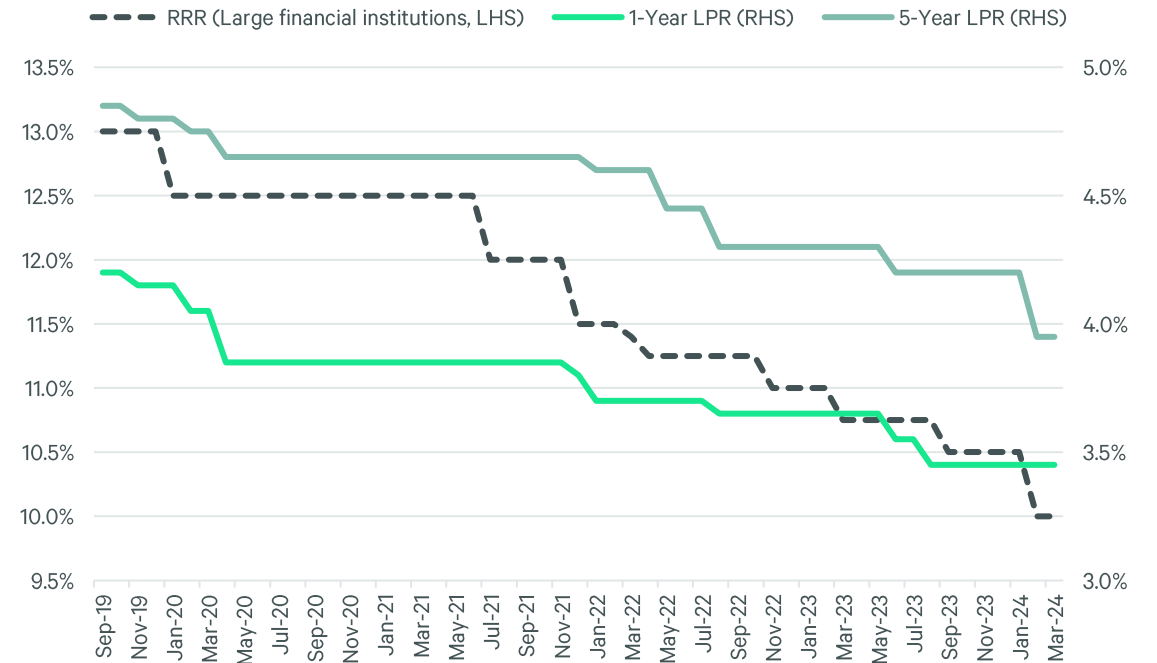


Source: National Statistics Bureau, Q1 2024

Exports (in USD terms) increased by 1.5% y-o-y in Q1 2024, logging an increase of 7.1% y-o-y in January-February but suffering a decline of 7.5% y-o-y in March. Weaker performance in March was mainly caused by the high base of comparison, with actual export volumes ranking the second highest in history for that month, reflecting resilient export momentum.

In February, the People’s Bank of China (PBoC) announced it would cut the 5-year LPR from 4.20% to 3.95%. The 25bps reduction marked the largest cut to the LPR since its introduction in August 2019 and underlines the central government’s determination to support the residential sales market, which remains a key pillar of economic growth. With the accelerated implementation of special sovereign bonds and three major projects (affordable housing construction, urban village transformation in mega-cities, and dual-use public infrastructure development), together with the introduction of policies to support the industrial and real estate markets, the economic recovery is set to continue in the coming months. CBRE expects the government’s annual growth target of around 5% is likely to be achieved in 2024.

FIGURE 3: Reserve Requirement Ratio (RRR) and 1-year Loan Prime Rate (LPR)



Source: PBoC, CBRE Research, Q1 2024

Office

Net Absorption
+60% y-o-y

Vacancy
+1.6 pps y-o-y

Rent
-4.0% y-o-y

Demand remains weak but relocations rise to highest total for same period since 2020

Around 1.3 million sq. m. of new office supply came on stream in Q1 2024, an increase of 6% q-o-q and 51% y-o-y. Most new supply is in non-core business districts of tier I cities and Wuhan and Chongqing.

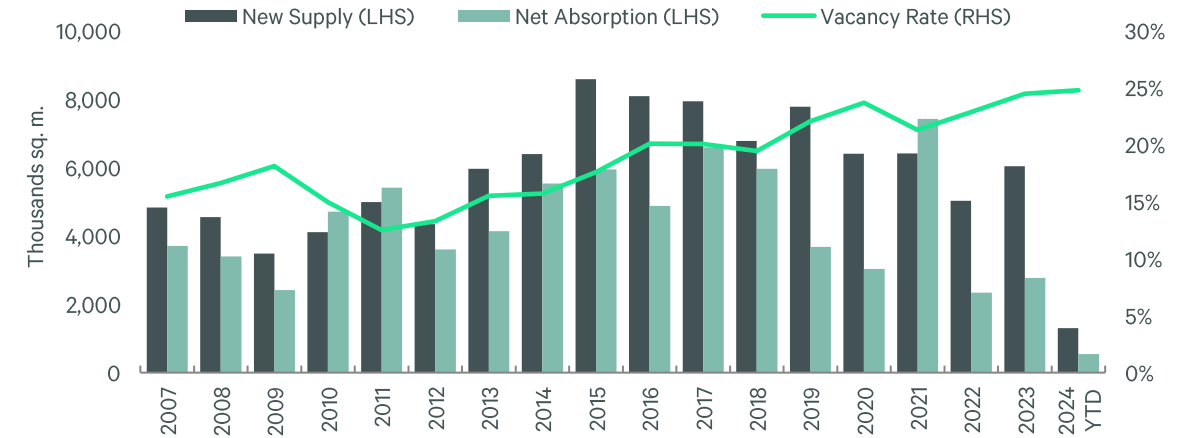
Seasonal factors and prolonged decision-making processes ensured nationwide net absorption fell by 44% q-o-q to 540,000 sq. m. in Q1 2024, although this represented y-o-y growth of 60% due to Q1 2023's low base.

