



Q1 2010 GREATER CHINA

Quarterly

Knight Frank 萊坊

RETAILERS KEEN TO EXPAND

In the first quarter of 2010, the growth of retail sales in Mainland China accelerated amid the government's efforts to stimulate domestic demand. The value of retail sales reached RMB3.64 trillion in the first quarter, representing a 17.9% year-on-year rise—2.4 percentage points more than the average growth in 2009. National sales of automobiles, furniture as well as home appliances and audio-video equipment surged 39.8%, 37.6% and 29.6%, respectively. Meanwhile, retail sales in Beijing, Shanghai and Guangzhou also saw strong growth, jumping 15.2%, 16.6% and 17.0%, respectively.

According to China's Ministry of Commerce, expansion by international retailers is expected to continue on the Mainland in 2010. International brands have started looking for retail space again, after sales have emerged from last year's trough. Louis Vuitton and Ermenegildo Zegna will both open flagship stores in Lippo Plaza in Huaihai Road, Shanghai, while Qianmen Street in Beijing, which reopened in the third quarter of 2009, has attracted international brands such as H&M, Starbucks, Swatch

and Nike, as well as 14 local, brand-name retailers. International brands now account for around 30% of the total retailers in Beijing's Qianmen Street area. In Guangzhou, meanwhile, where the 2010 Asian Games will be held this November, a number of international brands, including Marks & Spencer, will launch their first stores in the city.

Demand for retail space was robust in major Mainland cities, thanks to the increase in domestic demand and optimistic market sentiment. Although the average vacancy rate in Shanghai's core retail areas rose from 6.0% to 8.0% during the first quarter, due to vast supply of new retail space last year, vacancy rates in both Beijing and Guangzhou recorded significant drops. The vacancy rate of prime retail space in Beijing fell to 10.8% in the first three months of 2010, from 14.2% in the previous quarter, while the rate in Guangzhou dropped from 4.5% to 4.0%.

Shanghai

In the first quarter of 2010, no new projects were launched in Shanghai's core shopping districts, but its non-core areas saw the opening of two shopping malls—Printemps Baoshan Branch in Baoshan District and Yueda 889 Plaza in Putuo District. New retail supply in the first quarter totalled about 86,000 sq m—roughly 30% less than the 124,000 sq m released in the fourth quarter of 2009. Driven by steady demand for retail space, the average ground-floor rent increased marginally by 0.7% quarter on quarter, to US\$114.1 per sq m per month.

The Shanghai World Expo 2010, scheduled to run from May to October, is expected to create huge business opportunities. According to the organiser, over 70 million people are expected to visit the Expo during its six-month run, implying a daily intake of about 400,000 visitors. A number of retail developments, including Shanghai IFC, Lippo Plaza, Hong Kong Plaza and Metro City, opened in the run up to the Expo. Retailers have been keen to expand to capitalise on the huge business potential and a number of international brands, including Versus Versace Caffe and high-end hypermarket Olé, launched their shops in Shanghai for the first time. The influx and expansion of international retailers have boosted demand for retail properties.

The Expo will be a strong driving force for Shanghai's retail market, as the increased number of tourists and spending will translate into higher business volumes for retailers. Meanwhile, the "post-Expo effect" and the completion of the city rail network will accelerate the formation of suburban retail areas, providing opportunities for retailers to expand their networks and alleviating the competition for retail space in core areas.

In the second quarter, a large amount of retail space from new or renovated shopping malls will be launched or reopened, driving up the average vacancy rate in the city. However, we are still optimistic about the performance of the Shanghai retail market in the coming 12 months, given the strong consumer confidence.

