CUSHMAN & WAKEFIELD
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THE FORECAST REPORT

DECEMBER 2022

GREATER CHINA COMMERCIAL REAL ESTATE – WHAT TO WATCH IN 2023

Greater China Research

CONTENTS

EXECUTIVE SUMMARY

- ***The economy*** – *Given the relaxation of COVID-19 control measures, the general economy is expected to recover in 2023;*
- ***The real estate market*** – *Economic recovery is expected to boost leasing and investment demand across all property types in the Greater China region as market confidence returns. Emphasis will be further placed on high quality real estate development, smart real estate development and sustainable real estate development across cities in the Greater China region;*
- ***Real estate investment*** – *Investment in office assets is expected to remain strong driven by end-user buyers. Industrial and logistics assets will likely remain attractive. Growing interest in alternative sectors, including life sciences, multifamily and cold storage logistics warehousing will be evident;*
- ***Office*** – *Net absorption is expected to remain positive in mainland China's first-tier cities in 2023, partially driven by the upcoming new supply completions;*
- ***Retail*** – *Consumption confidence is expected to rebound in 2023. Community shopping centres in suburban areas in mainland China are seeing greater interest as individual citizens now prefer to shop more in their local neighbourhoods. Over the next three years, in 16 cities in mainland China, nearly 32% of new supply will be community shopping centres;*
- ***Industrial logistics*** – *Into 2023, logistics warehousing is expected to continue to benefit from continued market size growth. Due to the increase in consumer spending power, changes in consumer consumption habits and the greater need for storing perishable materials, more quality cold storage logistics warehouses will need to be built and put into operation in Greater China in 2023.*

INTRODUCTION

The commercial real estate market in Greater China has been influenced by a number of factors over the last couple of years, not least by the COVID-19 pandemic and the subsequent lockdowns. Our report generally examines the real estate industry in Greater China and looks to provide an understanding of the aspects that will influence new business opportunity generation in the region in 2023. In particular, the report focuses on the following aspects:

- *General market themes;*
- *Hot trends;*
- *Real estate of interest;*
- *The office sector;*
- *The retail sector;*
- *The industrial logistics sector;*
- *Real estate investment, and;*
- *The city markets, including:*
  Beijing / Shanghai / Shenzhen / Guangzhou / Chengdu / Wuhan / Hong Kong / Taipei

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FORECAST

01

GENERAL MARKET THEMES

GDP growth

Although economic vitality has recovered in the second half of the year, mainland China's GDP growth rate in 2022 is expected to fail to meet expectations. As mainland China gradually relaxes its control of the epidemic, the economy is expected to continue to recover in 2023, reaching a growth rate of 4.3%.

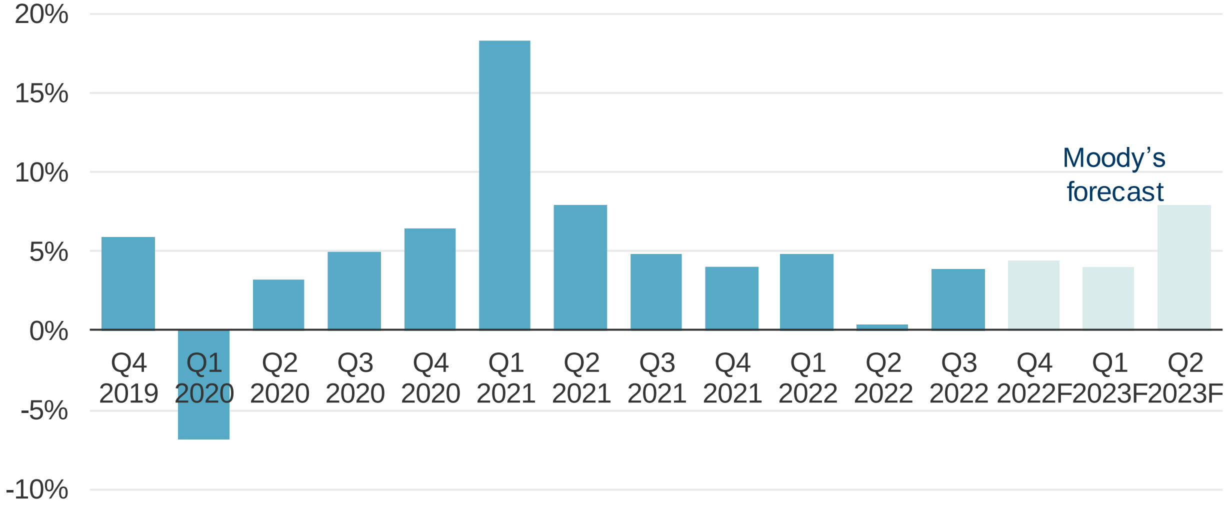
Employment

In October 2022, mainland China's urban unemployment rate recorded 5.5%, while the unemployment rate for 16-24 years old reached 17.9%, 3.7 percentage points higher than the figure recorded in 2021. Looking forward to 2023, with the relaxation of the zero-COVID rules and a high focus on economic development, overall employment will recover gradually.

Monetary policy and the direction of the RMB

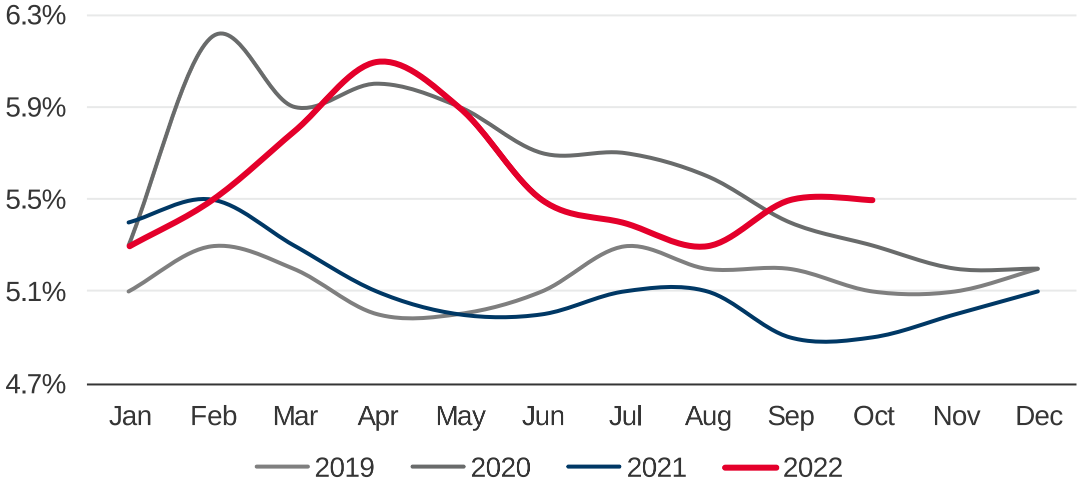
When not singularly focusing on GDP growth, if the employment rate can remain stable, mainland China will probably adopt a prudent monetary policy in 2023 to support high-quality economic development. The RMB exchange rate against the U.S. dollar is expected to remain stable.

Figure 1: Mainland China's GDP growth (Q1 2019 – 2023F)



Source: Moody's Analytics, National Bureau of Statistics, Cushman & Wakefield Research

Figure 2: Mainland China's unemployment rate (2019 – Oct 2022)



Source: National Bureau of Statistics, Cushman & Wakefield Research

01

GENERAL MARKET THEMES

Infrastructure investment

Further transportation infrastructure development in Greater China will produce investment opportunities for the logistics warehouse sector in 2023. Meanwhile, new science sector infrastructure as well as enhanced technological innovation will bring new investment opportunities for the office sector.

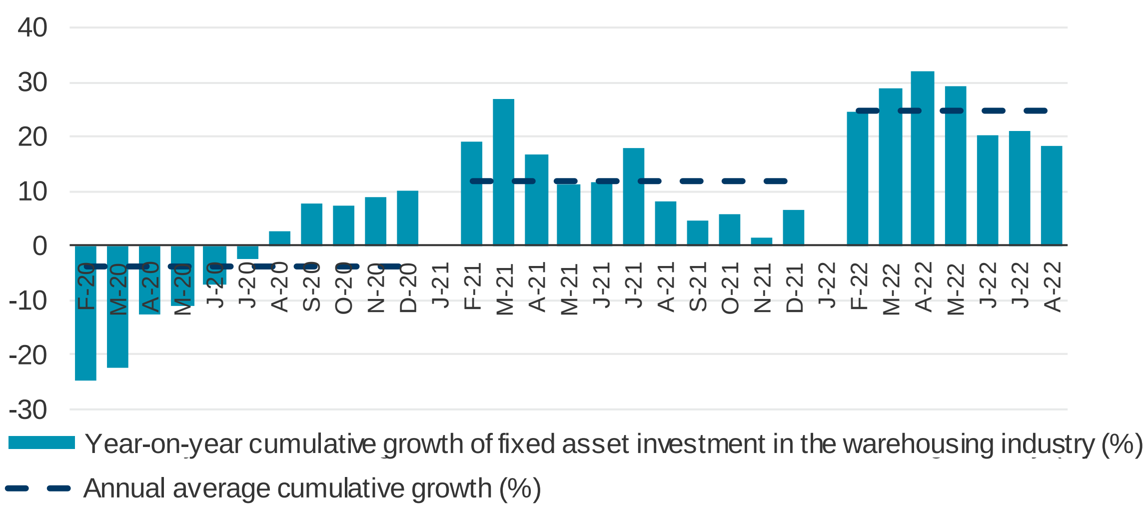
Developer debt

Financial support policy in mainland China is expected to ease the debt pressure borne by real estate developers in 2023. Policy is expected to assist real estate enterprises to expand financing channels and improve credit facilities.

Emphasis on high quality development

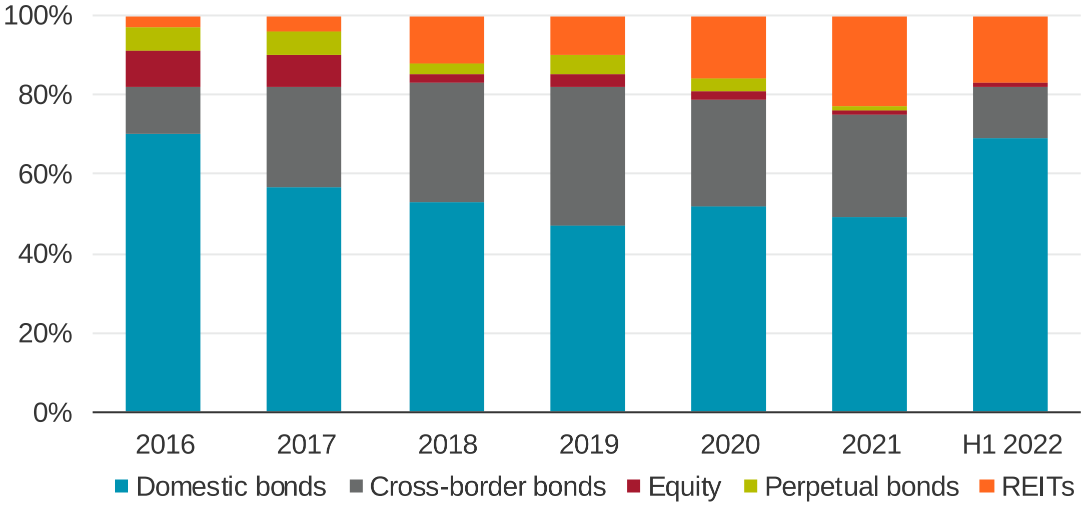
Developing green and low-carbon-related industries, advocating green consumption, improving the clean and efficient use of fossil fuel-related energy while developing new energy, and further promoting the low-carbon transformation of the real estate industry will be the main themes for industry and economic sector development in Greater China in 2023.

Figure 3: Fixed asset investment in warehousing in mainland China (2020 – Aug 2022)



Source: National Bureau of Statistics, Cushman & Wakefield Research

Figure 4: Top 100 developers in mainland China: Financing channels (2016 – H1 2022)



Source: CRIC, Cushman & Wakefield Research

02

HOT TRENDS

Urban renewal and asset utilisation

After decades of development, some mature cities in Greater China in 2023 will face a shortage of land on which to build. The focus has thus shifted to the revitalisation of existing property stock. Urban renewal is one major way to achieve city revitalisation, especially for properties located in prime urban areas. Individual property upgrading and transformation are other approaches to improve asset utilisation and its value.

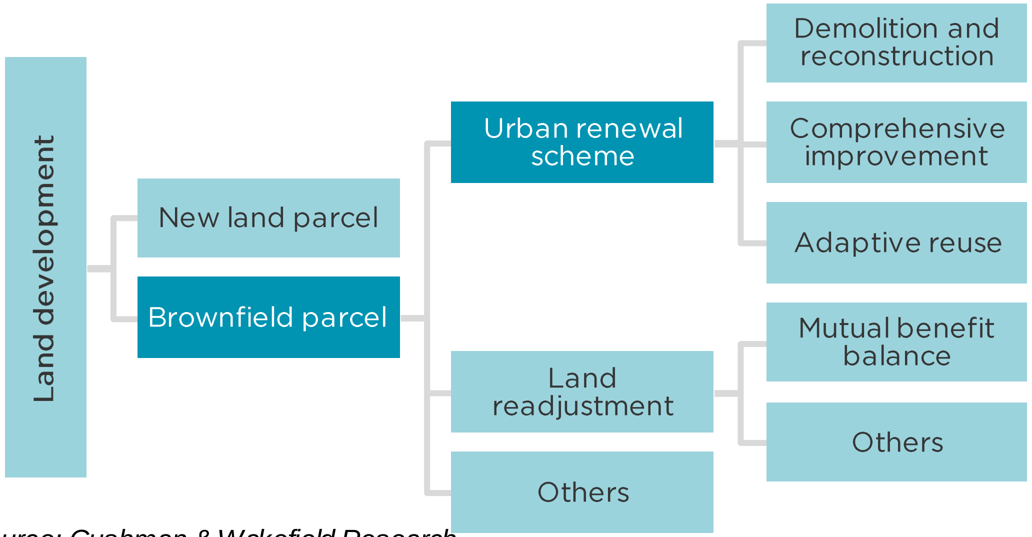
Infrastructure – TOD

Transit-oriented development (TOD) improves the efficiency of land use in cities. While enhancing the transport network, it also supports compact city growth. Given this, we expect TOD-related development to continue to play a role in city development in Greater China in 2023.

Real estate financing

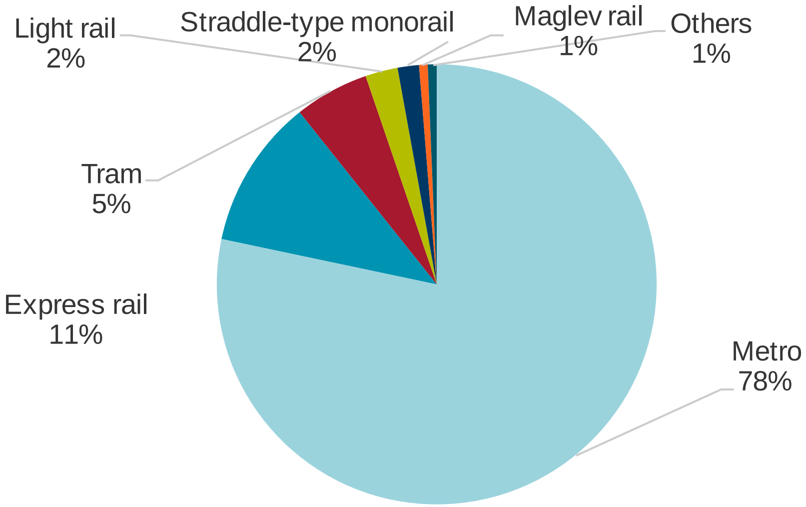
Many real estate enterprises in mainland China have been subject to the "Three Red Lines" and regulatory policies imposed to tighten financing channels and cut borrowing. Real estate securitisation, however, is one way for real estate enterprises to sidestep this situation and increase the liquidity of their property assets in 2023. Additionally, private equity is expected to come to the fore as a source of finance.

