

“The investment market in Beijing was quiet in the third quarter with only one en-bloc transaction concluded. Strong rental growth in the commercial market encouraged would-be sellers to reconsider selling prices.”



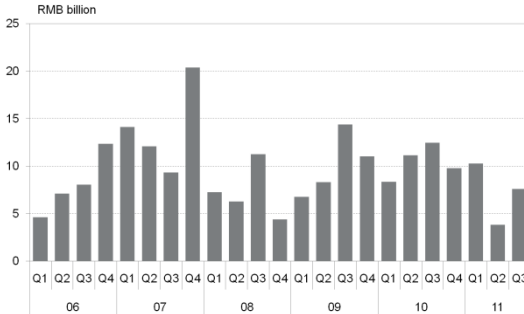
Image: Metro City, East Fourth Ring Road, Chaoyang

- The high-end residential market remained sluggish in the third quarter as government regulations to cool demand remained in place.
- A strong residential leasing market and rising rents supported an increase in high-end property yields in Q3/2011.
- Grade A office capital values increased 4.8% in the third quarter to RMB49,575 per sq m, representing a 37.9% increase year-on-year.
- Grade A office average gross revisionary yields increased 16 basis points (bps) to 6.26%, thanks to a 7.9% jump in rents.
- Only one en-bloc deal was concluded in Q3 as the bullish commercial leasing market made landlords reluctant to cash-out their projects.

**Office sector**

**All grades**

**First-hand strata office sales, Q1/2006–Q3/2011**



Source: Savills Research & Consultancy

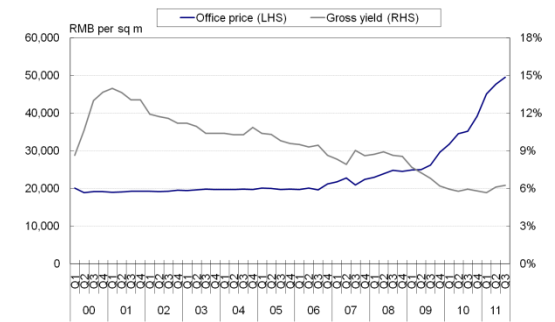
The strata-title office market received 746,000 sq m of new supply in the third quarter, which brought supply year-to-date to 815,000 sq m, down 1.3% year-on-year. Transaction consideration rebounded to RMB7.59 billion, up by 99% quarter-on-quarter, but down 39% year-on-year.

Wangjing SOHO, developed by Beijing-based SOHO China, received its pre-sales certificate in the third quarter, adding 364,200 sq m of strata-title office supply to the market. Although the project is located in a non-prime area – Wangjing near East Fourth Ring Road – it has an average transaction price of RMB52,200 per sq m, roughly 7% higher than the city-wide en-bloc Grade A office capital value. By the end of the third quarter, roughly 20% of the project was sold.

**Grade A office market**

Capital values in the Grade A office market increased 4.8% quarter-on-quarter to an average of RMB49,575 per sq m, representing an increase of 33.7% year-on-year. Rents increased by 7.9% quarter-on-quarter to an average of RMB258.7 per sq m per month, representing a 42.5% increase year-on-year. Gross yields, therefore, rose 16 bps quarter-on-quarter to 6.26%, representing a 33-bp increase year-on-year.

**Grade A office price vs yields, Q1/2000–Q3/2011**

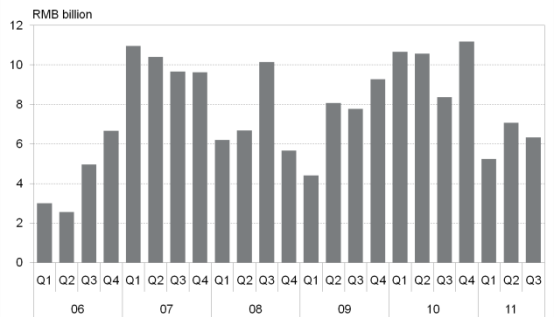


Source: Savills Research & Consultancy

**Retail sector**

First-hand strata-title retail transaction consideration fell by 10.3% in the third quarter to RMB6.3 billion, bringing the total transaction consideration for the first three quarters to RMB18.6 billion, a 37% decline year-on-year.

