

Beijing Property Market Quarterly Snapshot

Q1, 2010

Vigers Research

Market summary

In February, the Beijing authorities announced a new set of directives to echo the central government's pledge to tame house price growth.

Among the new rules of game the one that requires that the property developer sell their stock units in a new-built development within three days of pre-sale approval has had an immediate impact on the supply pipeline. As of late March the Beijing housing authority issued a total of 15 pre-sale permissions only, compared with a monthly average of 40 in the past year.

As supply shrank by a larger margin than the fall in demand, new home prices continued to rise in March albeit modestly to record highs. For example, several new residential projects on sale by the end of March were attached to a price tag of 21,200 yuan psm on average. That compares with the average of 18,800 yuan recorded in February.

Though well intentioned, the new edict has created an undesired side effect which seems to be against the will of capping price surge. Now no longer able to "hoard" stock in order to "drip-feed" the market, like the way the powerful developers do in Hong Kong, Beijing developers are now under the hold of risk aversion as they have lesser control over their own sale tactics and timetable.

In the land market, the sales of a handful of "land kings" have sent positive if not exuberant signal to the near-term market, reportedly propping up house prices in a few neighbourhoods. Also, existing developments saw a 3-5% increase in asking prices immediately after the announcement of the grand plan to turn Tongzhou District, to the east of the CBD, into a modern city on a par with Shanghai's Pudong.

Taking into account the above factors, we forecast that Beijing home prices would grow moderately later this year against the backdrop of more regulated marketplace and supply-constrained environment. Tongzhou District, yet to be transformed into another CBD, will see more plots being sold to house luxury residential developments in the next few years and could inject some new momentum to the prime residential market.

Land market

Two land sales have shattered price records and both buyers were state-owned enterprises (SOEs). A residential plot in Dongsheng was auctioned for 28,000 yuan psm, the highest ever paid in the city, and just a fraction below the area's average home price. At a separate auction, an 18,500-sq m block of residential land deep in the suburb of Yizhuang went for 5.25 billion yuan, the most ever paid in a single land transaction in Beijing.

China Ordnance Equipment Group Corporation, a military company, bought the Dongsheng land. Citic Group, the country's largest financial conglomerate and one which is directly led by the State Council, China's cabinet, bought the Yizhuang plot.

However, private developers have complained that the deck was stacked in favour of state-run firms in Beijing's land auctions because the city required bidders to have registered assets that far outstrip those of the biggest listed property companies. But the country's most successful private property developers have been sidelined in the process, such as SOHO China.

Shortly after the record-breaking land deals that had sparked outrage and criticism over the role of SOEs, the central government eventually came forward and ordered to ban SOEs whose core business is not property related from taking part in land bidding and being engaged in property development.

The order, issued by the State-owned Assets Supervision and Administration Commission (Sasac), is intended to rein in runaway property prices. However, it is believed that the measure would not stop the buying spree by SOEs, but rather strengthen the purchasing power of those still in the market.

Major land transactions in Q110

Site	Use	Transaction price (bln yuan)	GFA (sq m)	Unit price (yuan psm)	Buyer
Dawangjing Lot #1 北京大望京1号住宅混合用地	Residential / Mixed-use	4.08	170,000	27,500	Sino Ocean Land
A development site in Yizhuang, Daxing District 大兴区亦庄住宅及商业项目	Residential / Commercial	5.24	185,000	13,400	Citic Group
A lot in Jimenqiao, Dongsheng, Haidian District 海淀区东升乡蓟门桥地块	Residential / Hotel / Commercial	1.76	34,253	29,913*	China Ordnance Equipment Group
2 lots in Dawingjin Village, Cuige Zhuangxiang, Chao Yang District 朝阳区崔各庄乡大望京村环境整治土地 储备项目4、5号地块	Residential / Mixed-use	5.04	280,790	17,949	Poly Real Estate

* Excluding hotel (30,000 sq m) and public rental housing (4,000 sq m)

