

Shanghai Property Market Quarterly Snapshot

Q2, 2010

Vigers Research

Market summary

Evidently the tightening housing policy has weighed on sentiment and transaction volumes, but so far its impact on home prices is limited.

In Q210, **sales of new homes** fell sharply by 57% from a year ago, as would-be buyers have postponed their decision to purchase a home until developers are willing to make price concessions in the Sep/Oct peak season.

Though up 9.6% year on year, new home price growth has actually slowed to 1.6% quarter on quarter, whilst latest figures indicate that the city's home prices will likely soften in Q310.

Following a rally for four straight quarters, **luxury home** prices slid 3.5% from Q110, but it was up 2.4% on last year. Yet, pricing levels in sought-after locations remain resilient.

In the **prime office** sector, the investment market has benefited from the capital inflow by risk-averse investors and developers alike. A number of major acquisitions have been completed by various banks and developers.

Therefore, prime office prices have rebounded more strongly than rents. In Q210, capital values of Grade A office space grew 5.3% from Q110, to approx 37,250 yuan per sq m. Rents, amid a slower recovery, climbed 3.9% during the same period, averaging 194 yuan/sq m/month at end-June.

Thanks to the ongoing 2010 World Expo bringing in flocks of overseas and local tourists, **prime retail** rents grew 3.4% quarter on quarter, or 2.9% year on year. Rents of shops on major high streets grew 0.5-8% quarter on quarter.

Even with values and rents showing some sign of bounceback, further pressure on rentals in prime office and retail sectors is forecast, as supply is expected to increase substantially in the second half.

Economic overview

GDP The city's economy, measured by GDP in real terms, grew 12.7% in the first half, after peaking at 15% in the first three months. Local authorities are confident that GDP would grow about 10% this year, higher than the 8% target set at the beginning of the year.

Retail sales Growth of retail sales was stronger than that in fixed asset investment (FAI) in the first half, signifying a rise in domestic consumption. To be precise, total retail sales value was up 17.5% year on year, to 292.095 billion yuan.

Fixed asset investment (FAI) In the first half, FAI grew only a modest 2.2% to 220.8 billion yuan. By sector, investment in infrastructure decreased by 21.6% to 64.1 billion yuan; investment in the manufacturing sector was down 5.1% to 84.5 billion yuan in value. Real estate development remained as the key investment driver, contributing 35.5% growth, ending at 84.5 billion yuan in value.

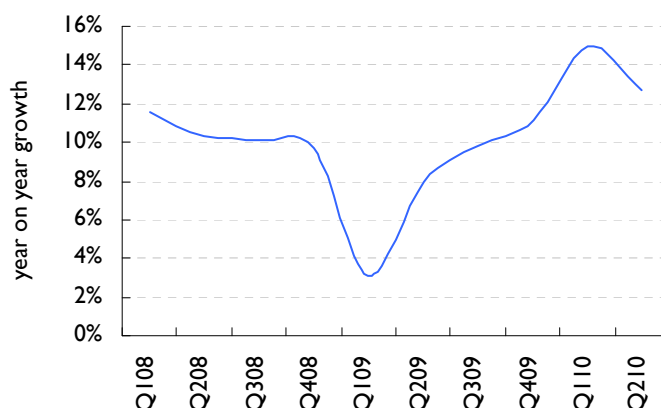
Consumer price index, the main gauge of inflation, increased 2.2% in the first half, compared with the 2.6% growth nationwide.

Manufacturing activity surged an impressive 28.8% to 1394.127 billion yuan in production value.

Exports grew remarkably by 33.5% to US\$192 billion in terms of aggregate value, whilst imports grew a higher 49.8%, reaching US\$123.5 billion over last year.

Real estate development activity Gross floor area under construction amounted to 92.2 million sq m, up 11.4% compared with one year ago. More specifically, residential floor area in the pipeline was up 11.6% year on year, to 59.7 million sq m in Q210. However, in the supply pipeline, there was only 6.86 million sq m of floor area completed in the first six months, down 11.4% on last year. More specifically, new housing completions injected 4.92 million sq m into the inventory, also down 11.4% on last year.

