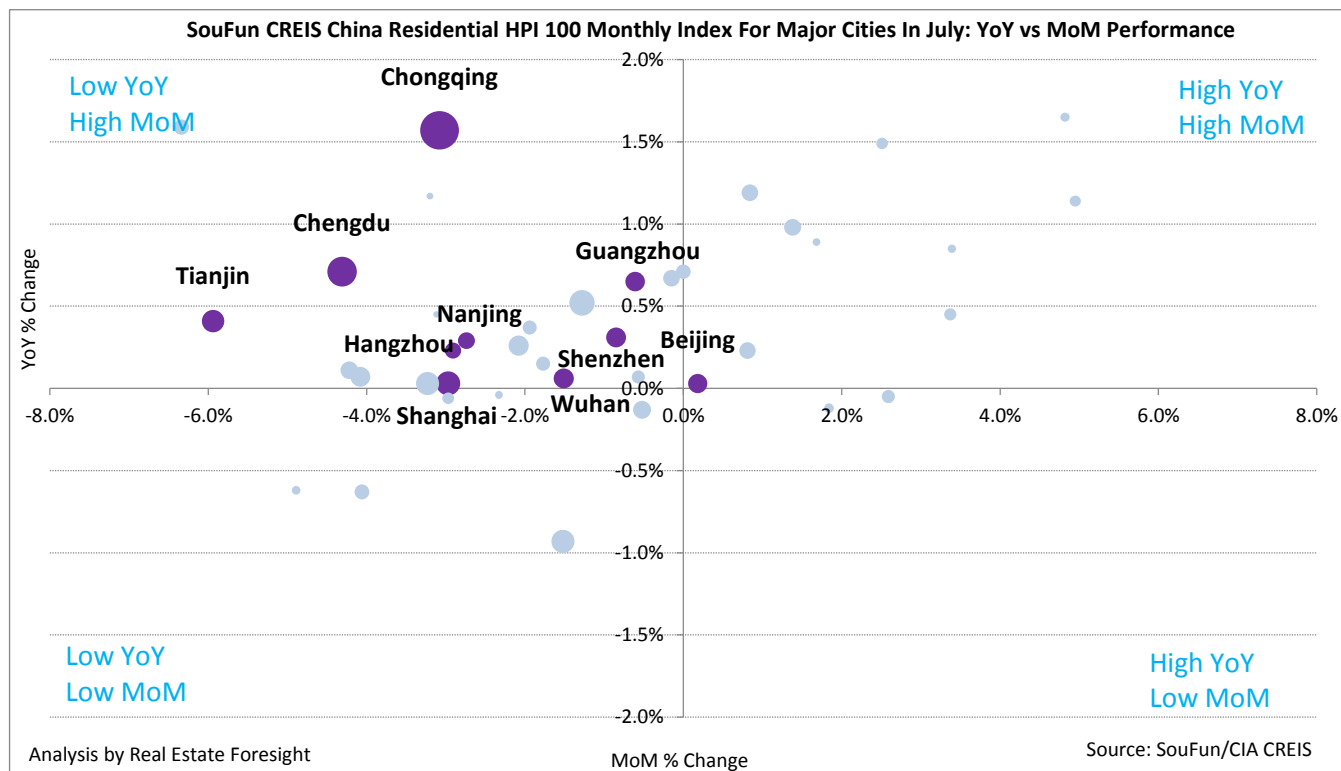


# China Research (PILOT)

## September 4, 2012



Real Estate Foresight



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## Introduction

This second pilot report on Chinese real estate markets is designed to serve as a reference chart book to help investors systematically review the key data and indicators illuminating the latest changes, trends and themes in the markets. We have organized the information bringing together macro-economic, capital markets and sector specific direct market perspectives all in one place.

## Powered by data from Content Partners

The charts and analyses in this report are based on data from our Content Partners - Thomson Reuters and SouFun-China Index Academy, as well as National Bureau of Statistics and other publicly available information and research reports.

## Contact us

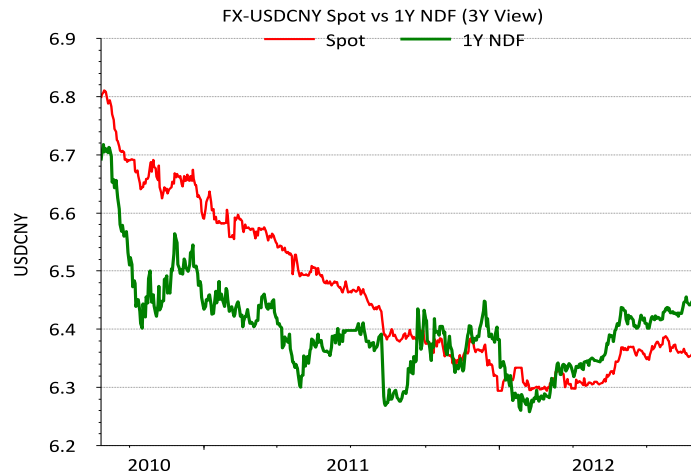
As we continue to develop the China research offering, we very much look forward to your feedback on this pilot report. What charts and analyses would you like to see? For that or to learn more about our services and how we can be of help, please email us at [research@realestateforesight.com](mailto:research@realestateforesight.com)

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Key indicators published in August point consistently at deteriorating macroeconomic conditions for real estate markets in China. However, recent data on house prices show some rebound on MoM basis for an increasing number of cities.

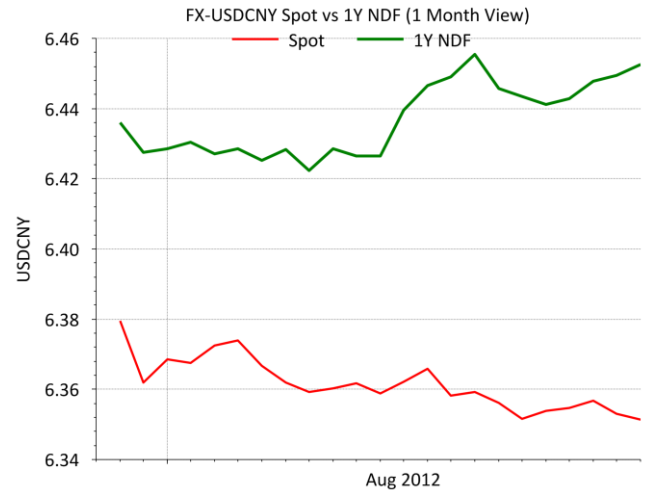
- China's latest official Purchasing Managers Index (PMI) fell to a nine month low of 49.2 in August. Manufacturing sector remains weak and the current reading suggests a contraction in manufacturing activity.
- Headline inflation slowed to 1.8% from above 6% a year ago. Food and fuel prices were responsible for fluctuations while core goods and services remained rather stable. Recently, disinflation in food prices (hogs) and reduction in oil prices have contributed to the decline.
- Reflecting weak global demand and overall sentiment, Chinese export growth remains low and is hovering at the 1% level on a YoY basis. As a response, the central bank has implemented monetary stimulus measure by cutting banking reserve requirement ratios and benchmark interest rates.
- Foreign direct investment (FDI) into real estate capital continued its steadily declining trend since the end of 2010. Q2 2012, however, declined at a slower pace as compared to Q1 2012.
- Among a selection of listed property companies with exposure to China real estate, most delivered negative total returns over the last 30 days. Among select bonds issued by real estate companies, the yields haven't moved much over the last months.
- In the residential property sector, China Index Academy CREIS indices suggest that capital values for most major Chinese cities were showing positive growth momentum on a MoM basis. National Bureau of Statistics data released in July showed prices of new homes rose in 49 out of 70 cities tracked. On a YoY basis, however, growth was still negative for these cities.
- In the retail property sector, according to China Index Academy CREIS data, capital values for Tianjin, Wuhan, Nanjing, Shenzhen, Shanghai, and Guangzhou had very positive year on year growth; Beijing, Chongqing, Chengdu, and Hangzhou were in negative territory. Rental values for Beijing, Shanghai and Guangzhou stayed largely the same.
- In the office property sector, recent data from China Index Academy CREIS indicated that that majority of the cities recorded little change on a MoM basis except for Beijing, Tianjin, and Wuhan. As a gauge of future demand for office space, we also looked at the Entrepreneur Confidence Index (ECI). The ECI is indicative of entrepreneurs' confidence in their respective industries and the macroeconomic outlook. Q2 data for ECI shows a decline in confidence for the overall ECI over the last quarters, but a rebound in confidence for the real estate sub index.

## Macro Indicators- FX



Analysis by Real Estate Foresight

Source: Thomson Reuters Datastream

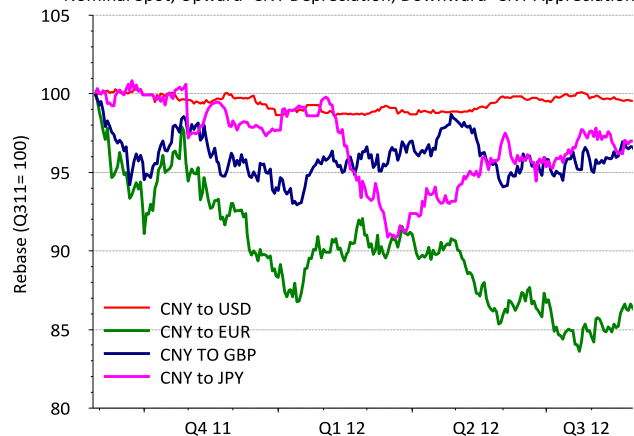


Analysis by Real Estate Foresight

Source: Thomson Reuters Datastream

In the middle of April this year, the People's Bank of China widened the CNY trading band from 0.5% to 1%. Despite earlier expectations of continued appreciation, the CNY spot and 1-year Non-Deliverable Forwards (NDF) have been depreciating slightly against the USD since the beginning of the year. In the last month, the spot CNY started to appreciate against the USD whereas the NDFs continued on depreciation trend.

