



Q1 2011 GREATER CHINA

Quarterly

Knight Frank 萊坊

RETAILERS EXPANSION CONTINUES

In the first quarter of 2011, the total retail sales value on the Mainland reached RMB4,300 billion—an increase of 16.3% year on year. Retail sales in Beijing, Shanghai and Guangzhou increased 11.9%, 12.9% and 24.2%, respectively. Among all types of consumer goods, the biggest growth was witnessed in gold, silver and jewellery sales, which rose 51.8% year on year. However, retail sales growth overall was 1.6 percentage points slower than the same period last year, due to inflationary concerns.

Strategy adjustments were made by international retailers amid slower growth in retail sales and intensifying competition. While some brands decided to retreat from the China market, many high-end luxury brands continued to expand. As retail demand in the first quarter remained strong, retail rents increased significantly in first-tier cities such as Beijing, Shanghai and Guangzhou.

Some investors shifted their focus to the retail property market, following the government's latest cooling measures to curb residential investment. This was particularly evident in the high-end retail investment sector. Some overseas companies, such as CapitaLand (CATL.SI) from Singapore

and Treasury Holdings from Ireland, invested in commercial projects on the Mainland, reflecting their optimism on the market outlook. Retail sales growth is expected to accelerate in the second quarter, based on increased expectations of income tax base adjustments and the implementation of consumption stimulus policies.

Shanghai

In the first quarter of 2011, there were no shopping mall openings in Shanghai's major retail areas. The average vacancy rate edged down 0.5 percentage point to 5.9%, while the average retail rent grew rapidly. Prime ground-floor shop rents increased 3.1% quarter on quarter, while the food and beverage sector saw rents increase substantially alongside a surge in demand for outlets. The average monthly rent for a 300–500-sq-m food and beverage shop in prime Shanghai locations has now reached RMB300 per sq m.

On the investment front, real estate funds and retail developers searched for opportunities in the commercial market, following investment restrictions in the residential sector. In the first quarter, Treasury Holdings of Ireland bought Huai Hai Mall on Huaihai Road in Luwan District for RMB575 million. Large-scale sales transactions of retail properties are expected to be robust.

Competition in Shanghai's retail market intensified, resulting in strategy adjustments by some international retailers, with a number of them announcing their decisions to withdraw from the China market entirely. In February, American electronic goods retailer Best Buy (BBY.US) closed its nine stores on the Mainland, including its headquarters in Shanghai, while consolidating its retail business in China with its Five Star electronics brand. In March, Mattel (MAT.US) closed its Barbie flagship shop in Huaihai Road, while home decoration retailer La Maison, part of the French multinational firm Saint-Gobain (SGO.PA), announced the closure of all of its businesses in Shanghai. Despite these closures, retail demand in Shanghai remained strong. A number of international brands, including UK Department Store Marks & Spencer (MKS.L) and Media Markt of Germany, Europe's largest electronics retailer, announced plans to expand in the city.

The total supply of new retail space will amount to around 650,000 sq m in 2011, slightly lower than in 2010. Shopping centres scheduled to open in the second quarter include Guoson Centre Changfeng in Putuo District, Cloud Nine Shopping Mall in Hongkou District and Kerry Riverside in Pudong, providing a total floor space of 175,000 sq m.

Beijing

No new retail projects were completed in Beijing in the first quarter of 2011 and amid strong rental demand, the vacancy rate dropped 0.9 percentage point to 10.8%. The average rent of prime ground-floor shops rose 1.4% to RMB682 per sq m per month, boosted by higher rents being achieved in a number of shopping malls.

A number of luxury retail brands expanded in Beijing in the first quarter of 2011. Versace opened a shop in the northern section of Sanlitun Village; Badgley Mischka opened its first Beijing shop in China World Mall in Chaoyang District and German camera brand Leica (LAC1.GR) opened a store on the ground floor of Oriental Plaza in Wangfujing.

In the first quarter, the recent trend of investors shifting their focus from the residential sector to the prime retail market became more evident. During this period, the total transacted area of prime



retail properties increased about 22% year on year to 32,535 sq m. CapitaMalls Asia (IS8.SI) acquired the 90,000-sq-m commercial component of Guancheng Plaza in Chaoyang District for RMB13,000 per sq ft, with plans to redevelop and rename it Taiyanggong Mall.

