



Q4 2010
GREATER
CHINA

Quarterly

Knight Frank 萊坊

OFFICE DEMAND SUPPORTS GROWTH

With growth in the global economy stabilising, multinational corporations accelerated their expansion plans on the Mainland, boosting demand for office leasing in the fourth quarter of 2010. Beijing and Shanghai's take-up increased significantly and their vacancy rates dropped to levels last witnessed before the outbreak of the global financial crisis in 2008. Office leasing in Guangzhou slowed, due to various restrictions implemented during the 2010 Asian Games period. Office rents in all the three cities continued with the upward trend in the previous quarters, with Guangzhou recording the strongest increase of 6.2%.

In all the three cities, office sales rose in the last quarter of 2010, with a number of en-bloc and large-scale transactions being recorded. Among the three cities, Shanghai witnessed the most notable price growth of 3.0%. Amid rising inflation rates, increasing office rents and cooling measures implemented to curb the residential market, more investors are expected to shift their focus to office properties.

Shanghai

Sustained economic growth on the Mainland and strong office-leasing demand continued to push up the rents of Grade-A offices in Shanghai. The city's office vacancy rate fell six percentage points to 9.0% in the fourth quarter of 2010—the first time it has dropped below 10% since the outbreak of the global financial crisis in 2008. Demand came mainly from multinational companies involved in finance, professional services, manufacturing, trading and retail, with robust leasing activity being recorded in all major business districts. For example, office space in Shanghai ICC Phase 1 in the Xuhui district was almost fully pre-let during its construction.

The supply of new offices was low in the fourth quarter and no new Grade-A offices were completed in Shanghai's major business districts. With strong leasing demand from multinational companies, the average monthly office rent rose for the second consecutive quarter, by 1.0% to reach RMB250.8 per sq m. Rents in Puxi gained about 2% to reach RMB255.0 per sq m—the second consecutive quarter to feature growth of over 2%. Meanwhile, rents in Pudong remained at about RMB240 per sq m.

With the residential market being restricted and office prices being lower than residential, many investors shifted to the commercial property market. The transaction volume of offices in the major business districts of Shanghai surged over 70% in the fourth quarter. A number of large-scale deals were registered, including the top floor of SOHO Donghai Plaza in Jing'an sold for about RMB100,000 per sq m, representing a new price-high in Shanghai and the first time office prices have surpassed those of residential premises in that area.

A considerable amount of new office supply will come on stream in the near future, including about one million sq m of Grade-A offices scheduled for completion in 2011. However, the central government has been determinedly developing Shanghai into an international financial centre in recent years, boosting demand for offices—particularly in the Lujiazui district—from new-entry and expanding financial institutions. Rents and prices of Shanghai offices, therefore, are expected to continue rising in the coming year, as the market enters into the full swing of recovery. Lujiazui and Zhuyuan in Pudong and Jing'an Temple's vicinity in Puxi are expected to be major office areas.

Beijing

Beijing's Grade-A office market continued to grow in the fourth quarter of 2010. With strong leasing demand, net absorptions reached 366,093 sq m, dragging down the vacancy rate by 4.9 percentage points to 9.4%—a new low in recent years. Foreign and domestic financial institutions continued to be the main source of market demand. Hua Xia Bank, for instance, reportedly committed to 12,000 sq m of office space in World Financial Centre in the Chaoyang district. Most offices in Financial Street and Zhongguancun were occupied and the average rent of Grade-A offices in Beijing rose to RMB208.6 per sq m per month.

In 2010, the supply of new Grade-A offices in Beijing totaled 397,494 sq m—only half that of 2009—and most of it was located in the CBD and its vicinity. As the scheduled completions of Beijing IFC, Parkview Green and Guosheng Center have been postponed to the second quarter of 2011, office supply will be tight in the first quarter of 2011. Moreover, as the development plan of the Zhongfu site and the eastward expansion scheme of the CBD have yet to be confirmed, Beijing is expected to face a shortage of office supply in 2011.



Under the central government's economic objective of being 'proactive yet moderate, prudent yet flexible', Beijing's economic growth is set to remain steady in 2011, leading to sustained demand for Grade-A offices in the city. With most vacancies in the CBD having been absorbed in the second half of 2010 and new office supply forecast to be limited in the future, the Grade-A office vacancy rate is expected to continue falling, while rents are set to continue rising this year.

