



Q4 2011 GREATER CHINA

Quarterly

Knight Frank 萊坊

BRIGHT OUTLOOK FOR RETAIL MARKET

Beijing

In 2011, retail sales in Beijing (excluding cars) reached RMB558.7 billion—up 22% year on year. The prime retail market grew rapidly as local and international retailers expanded. New supply reached a high level in the fourth quarter with four new shopping centres opening, adding a total of 241,649 sq m to the prime retail market. Despite the increase in supply, take-up continued to grow steadily, reducing the vacancy rate by 0.3 percentage point to 8.6%.

International luxury brands continued to expand in Beijing. In the fourth quarter, Dior and Marni opened flagship stores in Shinkong Place and Sanlitun Village, respectively. Strong market demand pushed up the monthly rents of level-one shops by 3.8% to RMB1,206.3 per sq m.

With the central government's austerity measures impacting the residential sector, some investors shifted their interest to the commercial market. In the fourth quarter, retail property sales reached 257 units—up 7.5% quarter on quarter—while prices rose to RMB58,549 per sq m.

International luxury brands and local, mid to high-end brands are set to continue to enter and expand in

the market, supported by the stable growth in income per capita and the city's strong economy. Nine prime shopping malls are scheduled to open in 2012, providing a total of 880,773 sq m. Since most developments have secured their anchor tenants during the pre-leasing period, we expect the occupancy rates to remain stable in 2012. Rents are set to grow about 15%.

Shanghai

Shanghai's retail market continued to witness strong growth in supply and demand during the fourth quarter. On the demand side, the city's 456 medium and large-sized retailers recorded year-on-year revenue growth of 17.6% to RMB7.1 billion during the seven-day National Day holiday. On the supply side, two shopping centres opened, providing about 296,000 sq m of space.

In August, Shanghai's Banking Regulatory Commission banned individual consumer loans from being spent on purchasing commercial properties, while bank loans for commercial purposes will now only be granted after the completion of the projects. The policies had no significant impact on investors, as they did not impose restrictions on the qualifications of buyers as had been imposed in the residential sector. However, for developers trying to enter the commercial development market, the policies did lift the investment threshold and could add to financing difficulties.

More overseas retailers entered the Shanghai market during the fourth quarter. American clothing brand Hollister opened its first Mainland shop in Raffles City, while Greek accessories retailer Folli Follie and Italian fashion brand ASOBIO both opened flagship stores in Nanjing West Road. Strong demand pushed up the prime retail rents of level-one shops by 1.0% quarter on quarter, to RMB1,489.6 per sq m, while vacancy rates remained at about 9.0%.

Shanghai's retail market is expected to remain buoyant in 2012. In March, the K11 Art Mall and Japanese department store Gloria will open in Huaihai Middle Road and in Zhongshan Park business circle, respectively. We expect retail rents to grow about 15% in 2012, while prices should remain firm. Over the next two years, commercial properties are likely to remain the main focus of major investment buyers.

Guangzhou

In the fourth quarter, total retail property sales in Guangzhou increased 17% to about 300,000 sq m, while prices grew 2.6%. The sales market remained buoyant, driving up the supply of for-sale street shops by 3%, to reach a level of about 160,000 sq m. The average rent remained stable, but the number of leasing transactions in prime retail areas plunged about 50%, reflecting the slowdown in growth in GDP and retail sales in Guangzhou during the second half of 2011.

Investment in commercial properties will remain positive amid the continuation of home-purchase restrictions in 2012. The current robust market will encourage the launch of commercial properties, thus increasing supply. We expect retail property prices to rise slightly and the total transacted area to remain stable. Consumption confidence might be affected, given that China's economic outlook is less positive compared to last year, while the growth of the consumer price index is likely to gradually slow. We also expect the completion of new malls to slow in 2012 and new supply to total less than 300,000 sq m, with new centres mainly located in the Tianhe and Baiyun districts. Rent levels, however, are expected to remain stable.



