

Market summary

- Developers are gearing up themselves for replenishing their land bank after the icy Q109. An auction held in June received overwhelming response, at which Guangzhou Investment won the bid to acquire a prime housing site for 345 billion yuan, or 24,500 yuan/sq m.
- Transaction activity in the prime office market picked up substantially on the huge rise in bank lending, despite the fact that prime rents continue to fall with vacancy level being high. New supply this year will likely be halved to 400,000 sq m.
- Thanks to buyer-occupiers and those moving up the housing ladder , new home sales were up 25% year on year. An average flat now commands 8,150 yuan/sq m in Guangzhou.
- The average price in the prime residential market was up 9.8% quarter on quarter, or 2% year on year, to 21,320 yuan/sq m. Yet average rent fell to 79 yuan/sq m/month, reflecting a rental yield of just 4.4% pa.
- All the 85 units for sale in the first phase at SHKP's new luxury villa development, "Lake Dragon" were snapped up in days. SHKP's another project "The Arch at Huadu" is also set to go on sale soon.

Economy

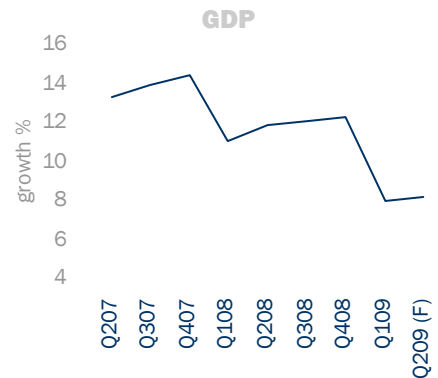
In the first five months to May, Guangzhou showed substantial growth in fixed-asset investment (FAI), which rose 19.9% to 69.154 billion yuan from one year ago.

The housing market began to thaw for real, with sales volume rebounding by 39.4% in terms of gross floor area sold, or by 25.8% in terms of transaction value. However, investments in real estate development slipped by 9.5% to 22.046 billion yuan, signaling a contraction in supply in a few years ahead of now.

Benefitting from better sales recorded during the Golden Week, retail sales value rose 16.8% from last year to 29.987 billion yuan.

Though infrastructure investments, retail sales and the housing market improved dramatically, exports fell at an even faster pace. Moreover, industrial electricity consumption and production prices continue to dip. The logistics and transportation industry remains sluggish.

All that suggests that the economy of Guangzhou is still in the midst of testing times.



Key economic indicators

Jan-May 09	Value (yuan)	Y/Y change %
Inflation (CPI)	N/A	-3.5
FAI	69.154b	+19.9
Retail sales	29.987b	+16.8
RE investments	22.04b	-9.5
Exports value (April figures)	US\$2.79b	-20.8

Source: Guangzhou Statistics Bureau, Vigers Research

Land market

As home sales data points to a recovery, property developers having slumbered during the icy months returned to the land market in the second quarter.

At an auction held on June 10, 50 bids were placed for a residential site in frenetic atmosphere. Guangzhou Investment finally won the bid to acquire a prime housing site (D8-C3) at a final price of 345 billion yuan, or 24,500 yuan/sq m, 80% higher than the initial asking price.

Shortly afterwards, a commercial site was sold “over the counter” by a developer to China Olympic. Located at Tienhe Road North and priced at 350 million yuan, the 6,057-sq m site will be turned into a large-scale commercial development.

On June 23, a less desirable site (09NJY-1) located in Nansha District was auctioned off, fetching 94.16 million yuan, or 955 yuan a square metre of floorspace, which is in fact the starting price. The buyer is revealed as Nanshan Development Investment Co, Ltd, who is the only bidder at this quiet auction.

The city’s authority reassured in early June that the city would not run out of land supply this year. More sites could be put up for sale depending on the market need, an official claimed. As such, the market is speculating that more land within CBD will be made available later this year, though that has not been promised by the authority.

Instead of putting up more CBD sites, five sites in Baiyun, Panyu and Huadu Districts are listed for sale at another auction scheduled on July 16. Particulars of the sites are summarised in the following table.

Sites listed for sale by auction on July 16

Location	Type	Site area (sq m)	GFA (sq m)	Starting price ('m yuan)
Lot B3702A09 Jin Sha Zhou, Baiyun District	Residential	54,854	≤ 153,591	508.59
Lot B3709B04 Jin Sha Zhou, Baiyun District	Residential	17,207	≤ 30,973	95.83
University City Lot DS1102, a new town in Panyu District	Residential	11,861	≤ 37,006	132.95
University City Lot DS1601, a new town in Panyu District	Residential	15,914	≤ 49,652	178.28
Yingbin Avenue, Huadu District	Commercial	67,784 (net 47,819)	≤ 133,893	133.62

Source: Guangzhou Land Resources and Housing Administration Bureau

Prime office market

Sales market

In the investment market, transaction activity has held up better than in other cities, although rents continue falling coupled with a high vacancy level. Investors mainly target smaller Grade B/C properties adjacent to the CBD, where the growing number of residents supports demand for population-serving office users.

