

# China Property Market Quarterly Review

Q2, 2011

Vigers Research

## Economic Overview

China's economic growth decelerated in Q2 as the growth rate of GDP tapered off to 9.5%, 0.2% lower than previous quarter. However, the slowdown of economic growth was the desired outcome of macro-economic regulations posed by China's government in the first half of this year to soak up liquidity and avoid hard landing.

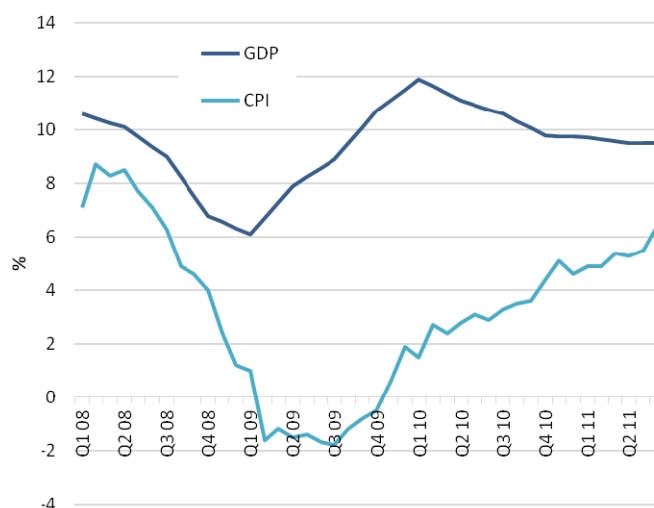
Consumer Price Index, the major indicator of China's inflation, rose to 106.4 in June, far above government's target of 4%. In response to the rampant inflation, the People's Bank of China has raised benchmark interest rates three times and the reserve requirement ratio six times so far this year. Looking forward, with the inflation rate remains stubbornly high, it is expected that the government will maintain its macroeconomic policy stance during the second half of and another interest rate hike is also possible.

## Market Performance

The office market in Q2 remained strong given the demand from foreign companies continued growing during the period. Rents increased in most of the top-tier cities (Beijing: +12% q-o-q; Shanghai: +7% and Guangzhou: +5%). However, the average sale price of office in Beijing, Shanghai and Guangzhou fell 14%, 3% and 8% q-o-q respectively in Q2 2011, as there was limited credit available in the market.

In the residential market, home sales in major cities dropped on quarterly basis as a wait-and-see atmosphere remained in the market. Restrictive policies continued discouraging potential home buyers from purchasing homes. Transaction volumes in Beijing and Shenzhen decreased by 10% and 11% q-o-q respectively while in Shanghai, home sales volume strongly rebounded 37% q-o-q as new supply increased markedly during the quarter. Despite home sales volumes dropped in most cities, prices in Beijing (+1% q-o-q to RMB26,536 per sq m) and Shanghai (+1% q-o-q to RMB22,358 per sq m) remained firm as developers were reluctant to offer discounts on their properties.

## China's GDP & CPI growth rate



## Key economic indicators

	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
Gross Domestic Product % y-o-y	11.1	10.6	9.8	9.7	9.5
Foreign Direct Investment billion USD	27.98	22.9	31.4	30.35	30.55
Consumer Price Index % y-o-y	102.9	104.4	104.6	105.4	106.4
Fixed Asset Investment billion yuan	6,825	6,782	7,554	3,946	8,510

Source: National Bureau of Statistics of China



## Beijing

### Office Market

The office market in Beijing remained strong in Q2 due to the strong demand originated from large domestic companies in finance, energy and technology industries. The excess demand caused the rent to go up by 12% q-o-q to around RMB 210 per sq m per month (sq m/m), and the vacancy rate decreased by 2.2% q-o-q to a record low of 6.7%. Rent was up 7.3% to RMB 240 sq m/m in Financial Street, CBD up 8.1% to RMB 217 sq m/m and area near Chang'an Street and Jianguomen rose 14.6%.

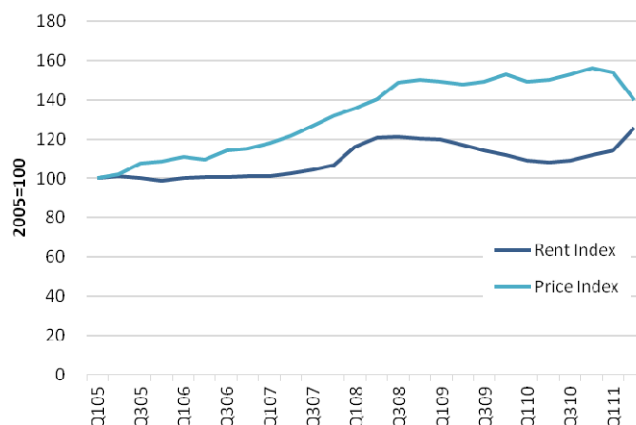
Notable transactions in rental market included China Construction Bank, Volkswagen Finance and AIA Goup's leasing of 26,800 sq m, 8,000 sq m and 3,400 sq m at Beijing IFC respectively; State Grid Corporation of China's leasing of 12,000 sq m at Min Sheng Financial Center; Merck's leasing of 11,000 sq m at Universal Business Park; China Gezhouba Group's leasing of 10,000 sq m at Mao-Tai Buildings and Monsanto's leasing of 3,000 sq m at Phoenix Place Phase II.

