



Q3 2010
GREATER
CHINA

Quarterly

Knight Frank 萊坊

POLICY TO SHAPE MARKET DEVELOPMENT

Mainland China's residential market became more active in August, after having been in stagnation for three months. Many homebuyers deferred their home purchases after mid April when the State Council introduced fresh tightening measures, but pent-up demand was unleashed in August when the tightening measures were found to have had limited effect on depressing home prices.

In China's first-tier cities—namely Beijing, Shanghai, Guangzhou and Shenzhen—the average numbers of daily sales of new homes in August rose 22.9%, 69.8%, 37.3% and 83.7% respectively, compared with July. Sales volumes in these four cities jumped a further 50.0–82.2% in the following month. By the end of September, secondary home prices in the first-tier cities had rebounded 1.5–4.9% from their respective troughs in July.

In a bid to prevent a surge in home prices along with rebounding transaction volumes, the central government announced a series of more drastic tightening measures on 29th September, which included: banning commercial banks from granting mortgage loans to households that already

Tightening measures announced on 29th September 2010	
1	<ul style="list-style-type: none"> In cities where property prices are too high or have been rising too fast, the number of properties that each household can purchase is restricted.
2	<ul style="list-style-type: none"> Commercial banks should stop providing mortgages for third-home purchase. Banks should also stop granting mortgages to non-local residents who cannot provide proof of local social security contribution or tax payment for at least one year. Down-payment ratio for all first-time homebuyers will be raised to at least 30%. For second-home purchase, down-payment ratio of 50% or above and mortgage rates of no less than 1.1 times the benchmark interest rate should be strictly implemented.
3	<ul style="list-style-type: none"> Favourable policies on deed taxes on property transactions and personal income taxes are adjusted. Deed taxes will be halved to 1.5% for families purchasing their first homes, and if the flats are sized below 90 sq m, the deed tax rate will be reduced to 1%. The government will speed up pilot testing for property taxes and expand the programme to the whole country.
4	<ul style="list-style-type: none"> Residential land supply should be increased in cities where property markets are overheated. Tax incentive scheme on the construction of public rental housing should be implemented.
5	<ul style="list-style-type: none"> The authorities will penalise real estate agents involved in speculation or encouraging homebuyers to sign “yinyang contract” (a contract with two versions) to avoid tax. Developers hoarding land, delaying construction or suspending project launches should be more severely punished.

own two or more residential units; lifting the down-payment ratio for first-time homebuyers to 30% or above and limiting the number of residential units that each resident household can buy in cities where home prices are too high or have been increasing rapidly.

After the most recent round of tightening measures were announced, the housing market began to cool. In October, the average daily sales of new homes in major Mainland cities plunged after city governments made moves to limit their citizens' home purchases. Moreover, some cities saw homebuyers cancel their purchase agreements. Where will the Mainland property market head amid the new round of tightening measures? As mentioned in the previous issue of Greater China Quarterly, the outlook for the Mainland property market hinges on three factors: the liquidity of developers, the supply of new homes and the implementation of the government's tightening policies.

Most developers have seen improvements in liquidity, with the number of new home sales having rebounded during the third quarter. In the first nine months of this year, the top 20 Mainland developers reaped a total sales of RMB473 billion, equivalent to 93% of the total in 2009. Moreover, as the inventories of unsold new homes in the first-tier cities remain at relatively low levels, we believe most developers will not boost sales by cutting prices aggressively before the Lunar New Year.

However, as housing starts in many cities have grown dramatically this year, flats available for pre-sale would jump next year. During the first nine months of this year, housing starts in Guangzhou, Beijing, Shanghai and Shenzhen increased by 164%, 72%, 34% and 18% respectively, compared with the same period last year. Moreover, the recent interest-rate rise and restrictions on developers' capital sources have demonstrated the central government's determination to further tighten the cooling measures. Developers are expected to face greater pressure to accelerate sales after next year's Lunar New Year.



The government's tightening policies and their implementation will be the key force shaping market development in the coming year. Although the State Council has requested cities where home prices are too high or have been rising too fast to limit the number of residential units each household can buy, local governments still have flexibility in the implementation of the policy.