New set-up leasing volume declined by 43% y-o-y, weighing on overall demand momentum. Ample new supply continued to facilitate occupier moves, pushing up relocation leasing volume by 34% y-o-y, the highest first quarter total since 2020. Shanghai, Guangzhou and Chengdu reported the strongest q-o-q growth rate in relocation leasing volume, with occupiers mainly moving to high-cost districts including Shanghai HQ CBD, Zhenru, Guangzhou Pazhou and Chengdu Financial City.

Non-banking financial institutions and AI dominate leasing demand; manufacturing ranks among top three demand drivers for second consecutive quarter

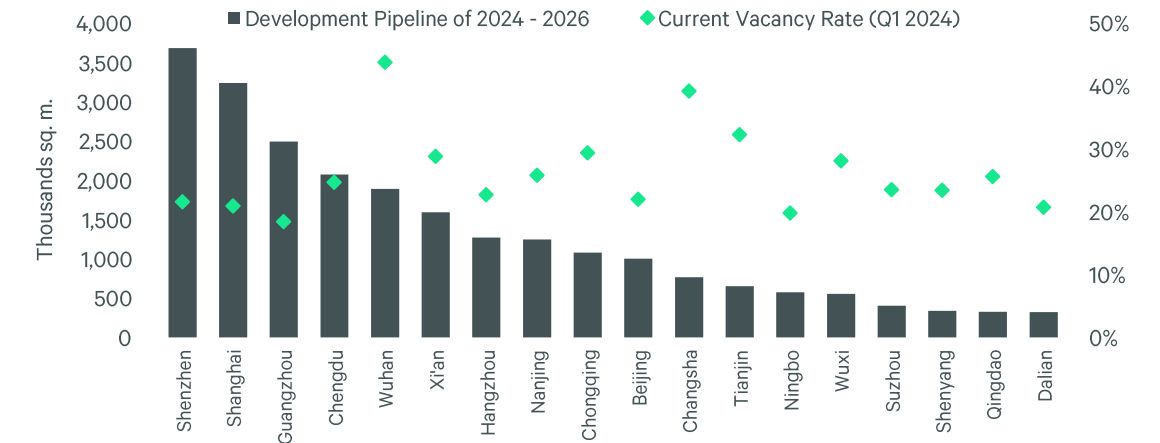
The finance and TMT sectors remained the top engines of leasing demand in Q1 2024, accounting for 40% of nationwide office leasing volume during the quarter. However, these two sectors' proportion of overall leasing volume fell to its lowest level since 2019. Within the finance sector, non-banking financial institutions accounted for 95% of leasing demand, with relocation and expansion the major transaction types. In terms of location, occupiers in this sector continue to opt for submarkets with high levels of industry agglomeration, such as Beijing Chaoyang CBD, Shanghai Lujiazui, Xuhui Riverside, Guangzhou Zhujiang New Town, Shenzhen Qianhai and Chengdu Financial City.

FIGURE 4: China Office New Supply, Net Absorption and Vacancy Rate



Source: CBRE Research, Q1 2024

FIGURE 5: Vacancy Rate and Development Pipeline



Source: CBRE Research, Q1 2024

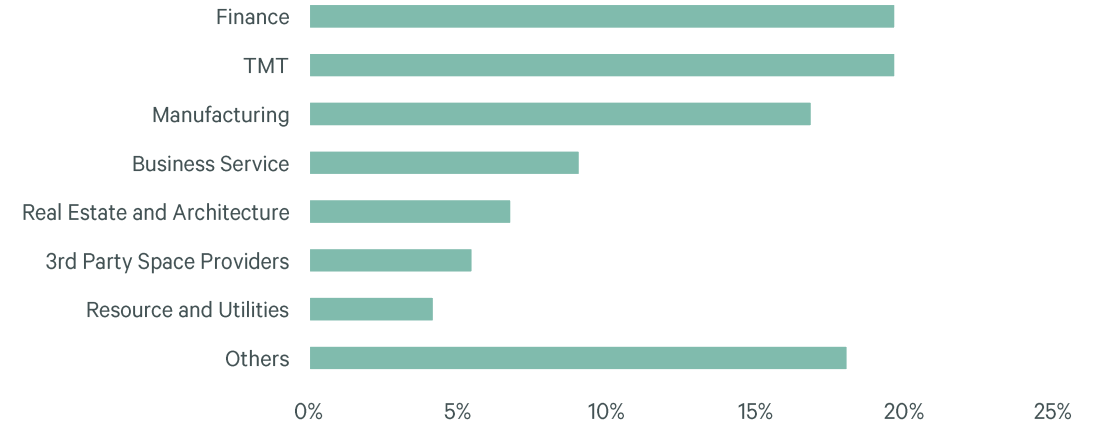
Within the TMT sector, AI and related upstream and downstream corporates accounted for over 60% of leasing volume this quarter. Around 90% of activity within this sector occurred in tech-driven markets including tier I cities, Chengdu and Wuhan.