Source: Beijing Municipal Bureau of State Land and Resources, Vigers Research

Housing market

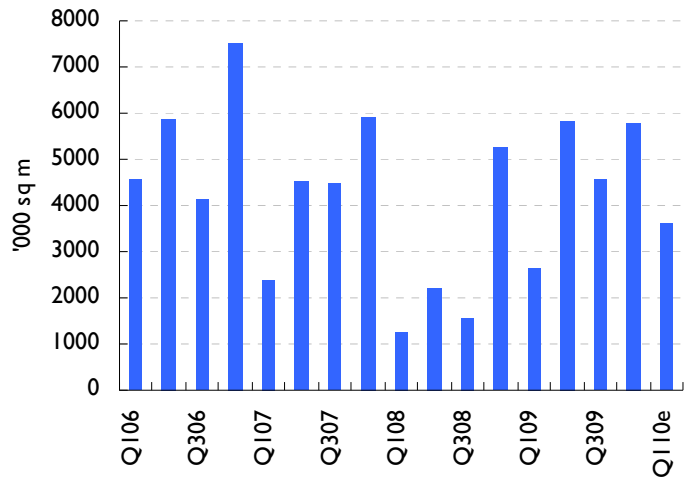
In the first quarter, new and existing home sales fell 37.8% and 45.5% respectively from the final quarter of 2009, to approximately 3,600,000 sq m and 3,100,000 sq m by floor area handed over. But on a year-on-year basis they were up 36% and 19%, partly due to seasonal factors and partly because of strong liquidity.

At a closer look, the market was more buoyant in March than it had been in February during which buyers and sellers held on to see what sort of housing policy might come out after the annual NPC and CPPCC meetings. As dust settled right after the conference, market confidence improved little by little.

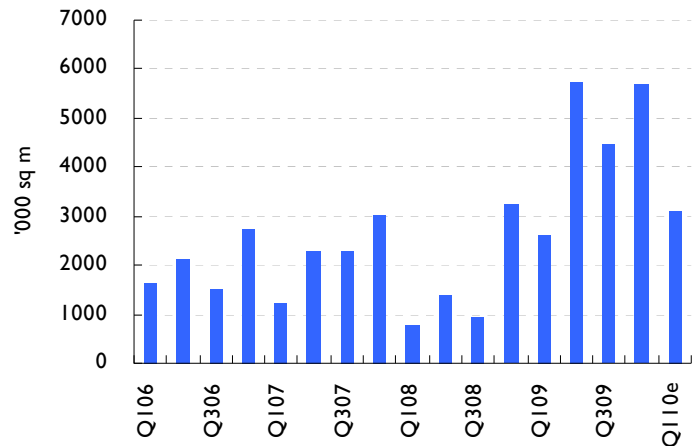
In 2010, the agenda of the government is to deliver adequate housing units for low-income households. In spite of the efforts to curb speculative demand, such as raising the down payment threshold for second home purchases, the message is clear that the private house prices be determined by market forces.

Thus, we expect to see a healthier and more balanced housing market this year. With that said, it means that residential property prices in a broader sense are likely to be running at prevailing levels, with some ups and downs in between. Supply will inevitably fall, largely due to the new directive, which in turn will keep property values stable.

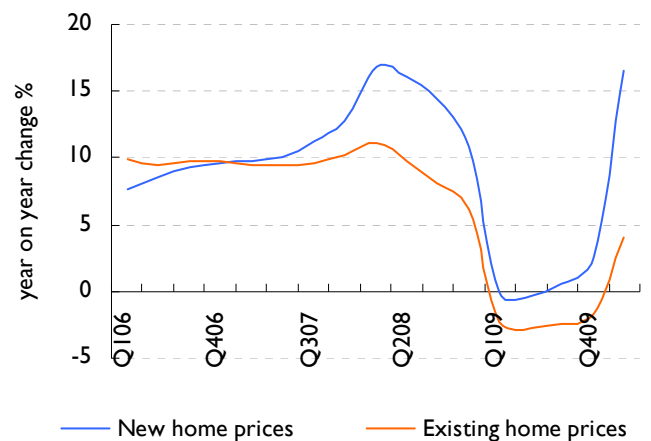
New home sales



Existing home sales



Mass market price changes



Source: Beijing Municipal Bureau of Statistics, Vigers Research

Prime residential market

Prime Beijing residential property prices rose 4.4% quarter on quarter, or 19.8% year on year, to an average of 41,749 yuan psm in the first quarter. Rental values however rose a mere 2.4% to an average of 212 yuan psm/month. As such, gross rental yield in the upmarket sector has dropped to approx 6.1% pa.

