Looking From Above
Scouting for new opportunities in China’s investment property market
Executive Summary

Growth prospects in China remain strong, with real GDP growth set to exceed 6.0% in 2018 and 2019. Monetary tightening has been modest, and real interest rates may even fall slightly in coming years. These factors help explain why investment activity in China has stayed firm, with completed property deals up 24% YOY in Q1 2018.

Nevertheless, economic risks are rising. Concerns about a trade war have pulled China’s stock markets down 18-20%, and the renminbi has weakened. However, these risks have not hit commercial property prices. Valuations therefore look full: Grade A offices in Chinese Tier 1 cities yield 3.6-4.0%, barely above ten-year bonds.

But we still see investment opportunities. In East China, we prefer Shanghai business park assets to offices, with rent rising due to a growing high-tech sector and better infrastructure. We also like retail property, which yields 4.0-6.5%. Logistics trends are bright, with rent and prices rising and assets available in outlying cities. Finally, long-term rental apartments are an exciting new sector.

In North China, decentralised areas of Beijing still offer attractive office assets. Business parks offer appealing yields of 4.2-4.8%. Trends in logistics are rosy, but due to lack of assets in Beijing we predict more activity in nearby cities like Tianjin and Langfang. Logistics growth should also benefit Shenyang, the hub of the North East.

South China should attract more international attention from the Greater Bay Area plan. In the office sector, we expect high rent growth in Shenzhen, while Guangzhou’s Pazhou district should grow into a new CBD. Logistics assets are in short supply in Shenzhen and Guangzhou, so investors should turn to outlying cities. High new retail supply will create new opportunities in the long run.

West China is good value. Grade A offices in Chengdu (especially in Financial Town) yield 5.7%, and the Financial Town area offers ample supply and high policy support. We also favour business park assets, which yield 7-8%, notably in South Hi-Tech district. Despite scarcity of assets now, Chengdu is growing fast into a key logistics hub. We predict further logistics development in new areas east of the city.

Summary of Top Opportunities

East China:
> Shanghai business parks
> Retail property, notably in Nanjing and Hangzhou despite limited liquidity
> Logistics assets in outlying cities, e.g. Nantong, Changzhou, Wuxi and Changshu
> Long-run rental apartments

North China:
> Offices in decentralised areas of Beijing
> Beijing business parks
> Logistics assets in Tianjin and Langfang
> Shenyang as a logistics hub

South China:
> Offices in Shenzhen and Guangzhou’s Pazhou district for growth potential
> Logistics assets in nearby cities such as Dongguan, Huizhou and Foshan
> Retail property over the long run

West China:
> Grade A offices in Chengdu (especially in Financial Town)
> High-yielding Chengdu business parks (notably in South High-Tech district)
> Logistics assets over the long run

Figure 1: Investment Property Net Yields in Key China Cities

<table>
<thead>
<tr>
<th>City</th>
<th>Office</th>
<th>Retail</th>
<th>Logistics/Industrial</th>
<th>Business Park</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing</td>
<td>4.0%</td>
<td>5.0%</td>
<td>5.0-5.5%</td>
<td>4.2-4.8%</td>
</tr>
<tr>
<td>Tianjin</td>
<td>4.5%</td>
<td>6.0%</td>
<td>5.5-6.0%</td>
<td>n/a</td>
</tr>
<tr>
<td>Shenyang</td>
<td>5.3%</td>
<td>6.3%</td>
<td>6.0%</td>
<td>n/a</td>
</tr>
<tr>
<td>Shanghai</td>
<td>3.6%</td>
<td>4.0-5.5%</td>
<td>5.0-5.5%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Nanjing</td>
<td>5.3%</td>
<td>5.5-6.5%</td>
<td>5.5-6.5%</td>
<td>5.0-6.0%</td>
</tr>
<tr>
<td>Hangzhou</td>
<td>5.1%</td>
<td>5.5-6.5%</td>
<td>5.5-6.5%</td>
<td>5.0-6.0%</td>
</tr>
<tr>
<td>Shenzhen</td>
<td>3.9%</td>
<td>5.2%</td>
<td>6.7%</td>
<td>4.5-5.0%</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>4.0%</td>
<td>5.0%</td>
<td>6.0%</td>
<td>5.5-6.0%</td>
</tr>
<tr>
<td>Chengdu</td>
<td>5.7%</td>
<td>6.0%</td>
<td>6.0%</td>
<td>7.0-8.0%</td>
</tr>
</tbody>
</table>

Source: Colliers International
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Top opportunities

East China

- **Business park**: In Shanghai, business park assets offer better value than office properties. Rents should rise steadily for the next few years driven by growth in technology and better infrastructure.
- **Retail**: We also favour retail property, which yields 4.0%-6.5% in East China, notably in Nanjing and Hangzhou. Liquidity is low in these cities, but recent projects have been launched with high occupancy.
- **Logistics**: Trends here are very positive with rent and capital values rising. Investors should consider logistics property in outlying markets in East China, such as Nantong, Changzhou, Wuxi and Changshu.
- **Long-term rental apartments**: This is an appealing emerging sector, which is attracting new players due to government efforts to promote the rental market.
- **Office**: Yields for Shanghai offices are low versus other sectors. However, some opportunities still exist, notably value-add assets. The Pudong office market offers better prospects since future supply will be limited. Certain DBD areas like Wujiachang and New Jing’an also merit attention.

North China

- **Office**: Beijing aims to develop decentralised areas to relocate enterprises and population. Favoured non-core areas include Tongzhou, Lize, Fengtai and Wangjing. In Tianjin, we like central Heping district although it is small and liquidity is low.
- **Business park**: Yields range from 4.2% to 4.8%, and rents should rise further due to policy support and growth in TMT. The most active business parks are Shangdi, Beijing Electronic Zone, Fengtai and Beijing Economic-Technological Development Area.
- **Logistics**: Trends are rosy, with investors chasing scarce assets in all four of Beijing’s main logistics submarkets. We predict greater activity in Tianjin (where we favour Wuqing, the Airport Economic Zone and Tianjin Binhai New Area Core Area), Langfang (where we favour Anci, Longhe and Gu’an) and Shenyang (see below).
- **Shenyang**: As the North East’s hub city, Shenyang benefits from strength in logistics; we favour the Hunnan, Shenbei, Yuhong, and Tiexi submarkets.

South China

- **GBA expansion**: While South China has recorded China’s fastest economic growth, the investment market has been dominated by domestic groups. From now on, we expect the region to attract more international investor attention due to closer regional integration under the Greater Bay Area plan.
- **Office**: In Shenzhen, we expect the office sector to achieve consistent average rental growth of 5% over the next five years, driven by strong economic growth. This robust outlook should permit growth in capital values of 8-10% in 2018. In Guangzhou, we see Pazhou gradually developing into a new CBD and attracting new office investment.
- **Logistics**: There is limited opportunity in logistics in Shenzhen and Guangzhou due to lack of new supply. Instead, investors should seek opportunities in nearby cities, such as Dongguan, Huizhou and Foshan. Logistics rents in these areas are 10-35% cheaper than in Shenzhen and Guangzhou, implying demand from occupiers should be strong.
- **Retail**: In emerging areas of Shenzhen, new retail supply of 2.3 million sq metres will put pressure on rent for three years. However, population growth and the emergence of new residential communities should make retail investment attractive for the long term. In emerging areas of Guangzhou, total retail new supply in 2018 should reach 886,000 sq metres. This will create many new opportunities although capital values may stay flat until these areas mature.

West China

- **Office**: Grade A office property in Chengdu yields 5.7%, and rent should rise steadily due to firm demand and high-quality new projects. The Financial Town district enjoys strong policy support and offers ample supply.
- **Business park**: We also favour Chengdu’s business park segment, which yields 7-8%, notably in South Hi-Tech district where projects have been launched with high rents.
- **Logistics**: While available properties are scarce today, logistics trends are very positive. The national government’s “One Belt, One Road” plan, the launch of a free trade zone in Sichuan province, the start of the Rong’ou international express railway, and the construction of Tianfu international airport should drive Chengdu’s further development as a logistics hub. Looking ahead, industrial activity should shift eastwards to Longquan Mountain, Jianzhou New Town, Huaizhou New Town and New Airport Town.
China: economic outlook

The Chinese economy has maintained the strong growth seen last year. Real GDP growth of 6.9% for 2017 was followed by 6.8% in Q1 2018, driven by strong exports, resilient housing activity and firm consumption. Over April and May, investment activity weakened slightly, while export volume growth moderated, reflecting slowing global trade momentum. On the other hand, imports growth has accelerated, pointing to continuing strong domestic demand. In USD terms, imports grew by 21.5% YOY in April, and by 26.0% in May.

Oxford Economics expects the Chinese domestic economy to cool over the remainder of 2018, and is concerned about trade tensions with the US. Nevertheless, given the strong recent import data and recent policy statements which place slightly greater emphasis on boosting demand than on reducing indebtedness, Oxford Economics recently revised its 2018 real GDP growth forecast from 6.3% to 6.4%.1

Looking forward, Oxford Economics expects average real GDP growth in China to slow from 6.1% over the period 2017-2021 to 4.9% over the period 2022-2026. In order to avoid the risk of a financial crisis, the economy needs to wean itself off the traditional credit-fuelled and investment-led growth model. Moreover, with returns to investment now more modest, capital stock is likely to make a significantly lower contribution to growth in the future. The contribution from the labour supply will also be negligible given a declining working age population from 2016. On the other hand, China should move up the economic and technological “value chain” as it loses its competitive edge in labour-intensive sectors.

In contrast to certain other economic forecasters, Oxford Economics does not expect the Chinese authorities to push up interest rates significantly. The authorities certainly are interested in lowering financial risks and in gradually reducing credit growth. Policies aimed at these ends, combined with higher interest rates in the US, will probably maintain upward pressure on Chinese interbank interest rates. However, Oxford Economics does not expect higher benchmark (i.e. official) interest rates in 2018 since it expects CPI inflation to remain below the 3% target set by the People’s Bank of China.

