



# Q2 2011 GREATER CHINA

Quarterly

**Knight Frank 萊坊**

## PRICES STABLE DESPITE SALES DROP

In the second quarter of 2011, initiatives by the Mainland Chinese government to cool the residential property market were still very much in evidence. RMB-deposit reserve rates were raised to a historical high of 21.5% in major financial institutions. In order to suppress inflation, the central bank raised RMB-deposit and loan interest rates of financial institutions by 25 basis points on both 6 April and 7 July. These credit-tightening policies resulted in further restrictions in financing for developers, an increase in burden for homebuyers and a strengthening of the wait-and-see atmosphere in the market.

Home sales in major Chinese cities dropped quarter on quarter and in some cities, prices were lowered to promote sales. However, as the financial strength of developers had not deteriorated markedly, price-cuts were limited to specific developments and overall, prices remained firm. Looking ahead, new home supply will continue to rise and we expect sales to rebound in the third quarter. However, price growth will slow in the second half of 2011, as cooling measures are unlikely to be relaxed. Inventory could rise and developers will face increased funding pressure.

### Beijing

Beijing's residential market remained sluggish in the second quarter. Sales volume dipped 9.7% quarter on quarter and the average price fell 7.8%. In the luxury sector, the performances of the sales and leasing markets continued to diverge. In the sales market, a wait-and-see atmosphere remained amid purchase restrictions. The number of sales dropped 3.5% to 697, but prices edged up 2.7% as no major price reductions were offered. Meanwhile, the leasing market remained active. The influx of expatriates resulting from the expansion of multinational companies and the country's overall stable economic growth boosted demand in the leasing market and the vacancy rate dropped 1.9 percentage points to 16.5%.

Looking ahead, we expect luxury prices to remain firm in the second half of 2011, given the high quality of projects and the strong purchasing power of homebuyers. The leasing market is set to remain active, so the vacancy rate will decline further while rents will continue to rise.

### Shanghai

In the second quarter, following an increase in supply and price cuts in certain projects, the volume of home sales in Shanghai jumped 37.8% compared with the previous quarter, to total 2.26 million sq m. As a result, the average home price saw a 2.3% correction to RMB 21,500 per sq m. The price drop was also attributed to the increased proportion of sales involving mass residential units. Units worth less than RMB20,000 per sq m accounted for 62.4% of the total transacted area of home sales—up five percentage points quarter on quarter. In the luxury sales market, a number of projects went on-line, pushing up the sales volume by over 20% in the quarter. The average price remained firm and increased 1.3% to RMB53,279 per sq m.

The luxury home rental market remained buoyant during the second quarter, with an increase in both rents and occupancy levels. A number of villas in the Xijiao area of Changning District, for example, were all leased out despite quarter-on-quarter rent increases of between 2% and 5%.

Looking ahead, developers are expected to continue with a price-cut strategy in the third quarter, to boost sales amid an atmosphere of credit tightening. Overall, we expect home prices in Shanghai to drop further, but luxury prices are expected to stay firm given the strong purchasing power of potential buyers.

### Guangzhou

The number of home sales in Guangzhou remained low in the second quarter, as purchase restrictions suppressed housing demand from both investors and upgraders. Volume of sales in the city's ten districts dipped 0.4% to total 1.5 million sq m. However, the average price edged up 0.4%, with significant increases evident in core areas such as Tianhe and Yuexiu. In the luxury sector, sales dropped 10.7% due to lower supply levels and ongoing property regulatory policies.

Looking ahead, we do not expect the government to relax its property cooling measures in the third quarter. Coupled with high RMB-deposit and loan interest rates, we expect both developers and homebuyers to take a wait-and-see attitude until uncertainties on regulatory risks clear and for sales volume to drop further in the short term. In the luxury market, prices are likely to remain stable, while sales will continue to fall.



## Economic indicator and real estate policies

GDP continued to prove its resilience with a decreased growth rate in Beijing, Shanghai and Guangzhou in the first half of 2011.

Table 1 Economic indicators					
	Latest reading	Beijing	Shanghai	Guangzhou	Hong Kong
GDP growth	1H 2011	+8.0%	+8.4%	+11.0%	+8.8%# (1Q 2011)
GDP contribution to country total	1H 2011	3.6%	4.5%	2.8%	N/A
Inflation rate	May 2011	+2.9%	+2.0%	+0.8%	+5.2%
Unemployment	N/A	1.4% (2009)	3.3% (2011)	2.3% (2009)	3.4% (Q1 2011)
FDI on real estate (USD)	N/A	796.8mn (2009)	523.0mn (2003)	943.4mn (2009)	613.3bn (2009)
FDI (utilized) yoy growth	1H 2011	+6.8%	+12.0%	+10.2%	+14.8% (position, 2009)
Retail sales yoy growth	1H 2011	+11.3%	+11.5%	+16.4%	+21.0%
Prime lending rate	Current	6.65%^	6.65%^	6.65%^	5.00%*
Source: CEIC / Census & Statistics Department / Knight Frank					
^ People's Bank of China # Provisional * HSBC prime lending rate					

Further cooling measures to curb the residential market are expected to push more investors to the office sales market.