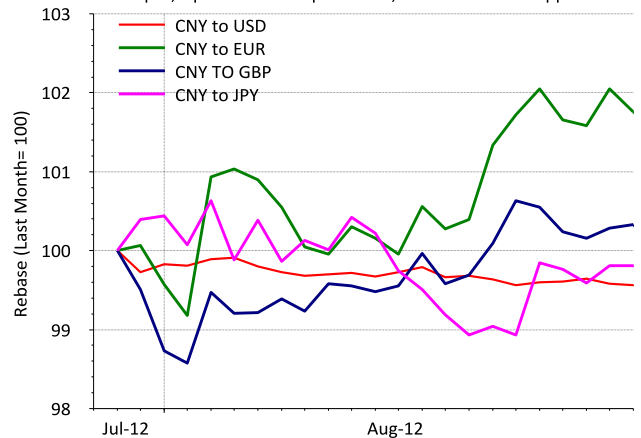
CNY Performance Against USD, EUR, GBP, and JPY in the Last 12 Months (as of Aug30)  
Nominal Spot, Upward=CNY Depreciation, Downward=CNY Appreciation



Analysis by Real Estate Foresight

Source: Thomson Reuters Datastream

CNY Performance Against USD, EUR, GBP, and JPY in the Last 30 Days (as of Aug30)  
Nominal Spot, Upward=CNY Depreciation, Downward=CNY Appreciation



Analysis by Real Estate Foresight

Source: Thomson Reuters Datastream

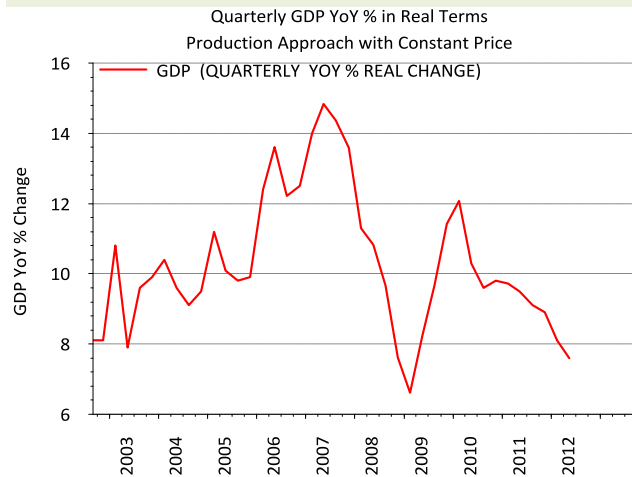
Compared to 12 months ago, the CNY to USD was largely flat. With the ongoing Euro crisis, EUR depreciated against CNY by close to 15%. JPY lost nearly 10% by the middle of Q1 2012 but strengthened steadily. GBP remains down by close to 4% since a year ago.

Looking closer at RMB's fluctuations over the last month, CNY is at similar levels compared to 30 days ago except it is depreciating more steadily against EUR.

# Macro Indicators- GDP, Electricity Consumption, and PMI

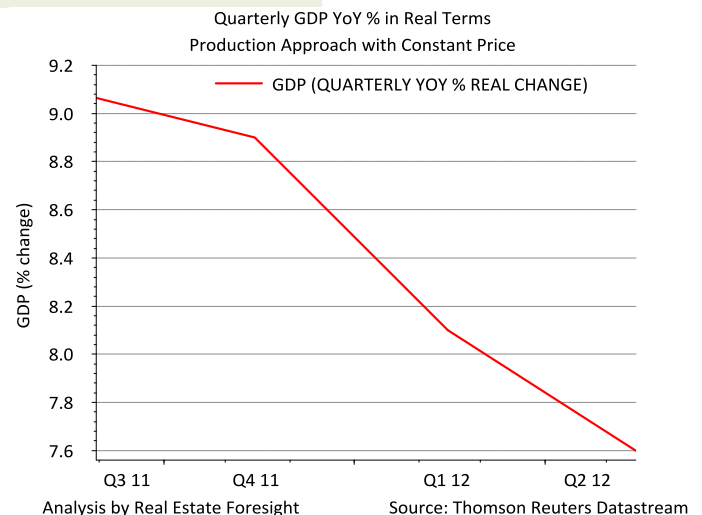


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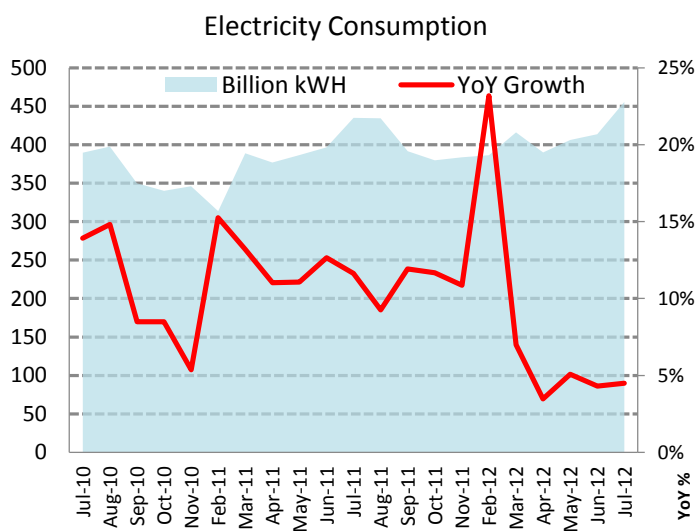
Source: Thomson Reuters Datastream, NBS



Analysis by Real Estate Foresight

Source: Thomson Reuters Datastream

Year-on-year (YoY) real quarterly GDP fell from a peak of 12.1% in Q1 2010 to 7.6% in the recent quarter. The latter figure represents the slowest growth over the past 3 years- a strong signal that the economy is slowing down.



Analysis by Real Estate Foresight

Source: National Energy Association (NEA)

China's total electricity consumption grew 4.5% in July from a year ago to 455.6 billion kWh.

Electricity consumption has been used as a gauge (one of many) to track the state of China's economy.

In 2011, electricity consumption average growth was in double digits. In 2012, however, growth slowed to 3.5% in April. In the recent quarter, growth was in the range of 4% to 5%. The large drop in YoY growth aligns closely with other economic data such as GDP, inflation and Purchase Managers Index (PMI) figures.



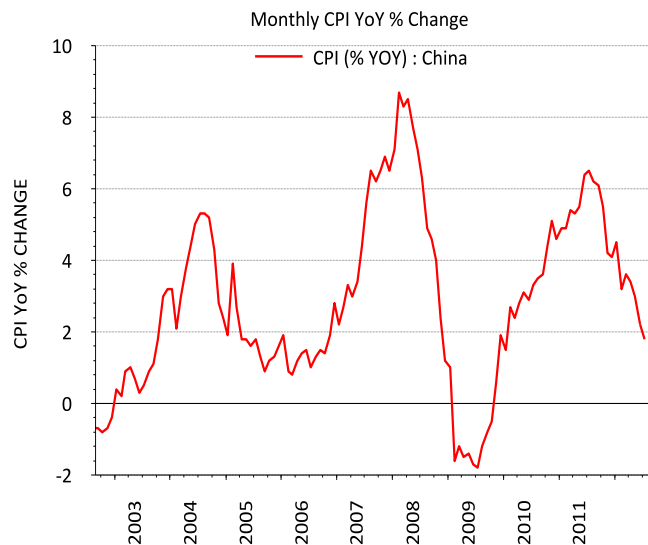
Analysis of Real Estate Foresight

Source: Thomson Reuters Datastream, NBS

Manufacturing Purchasing Managers Index (NBS PMI) released by the China Federation of Logistics (CFLP) fell to a nine month low of 49.2 in August. Reading above 50 indicates that conditions in the manufacturing sector have improved (Expansion) relative to the previous month; a reading below 50 means they have deteriorated (Contraction).

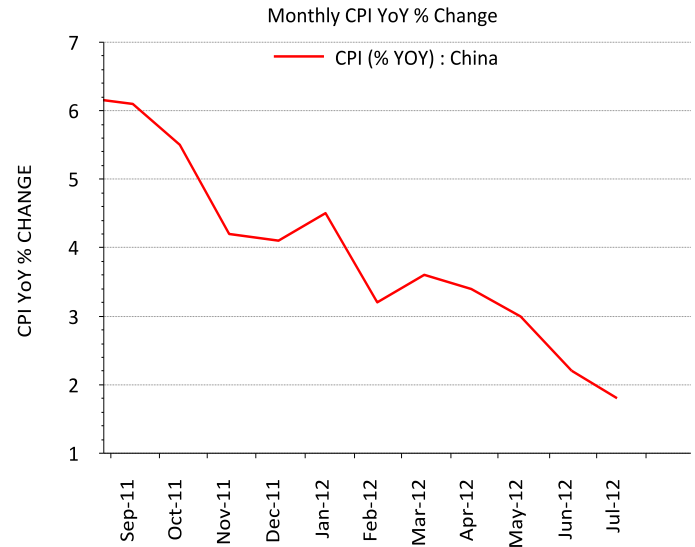
The CFLP PMI covers 820 companies, skewed more towards the state owned enterprises, compared to frequently watched HSBC China PMI.