Looking further ahead, Oxford Economics assumes that benchmark interest rates will fall slightly over 2019-2021, whereas CPI inflation will pick up (but remain below 3.0%). As a result, Oxford Economics expects real (i.e. inflation-adjusted) interest rates in China to decrease over the next few years, as shown in Figure 3 Falling real interest rates ought to drive investment activity in the property market, and so support capital values.

Notwithstanding these positive factors, economic risks for China are rising. Notably, mounting concerns about trade have depressed Chinese stock markets and the Chinese renminbi, with negative implications for property markets. On 19 June, the CSI 300 Chinese share index fell 3.5%, bringing its drop from its recent high in January to 18%. In total, 1,060 stocks on the Shanghai and Shenzhen markets fell by the daily limit of 10%. The falls came in response to worries that the US will levy tariffs on a further USD200 billion of Chinese imports. With respect to the currency, the renminbi started 2018 at 6.50 versus the US dollar, rallied to a high of 6.27 in April, and has since fallen back to 6.51 (as of 25 June).

If the US does impose major new tariffs, then exports of Chinese consumer and industrial goods to the US will probably suffer. This would potentially reduce demand for office space from occupiers in the consumer and manufacturing sectors. The technology sector might also

1 Please see “Country Economic Forecast, China”, 20 June 2018 and 23 May 2018, by Oxford Economics. See also the “Data Insights, China” reports of 23 April and 8 June.

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Figure 2: Major Asian Economies: Estimated Real GDP Growth 2017-2021

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>6.9%</td>
<td>6.4%</td>
<td>6.1%</td>
<td>5.7%</td>
<td>5.4%</td>
</tr>
<tr>
<td>Japan</td>
<td>1.7%</td>
<td>1.4%</td>
<td>0.9%</td>
<td>0.0%</td>
<td>0.9%</td>
</tr>
<tr>
<td>South Korea</td>
<td>3.1%</td>
<td>2.7%</td>
<td>2.6%</td>
<td>2.5%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Hong Kong SAR</td>
<td>3.8%</td>
<td>3.6%</td>
<td>2.4%</td>
<td>2.2%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Singapore</td>
<td>3.6%</td>
<td>3.1%</td>
<td>2.4%</td>
<td>2.6%</td>
<td>2.5%</td>
</tr>
<tr>
<td>India</td>
<td>6.4%</td>
<td>7.3%</td>
<td>7.0%</td>
<td>6.8%</td>
<td>6.6%</td>
</tr>
</tbody>
</table>

Source: Oxford Economics

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be affected, given close dependence on the US for components, although internet and e-commerce companies such as Tencent and Alibaba are driven much more by domestic demand. Lower demand for space from major occupier sectors would probably result in a reappraisal of rental growth prospects, with negative implications for capital values of investment property.

### Deal volumes and valuation in China

#### China general

China is one of the most active real estate markets in Asia. Commercial property in China has seen strong demand from urbanisation and the transition to a service economy. Based on data from the National Bureau of Statistics, China’s economy is increasingly driven by the services sector, which has increased as a proportion of the total from 43% in 2007 to 52% in 2017.

The transaction values of investment property in China reached USD36.9 billion (RMB236.2 billion) in 2017, 2.6x the transaction volume in 2007 (source: Real Capital Analytics). High liquidity in the market in search of returns has pushed up capital values for commercial property, depressing net yields across the various property sectors. Grade A office property in Tier 1 cities now yields only 3.6-4.0%. Yields remain higher for retail, industrial and business park assets, lying in a range of 4.0-6.7% (and more like 5.0-6.7% excluding Shanghai). Chengdu stands out as offering good value, with Grade A office property yielding 5.7%, retail and industrial property about 6%, and business park assets 7-8%.

Strong demand for Chinese property assets has persisted in 2018. According to Real Capital Analytics, total transactions of completed properties grew by 24% in 2018 compared to 2017.
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Figure 5: Asia Property Transaction Volumes by Country and Territory in Q1 2018 (USD, YOY)

<table>
<thead>
<tr>
<th>Country</th>
<th>USD million</th>
<th>Q1 2017</th>
<th>Q1 2018</th>
<th>YoY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>11,715</td>
<td>13,148</td>
<td></td>
<td>12%</td>
</tr>
<tr>
<td>China</td>
<td>7,415</td>
<td>9,222</td>
<td></td>
<td>24%</td>
</tr>
<tr>
<td>Hong Kong SAR</td>
<td>4,195</td>
<td>7,877</td>
<td></td>
<td>88%</td>
</tr>
<tr>
<td>South Korea</td>
<td>2,783</td>
<td>4,404</td>
<td></td>
<td>58%</td>
</tr>
<tr>
<td>Singapore</td>
<td>1,587</td>
<td>995</td>
<td></td>
<td>-37%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>500</td>
<td>515</td>
<td></td>
<td>3%</td>
</tr>
<tr>
<td>India</td>
<td>289</td>
<td>441</td>
<td></td>
<td>53%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>369</td>
<td>107</td>
<td></td>
<td>-71%</td>
</tr>
<tr>
<td>Thailand</td>
<td>618</td>
<td>33</td>
<td></td>
<td>-95%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>78</td>
<td>17</td>
<td></td>
<td>-78%</td>
</tr>
</tbody>
</table>

Note. These totals exclude undeveloped land. Source: RCA as of 8 May 2017; calculations by Colliers

YOY in Q1 2018, from USD7.4 billion to USD9.2 billion. However, transactions in Shanghai in particular declined sharply, falling by 76% to USD1.1 billion (although Shanghai remained the largest investment centre overall). By contrast, transactions in Guangzhou jumped roughly fivefold, to just under USD1.0 billion.

Office

According to Real Capital Analytics, office transaction volumes totalled USD20.8 billion (RMB133.1 billion) in 2017, representing 56% of the total commercial property volume. Given the expanding maturity of the services industry, the demand for prime office space in Tier 1 cities such as Beijing and Shanghai is robust. Strong demand has been driven by traditional service sector industries such as finance and professional services, as well as new demand from IT, technology, flexible workspace operators and start-up companies. Due to a shortage of prime grade office space in the CBD in Tier 1 cities, high-quality prime office buildings with attractive facilities will probably maintain their high valuations and low yields despite new office development in decentralised areas. Reflecting improving infrastructure between major and emerging business districts, newly completed office buildings in secondary business districts should be an attractive investment option to investors and tenants in the future. The average prime office yield for Tier 1 cities ranges from 3.6% to 4.0%. In Tier 2 cities, the average prime office yield stands at a higher level of between about 5% and 6%; however, these buildings generally come with a higher vacancy rate.

Figure 6: Asia Property Transaction Volumes by Urban Centre in Q1 2018 (USD, YOY)

<table>
<thead>
<tr>
<th>City</th>
<th>USD million</th>
<th>Q1 2017</th>
<th>Q1 2018</th>
<th>YoY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>4,195</td>
<td>7,877</td>
<td></td>
<td>88%</td>
</tr>
<tr>
<td>Tokyo</td>
<td>4,594</td>
<td>6,864</td>
<td></td>
<td>49%</td>
</tr>
<tr>
<td>Seoul</td>
<td>1,793</td>
<td>3,613</td>
<td></td>
<td>102%</td>
</tr>
<tr>
<td>Shanghai</td>
<td>4,436</td>
<td>1,065</td>
<td></td>
<td>-76%</td>
</tr>
<tr>
<td>Nagoya</td>
<td>196</td>
<td>1,006</td>
<td></td>
<td>413%</td>
</tr>
<tr>
<td>Singapore</td>
<td>1,587</td>
<td>995</td>
<td></td>
<td>-37%</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>179</td>
<td>958</td>
<td></td>
<td>435%</td>
</tr>
<tr>
<td>Beijing</td>
<td>917</td>
<td>675</td>
<td></td>
<td>-26%</td>
</tr>
<tr>
<td>Yokohama</td>
<td>1,453</td>
<td>566</td>
<td></td>
<td>-61%</td>
</tr>
<tr>
<td>Fukuoka</td>
<td>172</td>
<td>291</td>
<td></td>
<td>69%</td>
</tr>
</tbody>
</table>

Note. These totals exclude undeveloped land. Source: RCA as of 8 May 2017; calculations by Colliers
Retail

Expansion of domestic demand is currently an important government policy. In 2017, the value of retail sales of consumer goods was RMB36,626 billion (USD5,605 billion), 3.9x the level in 2007\(^2\). This is due mainly to rising incomes. China’s disposable income per capita reached RMB26,000 or USD4,000 (RMB36,400 or USD5,570 for urban areas) in 2017. With stable economic growth and increasing salaries, growth in retail consumption should be sustained in the future.

However, the retail sector confronts a challenge from the fast growth of e-commerce and online/mobile shopping platforms offering convenient payment methods. Large shopping centres in major cities cannot only emphasise international chain stores and luxury brands to attract shoppers, but instead must emphasise the tenant mix focusing on consumer experience in food, beverages, leisure and entertainment opportunities. The average prime retail yield in Tier 1 cities ranges from 4.0% to 5.5%, reflecting the continuing high valuations. For Tier 2 cities, the average prime retail yields lie in a higher range of 5.5% to 6.5%.

Industrial

Logistics and warehouse properties have become an attractive investment class. The transaction value for industrial properties in China reached USD4.4 billion (RMB28.2 billion) in 2017\(^3\), representing growth of 40% YOY. This is the highest recorded YOY growth among investment sectors, due to strong demand for industrial space from warehouse operators, e-commerce companies and third-party logistics providers.

The online retail sales turnover in China increased 32% YOY in 2017\(^4\), to RMB5,481 billion (USD856 billion), due to the fast development of the e-commerce industry and convenient online and mobile payment methods. This led to the surge in express delivery volume to 40 billion units in 2017, up 28% YOY\(^5\).

