

CHINA AND HONG KONG RESIDENTIAL MARKETS

by Knight Frank and Holdways
10 December 2014

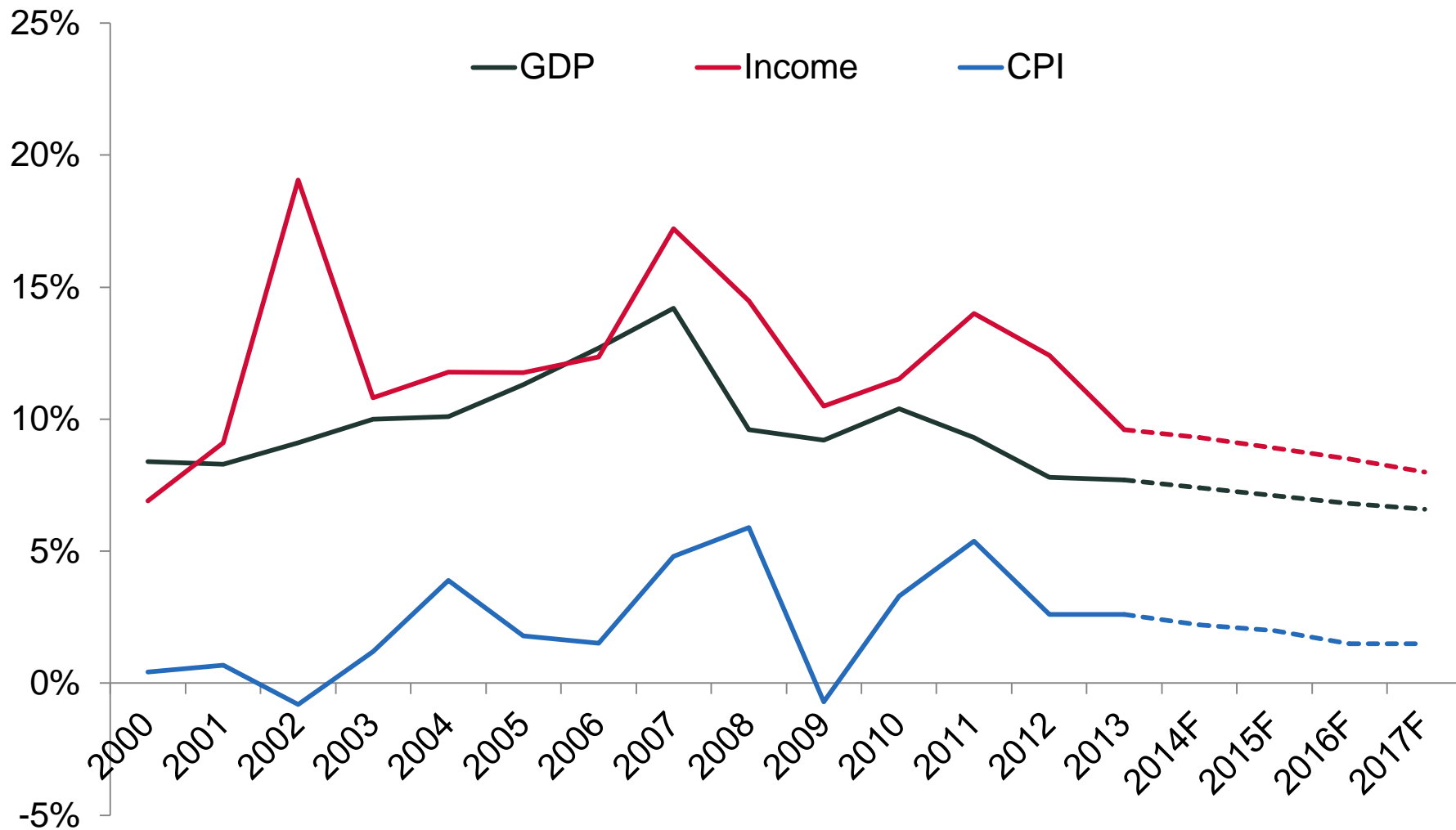


CHINA'S ECONOMY, POLICIES AND IMPACT ON DEVELOPERS

Presented by
Helen Liu
General Manager,
Beijing Holdways Information & Technology Co., Ltd.



Changes of China's GDP, Household Income & CPI



Source: CEIC / IMF / Knight Frank Research

MAJOR RESIDENTIAL POLICIES



HOLDWAYS



● 8 Jun 2012 – 6 July 2012

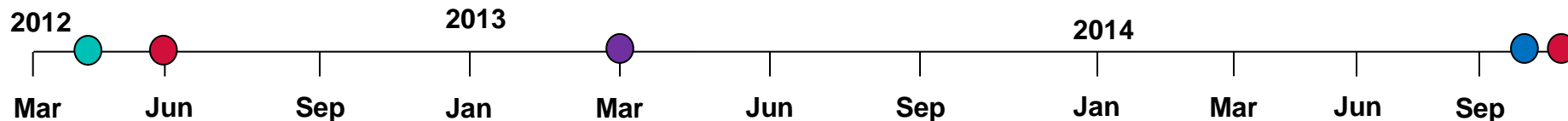
- The People's Bank of China cut the one-year RMB benchmark deposit and 1-3 year loan interest rates by 25 basis points each.
- The central government emphasises the continual implementation of differentiated mortgage loan incentives for homebuyers, tax policies and buying restrictions in some cities.

● May-Sep 2014

Most secondary cities announced the abolishment of home purchase restrictions, but housing purchase restrictions policies remained firm in tier 1 cities

● 30 Sept 2014

Second homebuyers can place the same 30% down-payment as first-time homebuyers, if they have fully repaid the mortgage loan on their first home.



● May 22, 2012

Developers of vacant land with developed area less than 1/3 of total construction area, land with investment capital outlay less than 25% of total investment amount and land on which construction suspended for over a year have to pay 20% of land cost.

● Mar 01, 2013

- A 20% capital gains tax is imposed on pre-owned home sales. This is exempted if a homeowner sells the property after over 5 years from its purchase and the apartment is the only one owned by the family.
- The down-payment ratio for a qualified family's second home is raised to 70%.

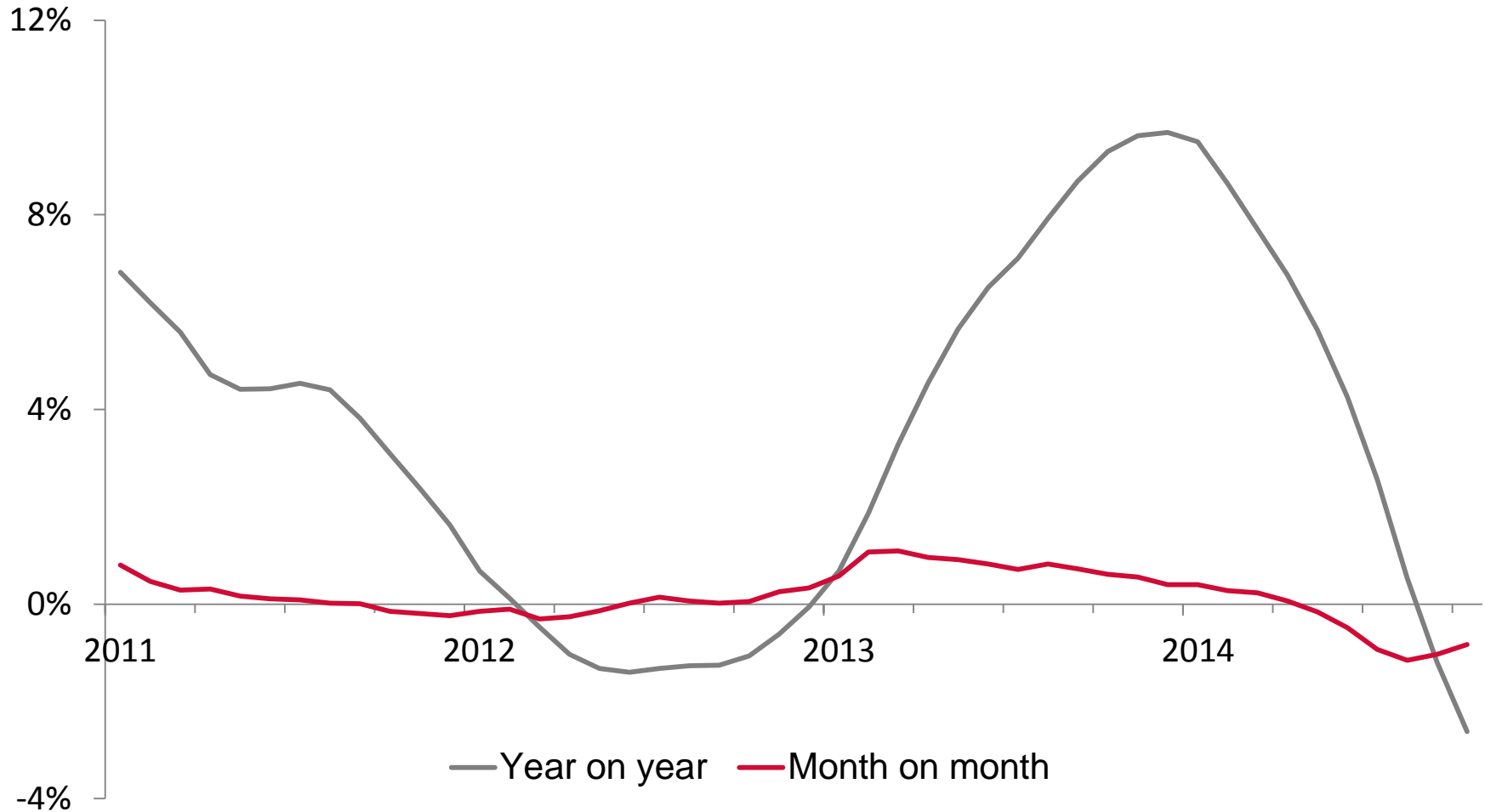
● Nov 22, 2014

- The People's Bank of China cut the one-year RMB benchmark deposit and loan interest rates by 25 basis points and 40 basis points respectively.

POLICY IMPACT - OVERALL HOUSE PRICE SLOWING DOWN SINCE BEGINNING OF 2014



Change in average prices for new homes in 70 cities



POLICY IMPACT – DEVELOPERS OFFER PRICE CUT?



