Property Times
Beijing Q3 2011
Office rents soared

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- Due to strong demand and lack of supply, Beijing's overall office rents strongly increased in Q3 2011. New projects, especially in core business zones, were entering the market with high asking rental. The average rents increased 10.72% quarter-on-quarter (q-o-q) to reach RMB 226.93 (US$35.46) per sq m per month (Figure 1). The availability ratio dropped by 2.98 percentage points q-o-q to a record-low of 4.37%. Total net absorption reached 105,511 sq m over this quarter due to limited available spaces.

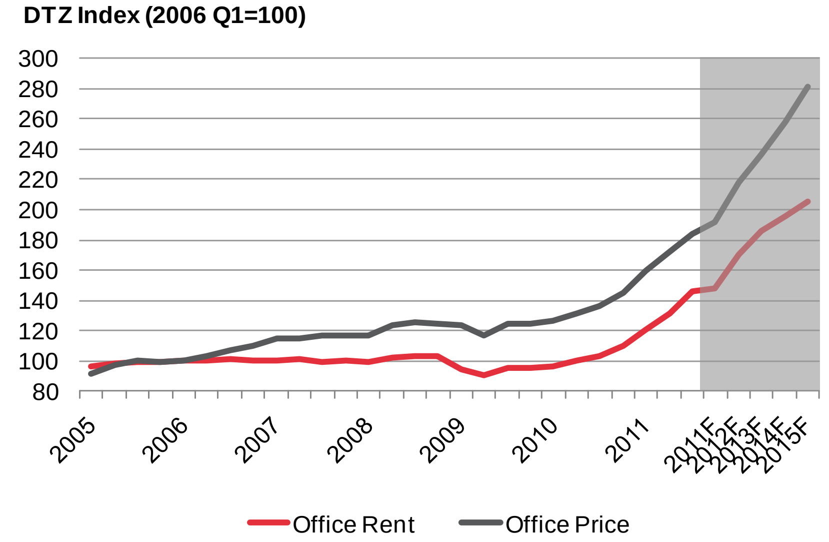
- Instead of providing services for single consumers, shopping malls sited in non-core areas aimed at family consumption.

- There was no sign of easing up in the residential market. People do not expect the cooling measures and controls to be over in the short term. Affected by purchase restrictions, Beijing's high-end residential price declined slightly; residential rents in different sectors differed. Average prices of luxury residential properties remained stable at RMB 41,693 (US$6,514.5) per sq m (Figure 5).

- In Q3 2011, total investment volume reached RMB 37.11 billion (US$5.8bn), or 185.59% increase q-o-q. Heavily affected by cooling measures in the residential market, commercial land transaction has become an important source of Beijing government revenue.

Figure 1

DTZ office index (2005 - 2015F)



Source: DTZ Research

Economic overview

- With GDP growing at 8.0 percent year-on-year (y-o-y), Beijing's macro economy continued to grow steadily. GDP reached RMB 741.81 billion (US$115.91bn) in Q2 2011 (Table 1). The value-added of tertiary industry was RMB 570.36 billion (US$89.12bn), up 8.2% y-o-y.
- Beijing's fixed asset investment was up by 19.1% y-o-y in the first eight months to reach RMB 348.06 billion (US$54.38bn) (Table 1).
- By the end of August 2011, real estate investment had reached RMB 188.17 billion (US$29.40bn), an increase of 14.5% y-o-y.
- From January to August, per capita disposable income was RMB 21,472 (US$3,355.0), an increase of 10.4% y-o-y (Table 1).