REAL GDP GROWTH



KEY ECONOMIC INDICATORS

	Q109	Q209	Q309	Q409	Q110	Q210
Fixed asset investment (billion yuan)	90.23	125.9	157.0	154.3	106.7	114.0
Exports (US\$ million)	30,263	32,285	37,399	41,964	38,197	45,307
Inflation (%) (year on year change)	0.37	-1.37	-1.0	0.37	1.5	3.0
Realised FDI (US\$ million)	2,320	2,838	2,722	2,657	2,441	2,929
Retail sales (billion yuan)	124.5	126.1	131.1	135.6	143.2	148.9

Source: Shanghai Municipal Bureau of Statistics, Vigers Research

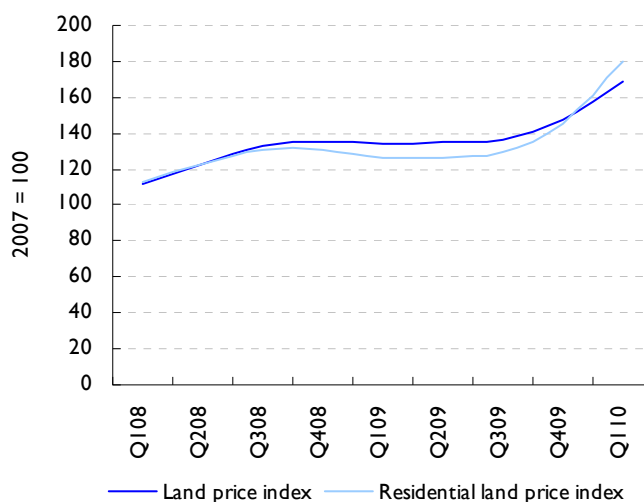
Land market

About 320 hectares of land bank were released in the first half, according to government land transaction records. That compares with 143 hectares of land supplied over the same period last year.

Further in Q310, some 495 hectares of land parcels will be made available for sale, according to government plans. Throughout the year, the Shanghai City Government targets to supply 1,100 hectares of sites to the residential land market by the end of the year, with most of them being put up for sale in the second half.

As part of the city's property cooling measures, the Shanghai City Government eyes to build 12 million sq m of affordable homes by the end of the year. Of them, 4 million sq m will be built as public housing units.

LAND PRICE INDICES



Source: Shanghai Municipal Bureau of Statistics, Vigers Research

MAJOR LAND TRANSACTIONS IN Q210

Land parcel	District	Use	Site area	GFA	Transaction price ('0000)	Accom value (yuan psm)	Transaction date	Developer(s)
Plot No. 2-6, Guangfulin 广富林 2-6 号地块	Songjiang	Residential	167,588	134,070.4	184,000	13,724	2010-5-7	Shanghai Northern City Development Investment Ltd
Plot A1-2, South of Central River, Pujiang Town 浦江镇中心河以南 A-1、2 号地块	Minhang	Residential	118,487	134,070.4	152,800	9,544	2010-5-7	Lujiazhui Finance & Trade Area Development Co, Ltd Zhang Yang Commercial Construction Joint Development Co, Ltd
Plot C1-2, South of Central River, Pujiang Town 浦江镇中心河以南 C-1、2 号地块	Minhang	Residential, commercial	134,496	119,002.3	142,622	9,727	2010-5-7	Poly Group

Land parcel	District	Use	Site area	GFA	Transaction price ('0000)	Accom value (yuan psm)	Transaction date	Developer(s)
Plot A-3, South of Central River, Pujiang Town 浦江镇中心河以南 A-3 号地块	Minhang	Commercial, mixed use	86,068	123,939.6	118,288	9,544	2010-5-7	Poly Group
Plot C-4, Xinjiangwan Cheng 新江湾城 C4 地块	Yangpu	Office, residential	108,091	110,781.5	110,833	10,004.6	2010-5-7	Shanghai Chengtong Corp
Neighbourhood 313 (formerly an electrical appliance plant) 闸北区 313 街坊 (电器成套厂)	Zhabei	Retail, office	38,877	142,851	100,190	7,014	2010-7-16	Daning Assets Management Co Ltd
East of Gonghexin Road, Gaojing Town 高境镇共和新路东侧地块	Baoshan	Commercial, retail	61,345	214,710.3	120,500	5,612.2	2010-7-16	Joint Venture of SH Gao Jing Investments Ltd and Wanda Group
Neighbourhood 456 闸北区 456 街坊	Zhabei	Residential	82,226	131,562.4	157,900	12,002	2010-7-21	Shanghai Zhongxing (Group) Shanghai Northern City Development Investment Ltd
Neighbourhood 41-42, East of Northern Suzhou River 苏州河北岸东块 41、42 街坊地块	Zhabei	Office, retail	35,419	123,517.2	179,100	14,500	2010-7-23	OCT Group
Plot F1-6, Luodian New Town 罗店新镇 F1-6 地块	Baoshan	Residential	107,824	64,694.94	137,730	21,289	2010-8-4	Sino Ocean Land

