LIFE IS WHAT WE MAKE IT

CHINA'S TWO SESSIONS 2024

INTERPRETING THE 2024 GOVERNMENT WORK REPORT

IMPACTS FOR THE REAL ESTATE INDUSTRY

MARCH 2024

CUSHMAN & WAKEFIELD
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INTRODUCTION

China's "Two Sessions" gathering for 2024 commenced on March 5, with the Chinese People's Political Consultative Conference (CPPCC) and the National People's Congress (NPC) meetings marking both the 75th anniversary of the People's Republic of China and the penultimate year of the current Five-Year Plan (FYP) period.

The government work report, delivered by Premier Li Qiang, reviewed the government's development goals and tasks in 2023, confirmed the overall requirements and policy orientation for economic and social development in 2024, and set out major tasks for 2024, including a GDP growth target.

The work report emphasizes the centrality of stability both in the policy orientation and the development targets, citing the general principles of "pursuing progress while ensuring stability" and "promoting stability through progress" in ensuring stable expectations, growth and employment. The overall requirements and policy orientation also highlight the importance of deepening reform and opening up, expanding domestic demand, promoting new urbanization, and preventing and defusing economic structural risks.

The main targets for development in 2024 are set out as:

- GDP growth of around 5%
- Over 12 million new urban jobs
- Surveyed urban unemployment rate of around 5.5%
- CPI increase of around 3%
- Growth in personal income in step with economic growth
- A basic equilibrium in the balance of payments
- Grain output of over 650 million metric tons
- A drop of around 2.5% in energy consumption per unit of GDP
- Continued improvements in the environment

We anticipate that the objectives stated in the government work report will have both direct and indirect beneficial effects for China's real estate market. In this summary report we highlight specific major tasks and related commitments for 2024 and investigate the impacts for the real estate industry, with translated excerpts from the full text of Premier Li's speech as published in the *Report on the Work of the Government.*

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MAJOR TASKS FOR 2024

Striving to modernize the industrial system and developing new quality productive forces at a faster pace

"We should give full rein to the leading role of innovation, spur industrial innovation by making innovations in science and technology and press ahead with new industrialization, so as to raise total factor productivity, steadily foster new growth drivers and strengths, and promote a new leap forward in the productive forces."

COMMITMENTS

Work to upgrade industrial and supply chains	Actively foster emerging industries and future-oriented industries	Promote innovative development of the digital economy