By the end of October 2010, 14 cities across the country had unveiled bylaws to implement the policy limiting home purchases, but the details of these bylaws vary from city to city. Among the cities, Fuzhou, Shenzhen and Nanjing have adopted rigorous implementation. In Fuzhou, Shenzhen and Nanjing, resident households are banned from home purchases if they already own two flats; and the Fuzhou and Shenzhen governments prohibit certain non-resident households to buy homes in the city. The remaining 11 cities, including Beijing and Shanghai, have adopted a looser approach in implementing the policies, allowing each resident household to buy only one more home, irrespective of the number of homes they already own.

Home purchase restriction policies in 14 cities	
City	Home purchase restriction policy
Wenzhou, Xiamen, Haikou, Beijing, Shanghai, Hangzhou, Tianjin, Sanya, Dalian	<ul style="list-style-type: none"> Each resident and non-resident household is allowed to purchase one more private residential unit, irrespective of the number of homes they already own.
Ningbo, Guangzhou (ten districts)	<ul style="list-style-type: none"> Each registered household is allowed to purchase one more private residential unit. Each non-resident household with proof of social security contribution or tax payment for at least one year is allowed to purchase one more private residential unit. Non-resident households without proof of social security contribution or tax payment for at least one year are not allowed to purchase any private residential unit in the city.
Shenzhen, Fuzhou (five districts)	<ul style="list-style-type: none"> Registered households owning two or more homes / non-resident households owning one or more homes / non-resident households without proof of social security contribution or tax payment for at least one year are not allowed to purchase private residential unit in the city. Each non-resident household with proof of social security contribution or tax payment for at least one year is allowed to purchase one commodity housing unit.
Nanjing	<ul style="list-style-type: none"> The purchase of a third residence is prohibited for all households.

Although we cannot predict how many more cities will implement these policies, we believe that if they are adopted loosely, a significant correction in home prices can be avoided. Cities that take a strict approach in implementing the policies, like Shenzhen, are those that will likely face serious housing shortage. Thus, home prices in these cities are not expected to plunge, as the effect of the policies should be offset by a lack of new flats. We believe residential prices in Beijing, Shanghai, Guangzhou and Shenzhen will not decline more than 20% in the coming year.

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

Figure 1

Grade-A office price index

Q1 2003 = 100

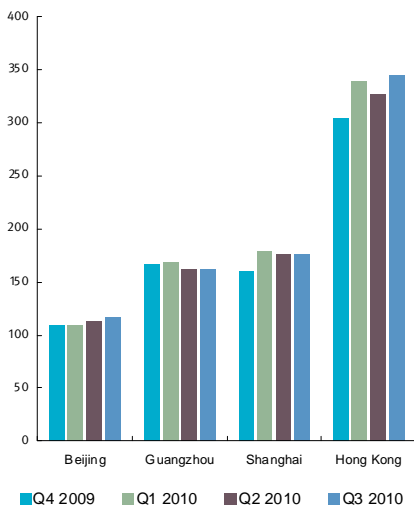
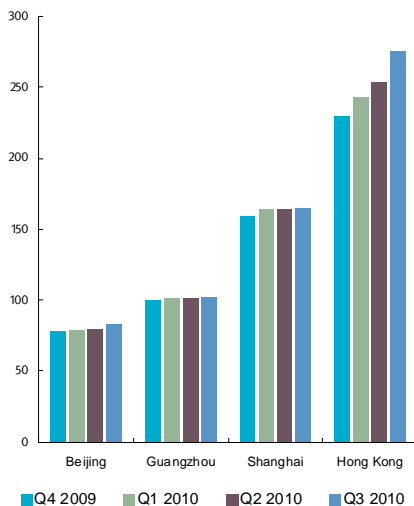