Table 2 Major real estate market policies			
Policy	Policy details	Effective date	Cities applicable
HKMA lowered loan-to-value ratios	Lowered loan-to-value ratios for residential mortgages on properties valued at HK\$7 million or above.	June 2011	Hong Kong
Increased Required Reserve Ratio (RRR) three times	People's Bank of China increased RRR by 0.5% each.	April 2011 May 2011 June 2011	Whole country
Increased RMB-deposit and loan interest rates twice	People's Bank of China increased RMB-deposit and loan interest rates of major financial institutions by 0.25% each.	April 2011 July 2011	Whole country
Imposed transaction tax on home sales in the secondary market	Tax rate is 1% of the assessed values for mass housing units and 1.5% for upmarket flat.	July 2011	Shenzhen

Table 3  
Outlook (3Q 2011)

City	Price	Rental
Beijing	↗	↗
Guangzhou	↗	↗
Shanghai	↗	↗
Hong Kong	↗	↗

Figure 2

## Grade-A office price index

Q1 2003 = 100

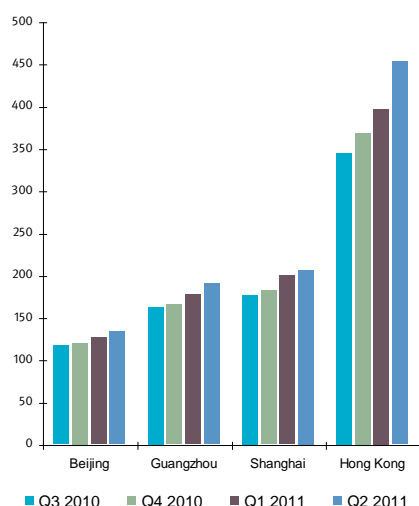
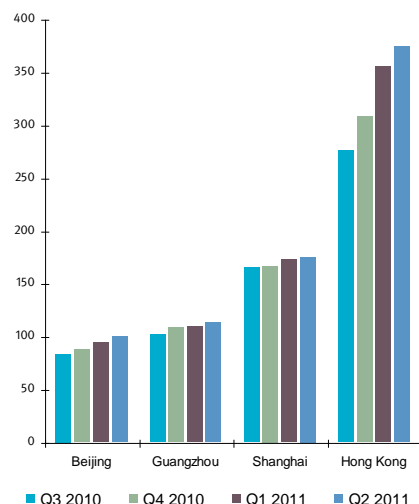


Figure 3

## Grade-A office rental index

Q1 2003 = 100



## Prime office



Table 4

## Prices, rentals, vacancy rates and yields [1][2]

City	Price (US\$ psm)	Rental (US\$ psm per month)	Vacancy rate	Yield
Beijing	\$4,331	\$36.6	6.6%	7.0%
Guangzhou	\$3,978	\$22.1	16.0%	5.9%
Shanghai	\$7,004	\$40.6	5.9%	7.0%
Hong Kong	\$22,447	\$73.6	2.4%	3.0%

[1] Average prices and rentals are derived from different baskets of buildings, hence the two should not be used to estimate average yields.

[2] Prices and rents are calculated on gross floor areas.

Table 5

## Supply and demand indicators

City	Indicators	Comments
Beijing	<ul style="list-style-type: none"> <li>Beijing IFC was launched, providing 146,000 sq m of Grade-A office space.</li> <li>Net take-up of Grade-A offices amounted to 221,000 sq m, dragging down the overall vacancy rate to 6.6%.</li> </ul>	<ul style="list-style-type: none"> <li>Wanda Plaza and Easy Home Plaza were recently changed into self-occupation status. The total Grade-A office stock in Beijing reached 7,526,000 sq m.</li> <li>Future Grade-A office supply is set to be very limited, far lower than the level required to meet demand.</li> </ul>
Guangzhou	<ul style="list-style-type: none"> <li>New supply of Grade-A offices surged 60% quarter on quarter, with a number of new buildings launched.</li> <li>Grade-A office sales transactions rocketed 340% to total about 30,000 sq m.</li> </ul>	<ul style="list-style-type: none"> <li>New supply was largely located in the Pearl River New City CBD in Tianhe and Pazhou CBD in Haizhou.</li> <li>Regulatory policies in the residential market pushed capital to the commercial property market, boosting demand for offices for sale.</li> </ul>
Shanghai	<ul style="list-style-type: none"> <li>Three new office buildings were completed, namely Shanghai ICC Tower Phase I, IFC Phase II, Taiping Finance Centre, providing 60,000 sq m, 122,000 sq m and 85,000 sq m of Grade-A offices respectively.</li> <li>The Grade-A office vacancy rate decreased to a new low. Most office buildings in the Hongqiao Area of Changning District were fully occupied.</li> </ul>	<ul style="list-style-type: none"> <li>New office supply totaled 382,000 sq m in the first half of 2011, accounting for only 35% of the estimated supply this year. New supply is expected to reach 650,000 sq m in the second half of the year.</li> <li>The launch of the Greater Hongqiao Business Zone development accelerated demand for office space in surrounding areas.</li> </ul>
Hong Kong	<ul style="list-style-type: none"> <li>Further tightening policies to curb residential price surge pushed some investors to the office sales market. Demand split over from the Grade-A market to Grade-B.</li> </ul>	<ul style="list-style-type: none"> <li>Demand for leasing Grade-A offices showed no signs of abating, but leasing activity slowed due to the low availability of space, particularly on Hong Kong Island.</li> </ul>



