

Residential sector briefing

Beijing, China

January 18, 2010

"An active sales market has reduced the availability of Grade A apartments for lease, which should help to support higher rents and occupancy rates in 2010"



- Grade 'A' apartment, high-end villa, and serviced apartment rents fall 0.3, 2.8, and 1.2 per cent respectively in the fourth quarter
- Serviced apartments witness a 3.8 percentage point increase in occupancy rate, while Grade 'A' apartment and high-end villa occupancy rates fall 0.1 and 2.6 percentage points respectively
- Occupancy rates in all sectors expected to continue to climb over the next six months while rents in the Grade 'A' apartment and high-end villa market are also expected to rise
- Serviced apartment net take-up rises to 390 units in the fourth quarter, as rent discounts attract tenants back
- Average Grade 'A' apartment and high-end villa transaction price rises 2.3 and 10.1 per cent in the fourth quarter to RMB37,966 and RMB29,659 per sqm respectively
- Transaction volume in the first half of 2010 expected to be volatile as the market digests the implications of government policy and possible future adjustments

Image: Ascott Raffles City Beijing, Dongcheng District

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Leasing Market Overview

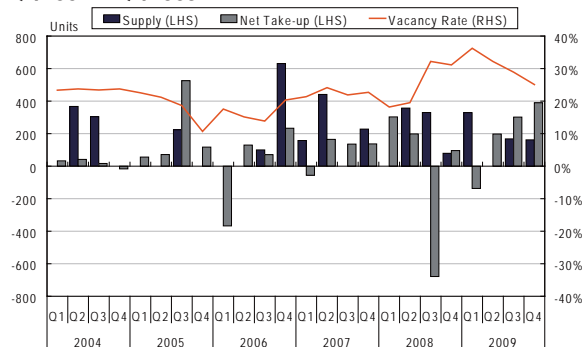
The red hot residential sales market has caught many headlines as transaction volume and valuations scale new highs. This recent activity has resulted in the reduction of competition in the Grade A apartment and high-end villa markets which are both dominated by individual landlords. As a result, high-end residential occupancy rates remained stable despite the seasonal fluctuation in demand as expatriates head home over the Christmas period.

The Beijing government has been active in supporting the local economy, and consequentially the leasing market, as it launched a policy designed to encourage multinational companies to establish their headquarters in the capital. After the policy was issued, 12 MNCs gained approval to establish regional headquarters in the city bringing the total to 165 and creating a strong demand base for the high-end leasing market. Demand is expected to come from the pharmaceutical and financial industries in particular. Merck Serono, United Overseas Bank and Deutsch Bank have all recently announced plans to establish or enlarge their presence in Beijing.

Serviced Apartment Market

One new serviced apartment project was launched onto the market in the fourth quarter. The Ascott Raffles City Beijing, the second Ascott branded serviced apartment project in the city, possesses 162 units offering unit sizes ranging from 75 to 263 sqm. Benefiting from the project's prime location in close proximity to the Dongzhimen transportation hub, the project was able to achieve an occupancy rate of more than 90 per cent by the end of the year.

Serviced Apartment Supply, Take-Up and Vacancy Rate, Q1/2004 – Q4/2009

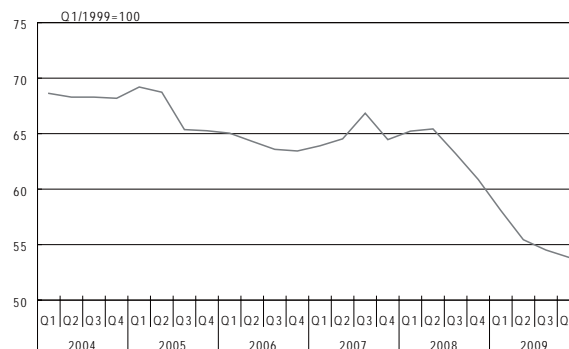


Source: Savills Research & Consultancy

Supported by an influx in expatriates working for MNCs, net take-up of serviced apartments rose to 390 units in the fourth quarter, the third consecutive quarter of growth. The citywide occupancy rate increased 3.8 percentage points quarter-on-quarter, reaching 74.9 per cent.