Figure 5: Approaches to land development in mainland China



Source: Cushman & Wakefield Research

Figure 6: Urban rail in mainland China: Track length breakdown by type (2021)



Source: China Association of Metros, Cushman & Wakefield Research

02

HOT TRENDS

Asset management business models

Property services companies will continue to gain capital and expand in Greater China in 2023. The increasing corporate real estate business operating system will support the demand for asset-light services while professional asset management is expected to help with project income.

Property technology

The introduction of smart building technology, such as building-related artificial intelligence and the use of robots, will continue in Greater China in 2023. Smart buildings are able to save energy, cut operating costs, provide convenience and enhance operating efficiency.

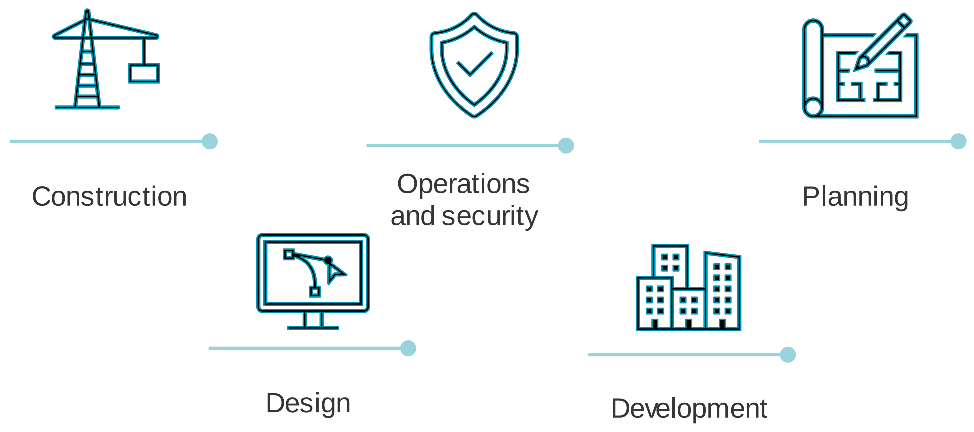
Developer business diversification

As health awareness increases, sanatoriums and health resorts are likely to be further developed in mainland China in 2023. Additionally, the growing demand from domestic manufacturing and consumption will support the robust development of logistics warehousing in core cities.

Sustainability – EOD

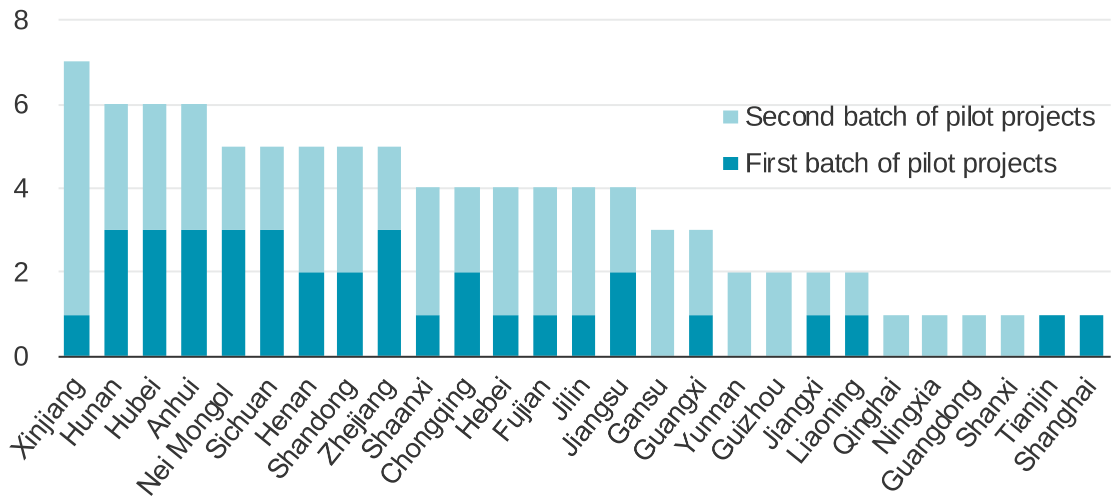
Environmental sustainability is now and will be a key initiative that regions in Greater China will take in 2023. Ecology-Oriented Development (EOD) combines ecological governance with the related industry to provide finance to a project while protecting the environment.

Figure 7: Selected applications for technology within real estate



Source: Cushman & Wakefield Research

Figure 8: Number of pilot EOD projects in mainland China by region



Source: Ministry of Ecology and Environment, Cushman & Wakefield Research

03

REAL ESTATE OF INTEREST

Life sciences commercial real estate

Via encouragement and promotion policies, cities in Greater China are changing the genetics of their real estate as they prepare to make the life sciences industry a major driver for their individual economies in 2023 and beyond.

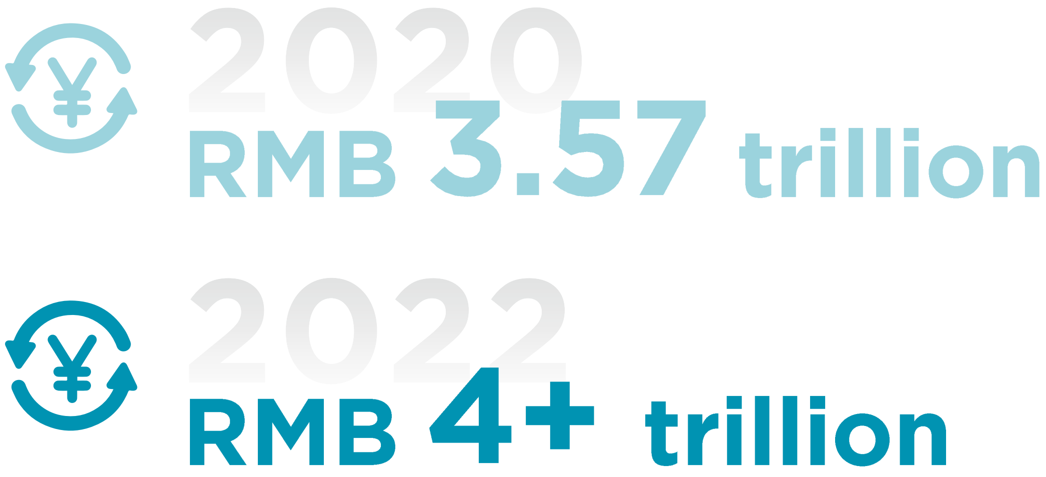
Experiential retail shopping centres

These forms of shopping centres will not only be localities for consumption in mainland China in 2023 and beyond but will also be experience spaces with functions and features, such as culture, fashion, art exhibitions and entertainment to satisfy the spiritual consumption needs of consumers in mainland China.

Cold storage logistics warehouses

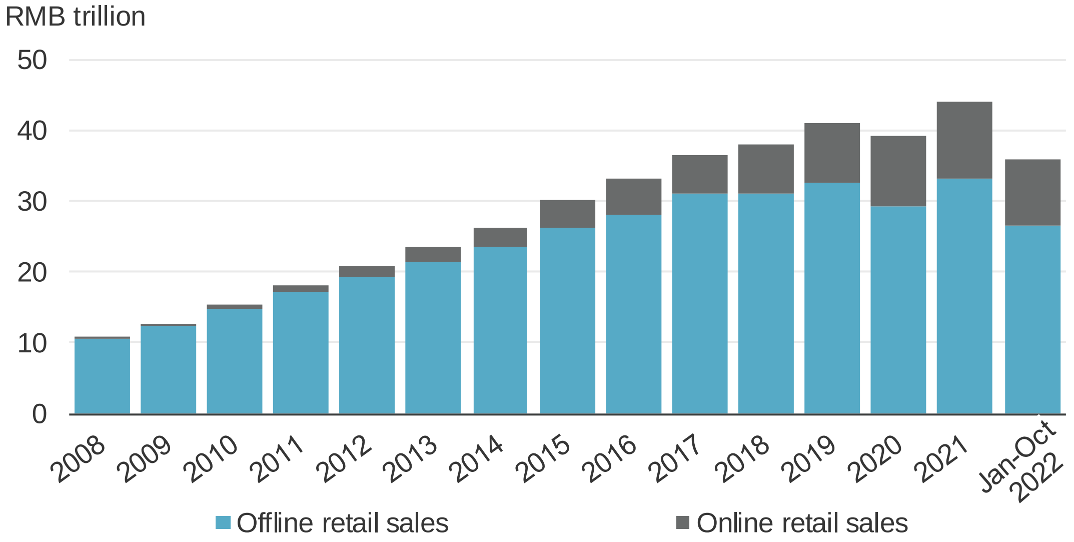
In Greater China in 2023, we expect to see more quality cold storage logistics warehouse supply to furnish the needs of domestic market storage, distribution stemming from the importation of fresh goods and products, and the need to store more perishable medicines.

Figure 9: Mainland China's biopharmaceutical market size (2020 and 2022)



Source: askci.com, Cushman & Wakefield Research

Figure 10: Mainland China's total retail sales of consumer goods (2008 – Oct 2022)



Source: National Bureau of Statistics, Cushman & Wakefield Research

03

REAL ESTATE OF INTEREST

Data centres

The rapid development of the digital economy in Greater China is expected to bring about a surge in data services in 2023 and beyond and these services will only grow as large-scale data processing, storage, and transmission volume increase.

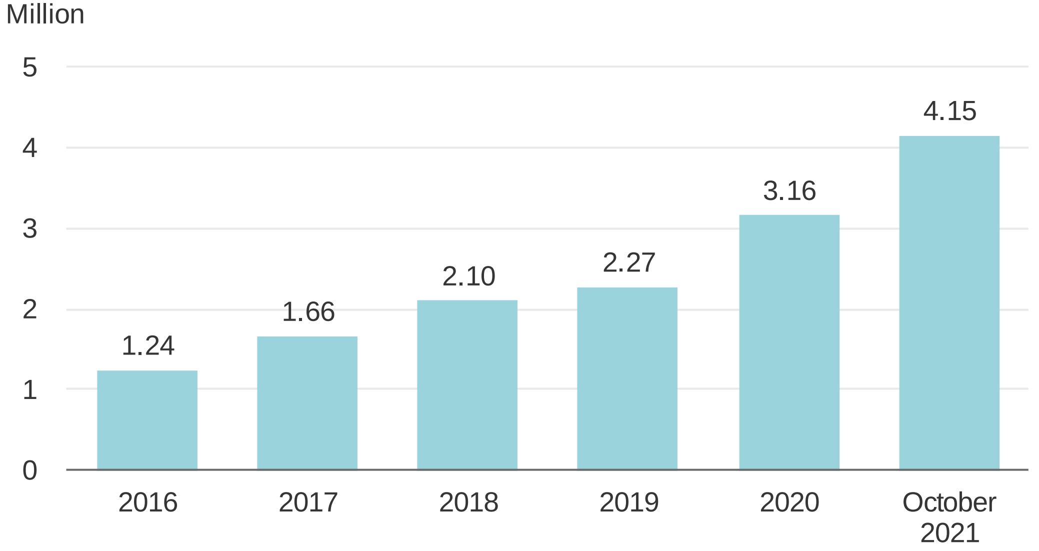
Long-term rental housing

Policy encouragement and affordability are two significant factors that will provide support for the healthy development of this asset type in mainland China in 2023 and beyond.

Hotels

The transforming demographics, changing travel consumption behaviour, a greater need for convenience, an elevated grasp of the importance of health, safety and cleanliness, and a mounting desire for a unique stay experience in Greater China… are and will increasingly come to the fore in 2023 and beyond.

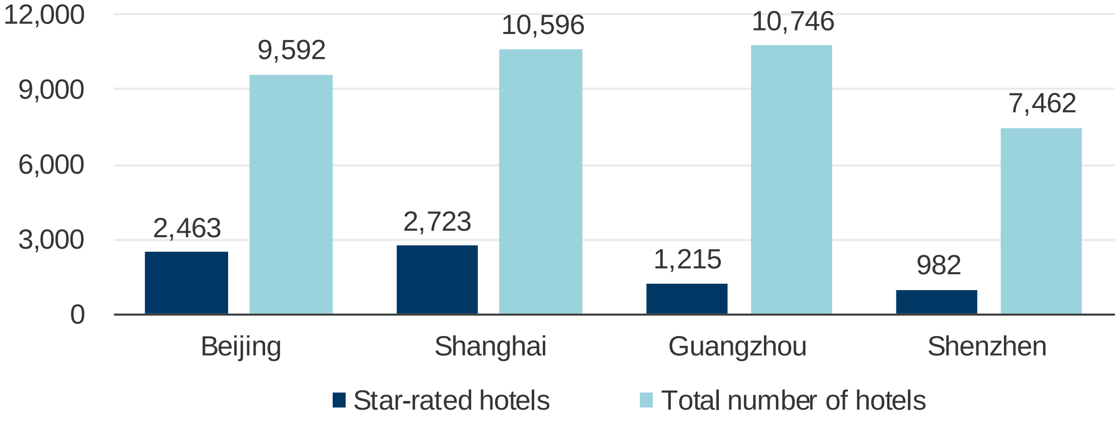
Figure 11: Cabinet stock in mainland China (2016 – Oct 2021)



Source: CDCC, Cushman & Wakefield Research

Figure 12: Mainland China first-tier cities: Star-rated hotels and total hotel stock (2022)

Note: Star-rated hotels include listed star-rated hotels and hotels in accordance with the market star-rated standard. The total number of hotels includes non-star-rated hotels, such as hotels, homestays, apartments, hostels, etc.



Source: Meadin (MTA), Cushman & Wakefield Research

04

THE OFFICE SECTOR

Positive net absorption driven by new supply

Net absorption is expected to remain positive in mainland China's first-tier cities in 2023, partially driven by the upcoming new supply completions that will stimulate relocation demand from occupiers, with banking and finance, professional services and TMT sectors expected to be the most active industry sectors.

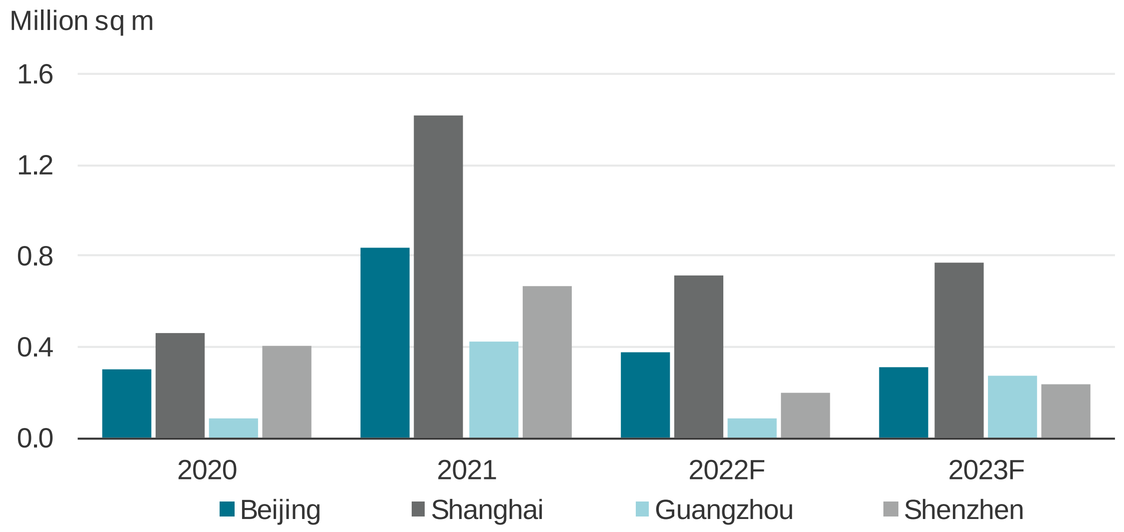
Rents to remain in consolidation phase

Pandemic uncertainties could well continue to disrupt business operations into 2023. This, coupled with the emerging new supply, is expected to keep vacancy levels among mainland China's first-tier cities high. High vacancies could well limit room for office rents to pick up over the course of the year.