In the sale market, resulted from the limited supply of prime office, companies shifted their attentions to the property where prices were less expensive, causing the sale price of Beijing prime office to increase by 7% to RMB 45,471 per sq m, whereas the overall sale price of office in Beijing decreased 14% to RMB 23,275 per sq m.

Among the prominent transactions in sale market, Mediatek from Taiwan acquired a building at Beijing Electronic City with 30,000 sq m for RMB 412 million and KaiLong REI Commercial Real Estate Fund acquired Diamond Building with 19,272 sq m and Silicon Valley Bright City with 9,200 sq m for RMB 282 million and 140 million respectively, as well as Gaohe Investment acquired a retail podium at Borui Building with 15,000 sq m for RMB 609 million.

There will be 8 projects with 460,000 sq m to be released in the next six months. However, we do not expect the supply will add much downward pressure to the price and the rent will continue growing, but at a slower pace.

Beijing office price index



Source: Beijing Municipal Bureau of Statistics, Vigers Research

## Beijing

### Residential Market

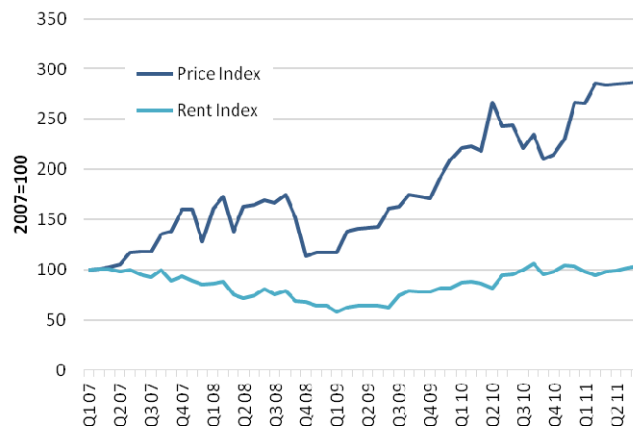
Beijing residential market was affected by curbing measures released in the previous quarter and the demand was restrained. The sales volume was down 10% and average price rose 1% to RMB 26,536 per sq m q-o-q as both buyers and vendors took a wait-and-see attitude.

Despite the huge decrease in sales volume, the price in prime residential market only declined 2% to RMB 42,100 per sq m as developers were reluctant to have big price cuts. The average price of luxury apartment was RMB 41,500 per sq m, 2% lower than the previous quarter, while Villa was up 8% q-o-q to RMB 46,000 per sq m. Due to the scarce supply in the central area, more projects were located in suburban area such as Fangshan, Daxing and Changping, and were sold for relatively inexpensive prices. On the other hand, owing to scarce supply, the average prices in the core business district increased. Dong Chang An Jie was up 8% to around RMB 74,000 per sq m where Yansha and Financial Street came second and third with RMB 62,000 and RMB 53,000 respectively.

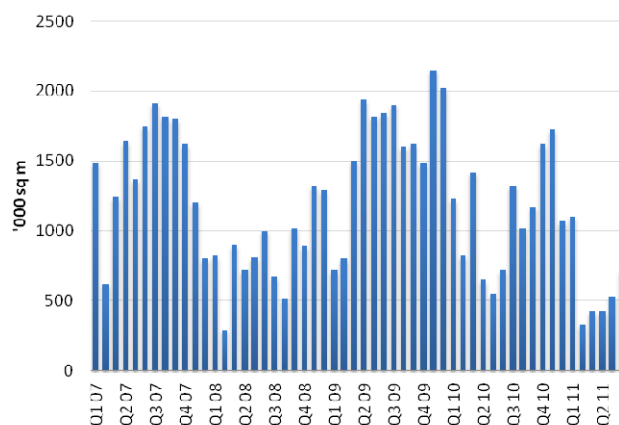
The leasing market remained active as a result of steadily increasing demand from MNCs' expanding activities and potential buyers turning to rental market. The average rent was up 1.7% to RMB 110 per sq m, and the vacancy rate slid to 12.5%.

In the second half of the year, as tightening policies is expected to persist, which will continue to exert pressure on the price. On the other hand, driven by the increase of demand from foreign companies, the leasing market will stay strong and average rent is likely to increase further.