**First-hand strata-title retail sales, Q1/2006–Q3/2011**



Source: Savills Research & Consultancy

**Prime retail market**

Prime strata-title retail prices have remained stable over the last twelve months, fluctuating between RMB45,000 and RMB46,000 per sq m. In Q3/2011, transaction prices fell 1.7% quarter-on-quarter to an average of RMB45,426 per sq m.

**En-bloc investment market**

One en-bloc investment deal was concluded in the third quarter.

Metro Holdings Ltd, a Singapore-based property management and investment company, sold its 50% equity stake in Metro City, a 116,846-sq m shopping mall located in Chaoyang district, to an unnamed party. The project was initially positioned towards the high end of the market upon handover in September 2007, anchored by Parkson Department Store and Walmart. Due to unsatisfactory performances, the project was repositioned twice.

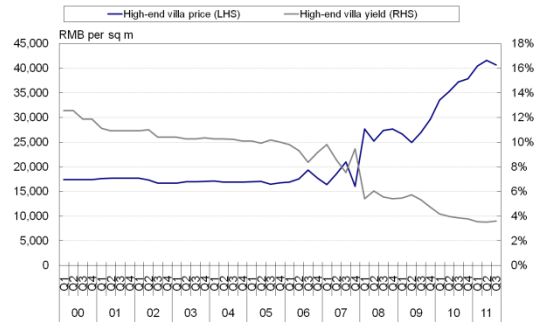
**En-bloc investment deals, Q3/2011**

Property	Submarket	Buyer	Aboveground GFA (sq m)	Average price (RMB per sq m)
Metro City	Chaoyang	Unknown	116,800	20,360

Source: Savills Research & Consultancy

**High-end residential market**

**High-end villa prices vs gross yields, Q1/2000–Q3/2011**

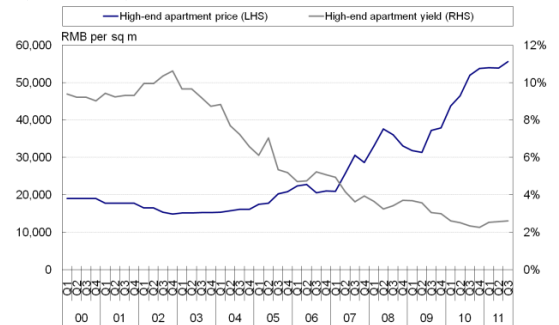


Source: Savills Research & Consultancy

The high-end residential market remained sluggish in the third quarter with only 77 villa units and 673 apartment units transacted. Villa transaction volume increased by 32.8% quarter-on-quarter but remained down 51% year-on-year, while apartment transaction volume fell by 12.6% quarter-on-quarter.

After eight consecutive quarters of price growth which saw values rise from RMB25,000 per sq m to RMB41,600 per sq m, high-end villa prices recorded a 2.1% correction in prices in the third quarter, with values falling to RMB40,674 per sq m. Developers are believed to have lowered prices marginally to effect an increase in sales volume so as to generate greatly needed cash flow. High-end villa rents remained unchanged in the third quarter, allowing gross yields to rise 8 bps to 3.60%

**High-end apartment prices vs gross yields, Q1/2000–Q3/2011**



Source: Savills Research & Consultancy

After a negligible decrease in prices in the second quarter, the high-end apartment market recorded a 3.2% increase in transaction prices to RMB55,608 per sq m as this submarket seems to have fared comparatively well despite government restrictions.

A strong leasing market helped to push up residential rents in the third quarter by 5.1% quarter-on-quarter to an average of RMB121.4 per sq m per month, resulting in a 5-bp increase in gross yields to 2.62%.

## Market outlook

The office investment market is expected to remain subdued in the short term as a bullish leasing market has supported record growth in rents which has not yet run out of pace. As such, landlords remain reluctant to cash-out too early in such a promising market. Vacancy rates in core areas hovered around 6.3% at the end of the third quarter, and are expected to remain at similarly low levels over the next few years as demand is expected to outpace supply. Consistently low vacancy rates in core areas are expected to result in further rental and capital value appreciation in the coming years, with the expectation that this bullish market will spread to non-prime areas.