The average serviced apartment rent fell 1.2 per cent in the fourth quarter to RMB151.1 per sqm per month.

Serviced Apartment Rental Index, Q1/2004 – Q4/2009



Source: Savills Research & Consultancy

The luxury segment continued to outperform the overall market with the citywide occupancy rate rising 2.5 percentage points in the fourth quarter to 81.7 per cent while rents increased 0.8 per cent in the fourth quarter to an average of RMB185.7 per sqm per month.

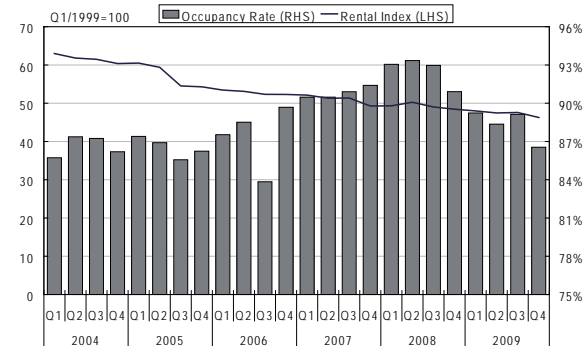
Popular projects witnessed stable or improving rents, however a number of older properties have started to lose market share and have subsequently had to cut rents in order to attract tenants. Some projects have also decided to undergo renovation of their properties and facilities in an attempt to improve their desirability.

Serviced apartment rents have recorded six consecutive quarters of decline as a result of weakened demand; however with the economy recovering, expatriate numbers have increased leading to an increase in demand and a reduction in quarterly corrections in the second half of 2009. Rents remain low, however, and tenants have become more selective as evident by the increase in occupancy rates achieved by some of the newer developments to the detriment of older properties.

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High-End Villa Market

High-End Villa Rental Index and Occupancy Rate, Q1/2004 – Q4/2009



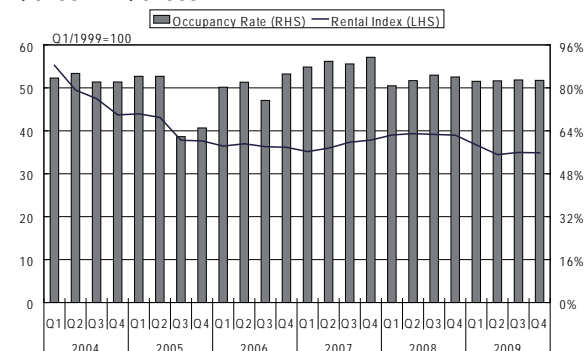
Source: Savills Research & Consultancy

With expatriates heading home for the Christmas period, the high-end villa market witnessed a 2.6 percentage point decline in the citywide occupancy rate to 86.6 per cent. Rents also recorded a fall, down 2.8 per cent to an average of RMB116.7 per sqm per month with the majority of rental adjustments being accounted for by older properties.

The luxury villa market continued to record strong growth, however, with rents increasing 3.5 per cent to an average of RMB141.8 per sqm per month and the citywide occupancy rate only falling 2.0 percentage points to 89.3 per cent.

Grade A Apartment Market

Grade A Apartment Rental Index and Occupancy Rate, Q1/2004 – Q4/2009



Source: Savills Research & Consultancy

Grade 'A' apartment rents fell 0.3 per cent in the fourth quarter to an average of RMB94.8 per sqm per month, while the occupancy rate fell only 0.1 of a percentage point to 82.8 per cent. The luxury segment of the market saw rents rise 0.2 per cent to an average of RMB112.4 per sqm per month in the fourth quarter, while the citywide occupancy rate rose 1.2 percentage points to 81.0 per cent.