Major contributors to improved sales of prime offices include a few deals closed for new space at R&F Winner Plaza in Pearl River New City. Likewise, Qiao Ying Garden has reported a couple of remarkable transactions.

Q1 is typically low season for the office market, especially during the first few months this year when the market still struggled to crawl out of the recession shadow. But we saw a turnaround in April, in which investment activity picked up dramatically on the huge rise in bank lending. Prices have fallen to a range of 15,000-18,000 yuan/sq m in the prime area of Pearl River New City, a level that presents amazing investment opportunity.

In May, R&F completed the sale of ten floors of space at Winner Plaza to China Development Bank (CDB), which agreed to pay 500 million yuan upfront for 22,000 sq m of floorspace comprising office, retail, and car-parking space. The naming right of the building also goes to CDB.

Leasing market

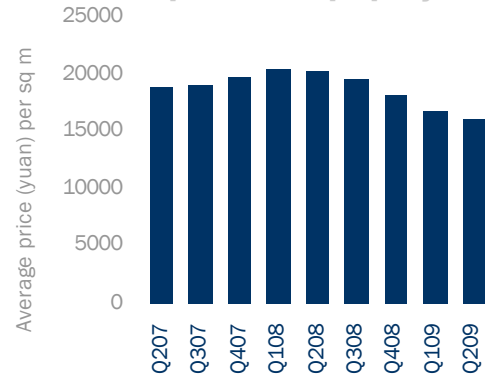
Letting activity increased during the period as landlords slashed rents from 120 yuan/sq m/month to 108 yuan/sq m/month on average. The new levels of rental decline now present rare opportunities for tenants to relocate or upgrade at a discount.

Citic Plaza and Victory Plaza, for instance, saw 10-15% rental concession from individual landlords in the first half, thereby giving a boost to inquiry and viewing activity.

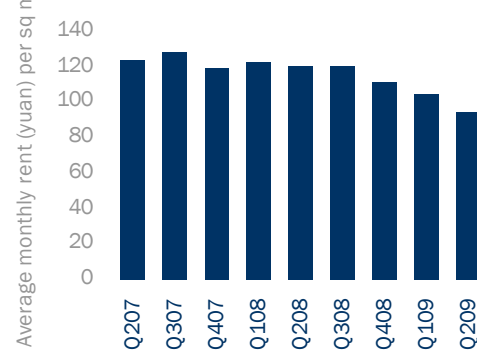
Despite the fact that the vacancy level stands at above 20% even in prime areas, a number of new-builds were put on the market in the second quarter. In addition to R&F Winner Plaza for sale, Poly Centre was also up for lease during the period.

Office take-up is climbing albeit very slowly, thus the excessive vacant space has yet to be absorbed organically over a period of time. We believe that some projects will postpone their marketing schedule to next year. New supply this year will likely be halved to around 400,000 sq m.

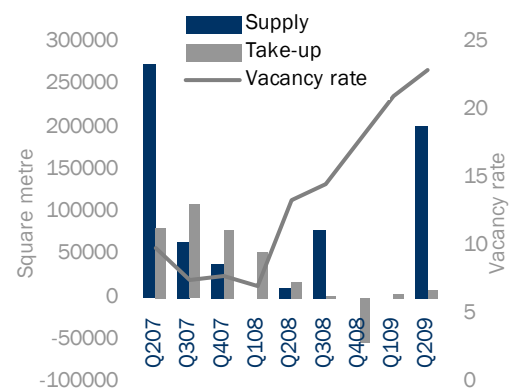
Capital values of prime office property



Prime office rents



Supply, demand & vacancy



Source: Vigers Research

New prime office supply

Building	Location	GFA (sq m)	Completion	Developer
Yin Xin Building	Pearl River New City	120,000	Q209	R&F Property
Poly Centre	Pearl River New City	82,000	Q209	Poly Real Estate
VILI International (office section)	Pearl River New City	82,000	Q209	Guangzhou Tian Wang
New Global Building	Pearl River New City	121,547	Q409	N/A
Golden Jubilee Business Centre	Pearl River New City	41,686	2010	R&F Property
Guangzhou IFC (West Tower)	Pearl River New City	450,000	2010	Guangzhou Investment
Taikoo Hui (office section)	Tianhe Road	N/A	2011	Swire Properties
An office project on Lot B2-10	Pearl River New City	200,000	2011	Guangzhou Investment

