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ECONOMIC OVERVIEW

Nanjing's economy had a steady growth momentum in the first eight months as reflected by major economic indicators.

Industrial production maintained steady growth. Accumulated production value as of August was 438.12 billion yuan, up 21.3% year on year. Light industry accounted for 69.8 billion yuan, increasing by 28.4% and heavy industry accounted for 368.32 billion yuan, also up 20.1% from last year.

Hindered by the snow disaster earlier this year, fixed-investment investment activity slowed but then picked up speed shortly afterwards. Year-on-year growth recorded in each month was above 8%, and January, February and March have seen 13.2% y-o-y growth. Overall, 141.18 billion yuan was invested in fixed assets, representing a 20.5% increase from last year.

By economic sector, primary industry recorded total investment of 1,095 million yuan, up 56.5% from last year. Secondary and tertiary industries respectively attracted 6,880 million yuan and 7,128.2 million yuan, up 21.2% and 19.3% from last year. Specifically, investment in real estate development amounted to 34.29 billion yuan, an increase of 15.9%, but growth rate is down from 17.3% recorded in the same period last year.

Consumer confidence bolstered the city's economy. Retail sales increased 22% from a year ago to 108.48 billion yuan. Wholesale and retail sales accounted for 945.54 billion yuan, up 21.7% y-o-y. Revenue from hospitality and catering industries contributed 12.52 billion yuan to total retail sales, up 24.2% from last year.

MAJOR ECONOMIC INDICATORS

	Q306	Q406	Q107	Q207	Q307	Q407	Q108	Q208	Q308/ Latest
Real GDP growth (%)	15.2	15.1	16.4	15.6	15.6	15.6	12.7	13	13 (Q208)
CPI (%)	1.5	1.7	1.6	1.7	2.8	3.7	8.3	8.1	7.5 (Aug)
PPI (%)	-1.71	-1.01	1.07	0.70	0.65	1.55	7.4	8.31	8.84 (Aug)
Industrial output (billion yuan)	49.619	56.405	55.065	64.285	61.911	60.725	58.661	77.022	48.803 (Jul-Aug)
Fixed-asset investment (billion yuan)	39.516	48.72	33.745	50.415	50.997	51.639	42.817	62.203	36.157 (Jul-Aug)
Utilised FDI (US\$ million)	188.64	285.97	499.56	398.83	247.87	748.52	479.08	419.31	148.74 (July)
Retail sales (billion yuan)	28.108	31.353	34.106	33.143	33.431	37.366	41.131	40.529	26.815 (Jul-Aug)

Source: Nanjing Municipal Statistics Bureau, Vigers Research

Disposable income per capita increased 14.2% to 15,948.68 yuan from a year ago. Average personal consumption was 9,760.89 yuan, also up 13.2%. Spending on consumer goods and services, home appliance and furnishing recorded faster growth, respectively 42.2% and 26.6%.

Inflation fell 0.8% to 7.5% from the first quarter and down 0.6% from the first half. Food prices increased by 19%, the CPI item that has recorded highest price surge.

Production costs continued to climb. Producer Price Index (PPI) was up 8.84%. Specifically, PPI of the heavy industry was up 15.39%, but that of the light industry was down 0.91%. Ferrous metal smelting and rolling, oil refining, coking and nuclear fuel processing industries posted highest growth rates of 45.55% and 22.21% respectively.

