

## Economic overview

The economic recession in the west has landed in the southern Chinese city. For years, Guangzhou has been heavily dependent on manufacturing and exports. Shrinking overseas demand is now forcing the city to rebalance itself from exports-oriented to boosting domestic consumption.

In January and February, total production value was estimated at 154.476 billion yuan, representing a modest growth of 3.3% on a year ago. Yet in terms of growth rate, it has been down 6.7 percentage point. Over the years, the manufacturing sector has been contributing at least 30% in value to Guangzhou's GDP, but preliminary figures suggest the share has fallen to only 14.4%.

Over the same period, total exports were valued at 25.831 billion yuan, posting a steep fall of 11.6% year on year. Not only are exports weakening but imports are also tumbling. Total imports in Jan/Feb were valued at US\$4.535 billion, down 30.7% on a year ago.

Foreign direct investment (FDI) value has shrunk almost simultaneously. January value of realised FDI was US\$221 million, representing a sharp decline of 20% year over year. Less disappointing was tourist numbers, which fell 8.7% from last year to 2,517,200 visitors in January.

Trying to spend the way out of the current crisis, the total retail sales figure rose 7.5% from last year to 53.696 billion yuan, against the scenario that inflation rate, measured by CPI, was -1.2%, or a so-called deflation which the Government has been trying to talk down.

With the central government's stimulus package showing signs of effect, fixed-asset investment (FAI) in Jan/Feb rose 15% to 22.054 billion yuan year on year. Infrastructure projects such as the construction of railway and Asian Games stadiums are the major contributors to FAI, with more projects coming ahead.

In February, the central government announced final plans for boosting 10 key industries over the next three years: steel, shipping, autos, logistics, petrochemicals, textiles, light industry, non-ferrous metals, equipment/machinery and electronics/information. But the property sector is conspicuously excluded.

## Key economic indicators

	05	06	07	08	Latest
Real GDP growth (% change y-o-y)	13	14.4	11.3	12.3	7.8 (F) (Q109)
CPI (% change y-o-y)	1.5	2	4.4	5.9	-1.2% (Jan-Feb) 22.1 (Jan-Feb) +15% y/y
FAI value (billion yuan)	151.9	169.6	186.3	210.5	0.22 (Jan) -20% y/y
Realised FDI (billion USD)	2.65	2.92	3.29	3.62	4.54 (Jan) -30.7% y/y
Exports value (billion USD)	26.7	32.4	37.9	43.0	54.0 (Jan-Feb) +7.5% y/y
Retail sales value (billion yuan)	190	218	260	314	

Source: Guangzhou Statistics Bureau

## Land transactions

In the first three months, only one industrial site was sold for the initial asking price. Residential and commercial land supply was literally zero.

The land sale market was sluggish last year with less than 20 sites being sold, of which ten were sold for minimum prices.

## Guangdong's new housing policy

To restore market confidence, Guangdong Province has announced a new raft of housing policies, outlying affordable housing schemes, homebuying incentives and financial aid to property developers. The following are key points of the notice.

- ◆ Between 2009 and 2011, about 200 million yuan will be invested every year in building low-rent housing for the families in need. Other types of affordable housing schemes will also be completed for families that cannot afford buying private housing.
- ◆ Local governments could buy from existing homes and turn them into affordable housing, or commence projects on their own. Citizens made homeless due to government redevelopment projects and low-income families will be given priority for public housing.

- ◆ Apart from the policy implemented earlier to offer privileged rates and to lower downpayment amount for first-time homebuyers, existing homeowners living in a flat smaller than the city's average are allowed to move up the property ladder by buying a second home on the same privileged terms offered to first-time buyers.
- ◆ Home mortgages approved before October 27, 2008 will be renewed with privileged rates as that given to the abovementioned types of buyers, provided that the borrowers have a clean credit history.
- ◆ Mortgage amount borrowed from the Public Housing Fund (PHF) is raised by 10,000-20,000 yuan. Repayment term is extended to 30 years. Family members of direct bloodline of the applicant, ie parents, sons/daughters, siblings, etc, can borrow from the applicant's PHF.
- ◆ Sales of residential property within two years after purchase are subject to business tax in full, but two years after the purchase the business tax is waived.
- ◆ For first-time homebuyer, deed tax is cut to 1% on property value.
- ◆ Municipal governments may adjust their own hukou, or residency registration scheme, for buyers from other regions.
- ◆ Residents of Hong Kong, Macau and Taiwan will enjoy the same housing incentives as do mainland residents.
- ◆ Property developers that acquired high-priced sites last year are allowed to pay at a postponed date as late as after two years.