We expect that the upward momentum for luxury house prices will continue throughout the near-term period. After all, cash-loaded developers are in no hurry to make fire sale of their new properties. Keeping stock levels low will help fuel price growth.

Eastward expansion of Beijing CBD

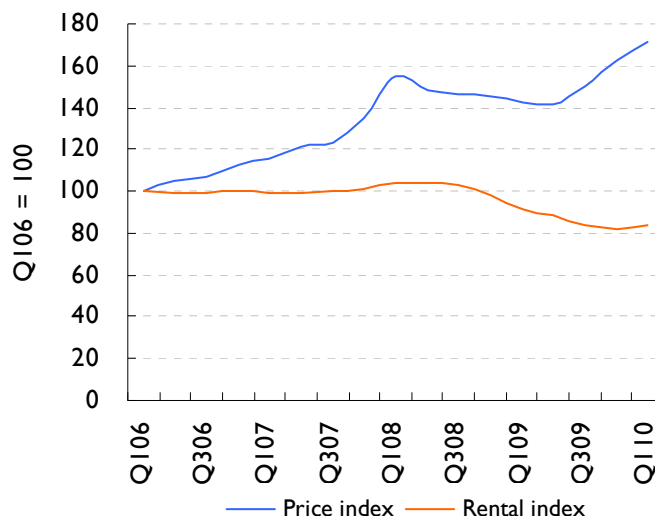
In Tongzhou District, high-end property prices have increased faster recently after the local government announced its plan to build a modern urban area to the east of Beijing's CBD. Prices of existing developments saw an increase of 3-5% immediately after the modern city plan was released, according to local estate agents.

And the local government will start auctioning off development sites/schemes in April and demolish houses and relocate affected residents along Tonghui River in June. The new town will become a business, culture and entertainment hub and may take a decade to accomplish the mission, according to the government plan. The new development area is likened to the Pudong District of Shanghai.

Therefore, the recent price spike in the area is similar to those experienced in Shanghai. Besides the present Batong metro line, seven more lines including the M6 line will be built in the future. The total area of the new city centre in Tongzhou will be 155 square kilometres with construction areas totalling 85 square kilometres. The area will be able to house more than 1 million people.

Benefitting from the blueprint for Tongzhou District as Beijing's next CBD, we believe that the emerging prime submarket, though currently situated outside of the Fifth Ring, will become a key driver of the growth in the Beijing prime residential market.

Price and rental indices



Source: Vigers Research

Prime office market

The prime Beijing office market is still emerging from the financial crisis and the global economic slowdown that began in 2008. Local government has offered incentives to stimulate occupier demand, whilst office landlords have also resolved to offering rental concessions to retain and attract tenants. Even with high vacancy levels the Beijing office market did show some improvement in the first quarter.

Completion of a number of office projects had been postponed by around 6-9 months in order to make way for the 2008 Beijing Olympics, and therefore we saw a sharp rise in office supply in 2009, especially during the first quarter. Latest vacancy rates have climbed to a record level of 24%, which does not include many buildings about to open, such as the city's tallest, the 6.6-billion yuan 74-story China World Tower 3.