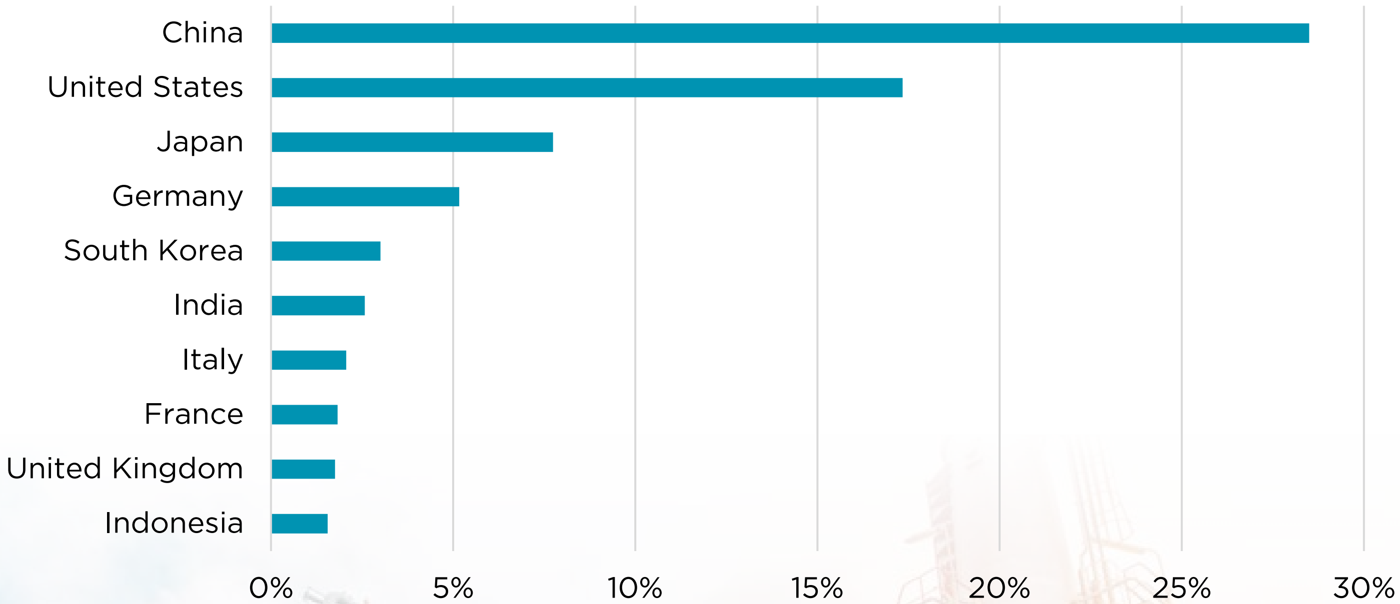
IMPACTS

Industrial and supply chain upgrading to promote new development in industrial warehousing and logistics sectors

The optimization and upgrading of China's industrial and supply chains have been prioritized in the government's agenda for 2024, appearing in the work report as the first major task listed for the year. As the globe's leading manufacturing hub, often referred to as the "world's factory," China's contribution to worldwide manufacturing output reached 28.5% in 2020. However, despite this achievement, China's industrial and supply chain sophistication remains relatively low, positioning the country towards the middle and lower tiers within the global division of labor. To advance to the status of a modernized elite socialist nation China needs to be supported by modern industrial and supply chains with high added-value.

As a key component in the development of new productivity quality, modernization of the manufacturing industry will then further promote modernization in the industrial warehousing and logistics sectors. The rise in demand for high-standard warehouse and logistics services will in turn spur higher levels of adaptability in all aspects of warehousing operations, progressively realizing new development in the industrial warehouse and logistics property sectors.

Figure 1: Global Share of Manufacturing Output by Major Manufacturing Countries



Source: World Bank

Active support for emerging industries and development of the digital economy points to a sustained recovery in office market demand

The work report highlights objectives to actively foster emerging and future-orientated industries and to promote new and innovative development of the digital economy. This includes launching "Artificial Intelligence +" initiatives, and providing support to platform-based companies to help them excel in innovation, job creation, and international competition. Data from the National Development and Reform Commission shows that the top 10 platform companies in China, ranked by market value, have collectively invested more than RMB500 billion in research and development (R&D) between 2020 and 2022, with an average annual growth rate of 15%. The same firms also now boast more than 50,000 authorized patents, demonstrating their pivotal role in China's digital technology innovation and strength.

In China's office property market, demand from internet companies has been more sluggish since 2022. Internet firms have been anchor tenants in many office market locations and so the sector's performance has had an outsized impact on commercial property markets nationwide. However, with the newfound emphasis and attention from the 2024 work report, emerging industry enterprises are set to be able to embrace greater development opportunities. At the same time, as internet firms' growth adjustments and business decision-making hesitation draws to a close, we can expect to see an upturn in demand for office space from larger companies, in turn promoting a sustained recovery across the overall office market.

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Expanding domestic demand and promoting sound economic flows

"We will integrate the strategy of expanding domestic demand with efforts to deepen supply-side structural reform and better coordinate consumption and investment, so as to more effectively drive economic growth."