Table 1

Economic indicators

Indicator	Period	Unit	Value	Change y-o-y (%)
GDP	Q1-Q2	RMB 100 million	7,418.1	8.0
Tertiary industry GDP	Q1-Q2	RMB 100 million	5,703.6	8.2
Disposable income per capita	Jan-Aug	RMB	21,472	10.4
Fixed asset investment	Jan-Aug	RMB 100 million	3,480.6	19.1
Real estate investment	Jan-Aug	RMB 100 million	1,881.7	14.5

Note: Starting from 2011, China's Bureau of Statistics adjusted the statistics data of fixed assets investment derived from RMB 0.5 million to RMB 5 million, data of the corresponding period in the previous year was also in accordance with the standard provided

Source: Beijing Statistics Bureau

Offices

- In Q3 2011, Minmetals purchased the Fifth Square for self use. Total available spaces of grade A offices was down to 6,469,726 sq m (Table 2).
- During Q1 to Q3, New supplied office areas were absorbed quickly by both foreign and local companies, financial services and energy industries were the most active in terms of leasing. High quality office projects at good location were in great demand. However, in September, we observed a slowing trend in the leasing market.
- Due to strong demand and lack of supply, Beijing's overall office rents strongly increased in Q3 2011. New projects, especially in core business zones, were entering the market with high asking rental. The average rents increased 10.72% quarter-on-quarter (q-o-q) to reach RMB 226.93 (US$35.46) per sq m per month (Table 2). The availability ratio dropped by 2.98 percentage points q-o-q to a record-low of 4.37%. Total net absorption reached 105,511 sq m over this quarter due to limited available spaces (Figure 3).
- Rents in the Financial Street still remained the highest in the city, reaching RMB 259.76 (US$40.59) per sq m per month, a 7.48% increase q-o-q (Table 2). Rents in the CBD ranked the second at RMB 245.66 (US$38.38) per sq m per month, up 13.43% q-o-q. Rents in Lufthansa also rose markedly this quarter, reaching RMB 222.77 (US$ 34.81) per sq m per month, with the growth rate of 14.50% q-o-q.
- In the sales market, the average price grew 6.90% over the previous quarter to reach RMB 46,951 (US$7,336) per sq m (Figure 2).
- In Q4, a total of 380,000 sq m of office space is expected to come on stream. Due to the strong occupier demand and positive business sentiment, we believe the rental level and vacancy rate will remain stable towards the end of the year (Figure 2).

Recent transactions

- Accenture leased 4,500 sq m in World Financial Centre, CBD, Chaoyang.
- BMW China leased 4,500 sq m in Gateway Plaza, Lufthansa, Chaoyang.
- Sharp leased 3,100 sq m in Phoenix Place, Lufthansa, Chaoyang.

Table 2

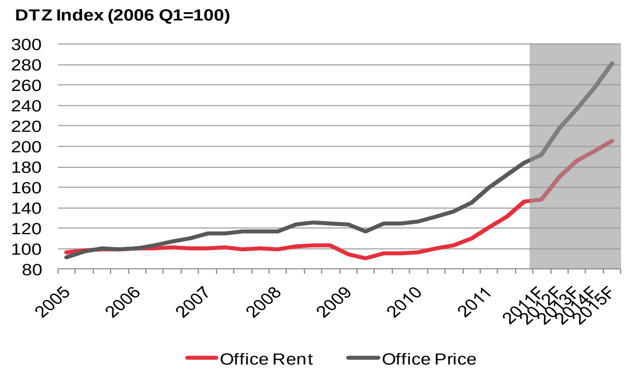
Grade A office market statistics

District	Total stock (sq m)	Availability ratio (%)	Rent (RMB/ sq m/ month)	Rent change q-o-q (%)
CBD	2,307,473	6.59	245.66	13.43
East 2nd Ring Road	279,665	2.98	229.20	11.92
East Chang'an Avenue/ Jianguomen	825,106	4.73	212.98	7.69
Financial Street	1,011,548	1.14	259.76	7.48
Lufthansa	655,525	5.60	222.77	14.50
Zhongguancun	756,723	0.32	175.28	6.27
Others	667,431	-	-	-
Overall	**6,469,726**	**4.37**	**226.93**	**10.72**

