

Shanghai outlook

Looking on the bright side

7 April 2020

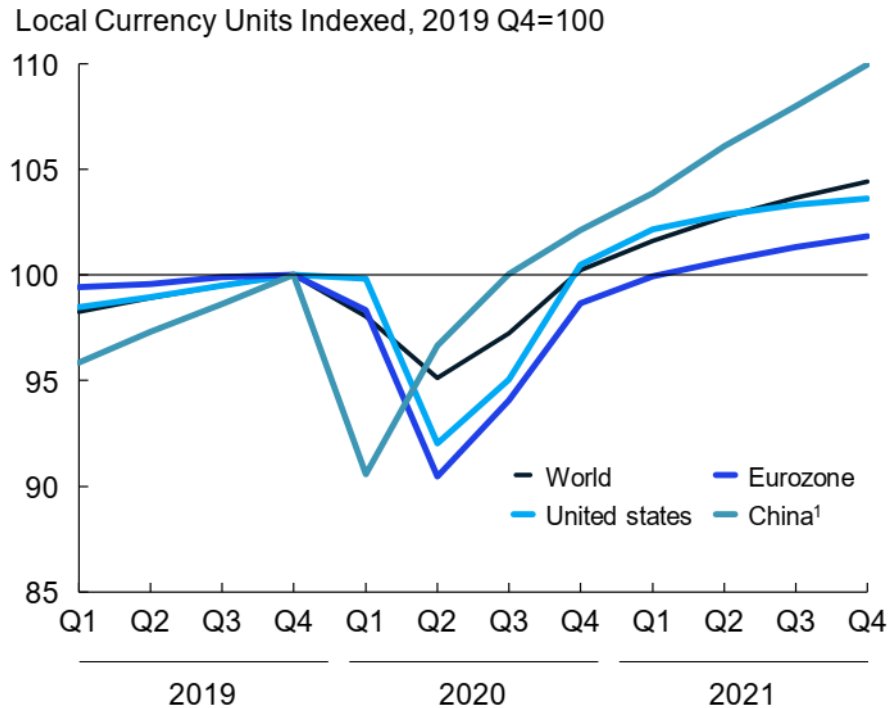
A range of opinions on growth rates

The most bearish forecast predict an outright contraction of the economy or minimal growth. The sharper the slowdown the bigger the recovery in 2021.



Virus contained, slow recovery

Real GDP Growth – COVID-19 Crisis

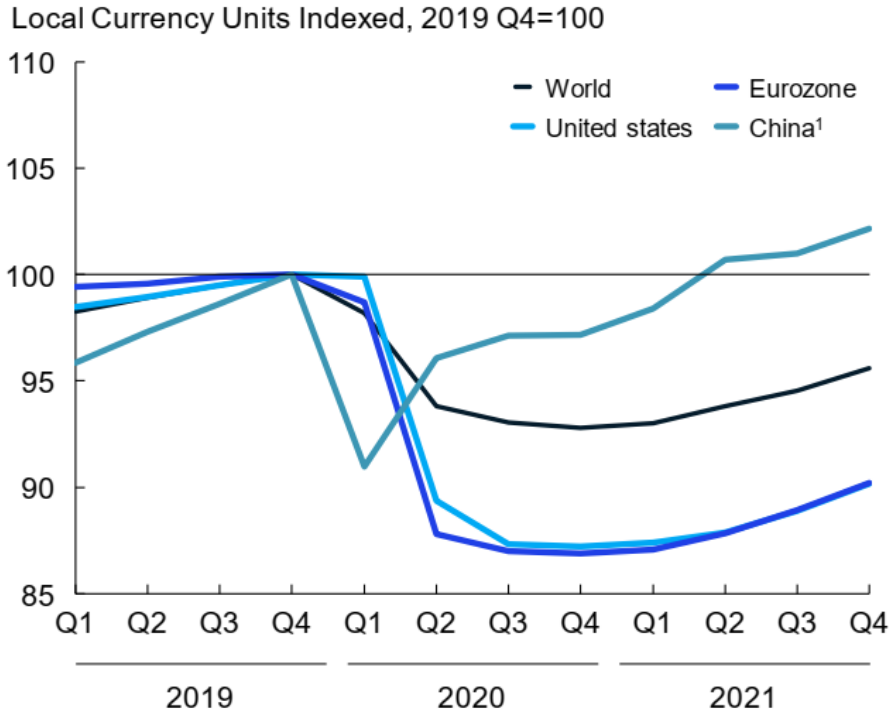


	Real GDP Drop 2019Q4-2020Q2 % Change	2020 GDP Growth % Change	Time to Return to Pre-Crisis Quarter
China	-3.30%	-0.40%	2020 Q3
USA	-8.00%	-2.40%	2020 Q4
World	-4.90%	-1.50%	2020 Q4
Eurozone	-9.50%	-4.40%	2021 Q1