COMMITMENTS

Promote steady growth in consumer spending	Work to increase effective investment

IMPACTS

Greater consumption and investment go hand-in-hand to spur fresh development opportunities in the retail sector

Currently, China's consumer market faces a shift: the supply and demand gap has moved from insufficient demand to a supply structure that is unable to fully meet demand. To address this, adjustments are required to align supply with demand, in turn promoting market equilibrium and a positive economic cycle. As living standards have improved, residents' demands for daily necessities and durable goods have been satisfied, while their consumption preferences have evolved upwards. Against this background, strategic investment should prioritize meeting higher-level consumption needs while continuing to address critical areas such as education, medical care, and elderly care. Aligning consumption and investment growth can both meet residents' concerns and release further untapped consumption potential.

In 2023 we saw a year of gradual recovery of consumption following the pandemic, with new consumption formats and hotspots emerging as retail growth points, such as the pet economy, health and wellness, new energy vehicles, and specialist tea and coffee beverages. These new consumption hot spots have played a positive role in driving renewed development in the retail property sector.

As a focus of the government's work in 2024, boosting consumption and tapping into consumer potential are top priorities for China's economic development. Supporting these objectives, also in 2023, the Securities Regulatory Commission issued a notice on "Further Promoting the Regular Issuance of Real Estate Investment Trusts (REITs) in the Infrastructure Sector," underpinning the issuance of consumer infrastructure REITs. This advancement has dual benefits for the retail sector. Firstly, investing in higher-quality and efficient consumer infrastructure will enhance the consumer environment, optimize consumption scenarios, and contribute to expanding domestic demand and boosting consumption. And secondly, issuing consumer public REITs can enable enterprises to strengthen their capital position, allowing increased investment in capital transformation and product line expansion. Against a backdrop of comprehensive policies, financial support, and market dynamics, we believe that the retail property sector is poised for fresh development opportunities in 2024.

Pursuing higher-standard opening up and promoting mutual benefits

"We will promote alignment with high-standard international economic and trade rules, steadily expand institutional opening up and facilitate interplay between domestic and international markets. We will ensure the overall stable performance of foreign trade and foreign investment and foster new strengths in international economic cooperation and competition."

COMMITMENTS

Work to steadily increase the volume and raise the quality of foreign trade	Intensify efforts to attract foreign investment
Strive for solid progress in high-quality Belt and Road cooperation	Deepen multilateral, bilateral, and regional economic cooperation

