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## The Outlook for China60

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www.jll.com/china60
Mainland China’s City Hierarchy, 2015

Indicates the level of economic and property activity based on a weighted model that includes: economic size and growth; population; wealth; infrastructure; exports; FDI and fixed investment; education; business environment; real estate investment volumes; office, retail and logistics stock; developer activity; corporate presence; retailer presence; internationally-branded hotels.

Source: JLL, 2015
China60 – Foreword

“In the 20 years that JLL has been present in mainland China, we have witnessed the fast and furious development of its urban landscape and had the privilege of being involved in many of China’s most iconic real estate landmarks and regeneration projects. While Beijing and Shanghai have led the charge, in more recent years we have seen the massive growth of opportunities in China’s secondary and tertiary cities. In response, JLL launched a research programme in 2006 to assess city prospects across what was then unfamiliar territory for many of our clients. Our China30 report in 2007, China40 in 2009 and China50 in 2012 charted a remarkable journey of unprecedented city-building and modernisation, double-digit economic growth, massive infrastructure investment and unbridled corporate expansion.

The launch of our latest study – China60 – comes at a time when the country is entering a new phase in its economic development. China’s ‘new normal’ is one of lower but more sustainable growth, with a clear shift in emphasis towards expanding its domestic market. The country is moving up the value chain and the unexpectedly strong uptake of e-commerce is adding a new dimension to China’s dynamic. Meanwhile, China60’s top-tier cities are now firmly on the international map; they are building their profiles and looking to global best practice to enhance their city competitiveness.

In the real estate sector, the focus has now switched to corporate demand. Having built the stock, the attention is now on filling it up. Excess supply has become a far more visible feature of all commercial real estate sectors, but China’s cities have the fundamentals to deliver strong demand over the next few years. A new breed of globally-competitive domestic corporations is emerging, whose demand for high-quality real estate is reaching greater heights.

Since our China50 report, combating environmental degradation has also taken on greater urgency. Sustainability issues are rising up the real estate agenda, but now is the time for China’s government to make this a top priority and to bring forth standards for the industry and to see them enforced.

China60 remains one of the world’s most dynamic real estate markets. However, the hype has subsided and the ‘build it and they will come’ approach is no longer a viable business model. Today’s market requires stronger discipline and much more robust planning and decision-making. It also needs deeper commitment from the real estate industry to making China’s cities more productive, liveable, resilient and sustainable. The intention of our China60 study is to provide you with an essential tool for navigating a real estate market that is moving from fast growth to smart growth.”

KK Fung
Managing Director, JLL, Greater China
Mainland China's City Hierarchy, 2015

Score based on a weighted model that includes economic size and growth; population; wealth; infrastructure; exports; FDI and fixed investment; education, business environment, real estate investment volumes; office, retail and logistics stock; developer activity; corporate presence; retailer presence; internationally-branded hotels.

Source: JLL, 2015
Executive Summary

China’s ‘new normal’
China60 is JLL’s latest perspective on the commercial real estate landscape across 60 secondary and tertiary cities in mainland China. In the three years since we last reported on these markets, the landscape has changed as China moves from fast, investment-fuelled growth to a more sustainable model of higher-value, consumption-based growth – the ‘new normal’.

A more complex network of cities
China’s cities have entered a new cycle of consolidation and smarter development. The hierarchy of cities is settling down, with the China60 study revealing an increasingly stable but more complex network of cities:

- China’s Alpha cities – Shanghai and Beijing – have maintained considerable ‘distance’ from the China60. They are setting new benchmarks as they become truly globalised economies, sitting among the world’s top 10 city economies in terms of scale, status and commercial attraction.

- China60’s Tier 1.5 cities have cemented their positions as thriving regional commercial hubs. These nine cities are now firmly on the international map and are developing their global profiles. Tianjin, Chongqing, Chengdu and Wuhan are among the world’s fastest-growing large cities. Xi’an joins the Tier 1.5 group in 2015, having registered one of the quickest rates of progress since the previous study.

- As the balance of economic activity has continued to move inland, cities in the Southwest (Kunming and Guiyang), Northwest (Xi’an) and Central China (Zhengzhou and Shijiazhuang) have recorded, since 2012, some of the strongest advancements on JLL’s City Evolution Curve. However, this trend has been more ambiguous than in previous updates, with several coastal cities (such as Xiamen, Wenzhou and Ningbo) also showing above-average gains.

- Mega city-regions are evolving rapidly in China’s most densely-populated areas. This is particularly well-developed in the Yangtze River Delta (centred on Shanghai) and the Pearl River Delta (centred on China’s Tier 1 cities of Guangzhou and Shenzhen), which each have populations larger than Tokyo:

  - The Yangtze River Delta (YRD) cities have made the greatest economic and real estate progress since 2012, reflecting the predominance of dynamic private enterprises, more advanced supply chains and superior intra-regional connectivity.
  - The Pearl River Delta (PRD) cities feature prominently. Improving intra-regional connectivity, a strong technology base and superior ‘quality of life’ measures put this city-region in a good position for future advancement. Shenzhen, for example, is in the World’s Top 5 in JLL’s City Momentum Index.
  - The recently-announced plans to integrate Beijing, Tianjin and Hebei province signal the government’s ambition to replicate the regional development of the PRD and YRD in the Bohai Bay area, as China’s third economic engine.

1 China50: Fifty Real Estate Markets that Matter, Jones Lang LaSalle, 2012
2 The China60 cities exclude Beijing, Shanghai, Guangzhou and Shenzhen, but these four cities are included in the study for benchmarking purposes
3 Global300 - The New Commercial Geography of Cities, Jones Lang LaSalle, 2014
4 JLL’s City Momentum Index (2015) assesses socio-economic and real estate momentum across 120 major established and emerging cities
Absorbing the existing stock
Since our China50 study, many of China’s cities have moved from a situation of having a limited supply of commercial real estate to one where oversupply has become a far more visible feature of their markets. The transition is happening very quickly.

The China60 cities will continue to grapple with oversupply over the next two to three years. But, with an increasing focus on high-value activities, growth of the consumer classes and huge expansion of domestic private enterprises, its cities have the capacity to absorb this excess supply as they grow into their ‘new skins’. Prospects are strongest for the Tier 1.5 cities, while smaller cities will need to scale back on their reliance on construction as a source of economic growth in order to tame the risk of oversupply.

Despite high construction levels, an under-provision of international-grade inventory is still evident in most sectors:
- The Grade A logistics stock in China is less than 30 million square metres, a volume comparable to that in Southern California. The equivalent stock across the major markets in the United States is estimated to be five-times larger at around 155 million square metres. While a temporary oversupply is emerging in some locations, China60 is still far from having an adequate stock of modern warehouses.
- JLL predicts a total requirement for Grade A office space across China’s top 20 cities of nearly 80 million square metres by 2025, as demand from domestic private enterprises moves to ‘lift-off’. This far eclipses the existing built stock of only 32 million square metres.
- Of the 83 million square metres of built shopping malls in China, only 10%-15% is estimated to be of international-grade. This compares to 405 million square metres in the United States, or 1,500 square metres per 1,000 head of population against only 235 square metres in China.

China’s Commercial Real Estate Stock

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<tr>
<th>Logistics</th>
<th>Offices</th>
<th>Shopping Malls</th>
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<tr>
<td>China’s leasable logistics stock is 29 million sq m – equivalent to Southern California</td>
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<tr>
<td>Its logistics stock is only one-fifth of the U.S. – an economy of similar size by purchasing power</td>
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<td>Demand for 80 million sq m of Grade A offices by 2025 in China’s Top 20 cities, as domestic private enterprises move to ‘lift-off’</td>
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<tr>
<td>Existing Grade A stock in China’s Top 20 cities is 32 million sq m compared to 152 million sq m in the U.S. Top 20</td>
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<td>Only 10-15% of China’s 83 million sq m of shopping malls is international-grade</td>
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<td>Shopping Mall Densities: China – 235 sq m (per 1,000)</td>
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<td>U.S. – 1,500 sq m (per 1,000)</td>
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Source: JLL, 2015

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5 Refers to non-owner-occupied logistics stock, China60 + Alpha/Tier 1 cities
6 Refers to U.S. Class A, non-owner-occupied warehousing/distribution stock (i.e. does not include manufacturing space)
7 Refers to shopping malls in China60 + Alpha/Tier 1 cities
8 Refers to shopping malls and shopping centres in major U.S. markets
The sector will blaze its own trail
The macro fundamentals supporting China60’s retail sector remain strong. Its consumer-class population has nearly doubled since 2011 to 130 million people and is expected to increase by a further 70% to reach 220 million by 2020. However, the retail sector is quickly finding itself in uncharted territory, with a huge influx of new shopping malls coinciding with the rapid adoption of e-commerce by China’s consumers. Competition is leading to mounting pressure for shopping malls to differentiate and, while developers are looking to the rest of the world for solutions, they are discovering that they are treading a new path. China’s retail sector will blaze its own trail as bricks-and-mortar facilities grow in tandem with omni-channel and experiential retailing.

Offers exceptional long-term opportunities
As the most underdeveloped of the main commercial sectors, logistics warehousing still provides the greatest long-term growth opportunities in the China60. Traditional retail distribution is underpinning logistics demand but, more recently, e-commerce has emerged as the new growth engine. At the same time, supply chain consolidation is leading to the further rise of specialist logistics hubs. The sector is also evolving rapidly in the major inland cities of Chengdu, Chongqing, Wuhan and Shenyang. China e-commerce distribution networks lag those of developed economies, but new ecosystems of e-fulfilment centres, returns processing centres and other dedicated facilities will develop as e-commerce firms race to become more efficient.