- Economic growth will be impacted everywhere.
- China went for a short, painful process to get the virus under control.
- Other nations have opted for more protracted periods while trying to maintain the economy as best they can. Which strategy is best remains to be seen.
- China's command economy and increasing push for self-reliance may prove to extremely useful during this period.

Virus resurgence, slow long-term growth, muted recovery

(Real GDP Growth – COVID-19 Crisis)



	Real GDP Drop 2019Q4-2020Q2 % Change	2020 GDP Growth % Change	Time to Return to Pre-Crisis Quarter
China	-3.9%	-2.7%	2021 Q2
USA	-10.6%	-8.4%	2023 Q1
World	-6.2%	-4.7%	2022 Q3
Eurozone	-12.2%	-9.7%	2023 Q3

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yes
Soon

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Retail market



- China is still the second largest consumer market in the world and a key focus for international retailers.
- International retailers will be relying on China as consumption in the rest of the world slows.
- Accumulated savings from first two months of the year.
- Revenge spending & deferred purchases help certain sectors record stronger recovery.
- Consumer online engagement pays off for leading brands, but shoppers still want to go out.
- Market consolidation to bigger brands who tend to focus on mall locations.

Domestic consumption essential to the economy



CHINADAILY 中国日报网 Global Edition Mar 30, 2020

HOME OPINION VIDEO WORLD CHINA TECHNOLOGY BUSINESS CULTURE TRAVEL

• Macro

Chinese cities launch voucher campaigns to boost epidemic-hit consumption

Xinhua | Updated: 2020-03-25 17:11

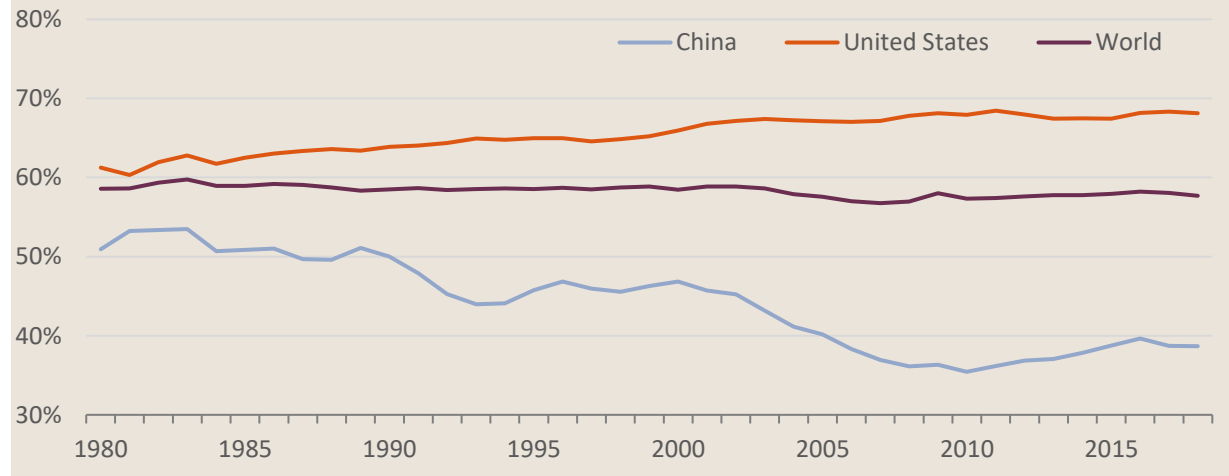
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China is relying more on domestic consumption, an area with a tremendous scope for future growth, to push the economy forward.