Guangzhou

The government's efforts to curb the residential market pushed a number of investors to the Guangzhou office market. Meanwhile, with the 2010 Asian Games having improved the outlook for the city's economy, investors have been optimistic about the potential rental growth of offices in the city. Increased supply of primary offices contributed to a surge in office sales, with the total area of transactions reaching about 156,000 sq m in the fourth quarter of 2010. Ninety percent of the transactions were focused on Tianhe North and Pearl River New City, where primary office supply was concentrated. Guangzhou's Grade-A office prices rose 2.0% during the period, reaching RMB22,507 per sq m.

On the leasing front, the market was not as active as previously expected, due to various restrictions—such as those on refurbishment projects—implemented during the 2010 Asian Games period. The total area of offices leased decreased 12.7%, quarter on quarter. In spite of this, large-scale transactions were still recorded in Tianhe North and Pearl River New City, with a number of premium Grade-A offices accelerating their leasing activity and companies related to the 2010 Asian Games entering the Guangzhou market. For example, UniCredit reportedly committed to an about 600-sq-m high-floor unit in R&F Center in Pearl River New City for a monthly rent of RMB97,000. The overall vacancy rate of Grade-A offices in Guangzhou dropped 2.1 percentage points to 15.4%, while rents increased 6.2%, quarter on quarter.

In 2011, the supply of new Grade-A offices in Guangzhou will be mainly for leasing purposes. The abundant new supply, totaling nearly one million sq m, is likely to increase office vacancy rates and intensify competition among landlords for tenants. However, with the completions of new Grade-A offices in Pearl River New City, the overall quality of offices in Guangzhou will be enhanced, which could offset the pressure of increased supply and lend support to rents in the area.

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

Prime office

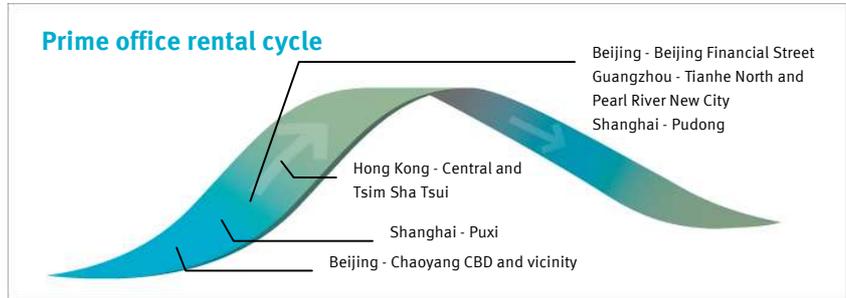


Figure 1

Grade-A office price index

Q1 2003 = 100

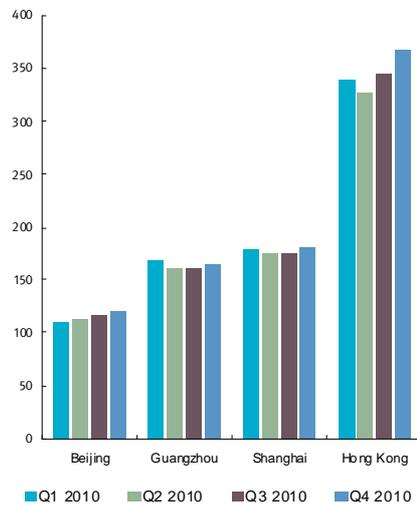
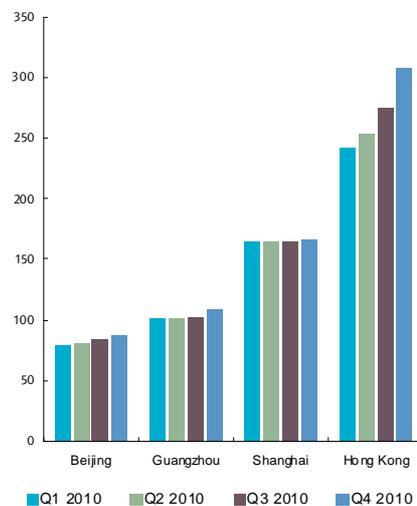


Figure 2

Grade-A office rental index

Q1 2003 = 100



City	Price (US\$ psm)	Rent (US\$ psm per month)	Vacancy rate	Yield
Beijing	\$ 3,796	\$ 31.3	9.4%	7.2%
Guangzhou	\$ 3,381	\$ 20.7	15.4%	6.6%
Shanghai	\$ 6,034	\$ 37.7	9.0%	7.5%
Hong Kong	\$ 18,277	\$ 60.7	3.2%	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.

