Intelligent Investment

2024

China Real Estate Market Outlook Mid-Year Review

REPORT

CBRE
CHINA RESEARCH

JULY 2024

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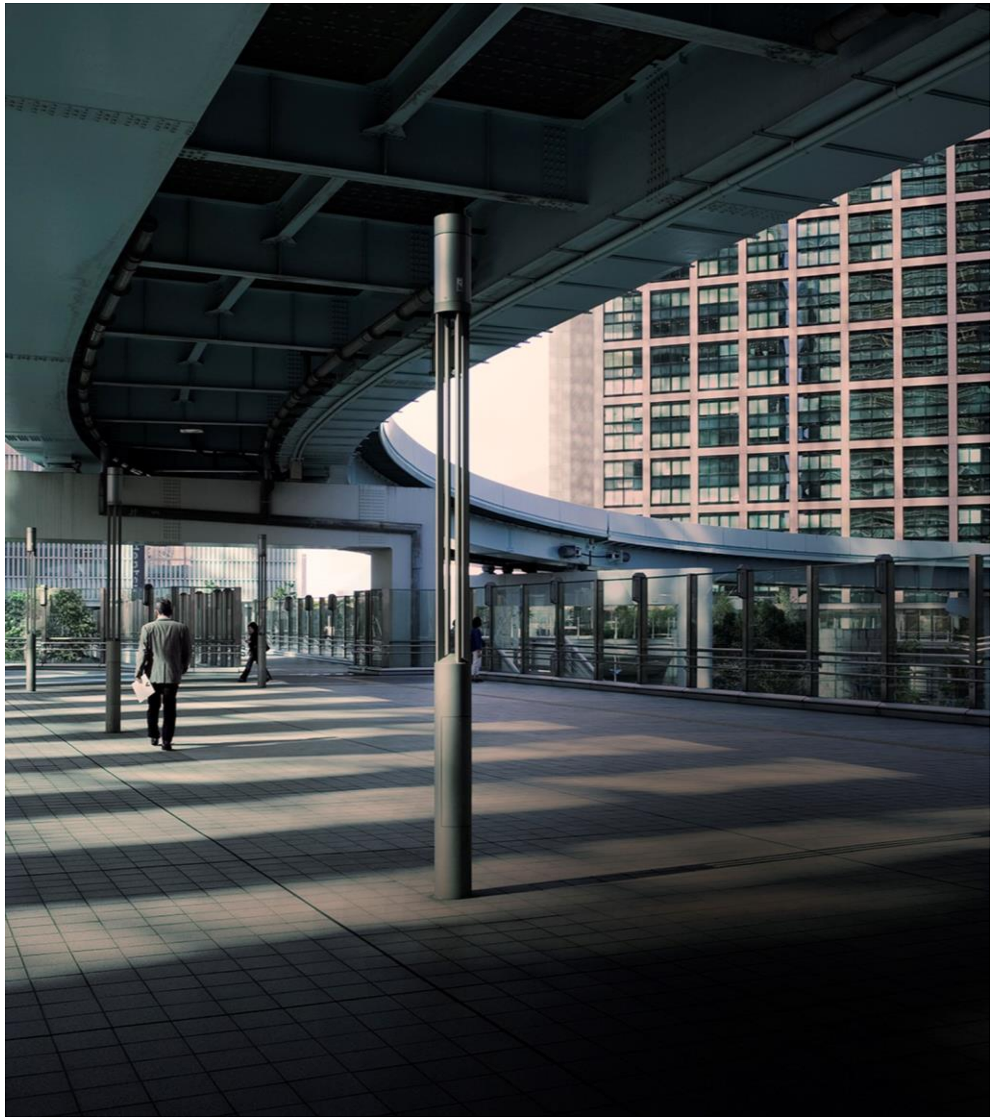
Economy