Table 6

## Major sales transactions

City	District	Development	Floor / Unit	Area (sq m)	Price (US\$ million)	Price (US\$ per sq m)
Beijing	Chaoyang	Oriental Ginza	N/A	203	\$1.27	\$6,246
Beijing	Chaoyang	Galaxy SOHO	N/A	177	\$1.94	\$10,958
Guangzhou	Tianhe	Poly Clover Plaza	High floor unit	1,174	\$6.5	\$5,542
Guangzhou	Tianhe	R&F Ying Sheng Plaza	High floor unit	250	\$1.2	\$4,925
Shanghai	Pudong	SWFC	67 <sup>th</sup> floor	3,337	\$41.3	\$12,387
Shanghai	Xuhui	Greenland Centre	18 <sup>th</sup> floor / unit 2101	270	\$2.6	\$9,747
Hong Kong	Admiralty	Lippo Centre	Tower 1 / 44–45 <sup>th</sup> floors	1,804	\$62.7	\$34,776
Hong Kong	Admiralty	Bank of America Tower	22 <sup>nd</sup> floor unit	360	\$12.9	\$35,768

Further cooling measures to curb the residential market are expected to push more investors to the office sales market.

Table 7

## Market activity

	Sales		Leasing	
	2Q 11 vs 1Q 11	3Q 11 Outlook	2Q 11 vs 1Q 11	3Q 11 Outlook
Beijing	↗	↗	↗	↔
Guangzhou	↗	↗	↗	↗
Shanghai	↗	↗	↗	↗
Hong Kong	↗	↗	↘	↗

Table 8

## Major leasing transactions

City	District	Development	Floor / Unit	Area (sq m)	Monthly Rental (US\$)	Monthly Rental (US\$ per sq m)
Beijing	Chaoyang	China World Trade Centre Phase 3	Tower 3 / high floor unit	413	\$27,584	\$66.8
Beijing	Chaoyang	Yintai Center	High floor unit	400	\$23,390	\$58.5
Guangzhou	Tianhe	IFC	High floor unit	500	\$21,543	\$43.1
Guangzhou	Tianhe	China Shine Plaza	High floor unit	83	\$1,877	\$22.6
Shanghai	Jing'an	Wheelock Square	Part of 27 <sup>th</sup> and whole of 29 <sup>th</sup> floors	2,500	\$128,643	\$51.5
Shanghai	Pudong	Kerry Parkside	29-30 <sup>th</sup> floors	4,000	\$121,626	\$30.4
Hong Kong	Central	Cheung Kong Center	56 <sup>th</sup> floor	2,044	\$420,417*	\$206.2*
Hong Kong	Central	Two IFC	67 <sup>th</sup> floor / units 11–12	344	\$89,997*	\$261.8*

\*Market news

Table 9  
Outlook (3Q 2011)

City	Price	Rental
Beijing	↗	↗
Guangzhou	↔	↔
Shanghai	↔	↗
Hong Kong	↗	↗

Figure 4

## Luxury residential price index

Q1 2003 = 100

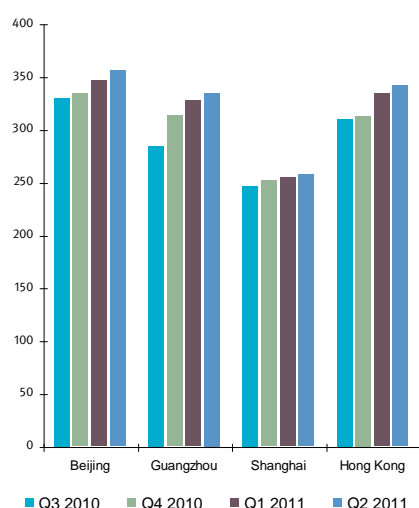
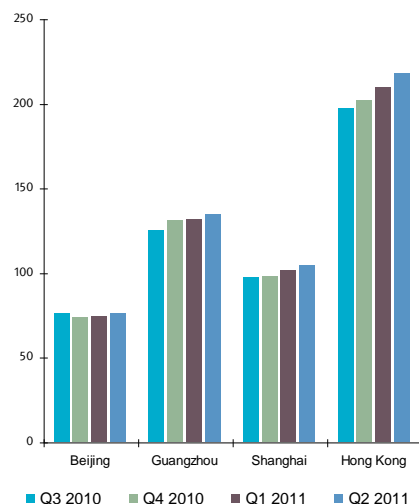