Economic indicator and real estate policies

The economic outlook in China remains positive while inflation is expected to come under control. The central government will closely monitor China's economic development to avoid a hard landing.

Table 1

Economic indicators

	Latest reading	Beijing	Shanghai	Guangzhou	Hong Kong
GDP growth	2011	+8.1%	+8.2%	+11.0% (1-3Q)	+4.3%#
Total GDP contribution to the country	2011	3.4%	4.1%	2.8% (1-3Q)	n/a
Inflation rate	Dec 2011	+4.4%	+4.5%	+4.6% (Nov 2011)	+5.7%
Unemployment	2010	1.4%	4.2%	2.2%	3.4%# (Nov 2011)
FDI in real estate (USD)	n/a	1.4B (2010)	523.0M (2003)	1.1B (2010)	613.3B (2009)
Year-on-year growth in (utilised) FDI	2011	+17.4% (1-3Q)	+13.3%	+7.7% (Jan-Oct)	+14.8% (position, 2009)
Year-on-year growth in retail sales	2011	+10.8%	+12.3%	+17.3% (Jan-Nov)	+25.0% (Jan-Nov)
Prime lending rate	Jan 2012	6.65%^	6.65%^	6.65%^	5.00%*

Source: CEIC / Census & Statistics Department / Knight Frank

^ People's Bank of China # Provisional * HSBC prime lending rate

The central government extended the implementation of regulatory measures to lower-tier cities. It also encouraged home leasing to cope with housing demand.

Table 2

Major real estate market policies

Policy	Policy details	Effective date	Cities applicable
Prohibit the leasing of village land for non-agricultural construction.	The Ministry of Land and Resources issued a notice prohibiting corporations from leasing village land for non-agricultural construction.	Dec 2011	Nationwide
Guangzhou allows individuals to withdraw pension funds to pay rents on homes less than or equal to 90 sq m.	The amount of pension funds that can be withdrawn cannot be higher than the monthly rents. Rents of extra space over 90 sq m cannot be paid for by pension funds.	Oct 2011	Guangzhou
Home purchase restrictions are imposed in Zhuhai	Mortgage rates and the down-payment ratio are raised for second-plus home purchases. Mortgage loans are prohibited for third-home purchases or for non-residents who cannot show proof of a one-year tax payment or social security record.	Nov 2011	Zhuhai City
Hong Kong announces the resumption of the Home Ownership Scheme (HOS)	Starting from 2016–2017, Hong Kong will provide about 2,500–6,500 HOS units sized about 40–50 sq m, per year, at affordable prices.	Oct 2011	Hong Kong

Table 3
Outlook (1Q 2012)