City	Indicators	Comments
Beijing	<ul style="list-style-type: none"> 397,494 sq m of new Grade-A offices were launched in 2010, taking the total Grade-A office stock to about 7.5 million sq m. Net take-up amounted to 366,093 sq m over the fourth quarter. 	<ul style="list-style-type: none"> With Beijing IFC, Parkview Green and other projects postponing their launches to mid 2011, new supply in 2010 only accounted for about 50% of that in 2009. The vacancy rate dropped by 4.9 percentage points to 9.4% from the preceding quarter amid robust demand.
Guangzhou	<ul style="list-style-type: none"> Poly V Place and Poly Central Pivot Plaza added about 195,000 sq m of new Grade-A office space to the stock. Grade-A office sales surged quarter on quarter. 	<ul style="list-style-type: none"> New supply was found in Pearl River New City and Tianhe North CBD during the quarter. The surge in office sales was attributable to increased supply.
Shanghai	<ul style="list-style-type: none"> No new Grade-A office buildings were completed in major business areas during the fourth quarter. Demand came mainly from multinational corporations, focusing on the financial securities, professional services, manufacturing, trading and retail industries. 	<ul style="list-style-type: none"> Limited supply and strong demand pulled down the vacancy rate to below 10% for the first time in two years. Demand from the banking/securities sector has been surging amid the central government's determination to establish Shanghai into an international financial centre.
Hong Kong	<ul style="list-style-type: none"> No new Grade-A offices were completed during the quarter. 	<ul style="list-style-type: none"> The leasing market saw a number of firms scrambling for limited offices in core areas, leading to a surge in office rents during the quarter.



Table 4

Major sales transactions

City	District	Development	Floor / Unit	Area (sq m)	Price (US\$ million)	Price (US\$ per sq m)
Beijing	Chaoyang	Yinhe SOHO	N/A	175	\$1.8	\$10,131
Beijing	Chaoyang	Tunsanli	N/A	66	\$0.5	\$7,559
Guangzhou	Tianhe	Citic Plaza	High floor unit	230	\$1.1	\$4,657
Guangzhou	Tianhe	China Shine Plaza	High floor unit	205	\$0.9	\$4,356
Shanghai	Jing'an	The Exchange - Soho	57/F	1,206	\$18.2	\$15,078
Shanghai	Pudong	Jasper Tower	12/F unit	426	\$4.2	\$9,895
Hong Kong	Central	The Center	79/F	1,226	\$43.5	\$35,508
Hong Kong	Admiralty	Bank of America Tower	31/F	1,289	\$36.5	\$28,274

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

Table 5

Market activity

	Sales		Leasing	
	4Q 10 vs 3Q 10	1Q 11 Outlook	4Q 10 vs 3Q 10	1Q 11 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	Eagle Run Plaza	Tower B / 8/F	1,370	\$28,401	\$20.7
Beijing	Chaoyang	Gateway Plaza	Tower A / 20/F unit	550	\$17,764	\$32.3
Guangzhou	Tianhe	Teem Tower	High floor unit	153	\$4,091	\$26.7
Guangzhou	Tianhe	HNA Building	High floor unit	97	\$2,550	\$26.3
Shanghai	Xuhui	The Centre	Low floor unit	1,480	\$60,829	\$41.1
Shanghai	Pudong	IFC Phase Two	Low floor unit	1,500	\$47,951	\$32.0
Hong Kong	Admiralty	Two Pacific Place	One floor	Over 2,040	N/A	N/A
Hong Kong	Central	Two IFC	Three floors	6,410	N/A	N/A