Beijing

Two shopping malls—Cuiwei Plaza Phase 2 and Beijing Hualian Wanliu Plaza—were launched in Beijing in the first quarter of 2010, adding 166,000 sq m of space to the overall retail stock. Rents of prime retail properties continued their trend of steady growth for the third quarter in a row, with the average ground-floor rent edging up 0.6% to RMB94.8 per sq m per month, while the vacancy rate fell 3.4 percentage points to 10.8%. Investment sentiment for retail properties remained strong. Compared



with the fourth quarter of 2009, the total area of retail property transactions fell 10.1% across the city in the first quarter of 2010, but capital values rose 14.0%.

The retail property market was stagnant during the first half of 2009, due to the global economic crisis and the openings of certain retail projects were delayed to 2010. Two shopping malls, Cuiwei Mall and Joy City Chaoyang, are now expected to open in the second quarter. In the first quarter of 2010, as retail sales improved, Beijing's prime retail leasing market continued its uptrend. However, transaction values and volumes of retail properties are likely to fall as a result of the tightening measures adopted by the government.

In 2010, Beijing's economy will continue to power ahead. With a predicted steady rise in disposable income, retail sales growth will remain stable and the vacancy rate of retail properties is expected to decline slightly. Taking into account the relatively large supply of prime shopping malls, growth in rents is likely to be modest.

Guangzhou

In the first quarter of 2010, new supply of street shops and shopping malls in Guangzhou was scarce, as a number of scheduled completions were delayed. Due to a lack of supply, the average vacancy rate of street shops in Guangzhou's core commercial district dropped from 4.5% to 4.0%.

Because of the seasonal effect of Chinese New Year, prime retail leasing transactions dropped 21.1% from the previous quarter. There was also a decline in the total area of retail properties sold, compared with the previous quarter, while retail property prices and rents increased 1.1% and 1.4%, respectively.

A number of shopping malls are scheduled to be launched before the opening of the Guangzhou 2010 Asian Games in November. In 2010, new retail property supply in Guangzhou is expected to reach 600,000 sq m, most of which will be located in Tianhe District. About 400,000 sq m of new retail space will be completed in Tianhe's core commercial area this year, including prime shopping spaces provided by TaiKoo Hui, the podium area of Guangzhou West Tower and OneLink Walk. International luxury brands such as Zara, H&M and Olé have established their first foothold in Guangzhou in these new shopping malls.

The landscape for retailers in Guangzhou will be gradually evolving, with the upcoming completions of large-scale shopping malls and inter-city light-rail networks, which will bring closer integration among cities in the Pearl River Delta. Retail leasing and sales transactions are expected to resume growth in the second quarter. In the meantime, the rapidly growing retail industry—a result of robust consumer confidence—will offset the negative impact of the relatively large amount of retail supply due in the second half of 2010. Retail rents are likely to remain stable this year, while sales prices are expected to increase by 5.0%.

Prime office

Table 1
Outlook (2Q 2010)