MAJOR LAND TRANSACTIONS

District	Site	Use	Site area (sq m)	Plot ratio	Leasehold years	Transaction price (million yuan)
Yuhuatai District 雨花台区	Ningdan Road 宁丹路	Office	64022.4	≤1.8	40	192
Xuanwu District 玄武区	Cao's Village 曹后村	Residential	36601.4	≤1.2	70	320
Qinhuai District 秦淮区	Pigment Square, Zhongshan South Road 中山南路颜料坊	Office, residential & others	79047.8	N/A	40, 70	1100
Luhe District 六合区	East of Jiangbei Road, Economic Dev Zone 经济开发区江北大道以东	Residential	25903.4	≤2.5	70	32.55
Jiangning District 江宁区	South of Weiliu Rd & West of Disou Rd, Coastal Dev Zone 滨江开发区纬六路以南/地秀路以西	Residential, office & serviced apartment	32618.2	N/A	70, 40, 40	49
Jiangning District 江宁区	North of Weiliu Road & West of Disou Road, Coastal Dev Zone 滨江开发区纬六路以北/地秀路以西	Residential & office	37018.6	≤2.0	70, 40	55
Jiangning District 江宁区	West of Longmian Avenue, Science Park 科学园龙眠大道以西	Plots A & B: Residential & retail Plot C: Office & retail	97396.6	N/A	100	440
Pukou District 浦口区	East of Pudong Road, Hi-tech Zone 高新区浦东路以东	Residential	25771.5	≤1.8	70	39
Jianye District 建邺区	Plot A: Northeast of Convention Centre Plot B: North of Hexi Street & in between Yangtze Avenue & Cangshan Road A 地块：会展中心东北角 B 地块：河西大街以北/扬子江大道与苍山路间	A: Banking, serviced apartment B: Hotel, office, retail & serviced apartment	61781.9	N/A	40	429
Gulou District 鼓楼区	311 Central Road 中央路 331 号	Hotel & office	17014.4	≤5.0	40	200
Jianye District 建邺区	South of Jianing Lake Street East 嘉陵江东街以南	Banking, office, civil services & public area	79629.8	≤3.0	40	240
Qixia District 栖霞区	Yanzi Rock Town 燕子矶镇付家场	Residential	325528.7	≤1.6	70	1300

(Cont'd)

In the first half, land auctions generated poor response from developers. According to Nanjing Land & Mineral Market Management Office, of the 31 plots auctioned during the period 24 were sold at set prices with three auctions withdrawn. Of them, only four were sold above the asking prices. That comes in a stark contrast with the same period last year, during which 60 plots were sold.

Yet, there was sign of warm recovery entering the third quarter, especially September, with more land deals closed, on the back of the eagerly expected government measures to prop up the property market, including possible tax and interest rate cuts and packages to ease developers' cashflow difficulties.

Noticeably, a plot of land located by Nanjing Riverside was sold 10% above the asking price for 429 million yuan. On the single day of September 23, 10 out of 12 plots up for auction were successfully sold, generating revenue of 2.8 billion for the municipal government.

But even so, Nanjing's government is still facing much pressure to release more lands in the following few months. According to government records, as of September, over 30 pieces of land due for sale remained unsold. It barely met 50% of the target of 8.5 million sq m of land supply for 2008. This being the case, another 50% of land supply will be released by the end of this year.

GRADE-A OFFICE MARKET HIGHLIGHTS

There was literally no Grade-A office until the completion of Changjiang Commercial Building (长江贸易大楼) in 1992. Prior to that, most companies stationed in hotels if they need a decent workplace.

Nanjing's traditional CBD Xinjiekou (新街口) is located in Baixia District (白下区) and has the highest concentration of financial companies. Apart from that, most other office properties are confined to Xuanwu (玄武区), Gulou (鼓楼区) and Jianye Districts (建邺区). Well-known office buildings include Commerce Building (商贸大厦), Golden Eagle Building (金鹰大厦), Huatai Securities Building (华泰证券), Greenland Plaza (绿地广场), The Landmark (置地广场) etc.

During Q308, tightened policies and global financial meltdown have relatively small impact on Nanjing's Grade-A office market, which is dominated by sales (about 80%). Sales market was active particularly in July with more transactions recorded in MoHo (中环国际广场) and Jinfeng Building (金峰大厦), both located in Gulou District (鼓楼区).

However, about 680,000 sq m of office stocks remain unsold in the inventory pool as of September. They are mainly located in City Centre (城中), River West (河西) and Jiangning (江宁). Total stocks sold during the quarter are estimated at 80,000 sq m. As a result, it is estimated that the market would take a few more years to digest existing stocks. There was no new completion in Q308.