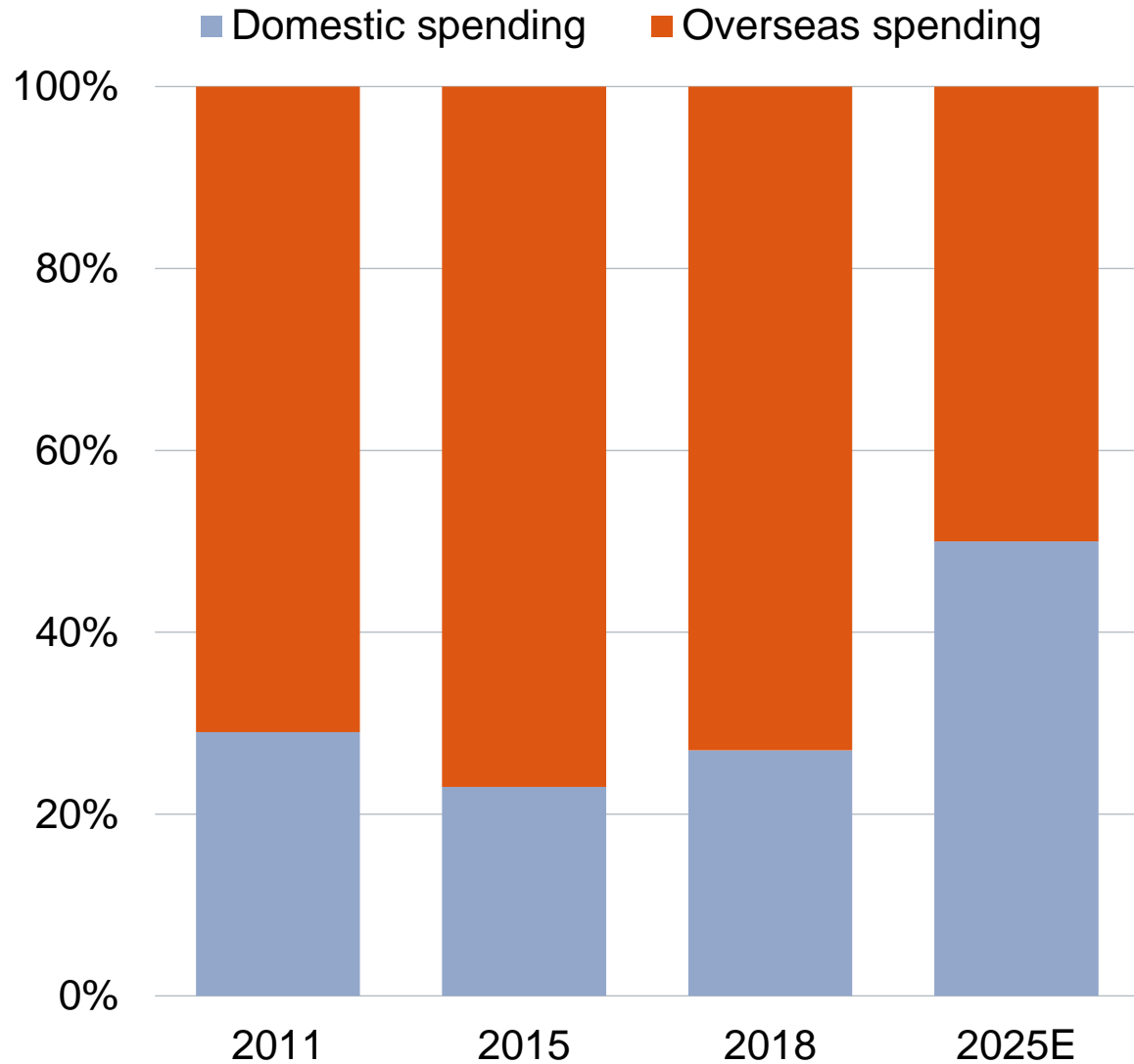
- Household consumption only contributes 37% to GDP
- Household savings rates are still close to 33% of incomes

Governments are working with online platforms and landlords to encourage consumers through coupon and promotional campaigns.

Landlords and retailers working closer together to overcome short term difficulties, and build stronger relationship going forwards.