Source: Shanghai Municipal Housing, Land and Resources Administration, Vigers Research

Housing market

Overview

Official statistics show that total floor area of new homes (excluding affordable housing and other types of subsidised housing units) sold in the first half fell sharply by 57% year on year, to 3.57 million sq m, representing a record low in five years.

On the other end, the total floor area of new homes coming onto the market has shrunk by 31% in the first half, with 5.7 million sq m being injected into the private housing sector.

Fast forward to the start of the year. Back then, sales activity had peaked in December 2009 and hovered near record levels in January. Activity inevitably fell in February due to the traditional low season of Chinese New Year. And afterwards, sales between March and April still lived up to market expectations.

Nonetheless, new home sales slowed considerably in Q210, after the central government had announced a new raft of property cooling measures in early April.

Feeling the squeeze, the market responded almost immediately, with May and June volumes plunging to new lows and leading to an oversupply. Statistically, in Q210, new home sales volume, though up 7.47% on Q110, plunged 51.7% on a year over year basis, to 4.35 million sq m in terms of floor area traded.

Shanghai's housing policy and rumoured property tax

Unlike other major cities which had laid out their own set of policy, Shanghai, at the time of writing, has not had its own version rolled out. That means that the city is following the directives issued by the central government.

However, widespread rumours that the Shanghai City Government would introduce a property tax policy very shortly have swirled around the housing and stock markets over the past few months. To this day, when, and how, that proposed property tax will be implemented remains a mystery.

In recent months, many prominent local economists have urged authorities in Beijing to make more use of taxation as a powerful tool to curb property speculation and rein in runaway prices.

Meanwhile, China's State Council told tax authorities to speed up the drafting of tax policies that will "guide appropriate purchases of housing and regulate personal gains from property."

The Government has given few details publicly, and local media have in recent days been filled with conflicting reports about the different types of taxes that could be introduced in various areas.

Actually, China now levies several types of taxes on property sales, but authorities are said to be considering higher transaction taxes that target luxury homes, or possibly a tax on property values similar to the kind levied by local governments in the US.

The ground is that higher taxes will make it less attractive to invest in real estate. And giving local governments more revenue from property taxes could reduce their incentive to keep prices high to profit from sales of land-use rights.

The proposed property tax has triggered speculations that Shanghai would introduce a property tax on trial basis as early as in June. Without giving further detail, all those media reports and only claimed that more details might be announced at a later date.

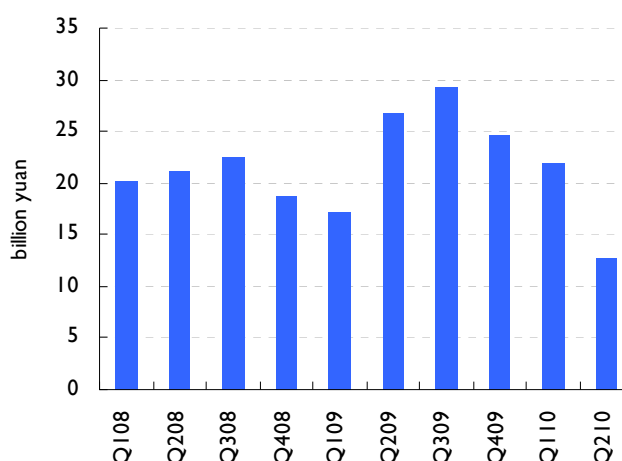
Some other reports speculate that the Shanghai City Government may levy an annual tax of about 1.5% of the value of property. Again, the claim has not been endorsed by government officials.