A lack of tradable industrial assets has long been a major barrier to satisfying strong investor demand. A shortage of both supply of industrial land and a growing demand for industrial space have led to a very low vacancy rate in Tier 1 cities, pushing some warehouse demand to Tier 2 cities. This has led to certain Tier 2 cities such as Foshan, Dongguan and Kunshan, becoming favoured destinations for the development of warehousing and logistics parks as they offer improved connectivity and infrastructure. The yield on industrial properties ranges from about 5% to 7%.

The logistics and warehouse industry has attracted the attention of investors due to its attractive yield and solid industry fundamentals. This is especially true when compared to the competitive office and retail sectors and the highly regulated residential market.

Business Park

The business park sector is increasingly popular in China with major demand coming from R&D centres, data centres, high-tech, early stage and start-up companies. Business parks offer these innovative industries the opportunity to create an industry cluster and ecosystem. Improving transportation and infrastructure development enhance the connectivity of business parks beyond the city centres. Business park yields for Beijing (4.2%-4.8%), Shanghai (4.3%) and Shenzhen (4.5%-5.0%) are lower than in Guangzhou (5.5%-6.0%) and Chengdu (7.0-8.0%).

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\(^2\) National Bureau of Statistics  
\(^3\) Real Capital Analytics  
\(^4\) National Bureau of Statistics  
\(^5\) State Post Bureau
Comparison among Asian cities

Comparing Hong Kong, arguably Asia’s gateway city, with other cities in the region, it is notable that Hong Kong has the lowest property yield in the office (2.4%), retail (2.3-2.5%), industrial (3.5-3.7%) and luxury apartment (1.9-2.1%) sectors. A shortage of available commercial buildings, adequate liquidity, the influx of Chinese investors and local demand are the factors that have bid up transaction prices in Hong Kong.

Singapore is seeing a boost in market sentiment and confidence, supported by broadening GDP growth and an expected multi-year recovery in the office and residential markets. Vacancy rates are declining in commercial property after oversupply in previous years, leading to an attractive property yield on office (3.6%), retail (4.2-5%), industrial (6%-7%) and business parks (5.2%-6.2%).

Emerging cities in South East Asia and India offer high yields on office (4.5-9.0%), retail (4.5-9.3%), industrial (6.5-10.0%) and business park (4.5-9.0%) assets. South East Asia and India stand out in anticipation of high and long-term economic growth with a lower cost base and plentiful investment opportunities. Comparatively, Indian cities rank highest in terms of property yields. Cities such as Delhi, Mumbai, Bangalore and Hyderabad are generating promising office property yields from about 8% to 9%, and from about 8% to over 9% for retail properties. Investment returns for logistics and warehouse properties are outstanding, ranging from 9% to 10%, given limited existing organised industrial properties supply, rising e-commerce players and supportive government policies.

For Chinese Tier 1 cities, commercial property yields lie between those of the well-developed markets (Hong Kong, Singapore and Taipei) and those offered by cities in the emerging markets of South East Asia and India. Stable economic growth and robust commercial property demand from investors and users should keep valuations high, putting downward pressure on property yields for office (3.6-4.0%), retail (4.0-5.5%), industrial (5.0-6.7%), and business parks (4.2-6.0%).

Figure 7: Investment Property Net Yields in Asian Gateway Cities, Q1/2018

<table>
<thead>
<tr>
<th>City</th>
<th>Office</th>
<th>Retail</th>
<th>Industrial</th>
<th>Business park</th>
<th>Rental apartment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing</td>
<td>4.0%</td>
<td>5.0%</td>
<td>5.0-5.5%</td>
<td>4.2-4.8%</td>
<td>-</td>
</tr>
<tr>
<td>Shanghai</td>
<td>3.6%</td>
<td>4.0-5.5%</td>
<td>5.0-5.5%</td>
<td>4.3%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Shenzhen</td>
<td>3.9%</td>
<td>5.2%</td>
<td>6.7%</td>
<td>4.5-5.0%</td>
<td>-</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>4.0%</td>
<td>5.0%</td>
<td>6.0%</td>
<td>5.5-6.0%</td>
<td>-</td>
</tr>
<tr>
<td>Hong Kong⁷</td>
<td>2.4%</td>
<td>2.3-2.5%</td>
<td>3.5-3.7%</td>
<td>-</td>
<td>1.9-2.1%</td>
</tr>
<tr>
<td>Taipei</td>
<td>2.8%</td>
<td>-</td>
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<td>3.0%</td>
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<tr>
<td>Tokyo</td>
<td>3.7%</td>
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<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Seoul</td>
<td>4.3%</td>
<td>4.0-5.0%</td>
<td>6.0-7.0%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Singapore⁸</td>
<td>3.6%</td>
<td>4.2-5.0%</td>
<td>6.0-7.0%</td>
<td>5.2-6.2%</td>
<td>1.8-2.2%</td>
</tr>
<tr>
<td>Bangkok</td>
<td>4.5-5.0%</td>
<td>4.5-5.0%</td>
<td>6.5-7.5%</td>
<td>4.5-5.0%</td>
<td>4.5-5.0%</td>
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<tr>
<td>Manila</td>
<td>5.0-6.0%</td>
<td>6.0%</td>
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<td>4.8-5.3%</td>
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<tr>
<td>Jakarta</td>
<td>6.0-7.0%</td>
<td>6.0-8.0%</td>
<td>9.0%</td>
<td>-</td>
<td>4.0-6.0%</td>
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<tr>
<td>Ho Chi Minh City</td>
<td>7.0-7.5%</td>
<td>8.0-8.5%</td>
<td>10.0-10.5%</td>
<td>-</td>
<td>6.0-7.0%</td>
</tr>
<tr>
<td>Hanoi</td>
<td>7.5-8.0%</td>
<td>8.0-8.5%</td>
<td>9.5-10.0%</td>
<td>-</td>
<td>6.0-7.0%</td>
</tr>
<tr>
<td>Delhi</td>
<td>8.0-8.25%</td>
<td>8.0-9.0%</td>
<td>9.0-10.0%</td>
<td>8.5-9.0%</td>
<td>1.0-2.0%</td>
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<tr>
<td>Mumbai</td>
<td>8.0-8.25%</td>
<td>8.0-9.0%</td>
<td>9.0-10.0%</td>
<td>8.5-9.0%</td>
<td>1.0-2.0%</td>
</tr>
<tr>
<td>Bangalore</td>
<td>8.0-8.5%</td>
<td>8.0-9.0%</td>
<td>9.0-10.0%</td>
<td>8.5-9.0%</td>
<td>1.0-2.0%</td>
</tr>
<tr>
<td>Chennai</td>
<td>8.25-9.0%</td>
<td>8.25-9.25%</td>
<td>9.0-10.0%</td>
<td>8.5-9.0%</td>
<td>1.0-2.0%</td>
</tr>
<tr>
<td>Pune</td>
<td>8.25-9.0%</td>
<td>8.25-9.25%</td>
<td>9.0-10.0%</td>
<td>8.5-9.0%</td>
<td>1.0-2.0%</td>
</tr>
<tr>
<td>Hyderabad</td>
<td>8.0-8.75%</td>
<td>8.25-9.25%</td>
<td>9.0-10.0%</td>
<td>8.5-9.0%</td>
<td>1.0-2.0%</td>
</tr>
</tbody>
</table>

Source: Colliers International

⁶ Rental apartment in Hong Kong, Singapore, Taipei, Manila and Indian cities refers to luxury residential
⁷ Hong Kong’s retail refers to overall retail facilities
⁸ Singapore’s industrial and business refers to all grades
Summary of opportunities

The rental yield of CBD Grade A office property in Shanghai has continued to decline and now ranges from 3.6%. Grade A office property thus offers no premium over ten-year bonds, implying that investors must be highly confident about capital growth to justify purchases. We prefer the business park segment, where rent should continue to rise steadily over the next few years driven by an expanding technology industry and improved infrastructure. We also favour retail property, which yields 4.0-6.5% in East China, especially in Nanjing and Hangzhou where recent projects have been launched with high occupancy rates. Trends in logistics remain very positive with rent and capital value showing an upward trend. In addition, occupiers and investors can also consider the attractions of the outlying logistics property markets in East China, such as Nantong, Changzhou, Wuxi and Changshu. Long-term rental apartments have become an emerging sector in recent years. An increasing number of market players are attracted by government incentives to launch asset securitisation to free up their cashflows. It will be an eye-catching segment in the following years.

Retail

> **Shanghai.** Strong market demand pushed the city’s vacancy rate down to 10.6% in 1Q 2018. With no new supply, the city’s overall market rent recently recorded its first increase since 2H 2016, reaching RMB34.3 (USD5.25) per sq metre per day in 1Q 2018, showing 0.6% QOQ growth.

> **Nanjing.** The prime retail leasing market stayed active over 2017. The overall vacancy rate remained at a low level of 5.6% at the end of 2017 despite the addition of new supply.

> **Hangzhou.** Market rent remains at a stable level despite a large wave of new supply in 2H 2017. We expect very heavy future supply; however, strong market demand should result in only a moderate increase in the vacancy rate.
Retail

Figure 9: Map of Key Shanghai Retail Locations

Source: Colliers International

Figure 10: Shanghai Mid to High-End Shopping Centre New Supply, Net Absorption and Vacancy Rate

Source: Colliers International

In the retail sector, several en-bloc transactions were witnessed in East China in 1H 2018. In Shanghai, the 17,415 sq metre (187,385 sq ft) Amanda Plaza was transacted in Q1 for consideration of RMB595 million (USD93 million) and the 40,693 sq metres (437,857 sq ft) Shanghai Plaza was transacted in Q2 for consideration of RMB2.5 billion (USD391 million). In our view, high-quality retail properties in prime locations with strong occupancy and stable rental performance should continue to appeal to both domestic and foreign investors, although we expect the citywide rent to grow by only 0.6% on average over the coming five years.