Economy

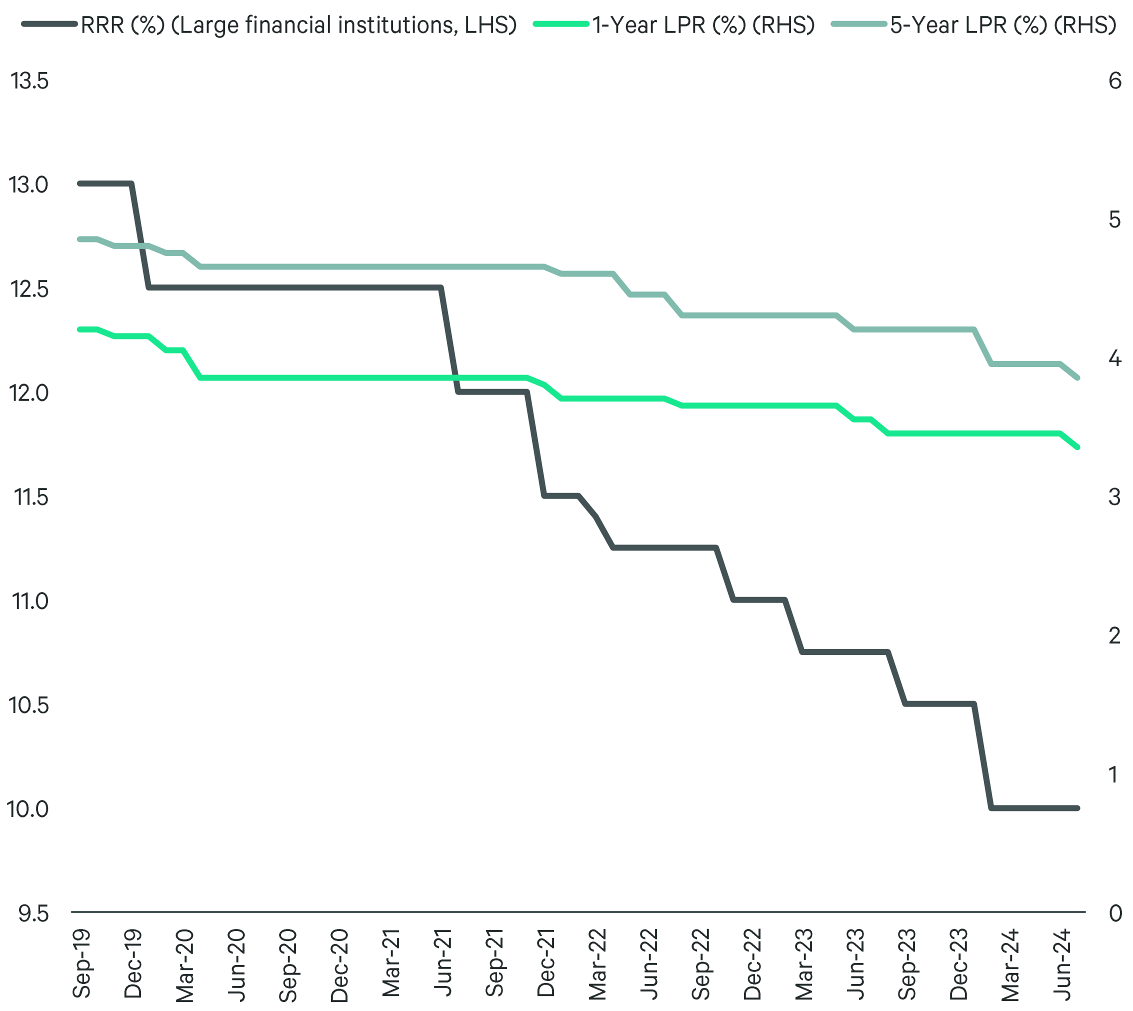
	Forecast made in January 2024	Mid-year review
01	China's GDP growth is set to normalise in 2024, with growth of 4.6% y-o-y underpinned by the further expansion of domestic consumption and steady growth of manufacturing investment.	• GDP grew by 5.0% y-o-y in H1 2024, underpinned by resilient exports, which rose by 3.6% y-o-y in USD terms, and the rebound in manufacturing investment, which increased by 9.5% y-o-y. Domestic consumption remained weak, with retail sales increasing by 3.7% y-o-y in H1 2024 and growing by just 2.0% in June. • While CBRE has revised up its full-year 2024 China GDP forecast to 4.9%, insufficient domestic demand will pose a considerable headwind to growth momentum in the short term.
02	Fiscal policy will be moderately strengthened in terms of quality and efficiency in 2024. Monetary policy will remain relatively loose.	• General public budget spending expanded by 3.4% y-o-y in the first five months of 2024, providing solid support to infrastructure investment. In July, the State Council proposed to create overall provisions for ultra-long special treasury bonds and to encourage large-scale equipment upgrades and consumer goods trade-ins. Fiscal support to stimulate domestic demand is expected to strengthen in the second half of the year. • In February, the People's Bank of China (PBoC) announced a 25bps cut to the five-year Loan Prime Rate (LPR) to 3.95%. In July, the PBoC further cut the one-year and five-year LPR by 10bps apiece. While CBRE believes that there is still room for the further loosening of monetary policy in H2 2024, the magnitude of future rate cuts will be highly dependent upon internal and external factors such as domestic banks' net interest margin; the movement of the Consumer Price Index (CPI); and the RMB exchange rate.
03	As support policies gradually take effect, CBRE expects property sales to stabilise in 2024.	• In May, the government further relaxed real estate credit policies, introducing a range of measures including abolishing the lower limit of interest rates for mortgages for first and second homes and reducing down payment ratios. Although property sales volume in the 30 large and medium-sized cities tracked by CBRE rebounded by over 40% m-o-m in June, it remains to be seen whether this momentum can be sustained. • Property investment declined on a y-o-y basis in H1 2024, while new construction starts and land purchases remained subdued. CBRE expects property market destocking to continue in the short-term. In May, the PBoC announced the formation of a RMB 300 billion relending loan facility for affordable housing to support state-owned enterprises to purchase unsold homes. The recent Third Plenum of the CCP 20th Central Committee released a plan to further deepen reform and advance China's modernisation. Property market-related measures include providing local governments with ample space to implement city-specific policy modifications, such as the reduction and cancellation of housing purchase limits, and the cancellation of the division between ordinary and non-ordinary housing. These measures are expected to gradually have a positive impact on the destocking of existing housing inventory in H2 2024.