Demand from domestic private enterprises reaches a tipping point
As economic development turns towards the service sector, white-collar jobs and demand for office space will expand. Domestic companies have become a distinctly more visible driver of office demand, their activity having reached a positive tipping point as they expand and upgrade their space requirements. Within the China60, office demand is overwhelmingly focused on the Tier 1.5 cities, where huge levels of business activity and the expansion of the consumer class are supporting the growth in high-value services. Wuhan, Nanjing and Chongqing have joined Chengdu, Tianjin and Hangzhou in the top tier for high-value office-based services.

The hospitality sector repositions for future growth
The luxury hotel sector has been hurt by the economic slowdown and the government’s anti-corruption drive, combined with selective oversupply. As the sector goes through wholesale structural change, it will become leaner and fitter and is likely to provide favourable buying opportunities for investors over the next two or three years. Meanwhile, the mid-scale and select-service segments are still underserved and are being aggressively targeted by hotel operators.
Still a market of remarkable scale and dynamism
Despite the economic slowdown, China60 will continue to be a market of remarkable dynamism and scale. The economic statistics remain impressive:

- China60 is home to an urban population of close to 300 million, greater than the entire urban population of the United States. It has an economy of US$8.6 trillion (GDP PPP) – if China60 was a single economy, it would be the world’s second largest, accounting for 9% of global output.
- China60 is expected to account for 15% of global growth to 2025, by which time it will have an economy of over US$15 trillion.

China60 – A Market of Global Scale

- Economy of US$8.6 trillion
- World’s 2nd largest economy
- 287 million urban population
- World’s 10 fastest growing cities
- 15% of all global growth
- 9% of world’s output
- 12 million sq m of prime office space
- 65 million sq m of shopping malls

Source: Oxford Economics, JLL, 2015

A new era of city competition emerging
China’s cities are now entering a new era of competitiveness. Competitive advantage will drive success as much as direct government policy action, and cities will look for differentiation and seek to build their international identities. ‘Quality of life’, cultural assets and environmental considerations are coming to the fore as they compete for talent and businesses. Real estate will play an important enabling role in improving the liveability and sustainability of China’s cities as the urbanisation process continues.
In 2006, as part of JLL’s award-winning Cities Research Programme, we launched in-depth research to assess the nature of real estate opportunities beyond China’s Tier 1 cities, to map out China’s emerging business locations and to identify the drivers that are shaping China’s city hierarchy. The results, published in China30 in 2007, China40 in 2009 and China50 in 2012, have tracked the rapid progress of the economies and commercial real estate markets of China’s secondary and tertiary cities.

This latest report – China60 – sets out to describe and assess how China’s new economic, business and policy landscape is impacting on the dynamics of real estate markets across 60 of China’s most important secondary and tertiary cities.

New cities have been added since our last report in 2012. The 60 cities have been shortlisted from 287 cities on the basis of a multi-factor model covering GDP, population, wealth, investment, retail sales, household savings, education infrastructure, land sales and retailer presence.

Each of the China60 cities is plotted on our City Evolution Curve to provide a comparative framework for property investors, developers, corporate occupiers and local governments to rate these cities from a real estate perspective. The cities are benchmarked against China’s Alpha cities (Shanghai and Beijing) and Tier 1 cities (Guangzhou and Shenzhen).

We assess the potential opportunities in each of the key commercial property sectors – retail, logistics, offices and hotels – and review the evolving dynamics of the China60 real estate investment markets. Finally, we offer our views on the challenges ahead for the China60 cities as they move through the coming decade.
China – The 'New Normal'

In the three years since JLL last reported on China’s secondary and tertiary cities, the country has moved into a new phase of economic development. The pace of change continues to be impressive by international standards, but the economic and business landscape is notably different from the investment-fuelled growth of past years.

As China enters a ‘new normal’ period, what will shape China’s cities and their real estate markets over the next 10 years?

1. Slower, more sustainable economic growth

China is moving to a sustained, slower growth rate as the government focuses on transforming its economic model. The consensus among economists suggests that national GDP growth will trend at around 5%-6% per year. If maintained, these rates of growth will still be impressive.

2. Moving up the value chain

The technology gap between China and the developed world has narrowed as the country moves up the value chain. The focus is now on service sector growth, white-collar jobs, indigenous innovation and high-value manufacturing. This will inevitably heighten the demand for high-quality real estate across multiple sectors.

3. The rise of the consumer class

Domestic consumption is playing a greater role in propelling growth. China60’s addressable consumer base currently stands at 130 million and is projected to increase by 70% to 220 million by 2020. Consumers are becoming more discerning, price-sensitive and digitally-connected.

4. The digital revolution

China is going through a digital revolution at a much faster pace than anticipated only a few years ago. The country is now home to the world’s largest online population. This will transform demand for retail and warehousing space across the China60. Its effects are also rippling through the office and hospitality sectors.

5. Urbanisation continues

China has seen the greatest movement of people into cities in history, but still only 55% of the total population live in urban areas. By 2025 a projected 70% will be in cities, equivalent to an additional 170 million people. The reform of China’s household registration system may push people towards smaller cities.
City competition

We have entered a new era of city competitiveness. Market forces will drive competition and cities will look for differentiation as they carve out new niche activities. ‘Quality of life’ and environmental issues will rise to the fore; and real estate will play an important enabling role in improving the liveability of China’s cities.

Growth of domestic private enterprises

The rise of a new breed of globally-competitive domestic corporations will accelerate across a broad range of industries, from financial and business services to e-commerce and technology. Demand from domestic corporations for high-quality real estate is already reaching new heights.

Deregulation and reforms

The elimination of regulations and barriers for the private sector to enter certain industries (traditionally dominated by state-owned enterprises), as well as the expansion of free trade zones and reforms in the financial sector, should also stimulate demand for real estate.

Anti-corruption measures

The anti-corruption campaign instituted in 2013, which is aimed at combating systemic corruption, is having a deep impact on the luxury retail and hospitality sectors, forcing these segments into radical structural change.

A sustainable future?

The environmental challenges facing China’s cities are immense, but there is room for optimism. Policymakers are committed to making improvements and Greater China has the second largest stock (after the U.S.) of LEED certified buildings.11 But the government needs to do more to encourage and enforce green building standards.
China’s Evolving Network of Cities

JLL’s City Evolution Curve
Since launching the China Cities Research Programme in 2006, JLL has built a framework – our City Evolution Curve – to assess the relative positions of cities in their economic and property market evolution. Our aim is to chart the forward progress of each city and its property market towards maturity. Each of the China60 cities has been allocated to one of several tiers (from ‘Tier 1.5’ through to ‘Tier 3 Early Adopter’), based on an analysis of a range of economic, business and property indicators.

China’s Alpha cities and Tier 1 cities
China’s top two city-tiers – its ‘Alpha cities’ (Beijing and Shanghai) and ‘Tier 1 cities’ (Guangzhou and Shenzhen) have been selectively included in the study for benchmarking purposes, but are not part of the China60 group of cities. These cities are differentiated from the China60 by higher levels of international business connectivity and deeper corporate bases.

China’s cities are entering a new cycle of consolidation and smarter growth. The China60 study reveals an increasingly stable but more complex network of cities.

See explanatory note on page 15
Source: JLL, 2015
What does the 2015 City Evolution Curve reveal?
The 2015 City Evolution Curve reveals a China city hierarchy that is showing signs of stability, with fewer major shifts between city tiers than in previous updates. It is also becoming a more complex urban network. The rise of mega city-regions in China’s most densely-populated areas is creating huge systems of interdependent cities that are adding an extra layer of complexity to the evolving mosaic of Chinese cities.

China’s Alpha cities have separated from the pack
Shanghai and Beijing – China’s Alpha cities - have established and maintained considerable ‘distance’ from the China60. This duo is leading the way in building platforms to attract international talent, business and investors. Their depth of talent, international business services, extensive global connectivity and broad cultural assets positions them among the world’s top 10 city economies in terms of commercial attraction. Their real estate absorption rates have moved to ‘lift-off’ (see page 49) and they are now among the world’s top 20 destinations for cross-border real estate capital.

China60 City Evolution Curve, 2015
China’s ‘New World Cities’
China’s Tier 1 cities - Guangzhou and Shenzhen – are undergoing profound restructuring as the well-established hubs of the Pearl River Delta (PRD) mega city-region of 41 million people. The potency of this pair is heavily linked to their connectivity with Hong Kong, and their industrial sector maturity and softer attributes put them in a robust position for further advancement. Shenzhen, for example, is in the World’s Top 5 in JLL’s 2015 City Momentum Index due to its strengths in technology, dynamic financial sector and status as one of China’s more environmentally sustainable cities.

Tier 1.5 cities cement their positions in the hierarchy
China60’s Tier 1.5 cities have cemented their positions as thriving regional commercial hubs and have extended their lead over Tier 2 cities. These nine cities are now firmly on the international map and are developing their global profiles. All 10 of the world’s fastest-growing large cities are in the China60, topped by the Tier 1.5 cities of Tianjin, Chongqing, Chengdu and Wuhan.

As predicted in our China50 update, Xi’an has moved into the Tier 1.5 category in 2015, having registered one of the greatest improvements since 2012 as the city consolidates its position as a regional powerhouse for the Northwest region. Meanwhile, Wuhan, the main regional hub for Central China, has shown the largest improvement in property scores. Chengdu and Tianjin have retained their top positions in the Tier 1.5 category.