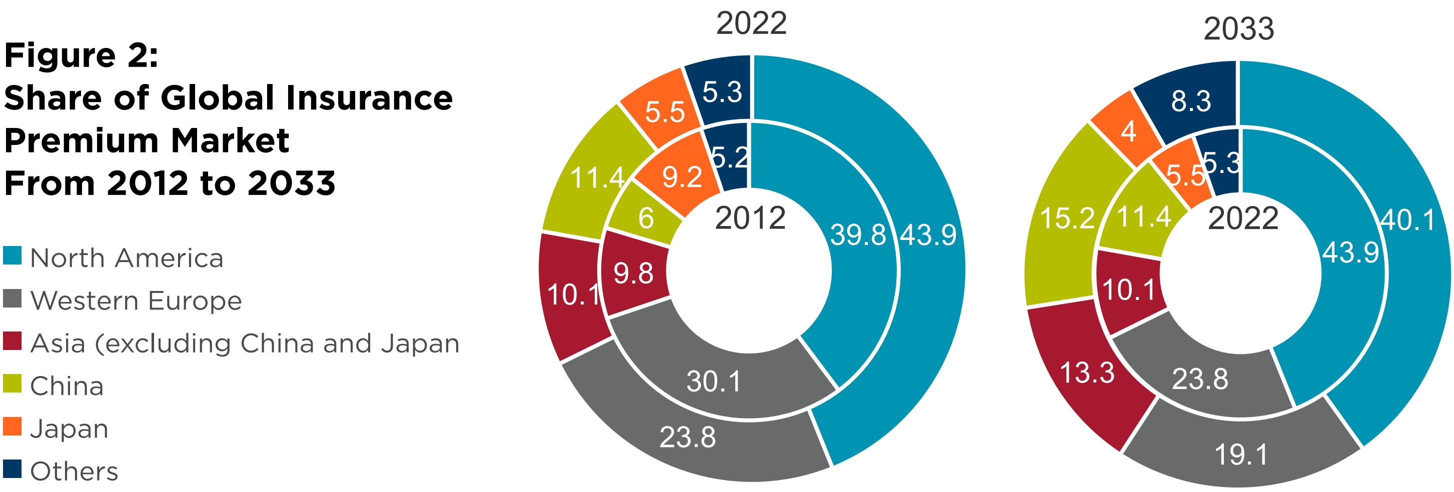
IMPACTS

Expanded opening up and foreign investment to reactivate large-scale commercial property transaction activity

This government work report highlights the need for expanded and higher-standard institutional opening up and renewed efforts to attract foreign investment as key tasks for 2024. The report clearly states an intention to shorten the negative list for foreign investment, with all market access restrictions on foreign investment in manufacturing dropped, and market access restrictions in services sectors such as telecommunications and healthcare to be reduced. Consequently, we can anticipate that greater entry by foreign medical and healthcare sector companies will help drive growth in demand for office building and retail mall space.

We should note too that China remains a vast and highly attractive financial market. Taking the insurance industry as an example, data from Allianz Group shows that, in 2012, China's insurance premium income took just a 6% share of the global market. This had risen to 11.4% in 2022, and is expected to continue to climb to 15.2% by 2033. The immense market potential is undoubtedly compelling to overseas financial institutions. We can expect that the expanded and accelerated entry of such financial institutions will effectively bolster demand within China's office market. These institutions will also bring with them demand for capital allocation and large-scale property investment, thereby spurring renewed activity in China's commercial real estate capital markets.

Figure 2:
Share of Global Insurance Premium Market From 2012 to 2033



Source: Allianz Group- Report on Allianz Global Insurance Development for 2023

Ensuring both development and security and effectively preventing and defusing risks in key areas

"We will continue to ensure greater security through high-quality development and promote high-quality development with a greater degree of security. We will defuse risks in real estate, local government debt, and small and medium financial institutions by addressing both symptoms and root causes."