A lack of en-bloc asset investment opportunities in the commercial market (office and retail) has caused investors to shift their attention to development. Insurance companies, with their joint venture partners, acquired seven commercial land plots in the core CBD area in 2011. Apart from investing in commercial development, domestic insurance companies are also focusing on the investment and development of retirement communities and similar schemes which, according to regulations, they are allowed and encouraged to invest in. China's rapidly ageing population is expected to create growing demand for such facilities.

Over the next couple of years, commercial yields are expected to remain close to their current levels with a quickly maturing market and adequate capital expected to keep capital values rising in sync with changes to the rental market.

While rising rents and values may discourage some owners of disposing of assets, others, suffering from the tightened credit environment and slow residential sales market, may look to dispose of assets as a way of generating short-term cash flow. This may present some interesting opportunities to well-placed investors over the next twelve months.

## For further information, please contact:

### china

**Raymond Lee**  
CEO  
Savills Greater China  
+852 2842 4518  
rlee@savills.com.hk

### beijing

**Billy Chau**  
Managing Director  
+8610 5925 2288  
billy.chau@savills.com.cn

### beijing

**Joan Wang**  
Director, Research & Consultancy  
+8610 5925 2288  
joan.wang@savills.com.cn

### research & consultancy, asia pacific

**Simon Smith**  
Senior Director  
+852 2842 4573  
ssmith@savills.com.hk

### address

**Savills Property Services (Beijing) Company Limited**  
2010 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.com.cn](http://www.savills.com.cn)

## 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, Greater China  
Chris Marriott - CEO, South East Asia  
Charles Chan - MD, Valuation & 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: cchan@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

## MACAU SAR

### Savills - Macau

Savills (Macau) Limited  
Suite 1310, 13/F Macau Landmark, 555 Avenida da Amizade, Macau  
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: albert.lau@savills.com.cn

### 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: billy.chau@savills.com.cn

### 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: woody.lam@savills.com.cn

### 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: woody.lam@savills.com.cn  
*Offices in Chengdu, Chongqing, Dalian, Hangzhou, Shenyang, Tianjin, Xiamen, Zhuhai*

## ASIA

### Savills - Japan

Savills Japan Co., Ltd.  
CR Kamiyacho Building 10F, 1-11-9 Azabudai, Minato-ku,  
Tokyo 106-0041, 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: Moonduck Kim E-mail: mdkim@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@savillssrahim-co.com

### Savills - Singapore

Savills (Singapore) Pte Ltd.  
30 Cecil Street, #20-03 Prudential Tower, Singapore 049712  
Tel: (65) 6836 6888 Fax: (65) 6836 2668  
Contact: Chris Marriott E-mail: cjmarriott@savills.asia

### 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  
26/F Abdulrahim Place, 990 Rama IV Road,  
Silom, Bangrak, 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 throughout Sydney, Adelaide, Brisbane, Canberra, Gold Coast, Liverpool, Melbourne, Parramatta, Perth and Sunshine Coast.*

## NEW ZEALAND

### Savills - New Zealand

Barfoot & Thompson  
Level 5, 50 Kitchener Street, Auckland, New Zealand  
Tel: (64) 9 307 5523 Fax: (64) 9 303 1689  
Contact: Peter Thompson E-mail: peter@barfoot.co.nz

## 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 Africa.*



**Savills, the international real estate advisor established in the UK since 1855 with over 200 offices and associates worldwide.**

This document is prepared by Savills for information only. Whilst reasonable care has been exercised in preparing this document, it is subject to change and these particulars do not constitute, nor constitute part of, an offer or contract; interested parties should not rely on the statements or representations of fact but must satisfy themselves by inspection or otherwise as to the accuracy. No person in the employment of the agent or the agent's principal has any authority to make any representations or warranties whatsoever in relation to these particulars and Savills cannot be held responsible for any liability whatsoever or for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document. This publication may not be reproduced in any form or in any manner, in part or as a whole without written permission of the publisher, Savills. © Savills (Hong Kong) Limited. 2011. (IX/11)