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

Prime office

Prime office rental cycle

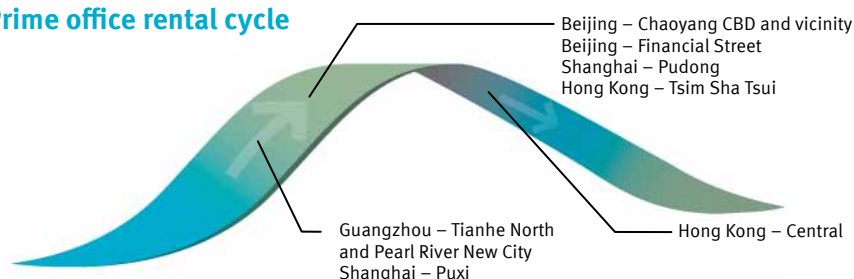


Figure 1
Grade-A office price index

Q1 2003 = 100

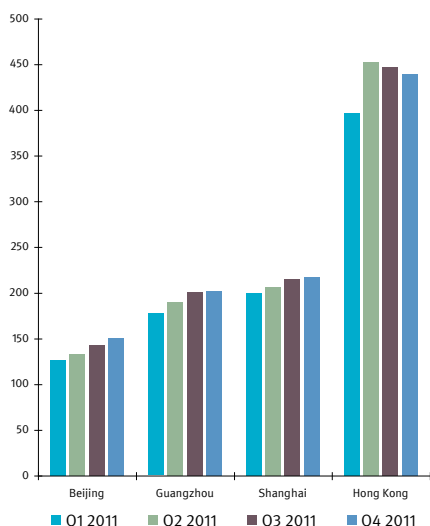


Figure 2
Grade-A office rental index

Q1 2003 = 100

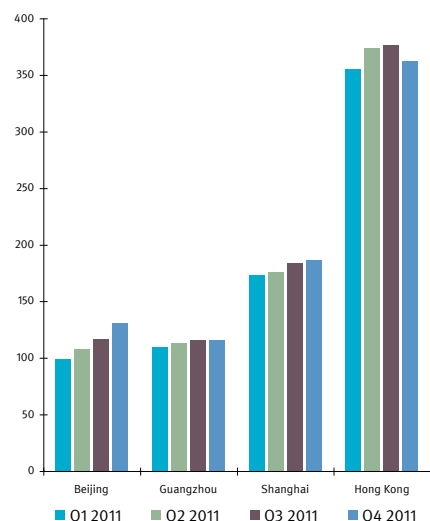


Table 4
Average prices, rents, vacancy rates and yields [1][2]

City	Price (US\$ psm)	Rental (US\$ psm per month)	Vacancy rate	Yield
Beijing	\$4,978	\$50.7	4.3%	7.1%
Guangzhou	\$4,323	\$23.2	17.6%	5.5%
Shanghai	\$7,549	\$44.1	3.5%	6.8%
Hong Kong	\$21,812	\$71.2	2.5%	3.3%

[1] Average prices and rents 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 5
Supply and demand indicators

City	Indicators	Comments
Beijing	<ul style="list-style-type: none"> Parkview Green and Indio became ready for occupation in the quarter with gross floor areas of 80,000 sq m and 56,000 sq m respectively. 165,390 sq m of Grade-A office space was absorbed in the quarter. Net take-up over 2011 totaled 605,000 sq m. 	<ul style="list-style-type: none"> New supply of Grade-A offices in 2011 totaled 328,385 sq m, the lowest level over the past five years. Upcoming supply in 2012 is forecast to remain at a similar level to 2011. Demand for Grade-A offices greatly surpassed supply in 2011, dragging down the vacancy rate to a ten-year low of 4.3% with an annual rental growth of 45.9%.
Guangzhou	<ul style="list-style-type: none"> No new Grade-A offices were launched in the fourth quarter. Grade-A office sales reached about 67,000 sq m, down about 50% from the previous quarter. 	<ul style="list-style-type: none"> New Grade-A office supply is expected to reach over 200,000 sq m in the first quarter of 2012. Guangcheng International Building started international pre-lease. More than 10,000 sq m of space had been absorbed by Christmas eve, mainly involving large-scale deals.
Shanghai	<ul style="list-style-type: none"> Due to the delay of the handover of SML Central Plaza and Huamin Imperial Tower, new supply in the quarter only included Urban City Centre (UCC) in Huangpu District with a total office area of 31,000 sq m. In the fourth quarter, Grade-A office vacancy rate continued to decline to 3.5% and a number of premium Grade-A office buildings were fully occupied. 	<ul style="list-style-type: none"> Despite limited new supply, the office pre-leasing market witnessed adequate supply and active performance. The office investment market remained active in the quarter, resulting in a number of large-scale transactions with a total value of RMB3.5 billion.
Hong Kong	<ul style="list-style-type: none"> As the economic outlook turned sour, relocation demand sprang in the quarter with companies opting to save operation costs by moving to less expensive offices. 	<ul style="list-style-type: none"> With shrinking office demand, landlords in core areas will exhibit greater flexibility in rents. Rents in non-core areas, which are supported by relocation demand, are likely to remain firm.