Source: DTZ Research

Figure 2

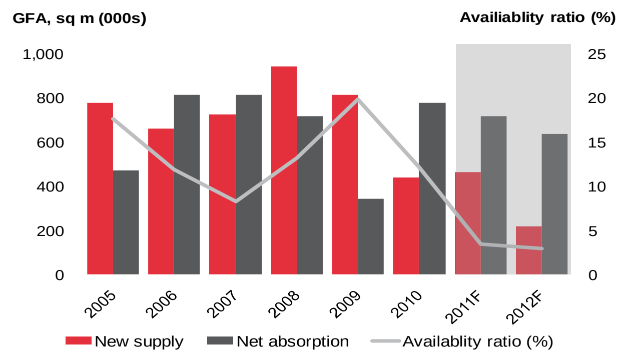
DTZ office index (2005 – 2015F)



Source: DTZ Research

Figure 3

Supply, net absorption and availability ratio (2005 - 2012F)



Source: DTZ Research

Retail

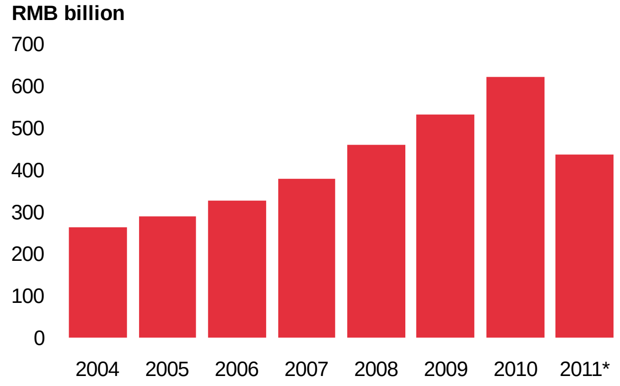
- From January to August 2011, total sales of consumer goods in Beijing amounted to RMB 437.48 billion (US$68.36bn), up 11.1% y-o-y (Figure 4).
- This quarter, Living Mall in Shangdi and Qinghe area with 65,000 sq m retail area was open. Located near Southeast 3rd Ring Road, Fenzhongsi Shine also launched in this quarter with 50,000 sq m leasing area. At the end of this quarter, the overall stock of Beijing shopping centres reached at 5,373,400 sq m.
- As a shopping location preferred by young people, Xi'dan was increasingly preferred by international brands that targeted at young and mid-end consumers. This quarter, GAP leased 1,900 sq m in Xidan Joy City for its fourth store in Beijing.
- With an on-going debt crisis and slowing growth in Europe, luxury brands are flocking to China - one of the most promising markets in the world. Apart from regular commercials, culture promotion is becoming an active way of brand development, such as the BVLGARI Retrospective Exhibition.
- With the maturing of the retail market, brands started to penetrate to specific market. High-end brands are playing an active role in opening stores for kids. This quarter, IKKS and Bonpoint opened new stores in Beijing.
- Instead of providing services for single consumers, shopping malls sited in non-core areas are aiming at household consumption. As China Resources' second commercial property line, Living Mall will be developed in suburban area in first tier cities and core zones in second and third tie cities in China, the project is aiming to provide customers with a good and enjoyable environment to satisfy the needs of the whole family.

Recent Transactions

- GAP leased 1,900 sq m in Xidan Joy City.
- Bianyifang leased 938 sq m in CR Living Mall.
- Spice Spirit leased 698 sq m in CR Living Mall.
- Nike leased 212 sq m in CR Living Mall.
- Robe Di Kappa leased 85 sq m in Oriental Plaza.

Figure 4

Total retail sales of consumer goods (2004 - 2011*)



* Data for 2011 is as of August

Source: Beijing Statistics Bureau

Table 3

Shopping mall statistics

District	Total stock (sq m)	New supply (sq m)	Rental range (RMB/sq m/month)
Asian Games Village	121,000	0	250-750
CBD	431,000	0	1,200-2,000
Chaowai	165,000	0	500-800
Lufthansa	226,000	0	800-1,200
Sanlitun	208,800	0	800-1,200
Wangfujing/East Chang'an Avenue	420,000	0	1,200-3,000
Wangjing	419,000	0	400-700
Xidan	110,000	0	1,200-2,000
Zhongguancun	553,000	0	400-700
Others	2,719,600	115,000	-
Overall	**5,373,400**	**115,000**	**-**