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

Luxury residential

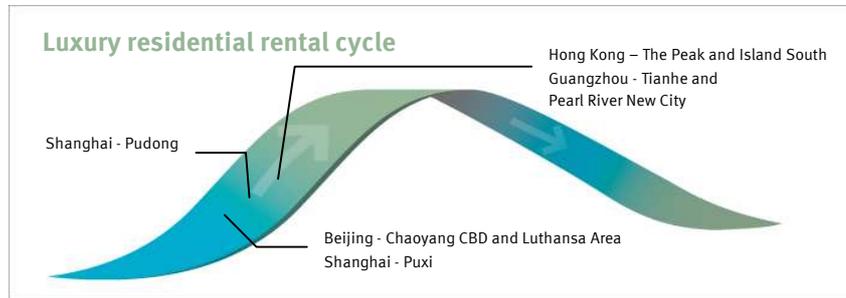


Figure 3

Luxury residential price index

Q1 2003 = 100

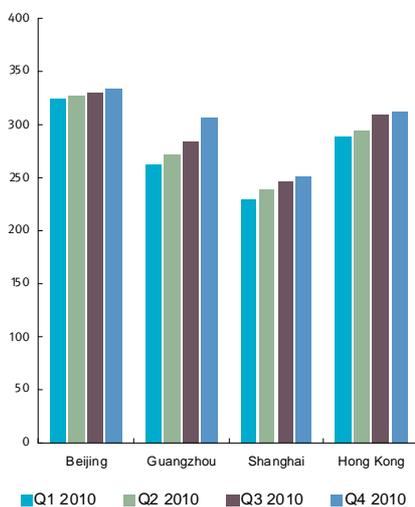
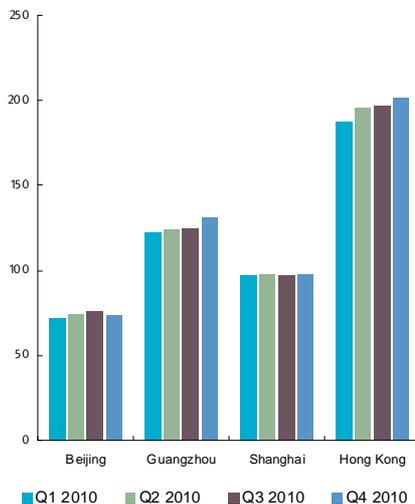


Figure 4

Luxury residential rental index

Q1 2003 = 100



City	Price (US\$ psm)	Rent (US\$ psm per month)	Vacancy rate	Yield
Beijing	\$ 5,681	\$ 19.7	19.2%	3.7%
Guangzhou	\$ 4,142	\$ 16.5	18.0%	4.1%
Shanghai	\$ 7,819	\$ 22.9	17.0%	3.5%
Hong Kong	\$ 27,379	\$ 62.8	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"> No new serviced apartments were launched for lease in the quarter. With weaker leasing demand, the vacancy rate edged up slightly to 19.2%. 	<ul style="list-style-type: none"> Beijing Hills, R&F No. 10 and Courtyards by the Cannal were launched, adding 242 luxury homes to the sales market. Despite new measures introduced at the end of the third quarter, 562 luxury units were sold in the fourth quarter, up about 10% quarter on quarter.
Guangzhou	<ul style="list-style-type: none"> Only 125,000 sq m of new luxury homes were launched, down 17.5% quarter on quarter. Luxury residential sales declined about 20% quarter on quarter. 	<ul style="list-style-type: none"> Luxury residential supply was limited, concentrating in Pearl River New City. Transactions slowed as affected by the policy restricting home purchase until they rebounded during quarter-end.
Shanghai	<ul style="list-style-type: none"> Modena Putuo Shanghai in the Putuo Zhenru Area added 348 serviced apartments to the stock. The transacted area of new homes reached 3.68 million sq m over the quarter, up 47.9% quarter on quarter. 	<ul style="list-style-type: none"> With the extension of the CBD area to non-central locations, serviced apartments started to emerge in secondary areas. Transaction volume picked up markedly towards the quarter-end with the return of mid to high-end buyers for upgrading and investment purposes.
Hong Kong	<ul style="list-style-type: none"> Transactions of luxury homes worth HK\$10 million or above fell 25.4% to 2,146 units from the previous quarter. 	<ul style="list-style-type: none"> The expanding corporate sector continued to support the luxury home leasing market, with increasing demand from expatriates.