Table 6
Major sales transactions

City	District	Development	Floor / Unit	Area (sq m)	Price (US\$ million)	Price (US\$ per sq m)
Beijing	Dongcheng	Galaxy SOHO	n/a	145	\$1.6	\$11,191
Beijing	Xicheng	Overseas International Center	n/a	1,474	\$7.2	\$4,877
Guangzhou	Tianhe	Poly Plaza Clover	High-floor unit	622	\$2.9	\$4,656
Guangzhou	Tianhe	F&R Yingtai Plaza	Mid-floor unit	417	\$2.1	\$5,033
Shanghai	Pudong	SWFC	31 st floor	3,611	\$46.9	\$12,975
Shanghai	Luwan	SML Centre Plaza	25 th floor unit	161	\$1.5	\$9,481
Hong Kong	Central	Nine Queen's Road Central	12 nd -13 rd floors	2,549	\$94.7	\$37,151
Hong Kong	Kwun Tong	49 King Yip Street	12 floor unit	7,033	\$67.0	\$9,519

The rents and prices of Grade-A offices will outperform in Beijing and grow by 25% and 20% respectively in 2012, followed by Shanghai and Guangzhou.

Table 7
Market activity

	Sales		Leasing	
	4Q 11 vs 3Q 11	1Q 12 Outlook	4Q 11 vs 3Q 11	1Q 12 Outlook
Beijing	↗	↗	↘	↔
Guangzhou	↘	↗	↔	↗
Shanghai	↘	↘	↗	↗
Hong Kong	↘	↔	↘	↗

Table 8
Major leasing transactions

City	District	Development	Floor / Unit	Area (sq m)	Monthly Rental (US\$)	Monthly Rental (US\$ per sq m)
Beijing	Chaoyang	CWTC Tower 2	18 th floor unit	1,308	\$152,517	\$117
Beijing	Chaoyang	Indigo	16-17 th floors	7,000	\$300,266	\$43.0
Guangzhou	Tianhe	Citic Plaza	22 nd floor unit	112	\$2,995	\$26.7
Guangzhou	Tianhe	Goldlion Tower	10 th floor unit	137	\$3,448	\$25.2
Shanghai	Jing'an	Wheelock Square	42 nd floor	1,000	\$57,373	\$57.4
Shanghai	Pudong	Mirae Asset Tower	22 nd and 23 rd floors	6,000	\$315,553	\$52.6
Hong Kong	Central	Citibank Tower	34 th and 36 th floor	2,973	n/a	n/a
Hong Kong	Wan Chai	Hopewell Centre	5 Floors	7,432	n/a	n/a

Table 9
Outlook (1Q 2012)

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

Luxury residential

Luxury residential rental cycle

Beijing – Chaoyang CBD and Luthansa Area
Guangzhou – Tianhe and Pearl River New City
Shanghai – Pudong and Puxi