The rapid recovery in the residential sales market over the last nine months, along with a pick up in leasing activity, has meant that many landlords, looking to dispose of properties, are doing so during the tenant's lease period. This is a positive for the seller as it provides them with flexibility on timing and for the buyer who immediately has an income generating asset.

While contract law stipulates that a new owner must honour an existing tenancy agreement, the tenant may, however, experience negatives such as having to deal with lease transferral, having potential buyers trampling through the property prior to being sold, potential instability from having a new landlord (particularly if the landlord does not live locally or has a lack of interest in attending to problems with the property), and potential issues once the lease agreement expires (such as rent increase, eviction or difficulty recovering the bond).

On the whole it is believed that the total stock of Grade A apartments on the leasing market has shrunk as end users have snapped up properties. This is thought to have supported rental levels and occupancy rates.

Leasing Market Outlook

Two new serviced apartment projects are expected to be launched in 2010 adding around 600 units to the market. Oakwood Residence's second project in Beijing is planned to open in the first quarter while the serviced apartment component of Beijing Hotel's second phase is planned for the end of the year.

As economic conditions continue to improve we expect the high-end leasing market will also show signs of improvement, with occupancy rates in all sectors expected to rise over the next six months while Grade 'A' apartment and high-end villa rents are also expected to increase.

Serviced apartment supply next year is expected to be limited while some existing projects may be put onto the sales market and others may be renovated providing the market an opportunity to reset. A pick up in rents in the serviced apartment market is expected to come later than the remainder of the market, only witnessing upward movement in the second half of 2010.

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First Hand Residential Sales Market Overview

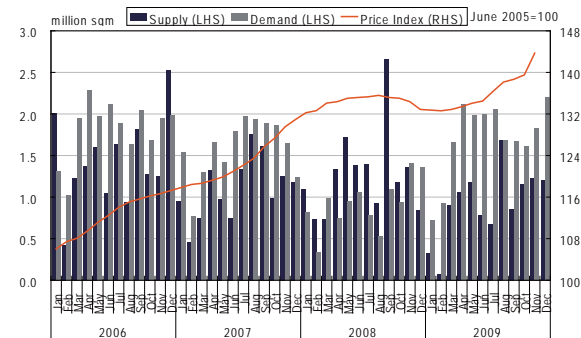
Beijing's first hand residential sales market showed signs of overheating in the fourth quarter as the average transaction price rose rapidly while transaction volume moderated. The high-end market remained more resilient, however, recording strong growth in transaction volume despite price hikes.

First Hand Overall Residential Market

In the fourth quarter, 3.6 million sqm of residential space received pre-sales certification, up 11.7 per cent compared with the third quarter. Transaction volume in the same period rose to 5.6 million sqm, up 3.8 per cent compared with the third quarter.

A resurgence in transaction volume was witnessed in November & December with many buyers wanting to acquire properties before preferential policies expired at the year's end.

Beijing First Hand Overall Residential Market Supply, Absorption and Price Index, Jan 2006 – Dec 2009



Source: Beijing Real Estate Transaction and Management Bureau, NDRC; Savills Research & Consultancy

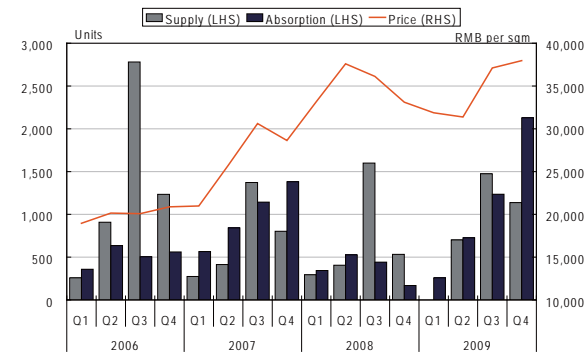
The pace of activity in the market pushed residential prices up to a new high in November, up 3.0 per cent in just one month according to the National Development and Reform Commission. Actual transaction prices inside the 4th Ring Road rose to an average of RMB20,515 per sqm in November, up 7.4 per cent compared with September.