COMMITMENTS

Take prudent and well-ordered steps to address risks and hidden dangers

Improve the long-term mechanisms for preventing and controlling risks

Build up our security capacity in key areas

IMPACTS

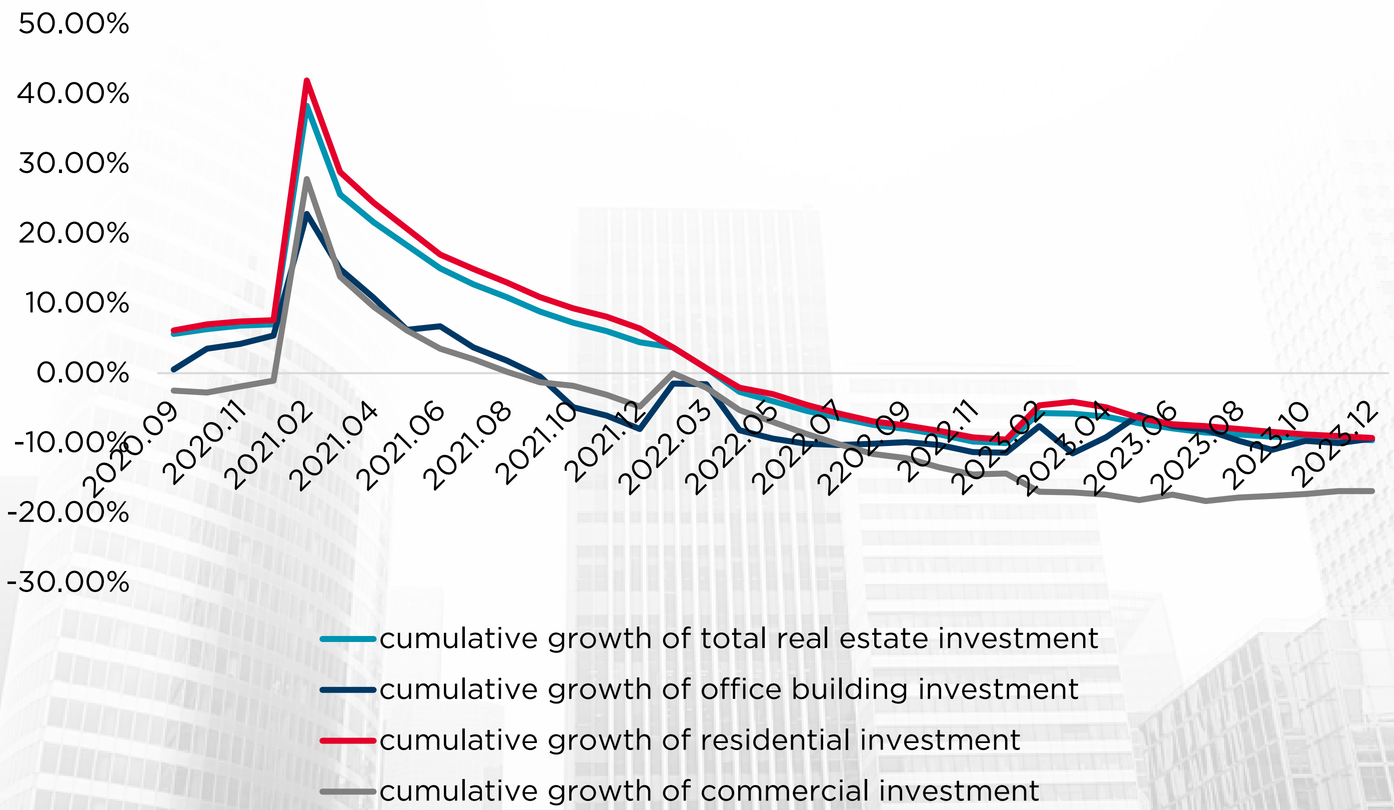
Optimized policies to promote healthy development of the China real estate market

The work report directly addresses the real estate market in the major tasks listed for 2024, specifying that "We will refine real estate policies and meet justified financing demands of real estate enterprises under various forms of ownership on an equal basis, so as to promote the steady and healthy development of the real estate market."

The difficulties faced by China real estate development firms in recent times have been directly reflected in their investment activity. Since 2021, real estate development investments have been on a downward trajectory, entering a negative growth phase from April 2022. This decline in real estate investment has had a ripple effect on local governments, especially those heavily reliant on land-related revenues. Consequently, some local administrations are now facing financial challenges. As a critical pillar of China's economy, the real estate sector is linked to many upstream and downstream industries, with far-reaching ramifications. Consequently, the deep adjustments in the sector have inflicted a blow to overall economic growth, thus prompting the government to focus on the real estate industry in its risk mitigation measures.

In 2024, the government will prioritize stabilizing the real estate market, and a range of relevant departments and commissions have implemented policies and measures to foster stable development in the sector. The new mechanism for the industry in 2024 will be to determine "housing planning based on people, land based on housing, and financing based on housing," with the aim of promoting a balance between supply and demand and a reasonable market structure. Consequently, a city's additional land area for housing will be determined by the permanent urban population, thus effectively capturing new housing consumption demand. At a policy level, the government's key aims for 2024 and ahead will be to efficiently allocate housing, land, finance and other resources, while managing and mitigating market fluctuations.