## Macro Indicators- CPI



Analysis by Real Estate Foresight

Source: Thomson Reuters Datastream, NBS



Analysis by Real Estate Foresight

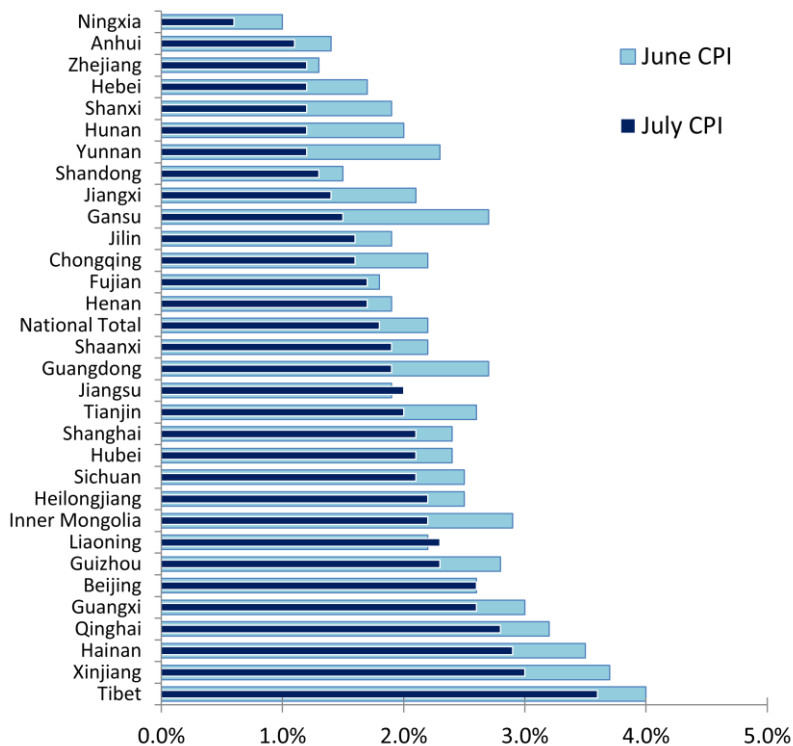
Source: Thomson Reuters Datastream, NBS

The headline inflation figure continued its downward trend since the later part of 2011 and the Consumer Price Index (CPI) growth slowed from above 6% a year ago to below 2%.

It is important to understand that CPI is calculated based on weighing the prices of several goods and services and the National Bureau of Statistics (NBS) makes small changes to the weightage every year in accordance to changes in spending patterns. The entire basket is recalculated every 5 years. In the beginning of 2011, the main change was to increase the weight assigned to cost of accommodation and reduce the weight assigned to food.

Food and fuel prices have been responsible for CPI fluctuations in the past few years, while core goods and service prices have remained rather stable. The rapid disinflation in food prices since H2 2011 can be attributed to the easing of the hog cycle, as supply improved on previously elevated prices. At the same time, the recent cuts on domestic oil price have curbed non-food inflation. Producer prices have been lowered by previous sell-off of global commodities and the weak demand for industrial goods.

## June &amp; July 2012 CPI YoY % Change by Province



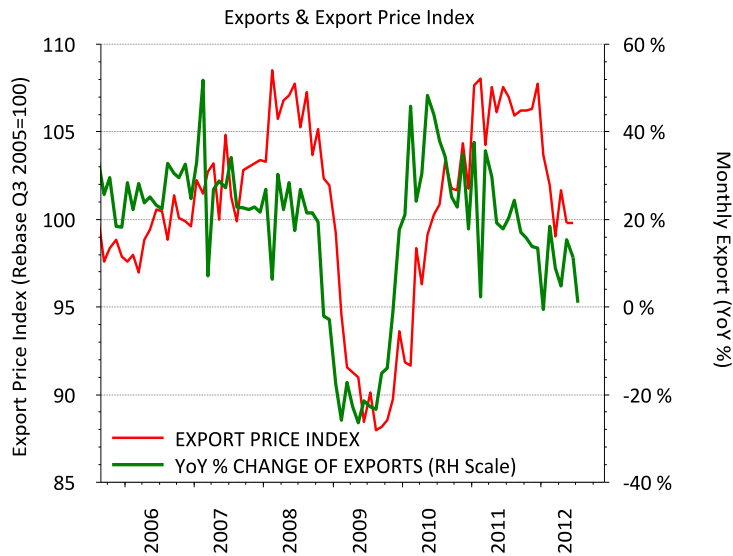
Analysis by Real Estate Foresight

Source: NBS

Looking at provincial CPI data, there is a consistent pattern that suggests inflation is coming down. In Beijing, inflation remained steady at just above 2.5% over the last 2 months.

On a national level, a 1.8% headline inflation rate suggests that the central bank has wider scope to implement policies to stimulate the economy.

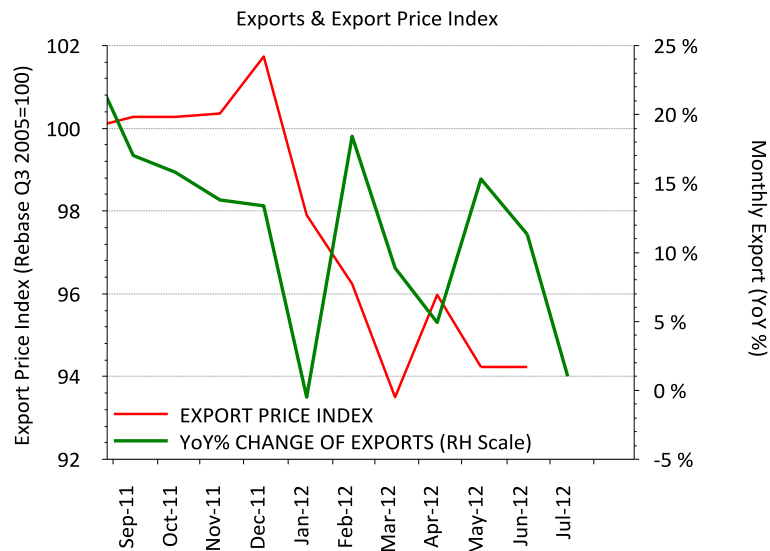
## Macro Indicators- Export



Analysis by Real Estate Foresight Source: Thomson Reuters Datastream, CN Customs

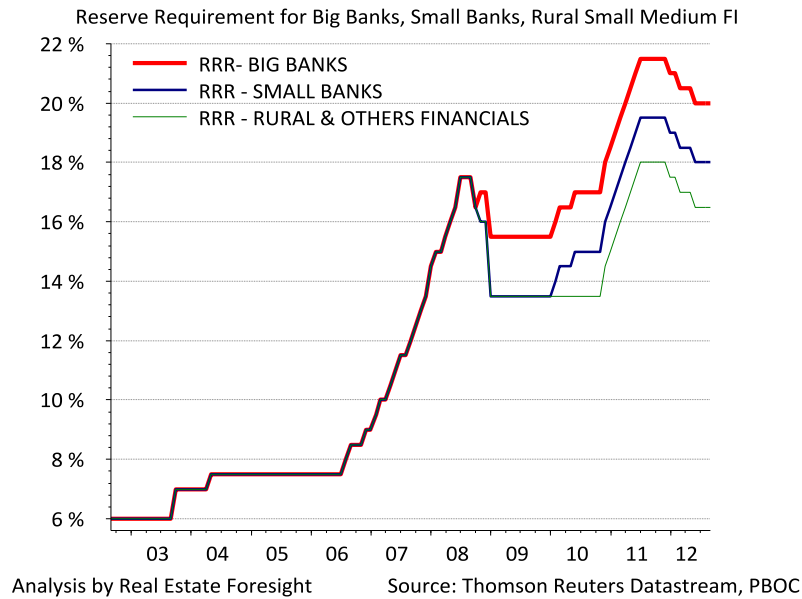
YoY percentage growth of export was remarkably high before the great financial crisis and stood in the range 20% to 30%. With the onset of the crisis, export growth practically fell off a cliff and picked up only after the central government implemented the late 2009 stimulus package.

Since the beginning of 2012, export growth rate has steadily declined (reflecting weak global demand).



Analysis by Real Estate Foresight Source: Thomson Reuters Datastream, CN Customs

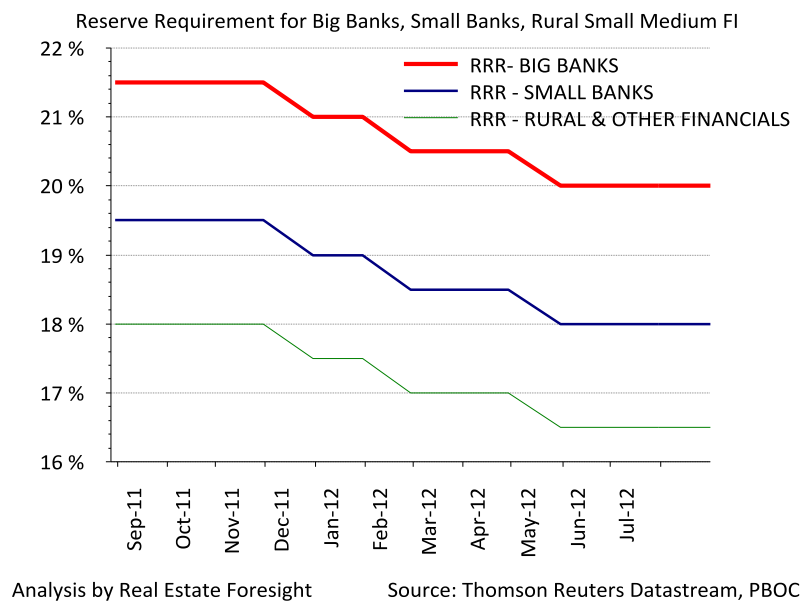
Chinese exports % growth slowed to close to just above 1% in July on YoY basis, a marked decrease from the previous month's YoY growth of 11.3%.