Figure 2

Grade-A office rental index

Q1 2003 = 100



Prime office

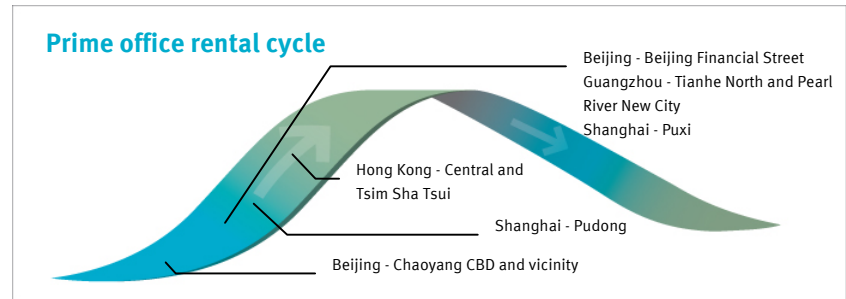


Table 2

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

City	Price (US\$ psm)	Rent (US\$ psm per month)	Vacancy rate	Yield
Beijing	\$ 3,691	\$ 29.8	14.3%	7.4%
Guangzhou	\$ 3,299	\$ 19.4	17.5%	6.5%
Shanghai	\$ 5,829	\$ 37.1	15.0%	7.6%
Hong Kong	\$ 17,077	\$ 54.2	3.5%	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"> Three Grade-A office projects in Chaoyang CBD and vicinity were launched, adding a total of 264,300 sq m of new space to the stock. Net take-up increased substantially quarter on quarter with robust leasing demand, dragging down the vacancy rate to 14.3%. 	<ul style="list-style-type: none"> The three offices, namely CWTC PIII, Minsheng Financial Center Tower C and Jiaming Center, provided gross floor areas of 142,000, 70,000 and 52,300 sq m respectively. Some landlords in Beijing Financial Street aggressively raised rents amid low vacancies in the area. The vacancy rate remained high in Chaoyang CBD and vicinity with abundant new supply.
Guangzhou	<ul style="list-style-type: none"> With the delay of the completions of a number of Grade-A office projects, the quarter saw an absence of new supply. A number of large-scale sales transactions were recorded in Pearl River New City CBD. 	<ul style="list-style-type: none"> The suspension of construction work around the Asian Game period would reduce supply in the coming quarter. Evergrande acquired the whole block of Jiazhao Building, while a number of high-floor units in Yingxin Building were also snapped up.
Shanghai	<ul style="list-style-type: none"> The completions of three buildings added over 110,000 sq m of new office space to the stock. The pre-lease of new offices to be completed in the next 12 months slightly boosted availability. 	<ul style="list-style-type: none"> A considerable amount of new office supply is expected in the coming 12 months. Financial institutions are key sources of leasing demand.
Hong Kong	<ul style="list-style-type: none"> No Grade-A offices were completed during the quarter. 	<ul style="list-style-type: none"> Rents in Central and Kowloon East so far saw the greatest rebound since the 2008 financial crisis, while recently, leasing activity in lagging districts showed signs of picking up.



Table 4
Major sales transactions

City	District	Development	Floor / Unit	Area (sq m)	Price (US\$ million)	Price (US\$ per sq m)
Beijing	Haidian	Maples International Center	N/A	343	\$0.8	\$2,318
Beijing	Dongcheng	Yinhe Soho	N/A	189	\$1.7	\$9,254
Guangzhou	Tianhe	China-Olympic Building	17-21/F (with 43 car-parking spaces and naming rights)	6,587	\$24.1	\$3,664
Guangzhou	Tianhe	China Shine Plaza	26/F	203	\$0.8	\$4,185
Shanghai	Luwan	Greenland Puhui International Center	6/F / unit 604	188	\$1.2	\$6,443
Shanghai	Jing'an	Honi International Building	17/F / unit 1701	338	\$2.5	\$7,456
Hong Kong	Wan Chai	88 Gloucester Road	En bloc	8,881	\$128.6	\$14,474
Hong Kong	Wan Chai	Neich Tower	A 80% stake	8,547	\$106.4	\$12,454

Further government policies to cool the red-hot residential market are expected to push certain investors to the commercial property sector.

Table 5
Market activity

	Sales		Leasing	
	3Q 10 vs 2Q 10	4Q 10 Outlook	3Q 10 vs 2Q 10	4Q 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	Xicheng	Windland International Financial Center	6/F	170	\$8,893	\$52.3
Beijing	Chaoyang	Office Park	15/F	300	\$8,071	\$26.9
Guangzhou	Tianhe	Citic Plaza	23/F	237	\$4,932	\$20.8
Guangzhou	Tianhe	Fortune Plaza	8/F	190	\$3,834	\$20.2
Shanghai	Xuhui	Shanghai International Commerce Centre	Low floor	2,500	\$62,477	\$25.0
Shanghai	Pudong	HSBC Tower	1.5 high floors	3,000	\$81,788	\$27.3
Hong Kong	Admiralty	Citic Tower	More than 10 floors	12,077	N/A	N/A
Hong Kong	Causeway Bay	Times Square	35-37/F	4,645	N/A	N/A