West and Central China cities show greatest progress
China’s West and Central cities in general have shown the greatest advancement on the City Evolution Curve since 2012, reflecting a combination of government policy, infrastructure investment and the continued shift inland in the balance of economic activity. Xi’an (Northwest), Guiyang and Kunming (Southwest), and Zhengzhou and Shijiazhuang (Central) are noteworthy improvers.

Southeast coastal cities improve
While inland China cities have outperformed coastal cities, the trend for top improvers is more ambiguous than in previous updates with (for example) several Southeast coastal cities, such as Wenzhou and Xiamen, demonstrating among the fastest economic progress due to improving external demand and an upgrading of their industrial structures.

Northeast cities struggle to maintain momentum
Northeast cities, such as Shenyang, Jilin and Dalian, have seen below-average advancement. The continued dominance of state-owned enterprises and manufacturing overcapacity in the region has contributed to their relatively poor showing. The notable exception is Harbin, which has seen significant evolution of its commercial real estate market. Meanwhile, Shenyang has solid future potential as the de facto hub city of the entire Northeast region.

13 Combined urban population (built-up area) of Guangzhou, Shenzhen, Dongguan, Foshan, Zhongshan and Zhuhai
A new ‘Tier 3 Growth’ category has been created in 2015 to reflect the separation of just over a dozen cities from the remaining Tier 3 cities as they move more decisively to ‘lift-off’. Kunming, Harbin, Fuzhou and Hefei are closest to achieving Tier 2 status. Guiyang, benefitting from infrastructure development, has leapfrogged from the ‘Tier 3 Early Adopter’ category in 2012 to the ‘Tier 3 Growth’ category in 2015.
Steady progress among the lower-tier cities

Most cities that were classified as ‘Tier 3 Early Adopter’ in China50 have moved up a category into the ‘Tier 3 Emerging’ category, with the strongest progress evident among satellite cities in densely populated city-regions such as Jiaxing and Shaoxing in the Yangtze River Delta (YRD) and Tangshan in the Bohai Bay area.

The cities new to the China60 have entered as ‘Tier 3 Early Adopter’. Huzhou, in the YRD, is the exception and is the only city to leapfrog straight to the ‘Tier 3 Emerging’ category due to its integration within the YRD city-region and its location on the recently-opened Hangzhou to Nanjing high-speed rail line.

City Evolution Curve
Top 10 Score Changes*, 2012-2015

*Represents the change in score calculated to derive a city’s position on JLL’s City Evolution Curve:
Property – covers real estate investment volumes; office, retail and logistics stock; developer activity; corporate presence; retailer presence and internationally-branded hotels.
Economy – covers economic size and growth; population; wealth; infrastructure; exports; FDI and fixed investment; education; business environment.

Excludes ‘Tier 3 Early Adopter’ and ‘Tier 3 Emerging’ cities.

Source: JLL, 2015
**The Rise of Mega City-Regions**

China60 highlights the emergence of increasingly complex systems of cities, often clustered around regional powerhouses and united by dense webs of infrastructure and symbiotic economic relationships. The trend is most advanced in the Yangtze River Delta (centred on Shanghai) and the Pearl River Delta (centred on Guangzhou and Shenzhen), which each have populations larger than Tokyo:

**Yangtze River Delta**

The YRD cities (with a combined population of 50 million) have made the greatest economic and real estate advancements since 2012, reflecting the predominance of dynamic private enterprises, advanced supply chains and superior intra-regional connectivity. There is increasing evidence of economic integration of its Alpha, Tier 1.5 and Tier 2 cities – Shanghai, Nanjing, Hangzhou, Suzhou, Wuxi and Ningbo. Moreover, its smaller Tier 3 cities, such as Jiaxing and Shaoxing, have recorded some of the strongest moves forward in the China60. Huzhou is the highest ranking city new to the survey in 2015.

**Pearl River Delta**

PRD cities feature prominently in the China60, with a combined population of 41 million (covering the Tier 1 cities of Guangzhou and Shenzhen, together with Dongguan, Foshan, Zhuhai and Zhongshan). Improving intra-regional connectivity (particularly with neighbouring Hong Kong and Macau), a strengthening technology base and superior ‘quality of life’ and air-quality measures put this mega city-region in a good position for future progress.

**Capital Economic Region**

The area around Beijing and Tianjin is relatively less integrated; although a recently-announced plan to bring together the two municipalities with cities of the surrounding Hebei Province (Shijiazhuang and Tangshan) signals ambitions to achieve significant regional development here as well. The aim is also to create alternative forms of employment outside the traditional heavy industries that will enable the area to move towards higher-value-added enterprises that generate less air pollution.
**Cities and their satellites**

Beyond these Alpha/Tier 1 clusters, we observe many other large cities – usually Tier 1.5 and Tier 2 – endeavouring to place themselves at the centre of similar patterns of regional development. Transport infrastructure is a prominent feature of most initiatives, with regional planners envisioning webs of railways, expressways and high-speed rail lines linking as many as 10 surrounding cities within a one-hour travel radius from the central metropolis. These ‘one-hour travel circles’ are a fixture of provincial and regional planning and could very well be a cornerstone of China’s next wave of mega city-regions. The cities integrated into the regional centre tend to be smaller than Tier 3, though in this year’s report we have witnessed several such cities reaching into the China60. **Huai’an**, **Wuhu** and **Yangzhou** are all new additions to the China60 and part of the one-hour city-region defined around **Nanjing**.

It is too soon to know whether every plan to link large cities and their smaller neighbours with this type of transport infrastructure will result in a thriving city-region. Some plans are inspired in part by an official desire to justify large infrastructure investments, which boost immediate GDP growth. For regions that are able to follow through plans, surrounding cities stand to benefit from the relocation of industrial investments as the central metropolis climbs the manufacturing value chain or shifts focus to its service sector. Cities nearer the metropolis could carve out a role as commuter communities for those working in the centre, offering affordable housing and boosting consumer power.

The biggest beneficiaries will be the large central cities and, among those, the largest Tier 1.5 cities which are farthest along in developing their city-regions (such as Wuhan’s 8+1 plan14 and the seven cities in Nanjing’s one-hour circle). Better integration with the hinterland will boost their own roles and will expand the markets for their rapidly-developing service sectors – aspiring regional financial centres will find it easier to fill ambitious new office clusters when they are surrounded by a readily defined and accessible city-region. The Tier 1.5 metropolises will also expand catchments for their retail offerings – supporting local shopping mall clusters – and enhance their roles as regional distribution centres, providing a further boost to their warehouse sectors.

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14 Wuhan is the focal point of Hubei Province’s ‘8+1’ policy, a plan to create an infrastructure that interconnects Wuhan and eight surrounding cities and to form a ‘Wuhan City Cluster’ of over 31 million people.
Cities Research Center – China60

China60 – An International Perspective

Size still matters…
The China60 is home to an urban population of almost 300 million people. Its wider catchment houses over 400 million people, greater than the entire population of the United States.

Its consumer class is expanding rapidly, with the number of people in households earning over US$5,000 doubling over the past three years to 130 million. An additional 90 million people in the China60 are expected to join the consumer class by 2020.

The China60 has an economy of US$8.6 trillion (GDP PPP) – if it were a single economy, it would be the world’s second largest, accounting for 9% of global output.

…and so does growth
China60 is projected to be responsible for 15% of global growth over the next decade, adding the equivalent of India’s entire current annual output (or two Germanys), to reach a combined size of US$15.5 trillion by 2025. Despite a lower economic growth environment in recent years, the China60 will remain among the fastest-growing economies worldwide. By 2025, the economy of the China60 is expected to be almost twice the size of Russia and Brazil combined.

The China60 contains some of the most dynamic cities in the world; Wuhan, Chongqing, Tianjin and Nanjing all feature in the Top 20 of JLL’s 2015 City Momentum Index, which measures the rapidity of change in city economies and real estate markets globally.

China60’s Expanding Economy

Source: Oxford Economics, 2015
**JLL City Momentum Index 2015**

**Global Top 20**

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<td>Tianjin</td>
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<td>20</td>
<td>Nanjing</td>
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*Source: JLL, 2015*

JLL’s second annual City Momentum Index (CMI) covers 120 major established and emerging business hubs across the globe. The Index gauges a city’s short-term socio-economic and commercial real estate momentum (over a three-year horizon) in combination with measures of ‘future-proofing’ – whether a city has the essential ingredients to ensure longer-term sustainable momentum in terms of education, innovation and environment.

Despite slower economic growth rates, China is still home to some of the world’s most dynamic cities – and seven appear in the Top 20 of the 2015 City Momentum Index. **Shanghai, Nanjing, Wuhan and Chongqing** form a corridor of strong momentum along the Yangtze River, while the emerging mega city-region of **Beijing-Tianjin** in the north is showing high levels of dynamism. **Shenzhen** in the Pearl River Delta has found renewed energy on the back of its technology sector and neighbouring **Guangzhou** features just outside the Top 20.
As China competes with the United States for the title of the world’s largest economy, broad comparisons of real estate market size (while over-simplistic and fraught with definitional issues) illustrate the huge disparity in international-grade stock. Despite an unprecedented construction boom, Grade A stock in China’s main cities is still small in comparison with the United States.