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

Office rental cycle



Figure 1
Grade-A office price index

Q1 2003 = 100

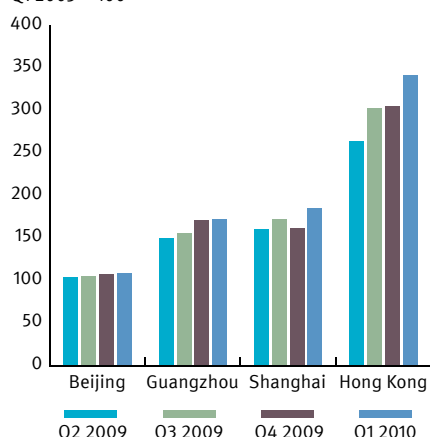


Figure 2
Grade-A office rental index

Q1 2003 = 100

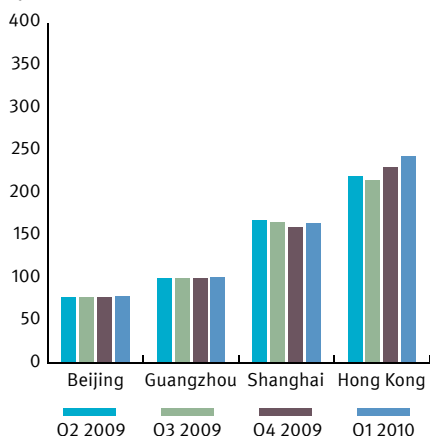


Table 2
Prices, rentals, vacancy rates and yields ^{[1][2]}

City	Price (US\$ psm)	Rent (US\$ psm per month)	Vacancy rate	Yield
Beijing	\$3,368	\$27.6	19.9%	6.6%
Guangzhou	\$3,367	\$18.9	18.0%	6.1%
Shanghai	\$5,801	\$36.3	12.0%	7.5%
Hong Kong	\$16,876	\$48.0	4.1%	3.3%

[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 3
Supply and demand indicators

City	Indicators	Comments
Beijing	<ul style="list-style-type: none"> Two Grade-A office projects were completed, namely Global Trade Centre Phase 3 and Office Park Tower C, providing 132,700 sq m of new office space. 84,218 sq m of office space was absorbed. 	<ul style="list-style-type: none"> Supply will be limited during the first half of 2010. Several new office buildings may come onto the market in the second half. Leasing demand for offices remained stable, backed by solid economic recovery.
Guangzhou	<ul style="list-style-type: none"> No new Grade-A offices came on stream in the first quarter. Grade-A office take-up decreased about 20% quarter on quarter. 	<ul style="list-style-type: none"> Limited supply of new Grade-A offices pushed up prices. Leasing demand shrank during the Lunar New Year period, but was still up 16.7% year on year.
Shanghai	<ul style="list-style-type: none"> Wheelock Square further postponed its completion date from the first to the second quarter. Bank of Communications Schroder Fund leased 4,900 sq m of space in IFC II. China Pacific Insurance Company acquired six storeys in Pacific Finance Tower. 	<ul style="list-style-type: none"> There was no new supply in major commercial areas during the quarter. Lujiazui offices were sought after by banks and increasingly by insurance companies. Domestic companies remained active in the en-bloc investment market.
Hong Kong	<ul style="list-style-type: none"> Grade-A office completions are expected to fall to 113,000 sq m in 2010 and 103,100 sq m in 2011. 	<ul style="list-style-type: none"> The office leasing market continued to recover in terms of both activity and rental levels. Rents grew the fastest in Premium Central.



Table 4
Major sales transactions

City	District	Development	Floor / Unit	Area (sq m)	Price (US\$ million)	Price (US\$ per sq m)
Beijing	Chaoyang	Gateway Plaza	En bloc	130,488	\$483.4	\$3,705
Beijing	Chongwen	Dingtai Building	N/A	2,767	\$6.5	\$2,336
Guangzhou	Tianhe	China Shine Plaza	Mid floor unit	250	\$1.0	\$4,102
Guangzhou	Tianhe	Metro Plaza	Low floor unit	210	\$0.7	\$3,223
Shanghai	Pudong	Pujiang Twin Towers	8/F / unit 42	2,563	\$17.9	\$6,995
Shanghai	Hongkou	Citic Plaza	42/F / unit 49	688	\$5.2	\$7,491
Hong Kong	Sheung Wan	The Centre Mark	En bloc	9,290	\$67.0	\$7,209
Hong Kong	Central	Nine Queen's Road Central	8/F	1,273	\$26.1	\$20,541

In the first quarter of 2010, Shanghai's Grade-A office market witnessed a lack of new supply, while leasing transaction volume and rents showed decent growth compared with the previous quarter.