Before October 2008, the reserve requirement ratio (RRR) applied uniformly to all types of financial institutions. After that, RRR differentiation existed between the big banks and small banks. In January 2010, the PBOC created another RRR category that applied to rural cooperatives.

The most recent RRR cut, however, applied uniformly across all categories to the tune of 50 basis points in order to stimulate bank lending (by increasing the supply of loanable funds) as the economy slowed down.

In the last quarter, RRR for big banks was 1% higher than small banks and 2% higher than rural cooperatives.



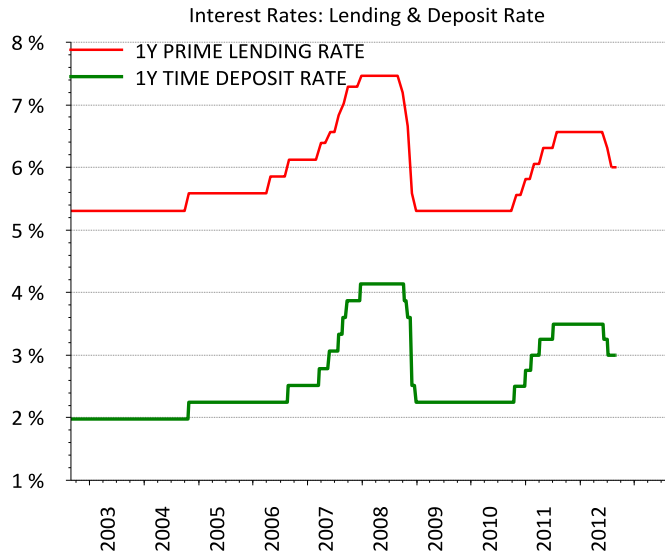
Over less than 1 year, the PBOC has cut RRR 3 times- Dec 2011, Feb 2012 and May 2012. Each cut was 50 basis points. The rapid succession of the RRR cuts suggests the earlier cuts did not reinvigorate the weakening economy. If monetary policies continue to prove insufficient, the government may need to do more in term of fiscal policies- investment projects, reduced taxation etc.



## Macro Indicators- Interest Rate



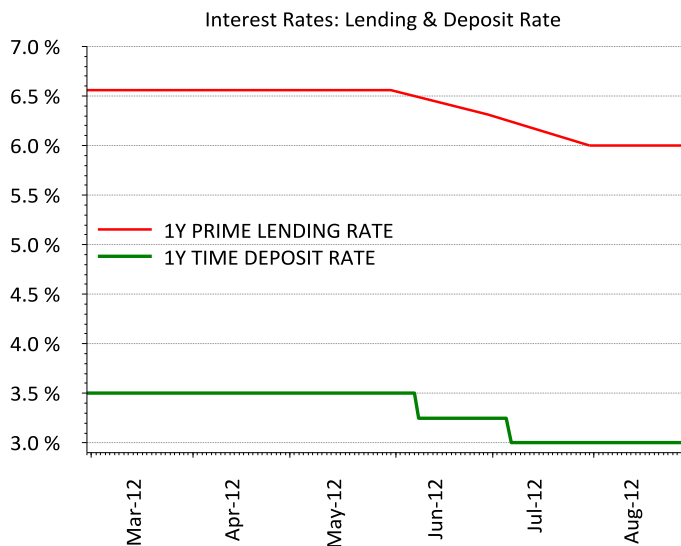
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Analysis by Real Estate Foresight

Source: Thomson Reuters Datastream, PBOC

In Q2, lending rate stood at 6% and deposit rate stood at 3%. Over the last 10 years, the lending rate ranged from 5% to 7% and peaked right before the global financial crisis. Subsequently, the rate was lowered in combating the crisis and increased again to rein in inflation. The deposit rate adjustments were performed simultaneously alongside lending rate adjustments but executed asymmetrically. Interest rate cuts are more impactful to the economy than RRR reductions because the former stimulates loan demand while the latter is meant to increase the supply of loanable funds.

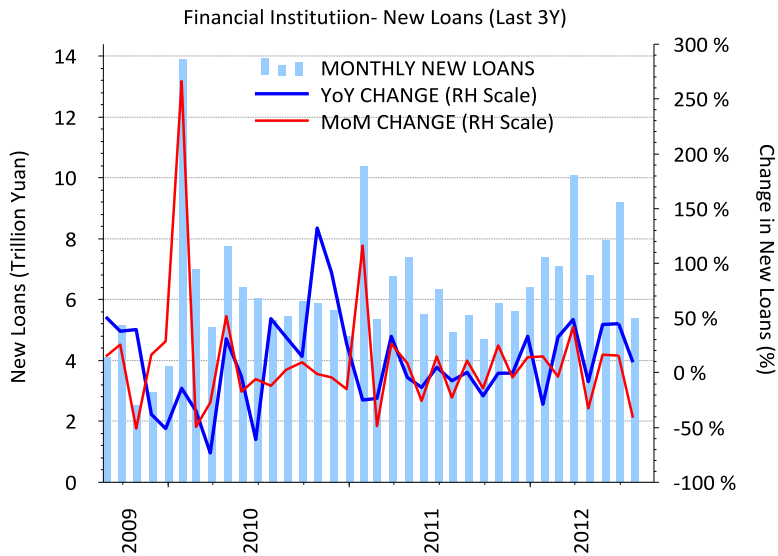


Analysis by Real Estate Foresight

Source: Thomson Reuters Datastream, PBOC

The People's Bank of China (PBOC) has cut benchmark rates twice in a span of less than 6 months. In June 2012, the lending rate was cut from 6.56% to 6.31% and more recently to 6%. The deposit rate was lowered from 3.5% to 3.25% and more recently to 3%.

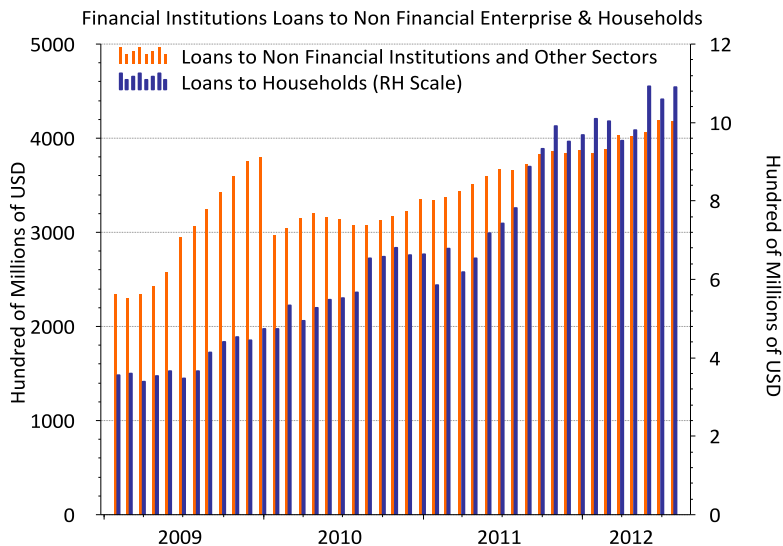
## Macro Indicators- Loans



Analysis by Real Estate Foresight

Source: Thomson Reuters Datastream, PBOC

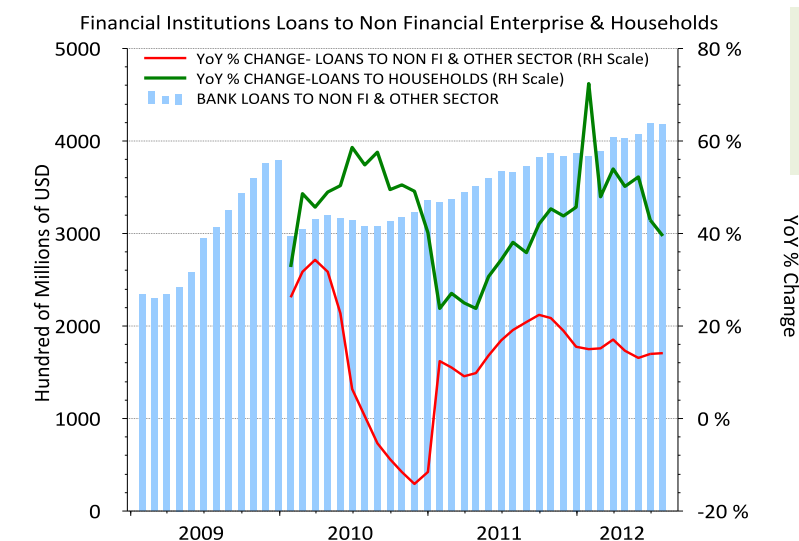
The weaker-than-expected bank lending growth suggests that banks may remain reluctant or constrained by regulators in lending to local government platforms and investment projects. However, new lending remains on track to reach a total of CNY 8-8.5 trillion in 2012.



Analysis by Real Estate Foresight

Source: Thomson Reuters Datastream, PBOC

Over 3 years, loans to non-financial institutions and other sectors have increased from USD 234.79 billion to USD 418.45 billion according to the People's Bank of China (PBOC). For household loans, loan volume went up from USD 357 billion to USD 1.09 billion- a more than threefold increase.



