News Release

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Knight Frank Publishes the "China Real Estate Market Outlook 2020"

02 January 2020 (China) – Renowned global private real estate consulting service company Knight Frank published its **"China Real Estate Market Outlook 2020" today and provided a forecast of real estate market trends in Chinese Mainland and Hong Kong in 2020.** According to data recently published by the National Bureau of Statistics of China, China's GDP in the first three quarters of 2019 amounted to RMB 69.7798 trillion which was an increase of 6.2% from the previous year. The overall domestic economy has remained stable. Some international organizations and market institutions have lowered their forecasts for the economic growth rate in Chinese Mainland in 2019 and 2020 although the first phase trade deal between China and US has reached a "consensus on principle", trade relations with the US retain challenging in the medium to long-term.

The International Monetary Fund (IMF) reduced its forecast of China's economic growth rate in 2019 and 2020 to 6.2% and 6% respectively in mid 2019 . Goldman Sachs predicted that China's real GDP growth rate was 6.1% in 2019 and it would be 5.9% in 2020. Amid the complexities and challenges in the domestic and international economy, slowdown in global economic growth, and increasing external uncertainties, China continues to implement large-scale tax and fee reductions and optimization of policies for the business environment to stimulate economic growth.

2020 Chinese Mainland real estate market forecast:

- The housing prices in tier one cities in the Chinese Mainland residential market is expected to increase between 3% and 5% and the growth will surpass those in tier three and tier four cities.

- Large amount of office buildings and a number of existing inventory of refurbished projects in tier one cities in Chinese Mainland are expected to enter the market, competition will become relatively intense.

- The consumption scale in Chinese Mainland in 2020 will remain stable. The number of newly opened shopping malls in China may reach a new high, and competition on the supply side will be fierce.

  5G technologies will empower the intelligence development of the logistics industry in China. The warehouse and logistics markets in Chinese Mainland will continue to soar next year, and the warehousing and storage rents will continue to rise healthily.

- The real estate investment market in Chinese Mainland will remain active in 2020**,** and office building projects and warehouse logistics properties will remain one of the most popular types of investments in the real estate sector.

Residential market in Chinese Mainland

David Ji, Director, Head of Research & Consultancy, Greater China, stated: “As the Ministry of Housing and Urban-Rural Development has repeatedly emphasized that its policy of “no speculative investments in the residential market, stabilize housing prices, and establishment of effective long-term mechanism” remains the same, the possibility of significant fluctuations in the residential market in 2020 is very small. “Maintaining stability” will continue to be the main trend in 2020. We believe that the increase in housing prices in tier one cities in 2020 will surpass those in tier three and tier four cities, mainly because tier one cities have advantages in terms of economic foundations, market resources, population, and talent policies. They also have stronger inelastic demand for housing as well as need for improvements. The reduction of high inventory in tier three and tier four cities has been basically completed and the extra dividend of “Subsidies for Shantytown Redevelopment Projects” have gradually disappeared. The demand has therefore weakened and the rising housing prices may soon enter the adjustment stage. We predict that the housing prices in tier one cities in 2020 will increase between 3% and 5%, while that in other cities will increase between 2% and 3%.

2020 Chinese Mainland tier one city residential housing price forecast:

City	Housing Price
Beijing	+3% to +4%
Shanghai	+4% to +5%
Guangzhou	+3% to +3.5%
Shenzhen	+3% to +4%

Grade A office buildings market in Chinese Mainland

Regina Yang, Director, Head of Research & Consultancy, Knight Frank Shanghai & Beijing, stated: “Due to the impact of the trade war between the United States and China and the slowdown in global economic growth, the demand for leases of Grade A office buildings in main cities in China is weakening. We are not particularly optimistic about the performance of Grade A office buildings in Chinese Mainland next year. The demand for rentals in the market will concentrate in a handful of traditional popular industries and emerging industries with support from policies and fiscal administration such as high-end finance, advanced manufacturing industries, and advanced technologies such as artificial intelligence and new energy development. In terms of supply, competition remains relatively intense. In addition to a large amount of office supply which will soon be delivered, there will also be a number of existing inventory of refurbished projects on the market. These new office spaces will put pressure on rents. We expect to see a 2% to 3% decline in the average rent of Grade A office buildings in tier one cities in 2020, and the vacancy rate will continue to rise."

