



Vigers Asia Pacific Ltd
9/F 10 Queen's Road Central
Central, Hong Kong
Tel +852 2810 1100
Fax +852 2153 6180

ECONOMIC OVERVIEW

Shenzhen's economy grew steadily during the first eight months despite challenges posted by global financial turmoil.

According to the municipal statistics bureau, investments in infrastructure and transportation network increased, coupled with increased consumption. Inflation, gauged by CPI, has dropped to 5.5% in August on a month-on-month basis. For the whole period of January to August, inflation was 7.0% year over year.

Industrial production slowed measurably during the period, in part due to RMB's appreciation against US dollar together with local and international economic changes. ICT industry continues to lead the growth of industrial sector.

Exports slowed. Sales worth 976.62 billion yuan were recorded in the industrial sector, of which 597.36 billion yuan was export sales, up 10.3% year on year, but 5.2% lower than the growth of total sales. Export sales account for 61.2% of total sales, down 2.9% year over year.

Fixed-asset investment growth increased slightly. Total fixed-asset investment reached 81.49 billion yuan, an increase of 6.9% compared with the same period last year. Logistics industry has seen steady growth, having transported 89,704,700 tons of goods. Total volume of freight handled during the first eight months 144,616,000 tons, increasing by 13.2% from last year.

Shenzhen's consumption market has increased quickly, with 146.97 billion yuan of total retail sales of consumer goods, an increase of 18.9% over last year. Figures from customs show that total value of all products imported/exported was US\$192.86 billion, up 8.3% from last year.

MAJOR ECONOMIC INDICATORS

	Q306	Q406	Q107	Q207	Q307	Q407	Q108	Q208	Latest
Real GDP (billion yuan)	149.71	162.66	138.77	155.69	179.17	200.46	168.39	184.89	184.896 (Q208)
CPI (%)	1.9	2.2	2.8	2.8	3.5	4.1	7.3	7.3	7 (1-8)
Fixed-asset investment (billion yuan)	33.70	40.35	23.89	29.92	37.49	43.20	23.18	34.34	23.97 (7-8)
Real estate development (billion yuan)	9.81	14.1	8.63	11.0	11.7	14.8	9.15	10.3	7.52 (7-8)
Utilised FDI (US\$ million)	1138	673	505	1058	114	959	531	1189	877 (7-8)
Total Imports/Exports (US\$ billion)	63.48	72.283	58.371	69.144	76.899	83.119	64.341	74.834	53.836 (7-8)
Port cargo throughput ('000 TEU)	5098.1	5022.5	4532.1	4967.3	5840.7	5759.1	4922.5	5260.7	4042.6 (7-8)

Source: Shenzhen Municipal Statistics Bureau, Vigers Research

MAJOR LAND TRANSACTIONS

During the period, no land plot was sold for residential development. The previous plot for housing development was sold on June 6 to Shenzhen Metro for 1,740 million yuan, which has site area of 544,800 sq m (GFA of 138,592.94 sq m) and is located in Nanshan District (南山区).

Other than that, a plot with site area of 4,530.47 sq m was acquired by a local developer for commercial use located in Agricultural Centre of Futian District (福田区农科中心). Another one with site area of 10,135.29 sq m was bought by China Guangdong Nuclear Power Group as its own office space. The rest of the plots were all designated for manufacturing/industrial development.

In the first half of the year, it happened that no bidder had showed up at about 30% of land auctions. According to Shenzhen Municipal Housing,

Land & Resources Administration Bureau, penalty the government has received from developers for land idling amounted to 113 million yuan as of late September. A case has cost a leading developer 56.4 million yuan in penalty for an acquired plot sitting idle.

Between July and September, the city government cleared 735 pieces of idle lands, which comprises a total site area of 18.98 sq km. Of them, 546 were classified as idle plots with a total site area of 13.77 sq km.

Meanwhile, Shenzhen's city government is also drawing up new legislation against land plot idling in order to free up land supply.