Hong Kong – the Peak and Island South

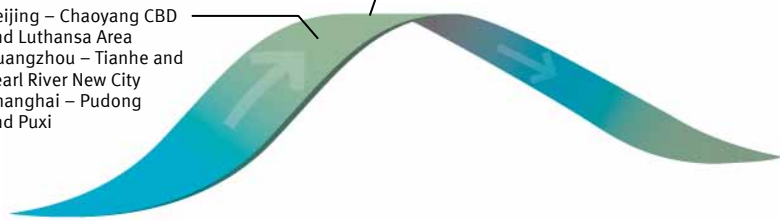


Figure 3
Luxury residential price index

Q1 2003 = 100

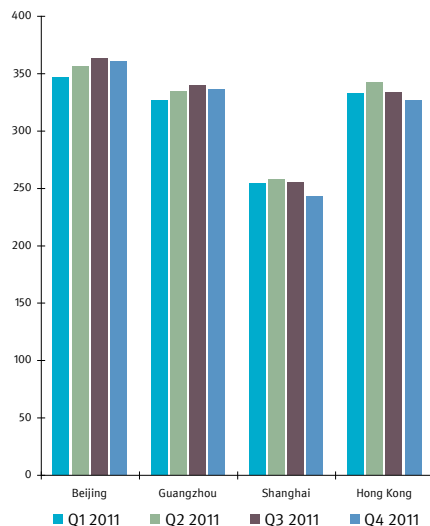


Figure 4
Luxury residential rental index

Q1 2003 = 100

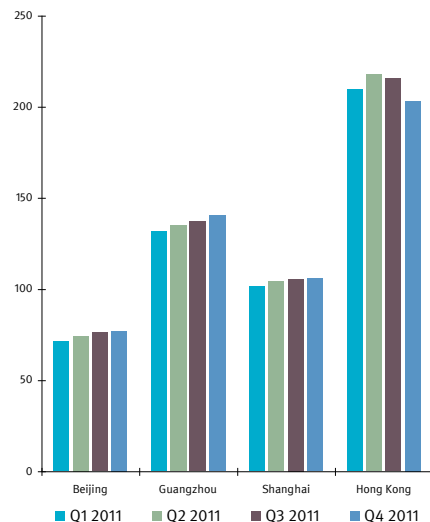


Table 10
Average prices, rents, vacancy rates and yields [1][2][3]

City	Price (US\$ psm)	Rental (US\$ psm per month)	Vacancy rate	Yield
Beijing	\$6,429	\$23.0	13.0%	3.5%
Guangzhou	\$4,757	\$18.5	23.6%	4.6%
Shanghai	\$7,908	\$26.0	11.6%	3.8%
Hong Kong	\$28,617	\$63.1	9.2% ^[3]	2.6%

[1] Average prices and rents 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-2010 vacancy rate of units over 100 sq m supplied by Rating and Valuation Department, HKSAR.

Table 11
Supply and demand indicators

City	Indicators	Comments
Beijing	<ul style="list-style-type: none"> Beijing's luxury residential supply in the fourth quarter edged down by 3.6% to 1,985 units, however still in the peak level of the year. 650 luxury homes were sold in the fourth quarter, representing a 21.5% quarter-on-quarter growth. 	<ul style="list-style-type: none"> The rise in sales was mainly due to the increase in supply in the second half. Market sentiment remained depressed. Sales are set to further decline in 2012 with continued buying restrictions.
Guangzhou	<ul style="list-style-type: none"> New luxury residential supply decreased about 50% quarter on quarter to 139,000 sq m. Luxury home sales grew 10.8% from the third quarter. 	<ul style="list-style-type: none"> Most developers put their projects on hold amid the government's tightening policies and a subdued residential market, resulting in a plunge in new supply. Riviera in Pearl River New City was well-received, accounting for one third of total transactions. Sales in other projects plunged 30% quarter on quarter.
Shanghai	<ul style="list-style-type: none"> In the fourth quarter, new supply of luxury homes totaled approximately 227,000 sq m, an decrease of 24% from the previous quarter. Luxury residential sold area in the quarter decreased about 5% from the previous quarter, whilst prices decreased 4.9% to RMB50,284 per sq m. 	<ul style="list-style-type: none"> New home supply continued to decrease due to effects of the traditional off-season and the on-going home-purchase restrictions. As buying activities declined, cutting prices to lure buyers in the luxury market is an effective way to avoid significant drops in transaction volumes.
Hong Kong	<ul style="list-style-type: none"> Sales of luxury homes worth HK\$10 million or above dropped 19.2% quarter-on-quarter to 1,429 in the fourth quarter. 	<ul style="list-style-type: none"> The government's resumption of Home Ownership Scheme (HOS) and global economic unrest caused a drop in property sales transactions.



Table 12
Major sales transactions

City	District	Development	Floor / Unit	Area (sq m)	Price (US\$ million)	Price (US\$ per sq m)
Beijing	Tongzhou	Courtyard by the Cannal	Villa	502	\$7.6	\$15,158
Beijing	Haidian	Heritage Estate	Apartment	590	\$11.9	\$20,207
Guangzhou	Tianhe	Central ParkView	High-floor unit	204	\$1.7	\$8,481
Guangzhou	Yuexiu	Hongcheng Villa	Villa	1,339	\$28.3	\$21,143
Shanghai	Luwan	The Paragon	Tower 1 / 7 th floor / unit 803	144	\$2.0	\$13,550
Shanghai	Yangpu	Grand Mansion	House 127	413	\$8.7	\$20,985
Hong Kong	The Peak	8 Severn Road	House	312	\$25.5	\$81,601
Hong Kong	Mid-Levels	Serenade	Tower 2 / 63 rd & 65 th floors / duplex A	243	\$10.1	\$41,468

Tightening policies are not expected to be relaxed. Mainland residential prices are likely to see slight downward adjustments in 2012.