Flight-to-quality from resilient occupiers

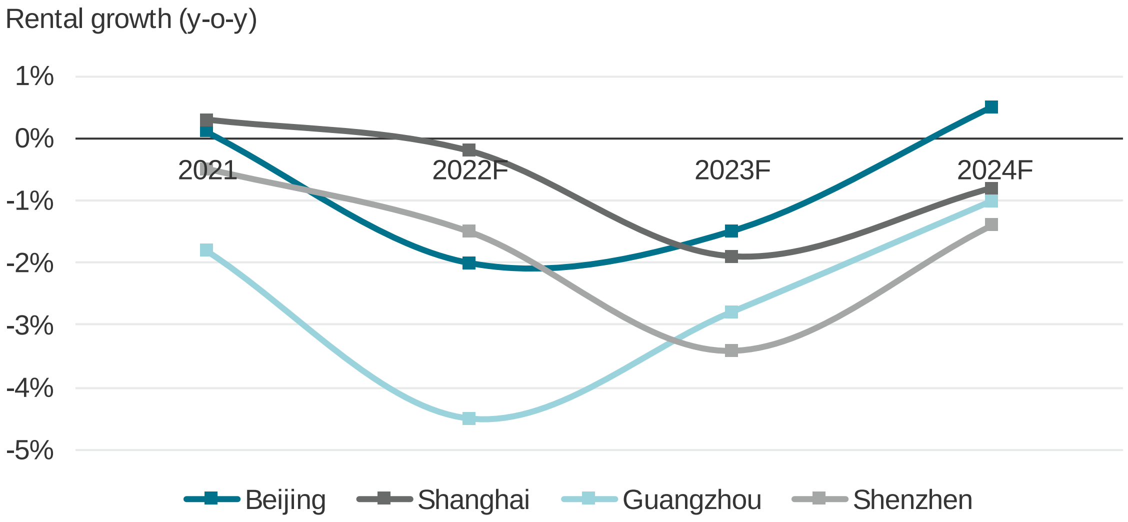
Some occupiers with healthy balance sheets are taking this opportunity to upgrade their premises by taking up quality office space in prime locations at more affordable rental levels. The newly built offices in 2023 in Greater China will likely attract more quality tenants given the better design and amenities compared to older buildings.

Figure 13: Mainland China first-tier cities: Grade A office net absorption (2020 – 2023F)



Source: Cushman & Wakefield Research

Figure 14: Grade A office rental growth in mainland China (2021 – 2024F)



Source: Cushman & Wakefield Research

04

THE OFFICE SECTOR

Return to the office

The increasing awareness of wellness is spurring companies to review workplace design and density. Some may also take the opportunity to reassess their real estate portfolio strategies in 2023 and look to pursue a more dispersed approach to office location. Employees could be housed in satellite offices rather than being massed in a single project.

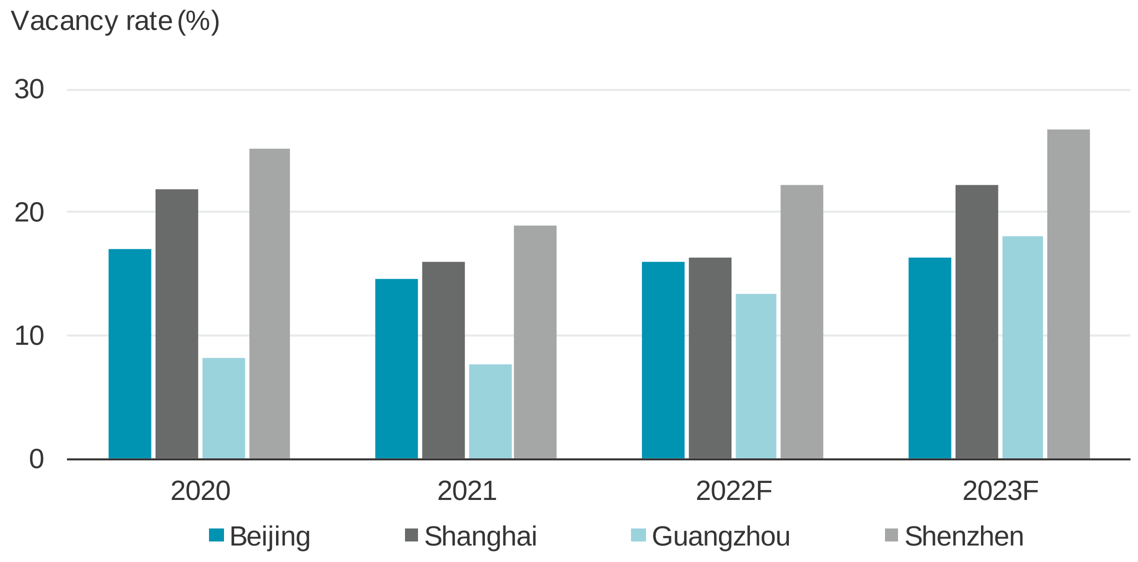
Demand for co-working space

The expected rising cost of business operations amid global market uncertainties in 2023 could well encourage a more diverse spectrum of occupiers, including entrepreneurs, start-ups and SMEs, to opt for co-working or serviced offices, wherein lease terms are more flexible with more cost-effective options available.

Enhanced ESG requirements

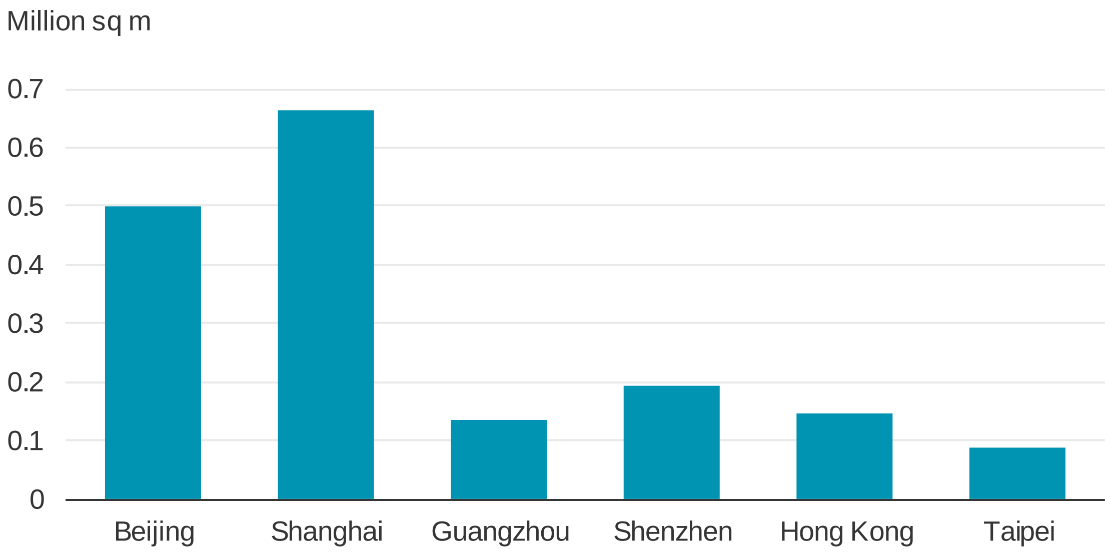
With the global wave of ESG requirements, Greater China is one of the forefront leaders in driving green building initiatives and setting ESG goals. Attaining green goals will remain popular options for real estate developers and asset managers with office asset exposures in 2023.

Figure 15: Grade A office vacancy rate in mainland China (2020 – 2023F)



Source: Cushman & Wakefield Research

Figure 16: Greater China's co-working space market size by key markets (2022)



Source: Cushman & Wakefield Research

THE RETAIL SECTOR

Consumption confidence will rebound

The consumer consumption confidence index in mainland China in 2022 is at its lowest level in nearly a decade. According to Trading Economics, this consumption confidence index is expected to rebound in 2023.

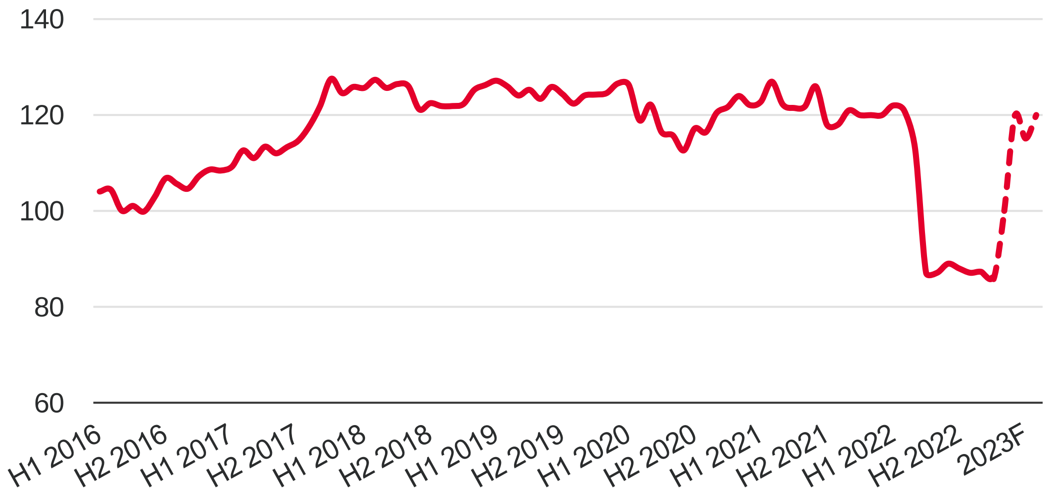
Changing consumption

COVID-19 has certainly brought about changes to the perception of consumption in Greater China. Rational consumption, spiritual consumption, green consumption and experiential consumption is expected to continue to emerge in 2023.

The development of mainland Chinese brands

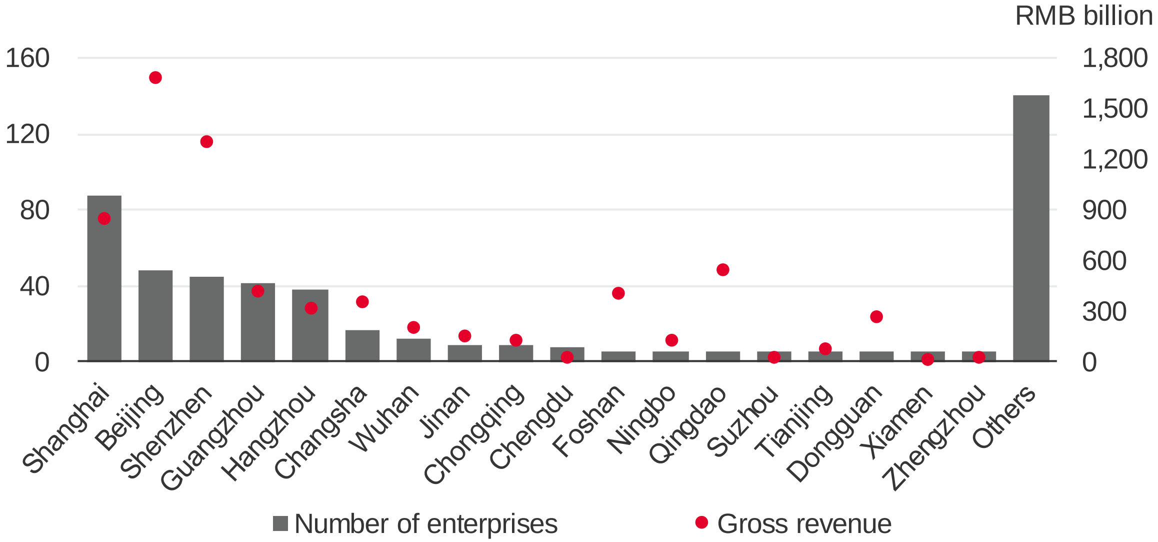
In August 2022, the National Development and Reform Commission, and seven other departments jointly issued a document titled ‘Promoting Brand Development in the New Era’. According to the document, from 2023 to 2035, it is expected that domestic brands will become a dominant force in the mainland Chinese retail market.

Figure 17: Mainland China’s consumer consumption index (2016 – 2023F)



Source: Trading Economics, Cushman & Wakefield Research

Figure 18: Distribution of mainland China’s top 500 consumption brands (2022)



Source: Xinmao List, Cushman & Wakefield Research

05

THE RETAIL SECTOR

Community shopping centres

Community shopping centres in suburban areas in mainland China are seeing greater interest as individual citizens now prefer to shop more in their local neighbourhoods. Over the next three years, in 16 cities in mainland China, nearly 32% of new supply will be community shopping centres.

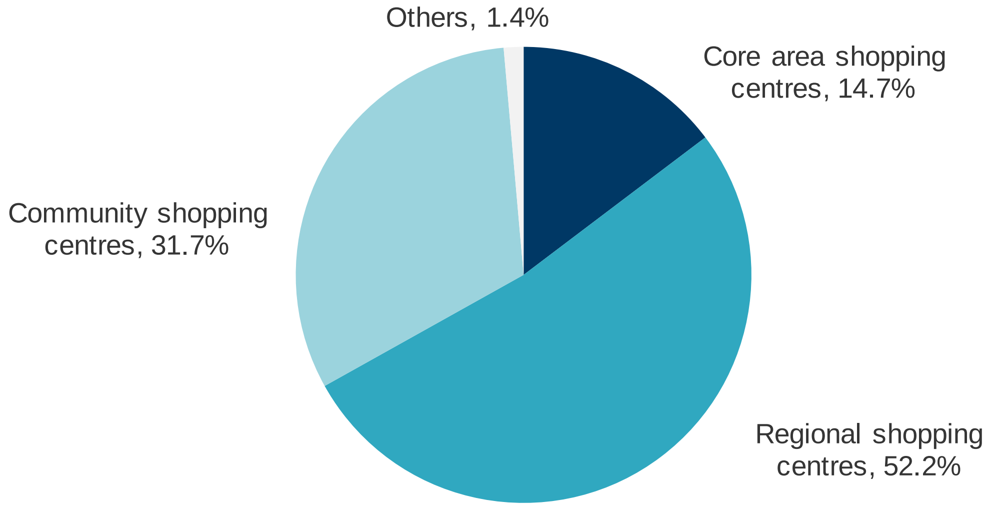
Live streaming e-commerce

The growth rate of "Double 11" sales slowed down in 2022, but the gross market value of live streaming e-commerce rose 146.1% y-o-y. In 2023 and into the future, the market share of live streaming e-commerce will further expand, promoting the further convergence of live streaming e-commerce and traditional e-commerce in mainland China.