Prime rents of top-class Grade-A offices are from 105 yuan/sq m/month to 120 yuan/sq m/month. Changfa CFC (长发 CFC) still tops the rental rate list with highest asking rate above 130 yuan per sq m. Average monthly rents in Pan-Xinjiekou (泛新街口) and Gulou Road West (鼓楼山西路) submarkets are 114 yuan per sq m, up modestly 3% from last quarter and 4.3% from last year. Monthly rents of Olympic Sports Centre (奥体中心) average 54 yuan per sq m, up 3.8% q-o-q and 3.4% y-o-y. Overall, office rents in Tianjin have remained stable throughout the first nine months.

One Pearl River (珠江 1 号), developed by Golden Eagle Group (金鹰国际房产集团), was completed during the period and will be available for occupancy next year. The prime office building is situated in the vicinity of Xinjiekou (新街口), Gulou (鼓楼) and Pearl River Road (珠江路), is up for lease only, the first of its kind in Nanjing. The developer said it is likely to be priced between 120 and 150 yuan/sq m/month. One Pearl River will then be ranked among other brand new prime buildings such as Changfa CFC (长发 CFC), Greenland Plaza (绿地广场) and The Landmark (置地广场).

RESIDENTIAL PROPERTY MARKET HIGHLIGHTS

Nanjing's home market is not immune to nation-wide property market downturn during the quarter.

In the first eight months, a total of 369,510,000 sq m of new residential units were sold, dropping by 39% from the same period a year ago, according to Nanjing Statistics Bureau. In terms of transaction values, a total of 21.898 billion yuan was registered, also a 31.4% decrease from that of last year.

Sales in the traditional peak season "Golden September" were below expectation. Until in October, the city government revised the taxation policy of both primary and secondary residential property transaction, which is intended to ease the financial burden borne by homebuyers. As for developers the government will assist in arranging financing for projects-in-progress. However, the market remains unexpectedly quiet.

By the end of September, there were over 30 residential developments up for sale, with some 48,000 units/5.6 million sq m in the pool. As such prices will continue to dip in October and November. If sales volume improves these two months with prices cut further, then the market should be more active in December and find the level of support.

In the secondary market, a total of 15,181 residential properties were transacted in the first eight months, down 31% from the same period a year ago. It is evident that this marketplace is favouring buyers, in which sellers are expected to shed prices further by 5-10% by the end of this year.

By submarket, Jiangning (江宁) has seen highest fluctuation in prices, in which asking prices vary to the largest degree. Home prices in Jiangbei (江北) especially Pukou (浦口) were relatively steady. Prices of River West (河西) are above the average and developers/landlords are facing higher price-cutting pressure. City Centre (城中) should report better sales in October.

LUXURY SECTOR

Luxury home is a relatively new sector to Nanjing in terms of systematic planning and development. Golden Eagle International Garden (金鹰国际花园) and Tian An International Apartments (天安国际公寓) located in Xinjiekou (新街口) are regarded as the first luxury development in the city since their completion in 2000.

Luxury housing supply was at its peak in 2006 with a total GFA of 2,589,500 sq m entering the market, including Henglong Garden (恒隆花园), Central International Plaza (中央国际广场), New World Garden (新世界花园) and Shimao Rivera New City (世茂河畔新城). Earlier this year, three luxury developments Global Golden Tripod Bay (金鼎湾国际) Bay, Vanke's "Jinyu Tixiang" (金域缙香) and Agile Garden (雅居乐花园) were put up for public sale. These three developments have added a total GFA of 574,000 sq m to the inventory.

The major reason for the sudden surge in luxury housing supply these three years is that the set prices of part of the mass-market supply have already been beyond the affordability of the middle-class homebuyers. In order to identify the higher-end buyers, developers have upgraded some of their stocks to luxury apartments. When most market players are adopting similar segmentation at the same time, supply increased dramatically.

By Nanjing's standard, residential units priced above 3 million yuan are regarded as luxury properties. Taking into account the possibility of more luxury developments in the future, supply is likely to increase to over 1 million sq m by 2010.

Leasing demand for luxury apartments mainly comes from the expatriate population. Expat tenants are from Europe, America, Japan, Hong Kong, Taiwan and some SE Asia countries.

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