Analysis by Real Estate Foresight

Source: Thomson Reuters Datastream, PBOC

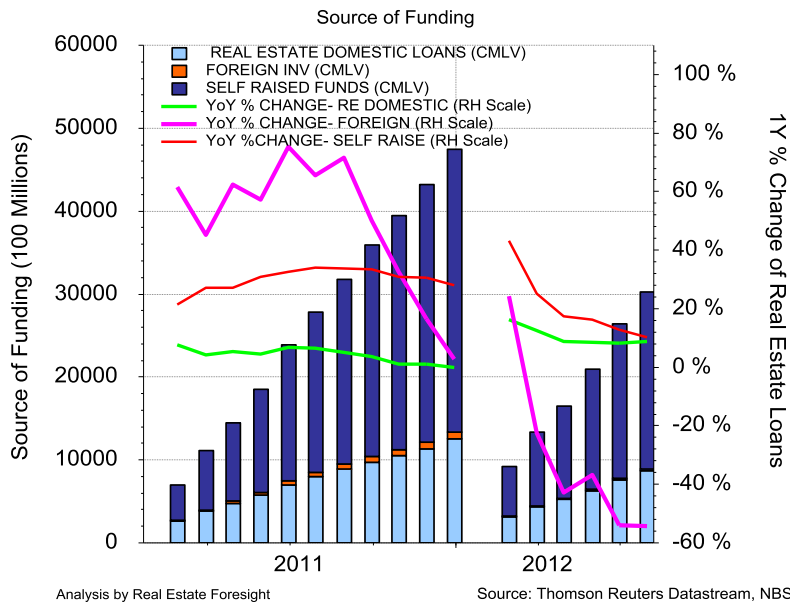
Growth in loans to households decelerated further in July to 40% on YoY basis, from recent high of 70% in the beginning of the year.

Loans growth to non-financial and other sectors remained at stable levels compared to past few months.

## Macro Indicators- Source of Funds for Real Estate Developers

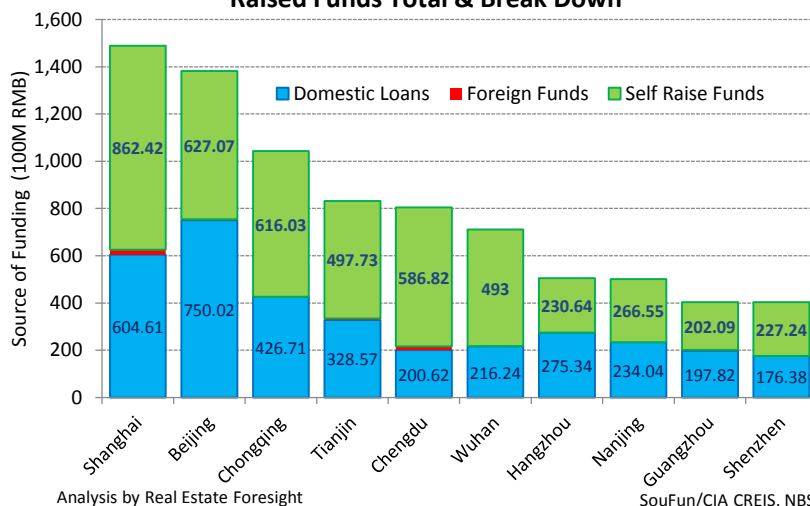


Real Estate Foresight



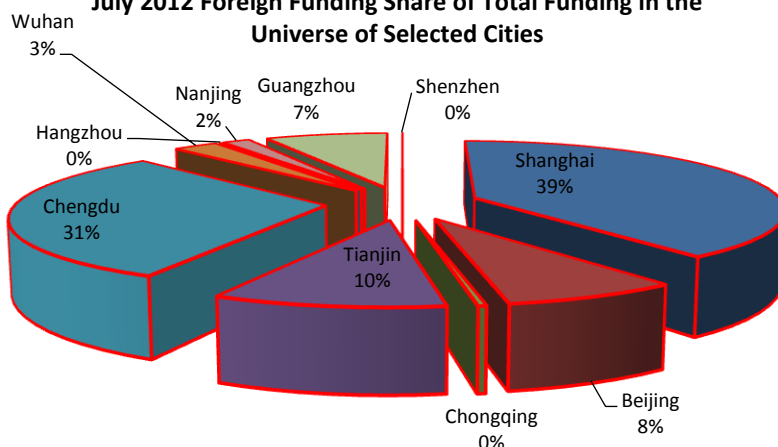
From Jan 2012 to July 2012, funds secured by Real Estate Developers amounted to CNY 3.08 trillion, YoY increase of 6.2%. Domestic Loans accounted for CNY 872 billion, YoY increase of 8.8%. The foreign capital funds accounted for CNY 22.8 billion, a 54.3% decrease YoY. Self-raised fund reached CNY 2.13 trillion, up 10.3 % YoY.

### July 2012: Source of Funding- Domestic, Foreign, Self Raised Funds Total & Break Down



The chart gives a detailed breakdown of the source of funds in various cities. Self-raised funds typically make up the largest proportion of the total source of funds except Beijing. This could be due to the presence of major state owned enterprises headquartered in Beijing and their better access to funding.

### July 2012 Foreign Funding Share of Total Funding in the Universe of Selected Cities

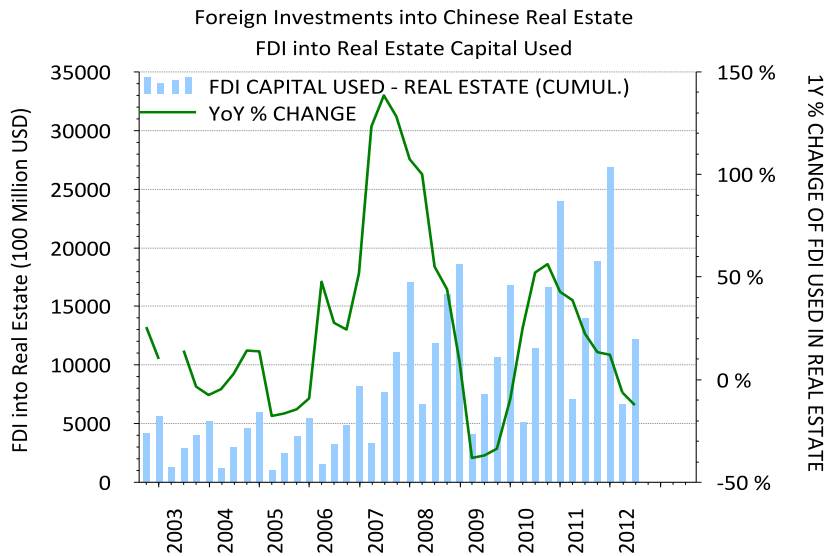


Of the total foreign funding for the selected cities in July, Shanghai, Chengdu and Tianjin were the main destinations.

## Macro Indicators- FDI into Real Estate



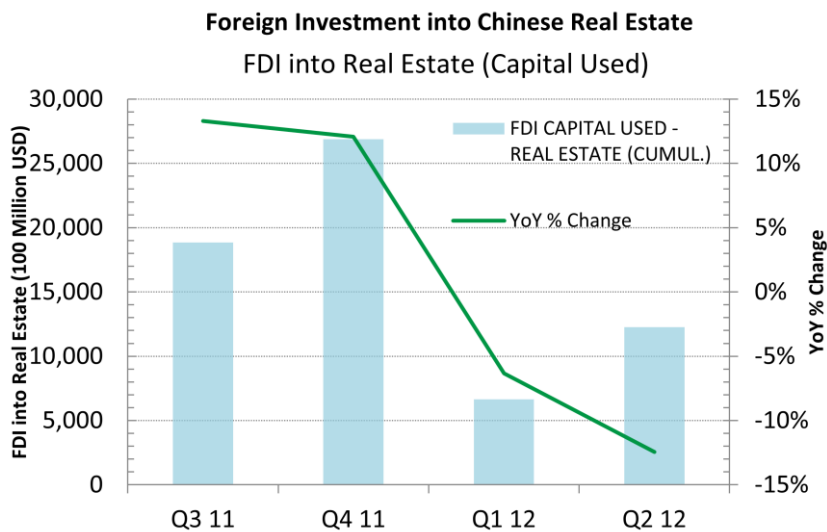
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Analysis by Real Estate Foresight

Source: Thomson Reuters Datastream, NBS

Since the end of 2010, growth in foreign direct investment (FDI) has been steadily decreasing but at a gentler pace as compared to the period of global financial crisis. From the beginning of 2012, growth turned negative and FDI started to decrease on YoY basis.



Analysis by Real Estate Foresight

Source: Thomson Reuters Datastream, NBS

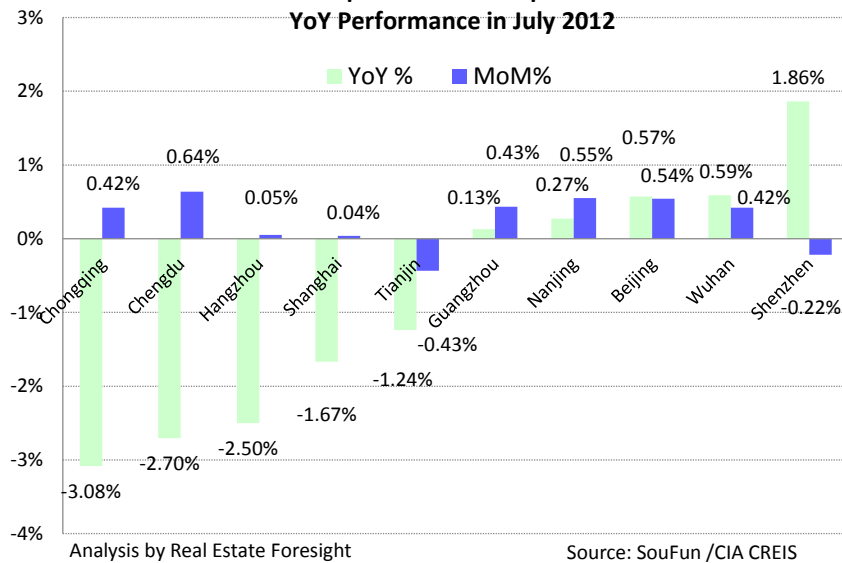
In Q2 12, Foreign Direct Investment into real estate continued to decline and came down at -12.44% on YoY basis, compared with -6.34% decline in Q1 12.