Table 13
Market activity

	Sales		Leasing	
	4Q 11 vs 3Q 11	1Q 12 Outlook	4Q 11 vs 3Q 11	1Q 12 Outlook
Beijing	↗	↘	↘	↔
Guangzhou	↗	↘	↗	↘
Shanghai	↘	↘	↘	↗
Hong Kong	↘	↔	↘	↔

Table 14
Major leasing transactions

City	District	Development	Floor / Unit	Area (sq m)	Monthly Rental (US\$)	Monthly Rental (US\$ per sq m)
Beijing	Chaoyang	Park Avenue	8 th floor unit	300	\$7,078	\$23.6
Beijing	Chaoyang	Blue Castle	8 th floor unit	120	\$1,966	\$16.4
Guangzhou	Tianhe	Beau Monde	High floor unit	104	\$1,730	\$16.6
Guangzhou	Tianhe	Edinburgh International Apartment	High floor unit	187	\$2,359	\$12.6
Shanghai	Changning	Windsor Place	House 80	480	\$11,796	\$24.6
Shanghai	Pudong	Yanlord Town	Unit 1702	197	\$4,640	\$23.6
Hong Kong	The Peak	King's Court	House	294	\$33,478	\$113.9
Hong Kong	Island South	Le Palais	House	406	\$37,341	\$91.9

Table 15
Outlook (1Q 2012)

City	Price	Rental
Beijing	n/a	↗
Guangzhou	↔	↔
Shanghai	↗	↗
Hong Kong	↔	↗

Prime retail

Prime retail rental cycle

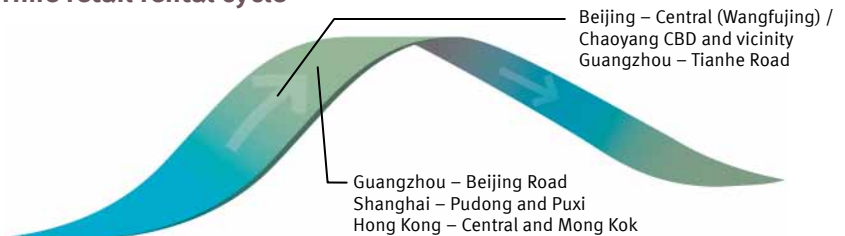


Figure 5
Prime retail price index

Q1 2003 = 100

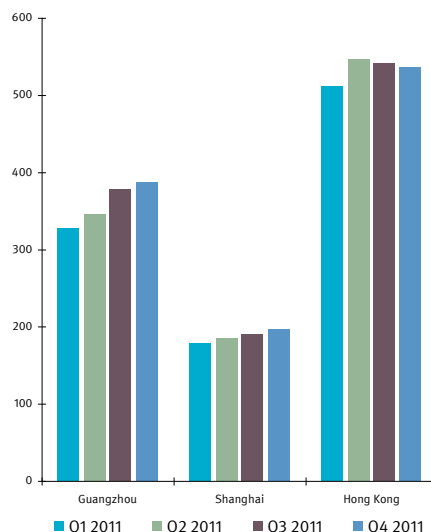


Figure 6
Prime retail rental index

Q1 2003 = 100

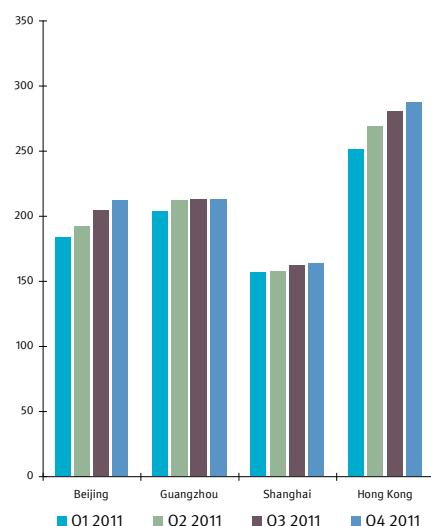


Table 16
Average prices, rents, vacancy rates and yields [1][2]