Figure 3: Real Estate Development Investment Growth Trend



Source: National Bureau of Statistics

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Promoting integrated development between urban and rural areas, advancing coordinated development between regions, and optimizing regional economic layout

"We will thoroughly implement the coordinated regional development strategy, major regional strategies, and the functional zoning strategy. We will promote all around rural revitalization and new urbanization in a coordinated way and move faster to create a regional economic landscape featuring complementary strengths and high quality development."

COMMITMENTS

Actively advance new urbanization	Pursue better coordinated regional development

IMPACTS

Active promotion of new urbanization and urban renewal actions to spur high-quality economic and consumption growth

During the 14th Five-Year Plan period China has continued to experience rapid urbanization, with the driving forces remaining robust. However, current and further urbanization growth does face challenges. These include raising the quality of urbanization, extending basic public services in cities and towns to all residents, completing the integrated development system for urban clusters, and improving coordination in the development of large, medium, and small cities.

The "new urbanization" objectives referred to in the work report emphasize people-centric development, better serving residents' needs for public services, ecological environment, health and safety, and enhancing sustainable urban development. Urban renewal actions will play a crucial role in these objectives and will be "steadily advanced." We can expect that the continuing movement of rural populations into cities with upgraded management and services will increase housing demand and stimulate consumption, in turn benefitting the regional retail real estate market.

Enhancing ecological conservation and promoting green and low-carbon development

"We will make concerted efforts to cut carbon emissions, reduce pollution, pursue green development, and boost economic growth."

COMMITMENTS

- Take comprehensive steps to improve the environment
- Boost the green and low-carbon economy
- Actively and prudently work toward peaking carbon dioxide emissions and achieving carbon neutrality