## Macro Indicators- SouFun Real Estate Indices



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**SouFun CREIS Composite Index - Capital Value MoM and YoY Performance in July 2012**

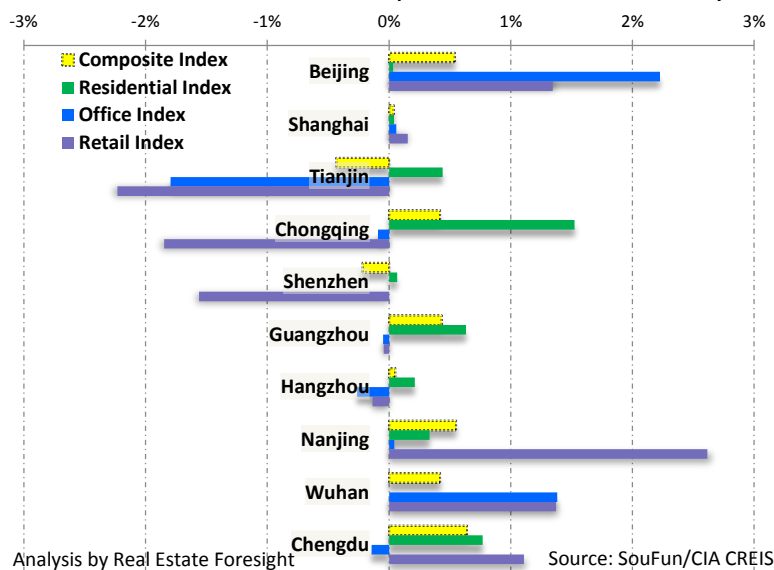


Note: Includes only those cities where data was available for particular timeframe and metrics.

In July, the SouFun CREIS composite index showed a slight MoM increase for most major cities except Tianjin and Shanghai while for YoY changes, half of the selected cities showed a decline.

The index measures the aggregate performance of residential, office and retail property sectors.

**SouFun CREIS Indices- Capital Value MoM Performance in July 2012**



In July, Shenzhen and Tianjin lost 0.43% and 0.22% MoM in the Composite index due to the weak performances in the office/retail market. Hangzhou and Shanghai were slowly picking up. For the rest of the cities, they were growing at a moderate rate of around 0.5% MoM. Chengdu led the increase in composite measure.

For the residential market, top tier cities did not show a notable increase while Chongqing and Chengdu went up 1.52% and 0.77% respectively. It is clear that the residential markets for the 10 cities were picking up, which is consistent with the official data released by NBS as of our cut-off date.

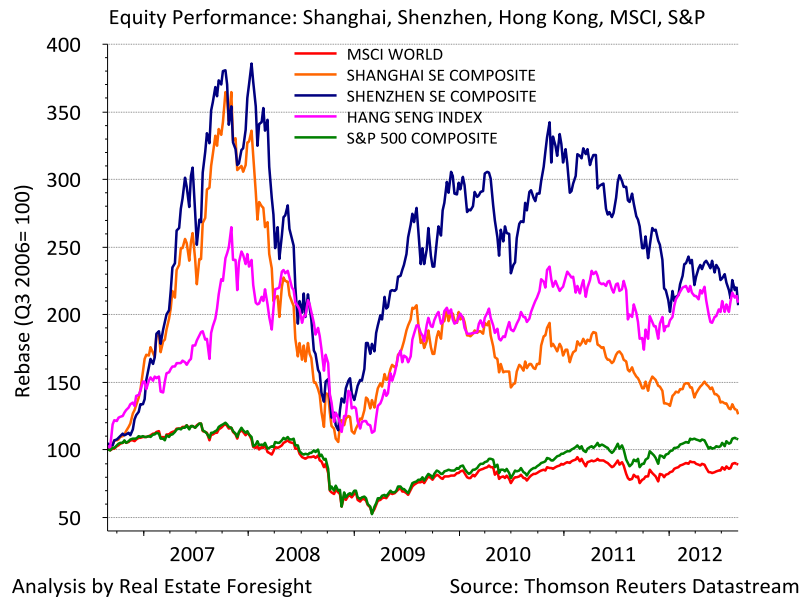
For the office market, Beijing and Wuhan grew 2.23% and 1.38%, while Shanghai added only 0.06%. Tianjin led the decrease and slid 1.79%.

Retail property markets were less homogeneous in price changes. In July, Nanjing, Wuhan, Chengdu, Beijing grew at 2.61%, 1.37%, 1.35%, and 1.11% respectively. While Tianjin, Chongqing, and Shenzhen lost 2.23%, 1.81%, and 1.56% respectively.

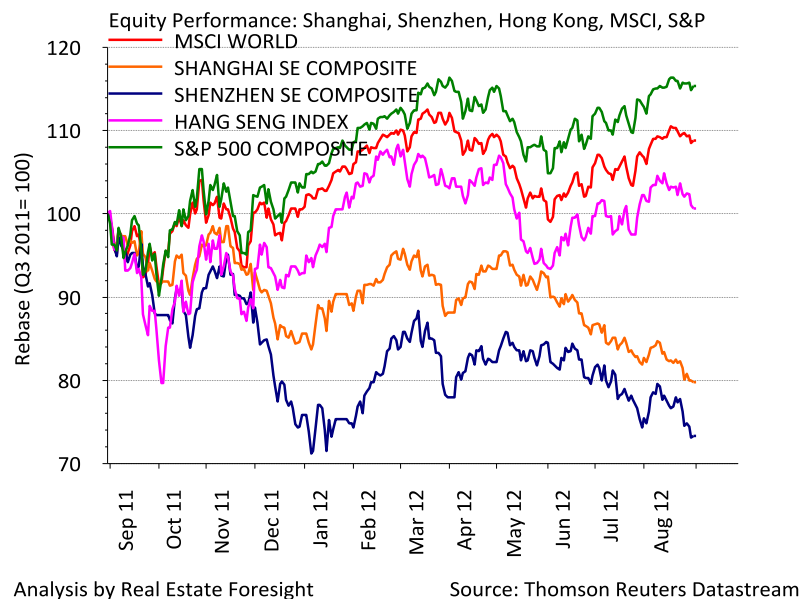
## Capital Markets- Equities



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From a 6 year perspective, major Chinese equity indices including Hong Kong's have outperformed major indices such as MSCI World and the S&P 500, although they followed a more volatile path. Domestic markets Shanghai and Shenzhen in particular have been in a downward trend since 2011.



Since the start of December 2011, the Shanghai Composite and the Shenzhen Composite began to diverge from the Hang Seng as well as the major world indices.

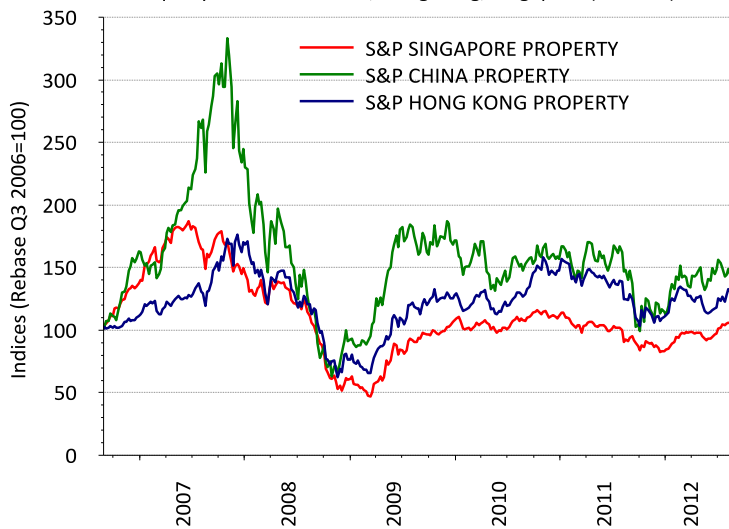
The divergent trend has remained and while the recent quarter saw major world indices including the Hang Seng rallying, the Shanghai Composite and the Shenzhen Composite continued going in the opposite direction.

## Capital Markets- Equities



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Property Indices for China, Hong Kong, Singapore (6Y View)



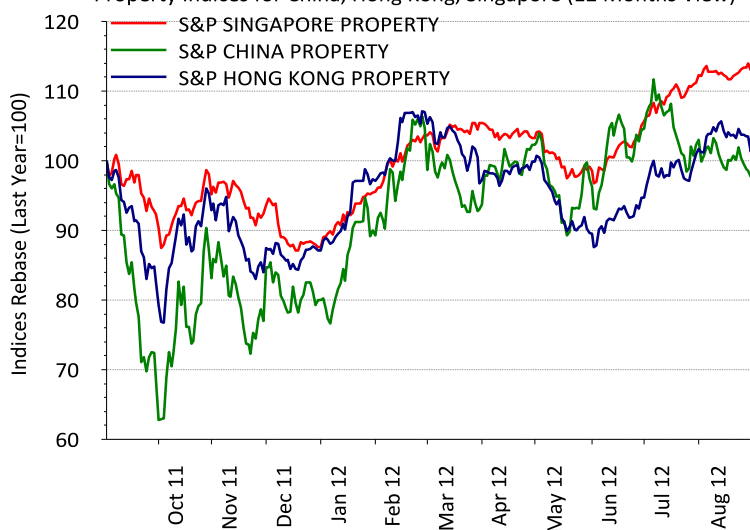
Analysis by Real Estate Foresight

Source: Thomson Reuters Datastream

S&P China property has consistently outperformed the other two real estate property indices in Singapore and Hong Kong except for a brief period during the second half of 2008. The outperformance has been achieved, however, at higher volatility than the other 2 indices.