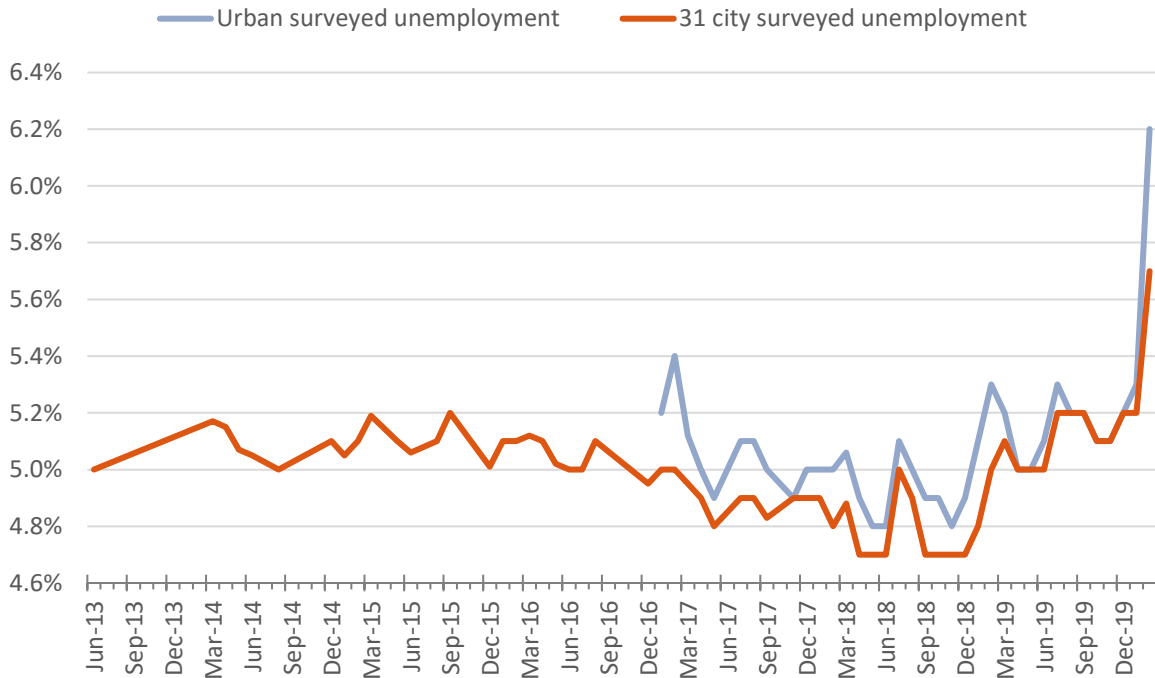
Domestic travel = Domestic consumption



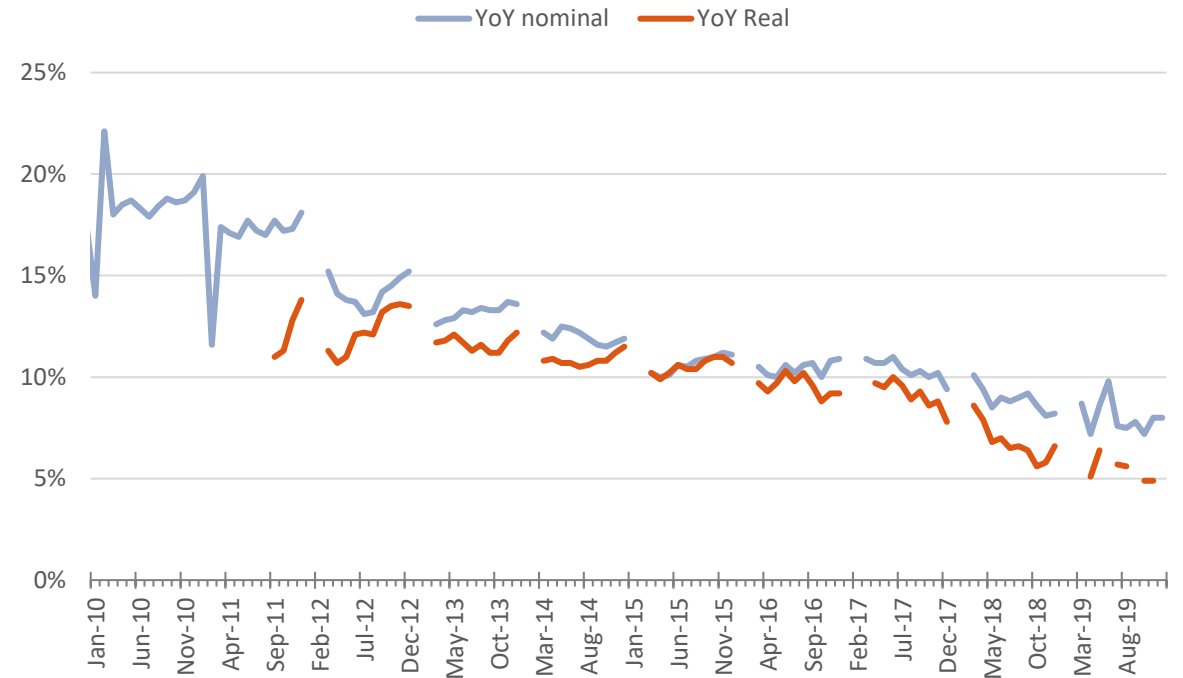
- Greatly reduced overseas travel (2019: 169 million) to boost domestic tourism and consequently expenditure
- Luxury segment to benefit in particular as majority of consumption used to take place overseas.
- Estimated 73% of luxury consumption took place overseas in 2018, approximately €62 billion.
- Trip.com is already seeing the recovery of domestic trip bookings for May/June.