City	Price (US\$ psm)	Rent (US\$ psm per month)	Vacancy rate	Yield
Beijing	n/a	\$189.7	8.6%	6.11%
Guangzhou	\$38,195	\$247.2	4.0%	6.4%
Shanghai	\$28,806	\$234.3	9.0%	6.5%
Hong Kong	\$224,848	\$681.3	7.9% ^[3]	3.0% ^[4]

[1] Average prices and rents 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-2010 overall vacancy rate supplied by Rating and Valuation Department, HKSAR.

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

Table 17
Supply and demand indicators

City	Indicators	Comments
Beijing	<ul style="list-style-type: none"> Four shopping centres opened in the fourth quarter, providing 241,649 sq m of premium retail space to the market. 	<ul style="list-style-type: none"> With several prime retail developments postponing their launch, new retail supply over 2011 reached 276,649 sq m, representing a 65.8% year-on-year decrease.
Guangzhou	<ul style="list-style-type: none"> No new shopping centres were completed in the fourth quarter. Street shop new supply increased 15% quarter on quarter. Retail property sales rose 10% from the third quarter. 	<ul style="list-style-type: none"> A robust retail market encouraged the launch of street shops. The growth in retail property sales had narrowed quarter by quarter.
Shanghai	<ul style="list-style-type: none"> Two new shopping malls opened in the quarter, including Cloud Nine Hongkou Mall in Hongkou District and Parkside Plaza in Putuo District, adding approximately 296,000 sq m of retail space to the market. In Shanghai, 5,000 stores of 456 large and middle-sized local retailers achieved a retail sales of RMB7.1 billion during 1-7 October, up 17.6% year on year. 	<ul style="list-style-type: none"> In the fourth quarter, new shopping centre supply declined 4.9% year on year. With intensive promotional activities during Christmas and New Year holidays, retail sales witnessed another climax towards the end of 2011.
Hong Kong	<ul style="list-style-type: none"> No major shopping mall opened in the fourth quarter. 	<ul style="list-style-type: none"> Hong Kong's retail property market continued to outperform other property sectors, in view of robust retail sales and strong growth in tourist arrivals.



Table 18
Major sales transactions

City	District	Development	Floor / Unit	Area (sq m)	Price (US\$ million)	Price (US\$ per sq m)
Beijing	Chaoyang	Wangjing SOHO	n/a	130	\$2.5	\$19,428
Beijing	Chaoyang	Sanlitun SOHO	n/a	268	\$5.9	\$21,862
Guangzhou	Yuexiu	Beijing Road	1 st floor unit	8	\$1.5	\$186,773
Guangzhou	Tianhe	Grandview Plaza	Basement 1 st floor unit	35	\$0.9	\$26,963
Shanghai	Xuhui	Hysun Greenland Project	1 st floor / unit 109	79	\$1.4	\$17,318
Shanghai	Pudong	Zendai Thumb Plaza	1 st floor	68	\$1.0	\$14,951
Hong Kong	Mong Kok	Punfet Building	Ground-floor / unit A	82	\$16.1	\$196,205
Hong Kong	Causeway Bay	Hoi To Court	Ground-floor / unit 23	24	\$3.7	\$157,006

Retail rents in Hong Kong are expected to continue their uptrend in 2012, albeit at a slower pace amid the uncertainty of a worsening global economy.