Although assets in prime retail areas are believed to be competitive, limited availability of tradable assets in the market hinders transactions.

Nanjing and Hangzhou are stable markets: recent projects have been launched with high occupancy rates, and this should support rental growth in existing properties for investors. Net yields in East China retail market are 4.0-6.5%, well above the level for Grade A office properties.

Fig. 11: Shanghai Mid to High-End Shopping Centre Avg Ground Floor Rent and Change YOY

Source: Colliers International
Caohejing. Affected by two new completions in 1Q 2018, the vacancy rate increased by 2.5 percentage points QOQ to 10.7%. Average rent increased by 1.6% QOQ or 3.6% YOY to RMB5.03 (USD0.77) psm per day.

Linkong. The vacancy rate decreased by 0.4 percentage points QOQ to 8.3% and average rent increased by 0.1% QOQ or 2.7% YOY to RMB4.17 (USD0.64) per sq metre per day in 1Q 2018.

Jinqiao. The vacancy rate reached its lowest point since 2013 at 16.2% and average rent increased by 0.7% QOQ or 6.8% YOY to RMB3.43 (USD0.53) per sq metre per day in 1Q 2018.

Zhangjiang. Absorption of space in high-quality new buildings completed in 2017 led the vacancy rate to decrease by 3.0 percentage points to 21.9% in 1Q 2018. Average rent increased by 1.8% QOQ or 0.3% YOY to RMB4.51 (USD0.69) per sq metre per day.

Figure 13: Shanghai Business Park New Supply, Net Absorption and Vacancy Rate

Source: Colliers International
Shanghai is striving to turn itself into a leading global centre for entrepreneurship. In 2017, the added value of the information transmission, software and information technology services sector grew by 18.9% to RMB186.2 billion (USD28.7 billion), and over 426 R&D centres including 20 global R&D centres and 17 Asia Pacific headquarters of multi-national corporations were established in Shanghai. Reflecting the rapid expansion of the technology sector, the net absorption of business parks surged by 26.5% YOY or 29.3% QOQ in 1Q 2018, and the vacancy rate decreased to 15.6% despite three new completions. The average rent continued to see upward momentum and achieved RMB4.21 (USD0.63) per sq metre per day in 1Q 2018.

Shanghai’s business park investment market remained active in 1Q 2018, with four en bloc transactions totalling RMB2.60 billion (USD406 million). Jinqiao, Zhangjiang and Caohejing remained the most favourable destinations. The sentiment of institutional investors, including foreign funds, domestic institutions and RMB funds as well as end-users remained positive. In January, D&J China purchased the Caohejing SBP Phase III building, Hitone purchased the Zhangjiang Gaichen building, and WorldUnion Investment purchased two buildings at City of Elite in Jinqiao. In March, the Kailong Info Building was sold to Hony Capital.

Looking ahead, high-tech companies and R&D centres will still be important demand generators for Shanghai’s business park market. The growing number of new enterprises including both MNCs and domestic companies should keep taking up high-quality business park space. Moreover, the increasingly convenient transport connections and improved infrastructure should continue to benefit business park properties. As a result, the prospects for Shanghai’s business park property market, which is underpinned by these positive fundamentals, remain positive over 2019-2022.

### Logistics/Workshop

#### Shanghai Grade A Logistics Market

As of 2017, the total stock of Shanghai’s Grade A logistics property increased to 5.7 million sq metres (61.3 million sq ft).

We expect 460,000 sq metres (4.95 million sq ft) of new supply will be completed in the first half of 2018.

Due to the rectification of illegally constructed facilities in Shanghai in 2017, many tenants moved towards high-quality logistics properties, creating additional demand for logistics properties. Besides demolition of illegally constructed properties, the rapid growth in e-commerce and the launch of a variety of online shopping festivals have increased demand for logistics properties. As a result, the vacancy rate remains at a low level of about 7% and average rent increased by 6.2% HOH to RMB1.38 (USD0.21) per sq metre per day in H2 2017.

We expect the average rent will continue to increase by 5%-7% p.a. over the next three years and vacancy rates will remain low.

The investment market has been very active, as foreign and domestic investors are setting up investment funds with logistics developer to acquire valuable assets. Vanke had already purchased seven logistics properties in Shanghai in the first five months of 2018 according to the company’s monthly announcements. In addition, ESR, one of the largest logistics property developers in Asia, has set up a fund to buy USD1.0 billion (RMB6.53 billion) in logistics projects, in the same week that ESR received a USD306 million (RMB1.99 billion) investment from JD.com. GLP has also set up a RMB10 billion (USD1.53 billion) PE fund to invest in logistics-related businesses.

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9 Source: Shanghai Statistics Bureau  
10 Source: Vanke’s monthly briefing  
11 Source: Media source from mingtiandi  
12 Source: GLP’s news release dated May 10 2018
Shanghai Workshop Property Market

Shanghai’s workshop property, also known as standard manufacturing plant, has been mainly supplied by state-owned enterprises and private entrepreneurs. As of 2017, total stock stood at approximately 7.4 million sq metres (79.6 million sq ft). We expect 680,000 sq metres (7.32 million sq ft) of new supply will be completed in 2018.

Demand has come mainly from domestic companies, as many foreign companies have been attracted by the incentive policies of cities around Shanghai. By industry, demand from high-end machinery and equipment manufacturing and high-end electronic product manufacturing is strong, accounting for 24.8% and 22.8% of total net absorption in 2017, followed by the automotive and bio-medical industries. Rent increased sharply in 2016 and 2017 as a total of 110 million sq metres (1.18 billion sq ft) of illegally constructed facilities had been demolished by the end of 2017.

We expect average rent in 2018-2019 will continue to increase, but at a lower growth rate than in 2017. The vacancy rate will increase temporarily in 2018 as most new supply will be completed in second half and are multi-storey workshops which will need additional time to be leased out. However, we expect the vacancy rate will revert to a low level in 2019.

Land Market

The industrial sector’s rental yield is relatively stable, and this fact, coupled with Shanghai’s superior geographical location and good industrial base, has pushed industrial developers to be very active in the acquisition of industrial land in Shanghai. These dynamics have also attracted private entrepreneurs who are interested in the potential capital gains in land acquisitions. Strong demand and low supply should continually push up the price of industrial land.

Shanghai demand overflowing to adjacent cities

Strong demand has quickly absorbed vacancies in Shanghai’s logistics and workshop properties, and has spilled over to nearby cities. Cities like Kunshan, Taicang and Jiaxing have benefited from this effect. Their leasing market has become very active while average rents have continued to increase. Notably, average rent of Jiaxing’s logistics property market increased by 18% in the second half of 2017, compared to the first half. Strong demand has spilled over to more cities. As Colliers has monitored, cities further away such as Suzhou, Hangzhou, Nanjing, Nantong, Changshu, and Wuxi have all seen occupancy pick up and increasing rents.

Figure 15: Map of Key Logistics Locations around Shanghai
We expect Shanghai’s Grade A office supply will remain heavy in 2019 before easing in 2020 in CBD areas; meanwhile emerging clusters should receive a large number of new completions by end of 2018. Since Colliers expects that demand from the financial, TMT and flexible workspace sectors will remain generally firm over the next three to five years, we predict modest average rental growth and a slight drop in the average vacancy rate for Shanghai’s CBDs over 2018 and 2019. From 2020-22, we expect rents will rise at a slightly faster pace over as supply eases. In the DBDs, rent should be flat during 2018-2019 because of the influx of new completions, but healthy demand should lead to a gradual rental increase after 2019.

During Q1 2018, the Shanghai government imposed a strict control of M&A loans to the real estate industry, while at the same time the upgrading of industrial profile continues to be a major focus of Shanghai government. Therefore, the office sector (including business parks), which generates predictable income, has standard asset management requirements, and is a major driver of industrial development, continues to be the most active investment sector in the Shanghai market.

Compared to Shanghai, opportunities for en-bloc investment have been limited in Tier 2 cities as most landlords have held dual-lease and strata-title sale strategies. Institutional investors have remained cautious towards these markets, given the high vacancy rate, amount of new supply in the pipeline and uncertainty of disposal due to lower liquidity. However, as more wholly owned projects with high-quality building standards have been completed in recent years, more investors have started to seek investment opportunities in these cities.

> **Shanghai Pudong.** The vacancy rate of Pudong’s CBD area should fall in the next five years while demand should remain strong and supply will be limited, pushing rents upwards. This strong demand
in the CBD ought to push cost-conscious tenants to the emerging DBDs where large quantities of new supply are in the pipeline.

> **Shanghai Puxi**. In contrast, the competition from both the CBD and DBD areas should lead to flat rental rates in Puxi in the upcoming five years.

> **Hangzhou**. Both the leasing and investment markets have been active with increasing rent and the disclosure of several en-bloc transactions in 2017. We expect rent will increase and the vacancy rate will decrease over the next five years.

> **Nanjing**. In H2 2017, rent remained stable and the vacancy rate remained low. The majority of city’s en-bloc sales were in the Hexi submarket and mainly for owner-occupiers. A large quantity of supply will arrive in 2019–2021, but with this supply concentrated in emerging submarkets, it should not impact rents in the core.

> **Suzhou**. Vacancy remains at a high level, and more supply will be completed in 2018. This may give investors negotiation power in purchasing assets.

> **Wuhan**. Heavy supply in next five years should keep the overall vacancy at a high level, putting pressure on rental growth.

Figure 17: Shanghai CBD Grade A office new supply, net absorption and vacancy rate (2008-2017)

Source: Colliers International

Grade A office property in Shanghai remains China’s largest investment property category by far. However, the net yield range of 3.5%-4.0% is almost the same as for ten-year government bonds, meaning that investors should be highly confident about capital growth when justifying purchases. On the other hand, the control of new buildable land and the encouragement of regeneration of existing stock have been the main drivers of Shanghai’s development plan. We therefore expect investors to continue focusing on value-add projects, especially opportunities with a large rental reversion upside.

