

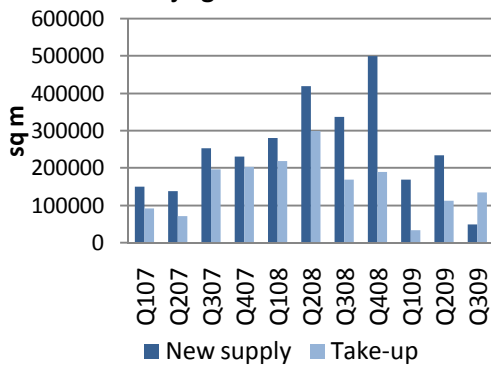


VIGERS RESEARCH

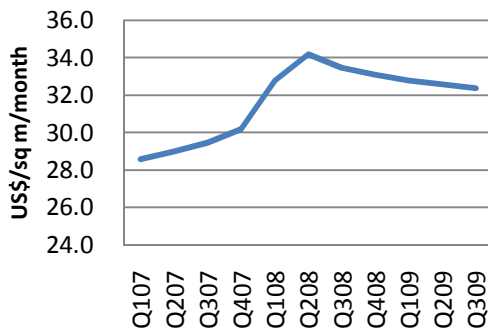
China Property Market Review

THIRD QUARTER, 2009

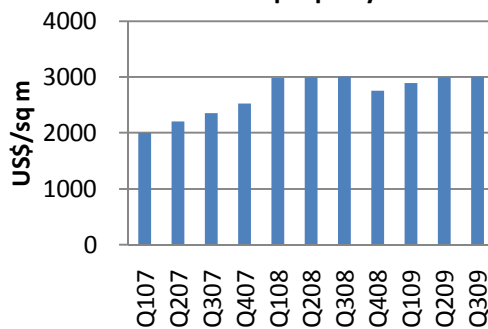
New supply & take-up of prime Beijing office market



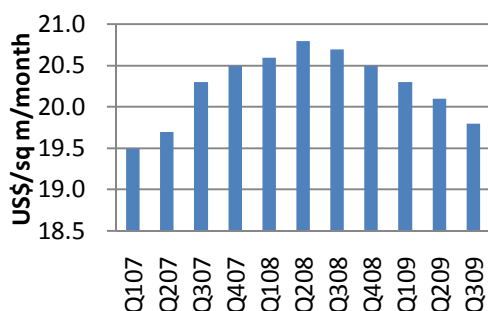
Prime Beijing office rents



Capital values of prime Beijing residential property



Rents for prime Beijing residential property



Beijing

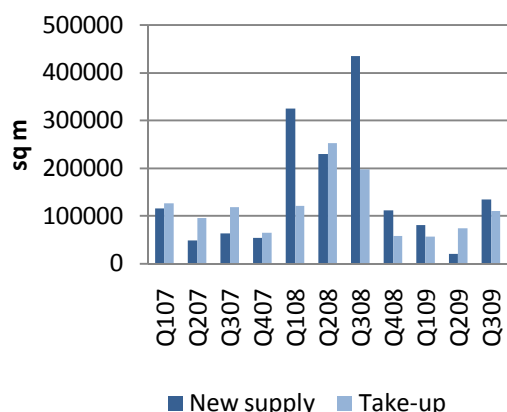
Prime office market

In the past three months, demand for prime office space in Beijing continued to pick up, with local companies of the banking and finance sector driving the recovery, which signed a number of new leases for large-sized spaces. Although some landlords started to lift rents, most rental deals closed in the quarter were for new spaces at new-builts. Apart from them, individual landlords continued to cut rents to lure or retain occupiers. On the special occasion of the National Day marking the 60th anniversary of PRC, many office projects had to postpone their launch dates because of tightened security measures. On the investment front, sizeable local firms were keen on investing in prime office property, completing a handful of en-bloc sale transactions during the quarter. As a glimmer of hope comes to the Beijing office market, investment negotiations which had been stalled by the financial crisis during Q408-Q109 are back onto the table.