Construction activity

The government's plans to build more affordable housing and public rental housing units have resulted in an increased construction activity in Q210.

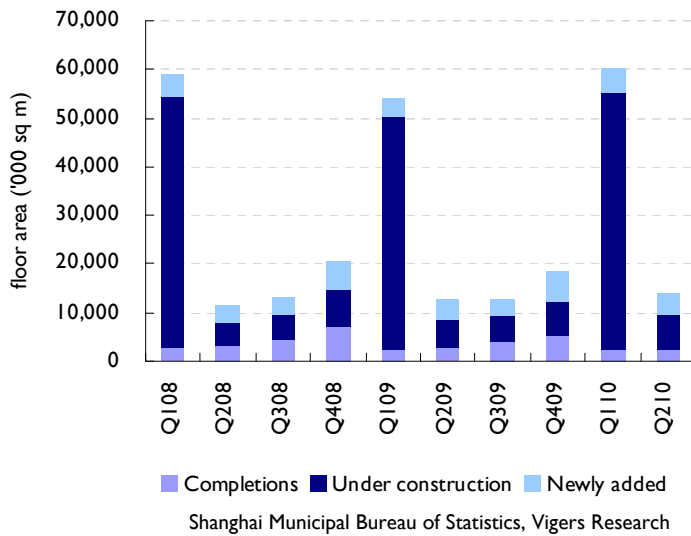
- ◆ Total investment value of housing developments grew 27.4% year on year to 21.96 billion yuan in Q210
- ◆ Total residential floor area under construction rose 24.8% year on year to 7,077,000 sq m in Q210
- ◆ Total floor area newly added to the development pipeline was up 12.4% to 4,646,700 sq m
- ◆ However, it has witnessed a 20.8% contraction in housing completions during the quarter, with 2,371,000 sq m of homes completed

RESIDENTIAL REAL ESTATE INVESTMENT

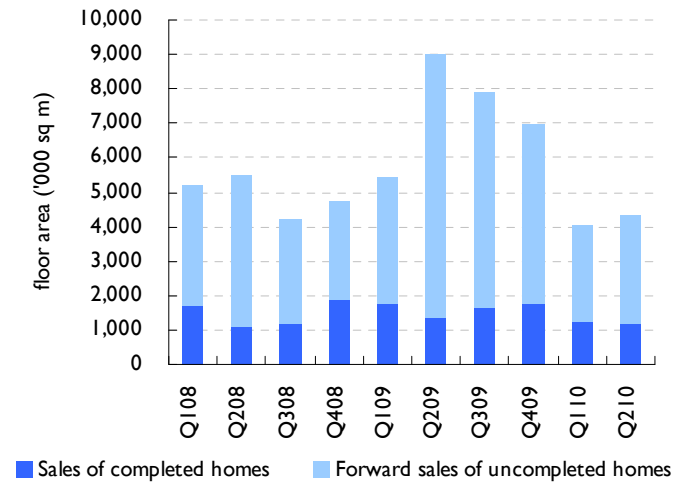


Source: Shanghai Municipal Bureau of Statistics, Vigers Research

HOUSING DEVELOPMENT PIPELINE



NEW HOME SALES



Sales volumes and prices

In Q210, new residential home sales dropped 51.7% from last year to 4,354,000 sq m by floor area traded, largely due to the cooling measures and property tax rumour. More specifically, sales of completed homes and forward sales of uncompleted homes fell 13.6% and 58.5% on last year, to 1,185,000 sq m and 3,168,500 sq m respectively.