MAJOR LAND TRANSACTIONS

District	Site	Use	Site area (sq m)	GFA (sq m)	Lease period (years)	Transaction price (million yuan)
Futian	3 plots located in Agricultural Centre	Commercial	A. 1,382.01 B. 1,574.23 C. 1,574.23	A. 2,500 B. 3,640 C. 5,980	40	56
Longgang	Great Industrial Zone	Industrial	200,060.32	360,108.6	50	115.8
Futian	Junction of Shennan Road & Caitian Road	Office	10,135.29	131,700	50	850
Baoan	East of Guang Ming Hi-tech Zone	Industrial	49,852.43	124,631	50	30.9
Longgang	Great Industrial Zone	Industrial	53,553.68	133,884	50	34.6

Source: Shenzhen Municipal Housing, Land & Resources Administration Bureau, Vigers Research

RESIDENTIAL PROPERTY MARKET HIGHLIGHTS

In Q308, Shenzhen’s housing market continued lead nationwide consolidation. Sales volume continued to decline during the period yet average home price increased because of the sale activities of a few luxury projects located in the eastern city.

Average home price is estimated at 13,550 yuan per sq m as of September, rising 11.5% from previous quarter. In the first eight months, all newly built homes contributed a total GFA of 2,257,000 sq m to the inventory pool, falling by 51.29% compared with the same period of last year.

PRIMARY MARKET

Sales were sluggish during the period despite deep price cuts made by developers in the first half of the year.

In contrast to higher average price, sales volume dropped in the third quarter. We estimate that a total GFA of 800,000 sq m was transacted during Q308. Compared with over 1 million sq m of last quarter, it represents a decline of 21% in sales volume.

“Gold September, Silver October” was celebrated only last few years but this year. The number of new home deals registered in September fell below the 1,000 level even though developers had intensify efforts in August in attempt to boost sales in September and October.

A total of 16 projects were up for sale in August, five more than in July, supplying a total GFA of over 800,000 sq m. However, only a few developers, like Vanke, managed to sell well, but most of others reported poor sales.

SECONDARY MARKET

Transaction volume of secondary market in Q308 is estimated at 980,000 sq m. Compared with that of the previous quarter, it represents a modest decline of 3%.

As of September the previously imposed measures against housing bubble were still in place though latest rumour has it that Central Government is about to loosen its stance. A meeting held on July 27 by the

Politburo of the Communist Party on economic affairs reiterated the Party’s determination to deflate housing bubble with minimum interference, and to foster a sound and rational growth of the nation’s housing market. Therefore, it can be conceived as a signal that the austerity measures would continue to take their toll on residential investment throughout this year as it is crystal clear that the Central Government wants to maintain policy coherence and foster a sustainable property market.

After all, the ultimate burst of housing bubble in the US may have warned China of its disastrous impact on the economy if housing prices skyrockets to out of the reach of the majority of end-users.

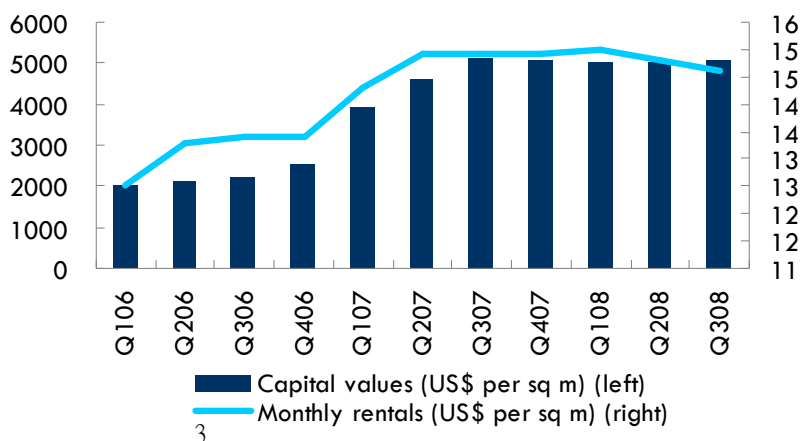
LUXURY SECTOR

The market for high-end homes bucked the downward trend of average apartments as reflected by higher average prices with lower sales volume. Sales of luxury residences in the eastern part have pushed overall prices, whereas lower- and medium-end segment actually has seen price declines, estimated at 12,000 yuan per sq m, if excluding the high-end segment.

The market for luxury homes was a separate marketplace with its own factors. Although supply increased during the quarter, the market generally foresees that future supply of luxury homes, particularly detached houses and townhouses, will be very rare as the city government is unlikely to set aside land plots for low-density residential development in the short future.

Another factor pushing sales is that buyers who survived the stock crash have turned to this market by snapping up luxury villas as longer-term investment.