Companies in the FMCG and New Energy Vehicle (NEV) segments contributed over 50% of leasing volume within the manufacturing industry, helping this sector rank among the top three drivers of leasing demand for a second consecutive quarter.

Vacancy continues to edge up and rental decline accelerates

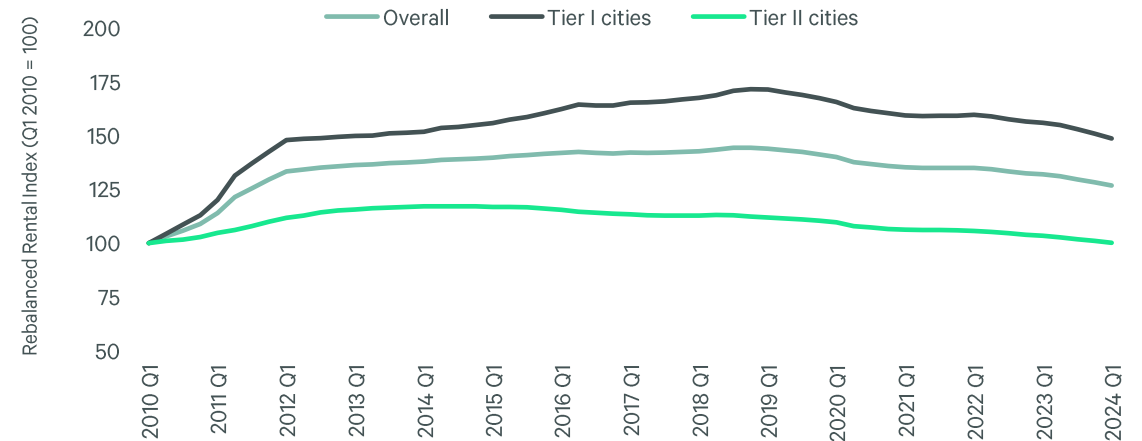
Nationwide office vacancy rose by 0.3-pps. q-o-q to 24.8% in Q1 2024, marking an historical high. High space availability ensured rents continued to fall, with nationwide average face rents dropping by 1.2% q-o-q, 0.1-pps. greater than the decline observed in Q4 2023.

FIGURE 6: Proportion of Leased Office Space by Industry



Note: Office leasing transactions include new set up, expansion, relocation and upgrading
 Source: CBRE Research, Q1 2024

FIGURE 7: China Office Rental Index



Note: China Office Rental Index calculated by nationwide office market average face Rent
 Source: CBRE Research, Q1 2024

Retail

 Net Absorption
+82% y-o-y

 Vacancy
-0.2 pps y-o-y

 Rent
+0.1% y-o-y

Total retail sales of social consumer goods in China rose by 4.7% y-o-y in Q1 2024, thanks largely to Chinese New Year. Consumer demand for dining out, transportation, and leisure activities surged during the quarter, leading to 10% y-o-y growth in service retail sales and a 10.8% increase in catering revenue. The growth rate in sales of essential consumer goods such as grain, oil, food, and beverages continues to exceed that for discretionary goods, although sales of sports and entertainment products increased significantly by 14.2%.

Vacancy rate falls for third consecutive quarter; rents log y-o-y growth

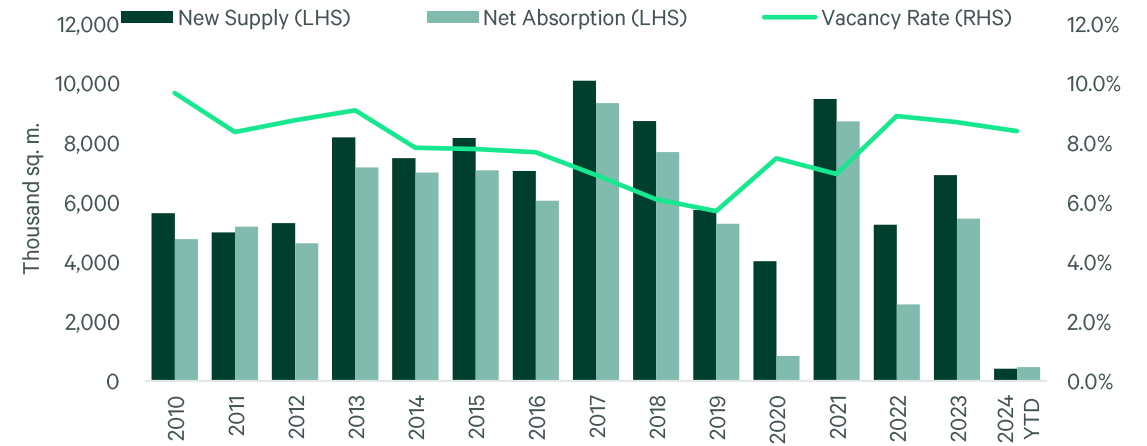
New retail supply totalled 410,000 sq. m. in Q1 2024, a decline of 84% y-o-y, primarily due to the high base resulting from the delayed completion of projects following the lifting of anti-pandemic restrictions. Net absorption reached 470,000 sq. m., an increase of 82% y-o-y. The further improvement in the supply and demand structure ensured overall vacancy fell for the third consecutive quarter, dropping 0.2-pps. from Q4 2023 to 8.4%. Average nationwide ground floor shopping mall rents were unchanged and now appear to have bottomed out.