First Hand Grade A Apartment Market

Grade A apartment take-up rose 72.4 per cent in the fourth quarter to 2,129 units, while the average transaction price rose 2.3 per cent to RMB37,966 per sqm. Four new projects with 1,137 units were launched onto the pre-sales market during the same period.

Transaction volume greatly exceeded supply in the fourth quarter, absorbing a significant portion of the unsold stock remaining on the market, especially projects in the east of Beijing, such as in the CBD, Sanlitun, and Lufthansa.

Supply, Absorption and Average Transaction Price in the First Hand Grade 'A' Apartment Market, Q1/2006 – Q4/2009



Source: Savills Research & Consultancy

Sanlitun Soho, handed over in the second half of 2010, sold more than 400 units in the fourth quarter, three times the number sold in Q3, while the average transaction price rose 5.3 per cent to around RMB40,000 per sqm.

World City and Center Service Apartment, two projects in the CBD handed over in the first half of 2009, saw 125 and 284 units transacted respectively, double and four times more than the quarter before.

As favourable policies such as the lower down payment requirements and mortgage rates for second home buyers and the relaxation of restrictions on foreign buyers are expected to finish in 2010, many buyers were eager to complete purchases by the year's end.

First Hand High-End Villa Market

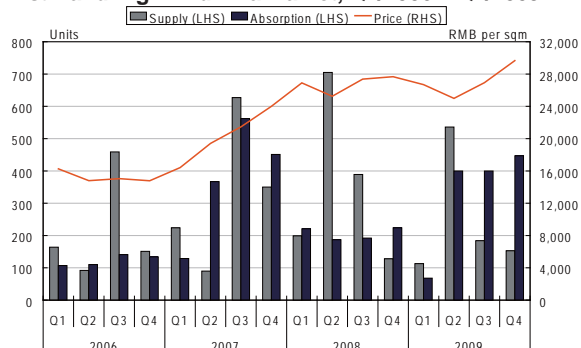
Three high-end villa projects received pre-sales certification in the fourth quarter adding 153 units to the market while transaction volume rose 11.8 per cent to 447 units.

The average high-end villa transaction price rose 10.1 per cent to RMB29,659 per sqm, an historical high with 74 per cent of projects monitored recording price rises.

Projects positioning themselves at a reasonable price level (RMB20-30,000 per sqm) with a good range of supporting facilities outperformed the rest of the market in terms of transaction volume. Shine City, a new villa project in Shunyi Central Villa District launched onto the market at the beginning of November, sold 104 units (75% of total units) in two months at approx. RMB26,300 per sqm.

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Supply, Absorption and Average Transaction Price in the First Hand High-End Villa Market, Q1/2006 – Q4/2009



Source: Savills Research & Consultancy

Increasing uncertainty in the market both in terms of possible government reactions as well as how long the market can continue to run at its current speed mean that we are most likely to see some adjustment in terms of transaction volume in the first half of the year which along with economic policy, reacting to the threat of inflation, could result in a stalling of the current price rally.

High-end properties in downtown locations, however, are expected to continue to outperform the market. With limited land supply in central locations and significant capital in the market, current valuations should remain reasonably well supported.

First Hand Residential Sales Market Outlook

Towards the end of 2009 the central government released a series of policies designed to cool the property market. These included policies to encourage the increase in supply of low to mid-cost and price-controlled housing as well as regulations with the goal of curbing speculative investment. Further policies are likely to be issued in the first half of 2010 should those in 2009 not have their desired effect.

Strong end user demand, rising land prices along with improving economic conditions and loose monetary policy, albeit less than in 2009, will nevertheless mean that prices should have little room to adjust in 2010.