Housing market

Mass market

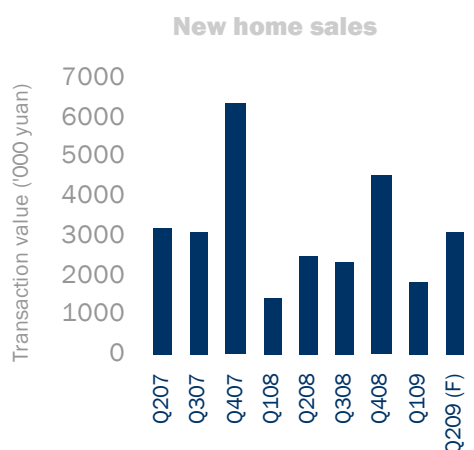
The average home price calculated by Guangzhou's lands and housing authority was 8,150 yuan/sq m at end-May, down 19% year on year and down 7.7% on the previous five-month period. Secondhand home prices rose 7.5% over the same period to 4,667 yuan/sq m. It is worth to note that medium to higher priced homes in the six core districts rose considerably by 15% to 11,309 yuan/sq m.

With buyer-occupiers and those moving up the property ladder underpinning the market, overall home prices in Guangzhou are somehow stabilising. Having been told not to lift prices by the authority, property developers behaved more "sensibly" and "responsibly, homing in on buyer-occupiers.

Prime residential market

New supply

According to government presale approval records, some 30 whole new residential projects will go on sale this year. The following table summarises major developments that went on sale in the second quarter with a price tag of over 15,000 yuan/sq m.



Source: Vigers Research

New projects on sale

Project	Location	Type	Unit size	Listed price (yuan/sq m)	Developer
Lake Dragon	Dragon Lake	Villa	345-875	40,000	SHKP
The Arch	Huadu	Flat	130-350	TBC	SHKP
VILI International	Tianhe	Serv Apt	405-1050	17,000	GZ Tian Wang
Wells Serviced Apartments	Tianhe	Serv Apt	50-101	15,000	R&F Property
Xinghui Yunjin	Tianhe	Flat	83-240	20,000	GZ Investment
Jumeriah Living Apartments	Tianhe	Serv Apt	175-203	20,000	GT Land
W Residence	Tianhe	Serv Apt	80-94	28000	KWG, Finland
6 Star River	Panyu	Low-rise	245-475	17,500	Hongfu
Zhong Cheng Plaza	Tianhe	Flat	72-130	16,000	Poly Real Estate

Topping the bestseller list is SHKP’s prime villa project, Lake Dragon, that drew more than 100 registered buyers on the day (April 25) it debuted, each paying 300,000 yuan deposits to be in line to buy 85 units offered in the first-phrase sale. The developer claimed that “Area A” of the project had sold out in just a few days.

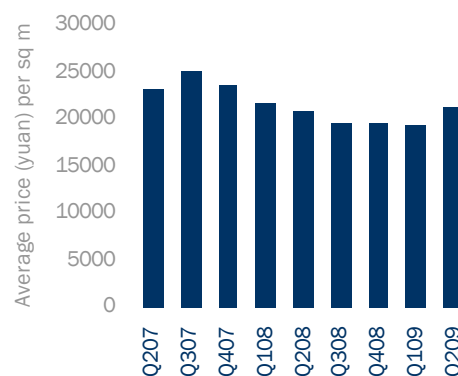
Another SHKP project concurrently on sale is “The Arch at Huadu”. As its name suggests, it is inspired by the landmark building now standing on the Tsim Sha Tsui harbourfront in Hong Kong. As at mid- June, pricing of this Guangzhou replica has not been announced, but it is rumoured to be around 10,000-12,000 yuan/sq m.

Apart from the new product offering from SHKP, other new projects on sale also posted better-than-expected sales. For example, Xinghui Yunjin reported 500 million yuan in revenue received on the first day it was rolled out. Local media reported that the strong sales at Jumeriah Living Apartments, W Residence, 6 Star River, etc created a stark contrast to the sluggishness the market witnessed in Q108.

The market

In the first five months to May, about 3,000 new high-end residential units (650,000 sq m) were sold. Taking into account the 2,700 stock units (590,000 sq m) injected to the inventory over the period, demand for the first time this year outstrips supply and begins to absorb excessive inventory.

Capital values of prime residential property



Rents of prime residential property



Source: Vigers Research

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High-end home prices rose 9.8% on the previous quarter, and were up modestly 2% year on year, to an average of 21,320 yuan/sq m. But average rents fell 3.6% from Q1, or 18% from one year ago, to 79 yuan/sq m/month. That reflects a rental yield of just about 4.4%, a return still considered competitive in the current climate.

Awash with liquidity, the buzz word across the board is now “cash is no longer king” in anticipation of (high) inflation ahead. Investors find it secure to park their money in prime assets as safe haven against inflation. From this point of time till next year, about 6,000-8,000 units are to be injected to cater to the investment market.

According to National Statistics Bureau, personal mortgage lending rose 13.2% year on year to 98.4 billion yuan in the first quarter. As property developers increasingly employ aggressive pricing for brick-and-mortar investors, fear remains that excessive liquidity in the market may just be setting up another boom-to-bust cycle.