Figure 5

## Luxury residential rental index

Q1 2003 = 100



## Luxury residential

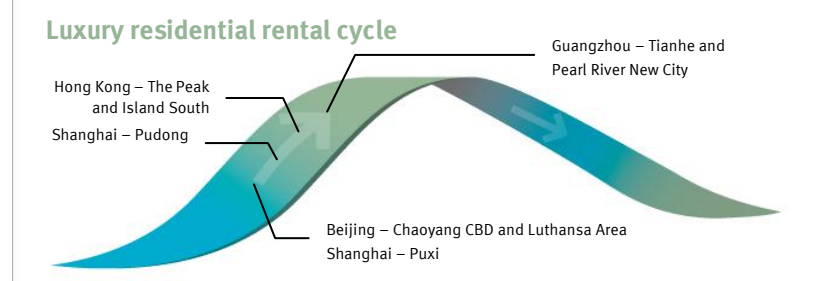


Table 10

## Prices, rentals, vacancy rates and yields [1][2]

City	Price (US\$ psm)	Rental (US\$ psm per month)	Vacancy rate	Yield
Beijing	\$6,202	\$21.0	16.5%	3.4%
Guangzhou	\$4,634	\$17.4	17.0%	4.1%
Shanghai	\$8,199	\$25.0	13.1%	3.7%
Hong Kong	\$29,884	\$67.5	9.2% <sup>[3]</sup>	2.5%

[1] Average prices and rentals are derived from different baskets of buildings, hence the two should not be used to estimate average yields.

[2] Prices and rents are calculated on gross floor areas.

[3] End-2010 vacancy rate of unites sized over 100 sq m from Rating and Valuation Department, HKSAR.

Table 11

## Supply and demand indicators

City	Indicators	Comments
Beijing	<ul style="list-style-type: none"> <li>Luxury residential supply surged, with a total of 1,574 units launched during the quarter.</li> <li>A total of 697 luxury homes were sold in the quarter.</li> </ul>	<ul style="list-style-type: none"> <li>West Chateau and Park 1872 were among the projects that obtained pre-sale consents and launched during the quarter.</li> <li>Luxury residential sales dropped 3.5% from the previous quarter, due to buying restrictions and a wait-and-see sentiment.</li> </ul>
Guangzhou	<ul style="list-style-type: none"> <li>New luxury residential supply reached 73,000 sq m, down 7.9% quarter on quarter.</li> <li>A wait-and-see market sentiment coupled with decreased supply dragged luxury home sales down 10.7% quarter on quarter.</li> </ul>	<ul style="list-style-type: none"> <li>Supply of new luxury homes in downtown areas continued to shrink.</li> <li>A series of cooling and credit-tightening measures by banks continued to drag down luxury home sales in the second quarter.</li> </ul>
Shanghai	<ul style="list-style-type: none"> <li>New luxury residential supply reached 520,000 sq m—three times the level recorded in the previous quarter.</li> <li>177,000 sq m of luxury homes were sold, up more than 20% quarter on quarter.</li> </ul>	<ul style="list-style-type: none"> <li>A number of new residential developments were launched for sale in the quarter.</li> <li>The significant amount of supply led to a rise in sales volume.</li> </ul>
Hong Kong	<ul style="list-style-type: none"> <li>The number of sales of luxury homes worth HK\$10 million or above rose 27.8% to total 2,369 during the quarter.</li> </ul>	<ul style="list-style-type: none"> <li>The government's regulatory policies dragged down overall transaction volumes, but prices remained firm amid ongoing positive influences.</li> </ul>





Table 12

## Major sales transactions

City	District	Development	Floor / Unit	Area (sq m)	Price (US\$ million)	Price (US\$ per sq m)
Beijing	Haidian	Summer Palace Splendor	N/A	1,131	\$21.4	\$18,964
Beijing	Chaoyang	No.8 Royal Park	N/A	447	\$6.9	\$15,379
Guangzhou	Tianhe	Central ParkView	High floor unit	304	\$2.6	\$8,463
Guangzhou	Tianhe	Grand View Marriot Golden Palace	High floor unit	137	\$0.8	\$6,001
Shanghai	Luwan	Casa Lakeville	Tower 6 / 3 <sup>rd</sup> floor / unit 301	364	\$8.5	\$23,432
Shanghai	Pudong	Mandarin Palace	House 22	411	\$7.9	\$19,305
Hong Kong	Island South	Belgravia	23 <sup>rd</sup> floor / unit A	222	\$10.0	\$44,876
Hong Kong	Island South	Grosvenor Place	10 <sup>th</sup> floor	261	\$10.7	\$40,891

The introduction of a new round of tightening measures may hit the transaction volumes of luxury homes in the three major Mainland cities in 2011.