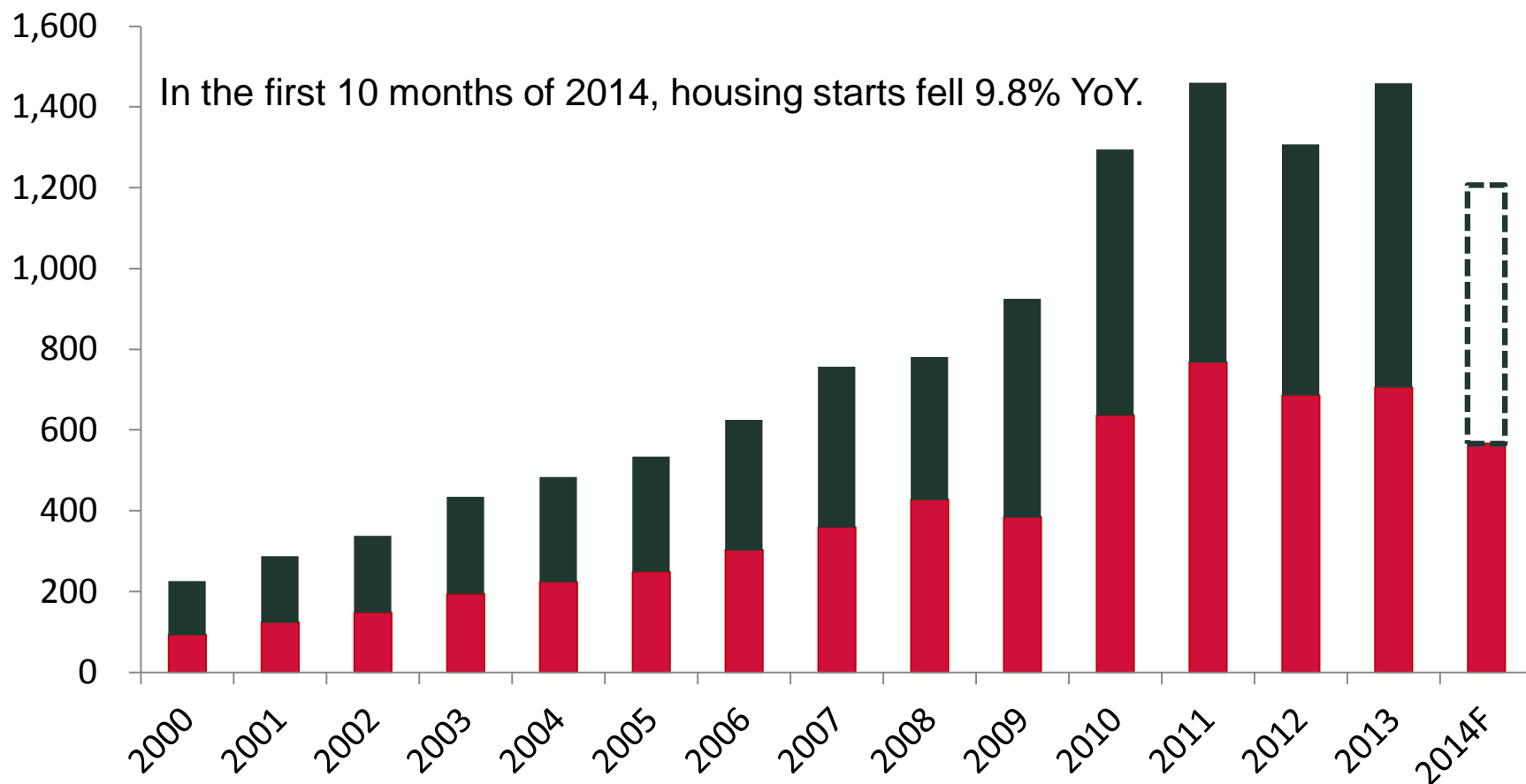
Typical examples:

| | Shanghai | Beijing |
|---------------------------------------|-----------------------------|-----------------------------|
| Project type | Mass residential | Mass residential |
| Location | Sub-urban | Sub-urban |
| First phase launch price | RMB23,000 per sqm (3Q 2013) | RMB30,000 per sqm (4Q 2013) |
| Second phase launch price | RMB21,000 per sqm (3Q 2014) | RMB24,595 per sqm (3Q 2014) |
| Price cut from the first phase | 9% | 18% |

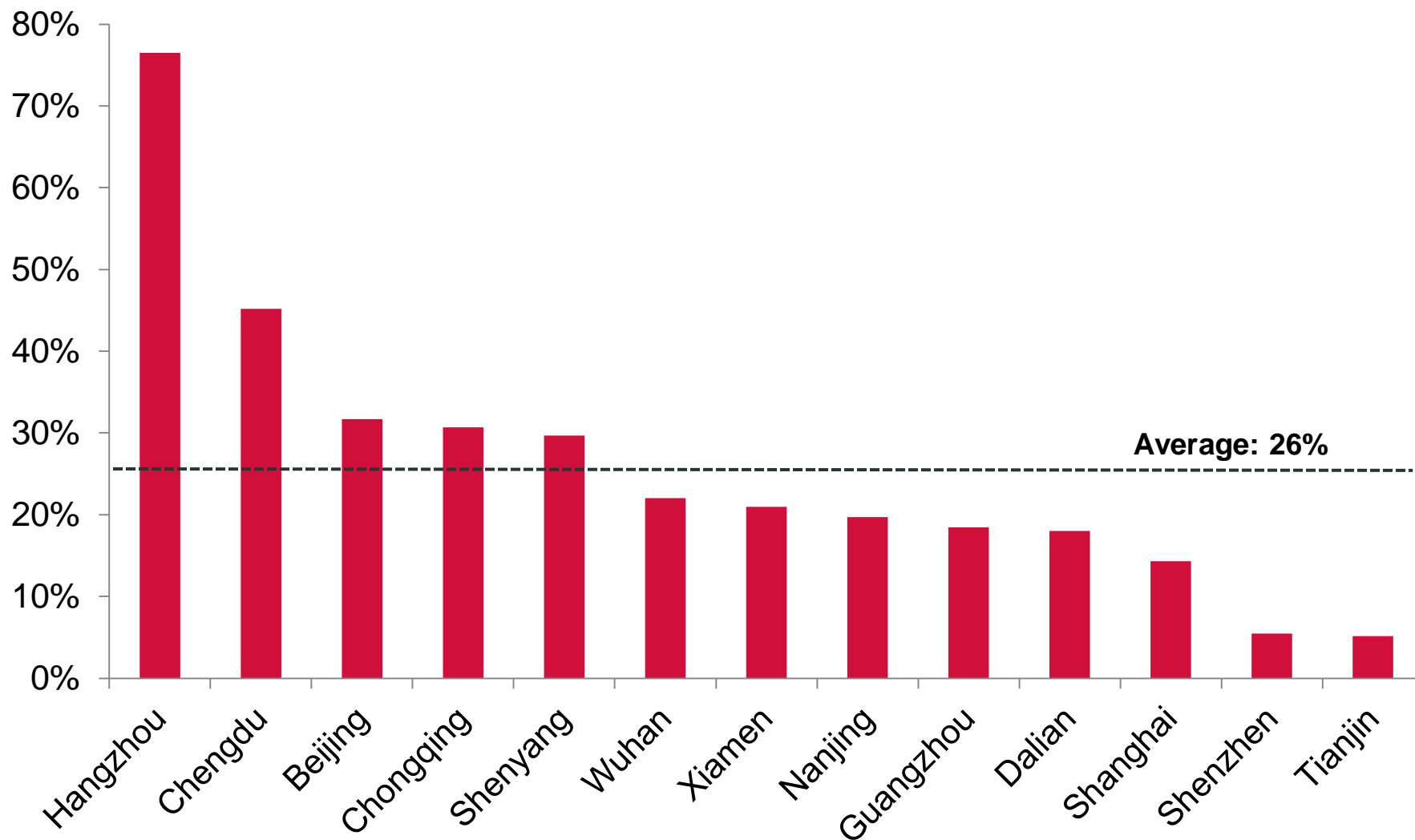
POLICY IMPACT- DEVELOPERS PULLED BACK RESIDENTIAL STARTS

Floor space (million sq m)

■ First half ■ Second half



CONTRIBUTION OF LAND SALE TO LOCAL GOVERNMENT REVENUE 2013



DEBT RATIO - MAINLAND VS HONG KONG DEVELOPERS



MAINLAND DEVELOPERS' FINANCING COSTS 2013 (ANNUAL INTEREST RATE)



HOLDWAYS



| Small and medium-sized developers | |
|--|----------|
| REITs | 13-20% |
| Private capital | Over 20% |

| Top 20 largest developers | |
|---------------------------------------|-------|
| Overseas bond issues | 6-10% |
| Overseas syndicated loans | 4-7% |
| Domestic commercial bank loans | 6-9% |

WILL GHOST CITIES DISAPPEAR?



CHINA'S RESIDENTIAL SALES, INVENTORY AND PRICE TREND

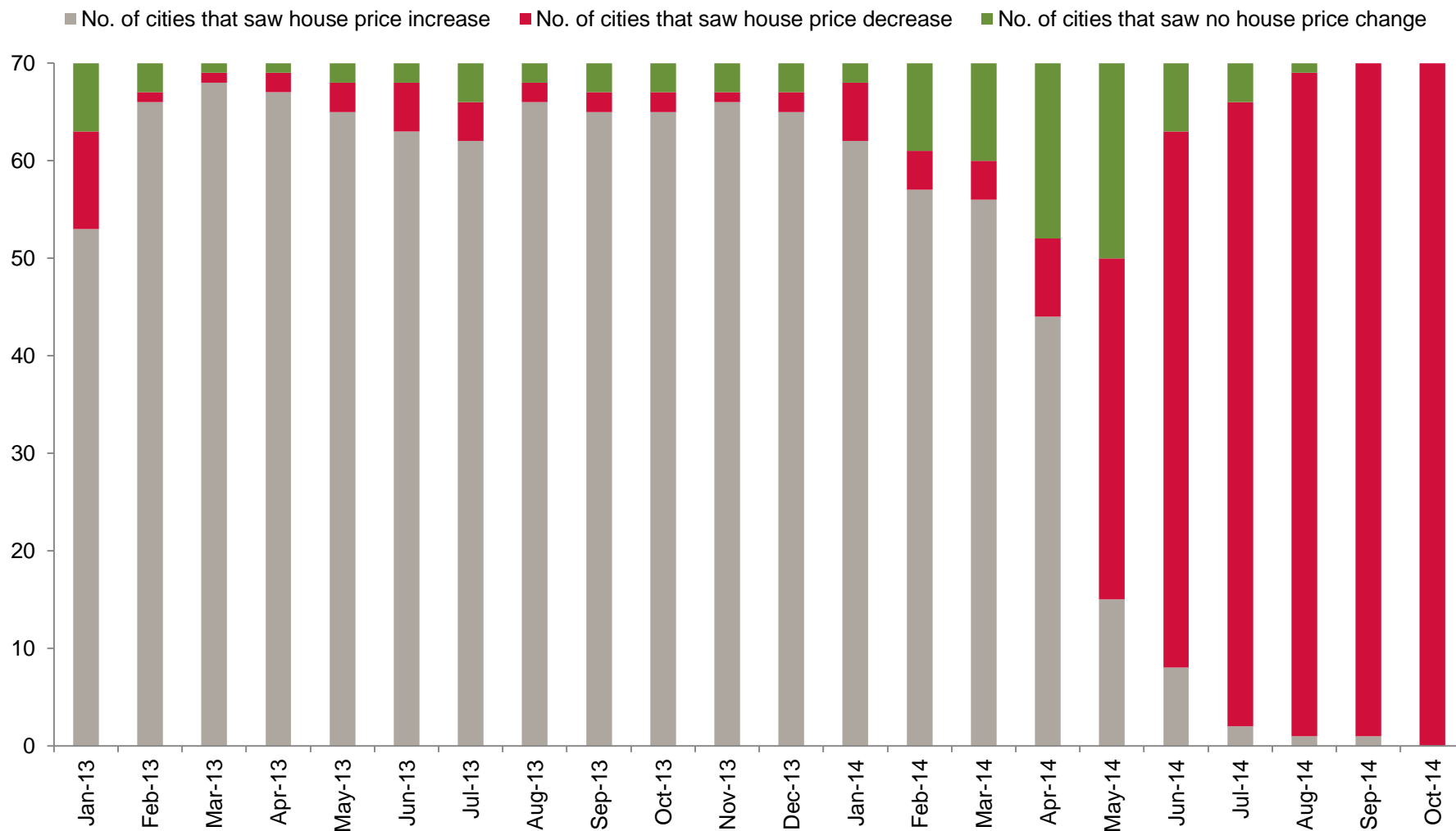
Presented by
David Ji
Director and Head of Research & Consultancy
Greater China at Knight Frank