Beijing home price index



Beijing home sales



Source: Beijing Municipal Bureau of Statistics, Vigers Research

## Shanghai

### Office Market

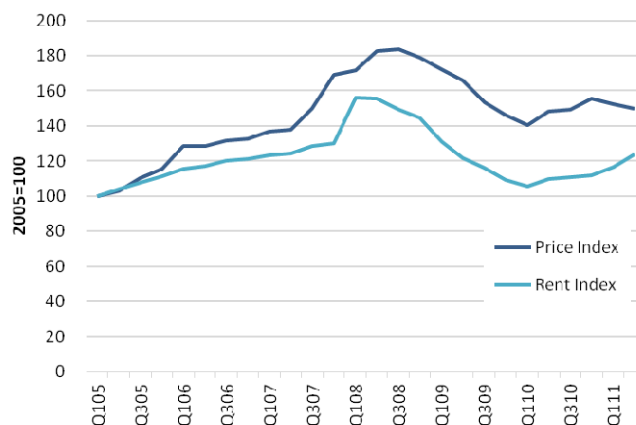
In the leasing market, the total stock of prime office increased significantly in Q2 due to the completion of eight projects, adding a total of 539,400 sq m office space to the market, the largest quarterly new supply in history. Sun Hung Kai Properties alone handed over two the most anticipated commercial buildings in Q2, International Commerce Centre and Shanghai International Finance Centre Phase II (IFC II). The former one is located in Xuhui district and composed of 59,600 sq m of office space and the latter one located in Lujiazui and is composed of 122,000 sq m. Taiping Finance Tower, on the other hand, was developed by China Taiping Insurance Group with 85,000 sq m office space.

Although a huge supply came to the market, strong demand driven up by expansion activities from foreign companies and strong growth of domestic economy pushed the rent up 7% q-o-q or 15% y-o-y to RMB 233 per sq m/m and the vacancy rate fell 1% q-o-q to 9%. The major portion of absorption came from multinational companies and domestic companies in finance, banking and manufacture industries. Hua An Fund leased two floors in IFC II, while Bank of Montreal and Guidant International leased 2,000 sq m and 2,630 sq m respectively. Nestle also took up 3,000 sq m in Hongwell Plaza.

In the sale market, the price was down to RMB 24,740 per sq m, 3% lower than the previous quarter RMB 25,498 per sq m and the transaction volume was 541,506 sq m, 38% higher than 391,891 sq m in Q1. In May, SOHO China acquired Shanghai New World Changning Commercial Centre for RMB 3.2 billion, or RMB 28,234 per sq m for the office portion, the building was renamed as SOHO Zhongshan Plaza, is located on Zhongshan Road and is a mixed use building which comprises 100,00 sq m office space in two towers and 13,000 sq m of retail space. In June, Baosteel Group acquired No. 1 Office Building of Shanghai International Passenger Terminal from Fangxing Real Estate for RMB 1.5 billion or RMB 72,000 per sq m.

In 2H 2011, there will be approximately another 500,000 sq m office space addition to the market, adding a total new supply of prime office space to over 1 million sq m this year. With all the development and policies securing Shanghai to be an international financial center, consistent GDP growth and promising FDI, thus the demand will remain strong and the rents will increase further.

Shanghai office price index



Source: Shanghai Municipal Bureau of Statistics, Vigers Research

# Shanghai

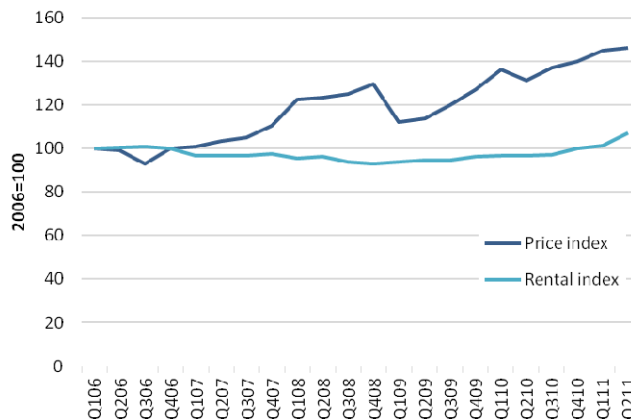
## Residential Market

Shanghai’s residential market seemed to be recovered from the impact of tightening policies. In Q2, average price edged up 1% q-o-q to RMB 22,358 per sq m, while the sales volume was up 37% to 2,260,000 sq m. On the supply side, several projects were launched, such as City Castle, Seasons Villas and Sun Ville during the quarter, adding a total of 335,000 sq m new residential supplies to the market, representing a 66% q-o-q increase.