In the second quarter, two shopping centres are set to open in the traditional commercial area of Wangfujing: the 40,000-sq-m Spot on WFJ (formerly International Plaza) and the 23,000-sq-ft Macau Centre. In addition, the retail portion of Imperial Mansion in Wangfujing is under development. In view of the strong growth potential of Beijing's retail sector, the outlook for prime retail properties in the city remains positive. The overall vacancy rate is expected to remain stable, while rents are anticipated to increase steadily. While the government's regulatory policies on the residential market remain implemented, activity in the retail investment market is expected to be robust.

Guangzhou

No major shopping centres opened in Guangzhou in the first quarter of 2011 and the overall vacancy rate of prime street shops remained at 4.0%, comparable with the previous quarter. Due to the lack of new supply and the impact of the Lunar New Year holiday, leasing transactions of prime shops dropped 27% over the previous quarter, while the total area of prime-shop sales transactions also decreased. However, retail rents and prices edged up 2.3% and 5.0% respectively in the first quarter of 2011, supported by general improvement in the city's environment and transportation system since the Guangzhou 2010 Asian Games.

Demand from international luxury brands was strong and overseas retailers continued to enter Guangzhou in the first quarter. Louis Vuitton (LVMH.PA) opened a 2,000-sq-ft flagship store in Taikoo Hui in Tianhe, while Gucci (GUCG.US) re-entered the Guangzhou market, launching a specialty store in La Perle in Yuexiu District. Calvin Klein and Bershka committed to retail spaces in Grandview Plaza in Tianhe, while Guangzhou's first ZARA store opened in Tee Mall in Tianhe.

Most of Guangzhou's new retail projects this year will be located in the Tianhe District, including Taikoo Hui and The Happy Valley Shopping Mall, which will provide about 138,000 sq m and 83,000 sq m of new space, respectively. Despite the considerable amount of new supply, the overall vacancy rate is expected to remain stable amid strong demand. As the new shopping malls plan to position themselves as high-end, retail rents overall are expected to continue to rise. Beyond major retail areas, second-tier shopping locations in Guangzhou, mainly in Panyu District and Baiyun New Town, are also under steady development. Panyu District has witnessed rapid development in its retail property market, following the construction of the Guangzhou South metro station. A second Wanda Plaza will open in the area. In Baiyun New Town, the G5 Mall is set to open at the end of this year, while GreenLand Group is developing a complex in the same district that will feature a 120,000-sq-ft shopping mall.

**Table 1
Outlook (2Q 2011)**

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

Figure 1

Grade-A office price index

Q1 2003 = 100

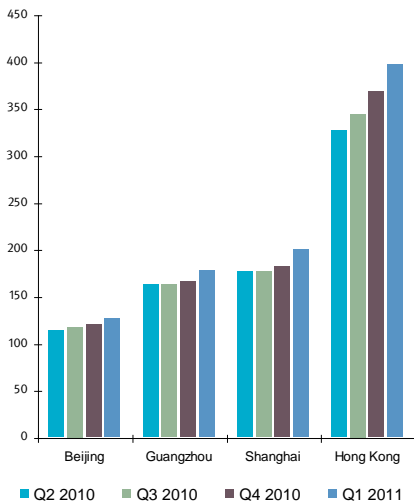
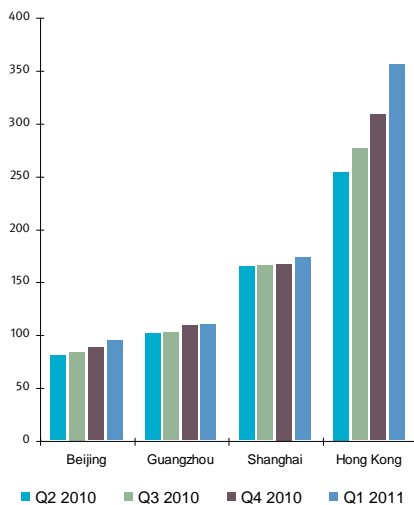