69 OF 70 MAJOR CITIES SAW PRICE DECLINES



Monthly residential price change in 70 major Chinese cities



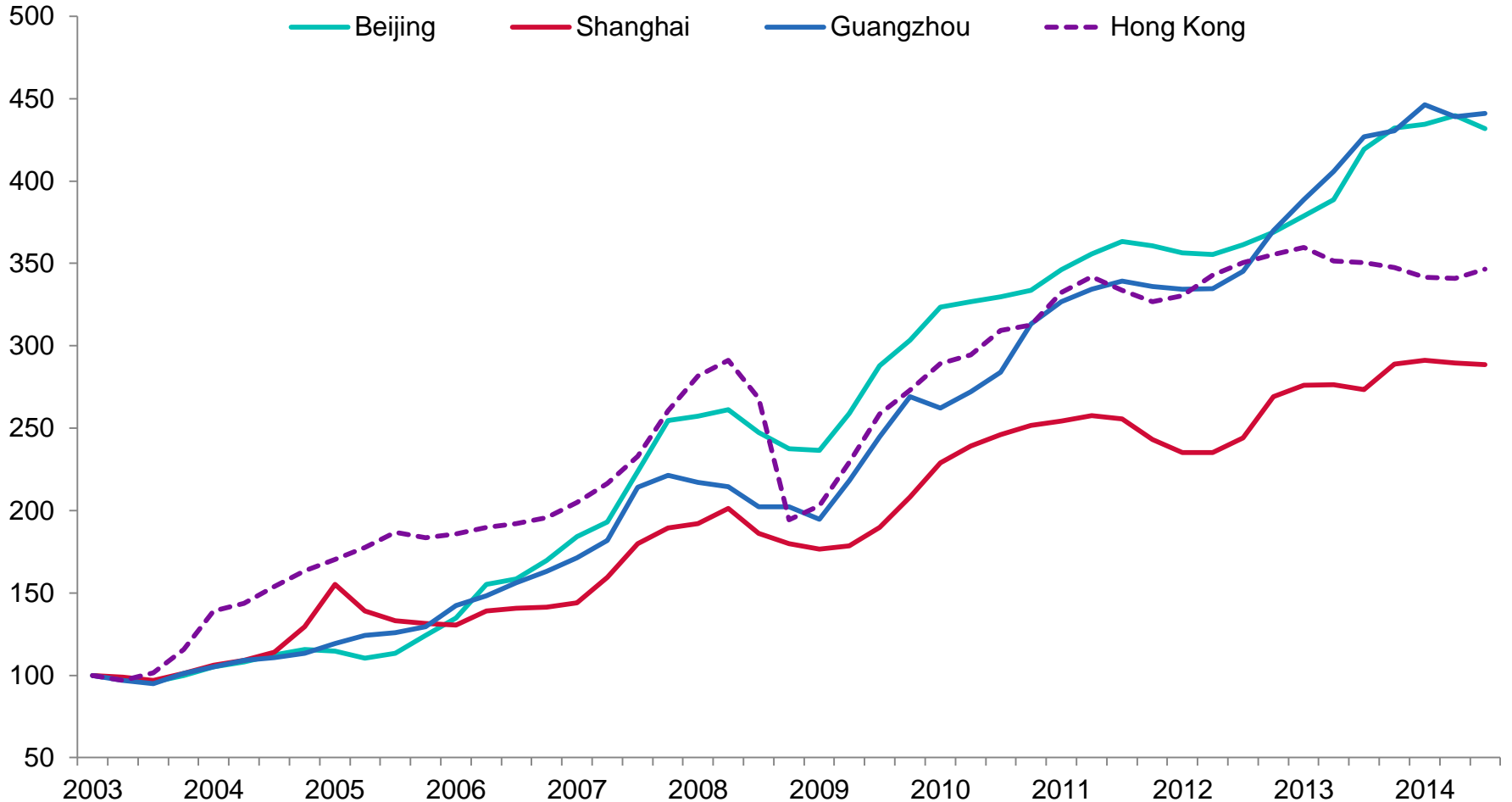
CITIES WITH BIGGEST PRICE DECREASE IN OCTOBER 2014

| Rank | Mainland cities | Year-on-year change |
|------|-----------------|---------------------|
| 1 | Qinhuangdao | -1.59% |
| 2 | Qingdao | -1.50% |
| 3 | Nanchong | -1.46% |
| 4 | Jinzhou | -1.42% |
| 5 | Dandong | -1.40% |
| 6 | Shenyang | -1.39% |
| 7 | Harbin | -1.33% |
| 8 | Dalian | -1.31% |
| 9 | Shaoguan | -1.29% |
| 10 | Guangzhou | -1.28% |