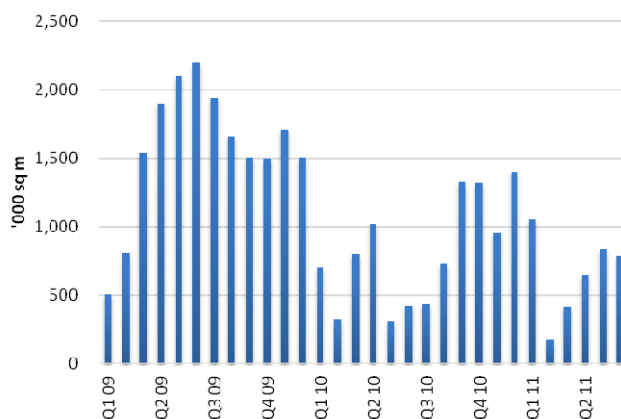
In the leasing market, expansion of foreign companies in Shanghai continued pushing up Shanghai residential rent especially in the high end market. Average rent of luxury residential property surged markedly, up 12% q-o-q to RMB 142 per sq m/m.

Despite more projects to be launched, the growing demand from expansions of foreign companies will continue keeping the price and sales volume uptrend in the second half of the year. However, new supply of residential property notably exceeds the growth of transactions in Q2, which will boost the stock and add further pressure to the price.

Shanghai home price index



Shanghai home sales



Source: Shanghai Municipal Bureau of Statistics, Vigers Research

## Guangzhou

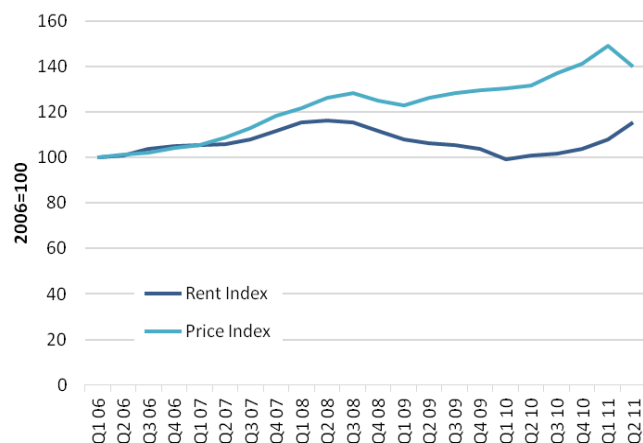
### Office Market

The average rent of prime office was up 5% q-o-q to RMB 140 per sq m/m due to the strong growth of economy, while Zhujiang New Town topped at RMB 160 per sq m/m, recorded an increase of 5% q-o-q, Yuexiu district and Tianhe Bei also increased to RMB 110 per sq m/m and RMB 140 per sq m/m respectively. On the supply side, three prime office buildings all located in Pearl River New City were handed over in Q2, namely Guangzhou IFC, Evergrande International Center and GT Land Plaza, adding a total of over 280,000 sq m of office space to the leasing market. With the surge in supply, the vacancy rate was up slightly to 12.3% from 11.7% in Q1 and the net absorption was 140,000 sq m, 50,000 sq m lower than the previous quarter.

The leasing demand in Q2 mainly came from domestic companies, particularly in finance and IT industries. Yuda Investment leased 800 sq m at R & F Centre, while 58.com took up 2,800 sq m at Centre Plaza. Other noteworthy transactions in 2Q included Guangzhou Ochirly Information Technology's leasing of 2,700 sq m at Center Plaza, China Southern Power Grid Corporation's leasing of 1,856 sq m at Poly Center and 39.Net's 3,600 sq m and Carlsberg's commitment to lease 1,837 sq m at G.T. Land Plaza.

In the sale market, total transaction area was 125,000 sq m in Q2, 36% higher than the previous quarter, and the average price was RMB 20,300 per sq m, 8% lower q-o-q. In Tianhe area, the average price reached RMB 30,845 per sq m, the highest in Guangzhou. R&F Ying Sheng Plaza sold 17,779 sq m office space with average price at RMB 31,852 per sq m, while Poly Zhong Hui Plaza sold 18,704 sq m at RMB 29,977 per sq m. Haizhu came second at RMB 26,316 per sq m and Yuexiu came third with RMB 26,933 per sq m.

Guangzhou office price index



Source: Guangzhou Municipal Bureau of Statistics, Vigers Research

## Guangzhou

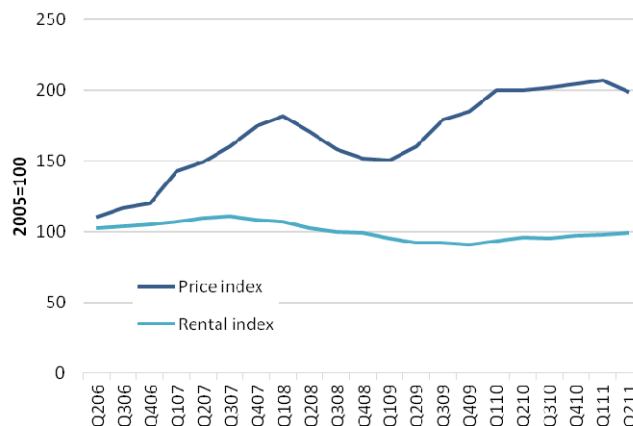
### Residential Market

Guangzhou’s residential market continued struggling as a result of purchase restrictions and credit tightening policies which kept potential buyers sidelined or turned to leasing market. In Q2, the average price of residential property was RMB 12,783 per sq m, fell 6% q-o-q, and transaction volume was 1,513,600 sq m, slightly slid 0.4% q-o-q. However, as restrained demand began to be released in Q2 2011 and with sufficient new supply entering the market, the transaction volume was recovered gradually from the bottom in March.