Source: CBRE Research, July 2024

Figure 1: H1 2024 Major economic indicators

	2023	H1 2024	
GDP Y-O-Y	5.2%	5.0%	↓
CPI Y-O-Y	0.2%	0.1%	↓
Fixed Asset Investment Y-O-Y	3.0%	3.9%	↑
Retail Sales Y-O-Y	7.2%	3.7%	↓
Export in USD Y-O-Y	-4.6%	3.6%	↑
Real Estate Sales Y-O-Y	-6.5%	-25.0%	↓
Manufacturing PMI	49.0 (Dec)	49.5 (Jun)	↑
Service PMI	49.3 (Dec)	50.2 (Jun)	↑
Unemployment Rate	5.1%	5.0%	↓

Figure 2: China Monthly RRR and LPR



Source: Wind, National Statistics Bureau, General Administration of Customs, PBoC, CBRE Research, July 2024

Office

Office

	Forecast (Jan 2024)	Forecast (Jul 2024)	H1 2024 (Y-o-Y change)
New Supply (thousand sq. m.)	8,100	7,190	↓ 1,850 (-30%)
Net Absorption (thousand sq. m.)	4,020	3,020	↓ 1,170 (+7%)
Vacancy Rate (%)	26.0	26.3	↑ 24.7[1] (+0.9)
Rental Change (%)	-2.0	-4.6	↓ -2.5[2] (-4.7)

Note 1: Value at end of Q2 2024
Note 2: Cumulative change in H1 2024
Source: CBRE Research, July 2024

	Forecast made in January 2024		Mid-year review
01	Office leasing demand will stage a moderate recovery in 2024.	Medium	• Nationwide office net absorption totalled 1.17 million sq. m. in H1 2024, an increase of 7% y-o-y but a level just 43% of the five-year average logged during the same period of 2015-2019. Net absorption declined by 17% y-o-y in Q2 2024 as demand continued to rebound at a slower-than-expected pace.
02	Demand from the finance and TMT sectors is set to rebound, with the artificial intelligence and advanced manufacturing sectors expected to be most prominent.	Medium	• While the finance and TMT sectors continued to dominate office leasing demand, new leasing volume from the former fell by 17% y-o-y due to tighter IPO regulations and strengthening supervision. In contrast, new leasing volume from the latter grew by 5% y-o-y, supported by expansionary demand from firms in the online gaming, live broadcasting; vertical e-commerce and B to B Internet services sectors. • Solid demand momentum from automotive and fast-moving consumer goods firms pushed up leasing volume from the manufacturing sector by 21% y-o-y in H1 2024, ensuring it ranked among the top three sources of demand.
03	The plentiful supply pipeline will facilitate flight-to-quality demand, while occupiers will continue to flow into emerging business districts in tier I cities.	High	• Leasing volume involving relocation and upgrading rose 11% y-o-y in H1 2024, with growth of around 30% witnessed in tier I cities. • Guangzhou Pazhou, Shanghai Xuhui Riverside and New Bund were the most popular emerging business districts for relocations in H1 2024. Companies in the finance, business service and manufacturing sectors were seen upgrading their offices in core CBDs such as Beijing Chaoyang CBD, Zhongguancun and Guangzhou Zhujiang New Town.
04	The rental decline is forecasted to narrow in most cities, but rents in core CBDs of tier I cities are expected to stay resilient.	Low	• Abundant supply combined with attractive rental incentives in emerging business districts continued to lure occupiers to relocate in the first six months of 2024. Landlords of buildings with relatively higher occupancy were observed to be retaining tenants by revising down rents and reorganising leases. These trends ensured nationwide average office rents dropped by 2.5% in H1 2024, a deeper rate of decline than the 1.1% fall observed in H1 2023.