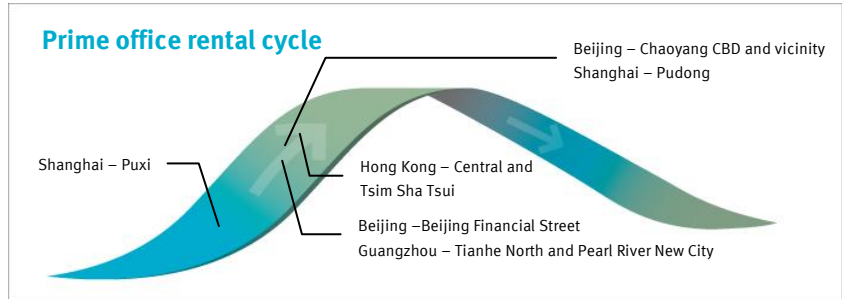
Figure 2

Grade-A office rental index

Q1 2003 = 100



Prime office



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

City	Price (US\$ psm)	Rental (US\$ psm per month)	Vacancy rate	Yield
Beijing	\$4,040	\$34.2	7.8%	7.1%
Guangzhou	\$3,666	\$21.2	14.0%	6.1%
Shanghai	\$6,717	\$39.6	7.5%	7.1%
Hong Kong	\$19,648	\$69.7	2.7%	3.2%

[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.

**Table 3
Supply and demand indicators**

City	Indicators	Comments
Beijing	<ul style="list-style-type: none"> There was no new supply of Grade-A offices in the quarter. Net take-up of Grade-A offices amounted to about 126,000 sq m, dragging vacancy rate down to 7.8%. 	<ul style="list-style-type: none"> Beijing IFC and Parkview Green, scheduled for completion in the second quarter, were under pre-lease. Net take-up was down compared with the previous quarter, but remained at a relatively high level. The vacancy rate reached a ten-year low.
Guangzhou	<ul style="list-style-type: none"> No new Grade-A offices were launched in Tianhe CBD in the quarter. The sales volume of Grade-A offices plunged about 95% quarter on quarter. 	<ul style="list-style-type: none"> The market continued to absorb remaining spaces. Buying demand for offices retreated during the Chinese New Year holiday, so did the amount of Grade-A offices available for sale.
Shanghai	<ul style="list-style-type: none"> Kerry Riverside in Century Park in Pudong was completed in the first quarter, adding 70,000 sq ft of Grade-A office space to the market. The vacancy rate dropped 1.5 percentage points to 7.5% amid strong demand. 	<ul style="list-style-type: none"> With the absence of new supply for two consecutive quarters, new office space remained tight in downtown areas. Robust expansion activity and office upgrades by multinational firms pushed up pre-lease rates in Shanghai's CBDs to nearly 100%.
Hong Kong	<ul style="list-style-type: none"> One Island South in Island South was completed during the quarter, providing about 74,000 sq m of new Grade-A office space. 	<ul style="list-style-type: none"> Limited availability and high rents in CBDs on Hong Kong Island had forced tenants to relocate.



Table 4

Major sales transactions

City	District	Development	Floor / Unit	Area (sq m)	Price (US\$ million)	Price (US\$ per sq m)
Beijing	Chaoyang	Yabaocheng Building	N/A	45	\$0.2	\$4,730
Beijing	Chaoyang	Gongsan Plaza	N/A	389	\$2.7	\$7,039
Guangzhou	Tianhe	Citic Plaza	High level unit	235	\$1.0	\$4,257
Guangzhou	Tianhe	R&F Ying Long Plaza	High level unit	200	\$0.8	\$3,801
Shanghai	Pudong	Shanghai World Financial Centre (SWFC)	Level 72	3,222	\$40.3	\$12,519
Shanghai	Luwan	SML Central Plaza	Level 21 unit	185	\$1.6	\$8,875
Hong Kong	Central	Nine Queen's Road Central	20/F	1,277	\$49.1	\$38,426
Hong Kong	Admiralty	Far East Finance Centre	17/F	1,003	\$35.3	\$35,196

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	
	1Q 11 vs 4Q 10	2Q 11 Outlook	1Q 11 vs 4Q 10	2Q 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	CWTC Phase 1	Level 34 unit	191	\$9,248	\$48.4
Beijing	Chaoyang	Full Link Plaza	Level 9 unit	562	\$14,097	\$25.1
Guangzhou	Tianhe	China Shine Plaza	High level unit	250	\$5,701	\$22.8
Guangzhou	Tianhe	Teem Tower	High level unit	237	\$7,037	\$29.6
Shanghai	Pudong	Jin Mao Building	Level 14 / unit 03	157	\$5,429	\$34.7
Shanghai	Luwan	ICC Tower	Mid level unit	2,600	\$105,734	\$40.7
Hong Kong	Kwun Tong	C-BONS International Centre	22, 23 and 25/F	4,831	N/A	N/A
Hong Kong	Tsim Sha Tsui	International Commerce Centre	One and a half floors	4,645	N/A	N/A

