BUILDING ON STRENGTH

Investors agree momentum is stronger than drag
Among all “tail risks,” China alone accounts for 61% of all the attention in our survey, as topics like US-China trade tensions, Chinese economic slowdown and China’s debt levels are in focus. This indicates China’s importance in shaping the global economy in the years ahead.

When asked about the investments expected in 2019, 68% of the respondents believe total spending in China’s real estate market will increase or maintain flat YoY, as investors are adopting a long-term view to avoid missing out on the major long-term growth potential.

Among the investor respondents willing to spend, more than 22% have budgeted over USD500 million for investments in China’s real estate market in 2019. The other 63% are planning to spend between USD100 million and USD500 million.

2019 has been a challenging year from the start, and will probably remain so. With uncertainty over global growth and central banks wavering on their monetary policies, Colliers’ investment survey provides guidance to the challenges ahead and the opportunities available in China:

> For developers, office, residential assets, business parks, retail malls and logistics warehouses will likely be the main areas for capital deployment, but alternative assets, notably data centres, should provide a better risk/reward profile with less competition and higher demand growth.

> For fund managers and investors, despite China’s rising headwinds, continued investment in the market is the best strategy to capture the long-term growth potential. From a geographical standpoint, investors’ portfolios should focus on Tier 1 cities for stability and to capitalise on emerging cities for better price appreciation.

> For investors and developers currently sidelined, China’s economic slowdown and US-China trade tensions should provide a window of opportunity to buy at low prices. While we expect cash-strapped developers or asset owners to be more flexible over prices.
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With uncertainty surrounding the global economy and concerns over the US-China trade tensions, our recommendations to better cope with the challenges in 2019 and ahead are:

**Developers**
- Tier 1 cities should always be on developers’ radar, but in emerging cities, government support could lead to better long-term development and opportunities
- Offices, residential assets, business parks, retail malls and logistics warehouses will likely be the main areas for capital deployment
- Alternative assets such as data centers should provide a better risk/reward profile with less competition and higher demand growth

**Fund managers**
- Continued investment in China to capture the long-term growth potential
- China’s further opening up should provide new opportunities
- Look at Tier 1 cities for stability and emerging cities for higher price appreciation
- Portfolio to comprise mainly offices, business parks and logistics warehouses, but alternative assets (as detailed on page 14) may yield better returns

**Bargain hunters**
- China’s economic slowdown and the US-China trade war provide a window of opportunity to buy low
- Cash strapped developers or asset owners could be more flexible on prices
- Emerging cities and alternative assets are currently generating less interests, indicating an opportunity to bargain hunt quality assets at reasonable prices
THE CRYSTAL BALL

Insights from professional investors and developers

After a decade of rapid expansion, China’s real estate market is facing rising headwinds. With uncertainty surrounding the global economy and concern over the clashes between the US and China over trade, investors are becoming more conservative on their investment plans and strategies. Therefore, Colliers’ investment survey aims to shed light on how investors and developers will respond to the challenges ahead.

With over 500 surveys distributed and 100 effective responses, Colliers’ survey should provide investors a clearer picture of the economic outlook, the investment strategies employed and opportunities available in China. Investors could, therefore, act accordingly and adjust their capital deployment and investment plans to better cope with the challenges ahead.

TRENDS AND RISKS

Question 1: What are the major trends that will define or shape the world in the coming year? (multiple choice selection)

Not surprisingly, concern over China’s economic growth tops the investors’ spotlight as 25% of the respondents believe this will be a major swing factor for the world’s economy in 2019. Coming at second and fourth, respectively, are concerns about Europe’s economic growth and the ongoing US-China trade war that has lasted well over a year. However, on the bright side, most investors remain confident that the US will continue to outperform other markets and GDP growth will be fairly solid.
Question 2: What is the biggest global economic “tail risk” for 2019? (multiple choice selection)

Among all the swing factors in 2019, the question of whether the world's two biggest economies can work out a trade deal is the most important concern for the investment community. Apart from the US-China trade war, the eyes of the world remain fixed on China, as concerns about an economic slowdown and the country's debt levels are also closely monitored with 23% and 14% of respondents, respectively, believing these will be the biggest tail risks for 2019. Tallying up the numbers, China alone accounts for 61% of all the worries for the investors.