Forecast Accuracy: High, Medium, Low

Office

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Key changes to forecast

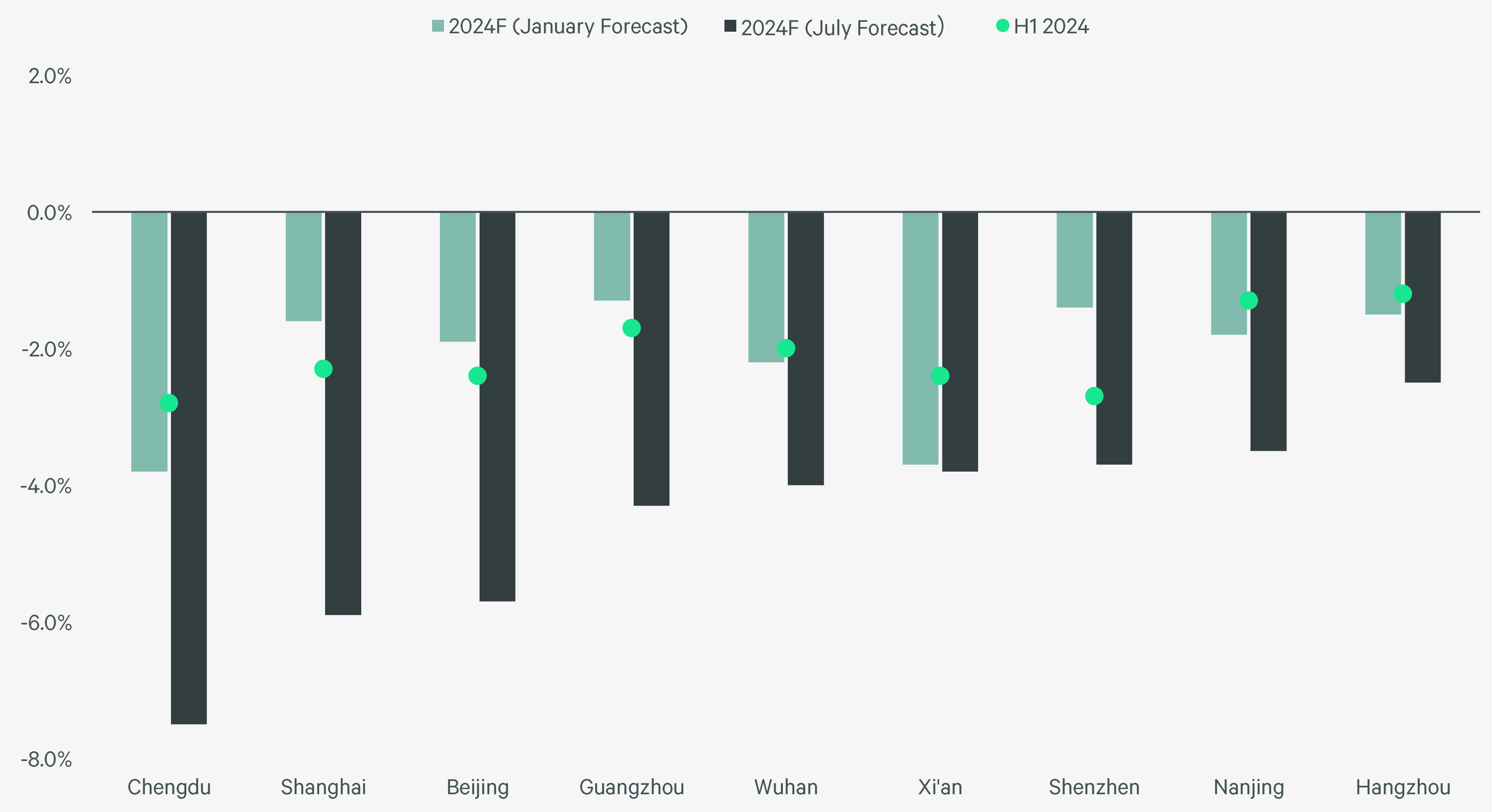
- **CBRE has revised down its full-year nationwide office net absorption forecast to 3 million sq. m., 25% below its forecast made in January 2024.** However, the latest forecast, if achieved, would still represent an increase of 8% y-o-y.

- Weaker leasing demand has prompted developers to delay the construction and delivery of new stock. Some owners are understood to be considering selling upcoming supply or converting it to alternative use. CBRE has therefore revised down its full-year supply forecast to 7.19 million sq. m.. With 5 million sq. m. of new stock due to come on stream in H2 2024, nationwide office average vacancy is projected to rise to 26.3% by the end of the year.

- **Cost remains the overriding consideration for occupiers' real estate strategy in the short-term.** CBRE's 2024 China Office Occupier Survey found that 76% of respondents would agree to renew leases if their landlord lowered rents, while 72% would be willing to relocate to secure cost savings.

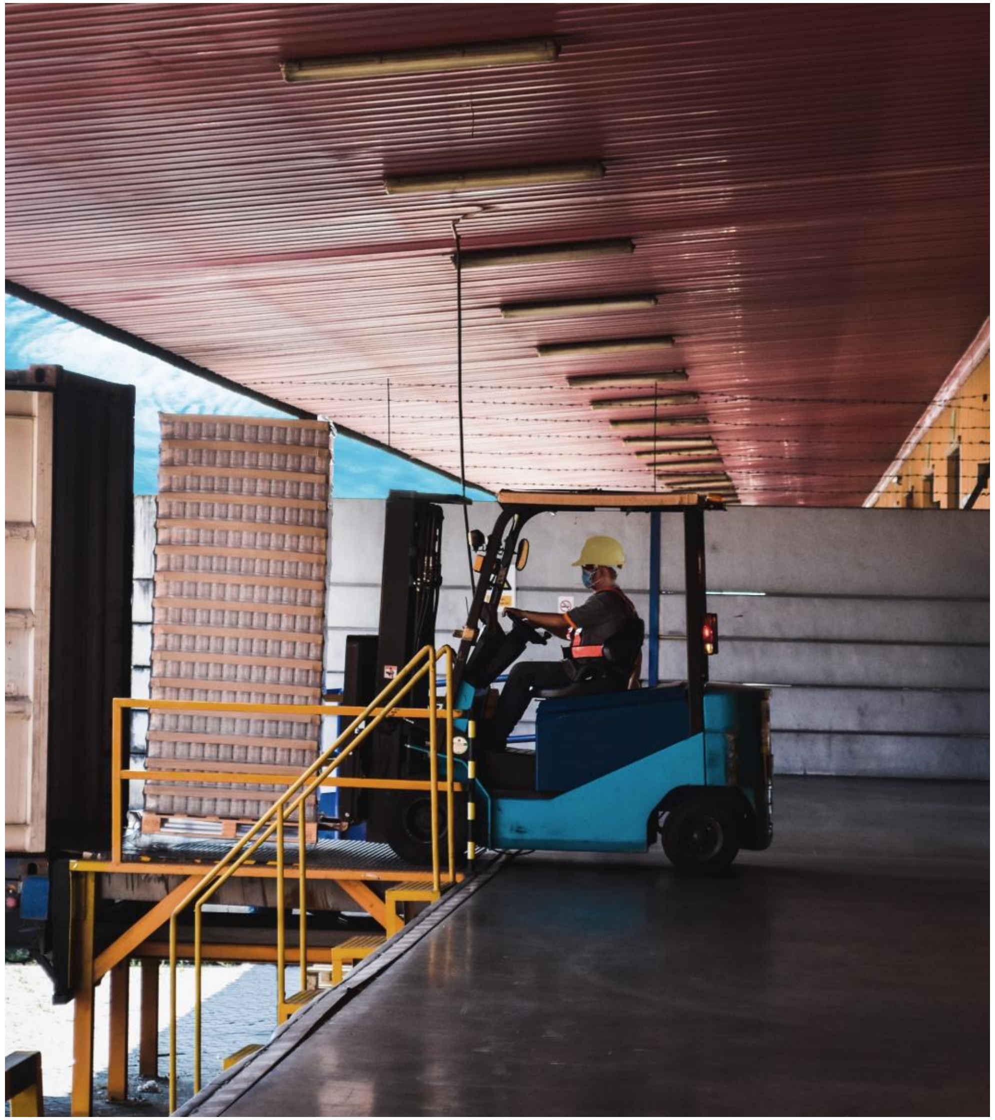
- With the office market continuing to favour occupiers, landlords are expected to retain a flexible stance towards lease negotiations and terms. **Face rents in major cities are forecasted to fall by 3%-8% y-o-y in 2024, a sharper rate of decline compared to full-year 2023.**

