



### ECONOMIC OVERVIEW

Influenced by the global financial crisis, tightening economic policy implemented by Central Government and construction activity restrictions during Beijing Olympics, the city's GDP growth slowed to 9.1% in the first nine months, estimated at 758.63 billion yuan, which is below the national growth rate of 9.9% posted over the same period.

Investment growth had slowed measurably in the first eight months but then it showed sign of reverse in September. Total fixed-asset investments (FAI) declined 37% from last year to 67.77 billion yuan. On a monthly basis, July saw 31.81 billion yuan of investment, down 12.4% year on year; August and September recorded 14.7 billion yuan and 21.26 billion yuan respectively, falling 56.1% and 43.8% from last year.

Total value of real estate investments fell 8.1% from a year ago to 113.69 billion yuan. As all construction projects were ordered to be on hold during Beijing Olympics, real estate investments fell 35.1% from last year to 34.25 billion yuan. In September alone, real estate investments amounted to 11.16 billion yuan, a year-on-year decrease of 36.7% though up 62% from August.

### KEY ECONOMIC INDICATORS

	2003	2004	2005	2006	2007	Q308
Real GDP growth	10.5%	11.5%	11.8%	12.0%	12.3%	9.1%
Inflation (CPI)	1.2%	1.6%	1.5%	0.9%	2.4%	6.0% (Jan-Sep)
Utilised FDI (US\$ 'billion)	2.15	3.08	3.53	4.55	5.07	5.09 (Jan-Sep)
Fixed-asset investment (FAI) (billion yuan)	215.71	252.83	282.72	337.15	396.66	67.77 (Jan-Sep)
Real-estate investment (billion yuan)	120.25	147.33	152.50	171.99	199.58	113.69 (Jan-Sep)

Source: Beijing Municipal Statistics Bureau, Vigers Research

MAJOR LAND TRANSACTIONS

Between July and September, a total of seven land plots were sold through government auction, out of which two are designated as commercial/banking development, four as residential development and the remaining one as recreational/sports facilities attached to a resort.

Unlike auctions in other cities that took place over the same period, Beijing’s residential sites attracted interest from a higher number of developers. It turned out that all residential plots were sold above asking prices. For example, a plot located to the south of Daotian Village (稻田村) had the highest attendance with six bidders, and finally Gao Sheng Real Estate Development Co, Ltd (北京高盛房地产开发有限公司) bought it for 121,998,000 yuan, 11% on top of the initial price.

During the third quarter, the largest deal, worth 1.2 billion yuan, was closed by Beijing Urban Construction Xinghua Real Estate Co, Ltd (北京城建兴华地产有限公司) by acquiring a 101,384-sq m residential site.

Much earlier, in the first half of 2008, a total of 58 plots were transacted through Beijing Land Reserve Centre, fetching 34.42 billion yuan in total. Average transaction price per sq m was 3,541 based on the 58 deals, falling moderately 7% compared with the same period of last year. Ever since 2005 when Beijing property market started to take off, this is the first time that land prices backed down.

District	Site location	Major use	Site area (sq m)	GFA (sq m)	Leasehold years	Transaction price (million yuan)
Changping 昌平	Huilongguan Village, Huilongguan Town 回龙观镇回龙观村	Commercial/ Banking	5,700	19,950	40	61.31
Haiding 海淀	Xisanqi Road East 西三旗路东路	Commercial/ Banking	2,512	3,014	40	14.93
Fangshan 房山	Guangyang New Town Project located to the south of Daotian Village 稻田村以南 广阳新城项目	Residential	42,423	60,999	70	122
Changping 昌平	Huilongguan Town 回龙观镇	Residential	96,665	179,200	70	500.66
Zhaoyang 朝阳	Lishuiqiao 立水桥	Residential	101,384	209,340	70	1,201
Fangshan 房山	Southern Liyuan Village, Yancun Town 阎村镇南梨园村	Residential & commercial/ banking	112,638	143,055	70, 40	226
Changping 昌平	North of Jiu Hua Spa Resort, Xiaotangshan Town 小汤山镇九华山庄北侧	Sports & recreational	179,000	179,000	N/A	120.06

Source: Beijing Land Reserve Centre, Vigers Research

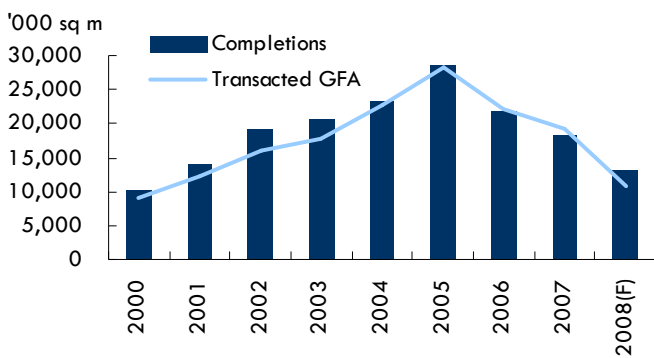
RESIDENTIAL PROPERTY MARKET HIGHLIGHTS

According to Beijing Statistics Bureau, 5,051,000 sq m of residential properties, or 43,073 residential units, were sold in the first three quarters, falling 55.8% from the same period of last year. “Golden September” failed to live up to sellers’ expectation with sales plummeting 58% year over year.