Source: DTZ Research

Table 4

Prime projects rental in Q2 2011

District	Project	Asking rental (RMB/sq m/month)
Wangfujing/ East Chang'an Ave	Oriental Plaza	1,200-3,500
CBD	China World Shopping Mall	1,200-2,000
Zhongguancun	Zhongguancun Plaza Shopping Center	400-850

Source: DTZ Research

Key statistics – occupier market

Table 5

Occupier market

	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	q-o-q change (%)	y-o-y change (%)	Directional outlook
CBD office								
Net absorption* (GFA, sq m)	231,530	332,031	190,879	275,363	313,876	-	-	▼
Availability (GFA, sq m)	442,234	444,733	306,648	222,163	149,905	-32.52	-66.10	▼
Availability ratio (%)	20.55	19.72	13.29	9.63	6.59	-304bps	-1,396 bps	▼
New supply* (GFA, sq m)	265,015	440,904	52,794	52,794	52,794	-	-	▼
Prime rents (NLA, RMB/sq m/month)	229.93	253.34	279.72	302.45	345.04	14.08	50.06	▲
Yield (%)	5.55	5.50	5.45	5.55	5.55	0 bps	0bps	▼
Beijing retail								
Net absorption* (GFA, sq m)	346,960	671,268	150,308	295,476	353,776	-	-	▲
Availability (GFA, sq m)	1,177,296	1,142,988	1,050,680	946,512	967,212	21.87	-17.84	▼
Availability ratio (%)	24	22	20	18	16	-200 bps	-800 bps	▼
New supply* (GFA, sq m)	570,600	860,600	93,000	93,000	213,000	-	-	▲
Prime rents (NLA, RMB/sq m/month)	858	858	860	860	862	0.23	0.47	▲

* Please note that net absorption and new supply are cumulative (i.e. the total net absorption and new supply for the entire calendar year).
Source: DTZ Research

Table 6

Leasing transactions

Property name/Address	Submarket	Size (sq m)	Tenant	Sector
World Financial Centre	CBD	4,500	Accenture	Office
Gateway Plaza	Lufthansa	4,000	BMW China	Office
Phoenix Place	Lufthansa	3,100	Sharp	Office
Beijing IFC	CBD	3,000	Astra Zeneca	Office
Xidan Joy City	Xidan	1,900	GAP	Retail
Huarun Living Mall	Others	938	Bianyifang	Retail
Oriental Plaza	Wangfujing/Chang'an Ave. East	85	Robe Di Kappa	Retail

Source: DTZ Research

Residential

- In Q3 2011, the central government announced a new five restriction rules, there was no sign of easing up on residential market. People expected the tightening regulation and control would not be over in short term. Affected by purchase restrictions, Beijing high-end residential price declined slightly; residential rental in different sectors headed in different directions.

- The luxury leasing market headed down the first time after five quarters' consecutively increases. Average rental reached RMB 154.8 (US$24.2) per sq m per month, a 4.3% decrease q-o-q. The availability ratio kept declining from 12.5% in Q2 to 8.4% (Table 7).

- With projects closed for renovation and some were for strata-title sale, stock for serviced apartments is decreasing. Demands for serviced apartments were forced to choose other alternatives; the upward trend of average rents for serviced apartments remained unaltered. Average rents for serviced apartments rose by 1.3% q-o-q to RMB 222.8 (US$34.8) per sq m per month (Table 7). The availability ratio dropped 6.5 percentage points q-o-q to 7.2%.

- Due to the government's intervention and the tightening monetary policies, people chose to hold cash rather than buying. Beijing high-end residential apartments witnessed a fall in both volume and price levels. Since a certain number of apartments and villas became a new source of supply on luxury leasing market, rental for leasing apartments decreased 6.8% q-o-q, reaching RMB 111.9 (US$14.5) per sq m per month. The availability ratio dropped from 10.7% in the previous quarter to 8.4%; rental for villas dropped sharply by 15.7% q-o-q to RMB 105.0 (US$16.4) per sq m per month (Table 7), vacancy ratio was down to 10.3%.