Reasons for caution

Unemployment



Retail sales growth



- China's retail market has been struggling with excess supply for several years while retail sales growth rates are in permanent decline--real growth reached 5% by the end of 2019. At the same time, we are seeing increasing competition from online platforms, now accounting for 20-25% of sales.
- Unemployment levels have spiked, this will weigh on consumer confidence and expenditure.



- Retailers will place increased emphasis on online engagement, having made investments over this period and developed deeper engagement/adoption with consumers.
- Retailers, however, will **not** forgo the bricks and mortar stores.
- Emphasis on CSR, product quality and management.
- Better cash flow and inventory management, as well as reviews of suppliers/supply chain management for contingency/redundancy planning.
- Health and wellness sectors are expected to see strong growth as health concerns increase.
- Diversification of business streams for added flexibility and the ability to pivot to market conditions.
- Potential for greater digitisation/automation, although these systems could also be prone to disruption.

Key asset types



Continued shift to online means best investment prospects will have to have convenience, culture, community or cachet. With that the in mind best investment target would be:

Prime malls (Cachet)

- Flagship store, visible, branding

Urban rejuvenation projects (Culture)

- Unique, instagrammable, typically city center

Community malls (Community)

- Resilient, stable, diverse

TODs (Convenience)

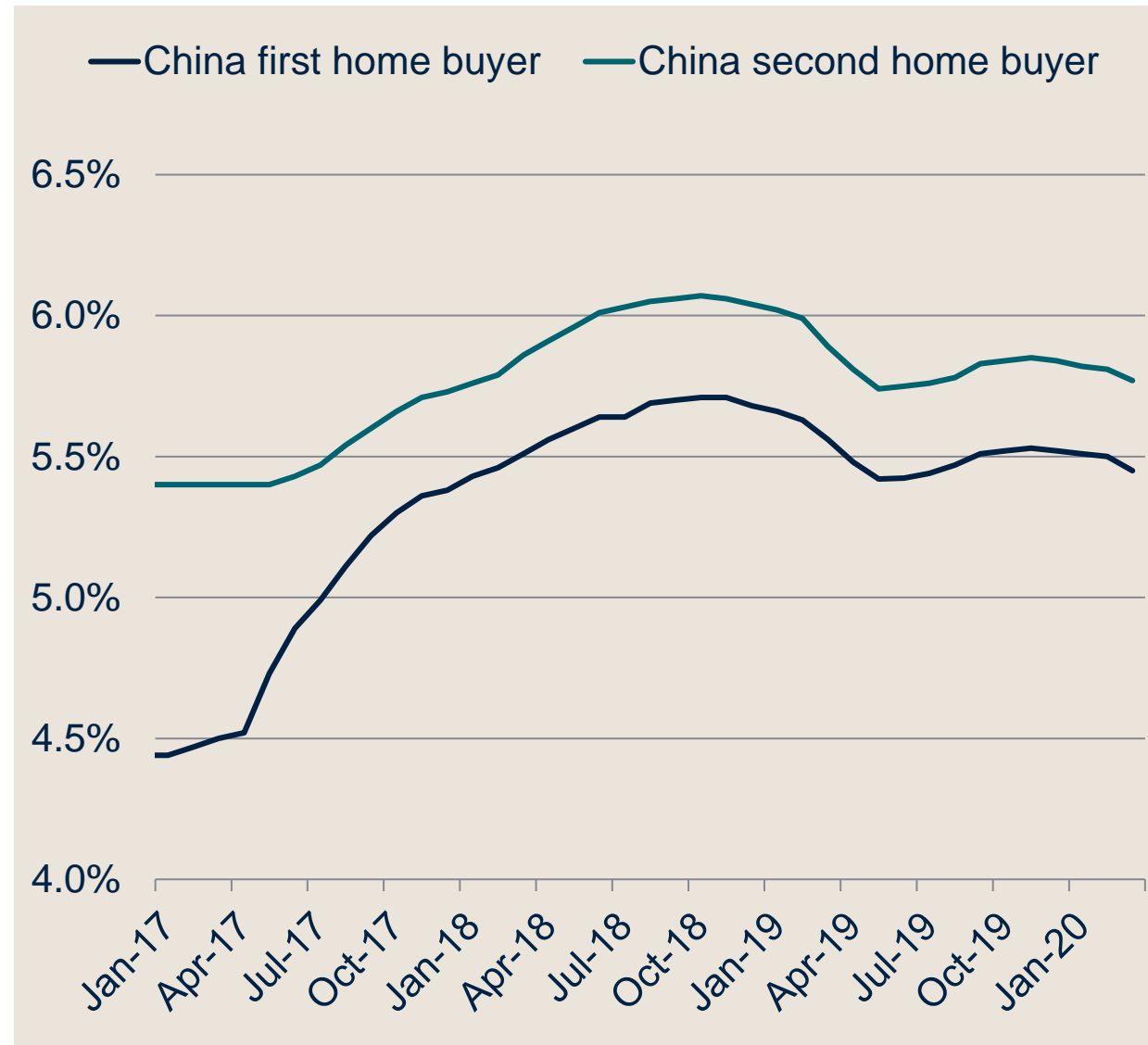
- High footfall, high visibility, wide catchment