**Major Deals to Highlight in Q1 2018:**

> Shanghai International Plaza was acquired by LaSalle Investment Management for USD359 million (RMB2.34 billion) from Alpha. The project is an office project with a GFA of 54,037 sq metres (581,438 sq ft) in Hongkou District.

> Hony acquired KIC, an office project in Wujiaochang, from Real Power. The project’s total GFA is 28,000 sq metres (301,280 sq ft).

> ZRiver Capital’s ZRT Tower was sold to Five Bulls for USD225 million (RMB1.47 billion). The office project has a GFA of 40,736 sq metres (438,319 sq ft) and is in a DBD of Shanghai’s New Jingan (Zhabei) District.
There are five types of long-term rental housing operators in Shanghai:

- **Government platform, i.e. state-owned developers.** They develop or redevelop their own properties, lease land to develop or acquire existing assets to operate long-term lease apartments. The Wonder brand is expected to be the first product line led by Shanghai Land Group.

- **Standard developers.** They develop their own properties (developers are typically required to retain 15% residential space for self-holding as stipulated in most of Shanghai’s new residential land supply), acquire existing properties or rent en-bloc properties. Typical examples of this category are Port Apartment (Vanke), Guanyu (Longfor), Youmi International Community (CIFI), Big+ (Country Garden).

- **Agencies.** These rent en-bloc and/or strata-titled properties, acquire existing properties or operate through managerial expertise. Typical examples are World Union’s Home Plus, Lianjia’s Ziroom.

- **Hotel management companies.** These rent en-bloc properties and provide light asset management. Typical examples are Home Inns’ Comma, Plateno’s Wowqu.

- **Start-up companies.** These rent en-bloc properties or acquire properties (through equity or asset acquisitions) with support from financial institutions. Typical examples include YOU+, Harbour Home.

According to Colliers’ research, around 80% of the existing long-term rental apartments are in the city centre, are close to the Inner or Middle Ring Road, and are near metro line stations. In addition, many projects are close to high-tech parks, innovation and incubation centres, universities. Developer-led long-term rental apartments have become a major source of new supply in recent years.

The typical rental rate ranges from RMB3,600 to RMB6,800 per month (USD551 to USD1,041 per month) with an additional service charge (mainly Internet fees) of RMB280 to RMB300 per month (USD42.9 to USD45.9 per month) and the average occupancy rate remains at 85% to 95%. The dominant room plans are...
studios or small lofts with a size of 25 to 35 sq metres (269 to 377 sq ft) targeted at the younger generation.

**Figure 20: Rental ranges for major rental housing operators in Shanghai**

![Rental ranges for major rental housing operators in Shanghai](image)

Source: Colliers International

Business models for long-term rental apartments can be classified into “centralised” and “dispersed” models by properties’ concentration level; or “heavy asset” and “light asset” by asset structure. In addition, some developers and investors will draw on the trust model by introducing the managerial expertise of professional operators to their own properties.

There are four main exit routes from investment in long-term rental apartments. These are asset transfers, equity transfers, launches of asset securitisation such as Asset Backed Securities (ABS)/Commercial Mortgage Back Securities (CMBS) through stock exchanges to secure the liquidity mortgaged by income producing properties and pay back the periodic interest and principal as the finance cost, and launches of equity REITs through stock exchanges to liquidate their properties by various investors.

The development of China’s long-term rental apartment market is still in its expansion and branding phase. We recommend new entrants adopt the asset-light model with the heavy asset model as a supplement. This is because new entrants need to accumulate abundant asset management expertise, expand their market share and raise brand awareness. After that, they can exploit product differentiation and cost saving strategies to increase operating profits.
Summary of opportunities

With solid economic fundamentals supporting demand, and straightforward operation, office property continues to be the most attractive sector in the major cities of North China, including Beijing and Tianjin. This is despite the fact that the net yield is among the lowest among all the sectors. A shortage of tradable office assets in Beijing, especially in the core areas, has pushed the business park segment to become the chief alternative, where yields are higher than office properties. Trends in logistics remain very positive but properties are in short supply in Beijing. As a result, we expect more en-bloc transactions to happen in the surrounding cities, such as Langfang and Tianjin. Investors should also pay more attention to logistics opportunities in Shenyang, the hub city of Northeast China. We also foresee investment opportunities in retail property, considering the higher yield, and the opportunity to refurbish many underperforming assets, at the same time as developers are diversifying their businesses. In addition, flexible workspaces and the rental housing market have become popular targets for investors in recent years in Beijing.

Retail

In Beijing, underperforming projects with upside potential in both prime and emerging submarkets have attracted investors’ interest. However, local government restrictions against changing land usage in central areas mean that investors cannot convert a retail property to other functions if the project is in the core area.

The retail sector was the most active in Beijing in 2017 as nine deals were announced with a total GFA of 534,920 sq metres (5.8 million sq ft), the largest proportion by area among all sectors. However, most of the transacted retail properties had average to mediocre performance and certain buyers seem to be trying to convert them into offices or other more profitable uses. Considering the Beijing local government’s March 2018 guidelines forbid changes to land usage, we expect that investment in underperforming retail properties with the intention of converting to office use will decline.

Figure 21: North China Investment Targets

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>RENT GROWTH 2017-22 AVG P.A.</th>
<th>VACANCY END-2017</th>
<th>VACANCY END-2022 EST.</th>
<th>NET INCOME YLD (%)</th>
<th>SPREAD OVER 10 YR BOND</th>
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<tbody>
<tr>
<td>Retail</td>
<td>Beijing: -0.2% 3.1% 3.5% 5.0% 1.4pp</td>
<td>Beijing: 5.2% 0% 0.4% 5.0-5.5% 1.4-1.9pp</td>
<td>Tianjin: 4.4% 2.8% 0.4% 5.5-6.0% 1.9-2.4pp</td>
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<td></td>
</tr>
<tr>
<td>B’ness Park</td>
<td>2.0-3.0% n/a n/a 4.2-4.8% 0.6-1.2pp</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial/Logistics</td>
<td>Beijing: 5.2% 0% 0% 5.0-5.5%</td>
<td>Tianjin: 4.4% 2.8% 0.4% 5.5-6.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office</td>
<td>Beijing: -0.1% 8.3% 15.5% 4.0% 0.4pp</td>
<td>Tianjin: -0.6% 33.6% 34.4% 4.5% 0.9pp</td>
<td>Shenyang: -1.4% 35.1% 43.5% 5.3% 1.7pp</td>
<td></td>
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</table>
We expect the average ground floor rent in the Beijing prime retail market to be largely flat over the next five years. Due to continued strong demand, we project the vacancy rate to maintain its low level, at no more than 3.5%, although we expect more than 1.5 million sq metres (16.1 million sq ft) of new supply to enter the market during the same period. In addition, net yields for Beijing retail properties are around 5.0%, much higher than the level for Grade A office properties, which may be considered as a key attraction for investors.

As a result, we still expect some retail operators to buy certain underperforming projects with the intention of upgrading them, notably in central areas of Beijing or in certain Tier 2 cities. For example, SCPG Holdings has teamed up with China Vanke Co., Ltd. and Triwater Asset Management Holdings Limited, reaching an agreement with CapitaLand Mall Asia Limited to jointly acquire 100% of the equity and debt of the operating
entities of 20 shopping malls across China in 1Q 2018 for a price of RMB8.37 billion (USD1.33 billion).  

**Business Park**

**Fig. 24: Map of Key Beijing Business Park Locations**

The following four areas are the most active business park investment areas in Beijing (as indicated in Figure 23).

> **Shangdi** Information Industry Base is considered by many to be China’s Silicon Valley. Several en-bloc transaction sales have been recorded in this area in recent years, such as Diamond Building, Digital Media Buildings, Z-Link, and Silicon Valley Tower 4. Strong demand has maintained the vacancy rate at below 5% in recent years and rents have continued to increase to nearly RMB180 (USD27.5) per square metre per month by end-2017.

**Note.** Traditionally, Beijing’s Zhongguancun area has been considered as China’s Silicon Valley. However, in recent years more and more hi-tech companies, especially domestic hi-tech groups, have concentrated in Shangdi (outside North 5th Ring Road) instead of the core area of Zhongguancun (North 4th Ring Road). Most famous companies including Sina, Baidu, Xiaomi, NetEase and Didi are now located in Shangdi. Today we would argue that Zhongguancun is more like a concept than an actual location because many business parks in Beijing are named “Zhongguancun xxx Science Park”. There is, of course, also a large concentration of technology companies in South China, around Shenzhen and in the broader Greater Bay Area.

> **Beijing Electronic Zone (BEZ).** Many international manufacturing companies, such as Ericsson, Schneider, ABB, and Siemens have traditionally concentrated in this area. More and more hi-tech companies, especially internet companies have overflowed into BEZ and the surrounding Wangjing office submarket in the past three years due to limited new supply in the core area of Zhongguancun. Two en-bloc deals closed in 2017. Both properties were purchased by end-users.

> **Fengtai** The Fengtai Science Park is dominated by domestic companies with key tenant industries including rail transit, aerospace, military, emergency aid and conservation, and environmental protection. Both investors and end-users are interested in this area with several en-bloc sales closed in the area in recent years.

> **Beijing Economic-Technological Development Area (BDA)** is the only national-level economic development area in Beijing, with manufacturing traditionally dominating this market. The tenant mix has been changing, however, with an increasing number of service sector tenants relocating here. The most famous end-users include JD.com. One en-bloc transaction announced in 1Q 2018 was the Nan Hai Land Limited purchase of the Sino-i Campus from Sino-i Technology Limited for RMB416 million (USD66.2 million).