Table 5
Market activity

	Sales		Leasing	
	1Q 10 vs 4Q 09	2Q 10 Outlook	1Q 10 vs 4Q 09	2Q 10 Outlook
Beijing				
Guangzhou				
Shanghai				
Hong Kong				

Table 6
Major leasing transactions

City	District	Development	Floor / Unit	Area (sq m)	Monthly Rental (US\$)	Monthly Rental (US\$ per sq m)
Beijing	Chaoyang	Office Park	Tower C / 4-6/F	8,000	\$152,359	\$19.0
Beijing	Chaoyang	Ocean International Center	Tower A / 11/F	4,000	N/A	N/A
Guangzhou	Tianhe	China Shine Plaza	Low floor unit	160	\$3,399	\$21.2
Guangzhou	Tianhe	Chanzen Centre	Low floor unit	530	\$8,386	\$15.8
Shanghai	Xuhui	The Centre	Low floor unit	1,479	\$59,290	\$40.1
Shanghai	Pudong	Aurora Plaza	Mid floor unit	1,249	\$41,714	\$33.4
Hong Kong	Causeway Bay	The Lee Gardens	6 floors	9,012	N/A	N/A
Hong Kong	Central	One IFC	25/F	1,895	N/A	N/A

Luxury residential

Table 7
Outlook (2Q 2010)

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

Luxury residential rental cycle



Figure 3
Luxury residential price index

Q1 2003 = 100

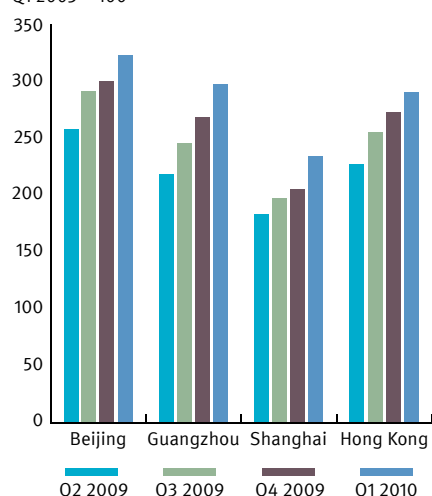


Figure 4
Luxury residential rental index

Q1 2003 = 100

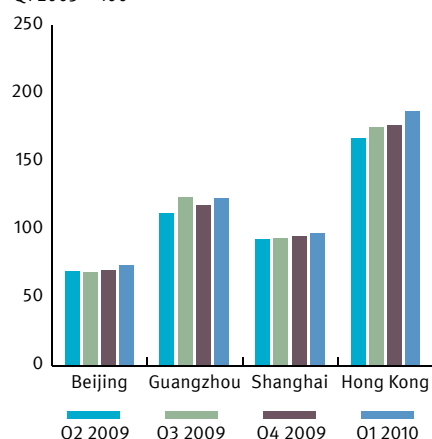


Table 8
Prices, rentals, vacancy rates and yields ^{[1][2]}

City	Price (US\$ psm)	Rent (US\$ psm per month)	Vacancy rate	Yield
Beijing	\$5,367	\$18.9	21.2%	3.8%
Guangzhou	\$3,901	\$15.0	17.0%	4.0%
Shanghai	\$ 6,946	\$22.2	19.0%	3.8%
Hong Kong	\$25,319	\$58.1	11.2% ^[3]	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-2009 vacancy rate of units sized over 100 sq m from Rating and Valuation Department, HKSAR.

Table 9
Supply and demand indicators

City	Indicators	Comments
Beijing	<ul style="list-style-type: none"> Only two projects were completed, adding 404 units to the luxury residential stock. 514 units were absorbed, up 20.0% year on year. 	<ul style="list-style-type: none"> New supply plunged from the previous quarter. Luxury residential leasing demand remained stable.
Guangzhou	<ul style="list-style-type: none"> Around 250,000 sq m of new luxury homes were completed in the core area of Guangzhou during the first quarter. Luxury residential sales declined 36.6% quarter on quarter. 	<ul style="list-style-type: none"> Supply remained stable compared with the previous quarter. High prices and government's tightening measures resulted in shrinking transaction volume during the quarter.
Shanghai	<ul style="list-style-type: none"> Limited new luxury residential projects were launched for sales in the quarter. The Expo boosted leasing demand. Occupancy rates of serviced apartments in Lujiazui improved. 	<ul style="list-style-type: none"> Some developers postponed the launch of new projects. The luxury residential sales market was quiet with buyers holding a wait-and-see attitude.
Hong Kong	<ul style="list-style-type: none"> Transactions of luxury homes worth HK\$10 million or above rose 9.0% to 1,776 units from the previous quarter. 	<ul style="list-style-type: none"> The market continued to rebound in the first quarter. The leasing sector turned more active towards the end of the quarter.