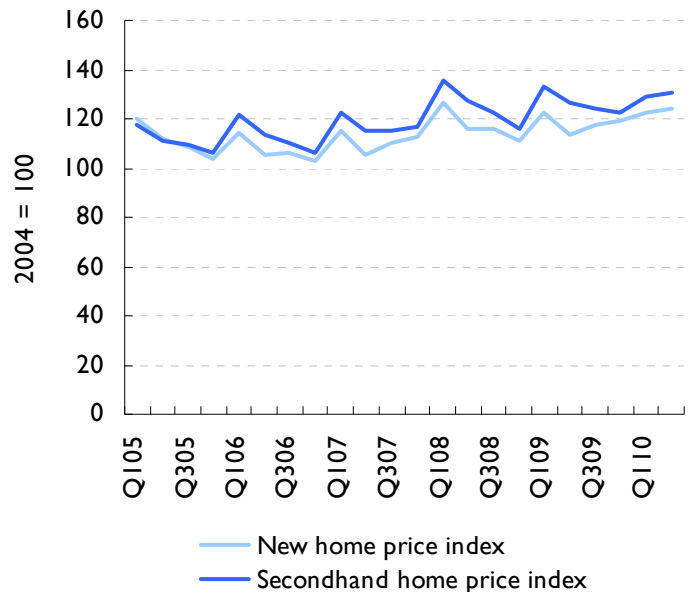
Over a longer timeline, in the first half of 2010, new home sales slumped by 60% compared with the first half of 2009, or by 35% compared with the same period of 2008.

The momentum in home price growth is evidently fading, despite that pricing levels still registered a 9.6% year on year growth. Yet, price gains have slowed to 1.6% on a quarterly basis.

As bargaining power of individual homesellers in the secondary market is weakening faster, selling price for an average flat previously occupied was up 3.6% year on year only, or up 1.8% on Q110.

According to Vigers Research, an average new flat within Inner Ring of Shanghai sold for 43,800 yuan per sq m at end-June, whilst the average new home price citywide was about 23,242 yuan per sq m.

PRICING LEVELS



Source: Shanghai Municipal Bureau of Statistics, Vigers Research

Prime residential

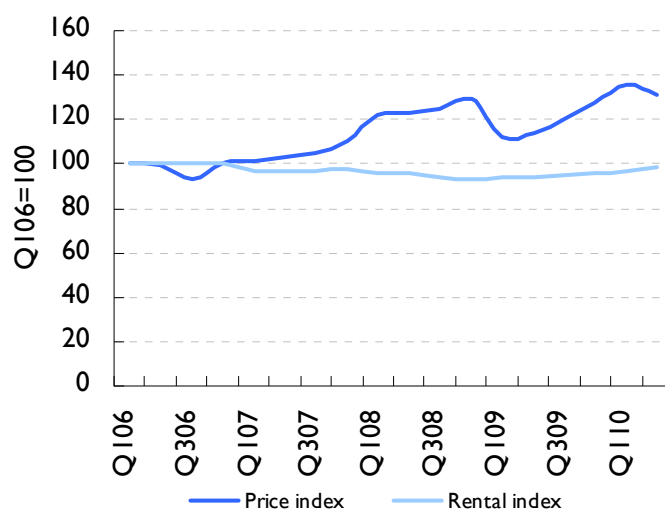
In the prime Shanghai residential market, where unit prices for a qualified luxury flat now stand at above 40,000 yuan per sq m, pricing levels slid 3.5% from Q1 10. But it rose a modest 2.4% from last year.

Prior to the introduction of the austerity measures, the luxury home market had been the key driver in the housing market. However, the sector came to a standstill after April.

By price, the best selling projects were Tomson Riviera (average price: 172,350 yuan per sq m), Lan Xin Apartment (average price: 115,820 yuan per sq m) and Seasons Villas (75,960 yuan per sq m).

A dramatic decline in demand for luxury homes has led to an oversupply. Though luxury home prices in core districts remain resilient, we estimate that prices in this sector will likely fall by 5-8% by the end of the year.

PRIME RESIDENTIAL PRICES & RENTS



Source: Shanghai Municipal Bureau of Statistics, Vigers Research

Best-selling luxury residential projects in Q2 10

Project	Location	Type	Unit sizes (sq m)	Avg prices (yuan/sq m)	Developer
Lan Xin Apartment 兰馨公寓	Luwan	Flat, high-rise	290-350 530 (duplex)	115,820	Group China Corp 盛大集团
Dynasty on the Bund 丰盛皇朝	Luwan	Flat, high-rise	85-252	63,520	Richport 新富港
Seasons Villas 四季雅苑	Pudong New Area	Villa	240 (townhouse) 400 (detached hse)	75,960	Hutchison Whampoa 和黄
Regency Cove 御涛园	Minhang	Villa	300-500	68,600	Hutchison Whampoa 和黄
Yanlord Town 仁恒河滨城	Pudong New Area	Flat, high-rise	87-150	53,450	Yanlord Land 仁恒置地