Figure 3: H1 2024 YTD and 2024F nationwide office face rental forecast



Source: CBRE Research, July 2024

Logistics



Logistics

	Forecast (Jan 2024)	Forecast (July 2024)	H1 2024 (Y-o-Y change)
New Supply (thousand sq. m.)	7,800	9,300	3,500 (-43%)
Net Absorption (thousand sq. m.)	7,500	7,500	2,560 (-4%)
Vacancy Rate (%)	20.1	21.7	22.2[3] (+0.9)
Rental Change (%)	-1.0	-5.8	-3.5[4] (-5.3)

Note 3: Value at end of Q2 2024
Note 4: Cumulative change in H1 2024

Source: CBRE, July 2024

Forecast made in January 2024 / Mid-year review

01 National demand will remain solid in 2024, while new supply is projected to fall back significantly.

- National net absorption totalled 2.56 million sq. m. in H1 2024, a decline of 4% y-o-y. However, this level exceeded that for the same period in the three years prior to the pandemic by 38% on a like-for-like basis, thanks to solid demand.
- New logistics supply totaled 3.5 million sq. m. in the first six months of the year, down 43% y-o-y. The level of new stock fell in all major markets except North China, Shanghai, Foshan, and Wuhan.

02 Cross-border e-commerce will continue to expand quickly.

- The volume of new leases signed by cross-border e-commerce companies in South China reached 1.56 million sq. m. in H1 2024. Another 2 million sq. m. of pre-leased area is expected to be occupied by such firms over the next six to 12 months.

03 The consumption recovery is expected to favour domestic e-commerce and express delivery. Supply chain logistics demand in the manufacturing, retail and food service industries will continue to grow.

- New leases from companies in the manufacturing and supply chain logistics industries grew by 20% y-o-y, with automotive, pharmaceuticals, household appliances and industrial goods firms exhibiting an especially strong appetite for space. Demand was mainly focused on manufacturing clusters and airports in industrial cities such as Chongqing, Suzhou, Tianjin, and Jiaxing.
- Leasing activity by express and domestic e-commerce platforms weakened in H1 2024 due to the impact of slower business growth; cost reduction and consolidation; and the completion of self-built warehouses.

04 Downward pressure on rents will wane in 2024, but trends will diverge.

- National vacancy rose to a record high of 22.2% in Q2 2024, with only South China maintaining a vacancy rate in the single-digits.
- Landlords' strategy of prioritising destocking and cutting rents to attract tenants was prominent in H1 2024. The national rental index fell by 3.5% in H1 2024, with the decline in rents accelerating in North China, Shanghai, and Central China, where vacancy remains high.