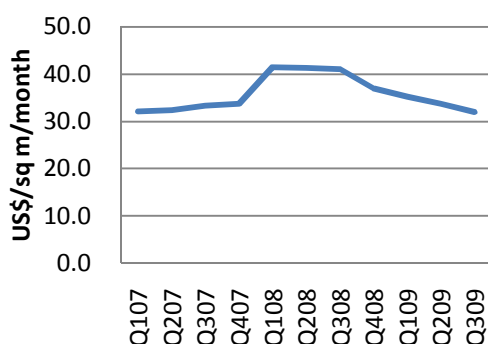
Prime residential market

With the economy recovering gradually, sales activity of prime residential property was given a refreshing boost. Moreover, the rental market has benefitted from the seasonality of the housing market. As investors find ways to turn money into assets in expectations of inflation, the year-over-year growth rate of pre-sales of villa and apartment units rose to 130% by the end of September, compared with 98% recorded at the end of Q209. As a consequence, the average capital values of luxury residential properties appreciated at a faster pace than in Q209. Overall vacancy rate was down 1.8 percentage points on the preceding quarter, but as the rental market is in favour of tenants, the average rent was down 2.9% quarter on quarter.

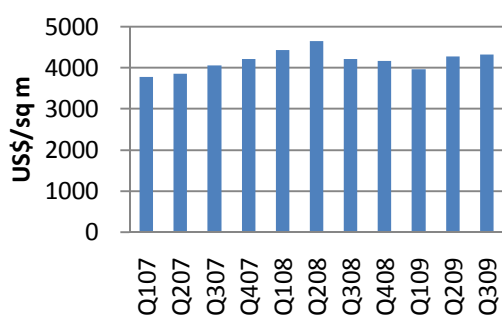
New supply & take-up of prime Shanghai office market



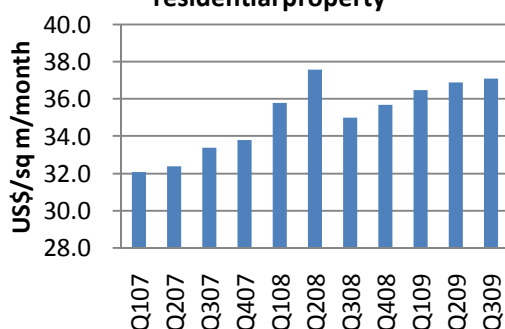
Prime Shanghai office rents



Capital values of prime Shanghai residential property



Rents for prime Shanghai residential property



Shanghai

Prime office market

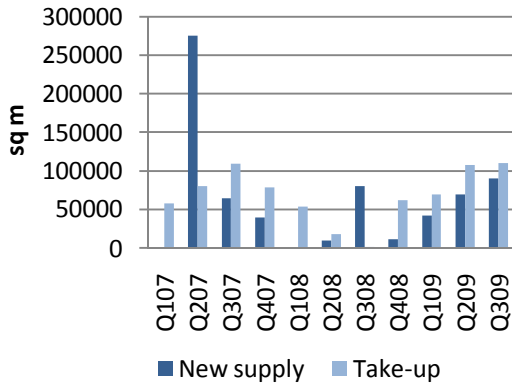
In Q309, as demand strengthened versus a tentative decline in supply as various office projects had postponed their completion dates, the prime Shanghai office market appeared to be thawing. In terms of rental pricing, the rate of decline has narrowed as vacancy rate has dropped albeit modestly by 0.4 percentage points to 13.5%. Market optimism has been reignited compared with early the year, whilst investment activity has increased moderately. Especially active in the investment market were deep-pocketed local firms. One most noteworthy deal involved SOHO China’s purchase of The Exchange for 2.45 billion yuan. The developer reportedly plans to resell it on the strata market. There were three office projects, namely IFC HSBC Building, GC Tower and Shanghai Diamond Exchange, due to enter the market in the quarter, injecting 150,000 sq m of floor space into the inventory. Net take-up amounted to 135,000 sq m, largely contributed by Shanghai IFC HSBC Building where most units had been leased out much earlier. The average Grade A office rents fell 5.2% on a quarter-on-quarter basis, or some 22% off its peak about the same time a year ago.