Beijing’s business park market has become attractive to investors in recent years due to low capital values compared to office assets, relatively slow price appreciation, and strong demand, especially compared with office properties in core areas. Despite the decline in yields over the past year as more investors have started to focus on this sector, the yield ranges from 4.2-4.8% in 1H 2018, which is still higher than the office sector.

According to the Beijing City Master Plan (2016-2035) released in 2H 2017, Beijing is positioning itself as a national centre of politics, culture, international communications and technological innovation, which should support the steady growth of these and related industries. The media and technology industries are typical tenants of business park properties. As a result, we expect these positive market fundamentals to support the occupancy rate and rents of the business park.

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market. In turn, these strong prospects should encourage more investors to focus on this sector.

**Logistics**

*Figure 25: Map of Key Logistics Locations in Beijing*

> **Beijing.** Properties in all four submarkets, including Beijing Airport Logistics Park (BALP), Beijing Tongzhou Logistics Park, Beijing Jingnan Logistics Harbour (BJLH) and Pinggu Mafang Logistics Base (PMLB) plus surrounding areas such as Fangshan and Miyun are being chased by investors.

> **Tianjin.** Favoured submarkets include: Wuqing, Beichen, Tianjin Airport Economic Zone, TBNA Core Area and Ninghe.

> **Langfang.** Favoured districts include: AnCi, Longhe, Xianghe, Gu’an and Yongqing.

> **Shenyang.** Favoured areas include: Hunnan, Shenbei New Area, Yuhong and Tiexi

*Figure 27: Beijing Logistics Net Absorption, New Supply and Vacancy Rate*

Warehouse properties in the Beijing-Tianjin-Langfang region are being sought after by developers, occupiers, institutional investors and investment funds. Beijing’s latest strategic development plan has led to the further restriction of warehouse land supply in the region. Although various investors have shown strong interest, transaction volumes are extremely limited due to the scarce availability of tradable assets. More investors are now showing strong interest in nearby cities, such as Tianjin and Langfang, while keeping an eye on opportunities in Beijing. Given the rising popularity of logistics properties in Shenyang, numerous en-bloc sales have been recorded since 2017.

Rental growth is strong and sustained among all mature logistics markets in the Beijing-Tianjin-Langfang region. We expect capital values for properties in Beijing, Langfang and Tianjin’s logistics markets to rise further. Colliers foresees that there will be more acquisitions or
equity transactions of old industrial properties in the Beijing-Tianjin-Langfang area as the availability of tradable projects is limited as is prime land for logistics development. As for Shenyang, we expect that investors and developers will accelerate plans to acquire local, high-quality warehouses built by local landlords.

**Office**

**Figure 29:** Map of Favoured Non-Core Beijing Office Locations

> **Beijing.** Favoured non-core areas include Tongzhou, Lize, Fengtai and Wangjing. Favoured projects offer relatively convenient transportation and value-added potential. Beijing will continue to develop its decentralised areas to relocate more enterprises and population, further driving growth.

> **Tianjin.** Favoured central district: Heping District. Favoured projects ought to provide better facilities and command acceptable total prices. However, institutional investors have displayed caution in the Tianjin office investment market, where en-bloc sales are dominated by powerful owner occupiers. As an example of a recent transaction, China Life purchased 72,900 sq metres (784,689 sq ft) office space for total consideration of RMB1.91 billion (USD304 million) in 1Q 2018. China Life plans to keep part of the office space for its own use and to lease the remaining space.

In Beijing’s office investment market, both end-users and investors have continued to seek appropriate opportunities given the firm economic growth. Office properties have been one of the most attractive sectors considering the healthy demand from the service sector and their straightforward operation. In contrast to Beijing, institutional investors have been more cautious in Tier 2 cities in North China such as Tianjin and Shenyang due to the relatively high vacancy rate, constrained rental growth and investment returns.

Looking forward, we still regard office properties as the most stable sector for investors given firm demand. However, high capital values are the key obstacle for investors in Beijing. In view of the development of transportation, infrastructure and amenities in decentralised areas in Beijing, more enterprises and employees should relocate to these areas. As a result, we suggest both local and foreign investors seek value-added opportunities in these decentralised areas.
Summary of opportunities

South China’s commercial real estate market is led by Guangzhou and Shenzhen, the two largest cities. Although the region has recorded China’s fastest economic growth, the investment market has been dominated by domestic investors. However, looking forward, we expect the region to attract more international investor attention due to further regional integration under the Greater Bay Area plan. Although the office sector remains the most popular sector, there is arguably greater investment potential in business parks (especially in Guangzhou) for investors interested in long-term return. There is limited opportunity in logistics in Shenzhen and Guangzhou due to lack of new supply. Instead, investors should look for opportunities in nearby cities, such as Dongguan, Huizhou and Zhongshan. With new retail supply concentrated in decentralised areas, it will take some time for the surrounding areas to become more mature to generate greater value for investors.

Shenzhen
Across different real estate sectors, we see the office sector as having the greatest potential with an average rental growth rate of 5% for the next five years driven by strong economic growth. We expect the capital appreciation to be 8-10% in 2018 after steady increases over the last decade. Business parks, many of which were redeveloped from old industrial zones, will be an emerging sector for investment. However, due to planning requirements and policy restrictions, this sector is still dominated by local developers, creating an obstacle for investors. Investment opportunities in the logistics sector are limited by lack of new supply. More logistics facilities have been built in the neighbouring cities of Dongguan and Huizhou. New supply of 2.3 million sq metres (24.7 million sq feet) of retail space in emerging areas will amount to about 60% of existing retail stock in Shenzhen. This major new supply should put pressure on rent over the next three years. However, strong population growth and the emergence of new residential communities in those areas should make retail investment attractive for the long term.

Guangzhou
Driven by the government’s ambition to further develop the innovation and technology industries, we expect that companies in these sectors will either purchase or lease space in business parks for their operations, making this segment a new focus in the real estate market. Business parks enjoy a net yield of 5.5-6.0%, and Intelligence City

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**Figure 32: South China Investment Targets**

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>RENT GROWTH 2017-22 AVG P.A.</th>
<th>VACANCY END-2017</th>
<th>VACANCY END-2022 EST.</th>
<th>NET INCOME YLD (%)</th>
<th>SPREAD OVER 10 YR BOND</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shenzhen</td>
<td>0.0%</td>
<td>4.6%</td>
<td>12.9%</td>
<td>5.2%</td>
<td>1.6pp</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>3.5%</td>
<td>7.5%</td>
<td>6.2%</td>
<td>5.0%</td>
<td>1.4pp</td>
</tr>
<tr>
<td>B’ness Park</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shenzhen</td>
<td>5.0%</td>
<td>n/a</td>
<td>n/a</td>
<td>4.5-5.0%</td>
<td>0.9-1.4pp</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>5.0%</td>
<td>n/a</td>
<td>n/a</td>
<td>5.5-6.0%</td>
<td>1.9-2.4pp</td>
</tr>
<tr>
<td>Industrial/Logistics</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shenzhen</td>
<td>8.0%</td>
<td>10.2%</td>
<td>4.3%</td>
<td>6.7%</td>
<td>3.1pp</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>5.3%</td>
<td>6.4%</td>
<td>4.0%</td>
<td>6.0%</td>
<td>2.4pp</td>
</tr>
<tr>
<td>Office</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shenzhen</td>
<td>5.0%</td>
<td>13.5%</td>
<td>15.6%</td>
<td>3.9%</td>
<td>0.3pp</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>5.1%</td>
<td>8.3%</td>
<td>8.5%</td>
<td>4.0%</td>
<td>0.4pp</td>
</tr>
</tbody>
</table>

Source: Colliers International
in Tianhe District and Sino-Singapore Guangzhou Knowledge City in Huangpu District should remain the hotspots in the coming years. As in Shenzhen, investment opportunities in Guangzhou’s logistics sector have been limited by lack of new supply, with Huadu and Nansha accounting for the bulk of expected future new supply. We expect the office sector in Guangzhou to grow steadily with Pazhou gradually developing into a new CBD with the new office development. Net yield for Grade A office property in Guangzhou currently stands at 4.0%. Investors interested in retail properties will find plenty of new opportunities in the emerging districts, with a total of 886,000 sq metres (9.5 million sq ft) – equivalent to nearly 30% of existing retail stock in the city – of new property due to be launched in 2018. However, property values may well stay flat until the surrounding areas have become more mature.

Office: Shenzhen

Figure 33: Shenzhen Office Market Focus

With the support of steady economic growth, the leasing market of Grade A offices in Shenzhen has been active; Grade A office buildings across different districts have recorded rental growth in H1 2018. Looking forward, in our view the most promising submarkets will be:

> **Qianhai**: Despite the fact that Qianhai will have the largest new supply in Shenzhen, exceeding 2.0 million sq metres (21.5 million sq ft), a large portion of the new buildings is intended for self-use, specifically as headquarters for large corporations, leaving limited new supply for leasing. As the future CBD of Shenzhen, we expect the rent will pick up once the completion of new infrastructure and the yield should improve gradually. Investors can also look forward to a faster capital value appreciation.

> **Luohu**: As Shenzhen’s earliest developed district, Luohu is currently undergoing a large scale urban renewal. For example, the Caiwuwei area has planned three super skyscrapers with a building height of over 600 metres. We expect a large amount of new supply over the next five to ten years, which should drive the demand for quality office space by tenants in Luohu, as well as rental growth.