Logistics

Key changes to forecast

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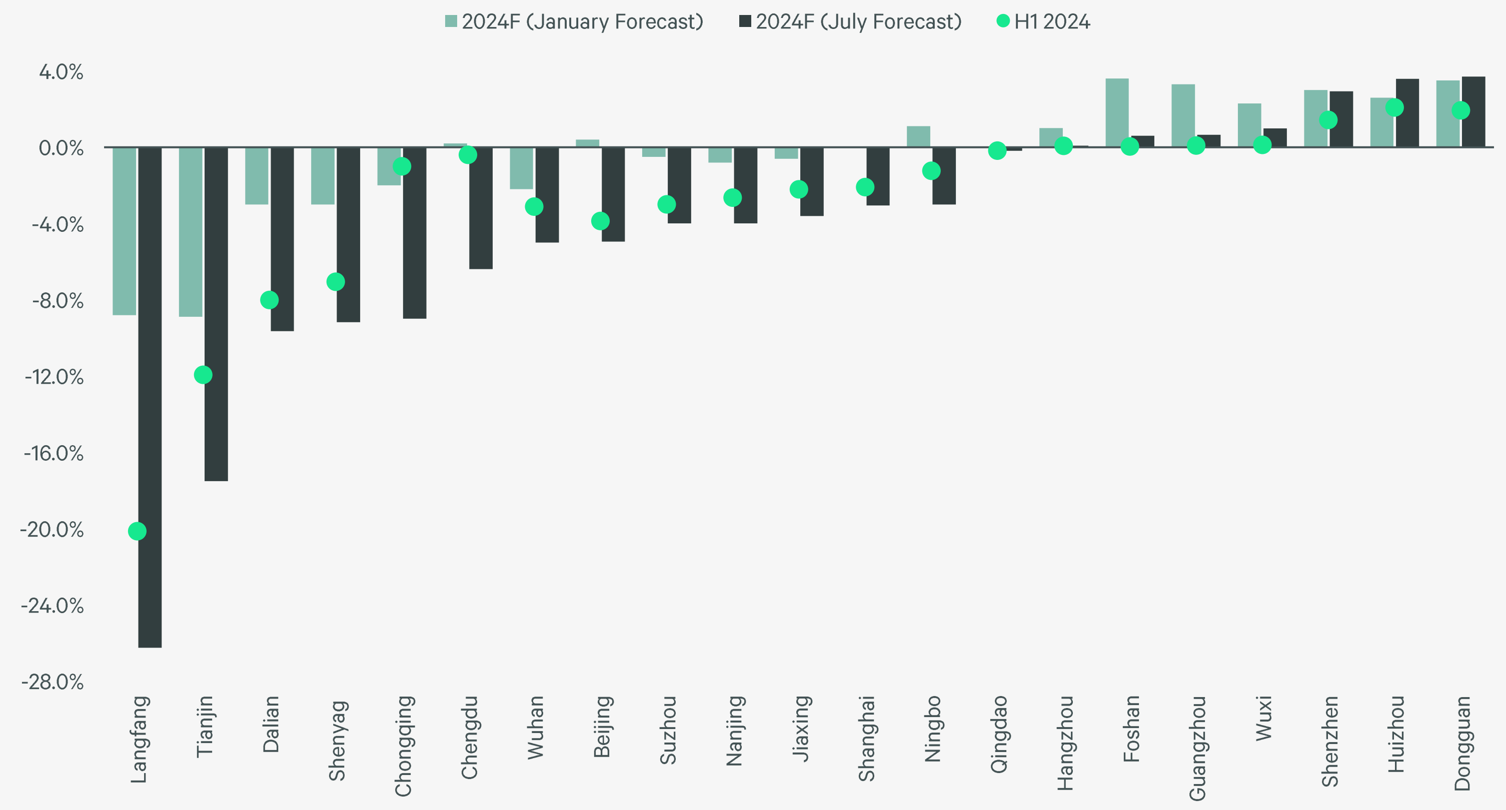
- **CBRE maintains forecast for net absorption to reach 7.5 million sq. m. over full-year 2024.** Leasing activity will continue to be underpinned by cross-border e-commerce platforms, which are expected to continue to expand in South China in H2 2024, bringing their leasing volume to more than 3 million sq. m. for the full-year. In the short term, the export boom and the rebound in capacity utilisation will continue to drive the expansion of manufacturing demand. Additional tailwinds will be provided by the period of strong domestic consumption that traditionally occurs from Q4 2024 to Chinese New Year. This will generate seasonal warehouse demand from domestic e-commerce and express delivery platforms.

- Given the increase in new supply in Foshan and Dongguan spurred by limited availability, as well as a slight increase in new completions in the Beijing cluster, CBRE has upgraded its full-year supply forecast to 9.3 million sq. m. Vacancy is projected to drop by 0.2 pps y-o-y to 21.7% by year's end. Overall vacancy in South China will be kept to around 5%, while vacancy in Langfang, Tianjin, Dalian, Jiaxing and Wuhan will remain above 30%.

- Except for Shenzhen, Dongguan and Huizhou, which are experiencing severe undersupply, CBRE has revised down its rental forecast for all major markets. While Langfang and Tianjin are projected to record a double-digit rental decline in H2 2024, they remain the most active markets in the Beijing cluster. The lower rents on offer should ensure these cities capture upgrading demand from 3PLs, manufacturing firms and retailers.

Figure 4: H1 2024 YTD and 2024F China national asking rental forecast



Source: CBRE Research, July 2024

Retail

Retail

	Forecast (Jan 2024)	Forecast (July 2024)	H1 2024 (Y-o-Y change)
New Supply (thousand sq. m.)	6,900	6,810	2,140 (-20%)
Net Absorption (thousand sq. m.)	5,900	5,500	2,180 (+88%)
Vacancy Rate (%)	8.2	9.0	7.9[6] (1.4)
Rental Change[5] (%)	+0.6	-0.4	-0.1[7] (0)

Note 5: Ground floor rent of shopping malls
Note 6: Value at end of Q2 2024
Note 7: Cumulative change in H1 2024
Source: CBRE Research, July 2024