The Metaverse

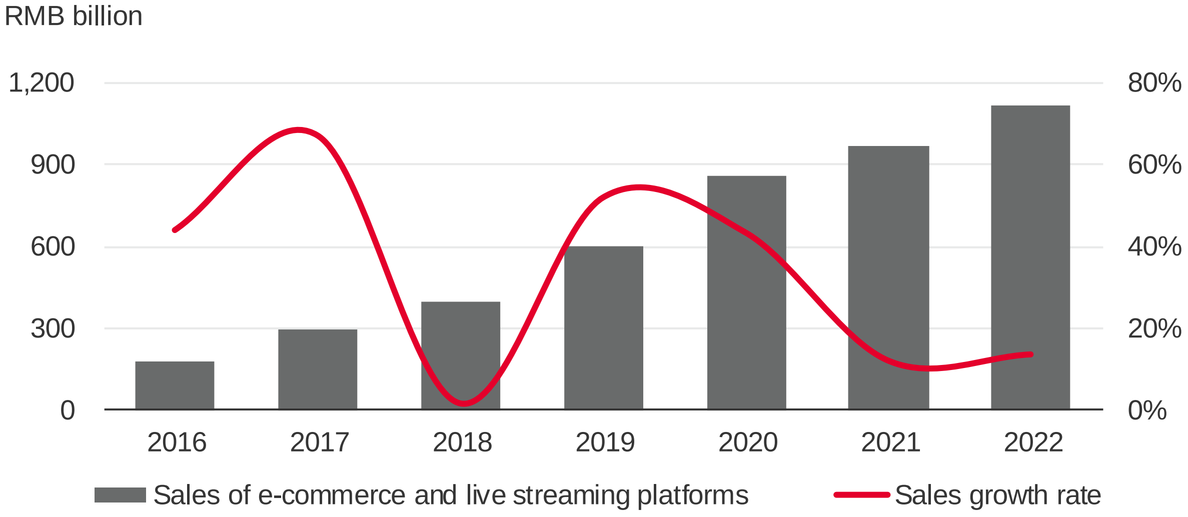
In the future, the Metaverse is expected to break the barrier between the virtual shopping experience (online shopping) and the real shopping experience (offline shopping) within the retail industry, and constantly expand retail's service margin when fully developed. In 2023, interest in the Metaverse by both retailers and consumers in Greater China will continue to burgeon.

Figure 19: Percentage of new retail supply types in 16 cities in mainland China (2023 – 2025)



Source: Cushman & Wakefield Research

Figure 20: Mainland China's Double 11 sales and growth (2016 – 2022)



Source: Syntun, Cushman & Wakefield Research

THE INDUSTRIAL LOGISTICS SECTOR

Logistics

According to the CFLP and askci.com, mainland China's logistics industry grew from RMB229.7 trillion in 2016 to RMB335.2 trillion in 2021, achieving an average annual compound growth rate of 7.85%. By the end of 2022, the market size is expected to reach RMB351.6 trillion. Into 2023, logistics warehousing is expected to continue to benefit from continued market size growth.

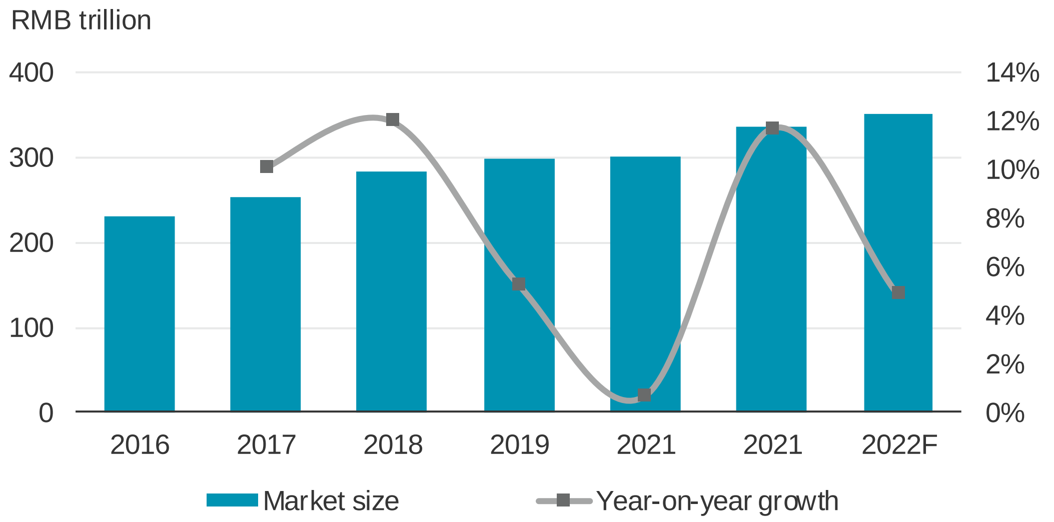
Cold storage logistics

Due to the increase in consumer spending power, changes in consumer consumption habits and the greater need for storing perishable materials, more quality cold storage logistics warehouses will need to be built and put into operation in Greater China in 2023.

Cap rates

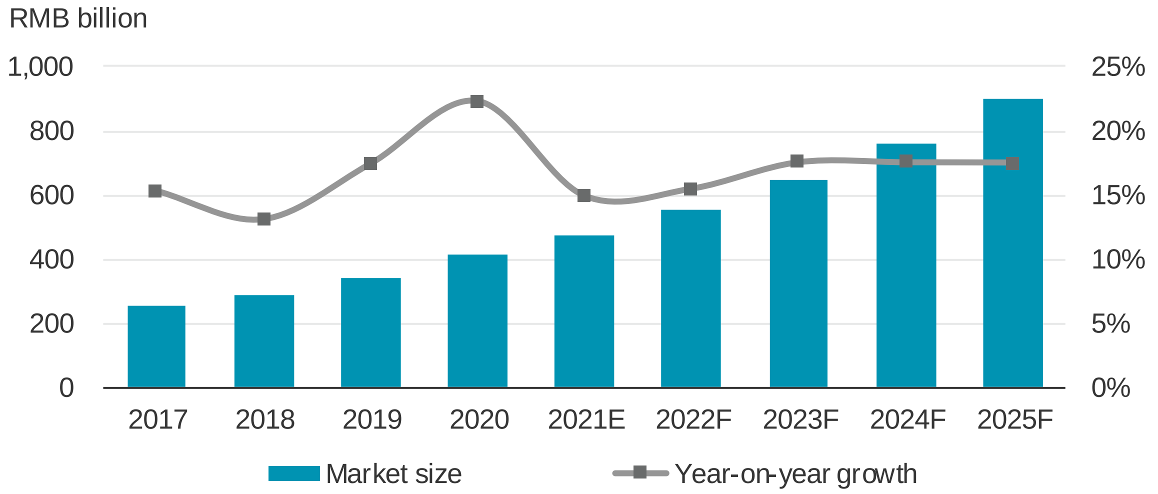
The average warehousing capitalisation rate has continued to trend downwards recently, which means that return on investment (ROI) has been declining. However, resilience within the warehousing logistics market has been evident under the epidemic. In addition, data from mainland China's first-tier city markets, show the overall ROI from warehousing assets has been higher than that for other property assets. This should attract further domestic and overseas capital to the region's warehousing market in the future.

Figure 21: Mainland China's logistics industry growth (2016 – 2022F)



Source: CFLP, askci.com, Cushman & Wakefield Research

Figure 22: Mainland China's cold chain logistics industry growth (2017 – 2025F)



Source: Cold Chain Logistics Committee (CFLP), The Intelligence Research Group, Cushman & Wakefield Research

06

THE INDUSTRIAL LOGISTICS SECTOR

Technology

Mainland China's logistics industry has focused on reducing costs and increasing efficiency in recent years. With the support of technologies, such as cloud computing, AI, IOT and 5G, the logistics industry is constantly accelerating its integration with modern technology. As a result, the ratio of mainland China's total social logistics costs to GDP has reduced to 14.6% by 2021. This figure will continue to decrease in 2023 and into the future.

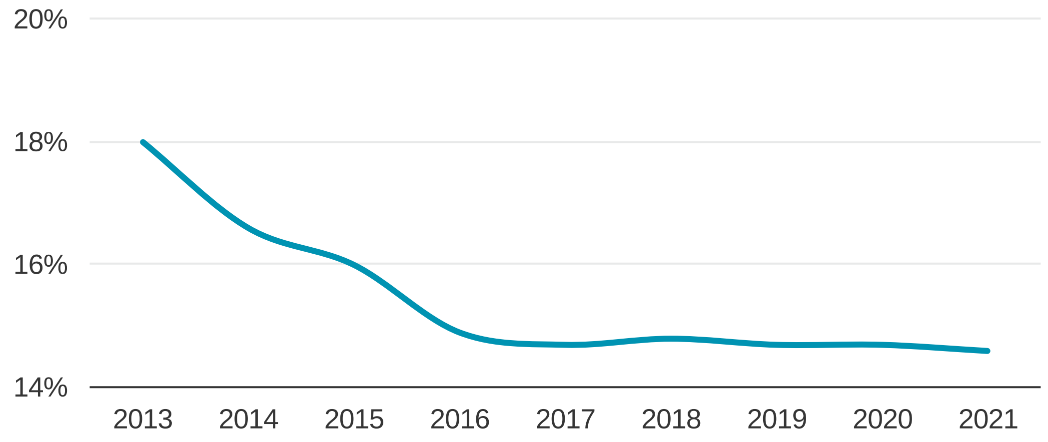
Sustainability

For a long time, mainland China's logistics industry activities have consumed a large amount of energy. Given increasingly strict environmental protection supervision, mainland China's requirements for the overall environmentally friendly and low-carbon development of its logistics industry are very clear. Sustainability has become the key trend for the future development and this trend will continue in 2023.

Last-mile delivery

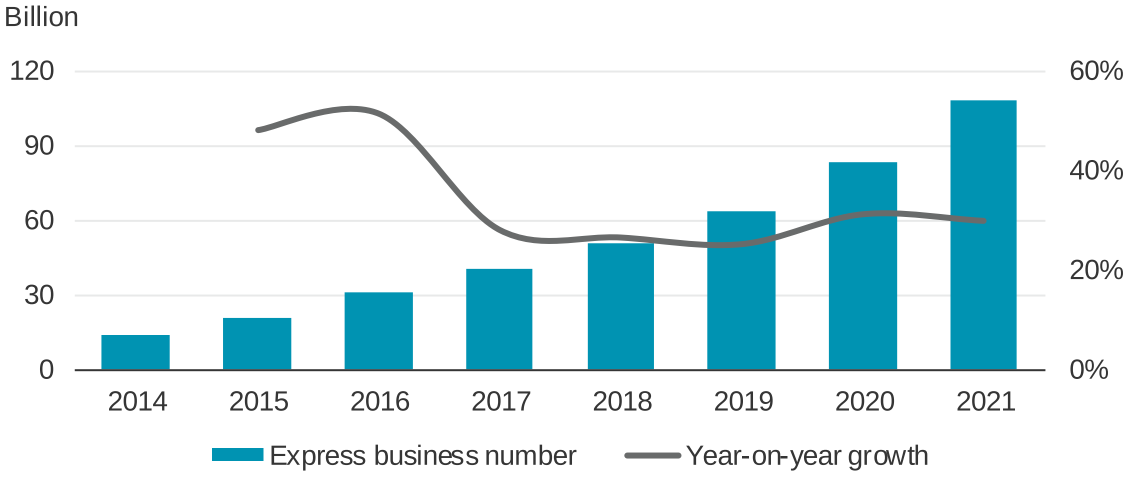
Express logistics has seen rapid development in recent years. By 2021, the number of express businesses in mainland China reached 108.3 billion. Within the logistics distribution system, the "last mile" is the final link for goods delivery. With the advent of the e-commerce era, the "last mile" has become an even more important component within the supply chain system in mainland China. In 2023, to improve efficiency and customer satisfaction and reduce cost, more unmanned "last mile" delivery methods are expected to be deployed.

Figure 23: Mainland China's proportion of logistics cost within GDP (2012 – 2021)



Source: National Development and Reform Commission, Cushman & Wakefield Research

Figure 24: Mainland China's express delivery industry (2014 – 2021)



Source: China Post, Cushman & Wakefield Research

07

REAL ESTATE INVESTMENT

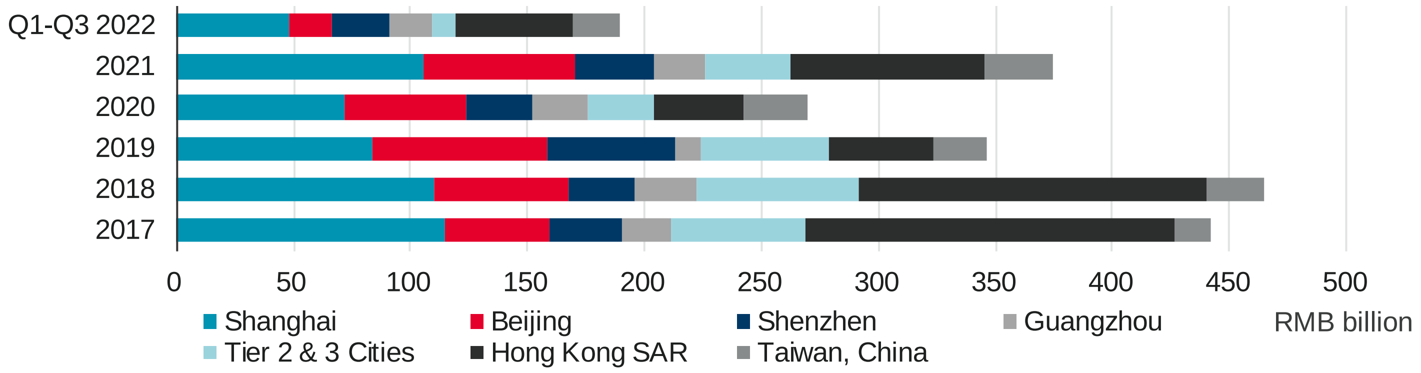
2022 Trends

- CRE investment transaction volume in Greater China totalled RMB190 billion as of Q3, down by 35% y-o-y;
- Hong Kong and Shanghai remained the most attractive investment destinations;
- Office remained the largest transacted sector in mainland China driven by strong end-user demand;
- End-user buyers accounted for nearly 50% of the total office investment in mainland China from 2020 to Q3 2022, a dramatic increase from a five-year average of only 18% pre-COVID;
- Industrial properties including logistics emerged as the second-largest sector by investment volume in mainland China.

2023 Outlook

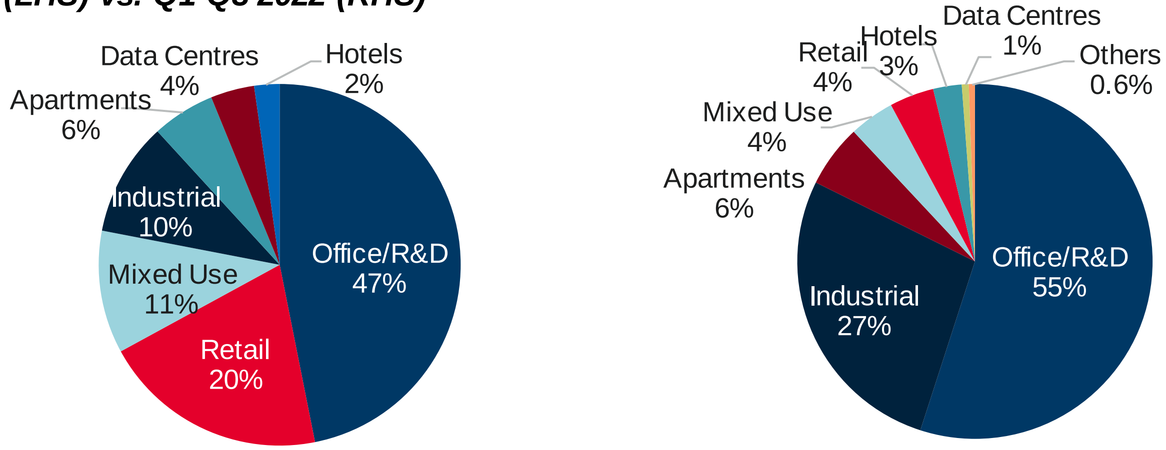
- Investment activity in Greater China will likely pick up given the relaxation of COVID-19 controls in mainland China;
- Investment in retail and hotel assets will likely rebound post-COVID;
- Investment in office is expected to remain strong driven by end-user buyers;
- Industrial and logistics assets will likely remain attractive;
- Growing interest in alternative sectors, including life sciences, multifamily, cold storage and mini storage (especially in Hong Kong), will be evident;
- The scope of the C-REIT pilot programme will likely be expanded to include market-oriented long-term rental apartments and commercial real estate.