We expect that in the next three years, economic growth will further enhance the market demand, and the city’s annual net absorption will reach an average of 1 million sq metres (10.8 million square feet). By end- Q1 2018, Grade A stock had increased to 5.44 million sq metres (58.6 million sq ft). From 2018 to 2021, new supply in Shenzhen will exceed 6.0 million sq metres (64.6 million sq ft) by our estimate, more than one-third of which will come from Qianhai. Although the vacancy rate should temporarily increase to 29% in 2019, the excess stock will probably be quickly absorbed by the market. Hence, we see the office rent continuing to rise steadily at approximately 5% annually for the next five years. We also expect capital values to grow by 8-10% in 2018.
Office: Guangzhou

Underpinned by firm economic growth and dynamic demand for space, Guangzhou’s Grade A office rent grew by 10.0% YOY while the vacancy rate dropped by 9.5 percentage points YOY in Q1 2018.

Figure 35: Guangzhou Office Property Submarket Map

Source: Colliers International

> **Pazhou.** As the designated emerging business centre of Guangzhou, the government aims to build Pazhou into an e-commerce cluster and to attract technology companies. Pazhou should account for more than half of the new supply of Guangzhou for the next five years. Large IT groups like Tencent, Alibaba and Vipshop have already committed to building new headquarters at Pazhou. This should lead to more I&T companies and talent moving into the area.

We foresee steady rent growth and a low vacancy rate for the rest of 2018. Looking forward to 2019-2021, the addition of new supply equivalent to 51% of existing office stock should prompt vacancy to rise sharply and to peak in 2020. However, a high proportion of the new supply will be for self-use and will not disrupt the market.

Logistics

As the provincial government has tightened new supply for industrial lands, secondary sites and logistics properties have become popular. Despite an average yield of 6.0-6.7%, investment opportunities for logistics property have been limited due to a lack of new supply.

Figure 37: Outflow Trend of South China Logistics Sector

Source: Colliers International
Shenzhen demand overflowing to surrounding cities such Dongguan and Huizhou

The demand driven by e-commerce and retail has been growing steadily in Shenzhen. In Q1 2018, there was no new supply and the vacancy rate of high-quality warehouses was down by 0.4% YOY to 7.3%. The rent increased by 2.8% YOY.

Firm demand from Shenzhen should drive the rent up further in the surrounding cities: Dongguan and Huizhou. Currently, the rental level in Dongguan and Huizhou is still 27-35% below the level of Shenzhen. By end-2017, the average rent for Shenzhen had reached RMB45 RMB per sq metre per month (USD0.7 per sq ft per month), while rents in Dongguan and Huizhou were only RMB33 per sq metre per month (USD0.5 per sq ft per month) and RMB29 per sq metre per month (USD0.4 per sq ft per month) respectively.

Over the next five years, we predict 8% average annual growth in rent in Shenzhen logistics properties. The strong outlook for rental growth should push up the prices of logistics properties in Shenzhen, with prices growing faster than rents. However, due to limited supply, finding quality projects could be challenging.

The focus of new supply is gradually shifting from Guangzhou to Foshan

Continuous expansion of Guangzhou Baiyun International Airport and Nasha Port has stimulated demand for cross-border e-commerce. More prime logistics warehouses will enter the market in Huadu and Nansha District, the location of the airport and port, over the next three years.

New supply in nearby cities with lower cost, such as Foshan, Qingyuan and Dongguan, has absorbed the overflowing demand from Guangzhou. Average rent in Foshan reached RMB30 per sq metre per month (USD0.44 per sq ft per month) by Q1 2018. Further, more than 630,000 sq metres of new supply will be launched in Foshan in 2018.

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**Figure 38: South China Logistics Market Overview**

<table>
<thead>
<tr>
<th>City</th>
<th>Hot Area</th>
<th>Stock (sq m)</th>
<th>Average Rent (RMB/month/sqm)</th>
<th>First Hand Logistic Land Price (RMB/mu)</th>
<th>Second Hand Logistic Land Price (RMB/mu)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guangzhou</td>
<td>Huangpu, Zengcheng, Huadu, Conghua</td>
<td>1,288,000</td>
<td>33</td>
<td>700,000-800,000</td>
<td>800,000-1,500,000</td>
</tr>
<tr>
<td>Shenzhen</td>
<td>Bao’an, Longgang</td>
<td>1,500,000</td>
<td>45</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Dongguan</td>
<td>Along Highways</td>
<td>2,000,000</td>
<td>33</td>
<td>600,000-700,000</td>
<td>700,000-1,200,000</td>
</tr>
<tr>
<td>Huizhou</td>
<td>Huiyang, Boluo</td>
<td>1,000,000</td>
<td>28</td>
<td>600,000-700,000</td>
<td>700,000-1,200,000</td>
</tr>
<tr>
<td>Foshan</td>
<td>Sanshui, Nanhai, Lubao</td>
<td>1,300,000</td>
<td>30</td>
<td>600,000-700,000</td>
<td>700,000-1,200,000</td>
</tr>
<tr>
<td>Zhaoqing</td>
<td>Sihui, Dawang</td>
<td>300,000</td>
<td>25</td>
<td>400,000-450,000</td>
<td>500,000-700,000</td>
</tr>
</tbody>
</table>

Source: Colliers International
New Infrastructure to drive regional logistics market

We expect the regional logistics market will be further integrated after the completion of key projects such as the Shenzhen-Zhongshan Corridor, the Hong Kong-Zhuhai-Macao bridge, and the second Humen Bridge. More and more emerging areas will become good locations for logistics development.

Looking forward, the demand should continue to grow, and the new supply in emerging areas may drive the vacancy rate up temporarily; however, in the long run, the vacancy rate should remain low. We expect the rental level to increase steadily while capital values may spike in the short term due to a supply shortage of quality warehouses.

Business Park: Shenzhen

Currently, there are more than 200 business parks in Shenzhen and they come with various development formations, from a decentralised industrial campus to Grade A office buildings. The boundary between a business park and a business office building has become less distinguishable. At present, a business park generally refers to properties that are: 1) built within an industrial zone; 2) used as offices or for R&D activities.

Over time, business park developments have been following Shenzhen’s industrial development policy. Individual parks have to target different industrial sectors and, as a result, have become an aggregation of tenants sharing a similar industry background, such as new technology and emerging industries.

Over the next five years, we expect urban renewal to convert 100 industrial areas and release 6.75 million sq metres (72.6 million sq feet) of new land for emerging industries in the form of business parks. We believe Che Gong Miao is one of the most promising submarkets:

> **Che Gong Miao**, next to Futian CBD, has already achieved a comparable rent to nearby Grade A office. Over the next five years, more than 3.0 million sq metres (32.3 million sq ft) of top quality new office space should enter the market at different business parks, focusing on financial, fintech, and business services tenants.

However, government restrictions on business park investments, including the requirement that buyers and tenants must belong to designated industries, strict regulations on future transactions, and limitations on future property upgrading opportunities, have stopped potential investors from entering this market in scale.
Business Park: Guangzhou

According to the latest Masterplan, the Guangzhou government wants to develop an Innovation and Technology based economy over the next two decades. More specifically, the government is guiding companies of the IAB industries (Information Technology, Artificial Intelligence and Biological Medicine) to settle in designated business parks.

The most promising clusters for such development are:

> **More mature markets: Science City and Panyu.** Accounting for 65% of existing stock of business parks in Guangzhou, Guangzhou Science City in Huangpu District and Panyu district have matured into clusters of innovation and technology industries such as IT, biological technology, new material and new energy.

> **Emerging markets: Knowledge City and Intelligence City.** Focusing on innovation and technology industries as well, Intelligence City in Tianhe District and Sino-Singapore Guangzhou Knowledge City in Huangpu District should be emerging clusters of business parks for the next five years.

Business parks have been proven to be popular among domestic and international companies for use as regional headquarters and R&D centres. For example, Netease Games is currently building its headquarters at Intelligence City and P&G is also committed to establishing a new China Digital Innovation Centre in the area. Benefiting from the city government’s preferential policies, rent for business parks can be as low as RMB58.6 per sq metre per month (USD0.9 per sq ft per month).

The existing stock of business parks reached 2.7 million sq m (29.1 million sq ft) by end-2017, and we expect over 640,000 sq m (6.9 million sq ft) of new supply to enter the market between 2018 and 2020. With a yield of 5.5-6.0%, business parks represent an attractive investment category for institutional investors. However, quality stock on the market is limited.
Retail: Shenzhen

By end-2017, the average rent for the Shenzhen retail market reached RMB907 per sq metre per month (USD13.2 per sq ft per month). The average rent for the core areas was RMB1,097 per sq metre per month (USD16.0 per sq ft per month), while the average rent for the emerging areas was only RMB619 per sq metre per month (USD9.0 per sq ft per month). Over the next three years, we expect a total of 2.3 million sq metres (24.8 million sq ft) of new supply to enter the market, all in emerging areas. This heavy new supply ought to exert downward pressure on the average rent. By end-2020, the average retail rent for Shenzhen should decrease by 1.1% from the level at end-2017.

The population in the emerging areas in 2017 reached 8.5 million, accounting for 68% of the total population of Shenzhen. In the long run, continuous population growth in Shenzhen, especially in the emerging areas, should provide solid support for the retail market. This should eventually drive up the rent.

In the core areas, we believe Qianhai will become a new prominent retail district in coming years:

> Qianhai has no shopping mall at present. However, new retail developments are on the way, including China Resources’ Mixc Qianhai with a total GFA of 80,000 sq metres (860,800 sq ft) in 2019. In view of continuous population growth and probable job creation in finance, technology, and professional services, Qianhai should generate great consumption power. We expect Qianhai to form a prominent retail market over the next three years.

Retail: Guangzhou

Given a total stock of over 0.96 million sq metres (10.4 million sq ft), Tianhe North-Sport Centre remained the premier retail submarket in Guangzhou with a rental level of RMB1,812 per sq metre per month (USD26.2 per sq ft) per month at end-2017. YueXiu is another traditional retail submarket with over 300,000 sq metres (3.2 million sq ft) at end-2017. These submarkets have matured into the most popular shopping areas and we expect steady growth in average rent and capital values due to a lack of new supply for the next five years. The overall vacancy rate increased by 0.5 percentage points to 8.2% in Q1 2018 due to the relocation of leading department stores and new supply. However, rent has remained firm with 3.2% YOY growth.