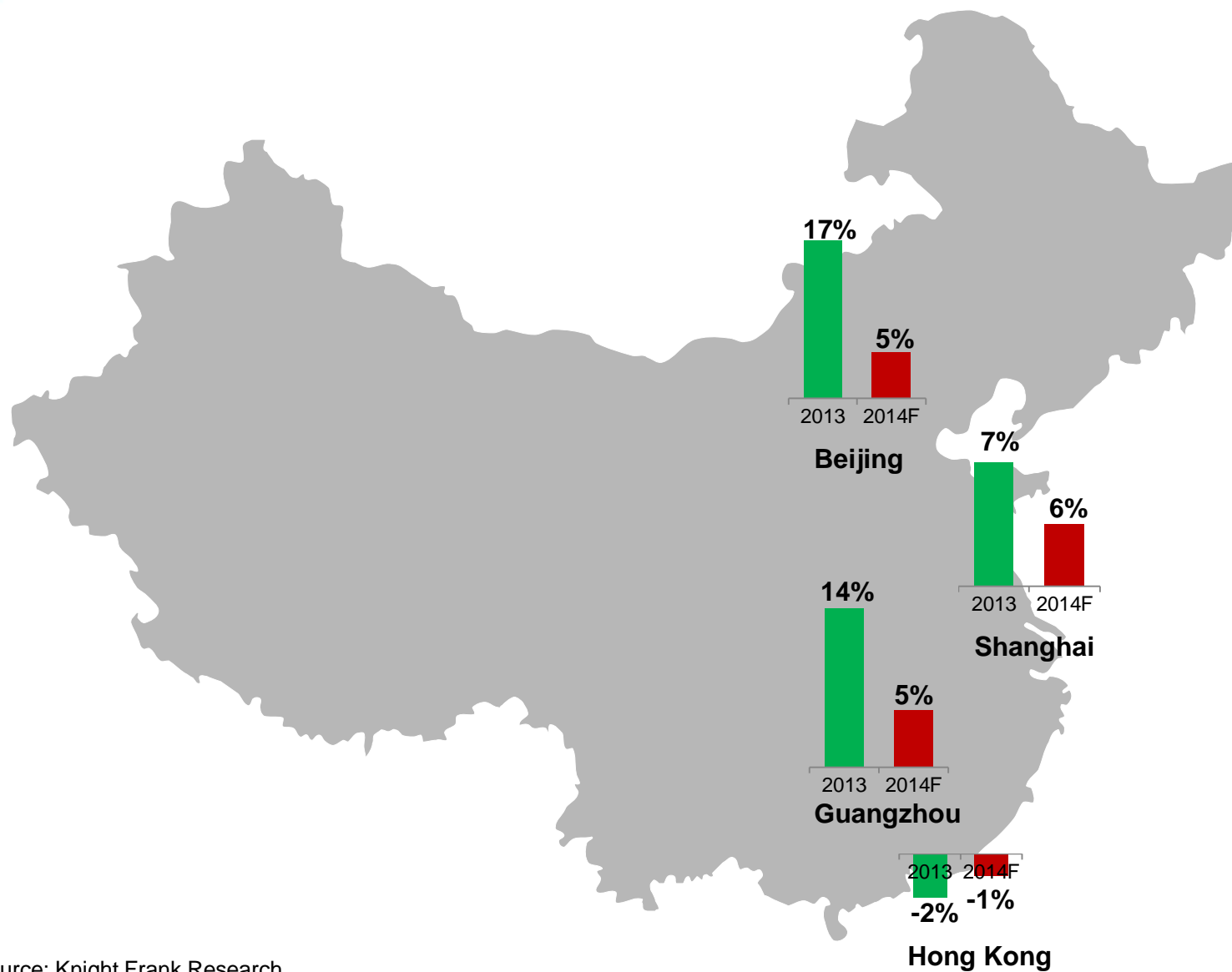
LUXURY HOME PRICES CONTINUED RISING

Luxury home price indices in major cities

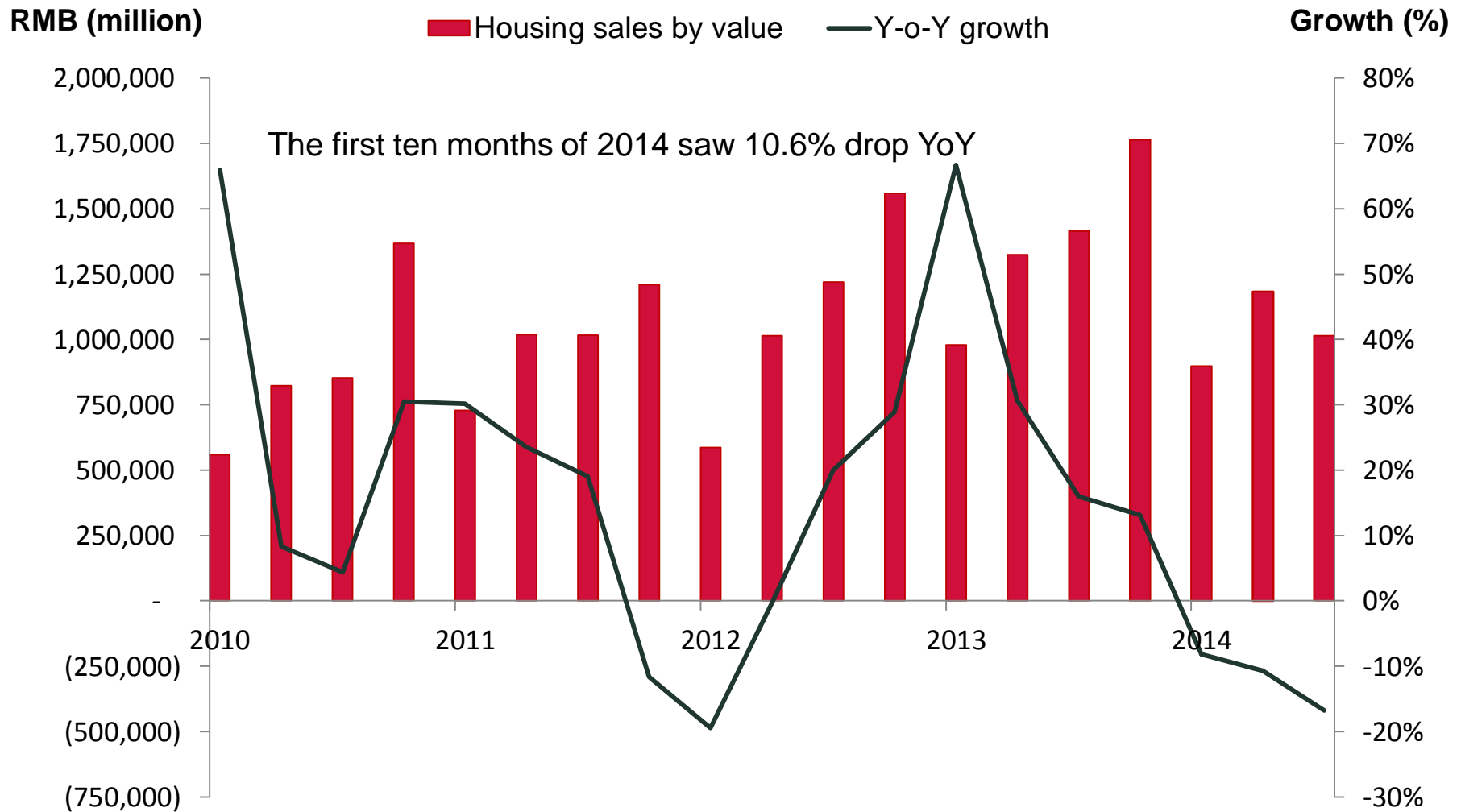
Q1 2003 = 100



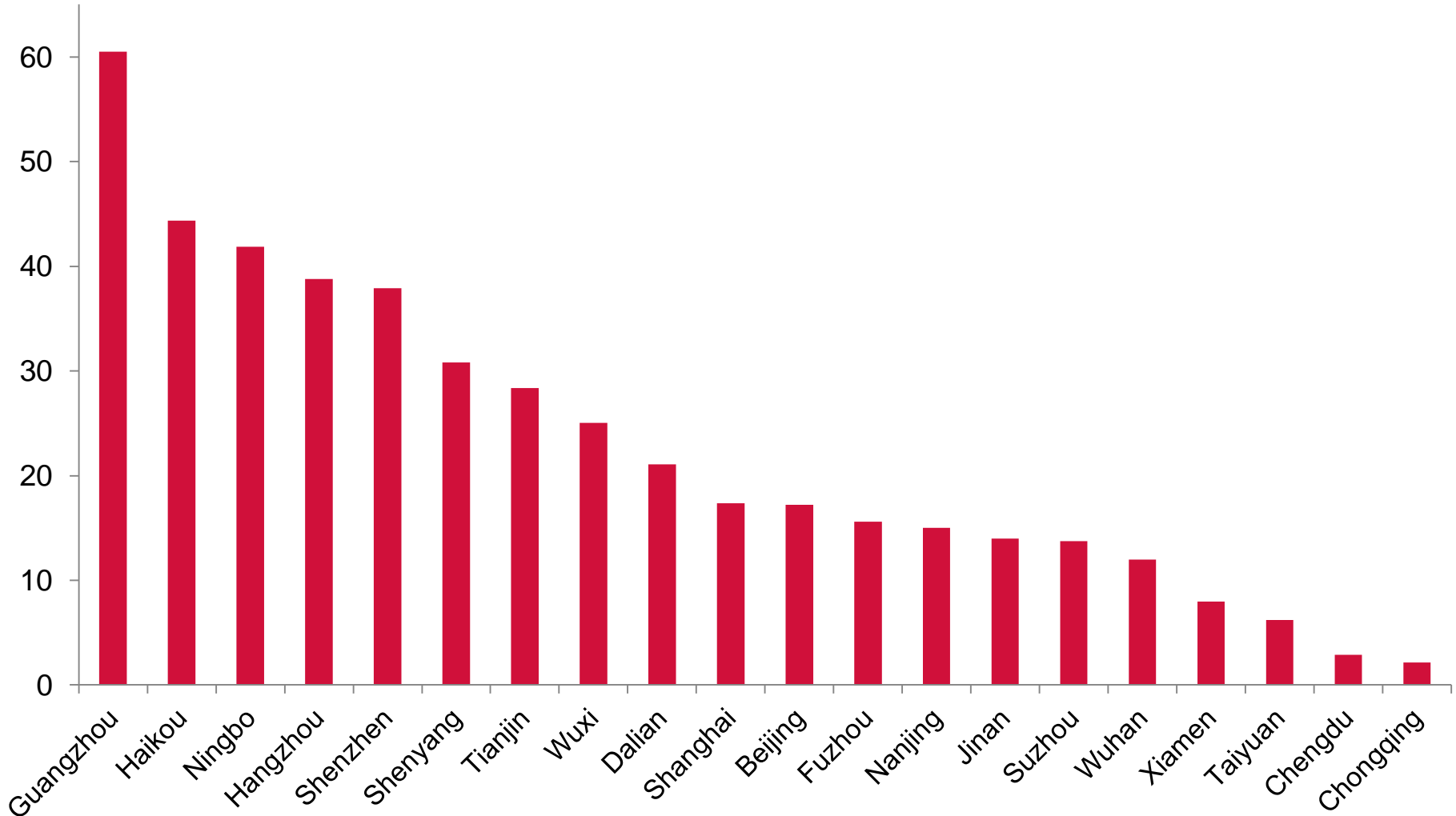
LUXURY HOME PRICE CHANGE OVER LAST YEAR



HOUSING SALES VALUE



NUMBER OF MONTHS NEEDED TO CLEAR INVENTORY



Source: Knight Frank Research / Holdways

CITIES WITH HIGHEST LEVEL OF INVENTORY IN Q3 2014



| Rank | Mainland cities | Inventory (million sqm) | Year-on-Year change |
|------|-----------------|-------------------------|---------------------|
| 1 | Shenyang | 22.6 | 14.6% |
| 2 | Tianjin | 18.3 | 27.5% |
| 3 | Wuhan | 13.9 | 2.4% |
| 4 | Ningbo | 12.1 | 22.8% |
| 5 | Guangzhou | 11.9 | 22.9% |
| 6 | Shanghai | 10.4 | 27.1% |
| 7 | Hangzhou | 10.4 | 19.2% |
| 8 | Wuxi | 9.7 | 19.1% |
| 9 | Shenzhen | 9.5 | 27.5% |
| 10 | Beijing | 8.0 | 50.9% |