Catering sector outperforms other formats; outdoor sports and mid-to-high-end women's fashion brands lead expansion

F&B demand continued to eclipse that from other retail categories, accounting for a historical high of 43% of all new lease transactions nationwide in Q1 2024. However, most deals involved affordable gourmet cuisine and coffee and tea drinks outlets. The trend for F&B groups to launch sub-brands to maintain market share and retain customers continues to heat up, with brands such as Jiumaojiu, Heytea and Cotti Coffee opening new sub-branded stores this quarter.

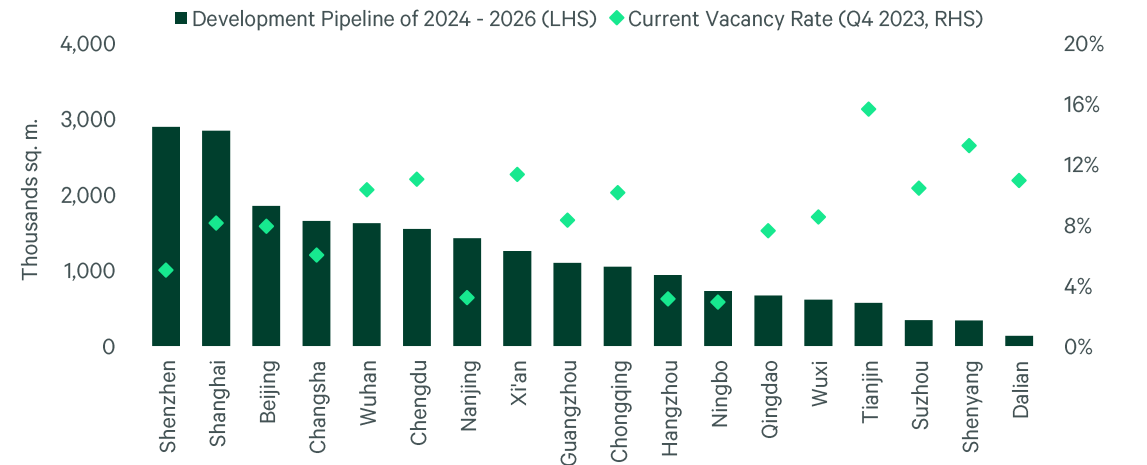
Demand in the apparel sector was driven by outdoor sports brands and domestic mid-to-high-end women's fashion brands. In addition to increasing their number of new stores, retailers in this category are augmenting shop scale and grade, with new flagship openings including Jordan's first "Flight" flagship store in Beijing and the first original ecological experience flagship store by Arc'teryx in Shanghai.

FIGURE 8: China Retail New Supply, Net Absorption and Vacancy Rate



Source: CBRE Research, Q1 2024

FIGURE 9: Vacancy Rate and Development Pipeline



Source: CBRE Research, Q1 2024

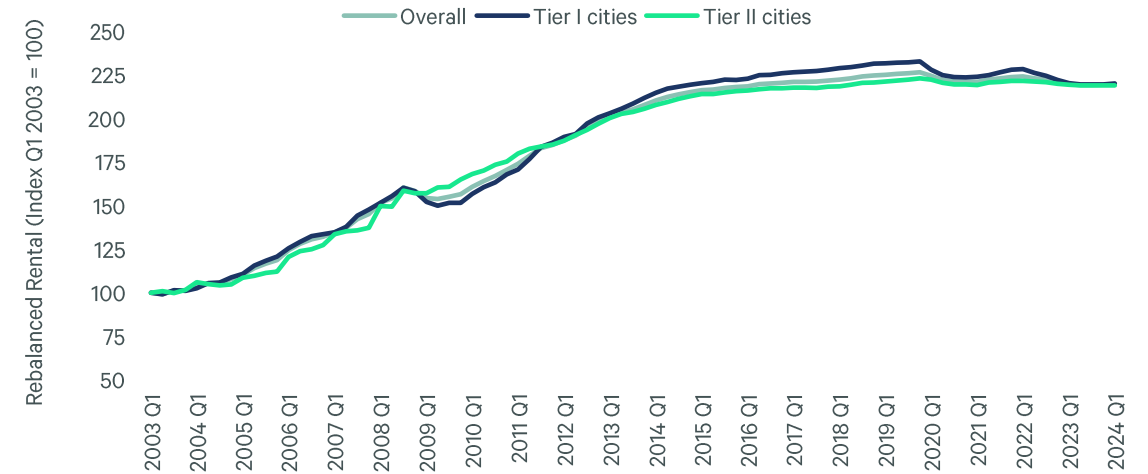
The pace of new openings by beauty and NEV retailers slowed over the quarter, with emerging formats such as pet shops, entertainment arcades, and health centres filling much of the space left empty by education companies. Other sources of demand include the MAG (Manga, Anime and Games) industry, with expansion in shopping centres being facilitated by landlords keen to take on retailers from this category. Leading MAG brands such as Ipstar, Goodsllove, Top Toy, and March Monster opened a combined total of more than 10 stores in shopping malls across the country during the quarter.