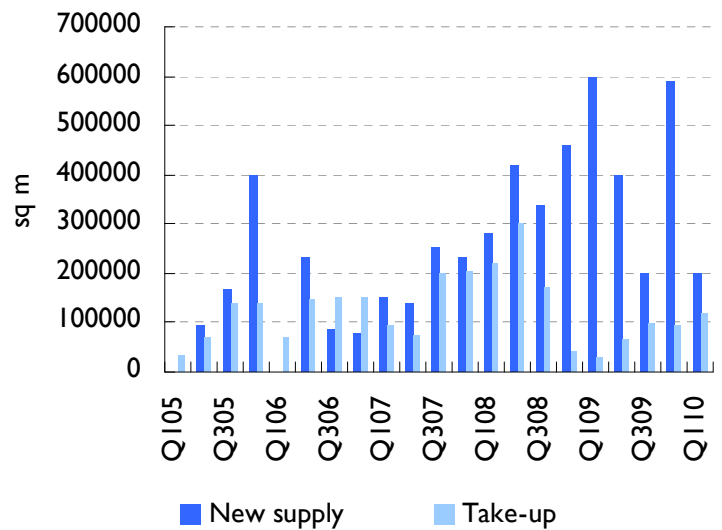
According to our records, five Grade A office projects entered the market in the past three months, bringing in approx 198,210 sq m of floor space. However, supply has continued to outstrip demand, as net take-up rate is estimated at 117,480 sq m over the same period.

Prime rents fell 1.8% from end-2009 to an average of 238 yuan psm in the first quarter, or 12% lower than one year ago. Better still, the rate of decline has already slowed compared with the preceding quarter. This year is absolutely going to be a tenant's market as more office projects are due to enter the letting market shortly.

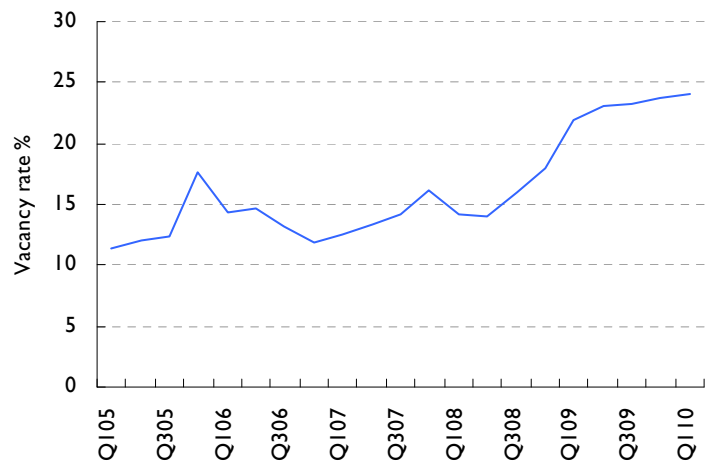
In the investment market, thanks to the demand from local insurance companies and financial institutes, office prices rose 1.3% from last year, but were also down 1.3% from end-2009. This set of data may suggest that prime office prices may flatline in the few months ahead.

In March, Air China put up its flagship building, Beijing Air China Plaza (国航大厦) for sale by tender. But the deal has yet to be closed at the time of writing. The complex sits on a 100,800-sq m plot and comprises 88,737.23 sq m of gross floor area. At 2 billion yuan asking price, the unit price implied is about 22,000 yuan psm.

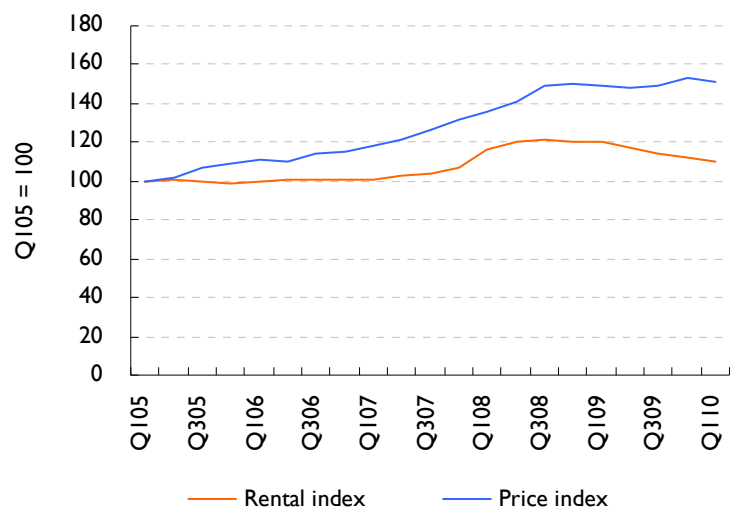
New supply and take-up



Vacancy rates



Price and rental indices



Source: Vigers Research

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