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

Luxury residential

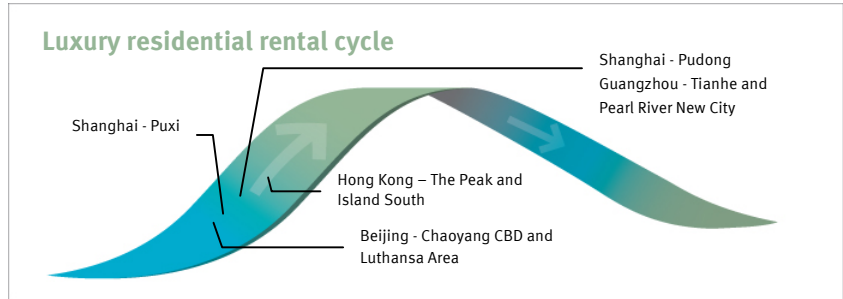


Figure 3

Luxury residential price index

Q1 2003 = 100

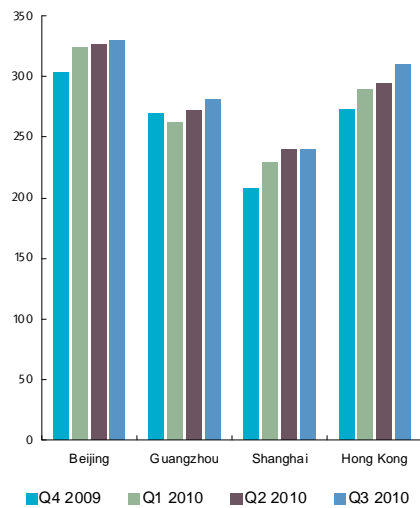
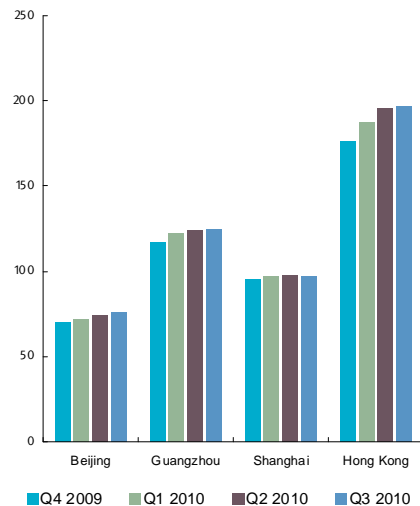


Figure 4

Luxury residential rental index

Q1 2003 = 100



City	Price (US\$ psm)	Rent (US\$ psm per month)	Vacancy rate	Yield
Beijing	\$ 5,584	\$ 20.4	18.9%	3.7%
Guangzhou	\$ 3,783	\$ 15.6	17.0%	4.2%
Shanghai	\$ 7,427	\$ 22.7	18.0%	3.7%
Hong Kong	\$ 27,046	\$ 61.1	11.2% ^[3]	2.6%

[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 unites sized over 100 sq m from Rating and Valuation Department, HKSAR.

City	Indicators	Comments
Beijing	<ul style="list-style-type: none"> There was no new supply in the quarter. Net absorption of luxury homes decreased a quarter-on-quarter 28.5% to 868 units. 603 luxury residential units would enter the market in the fourth quarter. 	<ul style="list-style-type: none"> The luxury home leasing market remained active. It may soften during the low season in the fourth quarter.
Guangzhou	<ul style="list-style-type: none"> New luxury residential supply reached 213,000 sq m in the quarter, up 36.4% from the second quarter. The market rebounded following a consolidation period during the second quarter. 	<ul style="list-style-type: none"> The suspension of construction work around the Asian Game period would reduce supply in the coming quarter. Luxury residential sales more than doubled compared with the second quarter.
Shanghai	<ul style="list-style-type: none"> Wharf Xi Yuan and No. 989 Xikang Road were launched in the quarter, adding 185 and 207 luxury units to the market respectively. 1,950 luxury homes were sold in the quarter, up 23% compared with the second quarter. 	<ul style="list-style-type: none"> Residential supply picked up significantly in September. Buyers who adopted a wait-and-see attitude re-entered the market, leading to a surge in transaction volume in September.
Hong Kong	<ul style="list-style-type: none"> Transactions of luxury homes worth HK\$10 million or above surged 43.9% to 2,877 units from the previous quarter. 	<ul style="list-style-type: none"> The luxury home leasing market was active at the beginning of the quarter before entering its low season towards the quarter-end.