Prime residential market

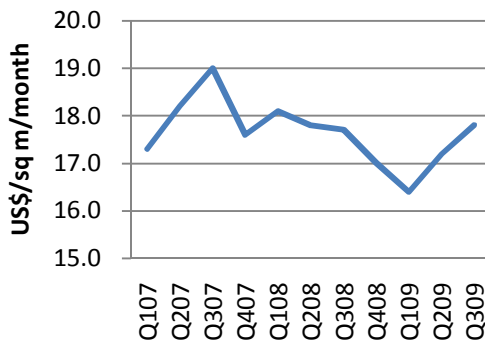
The prime residential market benefitted to a larger extent from easy lending and strong liquidity. During the quarter, an average of 1,130 apartment units (priced at 25,000 yuan per sq m or above) were sold each month, compared with 780 units in Q209. Similarly, monthly sales figure of villas rose 30% quarter on quarter to an average of 227. Monthly rents for luxury apartments increased by 0.6% to an average of US\$37.1 per sq m at end-September. Occupancy rate fell by 0.6 percentage point to 76%. Luxury villa rents increased by 2.2% to an average of US\$24.3 per sq m per month, while the citywide luxury villa occupancy rate rose 0.3 percentage point to 94.3%. In the supply pipeline, three serviced apartment projects are due to come to the market in Q409, which will bring in about 480 units.

Guangzhou

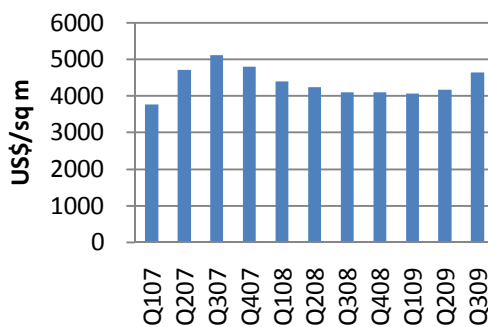
New supply & take-up of prime Guangzhou office market



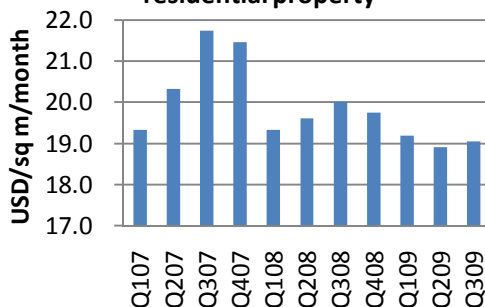
Prime Guangzhou office rents



Capital values of prime Guangzhou residential property



Rents for prime Guangzhou residential property



Prime office market

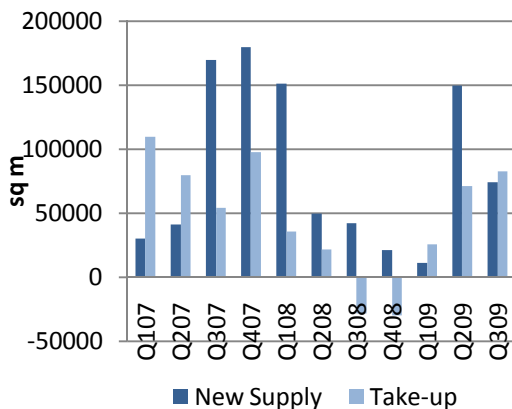
After falling for three quarters in a row, prime office rents in Guangzhou finally registered a rebound of 3% in Q309, arriving at US\$17.8 per sq m per month. Overall vacancy rate has also eased to 17.5%. Take-up was estimated at 110,000 sq m, with demand from local occupiers the strongest. As with Shanghai, sizeable local firms especially of the banking and finance sector were more active in the investment market than foreign firms. By major submarket, Yuexiu District saw a 1.9% q-o-q fall in rents to US\$15.4 per sq m per month, with vacancy rate assessed at 12%. Tianhe North fell 1.9% to US\$17.8 yuan per sq m per month in average rents, with vacancy rate increased slightly to 5.5%. Pearl River New Town fell 1.8% to US\$21.2 per sq m per month, where vacancy rate was 36%, the highest of three.