Table 13

## Market activity

	Sales		Leasing	
	2Q 11 vs 1Q 11	3Q 11 Outlook	2Q 11 vs 1Q 11	3Q 11 Outlook
Beijing	↓	↑	↑	↑
Guangzhou	↓	↓	↑	↑
Shanghai	↑	↑	↑	↑
Hong Kong	↑	↓	↑	↓

Table 14

## Major leasing transactions

City	District	Development	Floor / Unit	Area (sq m)	Monthly Rental (US\$)	Monthly Rental (US\$ per sq m)
Beijing	Shunyi	River Garden	Villa	300	\$5,847	\$19.5
Beijing	Chaoyang	World City	33 <sup>rd</sup> floor unit	90	\$2,000	\$22.2
Guangzhou	Tianhe	Central ParkView	High floor unit	155	\$2,616	\$16.9
Guangzhou	Tianhe	Edinburgh International Apartment	High floor unit	125	\$2,308	\$18.5
Shanghai	Pudong	Yanlord Garden	Unit 1001	103	\$2,000	\$19.5
Shanghai	Jingan	Top of City	Unit 901	108	\$1,847	\$17.1
Hong Kong	The Peak	The Apex	Duplex	372	\$44,999	\$121.1
Hong Kong	The Peak	Gough Hill Road 28	House	565	\$64,284	\$113.8

Table 15  
Outlook (3Q 2011)

City	Price	Rental
Beijing	N/A	↗
Guangzhou	↗	↗
Shanghai	↗	↗
Hong Kong	↗	↗

Figure 6

### Prime retail price index

Q1 2003 = 100

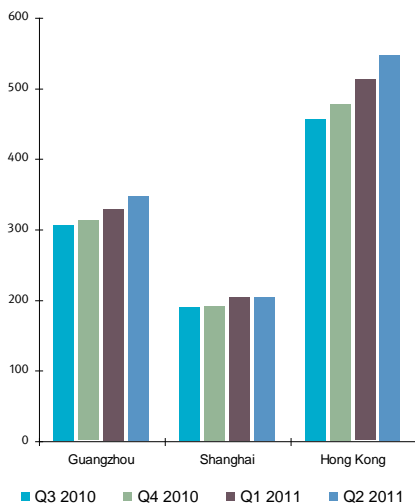
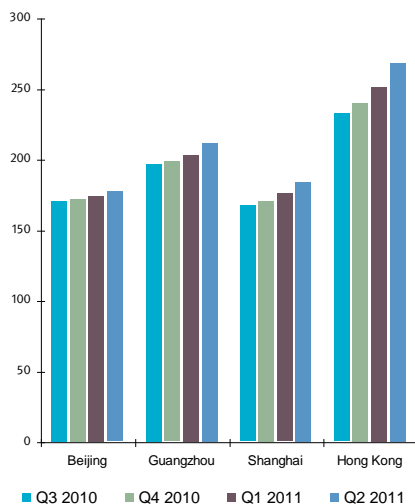


Figure 7

### Prime retail rental index

Q1 2003 = 100



## Prime retail

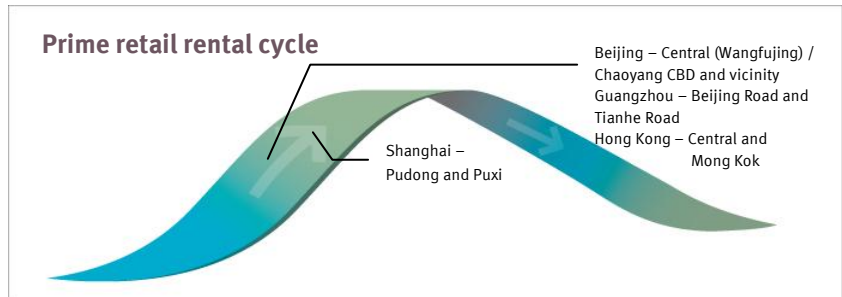


Table 16

### Prices, rentals, vacancy rates and yields <sup>[1][2]</sup>

City	Price (US\$ psm)	Rental (US\$ psm per month)	Vacancy rate	Yield
Beijing	N/A	\$107.0	9.64%	4.9%
Guangzhou	\$33,353	\$241.0	4.0%	7.0%
Shanghai	\$18,141	\$136.5	8.2%	6.8%
Hong Kong	\$229,005	\$636.2	7.9% <sup>[3]</sup>	3.0% <sup>[4]</sup>

[1] Average prices and rentals are derived from different baskets of buildings, hence the two should not be used to estimate average yields.  
[2] Prices and rents are calculated on gross floor areas.  
[3] End-2010 overall vacancy rate from Rating and Valuation Department, HKSAR.  
[4] Overall yield from Rating and Valuation Department, HKSAR.