For further information, please contact:

china

Randall Hall

Chief Executive Officer, China and Taiwan

+8621 6391 6688
rhall@savills-sh.com

beijing

Matt Brailsford

Deputy Managing Director

+8610 5925 2002
mbrailsford@savills-bj.com

beijing

Joan Wang

Associate Director, Research & Consultancy

+8610 5925 2288
jqwang@savills-bj.com

research & consultancy, asia pacific

Simon Smith

Senior Director

+852 2842 4573
ssmith@savills.com.hk

address

Savills Property Services (Beijing) Company Limited

2101 East Tower, Twin Towers
B-12 Jianguomenwai Avenue
Chaoyang District
Beijing 100022, China
T: +8610 5925 2288
F: +8610 5925 2299

corporate website

www.savills-china.com

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Research

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第一太平戴维斯

ASIA PACIFIC HEADQUARTERS

23/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2842 4400 Fax: (852) 2868 4386

Robert McKellar - CEO, Asia Pacific
Raymond Lee - CEO, Hong Kong and Macau
Randall Hall - CEO, China and Taiwan
Chris Marriott - CEO, South East Asia
Charles Chan - MD, Professional Services, Greater China

HONG KONG SAR Savills (Hong Kong) Limited

23/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2842 4534 Fax: (852) 2869 6738
Contact: Raymond Lee E-mail: rlee@savills.com.hk
EA Co. Licence: C-002450

Savills Valuation and Professional Services Limited

28/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2801 6100 Fax: (852) 2501 5810
Contact: Charles Chan E-mail: ccchan@savills.com.hk
EA Co. Licence: C-023750

Savills Property Management Holdings Limited

8/F Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong
Tel: (852) 2534 1688 Fax: (852) 2851 1249
Contact: Kendrew Leung E-mail: kleung@savills.com.hk
EA Co. Licence: C-002993

Savills Guardian (Holdings) Limited

7/F Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong
Tel: (852) 2512 1838 Fax: (852) 2887 3698
Contact: Peter Ho E-mail: peterho@savillsguardian.com.hk

MACAO SAR Savills - Macao

Savills (Macao) Limited
Suite 1310, 13/F Macao Landmark, 555 Avenida da Amizade, Macao
Tel: (853) 8506 6288 Fax: (853) 2878 1805
Contact: Franco Liu E-mail: fliu@savills.com.mo

CHINA

Savills - Shanghai

20/F Shanghai Central Plaza, 381 Huaihai Middle Road, Shanghai 200020, China
Tel: (86) 21 6391 6688 Fax: (86) 21 6391 6699
Contact: Albert Lau E-mail: alau@savills-sh.com

Savills - Beijing

2101 East Tower, Twin Towers, B-12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022, China
Tel: (86) 10 5925 2288 Fax: (86) 10 5925 2299
Contact: Billy Chau E-mail: bchau@savills-bj.com

Savills - Guangzhou

Room 906, R & F Centre, No. 10 Hua Xia Road, Zhu Jiang New Town,
Guangzhou, 510623, China
Tel: (86) 3892 7168 Fax: (86) 3892 7030
Contact: Woody Lam E-mail: wlam@savills.com.hk

Savills - Shenzhen

Unit A, 5/F, Anlian Plaza, 4018 Jintian Road, Futian District, Shenzhen 518026, China
Tel: (86) 755 8828 5707 Fax: (86) 755 8828 5676
Contact: Woody Lam E-mail: wlam@savills.com.hk
Offices in Chengdu, Chongqing, Dalian, Hangzhou, Shenyang, Tianjin, Xiamen

ASIA

Savills - Indonesia

PT. Procon Indah
19/F Indonesia Stock Exchange Building, Tower 2, Jl Jenderal Sudirman Kav
52-53, Jakarta 12190 Indonesia
Tel: (62) 21 515 3777 Fax: (62) 21 515 3232
Contact: Hendra Hartono E-mail: hendra.hartono@procon.co.id

Savills - Japan

Savills Japan K.K.
Aoba Roppongi Building 3F, 3-16-33 Roppongi, Minato-ku,
Tokyo 106-0032, Japan
Tel: (81) 3 5562 1700 Fax: (81) 3 5562 1705
Contact: Christian Mancini E-mail: cmancini@savills.co.jp