Table 10
Major sales transactions

City	District	Development	Floor / Unit	Area (sq m)	Price (US\$ million)	Price (US\$ per sq m)
Beijing	Chaoyang	Sunny Region	N/A	266	\$3.2	\$12,107
Beijing	Chaoyang	Sanlitun SOHO	N/A	186	\$1.2	\$6,605
Guangzhou	Tianhe	Central Capital	Block B / high floor unit	386	\$1.8	\$4,766
Guangzhou	Tianhe	Central Park View	High floor unit	93	\$0.3	\$3,403
Shanghai	Changning	Shanghai Garden Plaza	En bloc	97,227	\$328.2	\$3,375
Shanghai	Pudong	Tomson Riviera	Tower 8 / 11/F / unit 1201	595	\$13.2	\$22,151
Hong Kong	Island South	37 Island Road	House D	771	\$59.6	\$77,331
Hong Kong	The Peak	Severn 8	House 8	432	\$36.1	\$83,475

In the first quarter of this year, transaction volume in Guangzhou's luxury residential market dropped 36.6% from the previous quarter amid the introduction of tightening measures and high levels of home prices.

Table 11
Market activity

	Sales		Leasing	
	1Q 10 vs 4Q 09	2Q 10 Outlook	1Q 10 vs 4Q 09	2Q 10 Outlook
Beijing				
Guangzhou				
Shanghai				
Hong Kong				

Table 12
Major leasing transactions

City	District	Development	Floor / Unit	Area (sq m)	Monthly Rental (US\$)	Monthly Rental (US\$ per sq m)
Beijing	Chaoyang	Park Avenue	Tower 2 / 21/F unit	130	\$1,465	\$11.3
Beijing	Chaoyang	Lanson Place	4/F unit	140	\$4,395	\$31.4
Guangzhou	Tianhe	Central Park View	High floor unit	114	\$1,172	\$10.3
Guangzhou	Tianhe	Beau Monde	High floor unit	128	\$1,611	\$12.6
Shanghai	Xuhui	Huating Court	N/A	269	\$6,563	\$24.4
Shanghai	Pudong	Skyline Mansion	N/A	264	\$5,127	\$19.4
Hong Kong	Island South	Three Bays	House	360	\$28,333	\$78.8
Hong Kong	Mid-Levels Central	The Mayfair	Mid floor / unit A	270	\$16,098	\$59.7

Prime retail

Table 13
Outlook (2Q 2010)