Average home price within 4th Ring Road fell slightly by 2% to 18,163 yuan per sq m from Q208. Home prices alongside 4th and 5th Ring Roads averaged 16,215 yuan per sq m. 5th and 6th Ring Roads’ properties were priced at 9,844 yuan per sq m on average. Further beyond 6th Road the average price was 7,577 yuan per sq m.

The city had new completions comprising a total GFA of 12,528,000 sq m in the first three quarters, an annual decline of 7.4%. Of them, residential completions accounted for 6,911,000 sq m, falling 30.5% from a year ago. Total area of sites complete with residential projects was only 950,000 sq m in the first nine months, plunging 82% from that of last year. That suggests that new residential supply in two years from now will decrease significantly.

BEIJING RESIDENTIAL PROPERTY SUPPLY & TAKE-UP

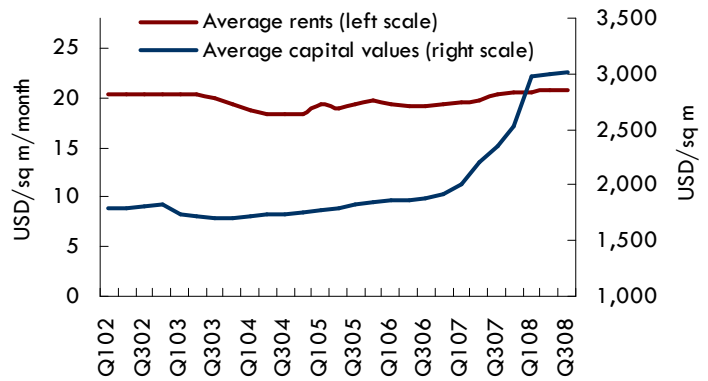


Source: Beijing Municipal Statistics Bureau, Vigers Research

LUXURY SECTOR

In the third quarter, supply of high-end residential property reached 9,200 units. After nine months of shrinkage in mass-market sales, the luxury sector especially the villa market displayed strong

BEIJING LUXURY PROPERTY AVERAGE CAPITAL VALUES VS RENTS



Source: Vigers Research

defiance against price slumps. Top three developments with highest price growth were Vancouver Forest Villas (温哥华森林), Palais De Fortune (财富公馆) and Long Cheng Villas (龙城花园), increasing in prices by 90%, 75% and 66.67% respectively. Yet, apart from a handful of sought-after developments, some other luxury developments actually reported price cuts by up to 40%.

As of September, average home price in the high-end segment was 21,050 yuan, down albeit moderately 3.2% quarter over quarter. Prices of luxury single-family homes, however, rose 8%, averaging 27,300 yuan per sq m. Even so, we expect that luxury home prices will be under downward pressure in the forth quarter as some buyers may retreat until when the economic crisis eases.

Regardless of relatively firm prices, both the supply and sales volume declined substantially from Q208. Vacancy rate was about 25%, up 1.3% from the previous quarter. New higher-priced stock released during the period includes: Zhongxin City (中信城), Fudi International Residence (复地国际公寓) No. 5 Vanke Park (万科公园五号), Aodong 18 (奥东 18), De Sheng Triumph Apartments (德胜凯旋公寓) and Chang An West Centre (西长安中心). La Grande Ville (誉天下), developed by Hong Kong-based Cheung Kong (Holdings), is scheduled for release in November.

GRADE-A OFFICE PROPERTY MARKET HIGHLIGHTS

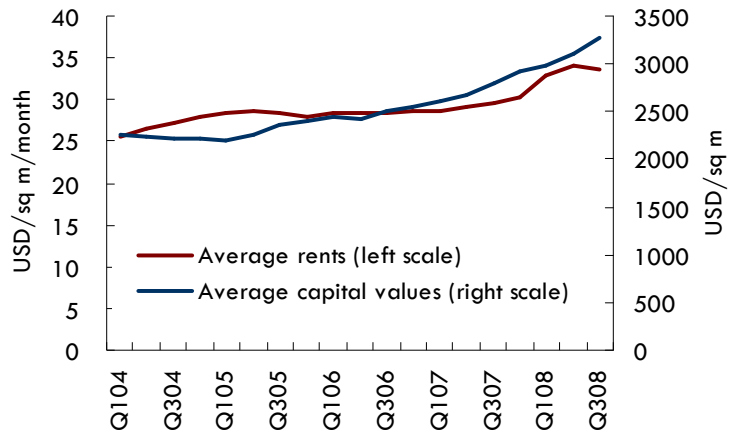
As of September, the city of Beijing had an estimated 7,390,000 sq m of Grade-A office stock, after five office projects had entered the market and contributed a total floor area of 337,226 sq m to the inventory.