China’s major cities currently have one-fifth of the current Grade A retail, logistics and office stock of the U.S:

- Across the China60 cities, JLL estimates the shopping mall stock to be just over 65 million square metres, and including Alpha and Tier 1 cities, it is 83 million square metres. A broadly comparable figure for the U.S. is 405 million square metres, equating to 1,500 square metres per 1,000 people versus 235 square metres for China60 (plus Alpha/Tier 1 cities). Although some commentators point to the United States as an example of an over-supplied market, this gap still illustrates the huge amount of headroom for further supply growth as China continues to develop.
- China’s Grade A leasable logistics stock, at 29 million square metres, is tiny in comparison to the combined equivalent stock of major cities in the United States, which is close to 155 million square metres.
- Across China’s top 20 office markets (including Shanghai, Beijing, Guangzhou and Shenzhen) the existing built stock of 32 million square metres is far eclipsed by the 152 million square metres of Grade A offices in the U.S.’s top 20 markets. Based on the extrapolation of service sector growth, China’s top cities are likely to require 80 million square metres by 2025. This will still equate to only half of the current U.S. stock.

**China vs the U.S. – Grade A Stock (million sq m)**

Data as at Q4 2014
Source: JLL, 2015

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<tr>
<th></th>
<th>Retail</th>
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<th>Offices</th>
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<td><strong>U.S.</strong></td>
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National non-owner-occupier Grade A stock.
China - China60, plus Alpha/Tier 1 Cities.
U.S. – Main markets.

Oxford Economics assesses that the U.S. and China economies are each about US$16-17 trillion (GDP, purchasing power parity)
China’s ‘New World-Cities’

The new drivers of city success
China has shown an extraordinary ability to construct and connect its cities at breakneck speed. Infrastructure investment has created modern, well-connected cities that have become impressive centres of production. But to succeed over the longer term in a market-based global economy, China’s cities will need to look beyond pure GDP growth measures and towards those factors that will make them more attractive locations in which to live, work and do business. The quality of talent, the presence of robust industry clusters, business-friendliness, environmental conditions and ‘quality of life’ issues will determine the future success of China’s cities.

Educational excellence – the search for talent
Educational excellence is critical to future success. The availability of talent is a clear priority as China’s cities move up the value chain, build their innovation and entrepreneurial capabilities, and nurture the professional skills necessary for vibrant service-based economies. Beijing and Shanghai are well ahead in terms of educational excellence, and of the China60 cities, Wuhan, Xi’an and Nanjing excel in terms of the quality and quantity of their education infrastructure. However, China60 is home to only nine of the world’s top 500 universities. Chinese universities have been slow to internationalise and will need to further develop their faculty specialisations to achieve global excellence.

Education Attainment – Quantity vs Quality

Excludes Shanghai and Beijing
Quantity Index – based on number of tertiary education institutions; tertiary students; higher education instructors; secondary schools.
Quality Index – based on presence of top universities; enrolment in tertiary education; higher education instructor/student ratio; presence of top secondary schools.

Source: JLL, 2015

16 Nine universities from China60 cities are included in the QS Top 500 universities – Wuhan (2), Hangzhou, Hefei, Harbin, Nanjing, Tianjin, Xi’an and Xiamen.
Source: QS World University Rankings, 2014/2015
Environmental challenges
Environmental conditions will increasingly influence a city’s ability to attract and retain talent, businesses and quality-oriented investment. In particular, environmental risks are a major concern and are inhibiting the competitiveness of many cities. JLL’s analysis of air-quality levels (based on published government measurements for 2014) identifies the southern coastal cities (notably Xiamen and Fuzhou) as having the highest air-quality; Kunming also scores well. Among China’s top-tier cities, Shenzhen ranks as the most environmentally sustainable.

The Chinese authorities announced a ‘war on air pollution’ in 2014 and have begun to publish figures for air quality. However, only eight of the 74 major Chinese cities subject to air-quality monitoring met the national standard for clean air in 2014.

Economic Growth vs Air Quality

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<th>Air Quality</th>
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<td>Xiamen, Fuzhou</td>
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Air Quality: Average AQI levels, 2014; Growth: GDP Growth, 2014-2018
Source: Ministry of Environmental Protection of the PRC, Oxford Economics, JLL, 2015

Developing a global brand
China’s Tier 1.5 cities are now on the international radar, but they will need to continue to build their global brands and reputations. Those cities with a world view, striving to engage globally and to present a compelling global identity will be best placed to secure a positive future. This will have a significant impact on a city’s attraction for footloose talent, businesses, students and tourists.

The lack of variation between most China60 cities remains striking. City leaders will need to identify and nurture the unique competitive advantages of their cities and also to develop their cultural expression, architectural identity and differentiation. Cities need to have a ‘buzz’ and an aesthetic appeal if they are to be truly successful. It will no longer be purely about production and GDP growth, but about managing a city’s liveability, sustainability and resilience. Real estate will have a key role to play.
China60 - City Competitiveness Cobwebs
City Competitiveness Cobweb Indicators

City Competitiveness Cobwebs: The JLL City Competitiveness Cobwebs provide a visual representation of the economic and real estate climate each of the China60 cities. Each cobweb relates to 12 sets of variables as follows:

- **Offices**: Grade A stock
- **Retail**: Modern retail stock
- **Logistics**: Modern logistics stock
- **Hotels**: Presence of internationally-branded 4 and 5-star hotels
- **Investment**: Real estate investment volumes
- **Air Quality**: Average annual AQI levels
- **GDP**: Total nominal GDP
- **Population**: Metropolitan population
- **Wealth**: Retail sales; household savings; disposable income; GDP (per capita)
- **Infrastructure**: Transport connectivity (passengers, freight); hub status
- **Education**: Tertiary education institutions; tertiary education quality; higher education enrolment
- **Openness**: Foreign direct investment; exports; fixed asset investment
China is quickly finding itself in uncharted retail territory, with a huge influx of new shopping malls coinciding with the fast adoption of e-commerce by its rapidly-expanding consumer class. Competition is leading to mounting pressure for shopping malls to differentiate. Developers are looking to the rest of the world for solutions, but are finding that they will need to tread a new path. China’s retail sector will be blazing its own unique trail as bricks-and-mortar facilities grow in tandem with omni-channel and experiential retailing.
Macroeconomic drivers are still present
The fundamentals supporting the China60 retail market remain compelling, underpinned by probably the most significant expansion of middle-class population in history. The China60 combined has an urban population of close to 300 million people, larger than the entire population living in U.S. cities. The ‘addressable’ consumer base for modern shopping malls in the China60 - i.e. those households earning over RMB 30,000 per annum (circa US$5,000)\(^{17}\) – currently stands at nearly 130 million, which is almost double the level of 2011. Its consumer class is projected to increase by 70% to over 220 million by 2020 (even with more conservative economic growth projections).

China60’s Consumer Classes to grow by 70% by 2020
The Rise of the Consumer Class*  

Transformation in consumer behaviour
While national retail sales growth has slowed to more sustainable single-digit rates, the China60 cities continue to offer some of the world’s most dynamic retail environments. The sector is evolving at bewildering speed as consumer habits change and organised retailing undergoes radical structural shifts. Shopping mall retailing has maintained its expansion across the China60, and while top-tier cities are moving into their third generation of malls, in many lower-tier cities ‘mall shopping’ is still a new concept.

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* Population earning over US$5,000  
Source: EIU, 2015

\(^{17}\) This consumer base has passed the disposable income threshold at which discretionary purchases in shopping malls begin to materialise
Department stores losing market share
Traditional department store shopping is in decline and closures are occurring regularly across China as consumers turn away from the format in favour of more price-competitive, food and entertainment-oriented and conveniently-located shopping malls with better parking facilities. Those department stores that remain are facing negative or flat sales growth.

Consumers are becoming more discerning and price-sensitive
China60 consumers are now more discerning and price-sensitive. Crucially, they also have taken to online shopping at a far faster pace than expected. Consumers are now travelling abroad in significant numbers and have become accustomed to higher levels of service and richer in-store experiences, and their expectations of retail offerings back in China have risen accordingly. This has led to a clear advantage for retailers choosing to enter with direct ownership of stores rather than through a franchise.

Similarly, consumers are now well aware of global parity prices for internationally-branded apparel and are baulking at the premiums being charged for the same goods back home. What was previously a highly-polarised market – with luxury at one end and cost-conscious mass market at the other – has been swiftly taken up by mid-range consumers over the past decade. Price-sensitive consumers are also increasingly turning to outlet shopping enabled by the rapid growth in car ownership.

The rise of omni-channel retailing
E-commerce is emerging as the next engine of consumption growth, with the likes of Alibaba, Tencent, JD.com and Yihaodian capturing market share. Online activity is likely to have accounted for close to 10% of total sales in China in 2014, and the country is rapidly catching up (and overtaking) many Western countries; according to domestic research firm iResearch16, online retailing is expected to hit 16% of total sales by 2017. What separates China’s e-commerce boom from those experienced in other markets is how quickly Chinese consumers have switched to buying apparel online, already accounting for 25% of all apparel sales.

Omni-channel retailing (whereby retailers provide consumers with goods and services across multiple online and offline sales channels) will become a major force in the China60, and will fundamentally change the shape of bricks-and-mortar retailing across all formats and geographies. Traditional bricks-and-mortar retailers are fighting back, embarking on e-commerce strategies and seeking to improve in-store service. Meanwhile, some online companies are now building a physical presence. Additionally, property companies are partnering with online companies to develop joined-up sales solutions.

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16 China Online Shopping Report, iResearch, 2014
Huge expansion in mall development

Strong double-digit retail sales growth (over the period 2005-2012) has prompted a huge programme of mall development across the China60. Developers have often turned to retail as a panacea to boost the profile of their mixed-use developments, stimulate residential sales and generate long-term revenue streams.

China’s mall stock grew at 21% per annum in the five years to 2014. Meanwhile, Alpha/Tier 1 mall stock grew at only 12% per year, highlighting the steady shift in the balance of retail activity away from Alpha/Tier 1 cities towards the China60.