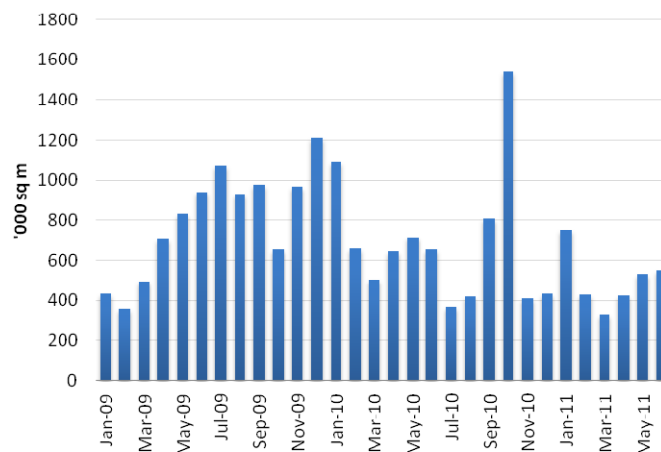
It becomes more significant that increasing transactions shifted from downtown area to suburban area in Q2, while average prices in suburban area were less expensive, the city-wide average sale price was brought down. Panyu, huadu and Nansha together accounted for 69.15% of the total transaction in Q2, increased 11% q-o-q, however, in Liwan, Haizhu and Panyu, average prices increased from 3% q-o-q to 5% q-o-q.

In the second half of this year, the average price in Guangzhou is likely to decrease while prices in most districts will increase. Transactions in suburban area will continue accounting for larger portion and the prices in central areas such as Haizhu, Tianhe and Yuexiu are expected to grow due to the insufficient supply. On the other hand, the rental market will continue to be supported by a slowdown in the sales market as we expect increasing potential buyers will postpone their purchases in response to tightening policies.

Guangzhou home price index



Guangzhou home sales



Source: Guangzhou Municipal Bureau of Statistics, Vigers Research

## Shenzhen

### Office Market

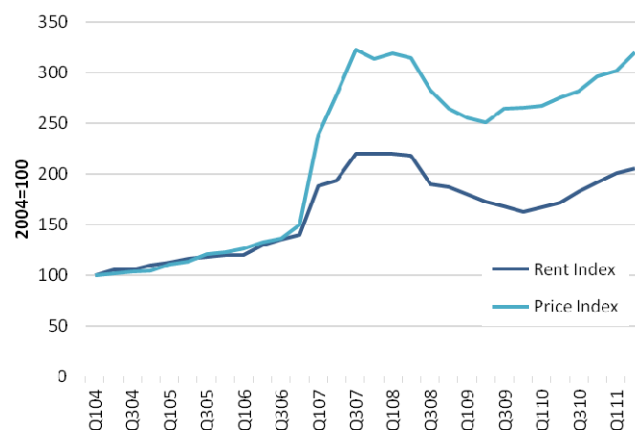
There was an increase in prime office supply in Q2 as three projects in Futian were released, including Huanggang Business Center with 90,000 sq m, Excellence Century Center Phase II with 120,000 sq m and NEO Tower Phase II with 130,000 sq m, bringing a total of 340,000 sq m to the market.

Average rent was up 4% q-o-q to RMB 176 per sq m/m given the strong recovered demand and the overall vacancy rate mounted to 9.1%. Futian remained the most expensive office area in Shenzhen with average rent over RMB 200 per sq m/m, up 6% q-o-q, while average rents in Luohu, Chegongmiao and Nanshan reached RMB 180, RMB 172 and RMB 155 per sq m/m respectively. In 2Q, demand came from domestic companies, such as Tencent leased 22,000 sq m at Netac Building, China Classics Industry Group leased 1,600 sq m at Kerry Plaza Phase I while Infineon Technologies and Oriental Harbor Investment Management leased 1,600 sq m and 600 sq m at NEO Tower respectively.

In the sale market, increasing investors switched their attentions to commercial market from residential due to the tightening policies against speculative purchases. On the other hand, with strong liquidity inflow into the commercial market and appreciation was expected, increasing properties were for rent rather than for sale. Newly handed over projects such as Huanggang Business Center, Excellence Century Center and NEO Tower all adopted lease-only approach and there were very few projects available for sale. Growing demand and limited supply pushed up the average price to RMB 47,094 per sq m, while Futian continued to be the highest in Shenzhen with average price RMB 51,050 per sq m. The average price has been significantly driven up by premium grade A office. In Futian, International Finance Centre's average price reached RMB 68,781 per sq m, and its transaction area 6,238 sq m, was solely accounted for 82% of the total in the district.