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

Prime retail rental cycle

Beijing - Central (Wangfujing)
Beijing - Chaoyang CBD and vicinity

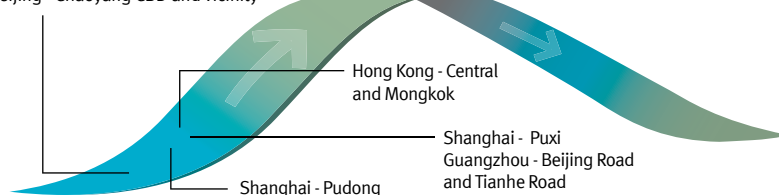


Figure 5
Prime retail price index

Q1 2003 = 100

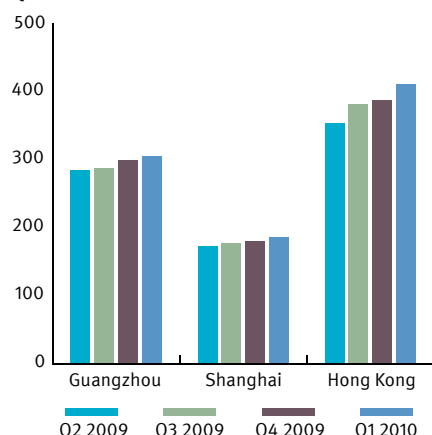


Figure 6
Prime retail rental index

Q1 2003 = 100

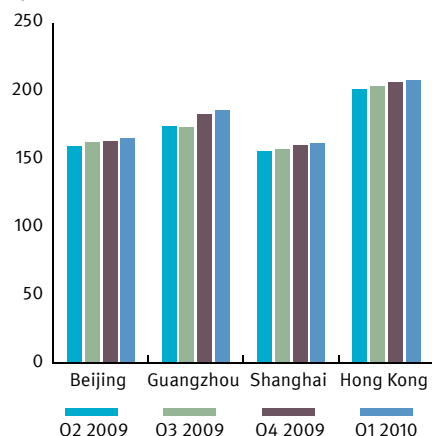


Table 14
Prices, rentals, vacancy rates and yields ^[1] ^[2]

City	Price (US\$ psm)	Rent (US\$ psm per month)	Vacancy rate	Yield
Beijing	N/A	\$94.8	10.8%	5.1%
Guangzhou	\$28,102	\$204.9	4.0%	7.1%
Shanghai	\$15,578	\$114.1	8.0%	7.0%
Hong Kong	\$171,819	\$514.0	8.7% ^[3]	3.6% ^[4]

[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-2009 overall vacancy rate from Rating and Valuation Department, HKSAR.

[4] Overall yield from Rating and Valuation Department, HKSAR.

Table 15
Supply and demand indicators

City	Indicators	Comments
Beijing	<ul style="list-style-type: none"> 166,000 sq m of new retail space came onto the market in the first quarter. 	<ul style="list-style-type: none"> Cuiwei Plaza Phase 2 and Beijing Hualian Wanliu plaza opened in the quarter.
Guangzhou	<ul style="list-style-type: none"> Retail area obtaining presale consent declined 84.5% quarter on quarter. Sales area of retail properties dropped 13.9% quarter on quarter after surging towards the end of last year. 	<ul style="list-style-type: none"> No major shopping centres were completed during the first quarter. Pre-lease activities started in TaiKoo Hui and OneLink Walk in Tianhe CBD, attracting international and local brands.
Shanghai	<ul style="list-style-type: none"> New supply of shopping centres dropped 30.6% quarter on quarter to 86,000 sq m. International luxury brands rushed to open flagship and specialty stores sized over 500 sq m before the opening of the Expo. 	<ul style="list-style-type: none"> Abundant new supply is expected in the coming months to tap the opportunities from Expo. Retailers were squeezed by limited downtown supply and rising rents.
Hong Kong	<ul style="list-style-type: none"> Four new shopping centres are scheduled to open in 2010, providing about 88,700 sq m of retail space. 	<ul style="list-style-type: none"> The retail market is expected to be supported by solid economic recovery and fast growth in Mainland visitor arrivals in 2010.



Table 16
Major sales transactions

City	District	Development	Floor / Unit	Area (sq m)	Price (US\$ million)	Price (US\$ per sq m)
Beijing	Chaoyan	Sanlitun SOHO	N/A	183	\$1.5	\$8,430
Beijing	Chaoyang	Shimao International Center	Tower 1 unit	135	\$2.4	\$17,780
Guangzhou	Tianhe	Tiyuxi Road	1/F unit	121	\$1.4	\$11,865
Guangzhou	Yuexiu	China Plaza	1/F unit	95	\$1.7	\$18,216
Shanghai	Yangpu	Knowledge and Innovation Community	No. 33 / 1/F	1,071	\$7.1	\$6,592
Shanghai	Changning	Gubei International Garden	No. 616 / 1/F	117	\$1.7	\$14,848
Hong Kong	Tsim Sha Tsui	Po Fung Building	G/F / unit D	46	\$19.6	\$422,797
Hong Kong	Tsim Sha Tsui	Hankow Centre arcade	G/F / unit 13	72	\$20.4	\$285,345

Demand for prime retail properties was robust in major Mainland cities amid strong consumer confidence. Apart from Shanghai, both Beijing and Guangzhou recorded a significant decline in vacancy rate in the first quarter of 2010.