Table 10
Major sales transactions

City	District	Development	Floor / Unit	Area (sq m)	Price (US\$ million)	Price (US\$ per sq m)
Beijing	Chaoyang	The Riverside	Villa	348	\$4.9	\$14,224
Beijing	Chaoyang	Summer Palace Splendor	Villa	951	\$13.0	\$13,651
Guangzhou	Tianhe	Top View	High floor unit	197	\$1.0	\$5,185
Guangzhou	Tianhe	Central Park View	Low floor unit	184	\$1.6	\$8,412
Shanghai	Xuhui	Shanghai Bay	Tower 4 / 8/F unit	315	\$3.9	\$12,375
Shanghai	Pudong	Four Seasons	House 333	279	\$4.6	\$16,506
Hong Kong	Mid-Levels Central	Gramercy	32/F / unit A	161	\$6.7	\$41,603
Hong Kong	Island South	Belleview Place	House 6	298	\$11.6	\$38,930

The introduction of a new round of tightening measures is expected to suppress luxury home sales on the Mainland in the first quarter of 2011.

Table 11
Market activity

	Sales		Leasing	
	4Q 10 vs 3Q 10	1Q 11 Outlook	4Q 10 vs 3Q 10	1Q 11 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	Riviera	Villa 332F	500	\$8,863	\$17.7
Beijing	Chaoyang	Riviera	Townhouse 847	210	\$2,704	\$12.9
Guangzhou	Tianhe	Favorview Palace	High floor unit	358	\$5,258	\$14.7
Guangzhou	Tianhe	Central Park View	Mid floor unit	278	\$4,507	\$16.2
Shanghai	Minhang	Rancho Santa Fe	House 116	475	\$9,764	\$20.6
Shanghai	Pudong	Fraser Suites Top Glory	Tower 5 / 17/F / unit 02	211	\$6,910	\$32.7
Hong Kong	Island South	Hong Kong Parkview	Tower 18 / Penthouse	239	\$23,834	\$99.8
Hong Kong	The Peak	40 Peak Road	House	546	\$51,533	\$94.4

Table 13

Outlook (1Q 2011)

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

Figure 5

Prime retail price index

Q1 2003 = 100

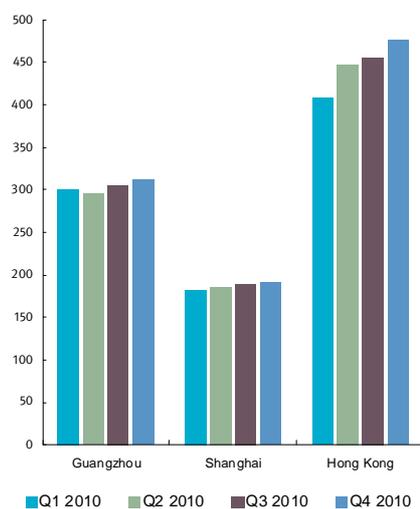
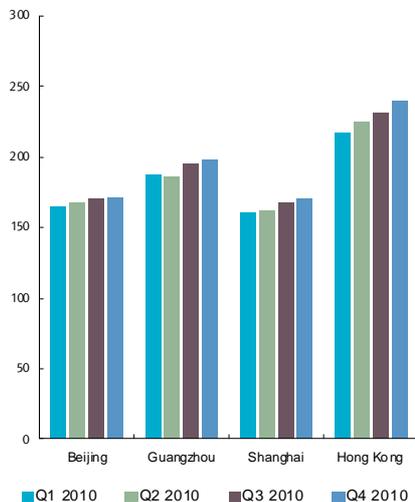