Figure 25: Greater China investment by destination



Source: Cushman & Wakefield Research

Figure 26: Share of transaction volume in mainland China by sector 2021 (LHS) vs. Q1-Q3 2022 (RHS)



Source: Cushman & Wakefield Research

07

REAL ESTATE INVESTMENT

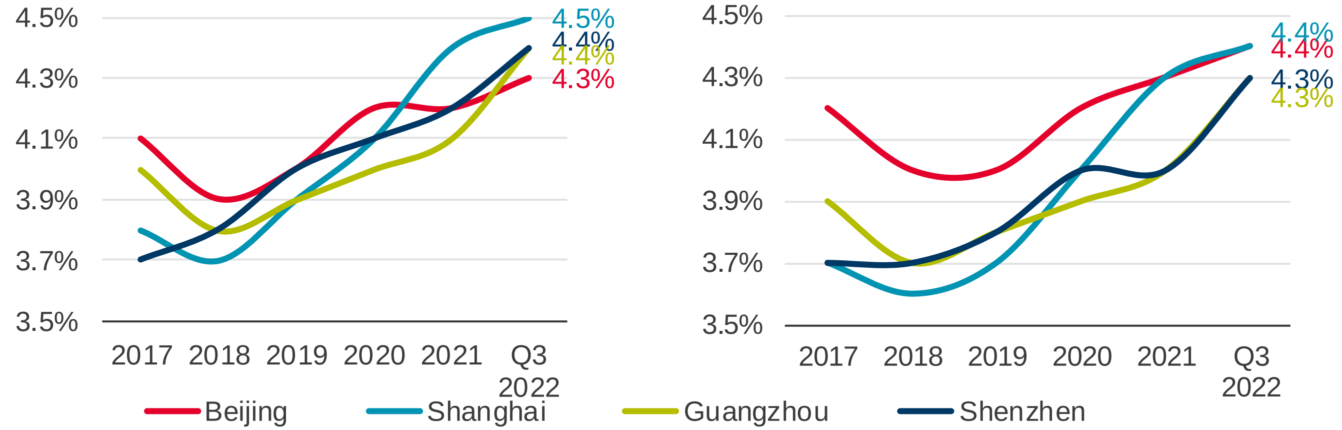
2022 Trends

- Cap rates for office and retail assets softened in all Tier 1 cities in mainland China;
- Shanghai had the highest cap rate as of Q3 2022, and experienced the largest increase in office and retail cap rates since 2018, both up by 80 bps;
- Cap rates for industrial properties remained largely stable in mainland China;
- While office yields in Hong Kong remained relatively tight at 2.5%, most of the recent transactions (all property types) had a gross yield of above 3%, indicating investors' preference towards higher-yield assets.

2023 Outlook

- Cap rate expectations for Grade A office, retail and hotel will likely increase in most cities, except Guangzhou where office and retail cap rates are expected to remain stable;
- Cap rates for business park offices, serviced apartments, and industrial assets in general will likely remain stable;
- Interest rates in Hong Kong are forecast to continue to rise in 2023, further raising investors' expectations for cap rates. As a result, investment in low-yield asset classes, such as office, will likely remain quiet, given many Hong Kong based developers/landlords are still financially sound and significant price discounting is unlikely.

Figure 27: Mainland China first tier cities – CBD office (LHS) and retail (RHS) cap rate trend



Source: Cushman & Wakefield Research

Table 1: Mainland China – Cap rate expectations* – 2023 vs. 2022

	Beijing	Shanghai	Guangzhou	Shenzhen	Major Tier-2 Cities
Grade A offices	Increase	Increase	Stable	Increase	Increase
Retail	Increase	Increase	Stable	Increase	Increase
Business park offices	Stable	Stable	Stable	Stable	Stable
Hotels	Increase	Increase	Increase	Increase	Increase
Serviced apartments	Stable	Stable	Stable	Stable	Stable

	Tier 1 City Hubs	Lower-tier Cities
Logistics *(excluding cold storage)*	Stable	Increase
Cold storage	Stable	Stable
Factories	Stable	Stable
Data centres	Stable	Stable

*Source: Cushman & Wakefield Valuation & Advisory, * based on Cushman & Wakefield 2022 Cap Rate Survey Report*

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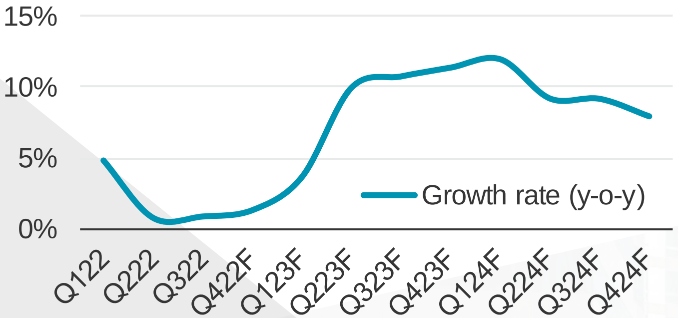
The macro-economy

- **GDP** – Impacted by the epidemic, GDP growth maintained a low level of growth, only increasing 0.8% year-on-year (y-o-y) in the first three quarters of 2022;
- **Resilience** – Although the epidemic has slowed down growth in the macro economy in Beijing, the government has issued support and subsidy policies related to taxation, investment attraction, consumption etc. In the future, with the epidemic control measures being relaxed and recovery anticipated in key industries, Beijing's economic indicators are expected to see further improvement.

Figure 28: Beijing GDP trend and forecast



Source: Beijing Municipal Bureau of Statistics, Moody's Analytics, Cushman & Wakefield Research

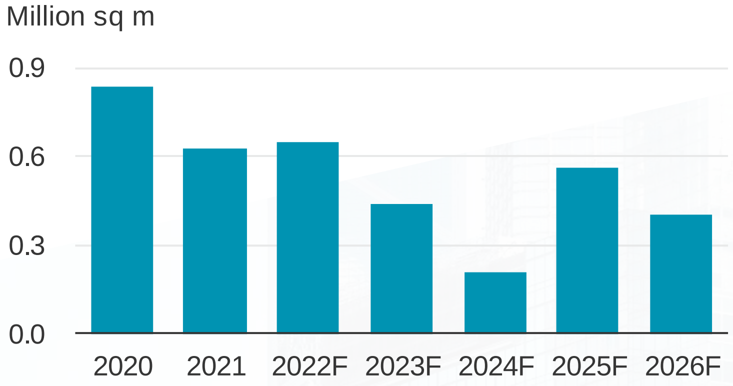
Office

- **Supply** – About 450,000 sq m of new supply is expected to enter the Beijing office market in 2023;
- **Demand** – The market will remain tenant favourable in 2023. TMT, finance, and professional services are expected to remain the top three industries in terms of leasing demand. Among them, consulting companies, such as law and accountancy firms, together with high tech, manufacturing-related R&D and life sciences enterprises (supported by national policies), and financial institutions should remain the key drivers of demand within the Beijing office market;
- **Development** – Future supply in 2023 and beyond in Beijing's office market will be concentrated in the CBD, Tongzhou Canal Business District and Li'ze Financial Business District.

Retail

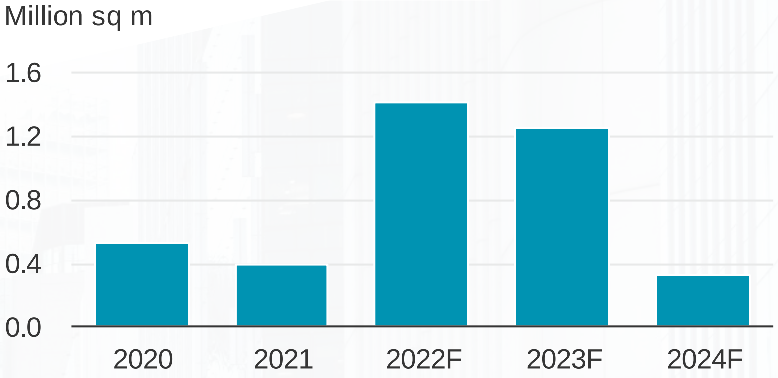
- **Upgrading** – Retail tenant mix adjustments in Beijing will continue to develop towards high-end, personalised and immersive experience consumption in 2023;
- **The First Store Economy** – In August, the government issued a policy to attract domestic and foreign fashion brands to enter Beijing, with financial support for first store openings. This policy will further incentivise fashion brands to locate their first stores in Beijing in 2023;
- **Urban renewal** – With the recovery in the retail market and the government's sustained support for retail improvement and upgrading, more older projects in core submarkets that were recently renovated and some stagnant commercial projects which have been revitalised, are expected to re-enter the market in 2023.

Figure 29: Office new supply



Source: Cushman & Wakefield Research

Figure 30: Retail new supply



Source: Cushman & Wakefield Research

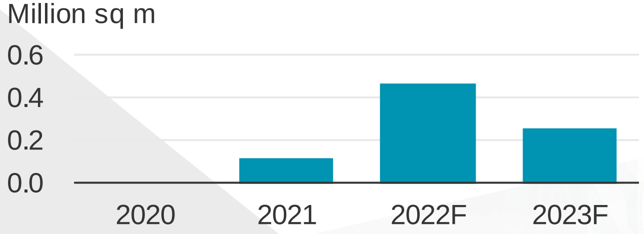
THE CITY MARKETS

BEIJING

Industrial logistics

- **Supply** – Beijing is expected to see over 700,000 sq m prime logistics new supply enter the market by the end of 2023, which will ease the tight supply in the market;
- **Demand** – The scarcity of industrial land supply has caused a shortage of supply in recent years. New projects in the next two years may ease demand-side pressure. Tenants will still mainly stem from e-commerce, express delivery and third-party logistics enterprises;
- **BTH coordinated development** – With the adjustment of epidemic control policies and the economic recovery, Beijing, Tianjin and Hebei (BTH) will work more closely together. The promotion of logistics hubs and cold chain logistics will become a key development direction in 2023 in this region.

Figure 31: Logistics new supply

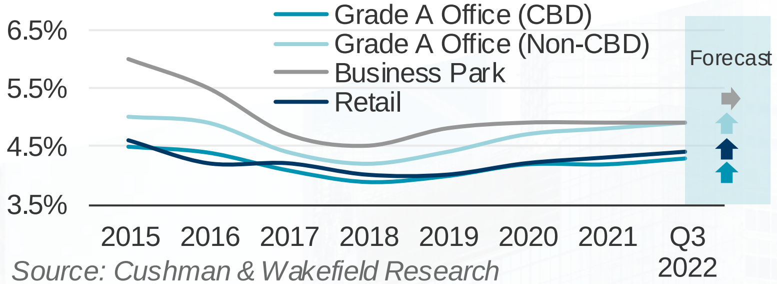


Source: Cushman & Wakefield Research

Investment

- **Increasing investment diversification** – Office buildings are still the most favoured property type in the city's investment market, accounting for 67.8% in Q3 2022. Transactions of alternative assets, such as hotel, residential, industrial properties also keep growing. With the relaxation of the epidemic control measures, demand from foreign investors will gradually increase in 2023;
- **High-tech and biomedical assets attracting attention** – With the advancement of Beijing's goal of building an international science and technology innovation centre, and government support for the life sciences industry, properties related to these sectors have attracted growing investors' attention. Areas such as Zhongguancun, Shangdi and Daxing, with concentrations of high-tech and life sciences industries, are set to become key destinations for investors in 2023.

Figure 32: Cap rate trend and outlook



Source: Cushman & Wakefield Research

Outlook

		Office	Retail	Industrial
Outlook (2022-2023 Change)	Supply	↑	↑	↑
	Absorption	↓	→	↑
	Vacancy	↑	→	↑
	Rental	→	→	→
The Market (2023)	Tenant / Landlord	Tenant	Tenant	Landlord

Source: Cushman & Wakefield Research

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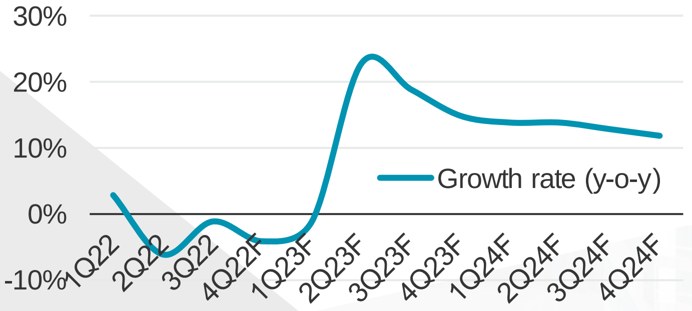
Macro-economics

- **GDP** – Due to the impact of COVID case outbreaks, Shanghai's GDP fell 1.4% y-o-y in the first three quarters of 2022;
- **Recovery** – Given Shanghai's effort in all economic sectors, including business support, tax reduction, consumption encouragement, investment expansion and scientific and technological innovation, the city's economy in 2023 is expected to recover with major indicators on the upswing.

Figure 33: Shanghai GDP trend and forecast

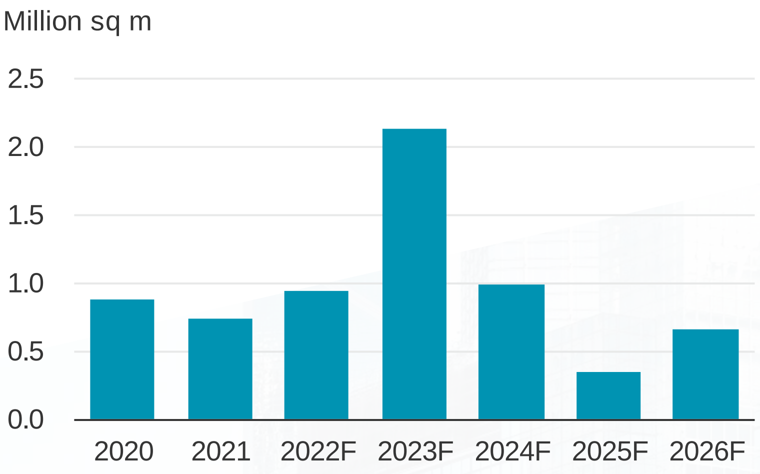


Source: Shanghai Municipal Bureau of Statistics, Moody's Analytics, Cushman & Wakefield Research

Office

- **Supply** – Over 2.1 million sq m of new supply is expected to enter Shanghai in 2023, which will increase leasing space availability;
- **Demand** – The market will remain tenant favourable in 2023. Some sectors will continue to drive leasing demand, including professional services, technology, finance and manufacturing;
- **Development** – Newly completed quality office buildings will boost the development of emerging commercial areas along the Huangpu River.

Figure 34: Office new supply

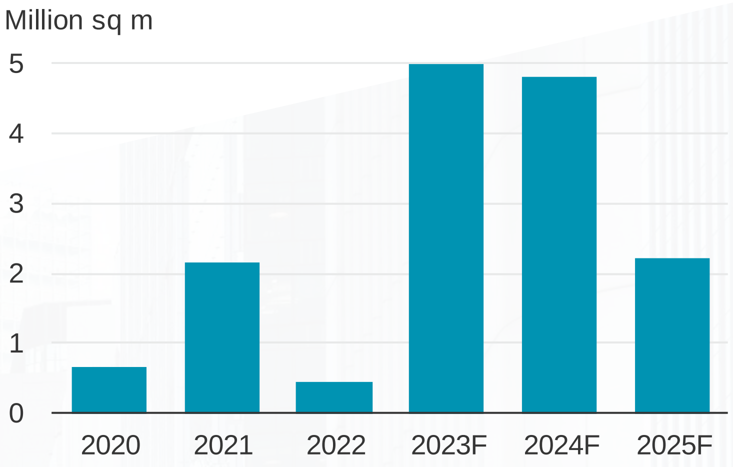


Source: Cushman & Wakefield Research

Retail

- **Recovery** – Shanghai's prime retail property market will bottom out and recover in 2023;
- **Experiential retail** – The city will continue to push the envelope in offering the consumer an enhanced physical shopping experience;
- **The five new towns** – Improving public transportation and the relatively undeveloped nature of the retail property market in Shanghai's five new towns will attract investment to these areas in 2023.