Concerns on the economic well being of the emerging markets came in at #3, as 15% of the respondents believe this will be the biggest tail risk for the global economy in 2019. Some investors are worried about the debt levels of the US, which 10% of the respondents believe will possibly lead to negative surprises in 2019. Interestingly, while 8% of the people believe credit tightening measures and interest rate hikes will be used as measures to counter inflation, 2% of the respondents believed inflation will spiral out of control in 2019.

Source: Colliers International
Question 3: What are the major concerns for China’s economy in 2019? (multiple choice selection)

Trade tensions, high leverage and manufacturing weakness topped the three major concerns for China’s economic growth in 2019. Concerns over unemployment and polarisation of wealth and income in China came in at #4, as over 9% of the respondents believe an aggravated scenario could lead to social unrest and possibly instability.

In addition, strengthened capital control measures received 8% of the votes, as investors worry further tightening could discourage investments in the market, especially inflows of foreign capital. A slowdown in China’s real estate market is another major concern for investors, as the sector accounts for over 20% of the total GDP.

A steady decline in the Chinese currency has also put investors on edge. Among our respondents, 8% believe 2019 could be a repeat of 2016, when capital flight out of China eventually discouraged investment in the domestic market.
STRATEGY AND PRICE APPRECIATION

Question 4: Are you willing to invest more into China’s real estate market in 2019?

Despite all the worries about China’s GDP growth in 2019 and beyond, 49% of the respondents have indicated a willingness to continue their investments, indicating a vote of confidence for China’s real estate market.

Furthermore, with 44% of the people sidelined and waiting for further clarity, we believe this indicates that over 90% of the respondents remain positive long-term on China’s real estate market. In fact, out of the 100 respondents, only six of them have expressed their reluctance to invest more into China’s real estate market.

Question 5: Compared to 2018, what do you think China’s real estate price appreciation will be in 2019?

The majority of investors expect capital appreciation in 2019, while only 12% of the respondents believe asset prices will fall in a range of 5-20% over 2019.

Breaking down the numbers, 26% of the respondents expect prices to remain flat YoY, while 45% of the people believe a 5-20% YoY asset price appreciation is achievable in 2019. At the high end of the spectrum, 16% of the respondents are extremely bullish about China’s real estate market, as they believe the government will continue to roll out supportive measures and 20% YoY capital appreciation is probable. Overall, 61% of investors remain optimistic on China’s property prices, as they expect assets to appreciate in 2019.
WHAT ARE THE LEAST AND MOST ATTRACTIVE ASPECTS OF INVESTING IN CHINA’S REAL ESTATE MARKET?

Source: Colliers International
Question 7: When investing in China, what is the expected holding period, yield and IRR for assets?

In terms of asset duration, the numbers are evenly split among 1-3 years, 3-5 years, and over 5 years, as each received 24%, 29% and 28% of the votes, respectively. The fact that no respondents intend to flip assets in under one year indicates that investors are still fairly confident about China’s long-term economic outlook.

In terms of gross yield expectations, the majority of investors have indicated a 5-6% yield would be the ideal return for their investments, while 14% of the people are aggressively targeting 9% or higher.

From an internal rate of return (IRR) perspective, 38% have indicated a 14-17% return, while 31% have targeted a 11-14% payback. Interestingly, 14% of the respondents have shown a conservative approach this year and are satisfied with an IRR of 8-11%.
**Question 8: What is the investment strategy in China and the expected investment amount?**

Similar to the previous question on investors’ willingness to invest in China, the great majority of the respondents have indicated a desire to increase or maintain their investment amount in China. Only 8% of respondents have expressed concerns and plan to decrease their spending in China. Despite China’s possible slowdown in 2019, investors are generally adopting a long-term view towards the market to avoid missing out on the high potential long-run growth.