	Forecast made in January 2024	Mid-year review
01	Specialised outdoor sports brands and F&Bs will lead leasing demand.	• Major outdoor sportswear retailers' domestic sales revenue grew by 25-50%[8] y-o-y in H1 2024, providing a solid foundation for the opening of additional new stores. In contrast, store expansion by retailers in the fast fashion, high-end cosmetics, and luxury segments remained subdued amid slower sales growth. • F&B accounted for 38% for new leases signed in H1 2024, the highest share of any sector. However, the net increase in the number of new catering enterprises fell by more than 60% y-o-y in Q1 2024 as growth began to cool.
02	Site selection will be skewed towards prime locations and specialty properties.	• 61% of first stores that opened in Beijing and Shanghai in H1 2024 were in prime areas. The popularity of specialty properties among retailers continued to grow during the period, with around 30% of first stores opened in historic blocks, creative parks and high street shops in prime locations.
03	Supply and demand will be generally balanced, while the vacancy rate will be stable.	• Net absorption totalled 2.18 million sq. m. in H1 2024, 8% higher than the level observed during the corresponding period from 2015 to 2019. The recovery continued to be driven by pent-up demand that arose during the pandemic. • Delays to the completion of around 500,000 sq. m. of new stock meant that new supply fell by 20% y-o-y to 2.14 million sq. m. in H1 2024. 80% of markets tracked by CBRE registered a decline in the vacancy rate.
04	Rents are forecasted to bottom out in most cities, with tier I and tier II cities in east and central China set to lead rental growth.	• Retailers' budgets and consequently expansion momentum lagged expectations in H1 2024. Ground floor rents of shopping malls fell by 0.1% during the period, with Beijing, Shanghai and tier II cities in east China performing slightly better than other markets.

Note 8: Retailers include Lululemon, Amer Sports, Descente and Kolon Sport

Retail

Key changes to forecast

- **CBRE has revised down its full-year 2024 net absorption forecast to 5.5 million sq. m., a level similar to that achieved in 2023.** The downward revision is due to the recent slowdown in sales growth for major brands; the cooling of F&B expansion; and growing competition from specialty properties. The vacancy rate is projected to rise by 9% by year's end.

- Health and lifestyle related consumption will maintain quicker rates of growth. Landlords are therefore advised to target expansionary demand from retailers in the culture, entertainment, healthcare, beauty and pet care segments.

- Landlords are set to adopt flexible leasing strategies to boost occupancy and enhance the profile of their tenant mix. **CBRE forecasts rents to decline by 0.4% y-o-y over full-year 2024, compared to the forecast of 0.6% growth published in January.** The polarisation of rental performance according to landlords' operational capability will remain a prominent feature of China's retail market.

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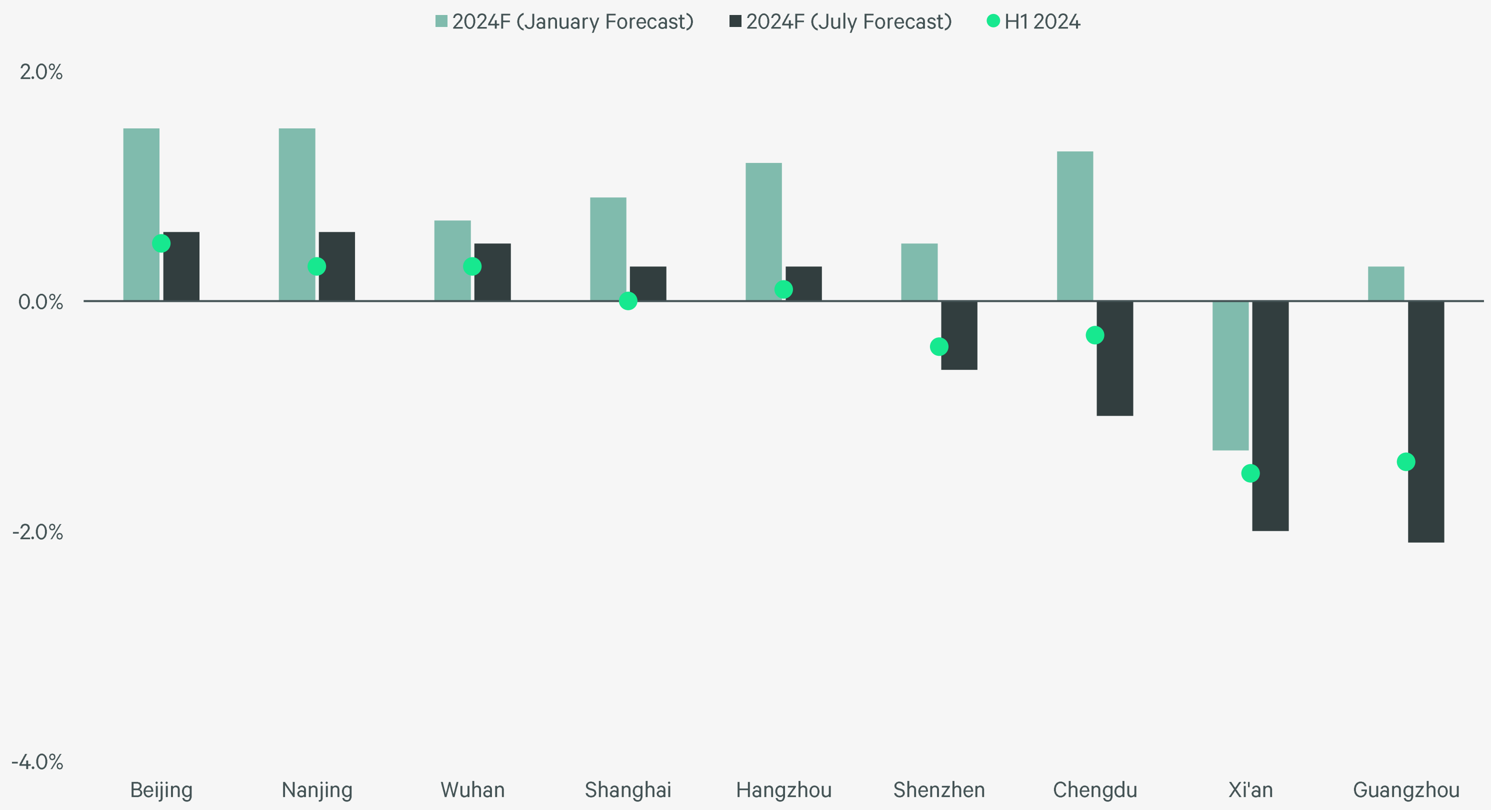
Figure 5: 2024 H1 YTD and 2024F nationwide shopping mall G/F asking rental growth