2020 Chinese Mainland tier one city Grade A office building rent forecast:

City	Grade A Office Building Rent
Beijing	-2.5% to -3%
Shanghai	-2% to -3%
Guangzhou	No change
Shenzhen	-2% to -2.5%

Retail property market in Chinese Mainland

Timothy Chen, Senior Director, Strategic Advisory, China, said that: "With the impact of multiple unfavourable external factors, the increase in various retail indicators of the retail industry in China has gradually slowed. In the first 11 months of 2019, China's total retail sales of consumer goods amounted to RMB 38.094 billion, an increase of 8% YoY. The growth rate was 1.1% percentage points lower than in 2018. In the first 11 months, total online sales amounted to RMB 9,495.8 billion, an increase of 16.6% YoY, a decrease of 7.5% percentage points from 2018. Despite the decline in consumption and retail, we expect domestic consumption growth to remain stable in 2020 due to the demographic dividend and progress of urbanisation. The total area of newly-opened shopping centres in China in 2020 remains substantial and the number of new shopping centres may reach a new peak. Most of the newly opened shopping malls are positioned as mid-tier malls, including re-open projects that being renovated after the full closure. Competition remains intense on the supply end. Demand for brick-and-mortar stores has been redirected to online shops which leads to a cautious expansion plan by retailers. Under the fierce competition, the proportion of experiential stores, services, and food and beverage stores in shopping centres will continued to increase."

Warehouse and logistics markets in Chinese Mainland

Ying Shin Lee, Managing Director, Knight Frank Shanghai, said: “The logistics industry in China has entered a stage of transformation and upgrading. The launch of a series of state policies has directly benefited the development of e-commerce and logistics industries and increased demand for modern logistics. The demand for automation, mechanization, and intelligence in logistics will continue to grow. With the arrival of the smart logistics era, an intelligent logistics system based on 5G technology will fuel the automation and intelligence development in the logistics industry in China. At the same time, cold chain logistics is also gradually emerging as a new form of development in the market. In terms of supply, the high-quality warehouse inventory in China has failed to sustain growth in supply. This issue is particularly severe in tier one cities where governments have torn down numerous illegal buildings and imposed requirements for tax revenue. The supply of new warehouse lands has decreased and it prevented the large-scale construction of high-quality warehouses. We predict that the warehouse and logistics markets in tier one cities in China and their surrounding satellite cities will continue to grow and the rents of logistics warehouse will increase steadily. "

Investment market in Chinese Mainland

Alan Liu, Managing Director, Knight Frank China, stated: “The real estate market will remain active in 2020. Shanghai and Beijing will remain the primary destinations for institutional investors. As development continues in the Guangdong-Hong Kong-Macao Bay Area, we expect the investment market in Guangzhou and Shenzhen to become increasingly active. The main buyers in the future will remain domestic institutions and the proportion of foreign investors will continue to rebound. In terms of asset categories, office building projects and logistics warehouse are still the most popular types of investment in the real estate sector. In addition, certain asset categories such as urban renewal projects, business parks, and cold chain logistics projects also continue to attract investors. With the arrival of the high-tech Internet era, the rapid development of big data, artificial intelligence, and other sectors has turned data centres to be popular assets. Emerging areas with greater potential in tier one cities will attract more investors. Examples include the Wangjing Subdistrict and Lize Financial Business District in Beijing, Jinqiao and Zhangjiang Hi-Tech Park in Shanghai, Pazhou in Guangzhou, and Qianhai in Shenzhen.”

Hong Kong property market 2020 forecast:

Residential	**Price**
Mass Residential	-5% to -10%
Luxury and Super Luxury Residential	Stable
Office	**Rent**

Hong Kong Island Grade-A Office	-6% to -8%
Kowloon Office	-2% to -4%
Retail	**Rent**
Prime street retail	-15%

David Ji, Director, Head of Research & Consultancy, Greater China stated: "Overall, the transaction volume of Hong Kong first-hand and second-hand homes will be on a par with last year, we expect the total residential sales volume to reach 60,000 units in 2019. We foresee the mass residential home prices will drop slightly by 5%-10% in the coming year, but the reoccurrence of the 1997 property market crash is very unlikely.

Leasing sentiment in Kowloon is weakening due to the uncertain outlook for both local and global economy. It is expected that the rent of Grade A office buildings on Hong Kong Island will fall by 6-8% next year, and that in Kowloon's core district will drop by 2-4%.As for the Hong Kong retail market, we foresee that despite Hong Kong's retail spending to remain under pressure in 2020, the retail industry is expected to gradually enter a "new normal". Consumers spending power and sentiments are negatively impacted by the ongoing social unrest, retailers and shopping malls in key shopping districts, such as Central, Causeway Bay, Tsim Sha Tsui and Mongkok, have been severely affected by the protests in these districts. Consumers prefer to shop in local communities, the role of neighbourhood malls would be strengthened, resulting in the development of 'local community hubs'."

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Note to Editor:

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