In 2018, we expect over 886,000 sq metres (9.5 million sq ft) of new retail supply to enter the market, entirely in emerging areas. We see new investment opportunities in non-core areas like Baiyun and Huangpu:

> Baiyun & Huangpu Districts, accounting for 70% of new supply, will offer more investment opportunities, especially the increasing supply of community shopping centres.
West China

Summary of opportunities

In March 2018, the Chengdu government published Chengdu’s overall plan 2016-2035. This plan calls for Chengdu to be developed into a national central city and international gateway city by 2035. Chengdu is already developing rapidly, especially in terms of infrastructure, thus attracting many investors’ attention. Looking forward, Colliers believes that investors should continue eyeing investment opportunities in Chengdu.

While firm demand is driving rent growth, Grade A office property in Chengdu yields about 5.7%, and so offers a premium of about 2 percentage points over ten-year bonds. The rent of Chengdu Grade A offices should rise steadily over the next few years driven by high-quality new projects and firm demand. Within this segment, the Financial Town submarket offers ample new supply to consider in future, and this submarket has strong policy support. We also favour the business park segment, which yields 7-8%, especially in South Hi-tech district where projects have been launched with the highest rents.

While available logistics properties are scarce today, trends in the logistics market are very positive. The national government’s “One Belt, One Road” plan, the launch of a free trade zone in Sichuan province, the start of the Rong’ou international express railway, and the construction of Tianfu international airport should drive Chengdu’s further development as a logistics hub. Looking ahead, industrial activity should shift eastwards to Longquan Mountain, Jianzhou New Town, Huaizhou New Town and New Airport Town.

Retail

Retail sales in Chengdu increased 11.5% YOY in 2017, and retail real estate development is entering a period of high growth. Chengdu’s commercial pattern focuses on the traditional CBD along Chunxi and Yanshikou Roads, supported by other prime retail areas in the city. Over the next decade, we expect development of Chengdu to expand to the south of the current CBD, towards the Tianfu New Area with the core of this new CBD being a focus for development.

Source: Colliers International
Chengdu’s prime retail market experienced steady development after a large quantity of new supply was released in 2014. However, net absorption kept pace with the supply, keeping the vacancy rate between 12-13% over the long term. In 2017, reflecting continuous improvement in Chengdu’s commercial vitality, a high number of fashion and experience-driven commercial brands gathered in Chengdu, as well as retailers offering an online/offline presence. Driven by these factors, net absorption exceeded new supply for the first time, pushing the vacancy rate down to 11.3%.

Tilefu New Area is Chengdu’s new development district, with a commensurately high vacancy rate. Two urban commercial projects, Yintai in99, opening in 2017, and u-fun, opening in Q2 2018, promoted the regional commercial development and injected new vitality to the commercial development of Tianfu New Area. However, as this area matures over time, the occupancy rate should improve, leading to better performance and more attractive opportunities for investors.

Office

From 2006 to 2017, official data indicate that the number of Global Fortune 500 companies in Chengdu grew from 108 to 281, and Chengdu’s utilised FDI increased more than tenfold to USD10.04 billion. The city government’s strong support for innovation and start-up companies, as well as the average annual growth rate of newly registered companies reaching 19.6% from 2010 to 2017, should support continued absorption of Chengdu’s Grade A office space.
From 2011 to 2015 Chengdu saw a large quantity of Grade A supply come onstream. This heavy supply weakened the bargaining power of owners, keeping Chengdu’s Grade A office capital values at a relatively low level, leading to the value of high-quality projects being underestimated. Therefore, Chengdu’s Grade A office sector is quite attractive to investors, and strategic investors continue to eye opportunities in Chengdu.

Figure 51: Chengdu Grade A Office Yearly New Supply, Net Absorption and Vacancy Rate

Source: Colliers International

Demand for Grade A office space in Chengdu increased significantly in 2017, as evidenced by the fact that net absorption grew to 327,000 sq metres (3.52 million sq feet) in 2017, up from just 30,000 sq metres (323,000 sq ft) in 2011. This pushed the vacancy rate down 21 percentage points from H1 2014 to 26.7% by end-Q1 2018.

Figure 52: Chengdu Office: Rent Trend for Each Submarket

Source: Colliers International

Average rents in Chengdu’s prime office market saw a slight rise for the fourth consecutive quarter in Q1 2018. Chengdu’s average rent was RMB102.1 (USD16.3) psm per month at the end of Q1. Due to robust demand and higher market confidence, we expect average rents to rise by 2-3% in 2018. We predict rent growth of a similar level over the following three years. Even with this rental growth, Chengdu’s Grade A office rent is lower than in Tier 1 cities, and low also compared to other Tier 2 cities. Chengdu’s Grade A office yield is about 5.7%, which is attractive to investors, with owner-occupiers and strategic investors being the main source of en bloc transactions.

Figure 53: 2018 Q1 Net Absorption and Vacancy Rate by Submarket

Source: Colliers International

With the implementation of Chengdu’s “southwards” strategy, the Financial Town submarket should grow rapidly, becoming a hot spot for investment and en-bloc transactions.
Chinese industry is continually moving up the global value chain, and Chengdu, as a western core city, is strategically positioned to further integrate into the industrial chain. Chengdu’s integration into China’s ambitious “One Belt, One Road” programme should enable Chengdu to realise the functions of the entire industrial chain from manufacturing and assembly to research and design. This should support demand for Chengdu’s business parks.

The development of business parks has laid the foundation for urban economic growth. The newer business parks should have a more diverse tenant base, with an increasingly standardised and service-oriented offering. Over the last ten years of development, Chengdu’s business parks have shifted from being led by the government to cooperation between the government and businesses, with increasingly professional development and operation. More mature and larger business parks should attract more high-quality industries and tenants to Chengdu.

The functions of Chengdu business parks have also been expanding continuously, and they now offer multiple functions including traditional and back office services, R&D, headquarters and exhibition space. As a result, the demand for Chengdu’s business parks remains firm, with the vacancy rate dropping from 5-6% to 4.3% at end-2017.

The average transaction value and yields of Chengdu business parks have been increasing since 2015, benefiting from a healthy market environment. The average yield of Chengdu business park property now stands at 7.6%.
Benefiting from Chengdu's southward expansion, high-technology industries have concentrated on the south side of the city, and high-quality business parks such as Tianfu Software Park have achieved a scale and maturity which have pushed rents to some of the highest levels in the Chengdu market. In the future, due to the continuous introduction, investment and operation of the high-tech industry in Chengdu’s Tianfu New Area, the scale, influence and economic benefits of business parks in the south of the Hi-Tech district should grow further.

Regarding other high-quality business parks, the plan for tenant mix and investment promotion policies from local governments are the key drivers supporting formation, development and stable rent growth. For instance, high-tech manufacturing and electronic information R&D are the core industry in Wuhou district; the Western Hi-Tech district has electronic information and integrated circuit production as its core industry; and Longquan Economic and Technological Development has automobile manufacturing as its core industry.

Industrial/Logistics

The Implementation Plan of Chengdu on Promoting Innovative Application of Modern Supply Chain released in March 2018 aims to build Chengdu into an influential supply chain hub for the whole of Eurasia by 2020. In July 2017, the Chengdu city government published new pro-industry policies, which further reduced enterprise costs. In terms of logistics cost, it put forward specific measures, such as reducing the cost of customs clearance, which show that the city government is giving more support for the development of a vibrant industrial/logistics sector.

Chengdu’s prime logistics space is in the mature development stage, with total stock of about 2.6 million sq metres (28.0 million sq ft). Rents have been rising steadily since 2009, with the average occupancy rate staying above 85%. Net yields are above about 6%.
Well-known developers are concentrated in the Longquanyi, Shuangliu, Qingbaijiang and Xindu districts, but due to limited availability of land, these developers are gradually looking to expand to the second ring expressway. Due to the declining supply of logistics and warehousing land, as well as increasing demand, we expect the vacancy rate to continue to decline in future.

Figure 60: Chengdu Logistics Parks: Total Stock and Occupancy Rate

![Graph showing total stock and occupancy rate for Chengdu Logistics Parks]

Source: Colliers International

Influenced by the Chinese government’s “One Belt, One Road” policy, the establishment of the free trade zone and the Rong’ou international express railway, the import and export trade in Chengdu in 2017 has accelerated. Indeed, the growth rate in trade ranks first in China. The Thirteenth Five-Year Plan for the development of Chengdu’s modern logistics industry has determined the key development direction of Chengdu’s modern logistics industry for the future. The spatial layout and functional positioning of the five logistics parks and six logistics centres in Chengdu have been systematically clarified. According to the government’s planning and data analysis, there are many projects under construction in the Chengdu International Railway Port and Longquanyi district, bringing opportunities to Chengdu’s logistics industry. Shuangliu airport district, as a traditional logistics park, has many mature and quality projects.

According to Chengdu’s “eastwards” policy, in the future a large amount of industrial capacity should be put into the Jianzhou new city, Huizhou new city and new airport town, with Chengdu’s manufacturing centre moving eastward. The east side of Longquan mountain should become the main area of industrial space and economic development. The development of warehouse space in these districts should benefit from the expansion of Chengdu international railway port, Tianfu international airport and industrial aggregation.

Figure 61: Location Map of Longquan Mountain and Jianzhou New Town, Huazhou New Town and New Airport Town

![Map showing the location of Longquan Mountain and Jianzhou New Town, Huaihong New Town and New Airport Town]

Source: Colliers International
413 offices in 69 countries on 6 continents

United States: 145
Canada: 28
Latin America: 23
Asia Pacific: 86
EMEA: 131

$2.7 billion in annual revenue
2 billion square feet under management
15,400 professionals and staff

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About Colliers International Group Inc.

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