Table 19
Market activity

	Sales		Leasing	
	4Q 11 vs 3Q 11	1Q 12 Outlook	4Q 11 vs 3Q 11	1Q 12 Outlook
Beijing	↗	↘	↗	↘
Guangzhou	↗	↘	↘	↗
Shanghai	↘	↘	↗	↗
Hong Kong	↔	↔	↗	↔

Table 20
Major leasing transactions

City	District	Development	Floor / Unit	Area (sq m)	Monthly Rental (US\$)	Monthly Rental (US\$ per sq m)
Beijing	Dongcheng	Beijing APM	1 st -4 th floors units	2,500	n/a	n/a
Beijing	Chaoyang	Fangheng Mall	4 th floor unit	1,300	\$24,536	\$18.9
Guangzhou	Yuexiu	Jingdian Commercial Street	Basement unit	52	\$11,482	\$220.8
Guangzhou	Tianhe	Tianhe South First Road	1 st floor unit	15	\$2,045	\$136.3
Shanghai	Putuo	Parkside Plaza at Changfeng	2 nd floor	1,300	\$43,508	\$33.5
Shanghai	Jing'an	Citic Square	4 th floor	42	\$5,623	\$133.9
Hong Kong	Tsim Sha Tsui	Chungking Mansions	Ground-floor / unit 2	71	\$115,885	\$1,641.3
Hong Kong	Mongkok	Yuen King Building	Ground-floor / unit 51A	28	\$36,053	\$1,272.4

Major districts in Beijing include Chaoyang, Dongcheng, Xicheng, Haidian, Shijingshan, Fengtai.

Map 1
Major districts in Beijing



Major districts in Shanghai include the Pudong New Area, Jing'an, Luwan, Xuhui, Putuo, Changning, Zhabei, Hongkou, Huangpu and Yangpu.

Map 2
Major districts in Shanghai





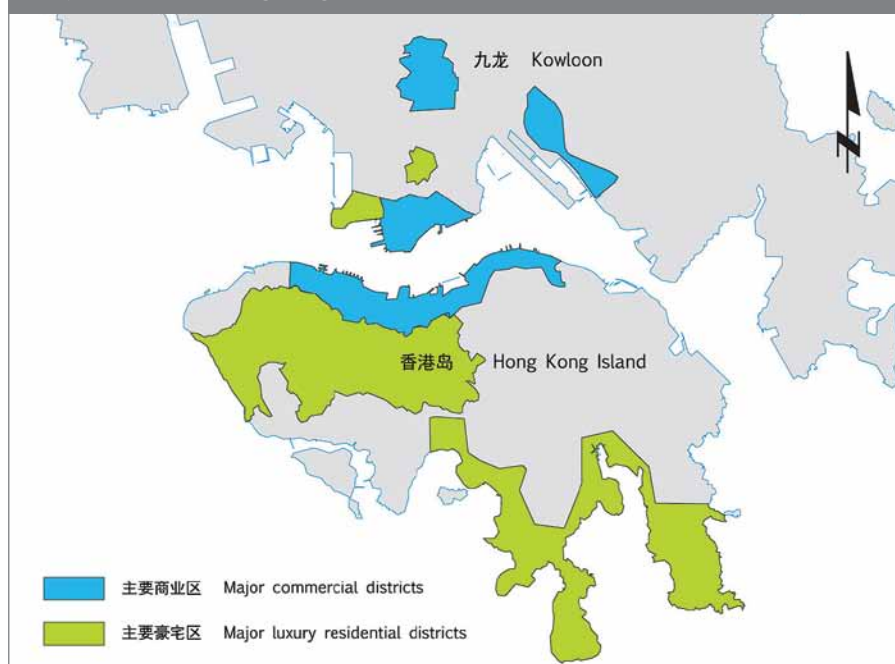
Major districts in Guangzhou include Tianhe, Yuexiu, Liwan, Haizhu, Huangpu and Luogang.

Map 3
Major districts in Guangzhou



Hong Kong's major commercial districts scatter along the two sides of the harbour, while its luxury residential areas focused on Hong Kong Island.

Map 4
Major districts in Hong Kong



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