2015 RESIDENTIAL PRICE FORECAST – CAUTION ACROSS THE BOARD



2015 forecast

First-tier cities

↑ 2-8%

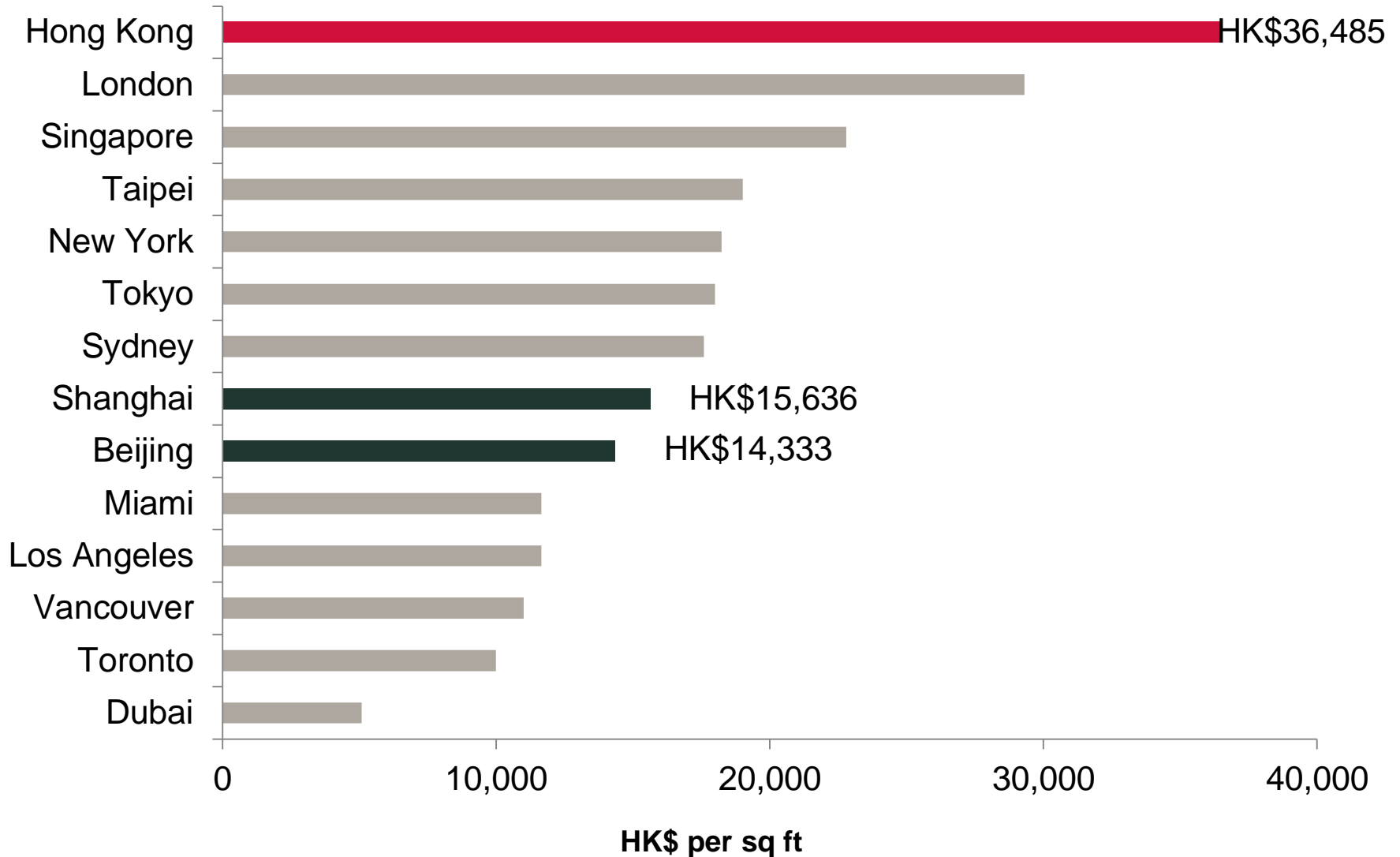
Second-tier cities

↑ 1-5%

HONG KONG RESIDENTIAL

Presented by
Thomas Lam
Senior Director and Head of Valuation & Consultancy

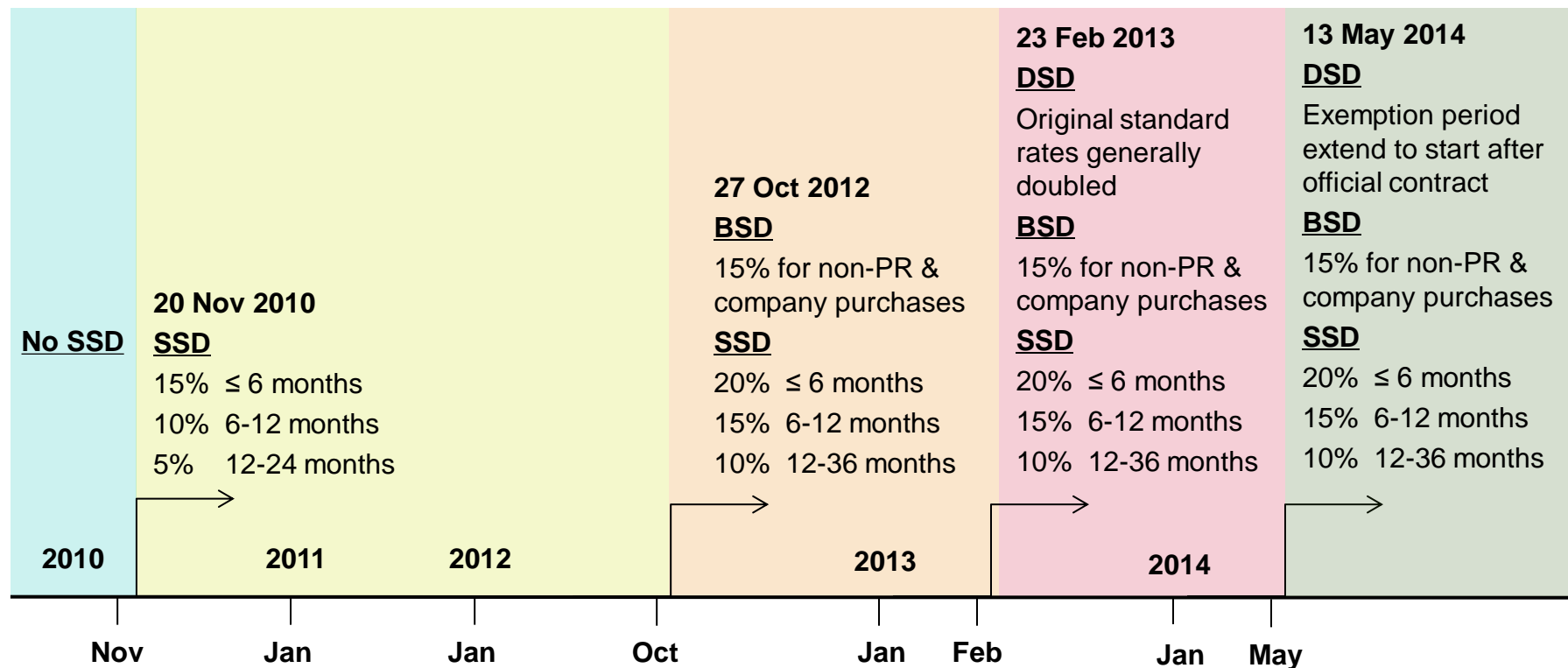
PRIME RESIDENTIAL PRICES IN SELECTED LOCATIONS FOR CHINESE UHNWIS IN 2013



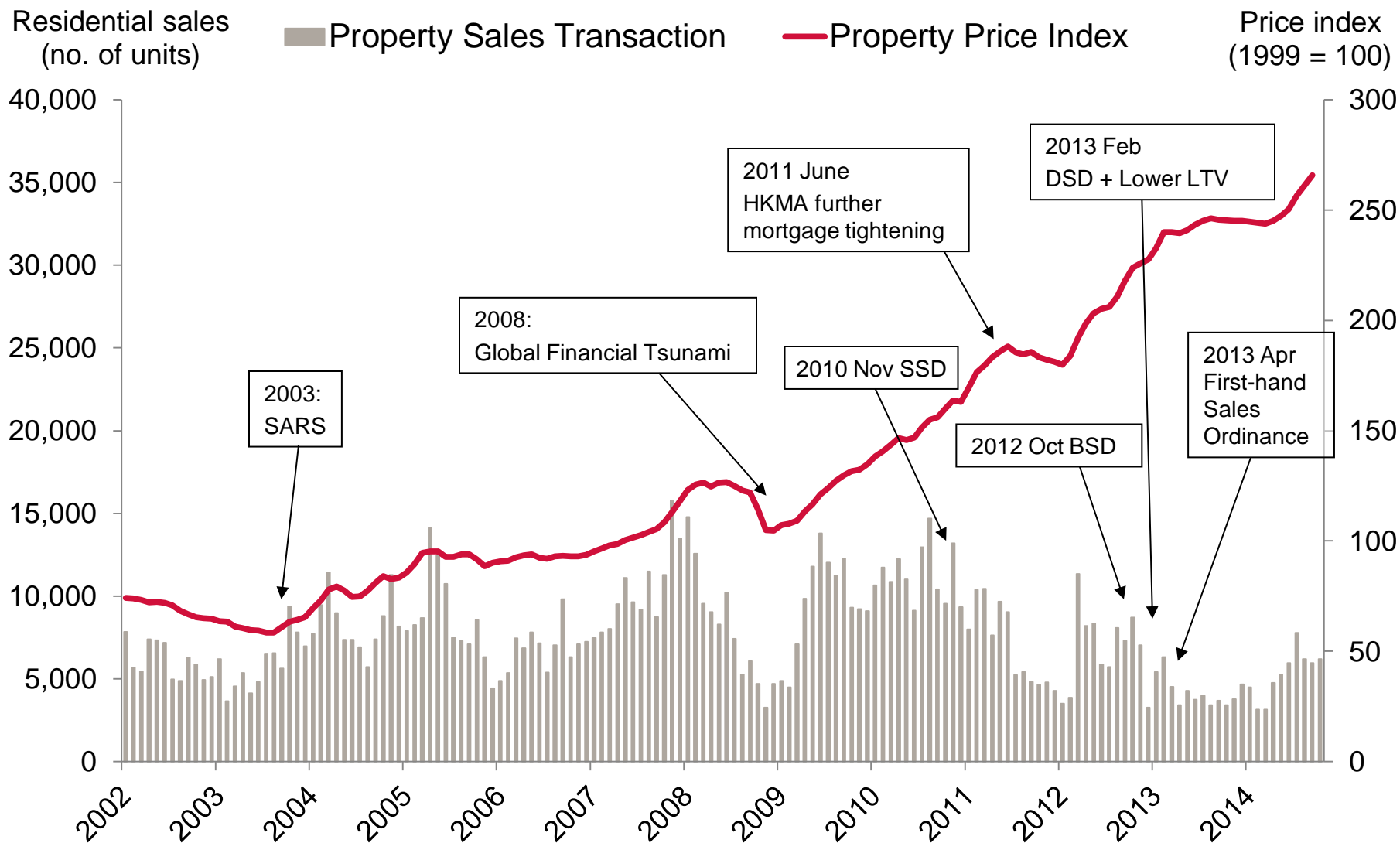
TOP 10 GLOBAL CITIES WITH HIGHEST PRIME RESIDENTIAL PRICES IN 2013

| Rank | Cities | Residential prices (HK\$ per sq ft) | Year-on-year change |
|------|-----------|-------------------------------------|---------------------|
| 1 | Monaco | 48,864 | 6.0% |
| 2 | Hong Kong | 36,485 | -2.2% |
| 3 | London | 29,318 | 7.5% |
| 4 | Singapore | 22,803 | -0.8% |
| 5 | Geneva | 21,500 | -8.0% |
| 6 | Taipei | 19,022 | 6.3% |
| 7 | New York | 18,242 | 10.4% |
| 8 | Tokyo | 18,000 | 13.0% |
| 9 | Moscow | 17,591 | 2.1% |
| 10 | Sydney | 17,591 | 9.3% |