AVERAGE CAPITAL & RENTAL VALUES OF SHENZHEN’S LUXURY HOMES



GRADE-A OFFICE MARKET HIGHLIGHTS

LEASING MARKET

Q308 has proven to be a challenging quarter with July beginning to show sign of softening whereas August and September have seen measurable declines in rental values. Futian District (福田区) was reported to have rents marked down by as much as 10%. Rents for prime office space in Lowu (罗湖区) and Nanshan (南山区) Districts also have dropped by 3-8% during the period.

Landmark buildings such as Times Square Excellence I (卓越·时代广场一期) and Kerry Plaza (嘉里建设广场) have seen slight downward pressure on rentals. Average rent of Central Commercial Mansion (中央商务大厦) has dropped 15.3% from last year's 130 yuan per sq m to 110 yuan per sq m in Q308. Vacancy rate has climbed from 20% to 23% quarter on quarter.

Despite seasonal factor, amidst national real estate market slowdown and global economic turmoil companies have lost confidence in expansion plan. As economic outlook will still be dim in near future, the rental market should continue to endure some testing times.

SALES MARKET

Sales activities were sluggish during Q308, of which most new stocks were up for lease only. There is a broken link in the pipeline with no new supply until the last quarter of next year. Buyers could only buy from secondary market at the moment.

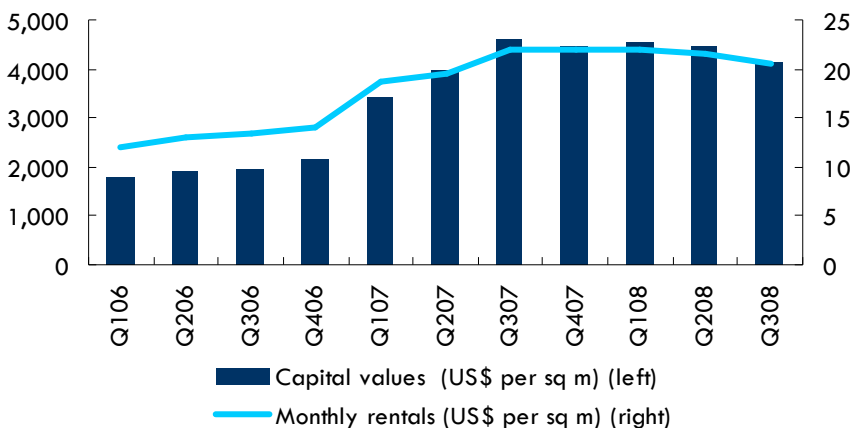
Under the prevailing market conditions most devel-

opers adopt wait-and-see strategy to play on the safe side. In the first six months only 284,000 sq m of floor space was added to the inventory pool. In July, only two office projects were approved for pre-sale activities, and it is yet uncertain if these two office blocks will go on sale this year.

As of September, total stocks available for sale were estimated at 192,800 sq m, of which a portion was not open to the market, such as Greater China Exchange Square (大中华交易广场) and Fuchun Orient Building (富春东方大厦). Remaining stocks were left over from last year's supply, such as Jin Yun Century Building (金运世纪大厦) and Rongchao Seafront Building (荣超滨海大厦).

Future new supply will mainly come from Rongchao Centre (荣超中心) and CTS (Hong Kong) Building (港中旅大厦). Times Square Excellence II (卓越·时代广场二期) will target the investment market only. Times Plaza's (时代科技大厦) availability has not yet been confirmed as of September.

AVERAGE CAPITAL & RENTAL VALUES OF SHENZHEN'S GRADE-A OFFICES



Source: Vigers Research

E-mail privacy

Vigers Appraisal and Consulting Limited allows our report recipients to opt out of receiving e-mail from us with a simple request. To opt out of our mailing list you can send a request to remove your address from the list to vigersresearch@vigershk.com.

By signing up you verify that you would like to be added to our distribution list and that you will now allow the Vigers to send periodic information pertaining to special Vigers news and reports. Please remember that you can unsubscribe at any time.

Legal disclaimer

The information contained in this research report does not constitute an offer to sell properties or the solicitation of an offer to buy, or recommendation for investment in, any properties in Hong Kong, Macau, PRC and/or any other regions it covers. The information and opinions herein are not intended as investment advice, which only constitute a judgement as at the date indicated. Although every care has been taken in compiling this report, it is subject to change and Vigers cannot be held responsible for any liability whatsoever or for any loss howsoever arising from or in reliance upon the whole or any part of this research report