Source: Shanghai Municipal Housing, Land and Resources Administration, various property websites, Vigers Research

Note: The information above is obtained from government and unofficial sources we deem reliable with every care being carried out. Even so, we do not vouch for the accuracy, timeliness and completeness, nor shall we be held liable for any mistake, if there is any. Please write to us at vigersresearch@vigers.com if you find the abovementioned contradictory to your knowledge.

Prime office

Overview

With the housing market feeling the impact of the tightening measures, the office market somehow has benefitted from the capital inflow by risk-averse investors and developers diversifying from the housing market. After all, the office market has been immune from political pressure and often boasts of longer-term investment values when compared with residential property.

In the first half, a number of major acquisitions were completed by COFCO, Poly Group, Zendai Group, and SOHO China. Also, banking giants such as Agricultural Bank of China, Bank of East Asia, Bank of Ningbo as well as Hang Seng Bank have all concluded key transactions around the same time. The investment market in general became more active between the first two quarters.

Construction activity

The aggregate value of all office property development schemes across the city surged 11.6% from last year, but down 5.6% on the first quarter, to 5.45 billion yuan in Q210, figures from the city's statistics bureau showed.

In the development pipeline, office floor space under construction amounted to 586,500 sq m in Q210, representing an increase of 91% from last year. Of the projects in progress, 246,000 sq m of space was newly added, up 151% year on year. Office completions in the quarter have injected 143,600 sq m of space into the inventory, up 11.5% year on year.

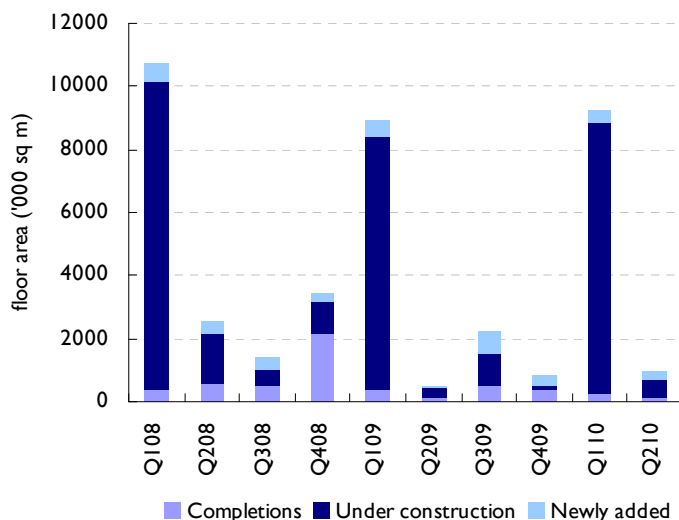
Sales market

Office sales figure has actually been better than expected, thanks to the higher level of economic activity, and, albeit ridiculously, the tightening measures imposed on the housing market.

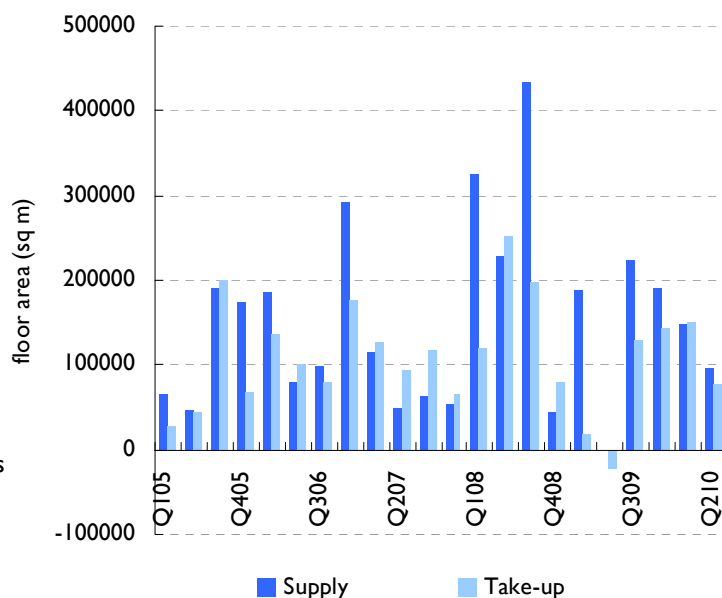
In Q210, new office property sales rose 37.2% from Q110, or 32.2% from a year ago, to 421,100 sq m in terms of floor area traded. That represents a strong signal pointing to a recovery, as the figure was a negative 68% q/q just three months ago.