Table 17

### Supply and demand indicators

City	Indicators	Comments
Beijing	<ul style="list-style-type: none"> <li>Surprise Outlets Phase I near the airport officially opened in the quarter, providing 35,000 sq m of prime retail space. The second and third phases are expected to open in 2012.</li> </ul>	<ul style="list-style-type: none"> <li>Guoson Mall held a pre-opening ceremony in the quarter. The southern area of the mall is scheduled to open in the third quarter.</li> </ul>
Guangzhou	<ul style="list-style-type: none"> <li>Metona, GBF (Beijing Road) and Central Plaza opened, providing about 70,000 sq ft of space. Taikoo Hui opened some of its ground-floor shops.</li> <li>Retail property sales and leasing transactions increased 23% and 50%, respectively, quarter on quarter.</li> </ul>	<ul style="list-style-type: none"> <li>The opening of shopping centres and department stores entered its peak season in Guangzhou.</li> <li>Purchase restrictions in the residential market benefited the retail property market.</li> </ul>
Shanghai	<ul style="list-style-type: none"> <li>Two new shopping malls opened in non-core areas, providing a total of 260,000 sq m of retail space.</li> <li>Ikea opened its second Shanghai store in Pudong—its largest store in Asia and second largest in the world. Meanwhile, the first American Eagle Outfitters store in China opened in Shanghai.</li> </ul>	<ul style="list-style-type: none"> <li>No new shopping centres opened in the downtown area in the quarter.</li> <li>Retailers' on-going enthusiasm for expansion in Shanghai resulted in strong demand for retail space in the city.</li> </ul>
Hong Kong	<ul style="list-style-type: none"> <li>No major shopping malls opened in the first half of 2011.</li> </ul>	<ul style="list-style-type: none"> <li>The retail property sales market remained red-hot. A total of 3,285 transactions were recorded in the first five months of 2011, up 12.6% year on year.</li> </ul>





Table 18

### Major sales transactions

City	District	Development	Floor / Unit	Area (sq m)	Price (US\$ million)	Price (US\$ per sq m)
Beijing	Chaoyang	Sanlitun SOHO	N/A	141	\$4.1	\$28,850
Beijing	Chaoyang	Gongsan Plaza	N/A	530	\$5.5	\$10,368
Guangzhou	Yuexiu	Beijing Road	Ground floor shop	8	\$1.8	\$230,819
Guangzhou	Yuexiu	China Plaza	Ground floor shop	95	\$2.3	\$23,973
Shanghai	Baoshan	Baoshan Wanda Plaza	Tower 2 / 1 <sup>st</sup> floor	184	\$1.5	\$7,958
Shanghai	Zhabei	Shanghai New Qipu Clothing Market	1 <sup>st</sup> floor / unit 1A12	59	\$0.6	\$10,943
Hong Kong	Mong Kok	Sincere Plaza	G/F / units G2-G3	22	\$8.0	\$366,718
Hong Kong	Causeway Bay	President Shopping Centre	G/F / unit 29	13	\$3.9	\$303,080

With both foreign and local retailers accelerating their expansion in China, leasing activity is expected to go up in Mainland's major cities.

Table 19

### Market activity

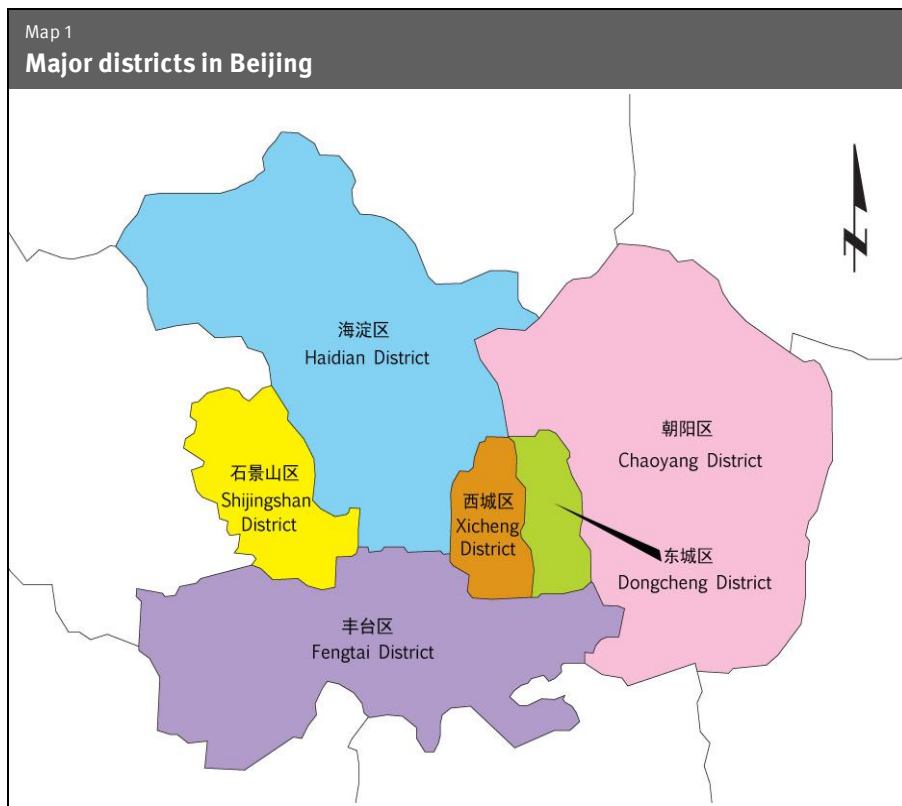
	Sales		Leasing	
	2Q 11 vs 1Q 11	3Q 11 Outlook	2Q 11 vs 1Q 11	3Q 11 Outlook
Beijing	↗	↘	↗	↗
Guangzhou	↗	↗	↗	↗
Shanghai	↗	↗	↗	↗
Hong Kong	↗	↔	↗	↗