Two-thirds of Modern Retail Stock outside Alpha/Tier 1 Cities by 2017

Shopping Mall Stock Evolution, 2008-2017

Based on total Grade A shopping mall stock in top 20 cities
Source: JLL, 2015
Largest supply growth in Tier 1.5 regional hubs

Inland Tier 1.5 cities with substantial regional population catchments have seen the largest growth in shopping malls since 2011, notably Chengdu, Wuhan, Xi’an, Shenyang and Chongqing. This new supply is designed to tap the deep consumer base and inflow of customers across a wide geographic area.

Further growth in mall space is on the cards, with Tier 1.5 cities having the potential to expand their stock by another 60% over the next three years. However, rising market saturation will lead to greater caution by developers and will curtail some development. We are likely to see a sharp slowdown during 2015 to single-digit annual stock growth. Looking further ahead, the expected returns to shopping mall development will soften as low-rent trades (e.g. entertainment) become the main occupiers and competition ‘boxes in’ and surrounds existing malls, constraining their potential catchment areas.

China Shopping Mall Stock, 2011-2017

Source: JLL, 2015
Oversupply of stock, but undersupply of high-quality malls
With the shopping mall stock in the China60 almost doubling over the past three years, oversupply risk has become a feature of Tier 1.5 cities as they build out their modern retail infrastructure. Nonetheless, there remains an undersupply of high-quality malls, with only 10%-15% of the existing stock estimated to be of international standard. Many will quickly become obsolete, as they are poorly planned and poorly managed. Furthermore, strata-titling still dominates in many lower-tier cities, although it is in decline. Some local governments (e.g. Suzhou) are passing new laws in an attempt to curtail strata-titled development.

‘Winner takes all’ – quality, good management and differentiation
In the increasingly competitive landscape of ever more shopping malls, the ‘winners will take all’ as retailers focus on expansion in existing high-performance properties and on a select group of high-potential new properties. In spite of large shopping mall stocks in Tier 1.5 cities, successful ‘third generation’ malls (such as Nanjing’s Deji Plaza and Hangzhou’s MixC) are continually leveraging their good positioning, tenant mixes and layouts to consolidate their positions as citywide destinations as well as to achieve high levels of sales productivity.

About half a dozen strong developers – such as Hanglung, CapitaLand, Wanda, China Resources, Longfor and SCP – have been rolling out strong concepts across the China60. However, this has created a degree of homogeneity in terms of tenant mix and design. Differentiation will increasingly separate the successful malls from the rest of the pack.

Use of high-quality construction materials and greater attention to detail are certainly on the rise in recent mall concepts. Even so, with a few exceptions, the biggest challenge still continues to be the lack of professional property management to ensure long-term value preservation beyond a property’s first few years. The move towards high-standard property management services is just beginning.

Experience-led retailing
As in other parts of the world, Chinese shopping malls are seeing a greater emphasis on experience and concept stores. Also, newly-developed malls are dedicating more space to food and beverage (F&B) and far less to unbranded fashion (as that segment has swiftly moved online). Malls are now offering far more F&B outlets, reflecting a boom in mid-priced casual dining, with dining out driving many mall visits. Landlords are also now finding that appropriately-sized and positioned F&B outlets can secure high rents. At the same time, growing numbers of service tenants, such as language schools and spas, are filling the void in mid-rent categories.

Retailers respond to a more competitive landscape
Single-digit bricks-and-mortar retail sales growth and the quick expansion of e-commerce sales platforms, combined with an increasing awareness by consumers of global standard prices, has created a much more competitive landscape for retailers across the China60. While new entrants continue to pour into China, the rapid enlargement of the footprints of established retailers (a strong feature of China40 and China50) has slowed amid greater caution. Moreover, established international retailers are now far more familiar with the China market and are making more informed strategic decisions. As the market matures, brand principals are also showing more interest in the direct-ownership model in order to exert greater control over how stores are run in key strategic markets. Meanwhile, franchising continues to be standard beyond Tier 1.5 cities in order to achieve scale.

19 ‘High quality’ refers to a high standard of construction, design and layout, providing physical features such as strong sightlines, wide corridors and high ceilings, as well as providing an attractive tenant mix.
The problem with luxury

Luxury retailers were the original pioneers in the expansion of retailing across China, on the back of the wealth created by rapid industrialisation, the privatisation of former town-and-village enterprises, the large-scale influx of major infrastructure projects and resource extraction. Following phenomenal growth since 2008 (documented in China40 and China50) however, activity by luxury retailers has plateaued – moving from swift expansion to a more sustainable growth model. There has been little change in the overall number of luxury stores in China60 since 2011 and only a few cities (e.g. Shenyang, Chongqing, Kunming and Harbin) have recorded net growth in luxury stores.

Several factors are contributing to the more cautious sentiment among the top luxury houses in China. Anti-corruption/anti-extravagance measures put in place since 2013 to curtail the use of public funds for gifting purposes have cut sharply into luxury goods’ sales. Furthermore, slower growth in the private sector and in the number of newly affluent households has arguably reduced the growth of funds available for high-priced goods. Among price-sensitive consumers, there is also a rising preference to purchase through international channels either online or through overseas travel, where goods are usually cheaper due to lower taxes. While ‘affordable luxury’ brands (such as Coach and Michael Kors) are gaining widespread middle-class appeal due to the attractive price point and opportunity for personal differentiation, these retailers are also now pausing for breath. Nonetheless, despite the slowdown, one-third of the world’s luxury goods\(^{20}\) are bought by Chinese consumers … and it is still a sector of considerable weight and influence.

China60: Retailer Presence

Based on a basket of luxury, fast-fashion and big-box retailers
Source: JLL, 2015

Fast-fashion shifts from aggressive expansion to improving productivity
The boom in fast-fashion has prompted rapid growth in stores across the China60 in recent years. The largest increases in total store numbers since 2011 have occurred in the Tier 1.5 cities of Chengdu, Wuhan, Tianjin and Chongqing, resulting in a degree of ubiquity and strong reach across all neighbourhoods in these cities. However, the environment is becoming more competitive, and the sector is shifting from aggressive store expansion to improving store productivity. As the number of possible expansion choices has grown, retailers are now carefully prioritising and evaluating profitability potential when selecting sites.

Land prices constrain big-box retailing
The big-box sector continues to expand, notably in inland cities such as Xi’an. However, high land values and the curtailment of approvals in some cities means that big-box retailers are struggling to find locations. Some hypermarket retailers (such as Carrefour) are pursuing the shopping mall development route in order to secure sites, and have developed a large number of neighbourhood centres across China.
The logistics sector continues to offer exceptional long-term opportunities as China builds its supply chain infrastructure. More subdued economic conditions have restrained demand and, with more investors entering the sector, localised oversupply has emerged. Overall though, China remains undersupplied relative to its economic size, and e-commerce continues to pick up much of the slack in demand. China’s e-commerce distribution networks lag those of developed economies, but new ecosystems of e-fulfilment centres, returns processing centres and other dedicated facilities will develop as e-commerce firms race to become more efficient.
Short-term oversupply in some cities, but strong long-term growth fundamentals

The landscape for the logistics sector has shifted after several years of solid expansion. Single-digit economic growth, slowing manufacturing investment and caution within the retail market, combined with increasing cost pressures and selective oversupply, has created new dynamics in demand and competition. Alpha cities are facing competition from nearby satellites and some Tier 1.5 cities are seeing elevated vacancy amid the rapid growth in supply.

Nonetheless, the sector’s long-term growth mechanisms remain exceptionally strong, underpinned by an expanding domestic market, growth in organised retailing and the mushrooming of e-commerce. The huge investment in China’s highway network has improved connectivity and is enabling businesses to consolidate distribution networks into fewer yet larger and more modern facilities. Furthermore, retailers are striving for greater efficiency by streamlining their distribution channels.

Logistics costs are still a much higher proportion of GDP in China compared to the U.S. and Europe, and further supply chain efficiencies will be essential to improve the overall competitiveness of Chinese cities.

The boost from e-commerce and omni-channel retailing

While the expansion of China’s physical retail market and its huge manufacturing base have remained the main drivers of demand for modern logistics facilities, e-commerce and multi-channel retailing have emerged as new engines of growth. The country is now home to the world’s largest online population, and the drive for greater broadband and 3G coverage, as well as the rising popularity of mobile devices, is boosting online retail activity. In addition, the Chinese government has officially identified e-commerce as one of the key areas to boost domestic consumption, and further measures to support the development of e-commerce are expected.

Strong demand from e-commerce companies, such as Alibaba, JD.com and Yihaodian, as well as third-party logistics operators (3PLs), is taking up the slack from the slowdown in demand from other sectors of the economy. E-commerce companies are very active, building their own facilities and leasing space from the major logistics developers. The virtual guarantee of an e-commerce tenant is giving developers the confidence to build on a speculative basis and is making it easier to secure land.

Logistics sector is consolidating

Slimmer margins and rising competitive pressures are driving 3PLs to consolidate their logistics space, seeking economies of scale and rationalising multiple facilities into fewer, larger multipurpose units that serve a range of functions from handling imports to e-commerce and retail distribution. As a result, leases from 3PLs that may have been just 10,000–30,000 square metres a few years ago are now more likely to be in the 30,000–50,000 square metre range. Companies also are upgrading from low-quality space to newer functionally-efficient space, particularly when they need to store and transport higher-quality products, or when the conversion of older stock to other uses necessitates that users upgrade to newer, more modern space.