As for the Grade A sector, prices have rebounded more strongly than rents, which could mean a further fall in rental yield, however. In Q210, capital values of Grade A office property in Shanghai grew 5.3% from Q110 to approx 37,250 yuan per sq m. Yet, it was still 10.7% below last year's level.

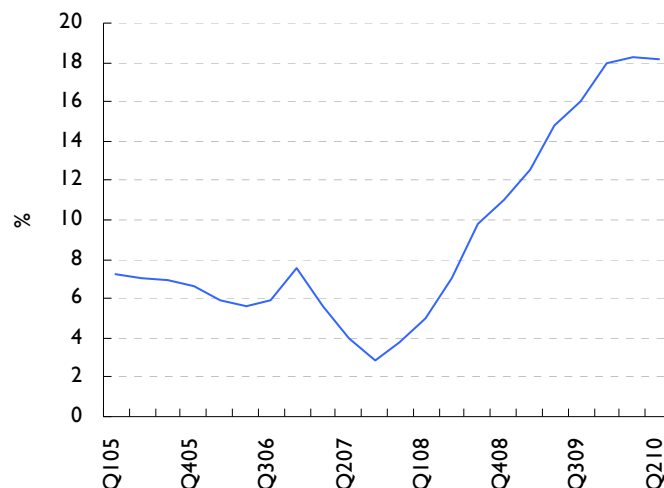
OFFICE DEVELOPMENT PIPELINE



SUPPLY & TAKE-UP



VACANCY



Source: Shanghai Municipal Bureau of Statistics, Vigers Research

Lettings market

As the lettings market improved, prime rents rebounded slightly by 3.9% from Q110, but was still down 9.6% year on year, to approx 194 yuan/sq m/month in Q210. The total vacancy rate was estimated to be 18.2%, so far steady this year.

Despite that rents have staged a small rebound with vacancy levels stabilising, supply of lettings property may rise in months ahead as more office completions are expected this year and next. These projects are mainly located in Pudong, Huangpu and Xuhui Districts.

Therefore, a surge in supply may hinder recovery in rental and capital values, and will likely send vacancy rate upwards again.

New office projects

SOHO East Ocean Plaza was the best selling office project in the first half. The developer, SOHO China, said it had generated 2.197 billion yuan from selling the new office units.

Eyeing a bigger presence in Shanghai, the Hong Kong-listed, Beijing-headquartered developer had purchased a commercial development site in Hongqiao for 1.56 billion yuan earlier on. SOHO China said the site offers great potentials and it would build a mixed-use project to comprise 250,000 sq m of floor space.

Other new office projects up for sale or lease in Q210 include the following:

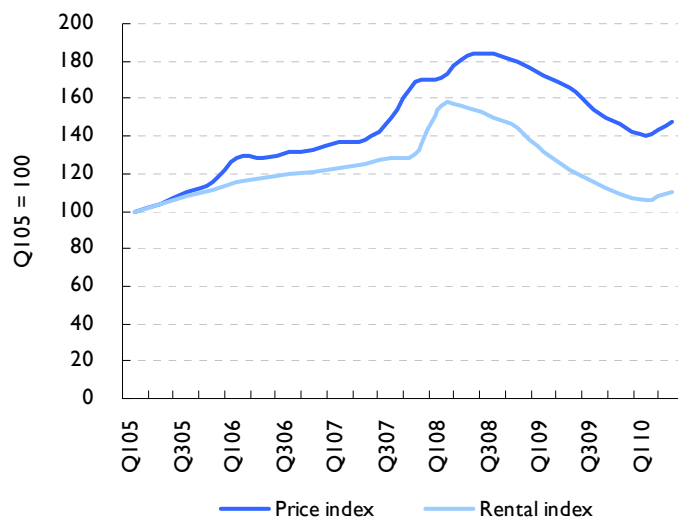
New office projects up for sale/lease in Q210