Table 20

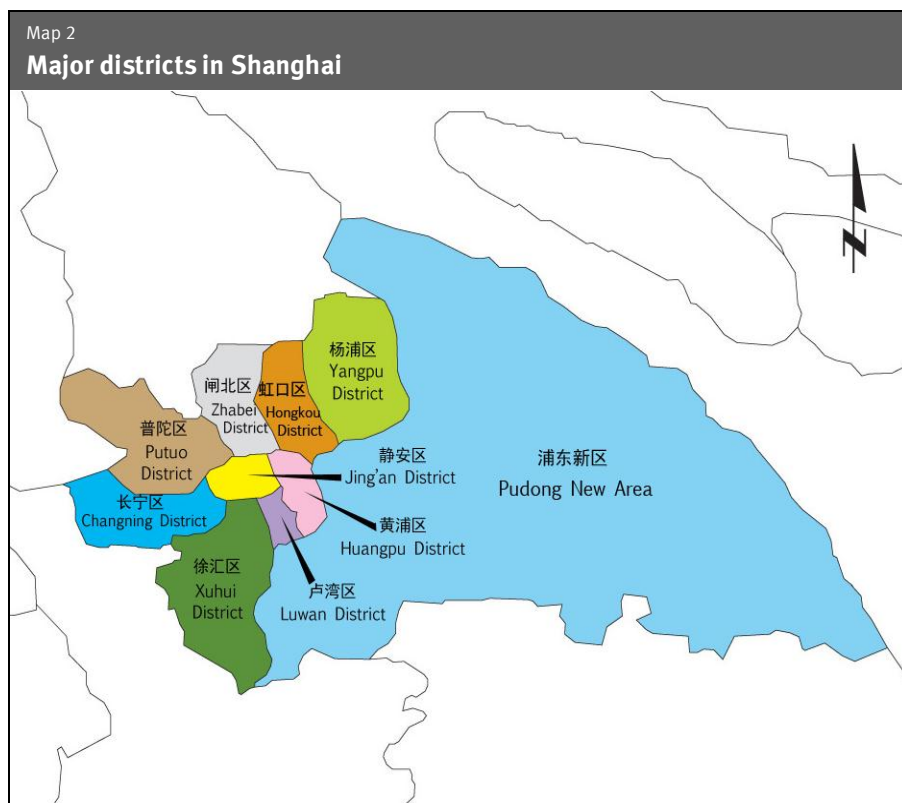
### Major leasing transactions

City	District	Development	Floor / Unit	Area (sq m)	Monthly Rental (US\$)	Monthly Rental (US\$ per sq m)
Beijing	Dongcheng	Maucau Center	Level 2 unit	1,700	\$39,239	\$23.1
Beijing	Chaoyang	Landgent Center	Level 1 & basement unit	400	\$14,157	\$35.4
Guangzhou	Tianhe	Tianhe South First Road	Ground floor shop	40	\$5,847	\$146.2
Guangzhou	Yuexiu	Xihu Road	Ground floor shop	480	\$43,086	\$89.8
Shanghai	Putuo	The North	4 <sup>th</sup> floor	240	\$7,859	\$32.7
Shanghai	Xuhui	Grand Gateway	3 <sup>rd</sup> floor	140	\$26,196	\$187.1
Hong Kong	Mong Kok	Tai Wah House	G/F / unit C	21	\$21,859	\$1,023.0
Hong Kong	Tsim Sha Tsui	Burlington House	G/F / unit A	59	\$52,719	\$886.7

**Major districts in Beijing**  
include Chaoyang, Dongcheng,  
Xicheng, Haidian, Shijingshan,  
Fengtai, Xuanwu and Chongwen.