TIMELINE OF MAJOR CHANGES IN STAMP DUTY RATES

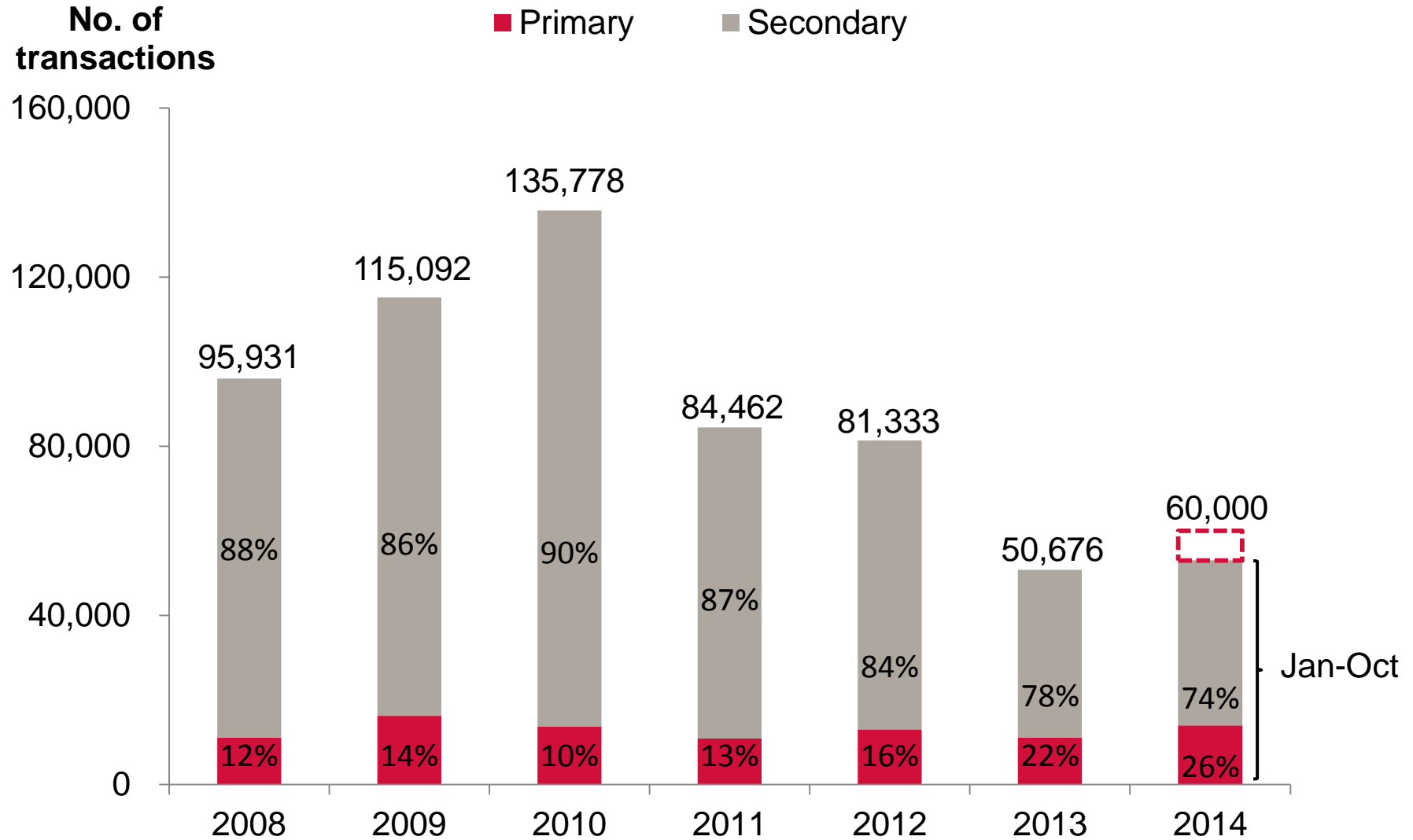


HONG KONG RESIDENTIAL SALES VOLUME AND PRICE

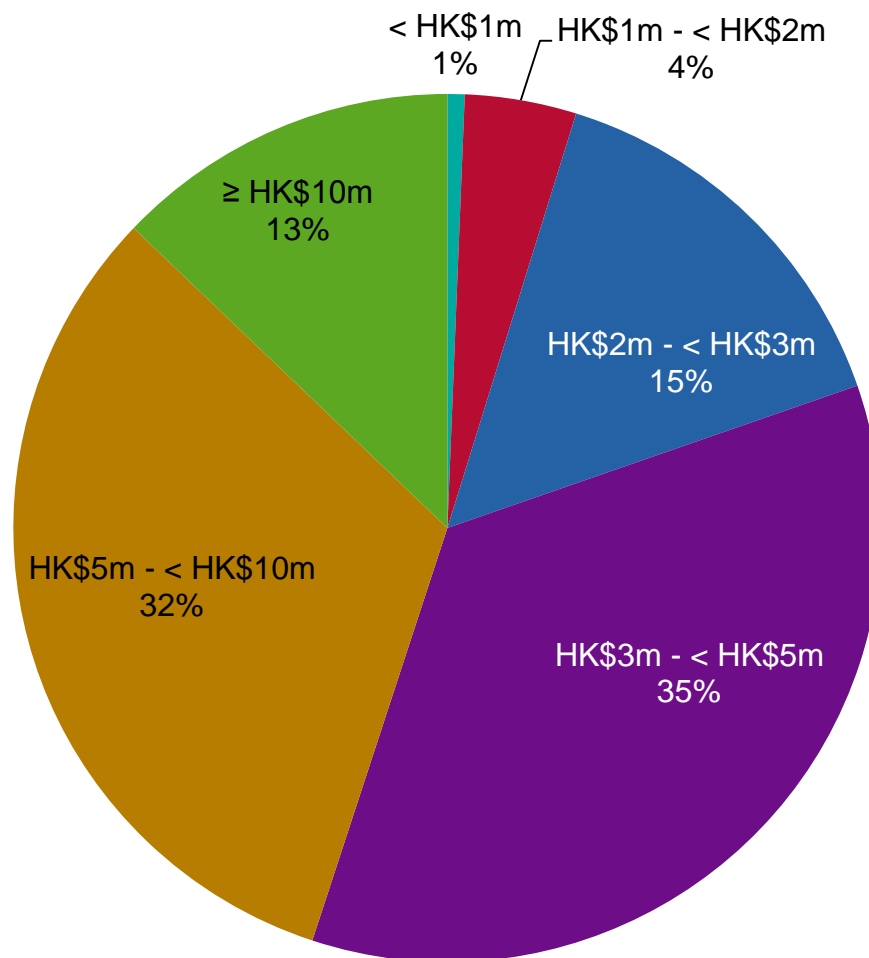


Source: Rating and Valuation Department / Knight Frank Research

PRIMARY & SECONDARY RESIDENTIAL SALES



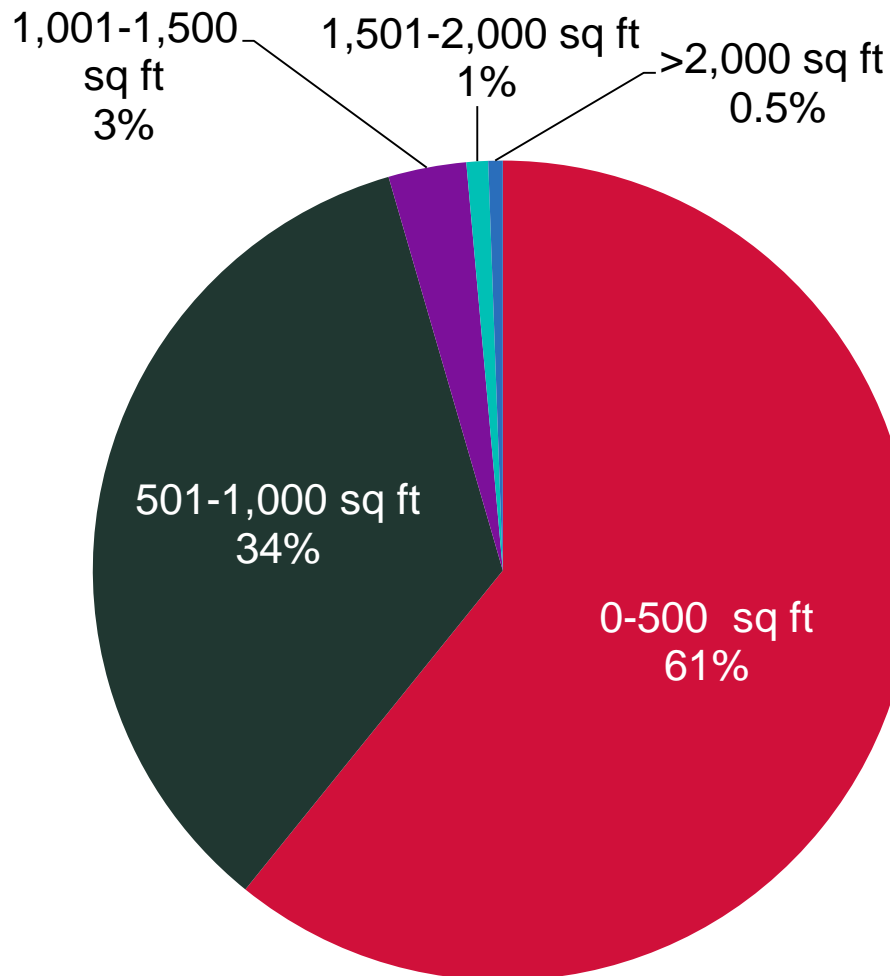
DISTRIBUTION OF RESIDENTIAL SALES TRANSACTIONS BY CONSIDERATION



Note: from November 2013 – October 2014

Source: The Land Registry / Knight Frank Research

DISTRIBUTION OF SALES TRANSACTIONS BY UNIT SIZE (SALEABLE AREA)

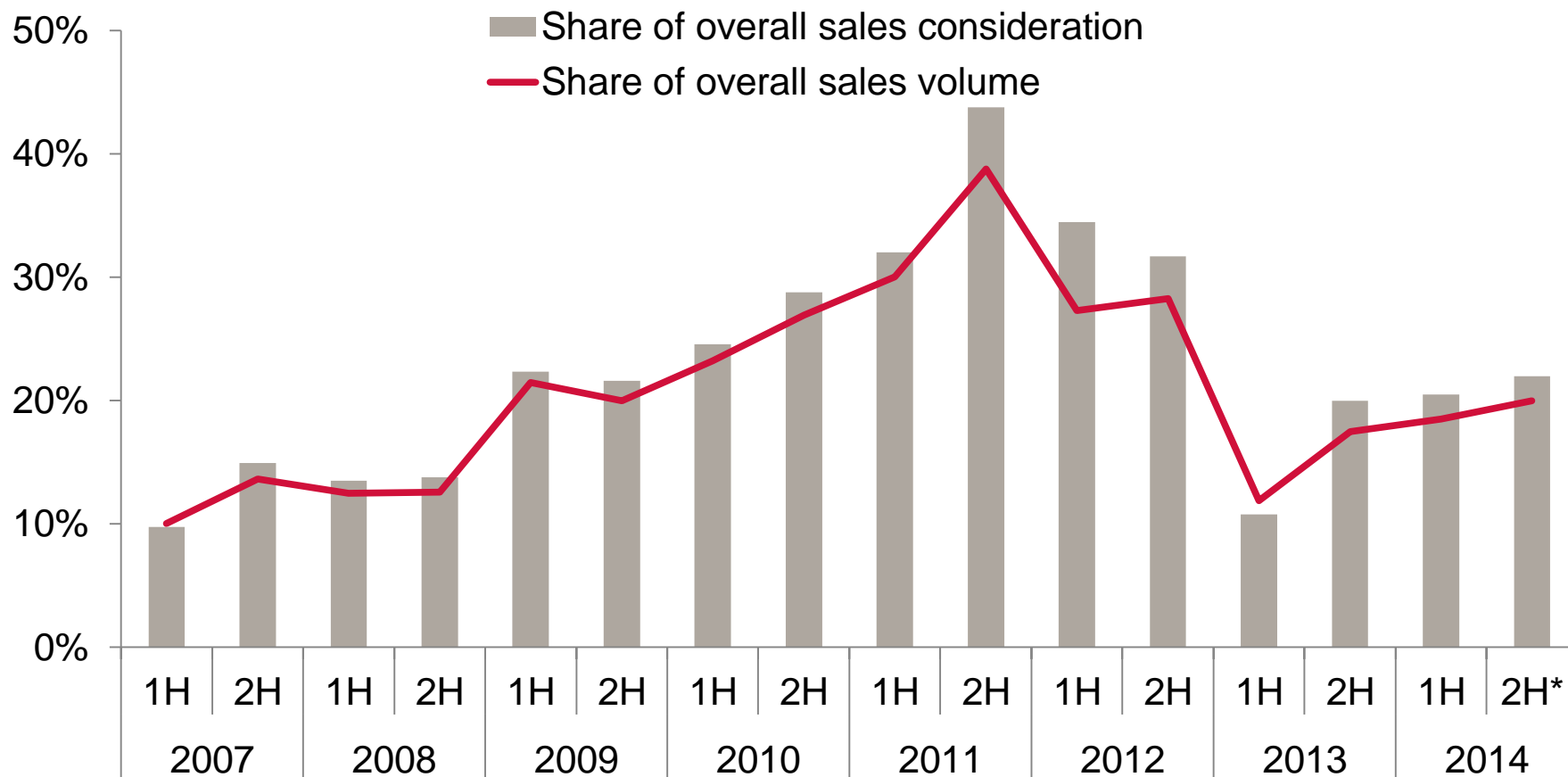


Note: from October 2013 – September 2014

Source: Public source / Knight Frank Research

SHARE OF MAINLAND BUYERS IN HK LUXURY RESIDENTIAL MARKET

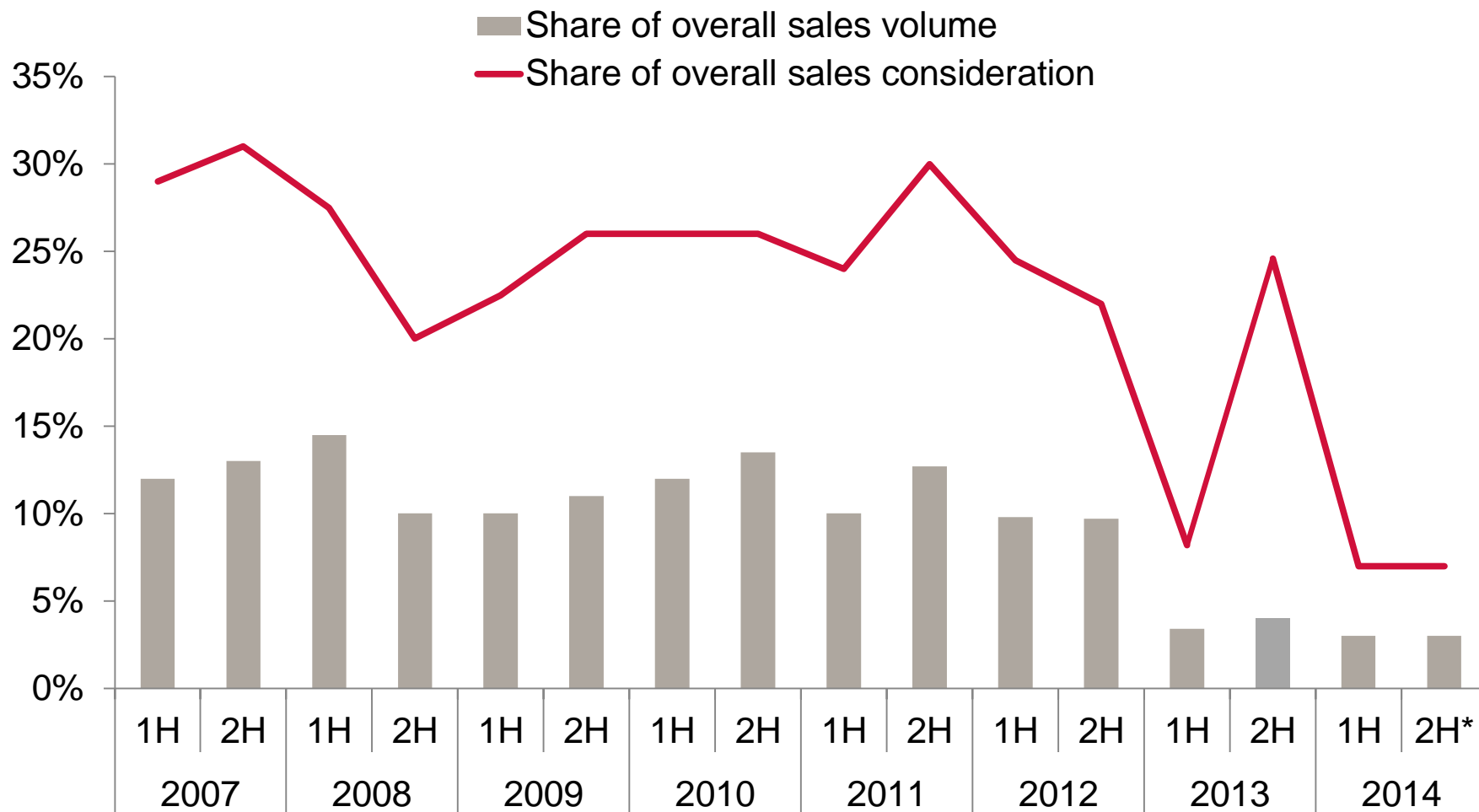
Share of Mainland buyers of Hong Kong private residential units worth HK\$12 million or above