Project	Location	GFA (sq m)	Avg prices (yuan/sq m)	Avg rents (yuan/sq m/day)	Developer
SOHO East Ocean Plaza SOHO 东海广场	299 Hardoon Road, Jing'an District	80,000	65,000	5.5	SOHO China
BEA Finance Tower 东亚银行金融大厦	Lujiazui Road / Huayuan-shiqiao Road, Pudong	90,818	N/A	6.8	Shanghai Gao Peng Real Estate Development Ltd
Citic Square 中信廣場	859 Sichan Road North, Hongkou District	143,195	68,000	4.0	Shanghai Xinhong Real Estate Development Ltd
Greenland Puhui International Center 綠地浦暉國際中心	858 East Longhua Road	55,000	48,870	6.2	Greenland

Source: Developers' and property websites, Vigers Research

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PRIME OFFICE PRICES & RENTS



Source: Vigers Research

Prime retail

Growth of retail sales was stronger than that in fixed asset investment (FAI) in the first half, signifying a rise in domestic consumption, and thanks to the flocks of World Expo visitors.

To be precise, retail sales value was up 17.5% year on year, reaching 292.1 billion yuan in the year to June. As the event lasts until October, the Shanghai City Government targets to achieve 600 billion yuan in retail consumption, an ambitious 16% year on year growth.

In the investment market, sales of new retail property in Q210 was up 28.2% on last year, but down 30% on last quarter, to 216,500 sq m by floor area traded.

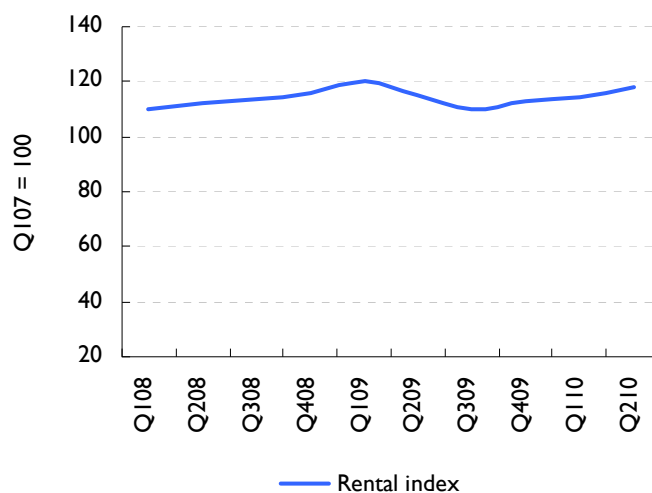
Prime retail rents grew 3.4% quarter on quarter, or 2.9% year on year, according to Vigers Research. Rents of shops on major high streets grew 0.5-8% quarter on quarter.

At end-Q210, average rent for a ground floor shop in a prime spot was about 1,658 yuan/sq m/month, whilst the average rent for a space on the first floor in a typical shopping centre was about 924 yuan/sq m/month. Vacancy levels averaged 6.8% in major shopping centres in core districts.

In the first half, the opening of IFC Mall injected circa 250,000 sq m of prime retail space into the market. Moreover, about five shopping centres are scheduled to open in the second half, further bringing in 281,300 sq m of retail space

As a result, the effects of increased supply will soon be reflected on rents and vacancies. And when the World Expo finally comes to an end after October, the retail sector will seriously be tested.

PRIME RETAIL RENTS



New shopping centres in the pipeline

Project	Location	Retail floor area (sq m)	Opening
Henderson Metropolitan 名人商业大厦	Nanjing Road East	36,900	Q310
ASE Center 日月光中心广场	Xujiahui Road	148,000	Q310
Himalayas Center 喜马拉雅中心	Lujiazhui	50,000	Q310
Agile International Plaza 雅居乐国际广场	Nanjing Road East	32,514	Q410
Xintiandi Phase 3 新天地三期	Huaihai Road Central	13,900	Q410

Source: Developers' and property websites, Vigers Research

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