Savills - Korea

Savills Korea
11/F Seoul Finance Center, 84 Taepyungro-1-ga,
Chung-gu, Seoul, Korea 100-768
Tel: (82) 2 2124 4201 Fax: (82) 2 2124 4188
Contact: Robert McKellar E-mail: rmckellar@savills.co.kr

Savills - Malaysia

Savills Rahim & Co
Level 17, Menara Uni. Asia, 1008 Jalan Sultan Ismail, 50250
Kuala Lumpur, Malaysia
Tel: (60) 3 2691 9922 Fax: (60) 3 2691 0096
Contact: Robert Ang E-mail: robertang@savillsrahim-co.com

Savills - Singapore

Savills (Singapore) Pte Ltd.
2 Shenton Way, #17-01 SGX Centre 1, Singapore 068804
Tel: (65) 6536 5022 Fax: (65) 6538 5540
Contact: Michael Ng E-mail: mng@savills.com.sg

Savills - Taiwan

Savills (Taiwan) Limited
17F-1, Exchange Square, No. 89, Sung Ren Road
Xin-Yi District, Taipei, Taiwan
Tel: (886) 2 8789 5828 Fax: (886) 2 8789 5929
Contact: Cynthia Chu Email: cchu@savills.com.tw

Savills - Thailand

Savills (Thailand) Limited
28/F, 990 Rama IV Road, Bangkok 10500, Thailand
Tel: (66) 2 636 0300 Fax: (66) 2 636 0339
Contact: Robert Collins E-mail: robertc@savills.co.th

Savills - Vietnam

18/F, Fideco Tower, 81-85 Ham Nghi Street,
District 1, Ho Chi Minh City, Vietnam
Tel: (84) 8 3823 9205 Fax: (84) 8 3823 4571
Contact: Brett Ashton E-mail: bashton@savills.com.vn
Office in Hanoi

AUSTRALIA

Savills - Australia

Savills (Aust) Pty Ltd.
Level 7, 50 Bridge Street, Sydney, Australia
Tel: (61) 2 8215 8888 Fax: (61) 2 8215 8899
Contact: Paul McLean E-mail: pmclean@savills.com.au
*Offices in Adelaide, Brisbane, Canberra, Gold Coast, Liverpool,
Melbourne, Parramatta, Perth, Sunshine Coast and Sydney.*

NEW ZEALAND

Savills - New Zealand

Barfoot & Thompson
Level 5, 50 Kitchener Street, Auckland, New Zealand
Tel: (64) 9 307 5523 Fax: (64) 9 3031689
Contact: Peter Thompson E-mail: peter@barfoot.co.nz

MIDDLE EAST

Savills - Dubai

Asteco Property Management LLC (Associate)
P.O. Box 1714, Level 6, Capricorn Tower, Shk. Zayed Road
Dubai, United Arab Emirates
Tel: (971) 4 403 7700 Fax: (971) 4 403 7778
Contact: Andrew Chambers E-mail: andrewc@asteco.com

NORTH AMERICA

Savills - New York

Savills LLC
599 Lexington Avenue, 36th Floor, New York, NY 10022
Tel: (1) 212 328 2800 Fax: (1) 212 328 2828
Contact: John D. Lyons E-mail: jlyons@savills.com

UNITED KINGDOM / EUROPE / SOUTH AFRICA

Savills - Europe

20 Grosvenor Hill, London W1K 3HQ, U.K.
Tel: (44) 207 499 8644 Fax: (44) 207 495 3773
Contact: Jeremy Helsby E-mail: jhelsby@savills.com
*Offices throughout the United Kingdom, Belgium, France, Germany,
Hungary, Italy, Netherlands, Poland, Spain and Sweden. Associate
offices in Austria, Greece, Norway, Portugal, Russia, Turkey and South
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