Table 17
Market activity

	Sales		Leasing	
	1Q 10 vs 4Q 09	2Q 10 Outlook	1Q 10 vs 4Q 09	2Q 10 Outlook
Beijing				
Guangzhou				
Shanghai				
Hong Kong				

Table 18
Major leasing transactions

City	District	Development	Floor / Unit	Area (sq m)	Monthly Rental (US\$)	Monthly Rental (US\$ per sq m)
Beijing	Chaoyang	Mapletree Tower	Podium unit	1,000	\$77,937	\$77.9
Beijing	Fengtai	CAH Grand Canyon	4/F unit	202	\$7,369	\$36.5
Guangzhou	Tianhe	Tianhenan Yi Road	1/F unit	85	\$13,185	\$155.1
Guangzhou	Tianhe	Festival Walk	B1/F unit	48	\$7,032	\$146.5
Shanghai	Luwan	Hong Kong Plaza	L1-2 / duplex	600	\$120,246	\$200.4
Shanghai	Huangpu	Bund 27	N/A	750	\$160,328	\$213.8
Hong Kong	Mongkok	Far East Bank Mongkok Building	G/F / unit 12	21	\$31,101	\$1,461.9
Hong Kong	Tsim Sha Tsui	Manley House	G/F / units 1-3	266	\$204,765	\$770.1

RESEARCH



Americas

Bermuda
Brazil
Canada
Caribbean
Chile
USA

Australasia

Australia
New Zealand

Europe

Belgium
Czech Republic
France
Germany
Hungary
Ireland
Italy
Monaco
Poland
Portugal
Romania
Russia
Spain
The Netherlands
UK
Ukraine

Africa

Botswana
Kenya
Malawi
Nigeria
South Africa
Tanzania
Uganda
Zambia
Zimbabwe

Asia

Bahrain
Cambodia
China
Hong Kong
India
Indonesia
Macau
Malaysia
Singapore
Thailand

Hong Kong contacts

Alan Child

Executive Chairman
+852 2846 9522
alan.child@hk.knightfrank.com

Colin Fitzgerald

Managing Director
+852 2846 4848
colin.fitzgerald@hk.knightfrank.com

Valuation

Alex Ng

Executive Director
+852 2846 9596
alex.ng@hk.knightfrank.com

Commercial Agency

Mark Bernard

Executive Director
+852 2846 4811
mark.bernard@hk.knightfrank.com

Residential Agency

Renu Budhrani

Executive Director
+852 2846 9550
renu.budhrani@hk.knightfrank.com

Retail Consultancy

Livian Har

Director, Retail Services
+852 2846 9543
livian.har@hk.knightfrank.com

Research

Xavier Wong

Director, Head of Research
Greater China
+852 2846 4819
xavier.wong@hk.knightfrank.com

Beijing contacts

Mark Sullivan

General Manager
+86 10 8518 5758
mark.sullivan@cn.knightfrank.com

Shanghai contacts

Andrew Slevin

Executive Director / General Manager
+86 21 6445 9968
andrew.slevin@cn.knightfrank.com

Guangzhou contacts

Pierre Chan

Director
+86 20 3877 1477
pierre.chan@cn.knightfrank.com

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide, including developers and investors, as well as financial and corporate institutions. All recognise the need for the provision of expert independent advice, customised to their specific needs.

Our worldwide research reports are also available at www.knightfrank.com

© Knight Frank 2010

This report is published for general information only. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects. Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank Research.



Knight Frank
Newmark
Global