Consolidation is expected to intensify among e-commerce companies as the market expands. The winners will be those that can achieve scale and operational efficiency, and this will boost the demand for modern facilities.
Growing government recognition of the value of logistics

Land supply has traditionally constrained the development of logistics across the China60 cities, but local governments are now adopting a more positive attitude towards logistics. While there remains a strong preference among governments for higher-value manufacturing, the decline in manufacturing investment has encouraged them to provision more land for logistics, particularly where relocation helps free up land in inner city areas or economic zones for expansion of higher-value uses. At the same time, there is an increasing recognition by governments that an efficient logistics network is an essential component for a competitive city.

Still an under-provision of high-quality warehousing stock

Foreign developers (such as GLP, Goodman and Prologis) and domestic developers (e.g. Yupei, e-Shang and Blogis) have responded to the acute shortages of high-quality logistics space that manifested at the turn of the decade. The stock of Grade A non-owner-occupied logistics space across China (including Alpha/Tier 1 cities) has increased by almost two-thirds, from 18 million square metres in 2011 to an estimated 29 million square metres (by the end of 2014).

With the logistics stock increasing at annualised rates of 15%-20%, short-term oversupply issues have emerged in a few cities – such as Tianjin and Chengdu – but these expanding cities are in the process of building out their logistics infrastructure in response to strong demand for regional distribution facilities. Over the medium term, this space will be absorbed.

At only 29 million square metres, Grade A stock remains small given the scale of China’s economy, and there will continue to be capacity constraints on the amount of new space that can actually be constructed. The current Grade A non-owner-occupied stock is miniscule in comparison to the combined equivalent stock of major markets in the United States, which is close to 155 million square metres.

Grade A Logistics Space: China vs the U.S.

Relates to non-owner-occupied stock | China = China60 + Alpha and Tier 1 cities | U.S. = Top 50 U.S. cities
Source: JLL, 2015
Site selection will be crucial
As recent cases of localised oversupply have made clear, developers will need to concentrate more on building to match demand rather than simply constructing as much stock in a given city as possible. Even as e-commerce cushions the impact of a slowing economy and China as a whole remains under-supplied for its economic size, rising investor interest in the presence of slowing retail sales means that developers of new warehouses will need to be smarter in where and when they choose to add new stock. Greater attention will need to be paid to picking good locations next to busy expressway links or bustling industrial zones in submarkets that are not already crowded with large near-term future supply from competitors.

Built-to-suit (BTS) is likely to become more prominent in developers’ long-term site planning, particularly as BTS requirements have been on the rise in recent years as firms engage in more sophisticated strategic planning. Developers can capture more of this demand by building more speculative developments in phases, leaving the option to develop future phases for BTS clients rather than completing them all immediately on a speculative basis. This approach also acts as a hedge against potential supply pressures in competitive locations where many major players are active.

Fastest Growth in Inland China
Logistics Stock Evolution, 2011-2014

Source: JLL, 2015
The Emerging Geography of Logistics

Supply chain networks are becoming more complex in China’s mega city-regions
Logistics networks are becoming ever more complex in China’s densely-populated mega city-regions of the Yangtze River Delta (YRD), Pearl River Delta (PRD) and Bohai Bay, where two-thirds of China’s modern logistics space is located.

• **Shanghai** remains head and shoulders above all other cities in terms of the size of its logistics market, with Grade A stock of 5.2 million square metres. Its stock has been expanding robustly, but a combination of policies and high rents are pushing logistics activities away from the Alpha cities to neighbouring satellites; tenants that remain tend to be those that are serving the Shanghai market only. Regional distribution capacity is moving to other cities in the YRD, such as **Suzhou** and **Wuxi**, as well as increasingly to specialist logistics hubs like **Kunshan** and **Changshu**. Here, the availability of low-cost land with good connectivity to the whole region means that such cities are now the preferred option for large regional distribution centres.

• In the Bohai Bay region, the **Beijing** government has historically been resistant to logistics activity – and its stock (at less than 1.7 million square metres) is modest given the city’s size. By contrast, a more accommodating **Tianjin** is firmly established as the region’s other primary hub and, with plentiful land available for developers, a short-term oversupply situation has emerged. As in the YRD, specialist hubs have grown in importance, with GPL, Goodman, Prologis and Yupei all active in **Langfang**, which benefits from its location between Beijing and Tianjin.

• **Shenzhen** and **Guangzhou** dominate the logistics hierarchy in the PRD with Grade A stocks of 3.0 million square metres and 1.9 million square metres respectively. Neighbouring **Dongguan**, **Foshan** and **Huizhou** are also building capacity to support their roles as massive manufacturing hubs.

Growth of logistics capacity in inland cities
West, Central and Northeast China are witnessing the fastest growth in logistics space as supply chains develop in response to the continued shift in manufacturing activity to Central and West China, and also to the growth of inland and lower-tier retail markets - both of which have been supported by the huge investment in highway infrastructure.

The Grade A logistics stock in inland China has more than doubled from 3.8 million square metres in 2011 to 8.8 million square metres in 2014. **Chengdu**, **Chongqing**, **Shenyang** and **Wuhan** have emerged as primary hubs, with secondary hubs evolving in **Xi’an**, **Zhengzhou**, **Changsha** and **Hefei**.
Although more and more players have entered China’s warehouse market in recent years, Singapore-based GLP continues to have the largest presence with a current stock of 10 million square metres – a volume that dwarfs that of its nearest competitor (at about 1 million square metres). GLP is looking to retain this lead by a comfortable margin in the coming years, enabled by its large amount of capital and extensive land bank in multiple cities, and will continue to be the pioneer in building modern warehouses, often the first developer to enter locations that are still unproven from an institutional-quality perspective. Other players will take more conservative approaches, avoiding competing with GLP in submarkets where it already has a large supply pipeline, focusing instead on securing prime locations in established logistics hub cities.


China’s distribution networks … the next stage?

As China’s logistics industry evolves, there is no ‘one size fits all’ model standing by for it to follow. A mosaic of logistics networks will develop in response to the different and unique demands from retail store distribution, domestic and cross-border e-commerce, manufacturing supply chains and the import/export trade. Undoubtedly as the market matures, major players (i.e. third-party logistics operators, e-commerce firms and retailers) will continue to seek opportunities to consolidate into fewer distribution hubs in strategic locations. Specialist distribution hubs will thrive in densely-populated areas with superior intra-regional connectivity; and over the longer term, China’s expanding network of national highways will facilitate the development of truly pan-China distribution networks (along the lines of those in the United States), although this trend is still some way off.

E-commerce will be a game-changer. China currently lags behind most developed economies in terms of its e-commerce ‘ecosystems’, but the gap is closing rapidly, which will lead to a wave of new demand for mega e-fulfilment centres, parcel delivery/sorting centres, returns processing centres and urban logistics depots. In this respect, the sector will be in uncharted territory. Even in the developed markets, the industry is still only just working out how its distribution networks will evolve in response to the rise of e-commerce.

China’s Emerging Logistics Networks

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<tbody>
<tr>
<td>Chengdu, Chongqing, Wuhan, Shenyang</td>
<td>Guangzhou, Shenzhen</td>
<td>Shanghai</td>
<td>Tianjin, Beijing</td>
</tr>
<tr>
<td>Xi’an, Zhengzhou, Changsha, Hefei</td>
<td>Dongguan, Foshan, Huizhou</td>
<td>Suzhou, Nanning, Hangzhou, Ningbo, Wuxi</td>
<td>Qingdao, Dalian, Langfang, Baoding</td>
</tr>
</tbody>
</table>

Source: JLL, 2015

The potential for automation

The logistics sector in China still faces many hurdles in terms of industry fragmentation, vast regulatory differences between administrations and, crucially, a lack of skilled supply chain manpower, which will slow the pace of automation.

The potential to use automated systems, including automated storage and retrieval systems, sortation systems and automated picking systems, is on many businesses’ radars, but there are still very few examples of large-scale activity. For most companies, cheap labour costs mean that the return from automation does not justify the investment.
As the focus of economic development policy turns towards the service sector and white-collar jobs, the total demand for high-quality office space will grow. Demand from domestic companies has already reached a tipping point and they are now the primary driver of the office market. Office space demand in China60 is focused on Tier 1.5 cities, where huge business activity and middle-class expansion are supporting the growth in high-value services. Oversupply has become an issue, but Tier 1.5 cities have considerable potential to absorb excess space over the medium term.
Predominantly focused on Tier 1.5 cities
China’s Grade A office market is still overwhelmingly concentrated in China’s Alpha cities (Shanghai and Beijing) and Tier 1 cities (Guangzhou and Shenzhen), where nearly two-thirds of the national stock is located. Most of the remaining stock is in China60’s Tier 1.5 cities, which benefit from access to professional skills and the growing demand for high-value financial and business services from a considerable volume of corporations and middle-class households.

The development of office markets in most Tier 2 cities is some way off due to the limited presence of professional skills. Talent continues to gravitate to the larger cities and, while there are some exceptions to this trend (e.g. those who work in large national companies or state-owned enterprises), the brain drain from smaller cities will remain a major constraint to the expansion of Grade A occupiers beyond the Tier 1.5 cities.

Reordering of the office market hierarchy
The balance of office market activity has continued to shift steadily from coastal cities towards the inland regional powerhouses. Chengdu has retained its position as China60’s premier office market; the city has the largest Grade A office stock among the China60 and is the preferred option for corporates seeking regional offices to serve West China.