**Table 7
Outlook (2Q 2011)**

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

Figure 3

Luxury residential price index

Q1 2003 = 100

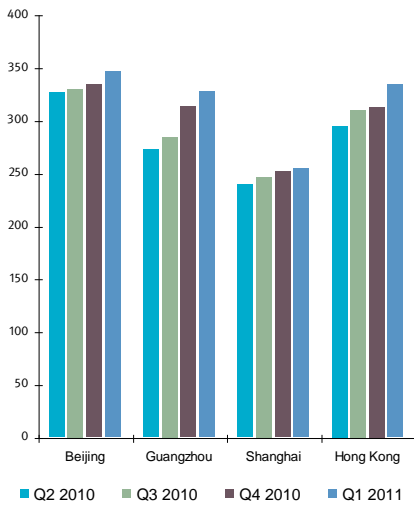
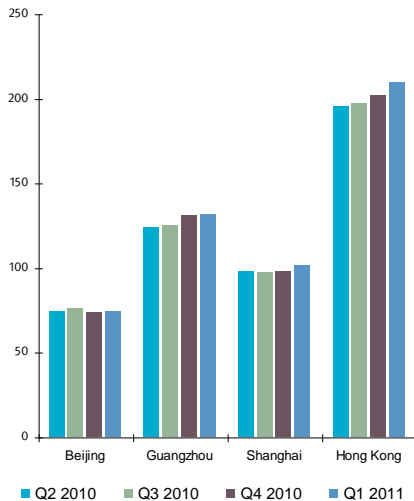


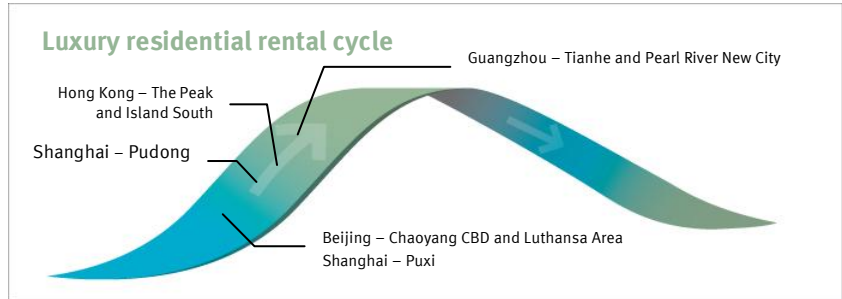
Figure 4

Luxury residential rental index

Q1 2003 = 100



Luxury residential



**Table 8
Prices, rentals, vacancy rates and yields [1][2]**

City	Price (US\$ psm)	Rental (US\$ psm per month)	Vacancy rate	Yield
Beijing	\$5,967	\$20.2	18.4%	3.5%
Guangzhou	\$4,472	\$16.8	17.5%	3.9%
Shanghai	\$7,998	\$24.0	15.5%	3.6%
Hong Kong	\$29,137	\$64.9	9.2% ^[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-2010 vacancy rate of unites sized over 100 sq m from Rating and Valuation Department, HKSAR.

**Table 9
Supply and demand indicators**

City	Indicators	Comments
Beijing	<ul style="list-style-type: none"> No serviced apartment or high-end residential projects were launched in the quarter. 860 luxury residential units were sold, down over 10% quarter on quarter. 	<ul style="list-style-type: none"> Developers slowed the launch of luxury residential projects in the quarter as the Beijing government implemented home-purchase restrictions in February. Luxury home sales dropped due to the impact of the new round of regulatory policies, alongside the Chinese New Year holiday.
Guangzhou	<ul style="list-style-type: none"> Parc Oasis in Tianhe North and Canton View Bay in Yuexiu were launched, providing 106,000 sq m of new luxury residential space to the market. 	<ul style="list-style-type: none"> Luxury residential sales plunged about 45% quarter on quarter due to the impact of the new round of regulatory policies.
Shanghai	<ul style="list-style-type: none"> New luxury home supply amounted to 100,000 sq m in March, contributing to about 50% of the total supply over the quarter. Although the transaction volume of new luxury homes dropped to 152,000 sq m over the quarter, the figure started to pick up due to increased supply in March. 	<ul style="list-style-type: none"> Developers restarted the launch of new projects after real estate controlling measures were implemented. The controlling measures had significant impact on sales volume, but luxury home prices still witnessed slight increases.
Hong Kong	<ul style="list-style-type: none"> Sales of luxury homes worth HK\$10 million or above fell 13.6% to 1,854 units from the previous quarter. 	<ul style="list-style-type: none"> Leasing demand was further boosted from unconfident potential buyers deciding to rent rather than buy and expatriates relocating to Hong Kong from Japan after the earthquake.