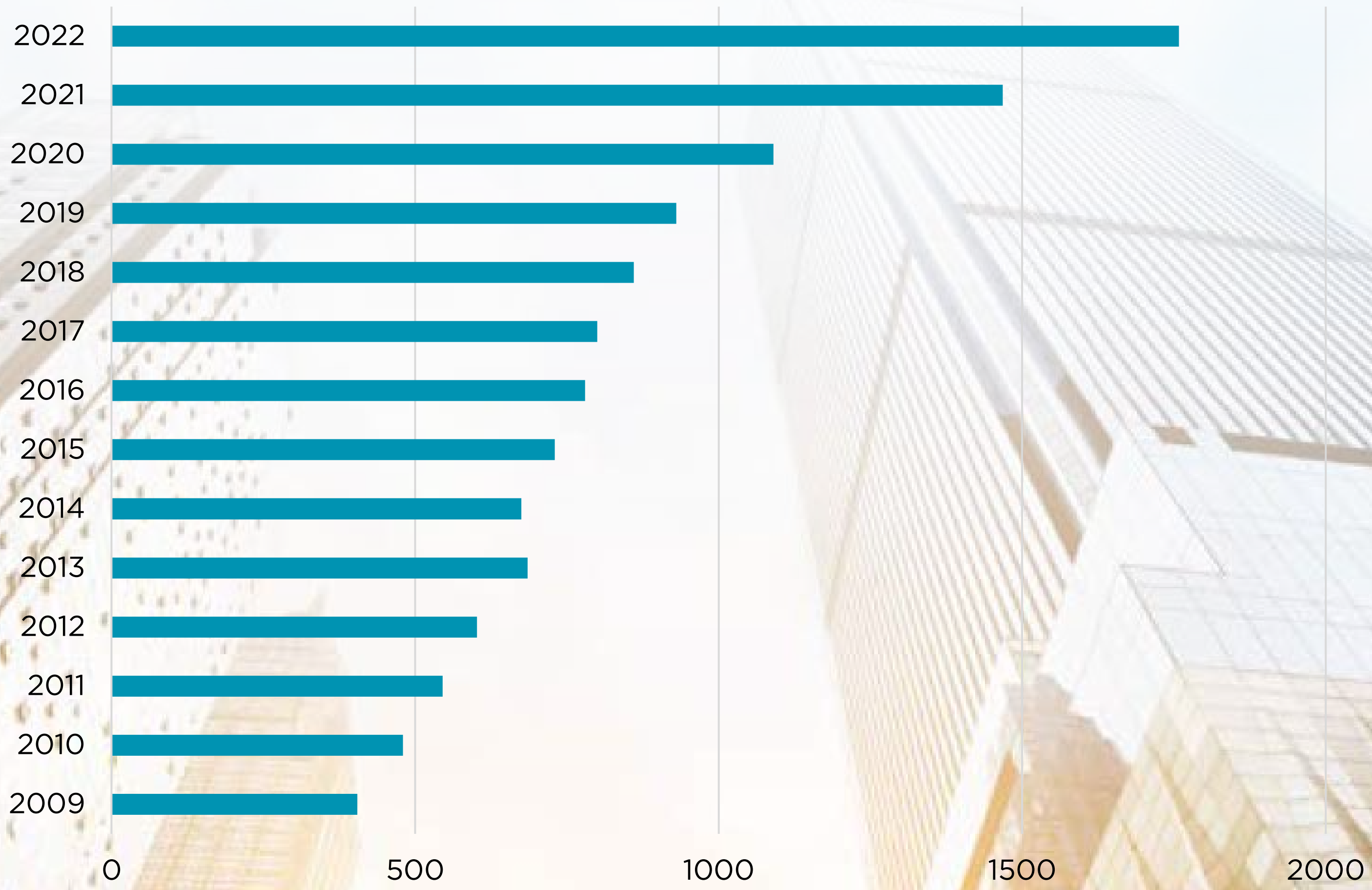
IMPACTS

Committed development of a green and low-carbon economy to actively promote the "double carbon" goal to help drive sustainable real estate momentum

China's long-term economic growth is closely tied to the goal of green, sustainable and high-quality development. As the fundamental "cell" units of the national economy, commercial enterprises bear a significant share of the responsibility to achieve this aim. In turn, Environmental, Social and Governance (ESG) practices have emerged as a catalyst for listed companies to implement sustainable development in the pursuit of the "dual carbon" goals and to foster high-quality development.

At the same time, in the capital markets, requirements for corporate sustainable development are increasingly being enhanced and honed, with ESG gaining prominence in policy. As ESG develops in both the domestic and international context, and ESG-related regulations are gradually strengthened, growing numbers of listed companies are participating in ESG information disclosure activities, thus achieving a "win-win" in both social and financial performance. In turn, we can anticipate a continued push by authorities and demand from occupiers for a higher-quality and more sustainable built environment. These 'green' development momentum drivers will increasingly become key influencers in the development and operational decision-making of commercial building investors, developers and landlords in China.

Figure 4: CSR/ESG Disclosure by A-Share Listed Companies From 2009 to 2022



Source: China ESG Development White Paper for 2022

CONCLUSION

In 2024 we observe the momentous occasion of the 75th anniversary of the founding of the People's Republic of China. The year is also a critical one for accomplishing the objectives outlined in the 14th Five-Year Plan. However, the past three years have been marked by disruptions caused by the COVID-19 pandemic, posing substantial challenges to China's economic development. In response, the 2024 government work report adopts a balanced approach, seeking to pursue progress while "ensuring stability, promoting stability through progress, and establishing the new before abolishing the old." This strategic tone aims to maintain stability in expectations, foster growth, and bolster employment.

The work report zeroes in on critical areas for action. These include advancing technological innovation, stimulating consumption growth, and pursuing higher-level opening up. Additionally, measures have been put in place to defuse risks in real estate, refine real estate policies and establish new models for real estate development, and promote green and sustainable development. As these new policies and measures take effect, we anticipate that the commercial real estate industry — spanning the office, retail, and industrial and logistics sectors, together with large-scale property transaction activity — will emerge from the recent shadows to embrace new growth and development opportunities.

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