Figure 6

Prime retail rental index

Q1 2003 = 100



Prime retail

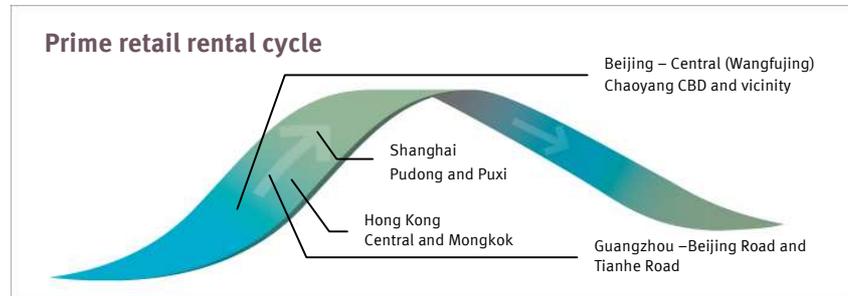


Table 14

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

City	Price (US\$ psm)	Rent (US\$ psm per month)	Vacancy rate	Yield
Beijing	N/A	\$ 101.1	11.6%	5.3%
Guangzhou	\$ 29,369	\$220.7	4.0%	7.3%
Shanghai	\$ 16,540	\$ 123.6	6.4%	6.9%
Hong Kong	\$ 200,227	\$ 571.0	8.7% ^[3]	3.2% ^[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"> Two prime retail complexes were launched, providing 89,120 sq m of retail space. 	<ul style="list-style-type: none"> Taiyanggong Parkson Department Store and Fortune Mall started formal operations after previous trials.
Guangzhou	<ul style="list-style-type: none"> The supply of new shopping centres surged to about 300,000 sq m in the quarter. The opening rates in new shopping centres reached over 80%. 	<ul style="list-style-type: none"> A number of new shopping centres were launched amid the 2010 Asian Games. Retail demand remained robust, thanks to the 2010 Asian Games.
Shanghai	<ul style="list-style-type: none"> New retail supply reached over 300,000 sq m in the fourth quarter. Retail sales reached high levels during the National Day holiday period in October and the traditional sale season towards year-end. 	<ul style="list-style-type: none"> Along with the development of the railway network, retail supply has been sprawling to the outskirts of the city. The retail sales of the food and beverage service sector maintained rapid growth.
Hong Kong	<ul style="list-style-type: none"> 7,112 retail property sales transactions were recorded in the first 11 months of 2010, up 76.4% year on year. 	<ul style="list-style-type: none"> About four million non-Guangdong migrant workers in Shenzhen can now apply for single-entry visas to travel to Hong Kong. The new rule is expected to further stimulate retail sales in Hong Kong.



Table 16
Major sales transactions

City	District	Development	Floor / Unit	Area (sq m)	Price (US\$ million)	Price (US\$ per sq m)
Beijing	Chaoyang	Yinhe SOHO	N/A	188	\$2.5	\$13,143
Beijing	Chaoyang	Tunsanli	N/A	69	\$0.6	\$8,980
Guangzhou	Yuexiu	Xihu Road	1/F unit	17	\$0.4	\$22,092
Guangzhou	Yuexiu	China Plaza	1/F unit	90	\$2.2	\$24,203
Shanghai	Zhabei	Litful Business Square	1/F / unit 48	60	\$0.9	\$15,436
Shanghai	Yangpu	The Centre of East Shanghai	1/F / unit 1022	80	\$0.9	\$11,534
Hong Kong	Mongkok	Sincere Plaza	G/F / units 2-3	22	\$8.0	\$367,431
Hong Kong	Mongkok	Sino Centre	G/F / units 26-27	36	\$8.4	\$234,738

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

Table 17
Market activity

	Sales		Leasing	
	4Q 10 vs 3Q 10	1Q 11 Outlook	4Q 10 vs 3Q 10	1Q 11 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	Gateway Plaza	3/F unit	131	\$5,904	\$45.1
Beijing	Chaoyang	Office Park	B/F unit	3,500	\$70,980	\$20.3
Guangzhou	Tianhe	Festival Walk	-1/F unit	15	\$2,103	\$140.2
Guangzhou	Yuexiu	Zhongshan 3rd Road	Street shop	25	\$4,206	\$168.2
Shanghai	Pudong	Super Brand Mall	4/F unit	80	\$10,960	\$137.0
Shanghai	Huangpu	Raffles City	6/F unit	200	\$16,440	\$82.2
Hong Kong	Tsim Sha Tsui	Po Fung Building	G/F / unit D	46	\$77,300	\$1,664.1
Hong Kong	Tsim Sha Tsui	Burlington House	G/F / unit B	50	\$57,975	\$1,166.4

Note: all transactions are subject to confirmation and all data are subject to revision.

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