Table 10
Major sales transactions

City	District	Development	Floor / Unit	Area (sq m)	Price (US\$ million)	Price (US\$ per sq m)
Beijing	Haidian	Summer Palace Splendor	Villa	1,289	\$12.8	\$9,959
Beijing	Dongcheng	Xiagongfu	N/A	497	\$8.0	\$16,128
Guangzhou	Tianhe	Favorview Palace	Mid-floor unit	250	\$0.9	\$3,665
Guangzhou	Tianhe	King's Lake	2 high-floor units	344	\$1.3	\$3,886
Shanghai	Luwan	Dynasty on the Bund	Tower 3 / 22/F / unit 2503	194	\$1.9	\$9,703
Shanghai	Pudong	Seasons Villas	House 93	337	\$5.0	\$14,795
Hong Kong	The Peak	Severn 8	House 16	311	\$19.3	\$62,073
Hong Kong	Island South	Ocean Bay	House D	296	\$12.6	\$42,579

Following the dramatic increase in the number of housing starts this year, the number of flats available for pre-sale will rise in 2011.

Table 11
Market activity

	Sales		Leasing	
	3Q 10 vs 2Q 10	4Q 10 Outlook	3Q 10 vs 1Q 10	4Q 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	Beijing Golf Palace	Tower 4 / 12/F	270	\$5,530	\$20.5
Beijing	Shunyi	Dragon Bay	Phase III / villa 3312	300	\$4,036	\$13.5
Guangzhou	Tianhe	Top View	High-floor unit	247	\$2,690	\$10.9
Guangzhou	Tianhe	Central Park View	Low-floor unit	151	\$1,794	\$11.9
Shanghai	Xuhui	Grand Gateway	37/F	120	\$2,675	\$22.3
Shanghai	Jing'an	Top of City	20/F	109	\$1,794	\$16.5
Hong Kong	The Peak	Watford Villa	House	305	\$30,854	\$101.3
Hong Kong	Island South	127 Repulse Bay Road	High floor / unit B	299	\$29,054	\$97.2

Table 13
Outlook (4Q 2010)

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

Prime retail

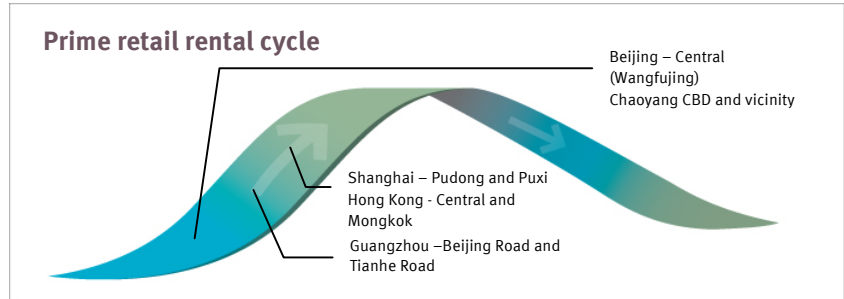


Figure 5

Prime retail price index

Q1 2003 = 100

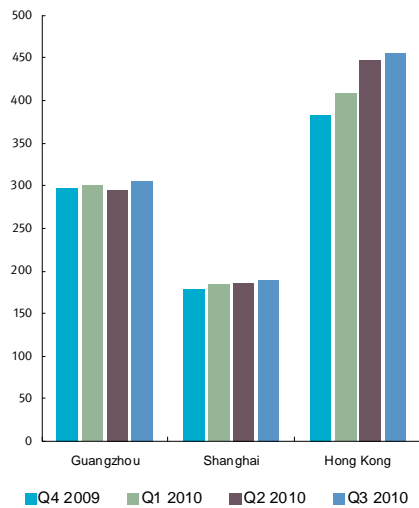


Figure 6

Prime retail rental index

Q1 2003 = 100

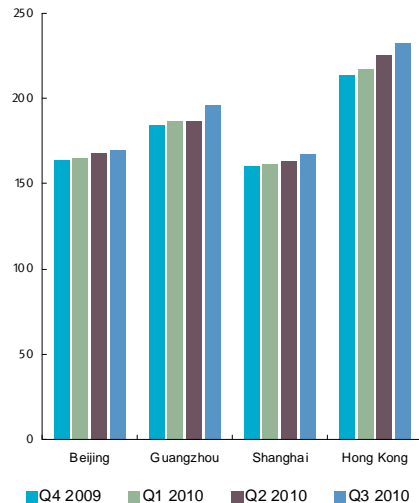


Table 14
Prices, rentals, vacancy rates and yields [1][2]