Residential market

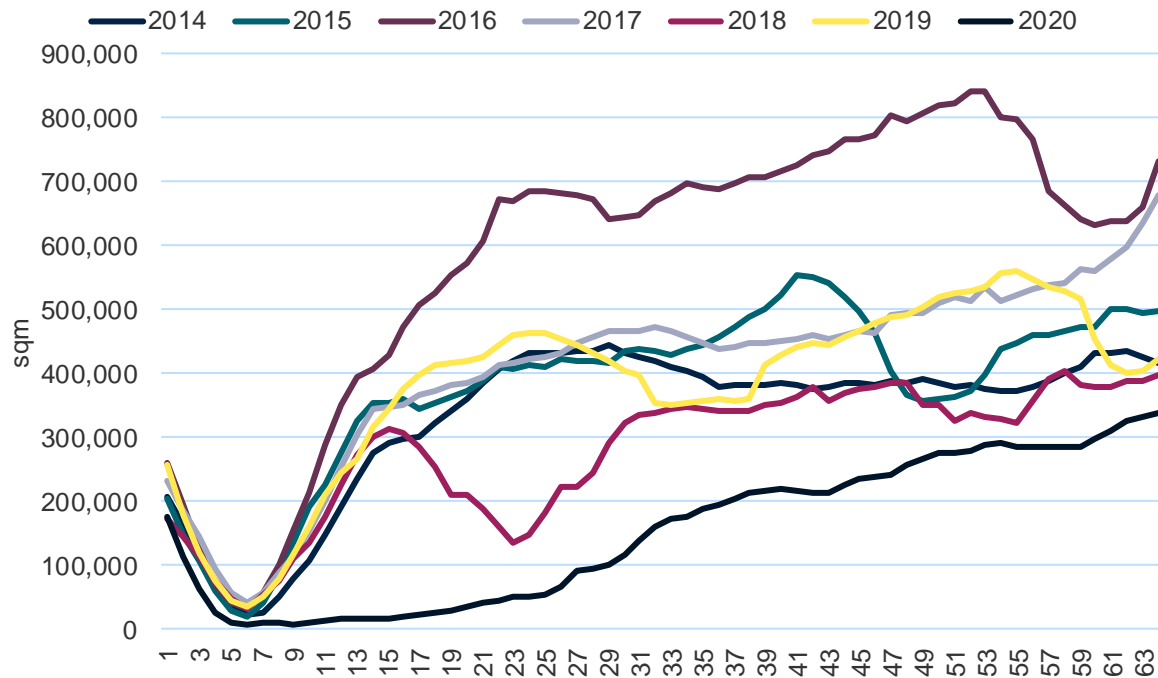
China Average Mortgage Rates (35 Cities)

- The PBOC announced 5-year loan prime rate being 4.80% in Dec 2019, and mortgage rates remained stable. In March 2020, average first home buyer's mortgage rate is 5.45% and for second home buyers the mortgage rate is 5.77%.
- Lowest Top 3:
 - (4.75%) Shanghai
 - (5.05%) Xiamen
 - (5.06%) Tianjin