FIGURE 10: New Store Opening Momentum by Trade Category



Source: CBRE Research, Q1 2024

FIGURE 11: China Shopping Mall Ground Floor Rental Index



Note 4: China shopping mall ground floor rental index calculated by nationwide shopping mall average asking rent
 Source: CBRE Research, Q1 2024

Logistics

 Net Absorption
+4.0% y-o-y

 Vacancy
+1.4% y-o-y

 Rents
-3.9% y-o-y

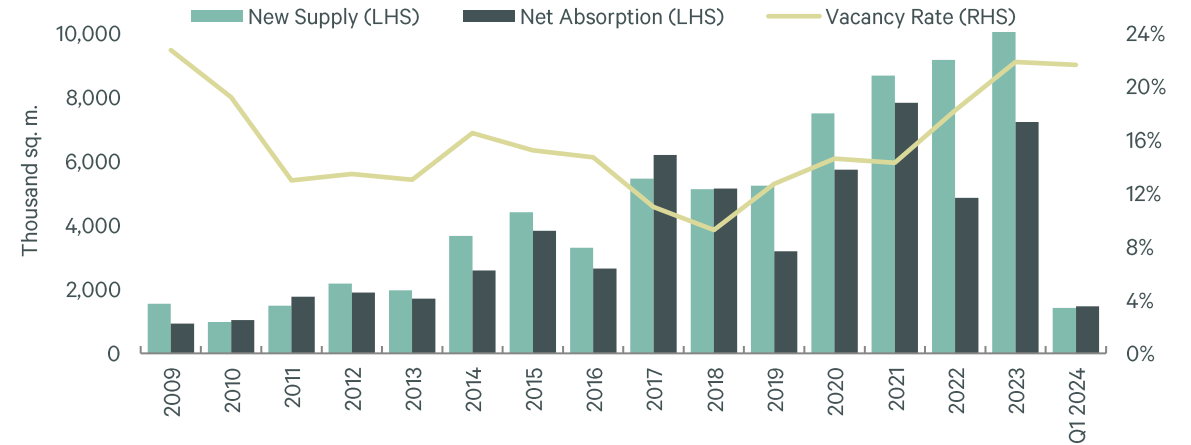
Cross-border e-commerce continues to expand in South China; manufacturing drives recovery in East China

National warehouse net absorption grew by 4% y-o-y to an all-time first quarter record 1.47 million sq. m., underpinned by steady expansion by cross-border e-commerce, 3PLs and manufacturing firms.

Cross-border e-commerce platforms continue to expand in South China, with SHEIN, Temu and AliExpress signing a combined total of more than 1 million sq. m. of new leases in Huizhou, Guangzhou and Dongguan. This pushed up new leases' proportion of overall leasing volume from 40% in 2023 to 55% this quarter and pulled down overall vacancy in South China to 3.7%.

Numerous new leases were signed by manufacturing and 3PL companies operating in the photovoltaic, auto parts and home appliances segments, driving the recovery of warehouse demand in East China. In Jiaxing, an important base for photovoltaic production, more than 500,000 sq. m. of new leases were completed by photovoltaic companies in Xiuzhou and Haiyan this quarter. Elsewhere, several 3PLs signed new leases in Shanghai, Hangzhou, Jiaxing and Taicang.

FIGURE 12: China Logistics New Supply, Net Absorption and Vacancy Rate



Source: CBRE Research, Q1 2024

FIGURE 13: Logistics Vacancy Rate by City



Source: CBRE Research, Q1 2024

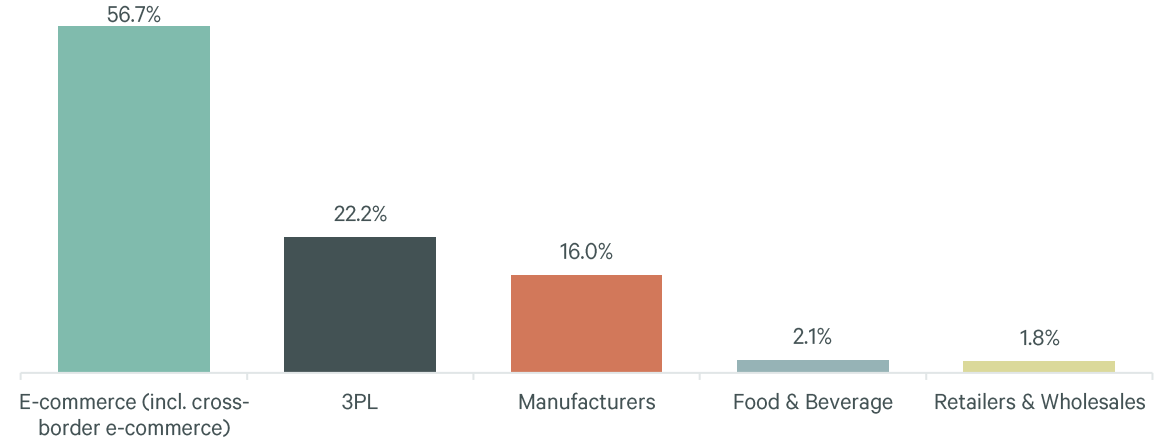
New supply falls sharply on q-o-q and y-o-y basis