Among the investors willing to spend, 22% have aggressively budgeted over USD500 million for investments in China’s real estate market in 2019. The bulk of the investors indicated they will adopt a slightly more conservative approach, as 63% of the respondents plan to spend between USD100 million and USD500 million.

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**Figure 10: Expected investments in China in 2019**

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Increase on a year-on-year basis</td>
<td>43%</td>
</tr>
<tr>
<td>Flat on a year-on-year basis</td>
<td>25%</td>
</tr>
<tr>
<td>Undecided</td>
<td>24%</td>
</tr>
<tr>
<td>Decrease on a year-on-year basis</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: Colliers International

**Figure 11: Investment plans in China in the next few years**

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continued investment into China to capture the huge potential market demand</td>
<td>63%</td>
</tr>
<tr>
<td>Limited investments, but no plans to withdraw from the market</td>
<td>20%</td>
</tr>
<tr>
<td>Currently evaluating and undecided</td>
<td>12%</td>
</tr>
<tr>
<td>Anticipating a decrease as part of a global diversification strategy</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: Colliers International

**Figure 12: Expected investment value in China in 2019**

- **More than USD 500 million**: 22%
- **USD 300 million to USD 500 million**: 17%
- **USD 200 million to USD 300 million**: 22%
- **USD 100 million to USD 200 million**: 24%
- **Less than USD 100 million**: 15%

Source: Colliers International
GEOGRAPHIC, ASSET TYPE AND ALTERNATIVE ASSET PREFERENCES

Question 9: What are the clear best Chinese geographical locations and cities to invest in? (multiple choice selection)

From a geographical standpoint, East China remains easily the top preference among investors, followed by South China which is benefiting from optimism about the future development and integration of the Greater Bay Area (GBA).

In terms of city selection, not surprisingly, Shanghai tops the list as 40% of the respondents remain positive about the long-term development potential of the “Paris of the Orient”. Beijing is the runner-up, garnering 24% of the votes, followed by Shenzhen on 20%. Despite emerging areas’ potential, investors have shown a more conservative approach as only 9% of respondents favour these cities.

Source: Colliers International
Question 10: Would you consider investing more into other emerging cities in China and where?

In China, investments in emerging cities represent a dilemma as a conservative approach could result in missed opportunities, but a bold step forward could translate into fierce competition in an oversupplied market. Among the respondents surveyed, only 34% have shown confidence in making strides into emerging cities in China, while 58% of respondents have either indicated a reluctance or are currently evaluating.

For the bold and brave willing to make long-term commitments, Hangzhou tops the list with 30% of the respondents expressing a desire to invest. Chengdu and Suzhou also collected 18% and 16% of all the votes, respectively.

Wuhan was the fourth most popular selection, garnering 15% of the vote.

Among emerging Chinese cities, Hangzhou, Chengdu and Suzhou top the list, and are obvious choices. Wuhan was a surprise, as it was the fourth most popular selection, garnering 15% of the vote.

Source: Colliers International
**QUESTION 11**

In China, what type of asset would you primarily invest in, and what is the preferred alternative asset?

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**Figure 16: Investors’ preferred asset types and preference on alternative assets in China**

The most welcome asset types:
- Residential: 28%
- Office buildings: 13%
- Mixed-used buildings: 11%
- Business parks: 10%
- Retail malls: 8%
- Logistics and warehouses: 8%
- Medical and beauty: 7%
- Schools: 7%
- Hospitals: 6%
- Development land: 2%
- Business parks: 10%
- Other: 26%
- Data centres: 11%
- Senior housing: 11%
- Long-term lease apartments: 13%

Source: Colliers International. Note: Investments in these alternative assets in China may manifest themselves in the form of an equity investment in the underlying business, a JV partnership, or other mechanisms.
Question 12: What are the major reasons for the possible alternative asset investment plans in 2019? (multiple choice selection)

In terms of asset selection, investors continue to prefer offices, residential assets, mixed-used buildings, business parks, retail malls and logistics warehouses as areas for capital deployment. Despite the buzz in recent years, alternative assets have only 2% of the votes, as investors remain conservative in this realm. Among the alternative assets, data centres top the list with 26% of votes, followed by senior housing and long-term lease apartments.