City	Price (US\$ psm)	Rent (US\$ psm per month)	Vacancy rate	Yield
Beijing	N/A	\$ 99.8	11.3%	5.7%
Guangzhou	\$ 28,648	\$217.2	4.0%	7.4%
Shanghai	\$ 16,376	\$ 120.6	6.0%	7.0%
Hong Kong	\$ 191,439	\$ 550.9	8.7% ^[3]	3.5% ^[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"> IFC Mall opened, adding 30,090 sq m of prime retail space to the market. 	<ul style="list-style-type: none"> IFC Mall is the retail component of Ping An Financial Center located in the Lufthansa Area.
Guangzhou	<ul style="list-style-type: none"> Primary retail property supply surged 98.8% quarter on quarter. Retail property sales rose 7.5% from the previous quarter. 	<ul style="list-style-type: none"> Retail property sales increased as tightening measures pushed investors from the residential to the retail sector. Retail property sales slightly improved amid increased supply.
Shanghai	<ul style="list-style-type: none"> Four new shopping malls with a total retail space of 267,500 sq m opened in the urban area. During the Shanghai Shopping Festival held in September, the total retail sales of 6,150 stores in Shanghai reached RMB18.069 billion, up 23.7% year on year. 	<ul style="list-style-type: none"> A number of new shopping malls opened this quarter along with economic recovery and the Expo 2010. The retail sales of consumer goods stayed at a high level with strong demand from both local residents and tourists.
Hong Kong	<ul style="list-style-type: none"> More than 42,000 sq ft of retail space was completed in the first eight months of 2010, down 41.7% year on year. 	<ul style="list-style-type: none"> Retailers' keen competition for prime retail space further pushed up rentals. Coupled with historically low interest rates, this encouraged investors to seek after retail properties.



Table 16
Major sales transactions

City	District	Development	Floor / Unit	Area (sq m)	Price (US\$ million)	Price (US\$ per sq m)
Beijing	Congwen	Peking Mix	N/A	3,797	\$17.6	\$4,634
Beijing	Chaoyang	Gong San Plaza	N/A	545	\$4.8	\$8,756
Guangzhou	Yuexiu	Danan Road	1/F unit	170	\$2.7	\$15,826
Guangzhou	Tianhe	Tiyu West Road	2/F unit	40	\$0.4	\$10,463
Shanghai	Xuhui	Heng Di Cang International Building	4/F / unit 608	160	\$1.0	\$5,979
Shanghai	Changning	Gubei International Garden	1/F / unit 588	124	\$2.2	\$17,936
Hong Kong	Mongkok	Yuen King Building	G/F / unit 36	56	\$23.8	\$427,698
Hong Kong	Central	Tak Woo House	G/F / units 1-1A	139	\$17.9	\$128,708

With the positive impact Expo 2010 has brought to Shanghai's retail market, the number of new shopping centres in the city this year is likely to rise to above ten—a new high in recent years.

Table 17
Market activity

	Sales		Leasing	
	3Q 10 vs 2Q 10	4Q 10 Outlook	3Q 10 vs 2Q 10	4Q 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	Sanlitun SOHO	3/F	3,000	\$134,519	\$44.8
Beijing	Chaoyang	Sanlitun SOHO	1/F	1,000	\$94,163	\$94.2
Guangzhou	Yuexiu	Beijing South Road	1/F unit	10	\$1,943	\$194.3
Guangzhou	Tianhe	Festival Walk	-1/F unit	15	\$4,185	\$279.0
Shanghai	Huangpu	Raffles City	1/F	55	\$13,495	\$245.4
Shanghai	Luwan	Xintiandi Phase III	2/F	57	\$7,770	\$136.3
Hong Kong	Tsim Sha Tsui	Granville House	G/F / unit B	69	\$23,196	\$336.5
Hong Kong	Causeway Bay	53-55 Percival Street	3/F / unit 29	71	\$24,485	\$343.2

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