* Estimation

Source: Public sources / Knight Frank Research

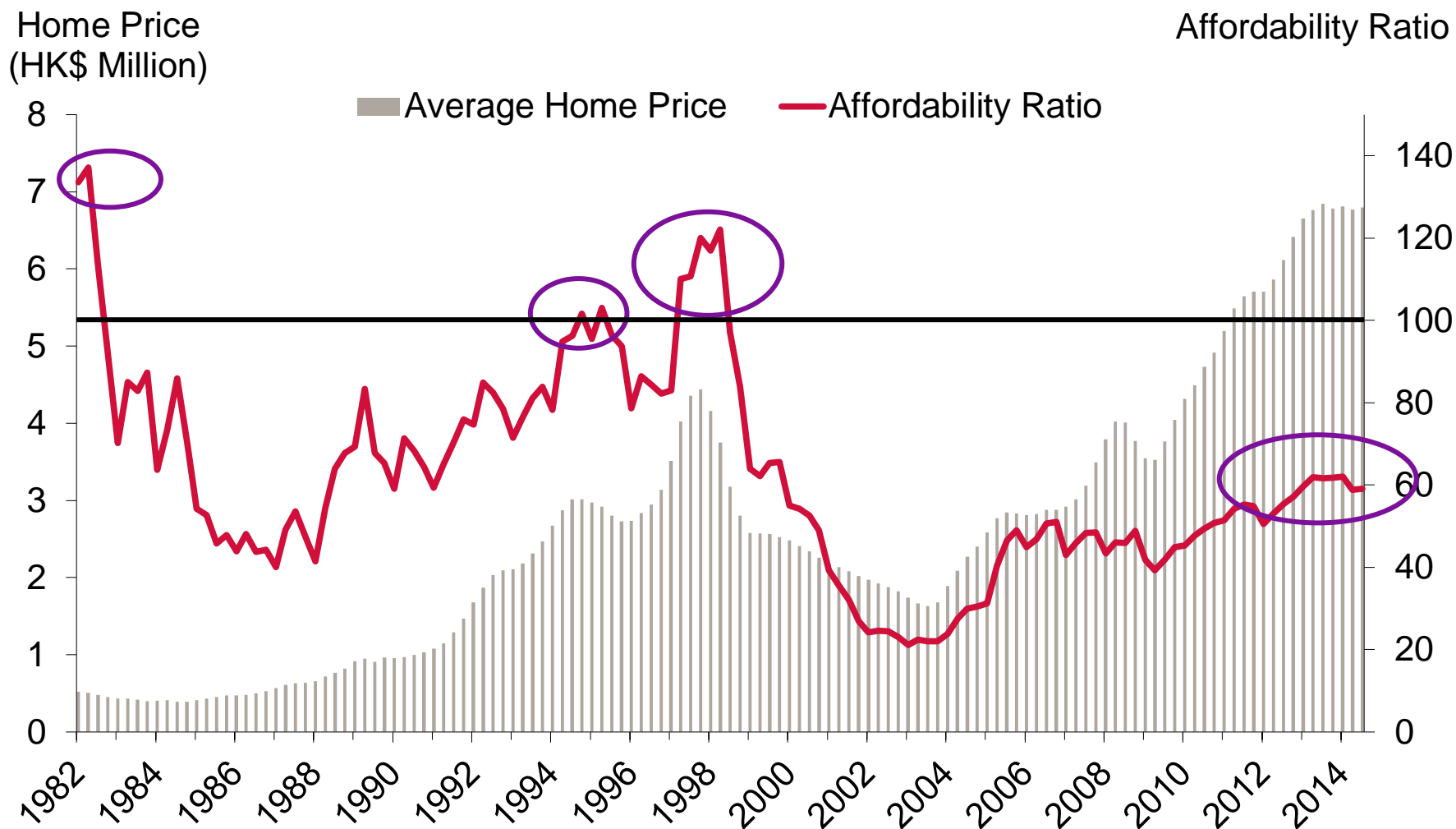
SHARE OF COMPANY BUYERS IN HK PRIVATE RESIDENTIAL MARKET



* Estimation

Source: Public sources / Knight Frank Research

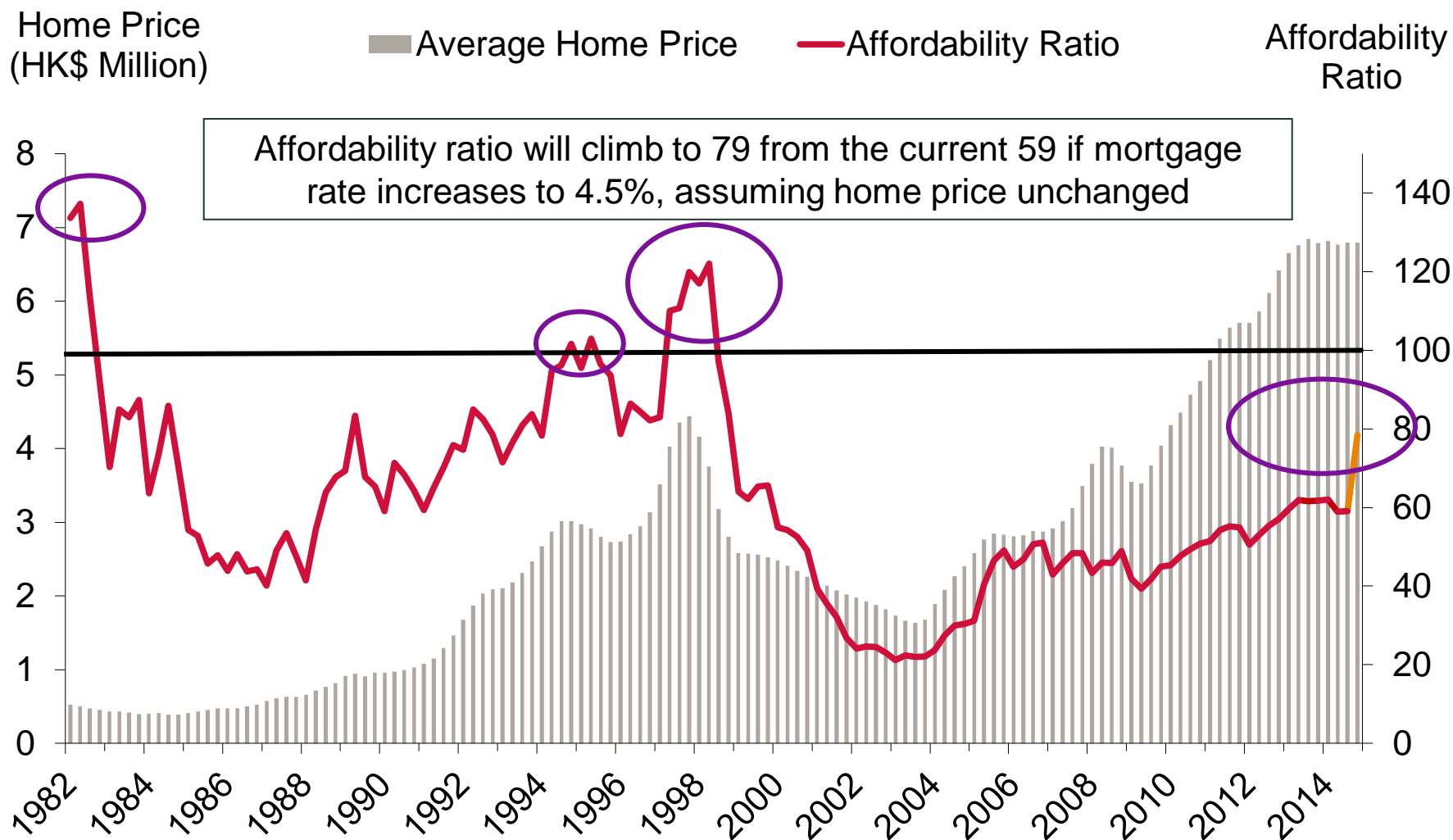
GENERAL AFFORDABILITY



Note: Affordability Ratio= monthly mortgage payment / Average private household monthly income