New supply totalled 1.53 million sq. m., representing a sharp decline on both a q-o-q and y-o-y basis, dragging down vacancy by 0.3-pps. q-o-q to 21.6%. New supply in East China fell from over 1.3 million sq. m. in the previous quarter to 440,000 sq. m. this quarter, while new stock in South China declined from nearly 1 million sq. m. to 140,000 sq. m. This ensured the vacancy rates in East China and South China dropped by 0.4-pps. and 3.6-pps. q-o-q, respectively.

Rents continue to drop; South China only region to register rental gains

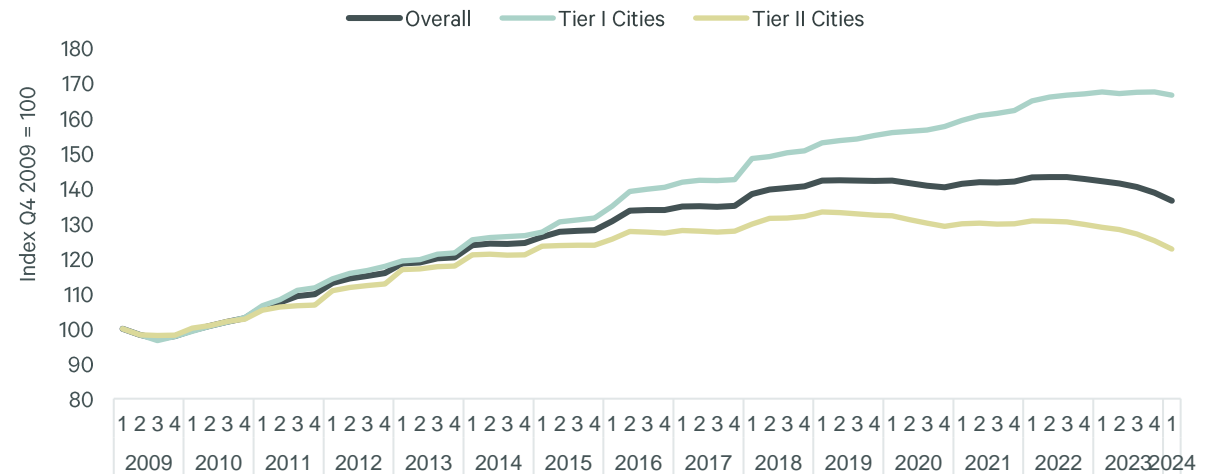
Peak supply and pressure from continued destocking prompted landlords to adopt more flexible rental terms to attract and retain tenants in Q1 2024, ensuring the nationwide rental decline accelerated by 1.6% q-o-q and 3.9% y-o-y. In cities with high vacancy rates, such as Langfang, Tianjin, Dalian and Changshu, rents fell by more than 4% q-o-q. In contrast, the tightly supplied South China market continued to record a q-o-q increase in rents.

FIGURE 14: Proportion of Leased Logistics Space by Industry



Source: CBRE Research, Q1 2024

FIGURE 15: China Logistics Rental Index



Source: CBRE Research, Q1 2024

Investment

Investment Turnover
-23.2% y-o-y

Investment Turnover
-36.9% q-o-q

Investment activity remains weak

Commercial real estate investment volume totalled RMB 44.7 billion in Q1 2024, representing a decline of 37% q-o-q and 23% y-o-y. Activity was led by purchases by domestic corporations and developers. Institutions and property funds remained cautious, accounting for just 17% of total transaction volume.

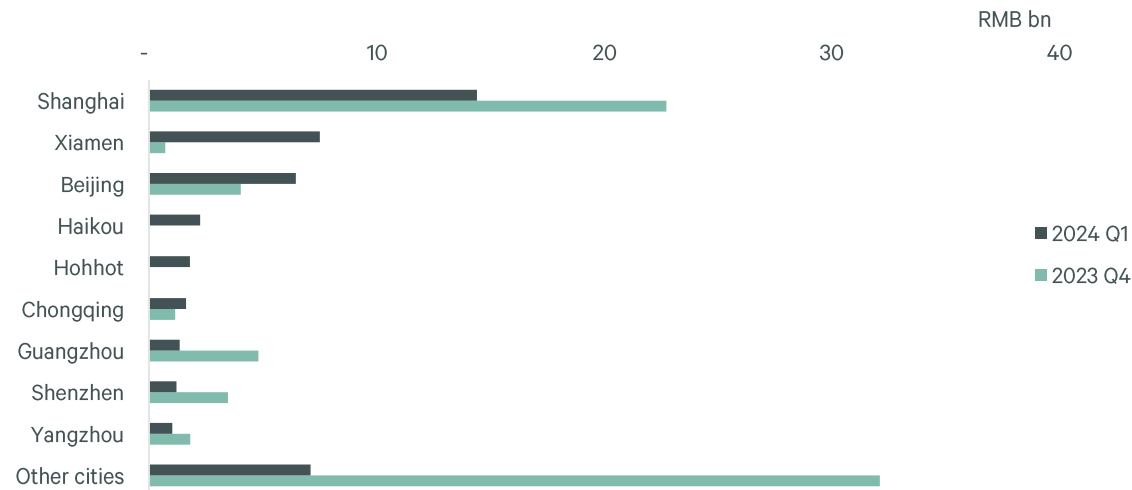
Developers accelerate asset disposals; retail most traded asset class