Corporate Concentration for Office-Based Functions
Reordering of the hierarchy

Corporate concentration based on: presence of banks; high-tech firms; property services; accounting firms.
Source: JLL, 2015
Based on the presence of high-value services, Wuhan, Nanjing and Chongqing have joined Chengdu, Hangzhou and Tianjin among the top-tier China60 office markets since 2012. Coastal cities, such as Dalian, Qingdao and Xiamen, continue to grow, but not as strongly as the inland powerhouses which have benefitted from the shift in focus of office-based functions away from supporting export activities to servicing domestic markets. The announcement of expanded free trade zone areas in Fujian, Guangdong and Tianjin should facilitate further financial and economic reforms in these coastal areas, providing a boost to service sector employment and office sector demand.

China’s Tier 1.5 cities are expected to consolidate their positions as major office hubs, underpinned by strong corporate activity, a growing volume of middle-class households, business-friendly operating environments, access to well-educated talent pools with good professional skills, and the availability of high-quality office accommodation. Chengdu is predicted to hold its position as the primary office hub for West China, with Wuhan growing in status as the main office hub serving Central China. Tianjin and Hangzhou will solidify their roles, benefitting from strong connectivity to Beijing and Shanghai respectively. Chongqing, Nanjing, Xi’an and Shenyang also have the ingredients to support major office functions.

Grade A Office Demand Potential

China’s top 12 cities for potential office demand

Ranking based on: financial and business services value and growth; corporate presence and momentum; occupied office stock; tertiary GDP; GDP growth; education; business environment; hub status.

Source: JLL, 2015
Absorbing the existing supply

The Grade A office stock in Tier 1.5 cities has more than doubled every three years (to 2005, 2008, 2011 and 2014), and recent stock increases have led to concerns about oversupply, with as much as half of Grade A space currently vacant in some Tier 1.5 cities. Nonetheless, Tier 1.5 cities have considerable potential to absorb this excess space over the medium term, as these cities grow into their ‘new skins’. Based on the forecast growth in financial and business services, Tier 1.5 cities are projected to require 19 million square metres of Grade A office space by 2025, which is nearly three-times the existing stock of 7 million square metres.

Tier 2 cities, conversely, do not enjoy the same depth of demand, and buildings coming on stream during the current construction cycle will invariably experience longer lead times in leasing. All cities are seeing a strong bifurcation between traditional city centre locations and ‘new CBD’ locations, with the latter experiencing far lengthier lead times to achieve strong leasing momentum. City centre buildings are typically in supply-constrained environments due to lack of developable land. Their convenient locations make them preferred bases of operations for regional offices of large corporates, giving such buildings a much more robust performance outlook.

While a concern for investors, the current high levels of vacancy are neither unprecedented nor necessarily worrisome for cities that are at a relatively early stage in their office market evolution (see Shanghai, page 49). Readily-available, speculatively-built office space is an important feature of a growing and competitive city. It provides businesses with the flexibility to grow and offers both domestic and foreign companies greater choice of accommodation at competitive rates.

Source: JLL, 2015
Domestic firms drive demand
Since 2012, domestic private companies have become a much more visible driver of office demand. The country is home to an increasing number of globally-competitive multinational firms such as Alibaba (from Hangzhou), Huawei and Tencent (both from Shenzhen). As domestic companies expand and upgrade their space requirements, demand for Grade A space is already hitting a tipping point, and will contribute most of the demand for an additional 50 million square metres of Grade A offices by 2025.

Reform and opening up of the finance sector will also unleash a torrent of new, locally-based investment firms that will be major users of space. Huge demand from China’s growing middle class for financial services (including consumer finance, wealth management, insurance and Internet finance) will also ensure that high-quality office space remains a necessary feature of Tier 1.5 cities.

What is becoming evident is the breadth and depth of demand from the domestic private sector … from financial services, professional services and business processing, through to technology, telecoms, e-commerce, creative industries, healthcare, life sciences and retail brands. As the Chinese economy transitions to service sector-led growth in the future, domestic corporations will continue to multiply and expand, while also upgrading their office facilities to improve their corporate image and to retain staff. Higher-quality offices have also been proven to foster elevated levels of worker productivity due to better air quality.
Moving up the value chain
China’s Alpha and Tier 1 cities continue to be the pre-eminent technology hubs, with Beijing standing head and shoulders above other Chinese cities, with the highest density of scientific, educational and talent resources in the country. Shenzhen’s status as a technology hub is also growing rapidly as it evolves as the ‘Silicon Valley’ of hardware start-ups. Within the China60, Xi’an, Wuhan, Nanjing and Hangzhou have emerged as front-runners as major technology hubs, with a robust education infrastructure and R&D functions.

Newly-announced free trade zones (FTZ), including areas in Tianjin, Xiamen, Shenzhen and Guangzhou, should provide a boost to office demand from domestic financial firms newly registering in these zones to take advantage of loosened regulations. Shanghai, the location of the first FTZ, has already become a hotbed of new financial activity as firms explore new opportunities available in this less-restricted area.

Grade A Occupied Office Stock Evolution
Nearly 80 million sq m required by 2025
China’s Tier 1.5 cities will not follow the exact same path of Shanghai, but they are likely to experience huge growth in service sector activity, especially in the financial sector (as has happened in Shanghai over the past five years). Shanghai saw absorption levels move into ‘lift-off’ in 2010 – doubling from an average of 324,000 square metres per year in 2006-2009 to an average of 830,000 square metres since 2010, due to the combined effects of rapid expansion of domestic service sector firms and a sharp rebound in expansion by foreign companies following the Global Financial Crisis.

**Shanghai’s Office Net Absorption has more than Doubled**

Source: JLL, 2015
China60’s hospitality sector holds strong potential over the next decade. The substantial purchasing power of China’s middle class, rising domestic tourism and a strengthening private business sector all bode well for massive growth in the demand for hotel rooms. However, the sector is currently struggling from the combined effects of economic slowdown, anti-extravagance measures and selective oversupply. But with these challenges also come opportunities, and the sector is likely to provide investors with attractive buying prospects over the next couple of years.
Austerity, slowdown and oversupply
The hospitality sector has since 2013 been hurt by China’s broad economic slowdown. Hotels’ woes have been further compounded in the 5-star market by a clampdown on conspicuous spending by government officials, which has been a cornerstone of the market. Profits in the luxury hotel segment have fallen sharply since the government’s anti-corruption drive, and some 5-star hotels have deliberately sought downgrades in order to recapture government-based demand. Austerity measures have also filtered through to the all-important MICE21 market.

Weaker demand has coincided with a surge in new supply. Local governments have continued to contribute to supply pipelines by wooing international-brand hotels as part of large mixed-use projects, which they regard as integral to their cities’ economic strategies, international profiling and tax base.

The number of internationally-branded 4 and 5-star hotels in the China60 has more than doubled since 2011 and, as a result, the proportion that the China60 accounts for in the total national supply has risen from half in 2011 to two-thirds in 2014. The largest share of new provision has been in Tier 1.5 cities – such as Suzhou, Hangzhou, Chongqing, Chengdu and Tianjin – which are currently close to saturation. However, this supply will be absorbed over the next couple of years, helped by the fact that new deliveries over the coming three to five years will not be as rapid as during the recent surge. In fact, some projects have been cancelled or delayed due to the current economic challenges.

But occupancy is improving
The strong appetite for leisure activities among China’s growing middle classes, combined with the expansion of business travel, has continued to buoy demand in the hospitality sector despite the challenging environment. Thus, while hotel performance has weakened, occupancy rates have been maintained, and have even improved, as hotels respond by lowering room rates to attract more customers. This has allayed some concerns about market saturation.

The sector to become leaner and fitter
Facing acute challenges, the hotel sector is undergoing wholesale structural change. This will put the market on a much stronger footing over the medium to long term, with its previous over-reliance on demand from government officials being replaced by more robust and sustainable demand from domestic tourists and private-sector business travellers. In particular, the expansion of domestic financial and business services, high-tech firms and e-commerce businesses is boosting demand for more affordable hotel accommodation.

In addition, the rapid growth in domestic tourism continues unabated – despite the slower economic environment – facilitated by the greater use of the Internet for organising travel. Tourism is seen by governments as a core growth engine and many local authorities are actively promoting the sector by encouraging direct investment in tourism infrastructure.

In some Tier 1.5 cities, excess supply will persist for the next couple of years but, as a result, the sector is becoming more competitive and is forcing necessary improvements in service quality to attract an increasingly sophisticated consumer base. However, the industry will need to address a lack of professional hospitality talent.

21 Meetings, Incentives, Conferences, Exhibitions
Pockets of opportunity and resilience
The focus of hotel operators and developers over recent years has been on Tier 1.5 cities, but opportunities still exist in many Tier 2 and Tier 3 cities. Nevertheless, they are catching up fast, with international hotel operators aggressively target lower-tier cities; their spotlight is now on the West and Southwest, notably tourist-rich cities like Kunming, Guiyang and Nanning.

At the top end of the hierarchy, hotel demand in China’s Alpha cities - Shanghai and Beijing – is on a more robust footing than in the China60, although Beijing will continue to be affected, in particular, by the government’s austerity drive and concerns about air pollution. The planned opening of Shanghai’s Disneyland Resort in 2016 will provide a fillip for the city’s hotel market, while Beijing and the surrounding Hebei province could expect another phase of development if it secures the 2022 Winter Olympics (the final decision will be made in July 2015). Moreover, Universal Studios plans to open a theme park in Beijing in 2019.

Mid-scale and select-service sectors still underserved
‘Affordability’ has become essential to the success of many hotels. 4-star quality ‘selective service’ hotels are now popular, positioning themselves as lifestyle hotels without crossing over into 5-star luxury. Below the 4 and 5-star segments, many mid-scale and select-service chains are growing quickly (including less expensive branches of renowned brands such as Aloft, Element, Hyatt House/Place, Hilton Garden Inn and Holiday Inn Express). Alliances and mergers between well-known international brands and local hospitality groups are also driving growth (e.g. Huazhu and Accor; Plateno and Hampton by Hilton; JinJiang and Group de Louvre).