Currently, the S&P China Property index is up by close to 50% since the end of Q2 2006 contrasting against the S&P Singapore Property index, which is up by only close to 5%.

Property Indices for China, Hong Kong, Singapore (12 Months View)



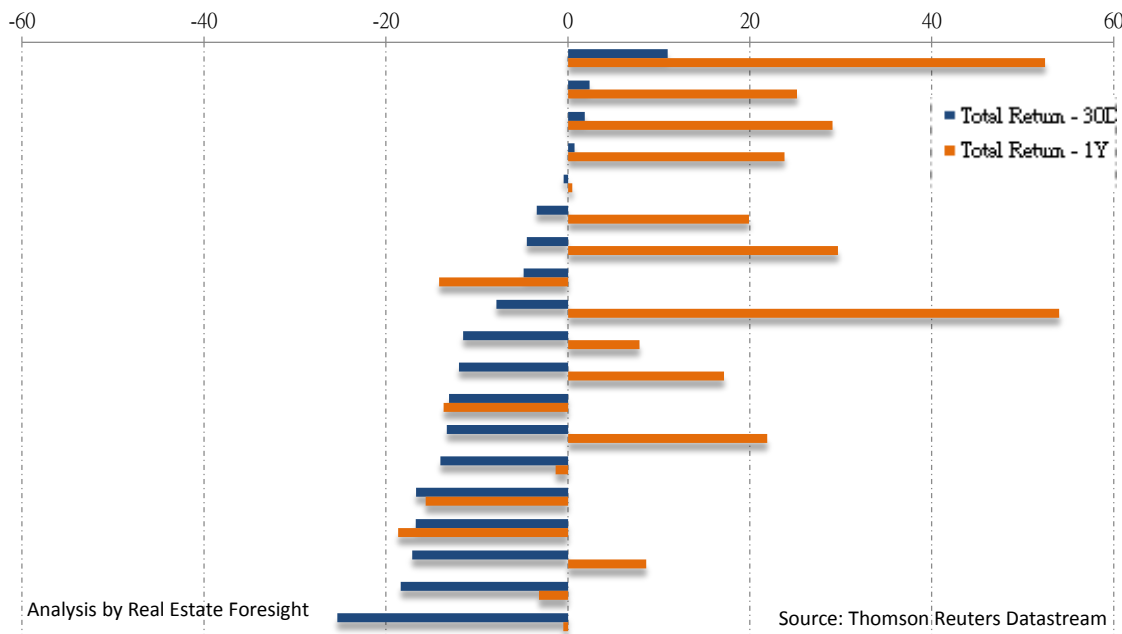
Analysis by Real Estate Foresight

Source: Thomson Reuters Datastream

Comparing performance over a 12 month horizon, the situation is exactly the reverse. The S&P Singapore Property Index performed best and it was up by close to 20%. The Chinese Property Index has struggled considerably and plunged as much as 35% within the period (early October, 2011) and while it recovered in the middle of February this year, policy restrictions and cooler prices have probably held back performance. Nonetheless, the S&P China Property index continues to exhibit the highest volatility



1Y and 1M Total Return (%) For Selected Larger Companies with Exposure to China Real Estate

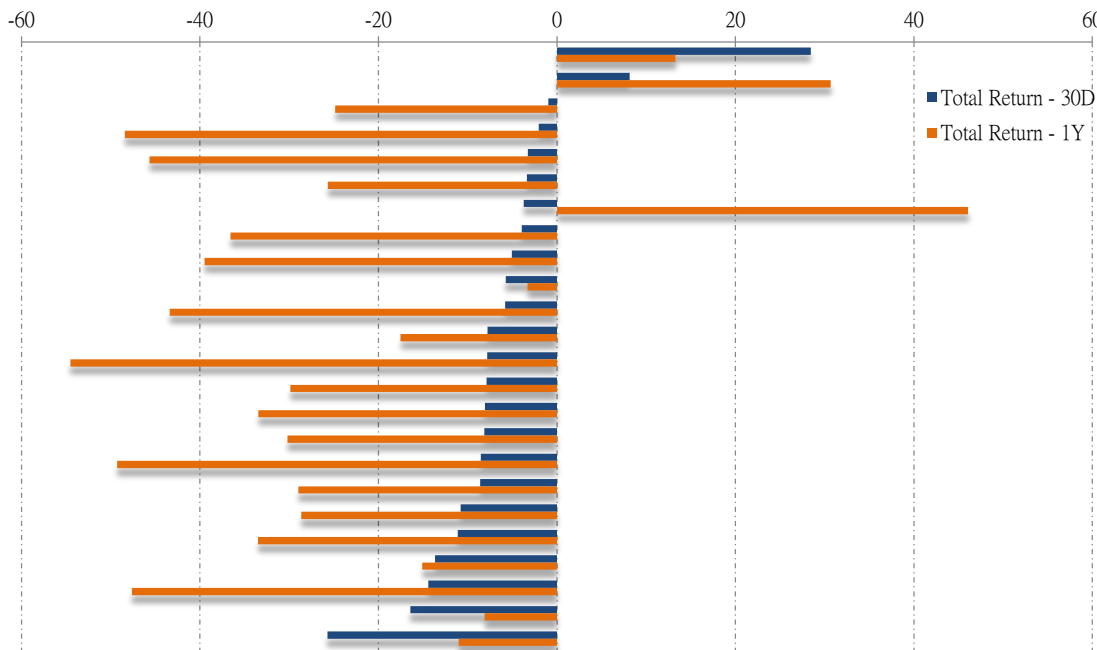


From a short-term 30-day perspective, many of the selected larger property stocks with China exposure have yielded significant double-digit negative total returns. On average, the large property companies have returned approximately -11%. While the performance of the larger stocks have coincided with the fall or flat performance alongside the broader market, the larger magnitude decline reflects the higher beta of Chinese property developers – the beta is around 1.3 according to Thomson Reuters Datastream estimates.

Singapore property stocks have been up during both timeframes and have outperformed the broader Singapore Straits Times index.

**Selected Larger Companies:** CHINA OVERSEAS LAND & INVESTMENT, CHINA VANKE, POLY REAL ESTATE, CHINA RESOURCES LAND, LONGFOR PROPERTIES COMPANY, NEW WORLD DEVELOPMENT CO, COUNTRY GARDEN HOLDINGS, CHINA MERCHANTS PROPERTY DEVELOPMENT COMPANY, SHIMAO PROPERTY HOLDINGS, AGILE PROPERTY HOLDINGS, GUANGZHOU R&F PROPERTIES, GEMDALE, SOHO CHINA, NEW WORLD CHINA LAND, FINANCIAL STREET HOLDING, SHANGHAI LUJIAZUI, CAPITALAND, CAPITAMALLS ASIA, GLOBAL LOGISTIC PROPERTIES, HANG LUNG PROPERTIES

1Y and 1M Total Return (%) For Selected Smaller Companies with Exposure to China Real Estate