# RESIDENTIAL MARKET HIGHLIGHTS

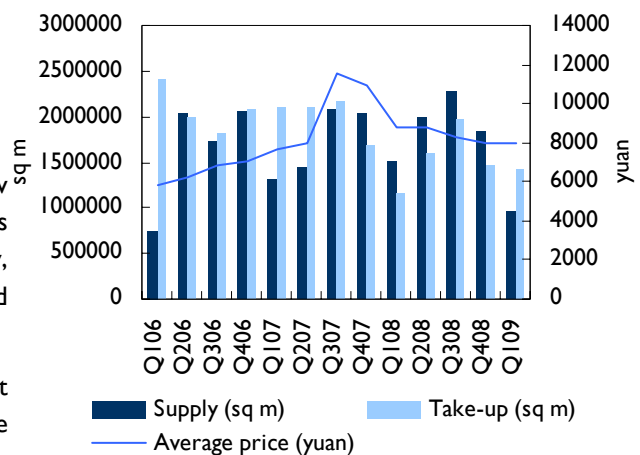
## New home sales

- ◆ Figures from Guangzhou's housing bureau show that 461,800 sq m and 473,600 sq m of new homes were sold in January and February respectively, fetching average prices of 8,018 yuan/sq m and 8,011 yuan/sq m.
- ◆ Based on preliminary March figures, we forecast that about 1,424,000 sq m of new homes will be sold in Q109. The price of an average new home will be around 8,020 yuan/sq m.

## Secondary market

- ◆ In January and February, 529,400 sq m and 794,100 sq m of homes were transacted in the secondary market respectively, fetching average prices of 4,413 yuan/sq m and 4,661 yuan/sq m.
- ◆ Based on preliminary March figures, we forecast that 2,365,500 sq m of homes will be transacted in the secondary market in Q109. Average price is likely to edge up to 4,690 yuan sq m.

Guangzhou new home sales  
Supply, take-up & average prices



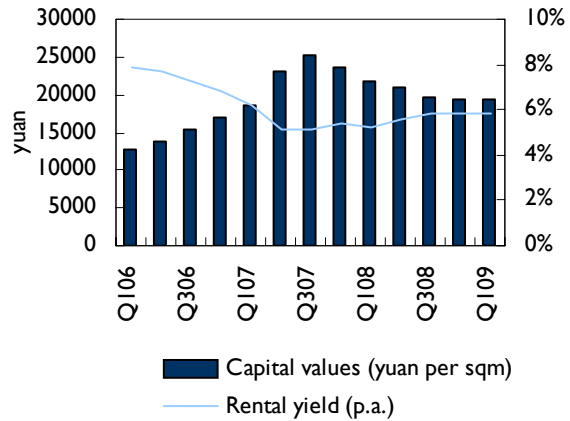
Source: Guangzhou Land Resources & Housing Management Bureau, Vigers Research

## Luxury sector

- ◆ Price rise was reported across various high-end projects on sale immediately after the announcement of the new Guangdong housing policy.
- ◆ In the prime area of Pearl River New City, a general rise in asking prices of 3-5% was claimed by new residential projects on sale.

- ◆ A modest price rise was similarly reported by new projects in Tianhe and Haizhu Districts. Most likely, these are the typical low-to-high pricing strategy used by developers, a commonplace in the Hong Kong housing market.
- ◆ In the secondary market, “reverse in asking prices” or “gazumping” was reported but not yet obvious. The phenomenon occurs only in a small number of deals for prime property in or close to CBD.
- ◆ Holding other factors constant, we forecast that high-end home prices will remain at similar levels throughout this year.