In the second half of the year, there will be approximately 400,000 sq m new office space and mostly will be for rent only. The vacancy rate is expected to increase slightly due to the large new supply while the rent will be driven up by growing demand. The sale price will remain at high level but transactions will fall as there will be very limited new supply and the market has already digested most of the existing stock available.

Shenzhen office price index



Source: Shenzhen Municipal Bureau of Statistics, Vigers Research

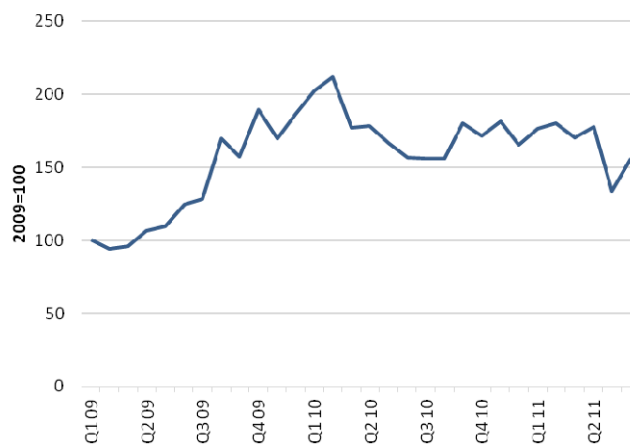
## Shenzhen

### Residential Market

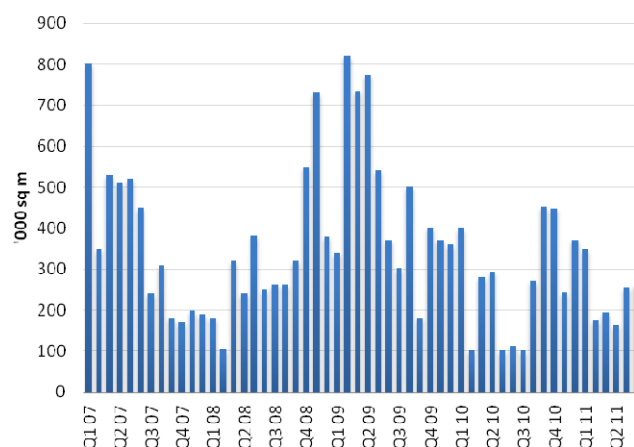
The municipal government adopted new measurements to restrict purchases, in which non-shenzhen residents can only purchase properties if they have paid income tax for at least one year. On the other hand, since 1<sup>st</sup> May, no unit should be sold at a price 10% higher than the average price of similar units in the same district last year. The new measures had significant impact on property market in Q2. In April, the transaction volume dropped significantly after the new purchases restriction policy announced in early March, transaction was down 30% m-o-m to 161,300 sq m, but the price was lagged behind and climbed to RMB 20,295 per sq m. In May, the effect of new policy became prominent and the price was down 25% m-o-m to RMB 15,262 per sq m, while transaction volume was up 53% m-o-m to 246,400 sq m. Over Q2, the average price decreased 13% q-o-q to RMB 17,828 per sq m.

In the leasing market, the average rent in Shenzhen was RMB 42.5 per sq m/m, an increase of 2% q-o-q, while in luxury market, the rent was up 2.1% to RMB 133 per sq m/m. Average rent in Futian district was RMB 53 per sq m/m, the highest of all districts, and in Nanshan, the rent rose 15% q-o-q to RMB 48.5 per sq m/m, partly due to the completion of the second phase of Shenzhen Metro.

Shenzhen home price index



Shenzhen home sales



Source: Vigers Research

## Chengdu

### Office Market

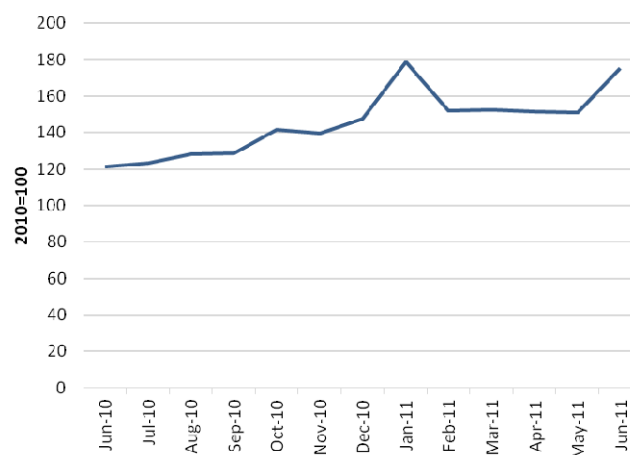
In Q2, overall office market witnessed an uptrend. There were six prime office projects released in Q2, adding 181,000 sq m new office space to the market. However, even with the increase in supply, the transaction volume plunged significantly in the wake of austerity measures. The transaction volume shrank by 48% since March, down 25% q-o-q. The fall of transactions had little impact on price, the price was RMB 9,302 per sq m and was only down 5% q-o-q. The prices continued to show strength particularly in urban area which was up 2% q-o-q.