Table 10

Major sales transactions

City	District	Development	Floor / Unit	Area (sq m)	Price (US\$ million)	Price (US\$ per sq m)
Beijing	Chaoyang	Imperial Mansion	N/A	444	\$5.8	\$13,142
Beijing	Chaoyang	No.8 Royal Park	N/A	445	\$5.6	\$12,531
Guangzhou	Tianhe	Central Park View	High level unit	182	\$1.5	\$8,132
Guangzhou	Tianhe	Top View	High level unit	243	\$0.9	\$3,827
Shanghai	Songjiang	Sheshan Golf Villa	House 1007	776	\$14.2	\$18,342
Shanghai	Pudong	Tomson Riviera	Level 11 / unit 01	595	\$16.0	\$26,890
Hong Kong	Island South	56 Repulse Bay Road	House 21	305	\$14.0	\$45,921
Hong Kong	Island South	Somerset	8/F / unit C	288	\$11.6	\$40,143

The introduction of a new round of tightening measures and property taxes may hit the transaction volumes of luxury homes in the three major Mainland cities in 2011.

Table 11

Market activity

	Sales		Leasing	
	1Q 11 vs 4Q 10	2Q 11 Outlook	1Q 11 vs 4Q 10	2Q 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	Qijiayuan Diplomatic Residence	Tower 1 unit	220	\$3,649	\$16.6
Beijing	Shunyi	Longfor Rose and Ginkgo	Townhouse 12-2	270	\$5,777	\$21.4
Guangzhou	Tianhe	Central Park View	Low level unit	151	\$2,888	\$19.1
Guangzhou	Tianhe	Top View	High level unit	193	\$2,888	\$15.0
Shanghai	Luwan	Lanson Place	Level 22 / unit 03	187	\$8,665	\$46.3
Shanghai	Pudong	Fraser Suites	Level 12 / unit 02	211	\$6,385	\$30.3
Hong Kong	Mid-Levels Central	Branksome Crest	High floor / unit A	220	\$19,519	\$88.7
Hong Kong	Peak	1 Plantation Road	Tower 1 / low floor / unit A	205	\$15,667	\$76.3

**Table 13
Outlook (2Q 2011)**

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

Prime retail

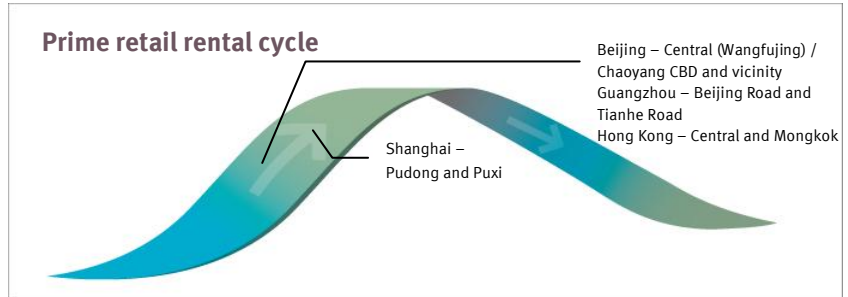


Figure 5

Prime retail price index

Q1 2003 = 100

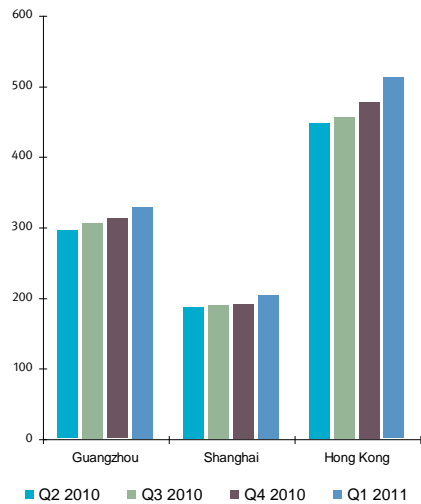
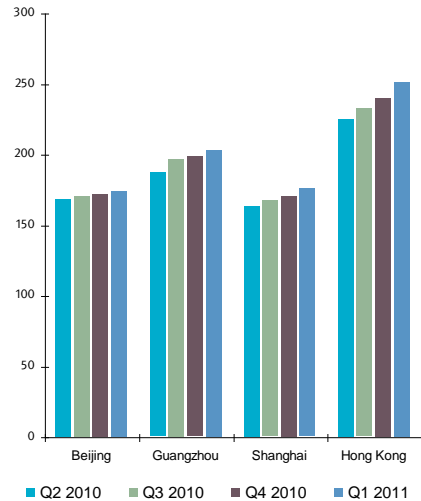