Figure 35: Retail new supply



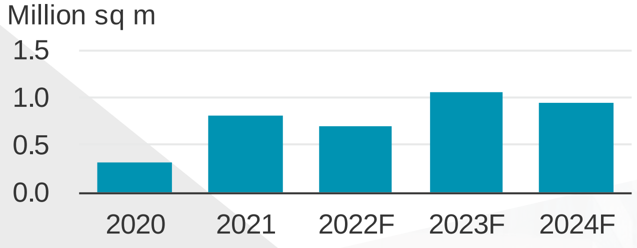
Source: Cushman & Wakefield Research

SHAUN BRODIE
SHANGHAI

Industrial logistics

- **Supply** – Shanghai is expected to see over 1 million sq m prime logistics property complete in the market in 2023, which might place some pressure on rentals;
- **Demand** – E-commerce, express delivery and third-party logistics will continue to be the main tenants. Additionally, demand from manufacturing enterprises and cold chain logistics will increase;
- **Warehouses** – Warehouse design, integrated technology and environmental sustainability credentials will continue to be emphasised to secure greater operational efficiency, energy-use savings and carbon emissions reduction.

Figure 36: Logistics new supply

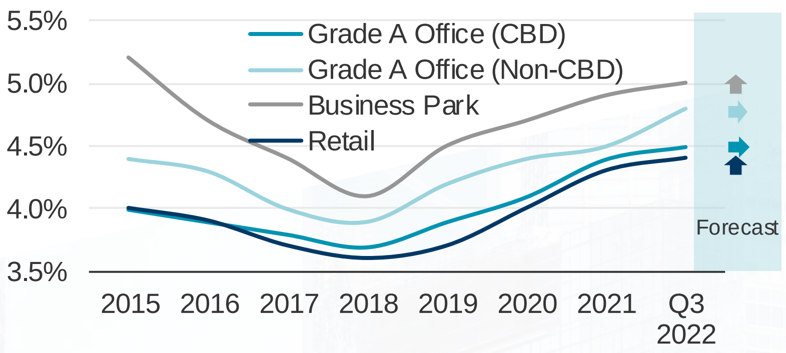


Source: Cushman & Wakefield Research

Investment

- **Increasing investment diversification** – While office assets took the largest share of investment in Q3 2022, at 52%, investment in other asset classes – industrial, retail, and residential – expanded. Post-COVID-19, government policies and social capital have helped to stabilise and optimise the investment market in Shanghai;
- **Alternative assets** – Interest for alternative assets, such as life sciences-related real estate, cold storage logistics warehouses, long-term rental housing and hotels, will grow, attracting more associated investors to the city's real estate investment market.

Figure 37: Cap rate trend and outlook



Source: Cushman & Wakefield Research

Outlook

		Office	Retail	Industrial
Outlook (2022-2023 Change)	Supply	↑	↑	↑
	Absorption	↑	↑	↑
	Vacancy	↑	→	↓
	Rental	↓	↓	↑
The Market (2023)	Tenant / Landlord	Tenant	Tenant	Landlord

Source: Cushman & Wakefield Research

SHENZHEN

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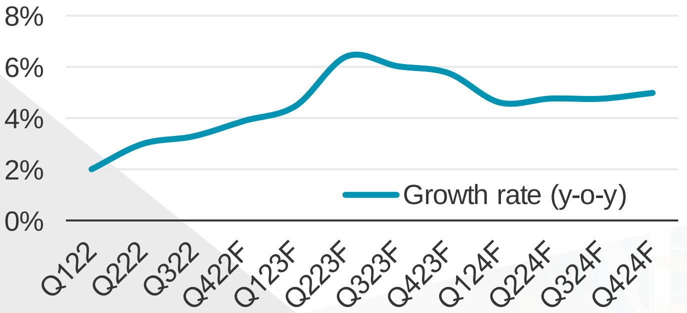
The macro-economy

- **GDP** – Shenzhen's GDP increased 3.3% y-o-y in the first three quarters of 2022, supported by growth in the secondary sector at 5.2%;
- **Improved expectation** – The Shenzhen government has introduced a series of policies to restabilise the economy and alleviate company difficulties. The effectiveness of these measures, and improvement in economic expectations and business confidence, will be key to reinvigorate real estate market demand in 2023.

Figure 38: Shenzhen GDP trend and forecast

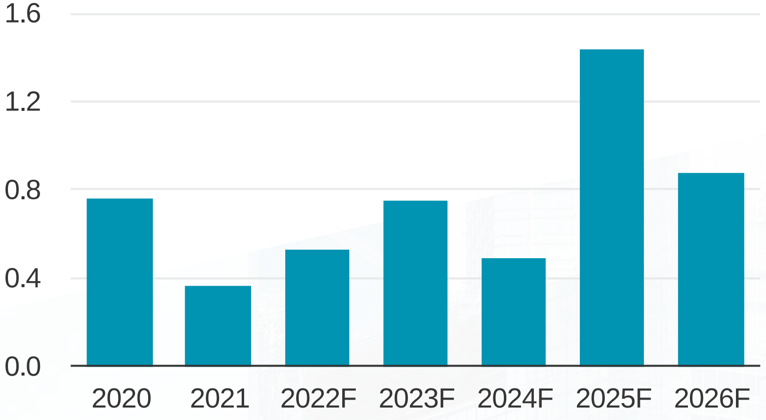


Source: Shenzhen Municipal Bureau of Statistics, Moody's Analytics, Cushman & Wakefield Research

Office

- **Supply** – Approximately 750,000 sq m of new supply is expected to enter Shenzhen in 2023. Vacancy is expected to rise. Self-use properties will alleviate the supply-side pressure to a certain extent;
- **Demand** – TMT, finance and professional services will be the three main drivers of leasing demand in 2023;
- **Development** – Most scheduled supply will be located in Nanshan and Qianhai. The spatial layout of business will have a notable westward expansion trend in the city in 2023 and into the future.

Figure 39: Office new supply

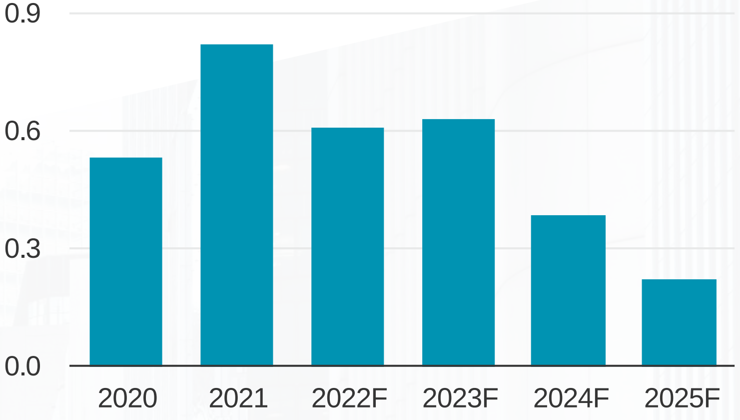


Source: Cushman & Wakefield Research

Retail

- **Recovery** – The relaxation of COVID-19 containment measures will support recovery in demand in 2023;
- **New energy vehicles** – Geopolitical tensions have seen fuel prices surge. Domestic incentive policies related to new energy vehicles have also stimulated car sales and auto brand retail leasing demand;
- **Multi commercial areas** – Shenzhen is expected to add about 630,000 sq m of new prime retail in 2023. 52% of new supply will be located in emerging areas.

Figure 40: Retail new supply



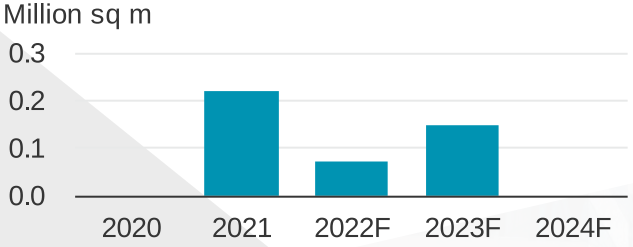
Source: Cushman & Wakefield Research

THE CITY MARKETS
SHENZHEN

Industrial logistics

- **Supply** – Shenzhen is expected to welcome 150,000 sq m at Liguang logistics park in 2023, which will relieve some demand-side pressure;
- **Demand** – The e-commerce sector will remain the key driver in the premium logistics warehouse market in Shenzhen. The overall vacancy rate is expected remain at a low level in 2023 given the robust demand and land supply shortage;
- **Warehouses** – Land supply scarcity will shift market demand to Dongguan and Huizhou. Dongguan will continue to enjoy demand given its proximity to Guangzhou and Shenzhen and the favourable express delivery network connections.

Figure 41: Logistics new supply

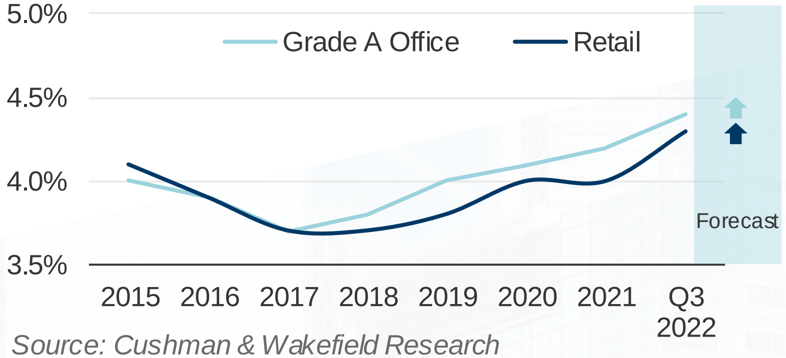


Source: Cushman & Wakefield Research

Investment

- **Price corrections** – Although the number of tradeable assets expanded, in response to debt reduction pressures, the capitalisation rate for office and retail assets also rose due to price corrections. Such adjustments may result in attracting more foreign investment to the city in 2023;
- **Self-use buyers as market players** – Smaller-scale purchases by self-use buyers accounted for most industrial transactions. This reflected the growth in demand for industrial assets and aligned with macro policy support for the development of industrial firms. High-tech, life sciences and data centre sectors led demand in 2022 and this trend is expected to continue in 2023.

Figure 42: Cap rate trend and outlook



Source: Cushman & Wakefield Research

Outlook

		Office	Retail	Industrial
Outlook (2022-2023 Change)	Supply	↑	↑	↑
	Absorption	→	↑	↑
	Vacancy	↑	→	→
	Rental	↓	↓	→
The Market (2023)	👥 Tenant 🏢 Landlord	👥	👥	🏢

Source: Cushman & Wakefield Research

GUANGZHOU

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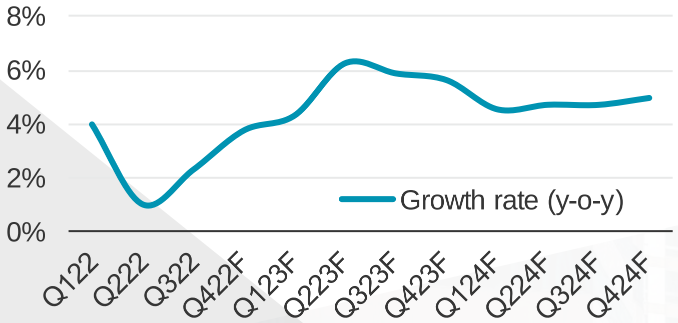
The macro-economy

- **GDP** – Supported by a series of growth policies, Guangzhou's GDP grew by 2.3% y-o-y in the first three quarters of 2022. Ahead, most major economic indicators are set to improve in 2023;
- **Improved expectancy** – The COVID case outbreak in Q4 2022 impacted production and business activity. Although Guangzhou's economic recovery will slow down in the short term, effective epidemic prevention measures will keep economic growth on a stable trajectory.

Figure 43: Guangzhou GDP trend and forecast

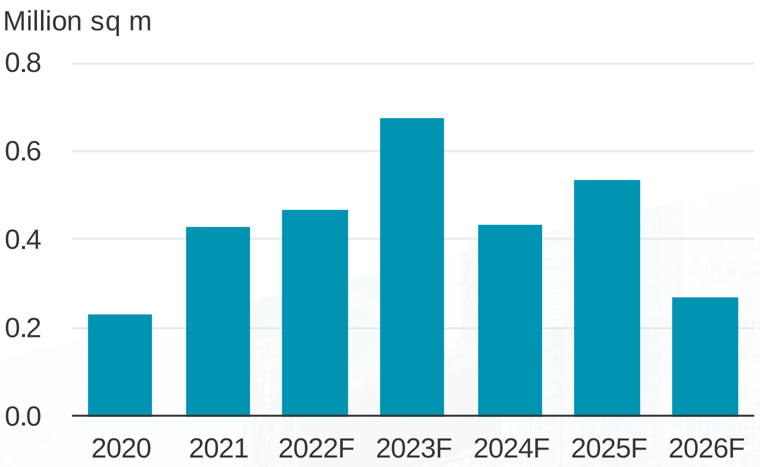


Source: Guangzhou Municipal Bureau of Statistics, Moody's Analytics, Cushman & Wakefield Research

Office

- **Supply** – Approximately 0.7 million sq m of new supply is expected to enter Guangzhou during 2023, which might place pressure on rentals;
- **Demand** – Professional services, finance and TMT will continue to lead leasing activity while more industries are expected to gradually recover under the improvement in epidemic prevention measures;
- **Development** – In 2023, Financial Town is expected to welcome the delivery of the first batch of high-quality properties.

Figure 44: Office new supply

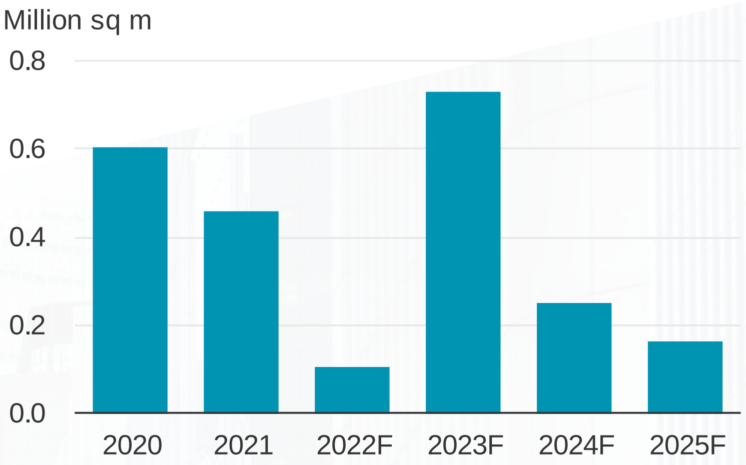


Source: Cushman & Wakefield Research

Retail

- **Recovery** – The adjustments in epidemic prevention measures should boost recovery in offline consumption in 2023;
- **Jewelry** – Jewelry will attract consumers' attention due to its dual attributes of consumption and investment, hence bringing additional leasing demand to the market in 2023;
- **Market pattern expansion** – In 2023, Guangzhou's prime retail will welcome 0.7 million sq m of new supply. 68% will be located in non-core areas.