Source: CBRE Research, July 2024

Investment

Investment

	Forecast made in January 2024	Mid-year review
01	Commercial real estate investment volume is forecasted to achieve low single-digit growth in 2024 as investor sentiment bottoms out.	• Commercial real estate investment volume totalled RMB 92.8 billion in H1 2024, a decline of 11% y-o-y. The fall was due to weaker-than-expected leasing fundamentals and a mismatch between buyer and seller expectations. • Domestic insurance companies continued to purchase core assets in tier I cities, with institutional buyers' investment volume in Q2 2024 totalling RMB 12.7 billion, the highest level since 2023. However, overall investment sentiment remained weak. Cross-border investors were cautious, focusing on net sales and adjusting domestic asset portfolios, with their proportion of total investment volume falling to just 7% in H1 2024. • Purchasing activity by diversified buyers such as individual investors and government platforms further increased in the first six months of the year.
02	Cap rates are forecasted to expand slightly and approach the top of their range.	• Grade A office, retail, logistics, and multifamily cap rates in tier I cities had all expanded by 15-30bps as of the end of H1 2024 compared to the end of last year, with the rate of expansion eclipsing CBRE's forecast made at the beginning of the year. Investors are demanding higher risk premiums for leasing and liquidity risk.
03	Investors are recommended to focus on structural opportunities and sectors benefiting from China's economic transformation, such as multifamily, industrial, logistics and core office buildings in tier I cities.	• Although investment volume for multifamily, logistics, and office assets all declined in H1 2024, domestic insurance companies and other medium- to long-term funds continue to focus on structural opportunities in these sectors. • Investors are tightening their requirements for stability of future cash flow and yield for potential acquisitions. Leasing market uncertainty, regulatory changes and the uncertain financing environment are lengthening the negotiation process between buyers and sellers and making aspects of deal-making such as asset pricing and transaction structure more complex and time-consuming.
04	Other opportunities will lie in cyclical investments in retail.	• Thanks to the recovery of the leasing market and the formation of retail REITs, along with developers' accelerating asset disposals, retail investment volume grew by 72% y-o-y to nearly RMB 20 billion in H1 2024. Buyers of retail assets were led by domestic insurance companies, private enterprises, local government platforms, and overseas institutions.

Source: CBRE, July 2024

Investment

Key changes to forecast

- Considering the weakness of the leasing market and investors' cautious approach towards ongoing asset revaluation, CBRE has revised down its full-year 2024 investment volume forecast from low y-o-y growth of 0-5% to a decrease of 5-10%.

- Cap rates for assets in tier I cities are expected to expand by about 25bps in H2 2024, as seeking a wider safety margin to cushion risk will remain a common strategy among investors. Due to escalating destocking pressure and comparatively limited repricing, the logistics sector could experience more significant yield expansion. Should the PBoC further reduce interest rates to drive down the risk-free rate, the upward movement of cap rates will be constrained to some extent. A substantial improvement in leasing demand will be the decisive factor in reversing the trend of cap rates.

- Targeting counter-cycling opportunities in the multifamily sector, as well as cyclical recovery opportunities in the retail and hotel sectors, will remain a priority for investors in the short-term. With asset prices continuing to reset, opportunities to acquire core logistics portfolios and office assets are expected to gradually emerge in H2 2024.

- The reform plan released by the Third Plenum of the CCP 20th Central Committee includes the **extension and renewal of land use rights for industrial and commercial purposes** into its objectives for the next five years, which is expected to boost investors' confidence in the medium to long term.

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Figure 6: Cap rates for major asset classes in tier I cities

	Grade A Office			Retail			Logistics		
	Q4 23	Q2 24	Q4 24	Q4 23	Q2 24	Q4 24	Q4 23	Q2 24	Q4 24
Beijing	4.75%	5.00%	5.25% ▲	4.75%	5.00%	5.20% ▲	5.15%	5.40%	5.50% ▲
Shanghai	4.75%	5.00%	5.25% ▲	4.75%	4.95%	5.20% ▲	5.00%	5.35%	5.50% ▲
Guangzhou	4.65%	5.00%	5.30% ▲	4.65%	5.00%	5.30% ▲	5.20%	5.20%	5.20% ▶
Shenzhen	4.70%	5.00%	5.30% ▲	4.65%	5.00%	5.30% ▲	4.90%	4.90%	4.90% ▶

Note: Cap rate refers to the medium of range. Cap rate varies depending on different qualities and locations. 2023Q4 Guangzhou and Shenzhen office and retail cap rates have been revised.
Source: CBRE Research, July 2024

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