Prime residential market

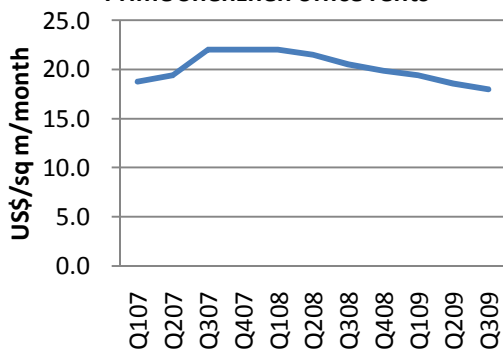
The upmarket has apparently bucked the trend since February this year. The share of high-priced stock in excess of 2 million yuan apiece has grown to about 25% in September from only 10% in February. That means that the market is going for quality instead of quantity. Expecting the return of inflation, investors have turned to luxury residential homes as safe haven against inflation. In the high-end rental market, rents for serviced apartments fell by 1.8% to an average of US\$22.5 per sq m per month. High-end villa rents fell 1.1% to US\$20 per sq m a month on average. There were no rental apartments in the pipeline in Q309, therefore helping push vacancy rates down. However, supply of rental apartments is expected to surge next year. A number of high-end hotel/serviced apartment operators will also foray into the Guangzhou housing market at the same time. Larger supply and competition will mean lower rents and higher vacancy rates in 2010.

Shenzhen

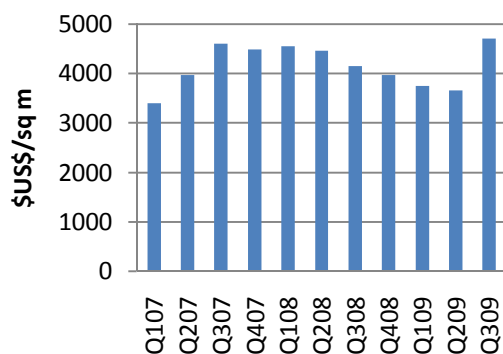
New supply & take-up of prime Shenzhen office market



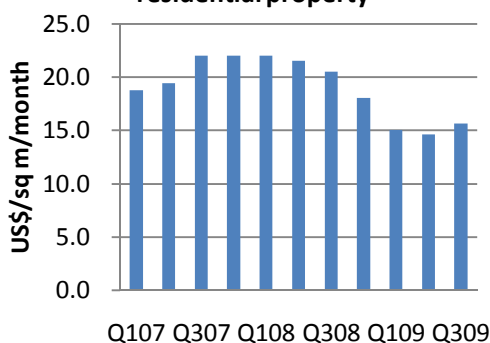
Prime Shenzhen office rents



Capital values of prime Shenzhen residential property



Rents for prime Shenzhen residential property



Prime office market

At end-September, prime rents in Shenzhen averaged US\$18 per sq m per month, down 3% quarter on quarter. On the flip side, capital values averaged US\$3705 per sq m, up 2% on the third quarter. That suggests that rents have a tendency to follow in 2010, as there was no new supply in the quarter whilst take-up has been picking up. Overall vacancy rates fell 1.8 percentage points to an average of 11.7% in Q309. Of all submarkets, Futian District remained the most desirable office location for investors and occupiers alike. Sales activity for prime space at Excellence Century Centre and NEO has increased considerably. A total of four office development sites in Futian were sold on October 19, fetching 2.319 billion yuan in total value. Most notably, China Life acquired a 5009-sq m site (60,000 sq m of floor space allowed) at the auction for 515 million yuan, or 8,583 yuan per sq m.

Prime residential market

Similar to Guangzhou, proportion of large-sized (ie 90 sq m), higher-priced apartment sales now account for a bigger share of the mass market. It was at 50% as at August. In the high-end market, the average price of units larger than 144 sq m rose 32% to US\$4,720 per sq m on a quarter-on-quarter basis. Serviced apartment rents fell 0.8 percentage point to an average of US\$27.6 per sq m per month. High-end villa rents rose 1.9% to an average of RMB157 per sq m per month. Rents for high-end apartment units rose 5.3% to an average of US\$11 per sq m per month. Combining all types of high-end rental homes, average rent in the prime rental market stood at US\$15.6 per sq m per month at end-September. We are optimistic that occupier demand will strengthen in the upcoming two quarters