The distressed opportunity for investors
Given current challenges, many developers will be seeking to divest. This is providing foreign investors and institutions with a favourable opportunity to access a market with strong long-term growth potential. Meanwhile, with the expansion of Chinese outbound travel and tourist enterprises, interest in offshore hotel investment is increasing.
Presence of Internationally-Branded 4 and 5-Star Hotels, 2014

Source: JLL, 2015
Investors continue to flock to China’s Alpha and Tier 1 cities due to their more attractive supply/demand dynamics, a wide diversity of office sector demand, large consumer bases and more consistent absorption and rental appreciation than in Tier 1.5 and Tier 2 cities. In the China60, the focus continues to be on development rather than standing asset investment. Over the medium term however, changes in the investment landscape (including financial and SOE reforms, improving transparency, more investment-grade stock and less strata-titling) will pave the way for structurally higher transaction volumes and increase buying opportunities for both domestic and international investors.
Alpha and Tier 1 cities dominate

Overall commercial real estate investment volumes have continued to grow in Mainland China over the past three years, reaching an historical high of US$25 billion in 2013. However, the investment market has displayed increasing volatility over this period, with slower economic growth coupled with low yields (by global standards) dampening investor confidence. Transaction volumes were less robust in 2014, falling to US$19 billion. Nevertheless, JLL is optimistic that the investment market will maintain strong growth over the medium to long term as greater transparency, more tradable investment-grade stock and lower risk catalyse investment demand.

Investment Volumes Rise
Direct Commercial Real Estate Investment, 2009-2014

Since 2012, the Alpha/Tier 1 cities of Shanghai, Beijing, Guangzhou and Shenzhen have become increasingly important for both international and domestic investors. They accounted for more than 73% of Mainland China’s total investment volumes in 2014. The Alpha duo of Shanghai and Beijing has evolved into by far the most liquid and sought-after investment destinations in China, and now sit among the world’s top 20 largest investment markets. These two markets contributed a combined 62% of total investment volumes in 2014, and Shanghai alone has accounted for more than 40% of China’s transaction volumes in each of the past three years.
Office sector remains key; logistics on the rise

The office sector has held its place as the most important sector for investment over the past three years, accounting for around half of total transaction volumes each year from 2012-2014. Office investments are viewed as the most transparent and simple to execute and will continue to attract high levels of demand.

In the retail sector, investors have been cautious over the past year, due to the continuing growth of new supply pipelines. Signs of increased flexibility from sellers should mean that investors with strong retail backgrounds, who have the expertise to take on leasing risk or carry out tenant-mix upgrades, will be able to find opportunities to enter this market over the next few years. A core-plus strategy offers more opportunities than a core strategy, as stabilised assets remain extremely rare.

Meanwhile, logistics has become the hottest sector for potential investors, and we have seen a flood of new capital from institutional investors looking to tap into the sector’s growth. As tradable assets are limited, investment has come in the form of equity investments in developers that have access to land in key markets. During 2013-2014, around US$7 billion of capital was committed by institutional players and private equity funds to logistics developers in China (such as GLP, Goodman and Prologis) in order to fund future development.

Key Investment Transactions, 2014

<table>
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<tr>
<th>City</th>
<th>Property</th>
<th>Sector</th>
<th>Deal Size (RMB million)</th>
<th>Buyer</th>
<th>Seller</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing</td>
<td>Pacific Century Place</td>
<td>Mixed</td>
<td>5,720</td>
<td>Gaw Capital</td>
<td>Pacific Century</td>
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<tr>
<td>Guangzhou</td>
<td>R&amp;F Yingyao Plaza</td>
<td>Office</td>
<td>4,700</td>
<td>Domestic investor</td>
<td>R&amp;F Properties</td>
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<td>Shanghai</td>
<td>Shanghai Mart</td>
<td>Office</td>
<td>4,300</td>
<td>Shanghai Industrial Investments JV Nan Fung Group</td>
<td>Domestic conglomerate</td>
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<td>1,304</td>
<td>Huaxia Bank</td>
<td>Oceanwide Real Estate</td>
</tr>
</tbody>
</table>

Source: JLL, 2015
The rise of domestic investors...is a sign of market maturity

In the past few years we have seen the emergence of a new set of sophisticated Chinese property investors. Previously, Chinese buyers of commercial property were primarily owner-occupiers without a real estate focus. By contrast, the new players - who include domestic insurance firms, Chinese private equity funds and government-related property companies – have dedicated real estate teams and are executing ambitious real estate strategies across China, which include investing in existing assets as well as land for development.

While these new Chinese investors are showing a strong appetite to invest in key Alpha/Tier 1 and Tier 1.5 cities, their activity is still limited by the lack of tradable investment-grade assets. Indeed, the massive volume of offshore transactions by Chinese investors is evidence of this. China has now become a net exporter of real estate investment capital and more Chinese commercial investment occurred overseas than at home for the first time in 2014. Moreover, in order to allocate a larger share of capital to real estate, domestic investors have embraced a third-party capital model in which they directly fund development through existing developers. This has been a popular strategy in the logistics sector, but is now also increasingly common for office and retail development, as there is still an insufficient volume of tradable assets on the market. As more high-quality stock is built and becomes available on the sales market within China in the next few years, these domestic investors will increase their exposure to their home market.

China’s Alpha/Tier 1 Cities Still Dominate
Direct Commercial Real Estate Investment, 2013-2014

Source: JLL, 2015
Investment volumes will continue to grow and will benefit from the reform process

As China and its real estate sector enter a period of slower but more stable growth, we expect that the commercial investment market will experience sustained expansion and begin to catch up with similar-sized economies in terms of commercial transaction volumes. In most China60 cities, with a large amount of new supply coming on stream, we do not foresee extensive rental or capital value growth in the office and retail sectors in the short to medium term. However, several key changes in the investment landscape will pave the way for structurally higher transaction volumes and abundant opportunities for both domestic and international investors:

- In a period of slower growth, maximising the value of existing built stock will become more of a priority, and the focus for commercial real estate will shift more towards investment instead of just development. Across much of the China60, cities will see their first large investment transactions take place after the first big wave of commercial development. More advanced Tier 1.5 markets, such as Nanjing, Chongqing and Suzhou, are already seeing this transition.
- Financial sector reform should support stronger transaction volumes in China moving forward. Liberalised capital flows and less bureaucracy will make it easier for foreign investors to access the China market, while the introduction of Chinese REITs will eventually start to lead to more consolidated ownership and a new exit strategy for developers and owners. China’s first exchange-traded REIT began trading in mid-2014.
- SOE reform will eventually break up the real estate holdings of inefficient state-owned firms and present opportunities for acquisition and the repositioning of assets.
- For many developers, strata-titling is now a less attractive strategy than it was a few years ago. As a result, more assets will eventually trade en-bloc, and adding value or refurbishing whole properties will become easier.
- Greater transparency over time will attract global core investors into China to create a more liquid and active investment market, as the availability of sales information and detailed comparables increases.
The Outlook for China60

In the three years since we published China50, much has changed in China. A new government has taken the economic reins and started the country down the path of rebalancing away from investment-led growth towards a slower but more sustainable consumption growth model. The transition is already well underway and the smarter growth model will boost demand for modern commercial real estate in China’s cities.

So how are we to think about China’s urban future?
What are the main challenges that China’s cities will have to overcome in the medium and longer term?

1) Growing into their ‘new skin’
First, China’s cities will need to utilise the space that has already been built. This should be considered in terms of the China60 growing into their ‘new skin’. As the focus of economic development policy turns towards expanding the service sector, it is inevitable that demand for office, retail, warehouse and hotel space will rise. In order to develop the consumption part of the economy, it is necessary to have more middle-class consumers and that happens through creating white-collar jobs. In this regard, JLL has long felt that commercial real estate was on the virtuous side of China’s policy priorities. With that said, as the growth rate slows, a greater discipline will be needed in the development of real estate to more closely align supply with demand.

2) Developing their competitive advantage
The policy priority of market forces playing a greater role in the distribution of resources will have major implications for the evolution of China’s cities. In order to prevail in a market-based economy, China’s cities
and their leaders will need to think about the unique competitive advantages of their location. Success in this vision of China’s future will be much less dependent on top-down, state-directed development where ‘build it and they will come’ has long held sway. There will be less development for the sake of spurring growth and economic activity and more focus on furthering a city’s attractiveness to businesses. These advantages will include the quality or quantity of talent based on outstanding universities, the presence of a robust industry cluster, streamlined administrative procedures that make a particular city easier to operate in, better environmental conditions, and improved ‘quality of life’. Whatever the combination of factors, in a market-based economy, it will be the attractiveness of a location that determines where a business locates and not the direction of a government leader.

3) Combating environmental degradation
Since we published our last report, China’s commitment to combating environmental degradation has taken on a new focus. From a real estate perspective, the opportunity in China has always been to design and construct buildings with sustainability in mind from the outset, rather than to retrofit and upgrade them later. Now is the time for China’s government to make real estate’s role in this a top priority and to bring forth standards for the industry and to see them enforced.

When the 13th Five Year Plan is released in March 2016, we will see China’s priorities and have a clearer understanding of what the future will hold for real estate. We can be confident that whatever those priorities are, real estate will play an important enabling role in improving the liveability of China’s cities as the urbanisation process continues.
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