Source: Rating and Valuation Department / Knight Frank Research

GENERAL AFFORDABILITY SCENARIO 1: MORTGAGE RATE +200 BPS, PRICE STABLE

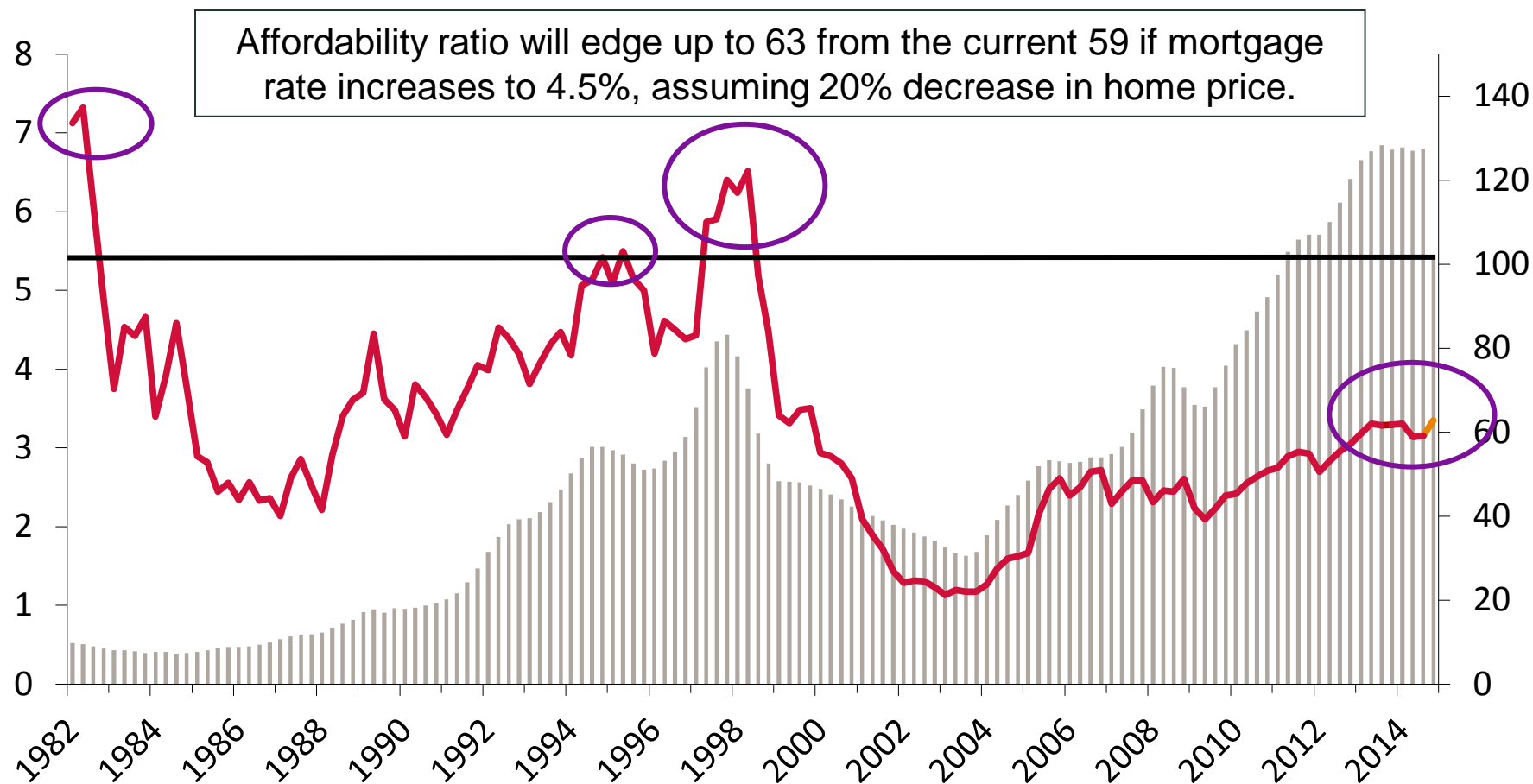


Note: Affordability Ratio= monthly mortgage payment / Average private household monthly income

Source: Rating and Valuation Department / Knight Frank Research

GENERAL AFFORDABILITY SCENARIO 2: MORTGAGE RATE +200 BPS, PRICE -20%

Home Price (HK\$ Million) ■ Average Home Price — Affordability Ratio Affordability Ratio



Note: Affordability Ratio= monthly mortgage payment/ Average private household monthly income

Source: Rating and Valuation Department / Knight Frank Research

A CASE STUDY ON AFFORDABILITY: TAIKOO SHING

Taikoo Shing (unit size = 490 sq ft)

| Year | 1987 | 1997 | 2008 | 2013 | 2014 |
|--|-----------|-------------|-------------|-------------|---|
| Monthly household income (HK\$) | \$6,550 | \$22,300 | \$25,000 | \$30,000 | \$30,400 ▲ 360% compared with 1987 |
| Prime-based mortgage rate | 7.9% | 9.2% | 3.0% | 2.5% | 2.5% |
| Average unit price (HK\$ per sq ft) | \$1,150 | \$9,000 | \$8,000 | \$13,000 | \$12,800 ▲ 1,000% compared with 1987 |
| Total flat price (HK\$) | \$560,000 | \$4,400,000 | \$3,900,000 | \$6,400,000 | \$6,300,000 |
| Down-payment (HK\$) | \$169,000 | \$1,320,000 | \$1,170,000 | \$1,920,000 | \$1,890,000 |
| Down-payment as years of annual income | 2.2 years | 4.9 years | 3.9 years | 5.3 years | 5.2 years |
| Monthly payment (HK\$) | \$2,800 | \$25,200 | \$11,500 | \$17,700 | \$17,400 |
| Affordability ratio | 43% | 113% | 46% | 59% | 57% |

Assumptions: down-payment ratio = 30%; payback period = 20 years

Source: CEIC / EPRC / Knight Frank Research

A CASE STUDY ON AFFORDABILITY: CITY ONE SHATIN

City One Shatin (unit size = 310 sq ft)

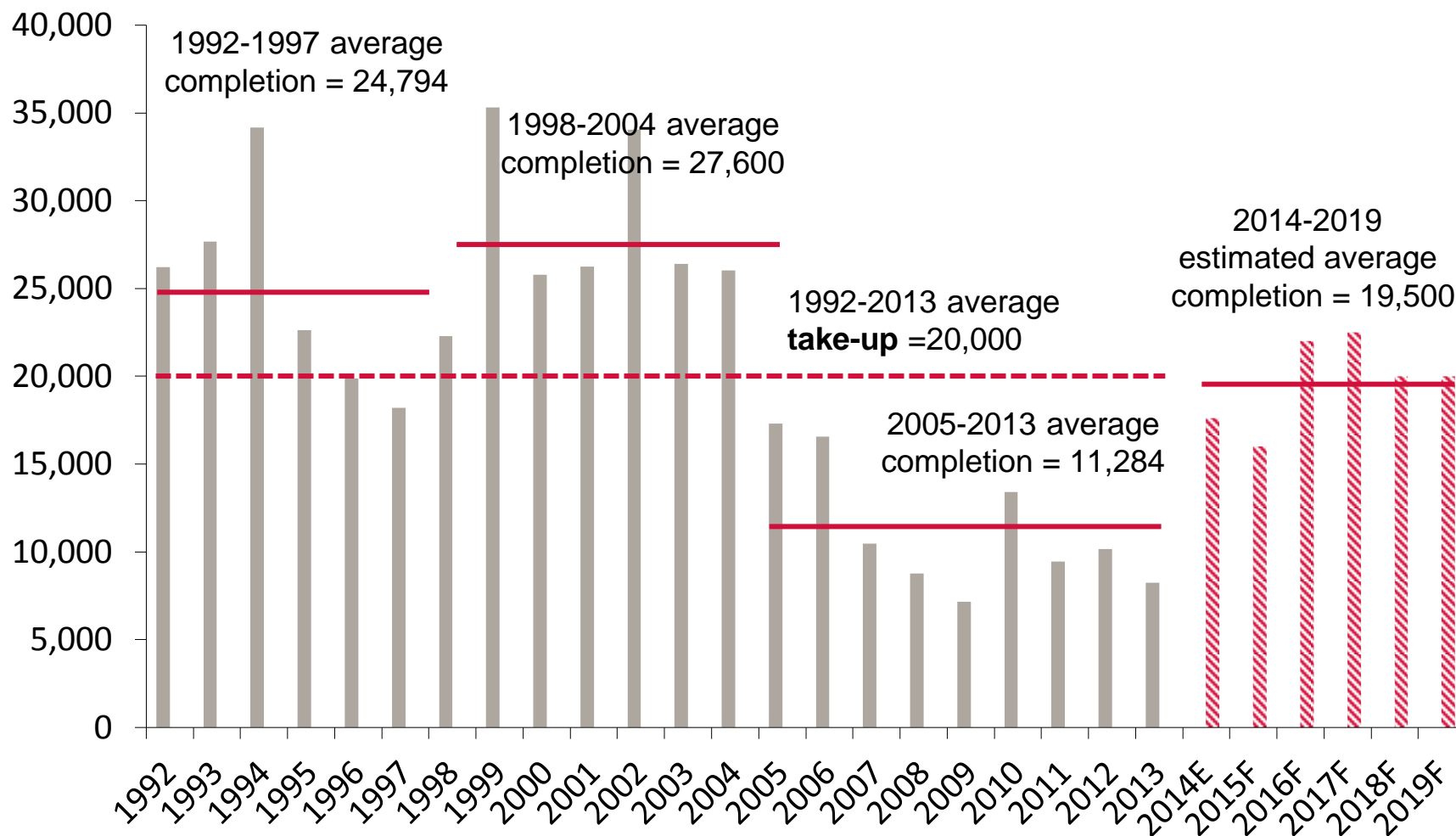
| Year | 1987 | 1997 | 2008 | 2013 | 2014 | |
|--|-----------|-------------|-------------|-------------|-------------|---------------------------|
| Monthly household Income (HK\$) | \$6,550 | \$22,275 | \$25,000 | \$30,000 | \$30,400 | ▲ 360% compared with 1987 |
| Prime-based mortgage rate | 7.9% | 9.2% | 3.0% | 2.5% | 2.5% | |
| Average unit price (HK\$ per sq ft) | \$1,250 | \$6,900 | \$5,100 | \$10,100 | \$10,600 | ▲ 750% compared with 1987 |
| Total flat price (HK\$) | \$388,000 | \$2,100,000 | \$1,600,000 | \$3,100,000 | \$3,300,000 | |
| Down-payment (HK\$) | \$116,000 | \$630,000 | \$480,000 | \$930,000 | \$990,000 | |
| Down-payment as years of annual income | 1.5 years | 2.4 years | 1.6 years | 2.6 years | 2.7 years | |
| Monthly payment (HK\$) | \$1,970 | \$12,000 | \$4,700 | \$8,600 | \$9,100 | |
| Affordability ratio | 30% | 54% | 19% | 29% | 30% | |

Assumptions: down-payment ratio = 30%; payback period = 20 years

Source: CEIC / EPRC / Knight Frank Research

COMPLETION OF RESIDENTIAL UNITS IN HONG KONG

No. of units



ESTIMATED ANNUAL AVERAGE RESIDENTIAL COMPLETION (2015-2019)



Source: Market news / Knight Frank Research

Overall 95,500 units or 19,100 units per year in 2015-2019

HONG KONG RESIDENTIAL PRICE FORECASTS

| Sector | 2015 forecasts |
|--------------------------|----------------|
| Luxury residential price | ↓ 0-5% |
| Mass residential price | ↔ stable |

Q & A



Knight Frank

Hong Kong

4/F Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong
Tel +852 2840 1177
Fax +852 2840 0600

Shanghai

17/F Eco City
1788 West Nanjing Road
Jing'an District
Shanghai 200040 PRC
Tel +86 21 6032 1788
Fax +86 21 6032 1799

Beijing

Suite 302, Tower E1, Oriental Plaza
No 1 East Chang An Avenue
Dong Cheng District
Beijing 100738 PRC
Tel +86 10 6113 8010
Fax +86 10 8518 5755

Guangzhou

Unit 3306, Tower B,
China Shine Plaza
9 Linhe Xi Road
Tianhe District
Guangzhou 510610 PRC
Tel +86 20 3877 1477
Fax +86 20 3877 1470

Macau

Suite A, 16th Floor
Edificio Great Will
No 665 Avenida da Praia Grande,
Macau
Tel +853 2838 9781
Fax +853 2838 9782

Taipei

5/F, No 1 Songzhi Road
Xinyi District
Taipei City 110
Taiwan (ROC)
Tel +886 2 8729 8799
Fax +886 2 8729 8788

Holdways

Beijing

2/F, Block 10, District 12 Headquarters Base,
188 South Fourth Ring Road West
Feng Tai District
Beijing 100070 PRC
Tel + 86 10 5128 4009
Fax +86 10 6370 6691

Disclaimer

This document and the material contained in it is general information only and is subject to change without notice. All images are for illustration only. No representations or warranties of any nature whatsoever are given, intended or implied. Knight Frank Research will not be liable for negligence, or for any direct or indirect consequential losses or damages arising from the use of this information. You should satisfy yourself about the completeness or accuracy of any information or materials.

Copyright

This document and the material contained in it is the property of Knight Frank Research and is given to you on the understanding that such material and the ideas, concepts and proposals expressed in it are the intellectual property of Knight Frank Research and protected by copyright. It is understood that you may not use this material or any part of it for any reason other than the evaluation of the document unless we have entered into a further agreement for its use. This document is provided to you in confidence on the understanding it is not disclosed to anyone other than to your employees who need to evaluate it. ©Knight Frank Research 2014.