Figure 45: Retail new supply



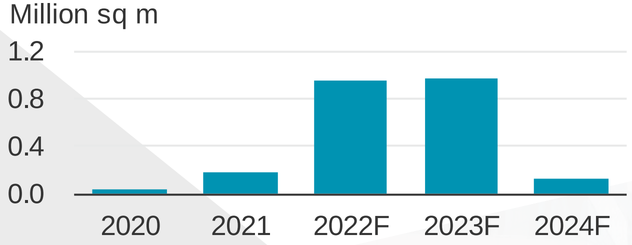
Source: Cushman & Wakefield Research

THE CITY MARKETS
GUANGZHOU

Industrial logistics

- **Supply** – In 2023, five prime logistic projects from Huadu, Nansha and Zengcheng will be completed in Guangzhou. The increase in leasable area will provide tenants with more choices;
- **Demand** – E-commerce, express delivery and third-party logistics are expected to remain major tenants. The upgrading of the supply chain will bring demand growth for storage space in 2023;
- **Cold storage** – Demand from express distribution of fresh foods and medicines has promoted the development of cold storage warehousing. More developers are likely to be attracted to this market in the city in 2023.

Figure 46: Logistics new supply

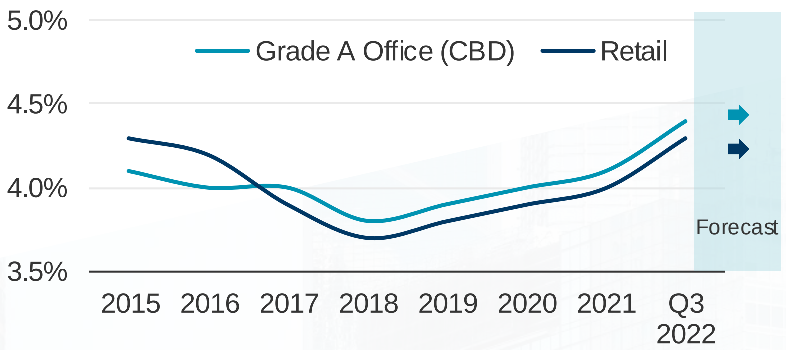


Source: Cushman & Wakefield Research

Investment

- **Diversified supply** – Although investors have focused on office assets, investment data recorded between Q1 and Q3 2022 indicate that diversified property asset investment has increased, including hotels, retail, and industrial properties. We expect this diversification to continue in 2023;
- **Core area properties** – The uncertainty in the macro economy has caused investors to constantly adjust their expectations. Core assets in mature markets will continue to garner investment attraction in 2023 due to their risk resilience.

Figure 47: Cap rate trend and outlook



Source: Cushman & Wakefield Research

Outlook

		Office	Retail	Industrial
Outlook (2022-2023 Change)	Supply	↑	↑	↑
	Absorption	↑	↑	↑
	Vacancy	↑	↑	→
	Rental	↓	↓	→
The Market (2023)	Tenant / Landlord	Tenant	Tenant	Landlord

Source: Cushman & Wakefield Research

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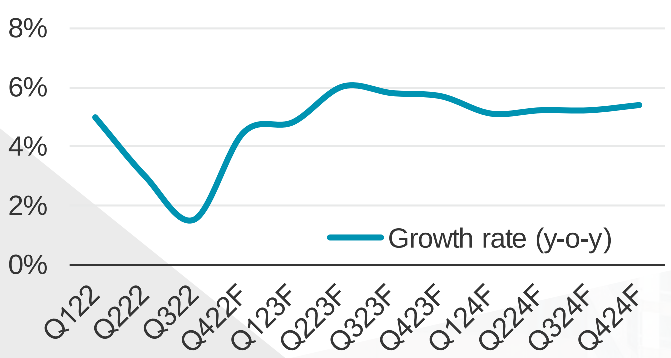
The macro-economy

- **GDP** – Due to the impact of COVID case outbreaks, Chengdu's GDP increased 1.5% y-o-y in the first three quarters of 2022;
- **Boosted confidence** – Benefiting from the relaxation of COVID-19 control measures and other favourable policies, the expected recovery of Chengdu's economy in 2023 will boost market confidence, especially in H2 2023.

Figure 48: Chengdu GDP trend and forecast

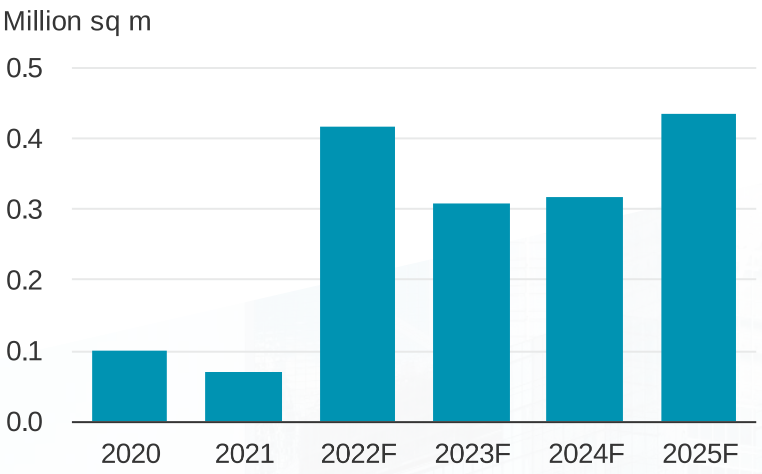


Source: Chengdu Municipal Bureau of Statistics, Moody's Analytics, Cushman & Wakefield Research

Office

- **Supply** – Over 300,000 sq m of new supply is expected to enter the Chengdu market in 2023. Despite short-term pressures from the new supply, given the expected economic recovery, the office market's longer-term prospects are positive;
- **Demand** – Due to policies to introduce and promote the city's hi-tech industry, more TMT companies will settle in Chengdu and open offices in the long term;
- **Development** – Companies will continue to see Chengdu as an important market, and this will continue to stimulate office demand in 2023.

Figure 49: Office new supply

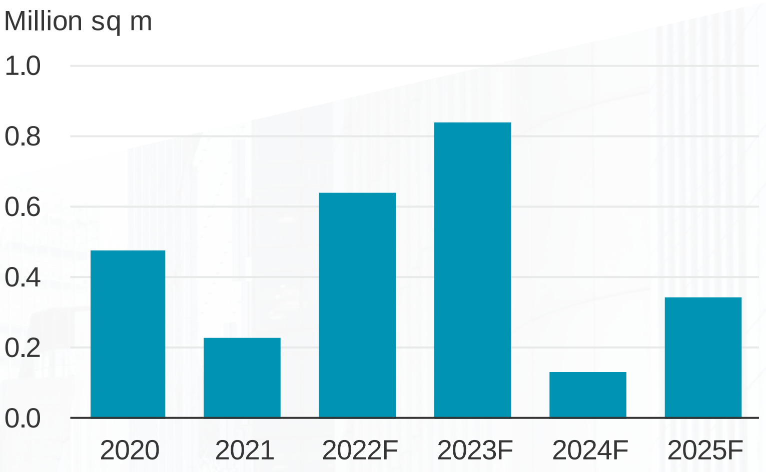


Source: Cushman & Wakefield Research

Retail

- **Dual core district** – Benefiting from SKP and Magic, Jiaozi district's commercial influence will be increased. Jiaozi will be an additional core commercial retail district together with Chunyan district in Chengdu;
- **New entrants** – Over the past four years, over 2,100 new entrants have opened in the Chengdu retail market. We expect retailer market interest in Chengdu to continue in 2023;
- **Pressure** – New supply in 2022 and 2023, coupled with the pandemic, will place some downward pressure on the Chengdu retail market into 2023.

Figure 50: Retail new supply



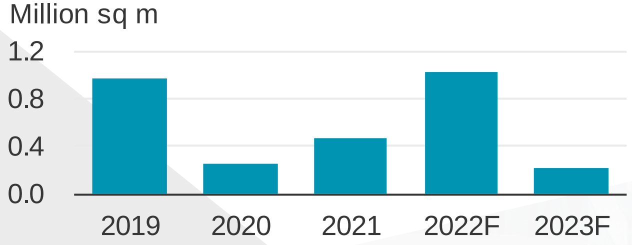
Source: Cushman & Wakefield Research

THE CITY MARKETS
CHENGDU

Industrial logistics

- **Warehouses** – Due to the relaxation of COVID-19 control measures, warehouse leasing activity is expected to recover, which could bring some relief amid the large volume of estimated new supply to come;
- **Demand** – Cold storage logistics warehouses will be further developed in 2023 due to the increase in demand from fresh goods and perishable medicines amid the epidemic;
- **New development areas** – According to some policies announced, some warehouse new supply is expected to complete in newly developed areas, such as Eastern New Area and Jianyang.

Figure 51: Logistics new supply



Source: Cushman & Wakefield Research

Investment

- **Alternative assets** – Benefiting from favourable policies related to the manufacturing industry and improving transportation infrastructure, apart from offices, high-end warehouses, business park properties, hotels and apartments are expected to attract more attention in 2023;
- **Recovery** – Given the relaxation of COVID-19 control measures, the Chengdu investment market is expected to recover in 2023. Next year, we expect demand for offices to bounce back to again take the largest share of the investment market in Chengdu.

Figure 52: Cap rate trend and outlook

	Q3 2022	2023F	2024F
Cap rate	5%-6%	↑	↑

Source: Cushman & Wakefield Research

Outlook

		Office	Retail	Industrial
Outlook (2022-2023 Change)	Supply	↓	↑	↑
	Absorption	↑	→	→
	Vacancy	→	↑	↑
	Rental	→	→	↑
The Market (2023)	Tenant / Landlord	Tenant	Tenant	Landlord

Source: Cushman & Wakefield Research

WUHAN

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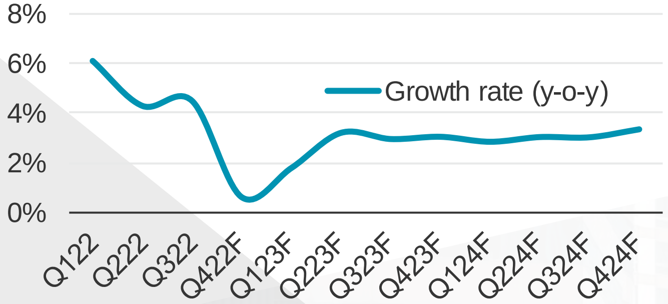
The macro-economy

- **GDP** – As Wuhan's economy continues its recovery phase, the city's GDP was up 4.5% y-o-y in the first three quarters of 2022;
- **Solid economic fundamentals** – The fixed asset investment sector recovered in the first three quarters of 2022, up 15.5% y-o-y. Besides, industrial investment increased 24.4% y-o-y. Although the overall market expectation has weakened due to uncertainty within the general economy, the solid fundamentals of Wuhan's economic development have not changed.

Figure 53: Wuhan GDP trend and forecast

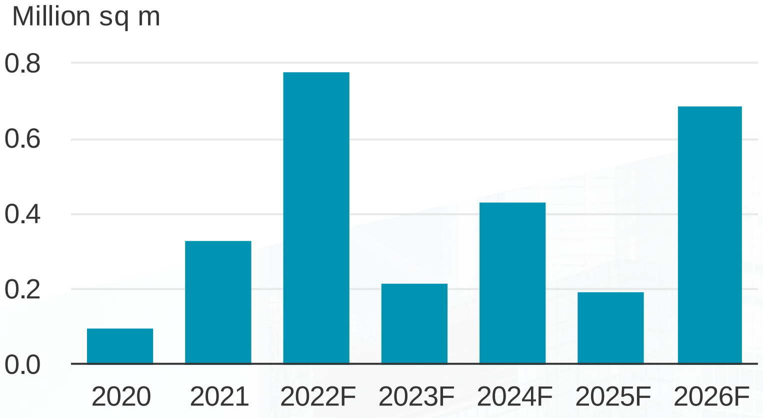


Source: Wuhan Municipal Bureau of Statistics, Moody's Analytics, Cushman & Wakefield Research

Office

- **Supply** – More than 0.7 million sq m of new supply is expected to enter Wuhan by 2023. 35.5% of this supply will be launched in Zhongnan Business District;
- **Demand** – The Wuhan office market is expected to remain a tenant market in 2023. Sectors including finance, TMT, and professional services will continue to drive leasing demand;
- **Development** – Newly completed quality office buildings will accelerate competition in the market in 2023. It's expected that overall vacancy rates will rise, and average rents will decline in the short-term.

Figure 54: Office new supply

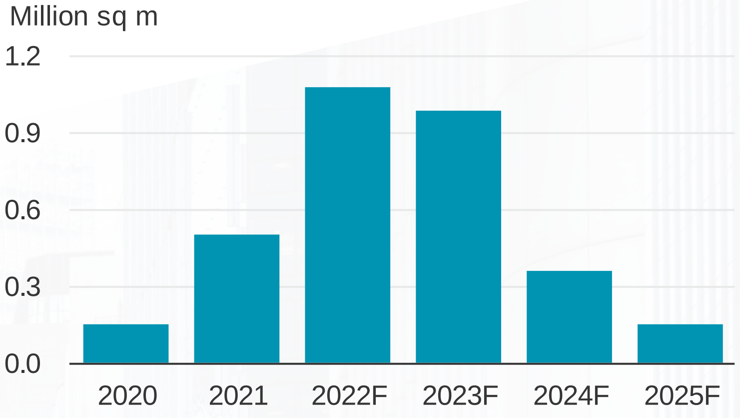


Source: Cushman & Wakefield Research

Retail

- **Recovery** – Wuhan's prime retail property market will further recover in 2023;
- **Supply** – More than 2.0 million sq m of high-quality retail space is expected to be delivered by the end of 2023, 79.4% of this supply will be completed in emerging areas;
- **Emerging markets** – With the improvement in urbanisation, emerging markets are booming. From Q4 2022 to 2025, Sixing, Jiedaokou, Xudong and Baishazhou will account for 14.5%, 13.9%, 13.7% and 12.3% of the city's future supply, respectively.

Figure 55: Retail new supply



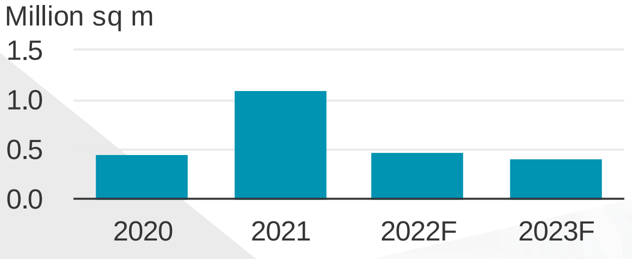
Source: Cushman & Wakefield Research

THE CITY MARKETS
WUHAN

Industrial logistics

- **Supply** – Wuhan is expected to see more than 0.6 million sq m of prime logistics property complete by 2023. About 54.4% of the new supply will be launched in Dongxihu;
- **Demand** – Affected by the external economic environment and the pandemic, demand from e-commerce shrank in 2022. However, as Wuhan is known as the "thoroughfare to nine provinces", investors still hold a positive outlook;
- **Industrial and consumption upgrading** – Due to the scarcity of land, in the future, the upgrading of the economy and consumption will lead to the development of more quality warehousing.

Figure 56: Logistics new supply

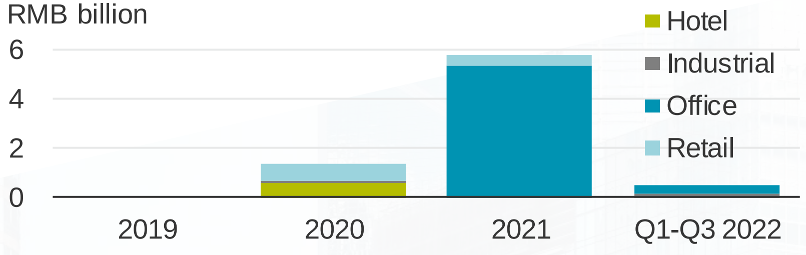


Source: Cushman & Wakefield Research

Investment

- **Office assets are favoured** – At 73.9%, office assets took the largest share of investment deals from 2020 to Q3 2022. We expect this trend to continue in 2023;
- **Demand** – In terms of office assets, demand has recently stemmed from self-use buyers. Notable deals include Weipai Technology buying Joy City Tower 1 and Changjiang Securities acquiring Oceanwide Entrepreneurship Center. It is expected that self-use buyers will continue to dominate the market in 2023;
- **Second headquarter wave** – More enterprises have set up their second headquarters in Wuhan in recent years and we anticipate this trend to continue into 2023, given the cost effectiveness.