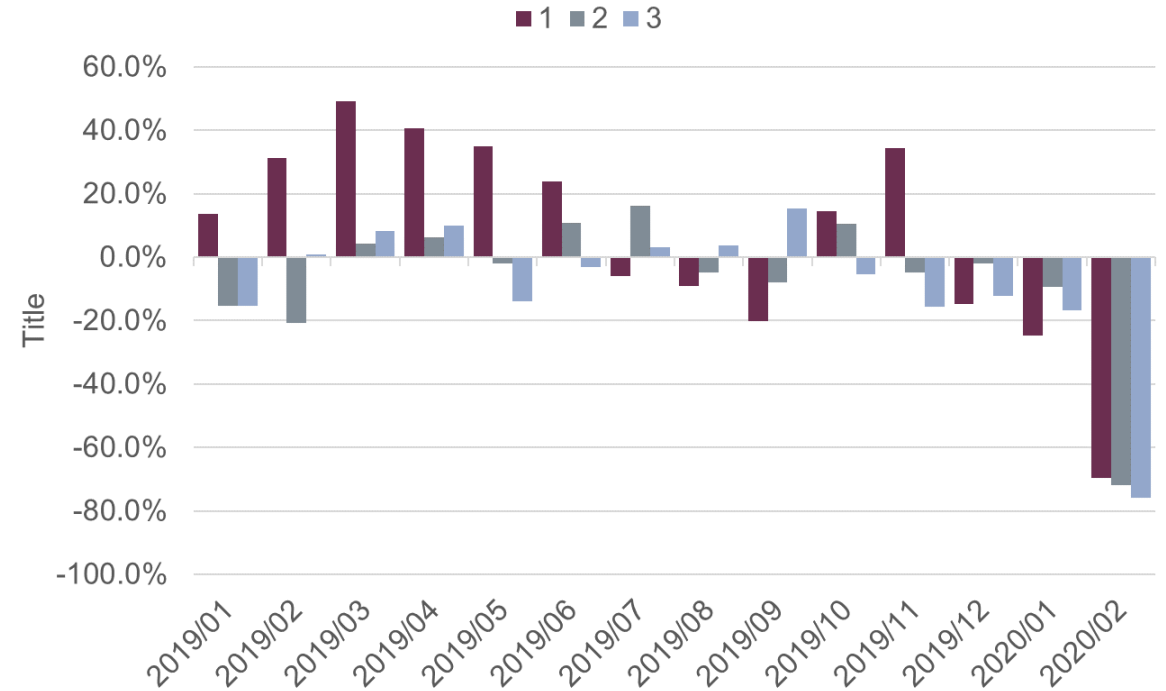


Residential market struggled to sell units during lockdowns

Daily property sales in 28 major cities – 7DMA



Monthly volumes YoY growth



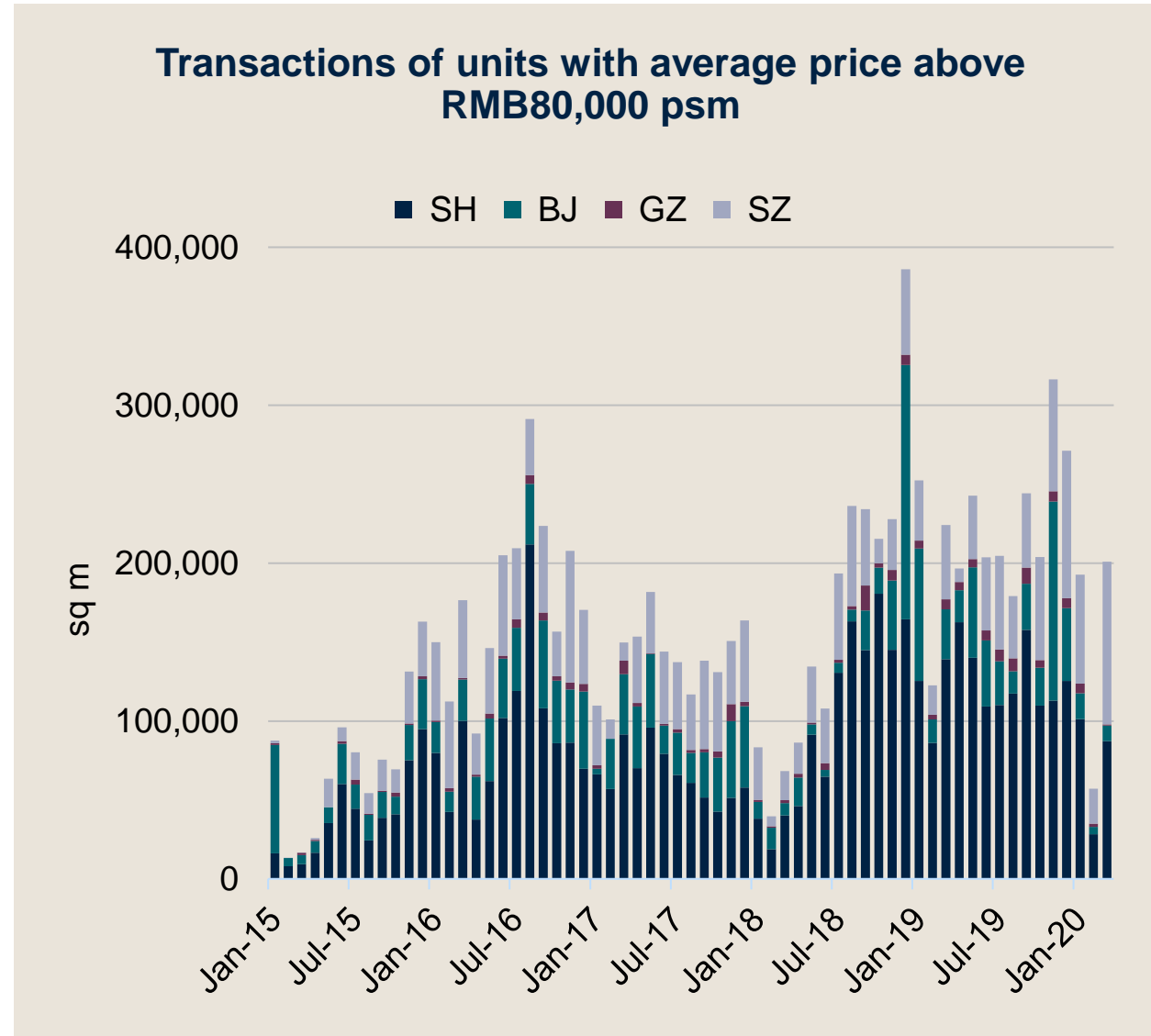
- Volumes had already started to slow on a YoY basis, after seeing a strong first half of 2019.
- The recovery in sales volumes immediately after CNY has been disappointing with many people continuing to stay at home and online sales proving unsuccessful. They are currently at 80% of normal levels.
- Developers are stepping up their marketing campaigns and discounts to drive traffic back to the market.

China Evergrande slashes prices of new flats by a quarter as coronavirus leaves developers struggling with plunging house sales

- China Evergrande says it will offer a 25 per cent discount until the end of February, narrowing to 22 per cent in March, at all 811 of its projects
- Developers are grappling with a cash-flow crisis and mounting debts as the viral outbreak threatens to derail China's vital property market

Residential recovery

- The first-hand residential markets in first-and second-tier cities proved very resilient since 2H/2018 despite restrictive policies.
- Several developers postponed the resumption of construction for around two to three months, potentially with the intention to increase launches in the second half of the year.
- Sales volumes are expected to continue to pick up in the second half as developers look to accelerate sales to meet full year targets and service/pay down outstanding debt.
- Land acquisitions are also expected to gain more attention in 2H/2020 once developers have clearer picture of market conditions and as local governments look to boost revenues that have been depleted by tax concessions.



Questions surrounding residential



Reasons for caution

- A rise in unemployment/salary cuts may result in mortgage defaults.
- Stalling price growth may mean inability to trade up.
- Depending on debt levels, falling prices in some markets may result in negative equity and owners walking away from properties.

How will demand change?

- Individuals likely to pay more attention to the provision of social services – healthcare, education, etc. when looking at which city/district to make their home in the future.
- High-end home buyers are likely to prioritise smaller scale developments in less dense, less crowded and more private communities.

Serviced apartment

- The potential departure of expats families will undoubtedly have a negative impact on high-end serviced apartments that tend to cater to this group.
- Landlords and operators will have to increase efforts to diversify demand base.
- Short-stay business may see rebound of demand coming from summer holidays.
- The development of the leasing market has recently been encouraged but the current situation has left some tenants in limbo and with fewer rights. Tenant rights will need to be reinforced.



Thank you

From the team here at Savills