Leasing market stayed strong as increasing foreign companies set up offices particularly in the CBD. Fuji Electric, Shell, Bayer Healthcare and Yinfan Investment leased space in Yanlord Landmark, while Apple, Kraft Foods and Kotra leased office in Plaza Central. Ruixin Group leased in Unionsun Yangkuo International Plaza. Keapl Corporation also took up space in New Hope Plaza while Sichuan Power Investment Group leased 18,000 sqm in Sichuan Investment Building.

As existing stocks were slowly digested after a batch of office projects including Yanlord Landmark, One Aerospace Centre and Jinjinag International Plaza were handed over in 2010. The vacancy rate fell 4% q-o-q to 29% and the average rent slightly fell 1% q-o-q to RMB 103 per sq m.

In the second half of this year, with the dramatic increase in supply and decreasing absorption, the market will face downward pressure from the supply side and the vacancy rate will see slight increase.

Chengdu office price index



Source: Vigers Research

## Chengdu

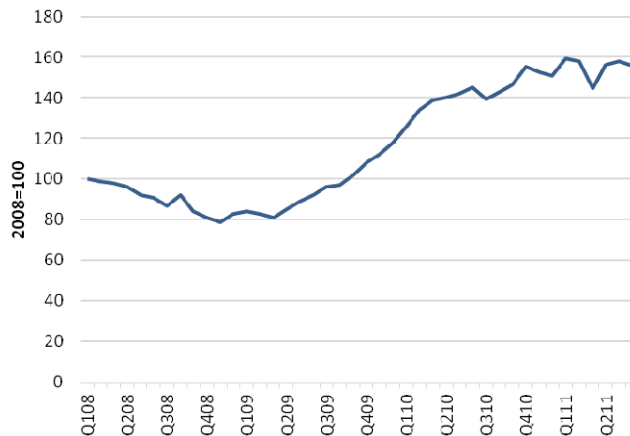
### Residential Market

The market witnessed a steep drop for both price and transactions in Q1 due to the release of cooling measures in February. In Q2, the transaction was down 41% q-o-q, but was slowly recovered during May and June as monthly sales volume increased by 30% and 3% respectively. The home price rebounded strongly in April, rose 8% m-o-m to RMB 6779 per sq m. During Q2, the average price climbed to RMB 6,791 per sq m, up 0.4% q-o-q, where price in urban area increased 2%.

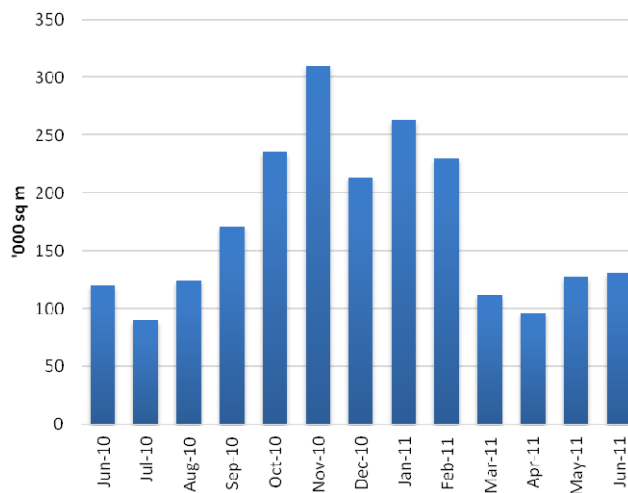
The supply increased dramatically in April due to the Property Trade Fair. However, as government’s measures to restrict price and purchases restrained demand, the sales volume remained low. Buyers became more rational and adopted wait-and-see attitude on the market. Developers, on the other hand, struggled to sell properties while facing intensive competition with the increasing supply in the market.

During Q2, most transactions were recorded in Pixian, Shuangliu, Wenjiang and Xindu, which accounted for 68% of the total transaction. Also, due to the insufficient land supply in central area, it is more obvious that both developers and buyers shifted their focus on properties in suburban area which were less expensive. Transactions in suburban areas continued accounting for larger portion comparing with Q1 2011, increased by 6.5% to 73.2% of the total transaction.