- Average prices of luxury residential properties dropped 0.8% q-o-q, reaching RMB 41,693 (US$6,514.5) per sq m (Figure 5).

- East Chang'an Avenue leapt to the top with an average price of RMB 89,015 (US$13,908.6) per sq m. Price for Lufthansa area ranked the second at RMB 56,510 (US$8,829.7) per sq m. Price for CBD was the third at RMB 54,730 (US$8,551.6) per sq m (Figure 6).

- Looking ahead, average rental and vacancy rate are expected to hold steady in the luxury residential market in Q4. Since there is no sign of relaxation of policies, prices for luxury residential projects may see a further drop in the next few months.

Table 7

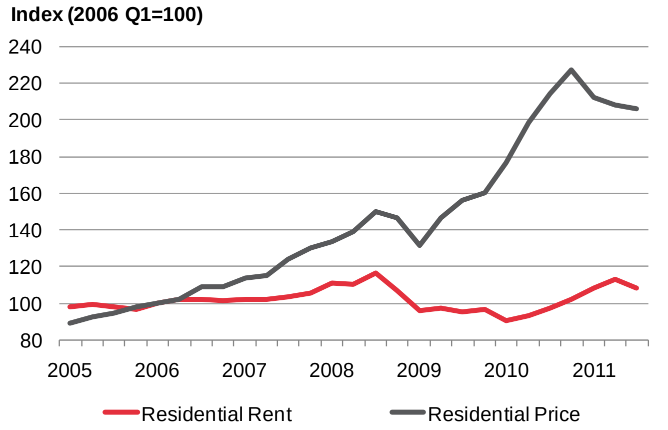
Luxury residential market statistics

	Rental (RMB/sq m/ month)	Change q-o-q (%)	Availability ratio (%)	Change q-o-q (%)
Leasing apartment	111.9	-6.8	8.4	-2.4
Serviced apartment	222.8	1.3	7.2	-6.5
Villa	105.0	-15.7	10.3	-3.4
Overall	**154.8**	**-4.3**	**8.4**	**-4.2**

Source: DTZ Research

Figure 5

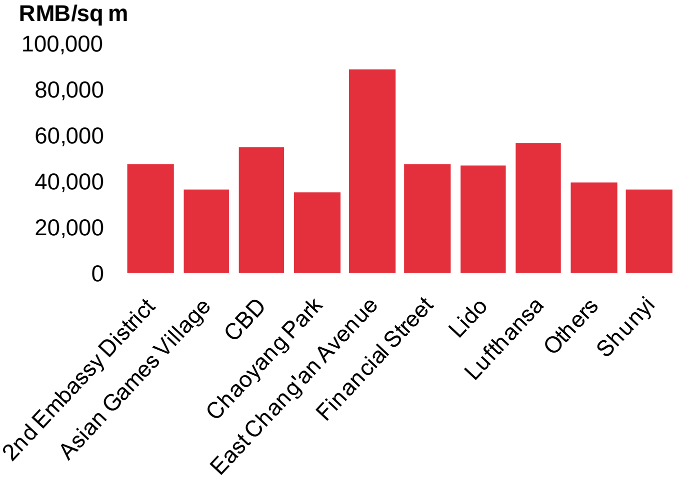
DTZ residential index (2005 - 2011*)



*Data for 2011 is as of Q3
Source: DTZ Research

Figure 6

Primary residential price by district (Q3 2011)