Figure 57: Investment volume



Source: Cushman & Wakefield Research

Outlook

		Office	Retail	Industrial
Outlook (2022-2023 Change)	Supply	↑	↑	→
	Absorption	→	↑	→
	Vacancy	↑	→	↑
	Rental	↓	↓	↓
The Market (2023)	Tenant / Landlord	Tenant	Tenant	Landlord

Source: Cushman & Wakefield Research

HONG KONG

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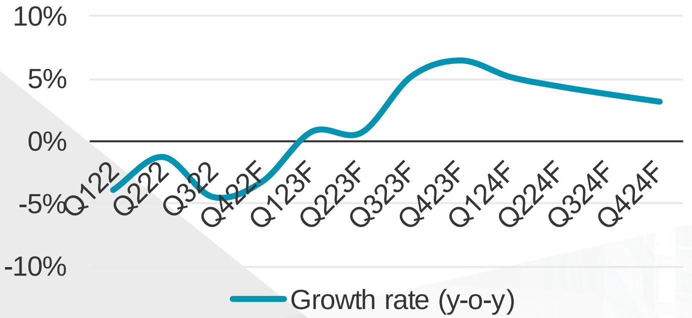
The macro-economy

- **GDP** – Due to the fifth wave of the pandemic locally, Hong Kong's GDP fell for three consecutive quarters. In Q3 2022, the growth rate was -4.5% y-o-y;
- **Business momentum** – The Hong Kong government has been gradually relaxing the social distancing rules and quarantine arrangements to support businesses and inbound travel. The city's GDP is expected to recover in 2023, providing support for business momentum to improve.

Figure 58: Hong Kong GDP trend and forecast



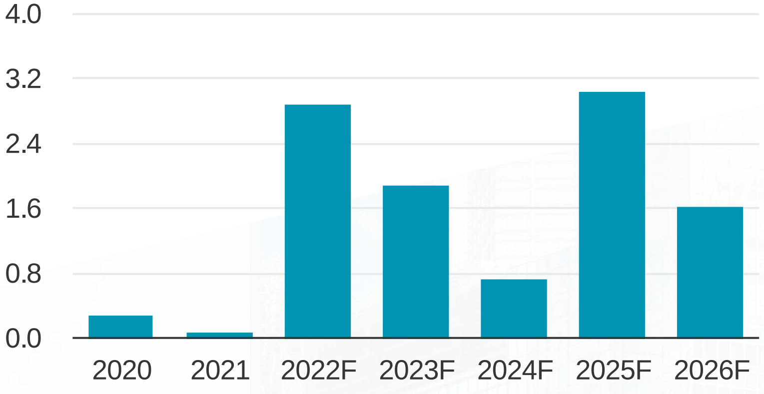
Source: Census and Statistics Department (HKSAR), Moody's Analytics, Cushman & Wakefield Research

Office

- **Supply** – By 2023, six new office projects totalling circa 1.9 million sq ft are expected to enter Hong Kong, pushing up citywide availability;
- **Demand** – The market will likely remain tenant favourable, with banking & finance and professional services being the most active. Net absorption is expected to reach 400,000 sq ft in 2023;
- **Rent** – Rents are forecasted to further decline by 3% in 2023 to HK$52 per sq ft per month. Most occupiers will be looking for cost-effective options.

Figure 59: Office new supply

Million sq ft



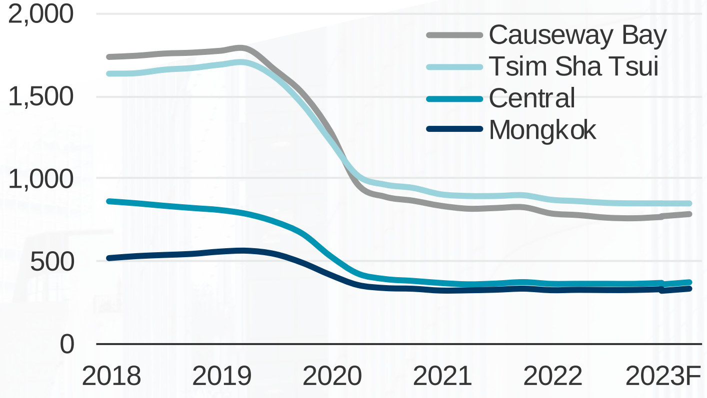
Source: Cushman & Wakefield Research

Retail

- **Recovery** – The retail leasing market will gradually pick up as quarantine measures are expected to further relax. High street and F&B rents will further set the pace of recovery in 2023;
- **Demand** – Athleisure brands, fitness and F&B sectors will help support retail demand, with some expansions in 2023;
- **Trade mix** – Some retailers have started to re-strategise their expansion plans to anticipate higher tourist arrival numbers over the next 12 months.

Figure 60: Retail rents in major submarkets

HK$ per sq ft per month



Source: Cushman & Wakefield Research

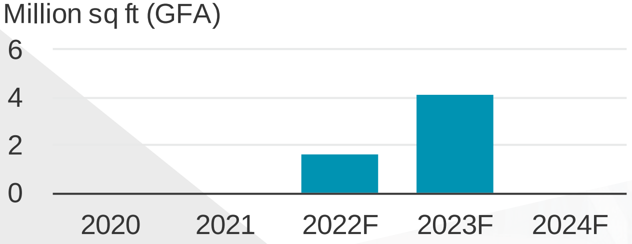
THE CITY MARKETS

HONG KONG

Industrial logistics

- **Supply** – A mega-scaled premium warehouse located near Hong Kong International Airport is expected to enter the market in 2023, accounting to circa 4.1 million sq ft GFA;
- **Demand** – Whilst the available stock in the market remains low, we will continue to see a mixture of third-party logistics players, e-commerce, and grocery chain operators driving leasing activities in 2023;
- **Trading activity** – The global inflation and interest rate hikes, as well as slower economic growth in mainland China will likely continue to weigh on the city's imports and exports in 2023.

Figure 61: Logistics new supply

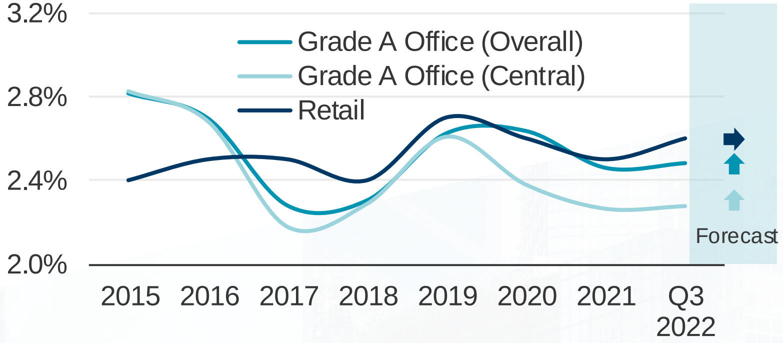


Source: Cushman & Wakefield Research

Investment

- **Cautious sentiment** – We expect to see investors remain cautious in the near term, given the persistence of global economic headwinds and geopolitical tensions. Whilst rising interest rates will push up borrowing costs with investors seeking higher-yield assets, some owners will look to sell their non-core portfolio in 2023 to churn capital;
- **Value-added assets** – Investors, particularly institutional funds, will still be searching for value-added opportunities, including redevelopment sites, industrial and hotel/residential assets for conversion in 2023.

Figure 62: Cap rate trend and outlook



Source: Cushman & Wakefield Research, Rating and Valuation Department

Outlook

		Office	Retail	Industrial
Outlook (2022-2023 Change)	Supply	↑	→	↑
	Absorption	↑	↑	↑
	Availability	↑	↓	→
	Rental	↓	→	↑
The Market (2023)	Tenant / Landlord	Tenant	Tenant	Landlord

Source: Cushman & Wakefield Research

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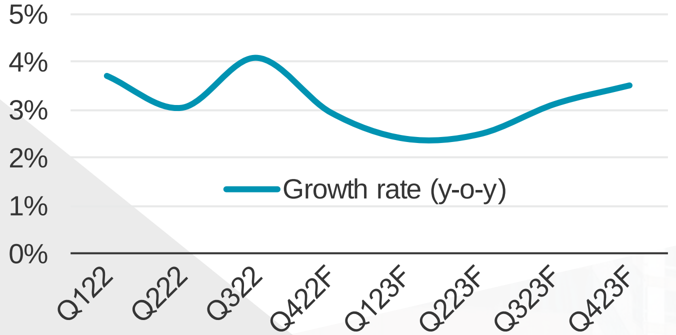
The macro-economy

- **GDP** –Taipei's GDP increased by 4% in the first three quarters of 2022;
- **Slow growth** – Major economies have successively raised their interest rates since 2022 to contain inflation. With the slowdown of the epidemic and policy to coexist with the virus, it's expected that the economic support will shift from export sales to domestic demand. In 2023, GDP growth is forecast to be 2.75% y-o-y.

Figure 63: Taipei GDP trend and forecast

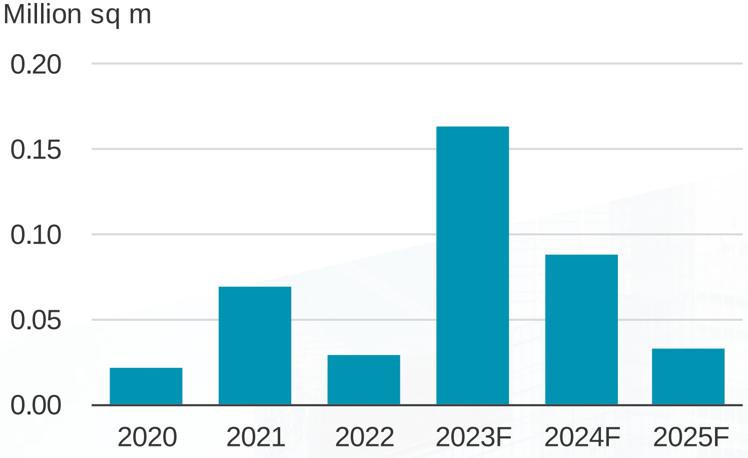


Source: The Directorate General of Budget, Accounting and Statistics of Executive Yuan, Cushman & Wakefield Research

Office

- **Supply** – In 2023, an additional 160,000 sq m of new supply is expected to gradually chip away at the landlord advantage that has lasted for years due to lack of supply;
- **Demand** – Increasing awareness of ESG among enterprises in 2023 will result in high leasing demand for offices with green credentials;
- **Relocation** – As some CBD office buildings are undergoing urban renewal, some enterprises are expected to relocate to non-CBD areas in 2023.

Figure 64: Office new supply

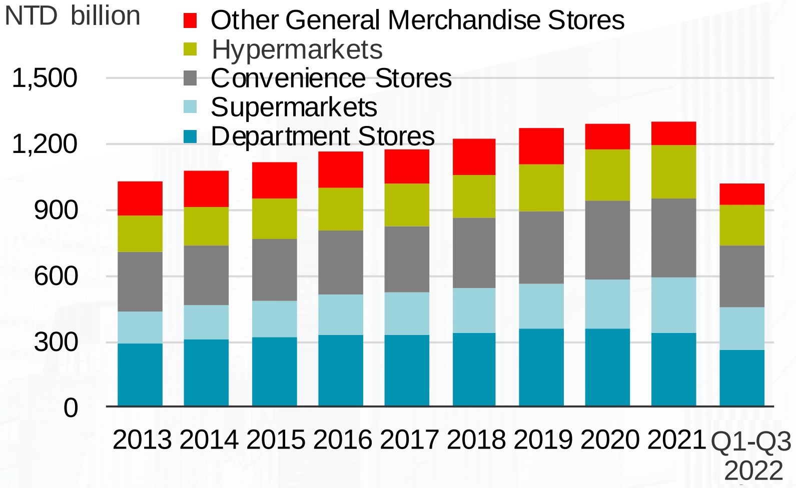


Source: Cushman & Wakefield Research

Retail

- **Recovery** – The gradual recovery in the retail market is expected to continue in 2023;
- **New retail projects** – The grand opening of two significant projects, SKM Diamond Towers and Yulong Town, will breathe new life into the Taipei retail market in 2023;
- **Pandemic restrictions easement** – The easing of domestic epidemic prevention policies and border controls in stages will revive the tourism industry and boost retail revenue performance in 2023.

Figure 65: Cumulative sales of general merchandise



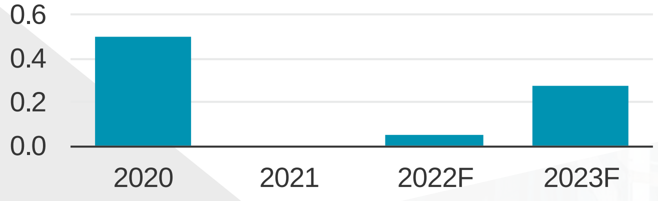
Source: Department of Statistics. Ministry of Economic Affairs

TAIPEI

Industrial logistics

- **Supply** – Approximately 270,000 sq m of supply is expected to be added to the logistics stock in Taipei by 2023;
- **Demand** – E-commerce, third-party logistics and cold chain logistics are in high demand due to the stay-at-home economy. Meanwhile, the demand for semiconductor chips is continuing to rise worldwide, which will increase the need for industrial logistics in 2023;
- **Warehouses** – The implementation of intelligent programmes and data utilisation for warehouse design will be essential to providing flexibility and efficiency.

Figure 66: Logistics new supply

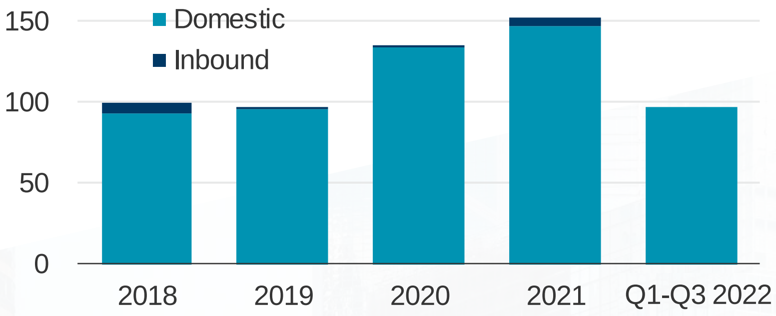


Source: Cushman & Wakefield Research

Investment

- **Rising interest rates** – Investors' purchasing power weakened after the Central Bank raised interest rates in 2022. The difference perception in price between buyers and sellers will prompt the market into opting for a wait-and-see approach in early 2023;
- **Investment trends** – The majority of transactions in 2023 will be for self-use properties, while investment transactions will continue to shrink. A large portion of investment in real estate will be in income generating properties, such as office.

Figure 67: Investment volume by capital source



Source: Cushman & Wakefield Research

Outlook

		Office	Retail	Industrial
Outlook (2022-2023 Change)	Supply	↑	→	↑
	Absorption	↓	→	→
	Vacancy	↑	↓	→
	Rental	→	→	→
The Market (2023)	Tenant / Landlord	H1 🏢 H2 👥	👥	🏢

Source: Cushman & Wakefield Research

KEY TAKEAWAYS

- *The Economy* – *Given the relaxation of COVID-19 control measures, the general economy is expected to recover in 2023;*

- *The Real Estate Market* – *Economic recovery is expected to boost leasing and investment demand across all property types in the Greater China region as market confidence returns.*

FORECAST

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