Chengdu home price index



Chengdu home sales



Source: Vigers Research

## Wenzhou

### Office Market

Compared with residential market, office market in Wenzhou remained stable, after Huameng Commercial Plaza and Huijia Building were launched in Q1, no Grade A office was handed over in Q2. There were more evidences that investors shifted focus on office market amid increasing political risk in the residential market. Due to the scare supply, average prices and rents increased by 6.8% q-o-q and 4.4% q-o-q respectively. Rents in Jiangbin Middle Road, Wendi Road, Chezhan Avenue and Fuqian Streetclimbed were up about 10% to 20% y-o-y.

Given limited land supply and continuing lack of available bank credit, developers might face increasing pressure of financing in residential market, pushing them to sell their office building at a lower discount in Q3 and Q4. Moreover, with insufficient land supply for office development in central area, more projects will take place in suburban area, and it will also pose higher pressure on office price in Wenzhou in central area.

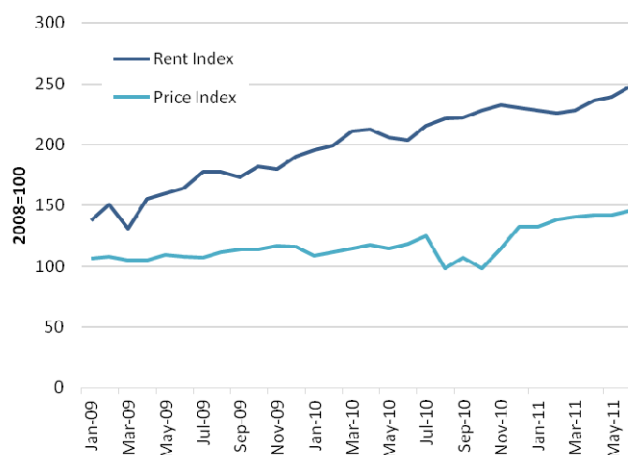
### Residential Market

In Q2, the government strengthened the control on residential market, required that all buyers could only purchase two apartments at most, and required a minimum down payment of 60% for the second one. Not only home buyers deferred their purchase plans, the cooling measures also discouraged developers in Wenzhou, leading a slump in sales for residential housing development in the first half of 2011. The total supply of available lands for residential was about 700,000 sq m but only 18%, or 127,000 sq m were sold, showing that developers slowed their developments and adopted a wait-and-see attitude toward the market.

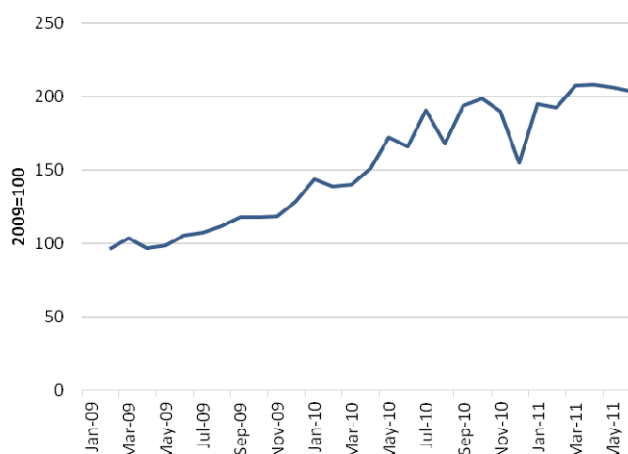
In the first half of this year, only 3 residential projects located in suburban area were released, including Yunding Resort, Elite Apartment and Mingqiao Jiayuan. These three projects provided approximately 25,000 sq m of residential space to the market. With limited supply and purchases, the market experienced a slump in sales by 62% compared with last quarter, dropping sharply to 11,051 sq m. However, the sales price remained stable which fell only 1.5% to RMB 32,957 per sq m, as developers were reluctant to cut prices.

Nine projects will be launched in the second half of this year, adding a total of 396,213 sq m to the residential market, including Xianshuwan, Zhongliang Shoufu, Zhixin Plaza and Star River. The increase in supply may put pressure on the price.

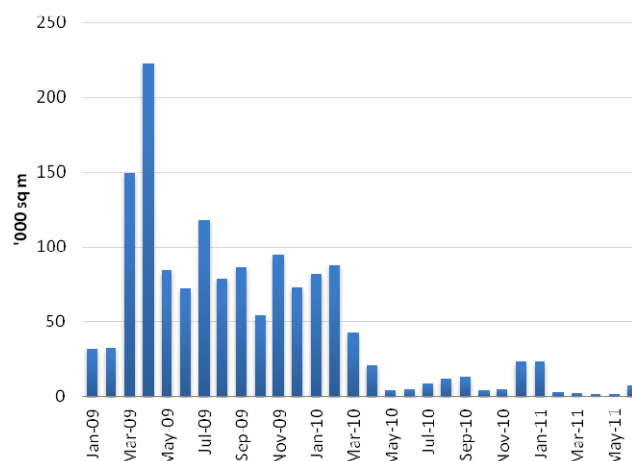
Wenzhou office price index



Wenzhou home price index



Wenzhou home sales



Source: Vigers Research

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