Office transaction volume (excluding business parks) rebounded slightly to RMB 15.5 billion in Q1 2024 but remained near the bottom of the historical range. Nearly 75% of this total was contributed by self-use transactions, with domestic financial corporations completing a series of acquisitions in tier I cities. Major deals included AIA’s purchase of a 95% share of Capital Square in the CBD area of Beijing for RMB 2.4 billion, reflecting core assets’ growing appeal following a steady downward price adjustment.

Driven by ongoing improvement in the leasing market and accelerated asset disposals by developers, retail transaction volume climbed to RMB 19.6 billion this quarter, the highest of all sectors. Highlights included the sale of five Wanda Plazas in tier II and tier III cities, which fetched a combined total of RMB 13.2 billion. Elsewhere, Vanke sold two shopping malls in tier I cities for just under RMB 3 billion.

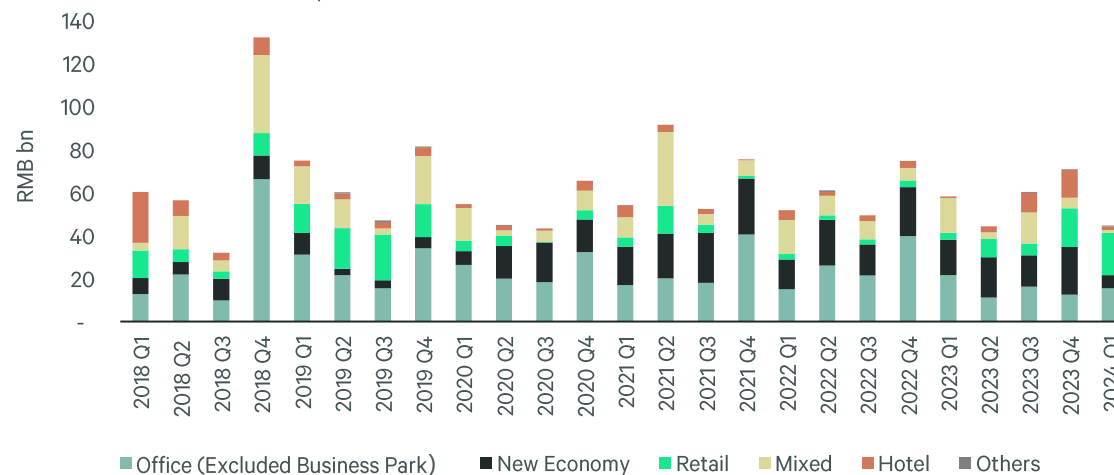
Multifamily assets remained keenly sought after, with Ease Living and CCB JV Greystar each purchasing a project in Shanghai. Industrial investment registered RMB 4.2 billion, contributed mainly by the factory sub-sector, with government platforms the main buyers.

FIGURE 16: Transaction Volume by Market



Note 5: Transactions include deals above US\$10 million in the Office, Retail, Mixed, Industrial, Hotel and Other commercial sectors.
Source: CBRE Research, RCA, Q1 2024

FIGURE 17: Transaction Volume by Sector

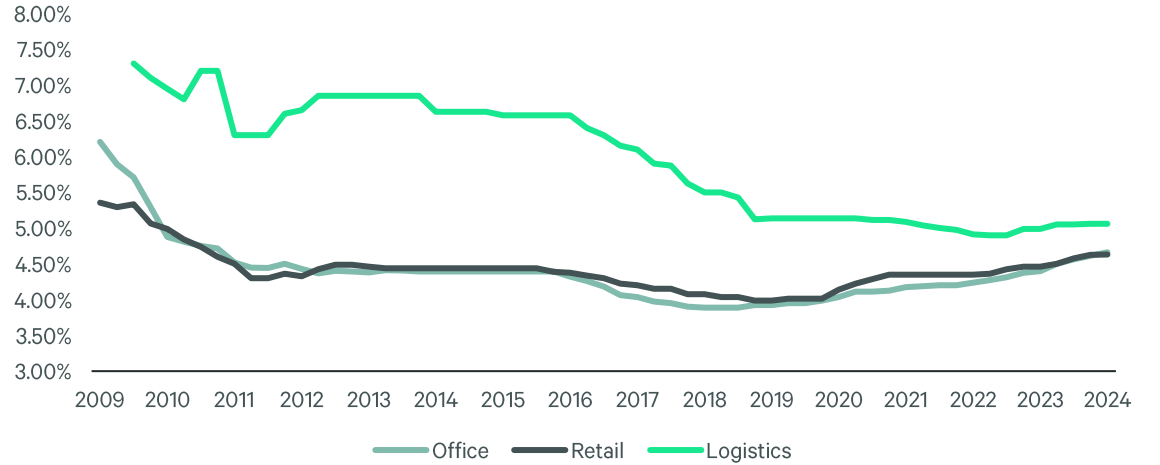


Note 6: New economy sector includes logistics, business parks, residential for income generating, data centre, cold storage and self storage.
Source: CBRE Research, Q1 2024