Capital values & rental yields of luxury residential property



Source: Guangzhou Land Resources & Housing Management Bureau, Vigers Research

## GRADE A OFFICE MARKET HIGHLIGHTS

### Sales market

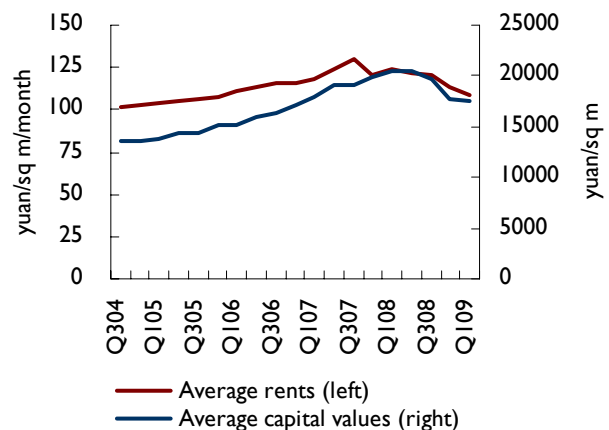
- ◆ Based on preliminary transaction figures, we forecast that about 100,000 sq m of office space will be transacted in the primary and secondary markets in Q109, down 30% year on year.
- ◆ New office sales were mainly posted by newly marketed office space in Pearl River New City, Dong Fung East Road, Xin Gang East Road.
- ◆ A considerable number of secondhand transactions were reported at World-wide Plaza, Yuefu Plaza, Dongjun Plaza, R&F Centre, Sinopec Building and Tengyue Building.

### Leasing market

- ◆ New supply has been on the rise since Q308, but seemingly coming at a wrong time. With about 180,000 sq m of floorspace in the pipeline in the first quarter, vacancy rate has shot up to 17.8% as at end-March.

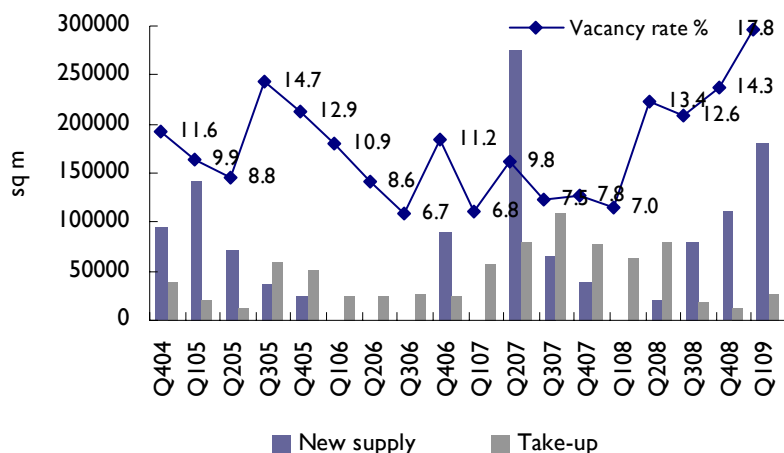
- ◆ Average prime rent has fallen 11.4% to 109 yuan/sq m as at Q109 on a year-over-year basis. Steeper declines of 20-30% were posted in Tianhe District. As the leases of a number of corporate tenants are due this year, rental values will inevitably be under pressure.
- ◆ For the rest of the year, demand from MNC tenants will be suppressed. If the projected supply of over 800,000 sq m of floorspace is being injected this year, then the vacancy rate may climb to 20% or even higher by the middle of the year, in particular Pearl River New City where most new completions are located.

Guangzhou Grade A office capital & rental values



Source: Vigers Research

Quarterly Grade A office new supply, take-up & vacancy rate



Source: Vigers Research

- Leasing activity is likely to increase as we expect tenants to conduct cost-saving exercise by relocating to cheaper or smaller space. However, part of the Grade A office tenants may go for lower-grade space and will therefore intensify pressure on vacancy level.

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