

Residential sector briefing

Beijing, China

May 7, 2008

"The high-end apartment market witnessed a steady increase in rents, while the occupancy rate of high-end villas climbed by 3.7 per cent quarter-on-quarter"



- Five new projects are delivered in Q1/2008
- Both the high-end apartment and villa markets witness continuous rent increases
- Occupancy rates of high-end villas hit a historical high
- Sales prices of Grade 'A' apartments keep rising
- More supply expected in the second quarter
- Rents and sales prices are expected to continue to rise

Image: Palm Beach Villa, Shunyi District

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Market Overview

The high-end residential leasing market performed well in Q1/2008. Marginal rent increases were witnessed across all residential sectors, and occupancy rates climbed to an historical high in the villa market. The serviced apartment market outperformed the other residential sectors with rents rose by 1.3 per cent to RMB172.2 per sq.m. per month, and the occupancy rate increased to 81.8 per cent.

Purchasers have adopted a 'wait-and-see' strategy, resulting in a relatively inactive sales market but sales prices in the high-end residential market maintained an upward trend.

Supply

The first quarter of 2008 recorded a quiet period on leasing market while the new projects are all originally for sale. Five new projects with a total of 731 apartment and villa units were completed such as Park Hyatt Residence, which offered 260 apartments and penthouses in March. Yuanxitang, a project on the west of Beijing, released 200 apartment units at the beginning of the year. Luxury villa projects including Shadow Creek and Yosemite in Shunyi district and Cathay View in Chaoyang district delivered a total of 271 units to individual landlords.

New Projects Showcase, Q1/2008

Project Name	District	No. of Units
Grade 'A' Apartment		
Park Hyatt Residences	Chaoyang	260
Yuanxitang	Haidian	200
High-end Villa		
Shadow Creek Phase I	Shunyi	37
Cathay View Phase II	Chaoyang	152
Yosemite A District Phase I	Shunyi	82

Source: Savills Research & Consultancy

Leasing Market

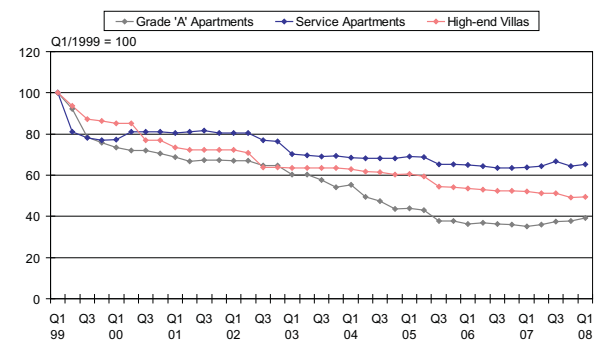
Rent

Rents increased slightly across all sectors, especially in the high-end apartment market. Serviced apartments and Grade 'A' apartments saw rental index increases of 0.8 per cent and 1.5 per cent respectively, while the high-end villas index edged up only 0.1 per cent.

At present, most of the high-end residential projects are quoted in RMB instead of US dollars due to the continued appreciation of the yuan against the dollar. Average monthly rents at the end of the first quarter stood at RMB100.9 (US\$14.2), RMB172.2 (US\$24.2) and RMB124.7 (US\$17.6) per sq.m. for Grade 'A' apartment, serviced apartment and villa markets respectively.

Stable demand for high-end properties and limited new supply in the leasing market explain the continuous increase of rents. Meanwhile, based on the positive sentiments surrounding the forthcoming 2008 Olympics, 30 per cent of high-end apartment projects have increased their asking rents since the beginning of the year by 5 to 30 per cent.

High-end Residential Market Rental Indices, Q1/1999 - Q1/2008



Demand and Occupancy Rate

Occupancy rates of serviced apartments increased to 81.8 per cent, 4.5 per cent higher than the previous quarter. Projects launched in 2007 performed well in the first quarter, further pushing up market occupancy rates. For example, Fraser Residence, the first project operated by Fraser Hospitality in Beijing at the end of 2007, achieved an occupancy rate of 25 per cent.

While the occupancy rates of Grade 'A' apartments decreased by 10.6 per cent to 80.8 per cent, new projects entering the market in 2007 increased competitiveness with some projects seeing occupancy rates decline. Usually Grade 'A' apartments can supply larger amount of units than serviced apartments. Therefore, new projects entering the leasing market can influence the whole market's vacancy rates since the occupancy rate of Grade 'A' apartments fluctuates more than the other two submarkets.

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Occupancy Rates of Grade 'A' Apartments, Serviced Apartments and High-end Villas, 2000 - Q1/2008



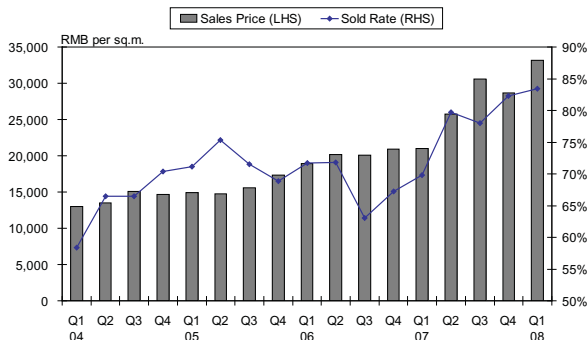
Source: Savills Research & Consultancy

Limited leasable supply since 2006 combined with stable demand from expatriates has led occupancy rates of high-end villas to reach an all time high of 93.1 per cent.

Sales Market

The number of new projects launched onto the pre-sale market was limited in Q1/2008, consisting of 7 Grade 'A' apartments and 4 high-end villas with planned sales prices above RMB20,000 per sq.m.

Grade 'A' apartments sold rate and sales prices, Q1/2004 - Q1/2008



Source: www.bjfdc.gov.cn, Savills Research & Consultancy

As for transaction activities, the sold rate of Grade 'A' apartments stood at 83.4 per cent, a 1.1 per cent quarter-on-quarter increase, although the growth rate was slower than that of 2007. The average transaction price for Grade 'A' apartments rose to RMB33,152 per sq.m. (a 15.8 per cent increase quarter-on-quarter) after seeing a decline in the fourth quarter of 2007. Park Hyatt Penthouse achieved the highest transaction price of RMB84,586 per sq.m. with a transaction volume of four units.

This phenomenon indicates that developers are cautious about releasing new supplies into the market, but the demand for high-end apartments remains strong.

Market Outlook

It is estimated that 2,325 high-end apartments and 108 high-end villas will be launched onto the market in Q2/2008. With only 35 per cent of apartments to be released into the leasing market, the influx of new supply will put little pressure on the overall rental market whereas Grade 'A' apartment occupancy rates face downward pressure.

In the leasing market, rents are expected to increase steadily prior to the Olympics and experience a short-term surge during the events. Rents will return to normal afterwards since most projects still quote steady asking prices prior to and after the Olympics by requiring long-term tenants to pre-pay a slump rent for the next half year prior to the events to avoid large fluctuations. The high-end apartment occupancy rate will gradually increase to meet the increasing lodging demand brought by the Olympics.

With regard to the sales market, price escalation is likely to persist in both the Grade 'A' apartment and high-end villa markets as supply remains limited. In the meantime, the government will focus on the construction of low to middle-end residential projects to meet demand from average income earners, resulting in further restraint on high-end residential development.

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