Figure 6

Prime retail rental index

Q1 2003 = 100



**Table 14
Prices, rentals, vacancy rates and yields [1][2]**

City	Price (US\$ psm)	Rental (US\$ psm per month)	Vacancy rate	Yield
Beijing	N/A	\$103.7	10.8%	5.1%
Guangzhou	\$31,206	\$228.5	4.0%	7.1%
Shanghai	\$17,920	\$129.0	5.9%	6.8%
Hong Kong	\$214,032	\$593.8	7.9% ^[3]	3.0% ^[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-2010 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"> No new prime retail projects were launched in the quarter. 	<ul style="list-style-type: none"> Two shopping malls in the Wangfujing area, namely Spot on WF and Macau Centre, are expected to open in the second quarter of this year.
Guangzhou	<ul style="list-style-type: none"> New supply of retail space surged 60% quarter on quarter, focusing in major areas including Yuexiu, Tianhe and Liwan. 	<ul style="list-style-type: none"> Retail property sales plunged 42% quarter on quarter due to the effect of the Chinese New Year.
Shanghai	<ul style="list-style-type: none"> No new malls opened in prime locations during the quarter. Three international retailers, namely Bestbuy, Barbie Concept Store and La Maison, quitted the China market and closed their stores in Shanghai. 	<ul style="list-style-type: none"> The quality of new shopping centres opened in the past year generally improved, in terms of design, tenant mix, access, configurations and car-parking facilities. The closure of these retail stores proved that simply replicating the Western model in Shanghai does not always lead to success.
Hong Kong	<ul style="list-style-type: none"> The over 200,000-sq-ft Mikiki in San Po Kong, the only new shopping mall this year, is expected to open in mid-2011. 	<ul style="list-style-type: none"> In the first quarter of 2011, the total retail sales value grew 21.0% year on year. This was partly due to the robust growth of Mainland tourists, which increased 17.5% in the same period.



Table 16
Major sales transactions

City	District	Development	Floor / Unit	Area (sq m)	Price (US\$ million)	Price (US\$ per sq m)
Beijing	Chaoyang	Sun Star City	N/A	81	\$1.0	\$12,797
Beijing	Dongcheng	Galaxy SOHO	N/A	166	\$2.5	\$14,807
Guangzhou	Tianhe	Grandview Plaza	Level -1 unit	22	\$0.2	\$10,711
Guangzhou	Yuexiu	Zhongshan Fifth Road	Level 1 unit	140	\$3.0	\$21,717
Shanghai	Luwan	Huaihai Mall	Levels -1 to 3	7,620	\$87.4	\$11,471
Shanghai	Qingpu	Bailian Qiaoxin Bay Shopping Centre	Level 1	509	\$3.3	\$6,391
Hong Kong	Mongkok	Sincere Plaza	G/F / unit G12	9	\$2.2	\$259,516
Hong Kong	Mongkok	Sino Centre	G/F / units 26-27	36	\$8.3	\$233,984

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	
	1Q 11 vs 4Q 10	2Q 11 Outlook	1Q 11 vs 4Q 10	2Q 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	Office Park	Level 1 unit	170	\$9,304	\$54.7
Beijing	Haidian	Onemall	Level 2 unit	600	\$17,787	\$29.6
Guangzhou	Yuexiu	Beijing Road South	Level 1 unit	120	\$24,324	\$202.7
Guangzhou	Yuexiu	Update Mall	Level -1 unit	30	\$8,361	\$278.7
Shanghai	Jing'an	In Point	Level 1	150	\$12,477	\$83.2
Shanghai	Jing'an	1788 Eco City	Level 4	1,100	\$50,833	\$46.2
Hong Kong	Tsim Sha Tsui	Hanley House	G/F / units 5-6	180	\$199,050	\$1,104.4
Hong Kong	Causeway Bay	Percival House	G/F / unit D	14	\$15,153	\$1,045.6

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