Source: DTZ Research

Investment

- In Q3 2011, a total of 35 transactions were recorded in Beijing, including one en-bloc transaction. The transaction number rebounded by 45.83% q-o-q (Table 8). This quarter, Beijing Municipal Bureau of Land and Resources intensified the supply for residential use land, 15 residential transactions were made in this quarter. The quantity of mixed use land was two times over the previous quarter. Residential and mixed use land dominated 85.71% on the land market in this whole period.
- In Q3, total consideration of deals amounted to RMB 37.1 billion (US$5.80bn), an increase of 185.59% q-o-q. In the residential land market, total transaction volume was RMB 10.76 billion (US$1.68bn), it was 3.5 times over that of Q2 (Table 9, Table 10). Total transaction volume of mixed-use land was RMB 25.85 billion (US$4.04bn). Heavily influenced by policies, commercial use land transactions became an important source of Beijing government revenue.
- In Q3, there was one en-bloc transaction. Retail part of Guohegong Plaza was sold with total value of RMB 600 million (US$93.75mn). This is the first en-bloc transaction in Beijing in six months.
- In July, 9 commercial plots in core CBD area were put in auction. Eventually, 8 plots were successfully conveyed with total of 950,000 sq m planned construction area. Total transaction volume was RMB 19.96 billion (US$3.12bn), average floor price was RMB 18,316.04 (US$2,859.38) per sq m.

Table 8

Total number of major deals

	Q1 2011	Q2 2011	Q3 2011
Residential	22	6	15
Office	2	0	1
Retail	1	0	1
Industrial	10	9	2
Mixed	34	8	15
Others/ Unknown	2	1	1
Total	**71**	**24**	**35**

Source: DTZ Research

Table 9

Total consideration of major deals (RMB 100 million)

	Q1 2011	Q2 2011	Q3 2011
Residential	221.35	32.60	107.62
Office	10.69	0	1.09
Retail	12.10	0	6.00
Industrial	16.93	26.69	1.32
Mixed	485.40	68.72	258.50
Others/ Unknown	9.51	1.94	2.59
Total	**755.98**	**129.95**	**377.12**

Source: DTZ Research

Table 10

Significant deals

Property	Submarket	Sector	Price (RMB billion)
Chaoyang CBD Z-10 commercial use land	CBD	Mixed use	3.45
Chaoyang CBD Z-12 commercial use land	CBD	Mixed use	3.08
Beijing Dongcheng Wangfujing Street west side commercial use land	East Chang'an Ave/Wangfujing	Mixed use	2.91
Guohegong Plaza-retail project	Others	Retail	0.6

Source: DTZ Research

Definitions

Availability
Total floorspace in properties marketed as available to let, whether physically vacant or occupied, and ready for occupation immediately.

Availability Ratio
Total space currently available as a percentage of the total stock of floorspace.

Development Pipeline
Comprises two elements:

1. Floorspace in course of development, defined as buildings being constructed or comprehensively refurbished to grade A standard.
2. Schemes with the potential to be built in the future, through having secured planning permission/development certification.

Net Absorption
The change in the total of occupied floorspace over a specified period of time, either positive or negative.

New Supply
Total marketed grade A floorspace which is ready for occupation now. Ready for occupation means practical completion, where either the building has been issued with an occupancy permit, where required, or where only fit-out is lacking.

Prelet
A development leased or sold prior to completion.

Prime Rent
The highest rent that could be achieved for a typical building/unit of the highest quality and specification in the best location to a tenant with a good (i.e. secure) covenant.

(NB. This is a net rent, excluding service charge or tax, and is based on a standard lease, excluding exceptional deals for that particular market.)

Rent
Gross transacted rental (unless otherwise specified), which excludes management fees and other outgoings.

Prime Yield
The best (i.e. lowest) yield which could be expected for a typical building/unit of the highest quality and specification in the best location leased to a tenant with a good (i.e. secure) covenant.

(NB. This is a net yield, which uses net income, after deducting all non-recoverable expenditure, divided by the purchase cost, excluding transaction costs and taxes.)

Market Yield
Annual transacted rent as a percentage of the capital value of the property.

Stock
Total accommodation in the commercial and public sectors both occupied and vacant.

Take-up
Floorspace acquired for occupation, including the following:

(i) offices let/sold to an eventual occupier;
(ii) developments pre-let/sold to an occupier;
(iii) owner occupier purchase of a freehold or long leasehold.

(NB. This includes subleases but excludes lease renewals.)

Vacancy
Floorspace that is empty, i.e. not occupied. It may be being marketed, or it may not (whether because a lessee is not occupying, it is being refurbished or it is deliberately being left empty by the landlord).

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