Office yields expand but retail and industrial stay flat

Grade A office yields in tier I cities expanded further in Q1 2024 due to weak leasing fundamentals and cautious investment sentiment, while yields for retail and logistics assets remained relatively stable. Looking at the performance of the public REIT market, after more than one year of price adjustments, the pb ratios of REITs in new economy sectors including logistics all displayed signs of stabilising this quarter.

FIGURE 18: Tier I Cities Average Net Yields



Source: CBRE Research, Q1 2024

Outlook

OFFICE

Leasing sentiment is expected to pick up in the coming months along with an increase in site enquiries and site inspections. Tailwinds will be provided by the steady rebound in manufacturing and service PMI along with the upcoming expiry of numerous leases signed at the most recent peak of the market in 2021.

However, CBRE's Asia Pacific Leasing Market Sentiment Survey conducted in March uncovered a preference for cost-cutting among office occupiers nationwide, with around 50% of occupiers currently conducting renewal versus relocation analyses or planning to renew leases, indicating an uncertain outlook for new leasing volume.

CBRE expects full year net absorption to reach 4 million sq. m. in 2024. With 8 million sq. m. of new office supply in the pipeline; a rising number of lease expirations; and a mood of cost reduction taking hold, landlords will need to compete aggressively to attract and retain tenants. CBRE expects rents to fall by 3% over the full-year.

RETAIL

Leasing activity is forecasted to pick up over the course of 2024, with net absorption being boosted by the addition of more than 6.5 million sq. m. of new supply. On the demand side, the release of excess savings by residents, stable employment conditions, and the continuing introduction of consumption policies and activities will support retailer expansion. Despite increasingly upbeat sentiment, CBRE expects retailers to adopt more stringent criteria for new leases, with location, storefront and landlords' operational expertise set to be among the most important factors taken into consideration. This will further widen the gap in rental performance between individual properties, with rental growth set to be driven by leading shopping centres. Average nationwide ground floor shopping mall rents will increase slightly by 0.5% in 2024.

LOGISTICS

Full year new warehouse supply will reach 9 million sq. m., a decline of 26% y-o-y. In terms of demand, pre-leasing by cross-border e-commerce platforms in South China has already reached close to 3 million sq. m. for this year. East China is expected to continue to benefit from expanding manufacturing and 3PLs, with some cross-border e-commerce companies also now beginning to seek expansion opportunities in the region. National warehouse net absorption is forecasted to reach 7.5 million to 8 million sq. m. this year, an increase of 5-10% y-o-y. Destocking will remain a key feature of most markets in 2024, except for South China, with downward pressure on rents set to continue.

INVESTMENT

The 27.6% y-o-y decline in new property sales in Q1 2024 will prompt debt-laden developers to accelerate asset disposals in the coming months. With more core assets being made available for sales and greater room for negotiation, the coming months will create more opportunities for investors. In addition, the fall in domestic borrowing costs following recent interest rate cuts will further facilitate long term capital's allocation to core commercial real estate assets. In the short term, well-capitalised domestic institutions along with domestic corporations and government platforms are expected to remain the major drivers of purchasing demand. Any improvement to overall investment sentiment will depend on the recovery of the leasing market and the convergence of price expectations between buyers and sellers.

Rental Cycle

FIGURE 19: China Office Rental Cycle Q1 2024

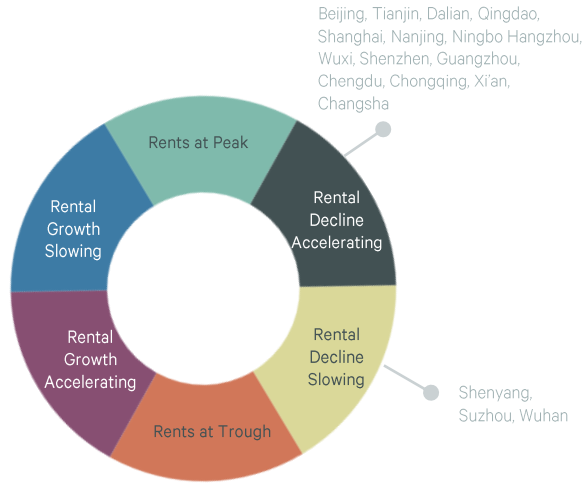


FIGURE 20: China Retail Rental Cycle Q1 2024



FIGURE 21: China Logistics Rental Cycle Q1 2024



* Office cycle calculated by citywide face rent, retail shopping mall cycle calculated by citywide shopping mall ground floor asking rent, logistics cycle calculated by citywide asking rent
Source: CBRE Research, Q1 2024

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