ALL SECTORS | CHINA | 30 APRIL 2020

COVID-19: INSIGHTS & OPPORTUNITIES FOR CHINA'S REAL ESTATE MARKET

In a recent webinar hosted by the RICS WBEF, experts from Colliers discussed the effects of the COVID-19 pandemic on Asia Pacific, with a focus on real estate markets. This edition of the COVID-19 Q&A reflects the views of Tammy Tang, Managing Director, China.

1 Which sectors of the Chinese real estate market, if any, stand to gain from the disruption, and which will be hardest hit?

Not surprisingly, the retail sector has been hit the hardest since the outbreak of the coronavirus. With reduced business hours and increased control measures implemented in most retail malls or shops, foot traffic declined significantly. To counter losses, we recommend retailers take the opportunity to reposition themselves, and further strengthen their online presence. Furthermore, we suggest that retail landlords establish e-commerce channels with their tenants to benefit local economies.

Data centres and logistics warehouses have emerged as the strongest sectors, followed by public hospitals and clinics. Lately we have seen that the current supply and infrastructure of data centres and logistics warehouses do not actually support usage and growth, particularly in urgent situations. China recently announced seven major infrastructure sectors that need to be developed, data centres being one of them. It is the first time infrastructure has become a national priority because of data usage and online protocols, so this will be an interesting sector to watch.

2 How has China reacted to economic and policy responses?

China was probably the first country to somewhat recover from the situation and we have already seen a huge rebound in confidence and spending power. Restaurants are packed in major cities. Shanghai has already relieved social distancing measures, as have some second tier cities; for example, Chengdu and Ningbo. Many cities are seeing a rapid pace of recovery. More recently, Hangzhou and Nanjing launched a spending rewards program offering spending coupons through WeChat and AliPay. Hangzhou alone has issued RMB 1.6B of spending coupons subsidized by the government. After being in lockdown for more than eight weeks people are now desperate to get out and spend money.

The change in spending patterns should also translate to a larger customer base for online retailers and logistics operators. Senior citizens, who were previously tech-phobic, and so out of reach for e-commerce, are now embracing online shopping for fresh food and other products because they couldn't go out.

3 What recommendations do you have for investors and occupiers in the current market?

Many occupiers are rethinking their strategy and are hoping that they can be more flexible than they were previously; for example, adopting coworking spaces or temporary spaces that can accommodate growth, recognizing that people are working from home, and adopting more technology that will allow them to more easily adapt to any changes.

Since the outbreak, some landlords have actively reached out to tenants, which should result in a more intimate relationship, and we expect that tenants will show their appreciation by staying over the long term. We believe landlords should take this opportunity to establish lasting relationships with their tenants, especially small and medium enterprises (SMEs), which have been hit the hardest, and proactively listen to their clients' needs.

While many sectors have been impacted by the coronavirus, certain sectors such as online gaming, online shopping, online education, pharmaceuticals and healthcare have been little affected, and may even have achieved increased sales. We believe landlords should strive to appeal to these sectors and adjust their tenant mix.

4 When do you expect the market to return to normal?

The broader economic effect on China is still hard to gauge and has likely yet to play out fully, which is why we believe jumping to conclusions or making bold predictions at this stage may not be helpful. To better understand how the market is reacting to the coronavirus outbreak, we recently completed over 700 telephone surveys with landlords, tenants and investors. The survey provides more clarity on how market participants should position themselves in the coming months and throughout the year. Based on the survey, the consensus is that while H1 2020 will be relatively subdued, demand should pick up in H2 owing to policy support. This recovery in demand should make up for much of the lost activity in H1.

Colliers INTERNATIONAL

Please visit our microsite to listen to the webinar and to learn more about our insights and recommendations for investors and occupiers in APAC.

TAMMY TANG
Managing Director | China
+86 21 6141 3688
Tammy.Tang@colliers.com