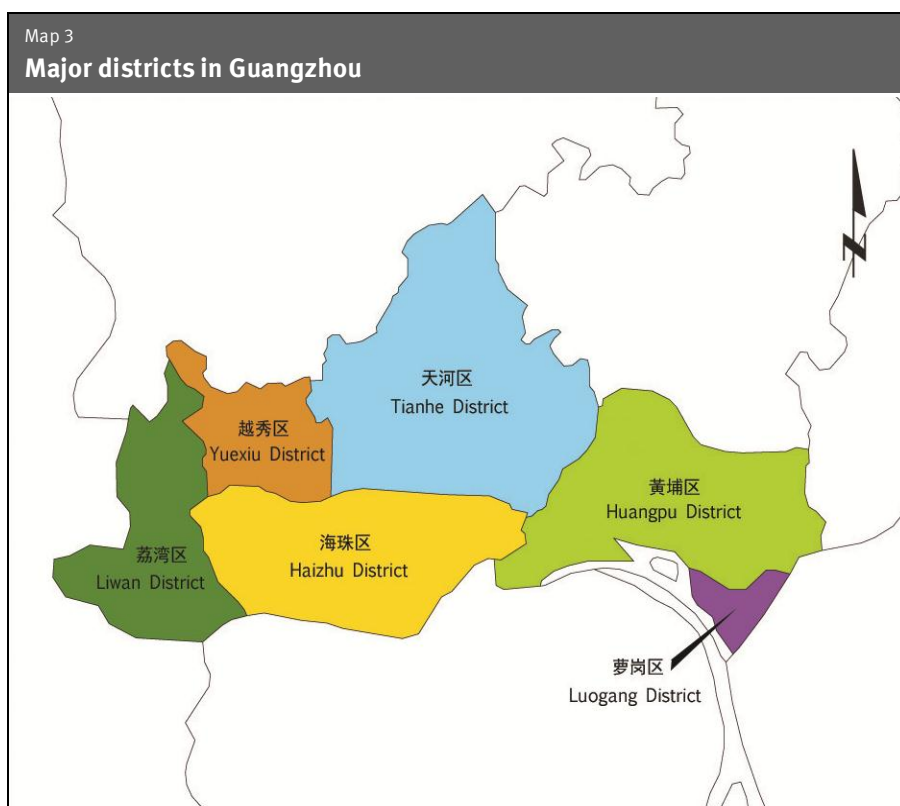


**Major districts in Shanghai**  
include the Pudong New Area,  
Jing'an, Luwan, Xuhui, Putuo,  
Changning, Zhabei, Hongkou,  
Huangpu and Yangpu.

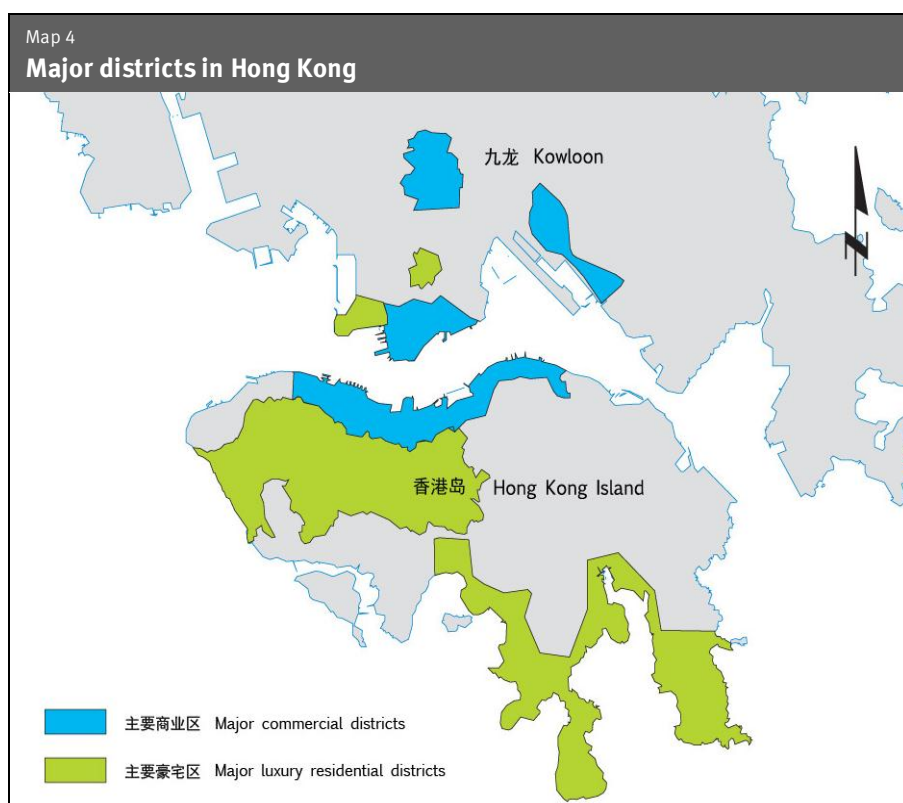




Major districts in Guangzhou include Tianhe, Yuexiu, Liwan, Haizhu, Huangpu and Luogang.



Hong Kong's major commercial districts scatter along the two sides of the harbour, while its luxury residential areas focused on Hong Kong Island.



# RESEARCH

## Americas

Bermuda  
Brazil  
Canada  
Caribbean  
Chile  
USA

## Australasia

Australia  
New Zealand

## Europe

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Hungary  
Ireland  
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Nigeria  
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Tanzania  
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