Owing to project suspension during Beijing Olympics, it is expected that throughout Q408 until early next year both sales and rental supply will increase dramatically. According to Vigers Research, to be available for lease/sale in Q408 includes SOHO 2, Beichen Building (北辰首作), 21st Century Tower (二十一世纪大厦), Finance Street Centre (金融街中心) and Beijing LINK. Prime office rents will become more competitive from then on.

With relatively more new supply, the CBD remained as the largest submarket, accounting for about 30% of total office stock. Zhongguancun and Finance Street represent 20% and 15% respectively of the inventory.

It is worth to note that Asian-Olympic Business Circle (亚奥商圈) is emerging as another important submarket, drawing on the tremendously improved transportation network and business amenities. New landmarks like North Star Times Tower (北辰时代大厦), World Olympic International Center Tower (世奥国际中心), Beichen Building (北辰

BEIJING GRADE-A OFFICE PROPERTY AVERAGE CAPITAL VALUES VS RENTS



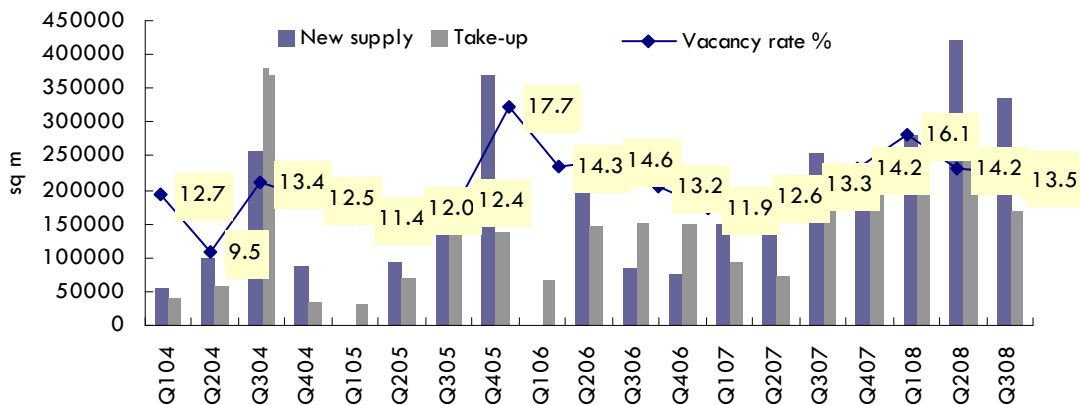
Source: Vigers Research

首作) and Marco Polo Tower (马哥孛罗大厦), for example, have reshaped the landscape of this future CBD.

SALES MARKET

Three remarkable deals were sealed in Q308. CapitalLand sold Capital Tower Beijing (北京凯德大厦) to SK Holdings Co, Ltd for 3.34 billion yuan. SOHO China bought Jinhe Centre located in Zhongguanchun for 890 million yuan. CEIEC acquired Block A of Power Land with a GFA of 42,380 sq m for a sum of 800 million yuan as its Beijing head office.

BEIJING GRADE-A OFFICE PROPERTY QUARTERLY SUPPLY, TAKE-UP & VACANCY RATE



Source: Vigers Research

(Cont'd)

According to Vigers Research, the average capital value of Grade-A office properties rose albeit modestly 5.9% to 22,974 yuan per sq m from last quarter.

## LEASING MARKET

As most of the new rental stock was released in September after Beijing Olympics, and as more international brands have set foot in the capital city, the leasing market was active in Q308.

Prime office rents rose 11.9% from a year ago but went down slightly 2% from Q208. Prime office rents in Finance Street and Zhongguancun averaged 299 yuan and 225 yuan per sq m/month respectively, up 6.4% and 5% from Q208. Vacancy rate fell 0.7% to 13.5%.

Nevertheless, due to that there will be a much higher number of completions in Q408 and early next year, rental supply is going to increase quite significantly in the few months ahead. Whilst also factoring in the possibility of the global financial crisis being spread to Beijing Grade-A office market, there is a strong downward pressure on rental values.

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