For investors looking to invest in non-conventional items, alternative assets provide a range of benefits that other asset classes cannot match. These include higher growth from a low base and a niche market with relatively limited competition.

In addition, 20% of respondents have indicated that business and asset diversification is vital to their company’s long-term growth strategy, a key reason why divestment plans into alternative assets are considered. For some alternatives, tax incentives or government subsidies are provided by the local government, which explains why 15% of the respondents are willing to invest more into this area.

Source: Colliers International
POLICIES AND FINANCING

Question 13: Will more favourable policies be issued in 2019, and what would be the triggers for China’s change in tone? (multiple choice selection)

Coupled with a possible slowdown and a stalemate of the US and China over trade, investors are growing edgy over China’s economic development in 2019. In response, 76% of respondents believe that the Chinese authorities will eventually roll out support measures to stimulate the economy, especially when the country’s targeted GDP is 6.0-6.5% in 2019. Among the major triggers that would “force” the policy makers to react are lower than expected private sector investment (21%), a prolonged and frozen real estate market (19%), a trade war that extends for a period of time (18%), and worse than expected domestic consumption growth (18%).

Figure 19: Triggers leading to more supporting measures for the real estate market in China in 2019

Source: Colliers International
Question 14: How would you describe your ability to secure financing in China in 2019?

Since early 2018, deleveraging has been one of the main themes in China. Surprisingly, 63% of the respondents believe that while banks and regulatory bodies have been more stringent over companies’ debt issuance, their ability to secure required financing remains acceptable. Based on Colliers’ survey, only 28% of the respondents find it hard to secure a loan, while 9% of the people believe access to liquidity remains fairly easy.

Compared to 2018, 44% of the respondents believe that policies in place remain unchanged this year, while the view on increased hurdles and relaxations remains split at 28% each.

Question 15: Will your funding come primarily from onshore or offshore sources?

Depending on the government policies in China, the amount of liquidity available and market interest rates, Chinese investors will likely continue to alternate their source of funding between either onshore or offshore markets. In 2019, with capital flow controls expected, 58% of respondents are inclined to raise money in the domestic market, while 33% will look for sovereign debt as the major source of funding.
Question 16: What types of investment vehicle or source will be your primary routes to securing funding in 2019?

Banks will continue to be the most dependent source of funding, as 35% of the respondents indicate this will be their primary source. To lower total invested capital and share risks, joint ventures and strategic alliances are now becoming a popular option, receiving 13% of the votes.

While asset-backed securities (ABS), commercial mortgage-backed securities (CMBS) and residential mortgage-backed securities (RMBS) are in the early stages of development in China, 11% of the investors have indicated a desire to explore structured products as a way of securing the necessary funding. On the other hand, only 8% of the respondents have considered rights issue or equity sales to raise money in 2019, as stock market volatility makes pricing of new shares difficult.
SURVEY RESPONDENT PROFILE

Question 17: How would you best describe the type of investor you are and what is your AUM?

The respondents of Colliers’ investment survey are broad and diversified, including fund managers, developers, SOEs, banks and insurers, and private investors. Based on the survey, 50% of respondents have a portfolio size of over USD5 billion, while 17% have assets under management (AUM) worth USD1 billion to USD5 billion. With over two-thirds of the respondents having AUM of over USD1 billion, we believe Colliers’ survey is fairly representative of the market, and should provide a clearer outlook about what the major investors are expecting.
About Colliers International Group Inc.

Colliers International (NASDAQ, TSX: CIGI) is a leading global real estate services and investment management company. With operations in 68 countries, our 14,000 enterprising people work collaboratively to provide expert advice and services to maximize the value of property for real estate occupiers, owners and investors. For more than 20 years, our experienced leadership team, owning more than 40% of our equity, have delivered industry-leading investment returns for shareholders. In 2018, corporate revenues were $2.8 billion ($3.3 billion including affiliates), with more than $26 billion of assets under management.

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