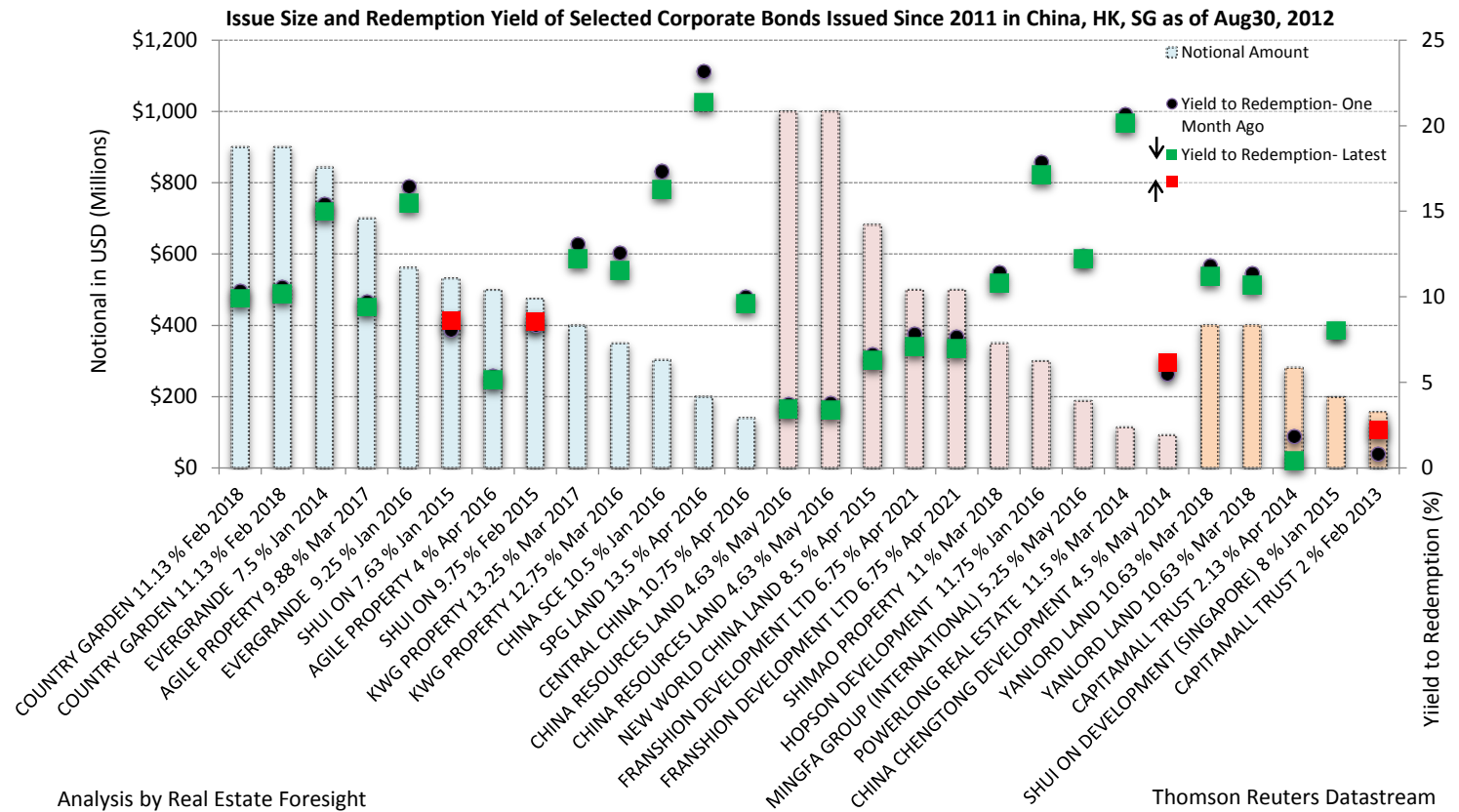


For smaller listed companies, the returns were negative for almost all stocks among those selected. The 30-day, total returns averaged approximately -6%.

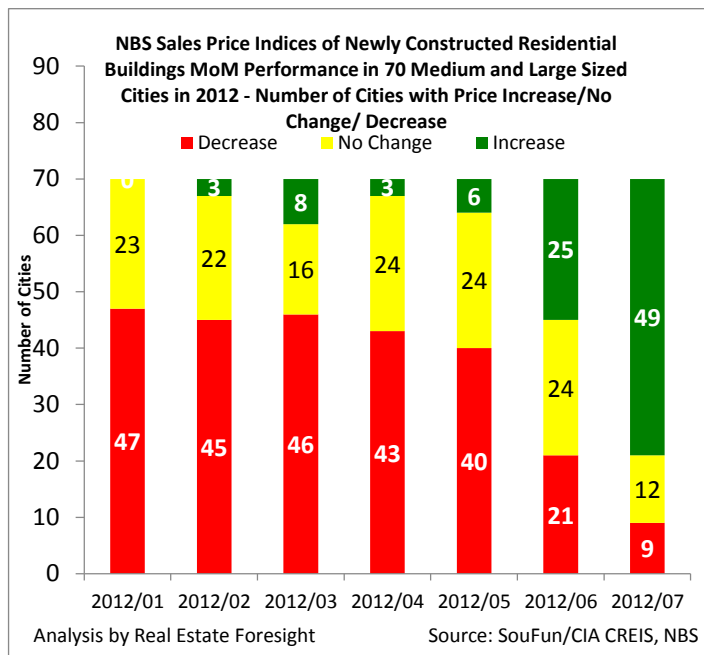
While larger stocks have yielded positive returns over 1 year, smaller stocks are down by close to -25% during the same time period.

**Selected Smaller Companies:** SHANGHAI FENGHWA GROUP, SHAHE INDUSTRIAL, BAOAN HONGJI REAL ESTATE, WINSAN (SHANGHAI) INDUSTRIAL, LANDER REAL ESTATE COMPANY, SHENZHEN FOUNTAIN, YUEXIU PROPERTY COMPANY, TIANJIN TIANBAO INFRASTRUCTURE, TIANJIN SONGJIANG COMPANY, AVIC REAL ESTATE HOLDING, GUANGDONG WEDGE INDUSTRIAL, ZHEJIANG GUANGSHA, SHANDONG TYAN HOME, GREE REAL ESTATE COMPANY, JIANGXI ZHONG JIANG, HEFEI URBAN CONSTRUCTION DEVELOPMENT, METRO LAND CORPORATION, BEIJING DALONG WEIYE, WOLONG REAL ESTATE GROUP, GUANGZHOU PEARL RIVER INDUSTRY DEVELOPMENT, TIANJIN GUANGYU DEVELOPMENT, SHANGHAI DUOLUN INDUSTRY, COSMOS GROUP COMPANY, CHONGQING INTERNATIONAL ENTERPRISE

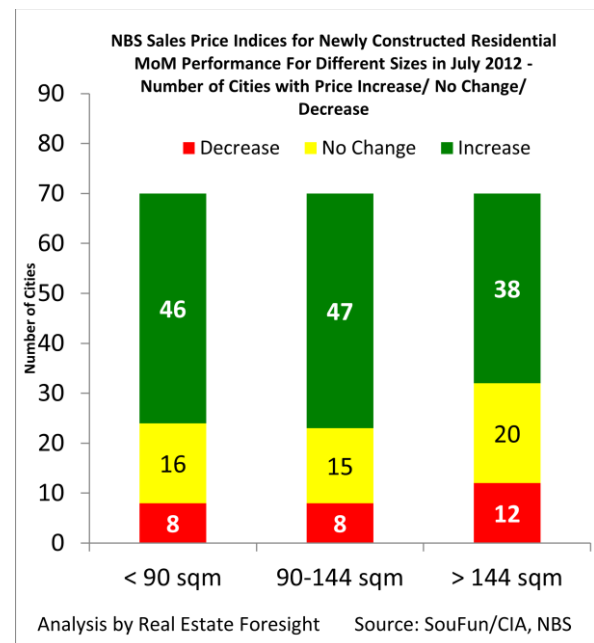




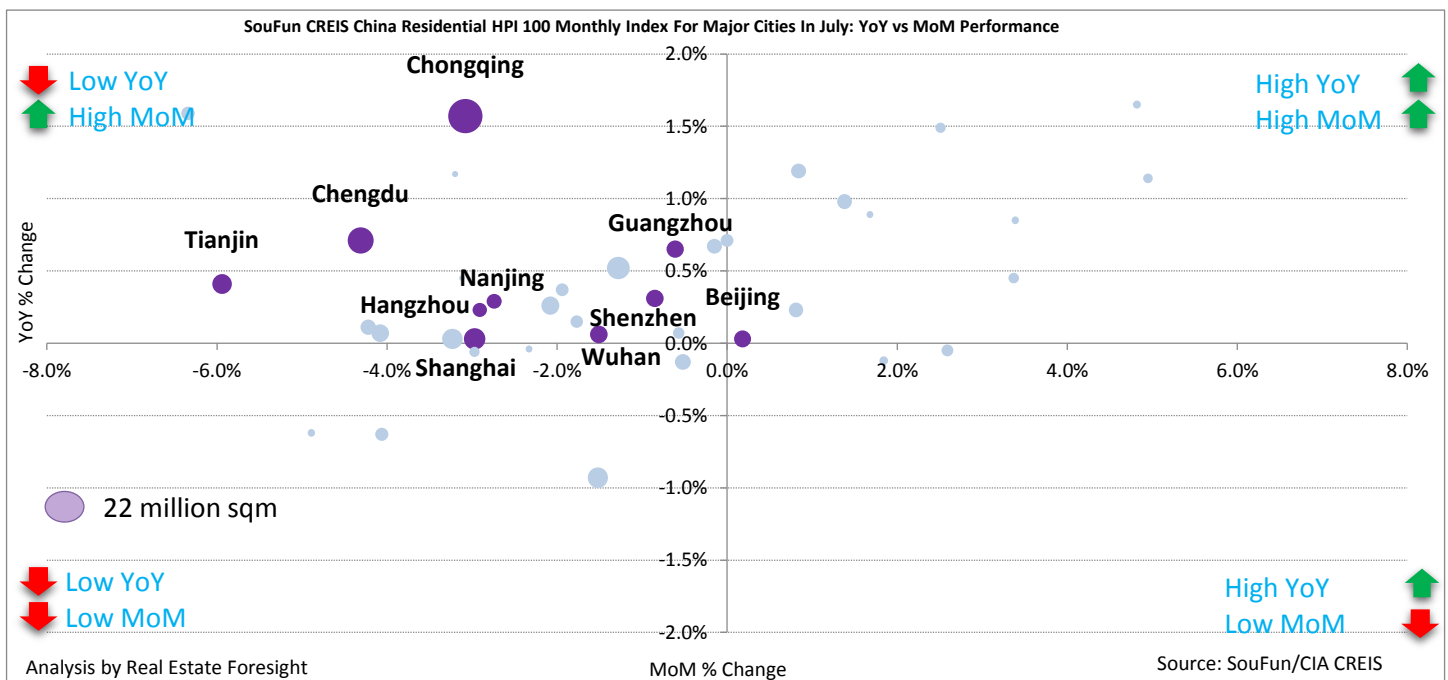
The chart gives a summarized view of real estate related corporate bonds from issuers in China, Hong Kong and Singapore. With the exception of 4 issues, yields to redemption stayed at the same level or moved down slightly compared to a month earlier.



Prices of new homes rose in 49 out of 70 cities. This represents the largest increase over the previous month for the last 6 months despite purchase restrictions and other cooling measures imposed by the central government.

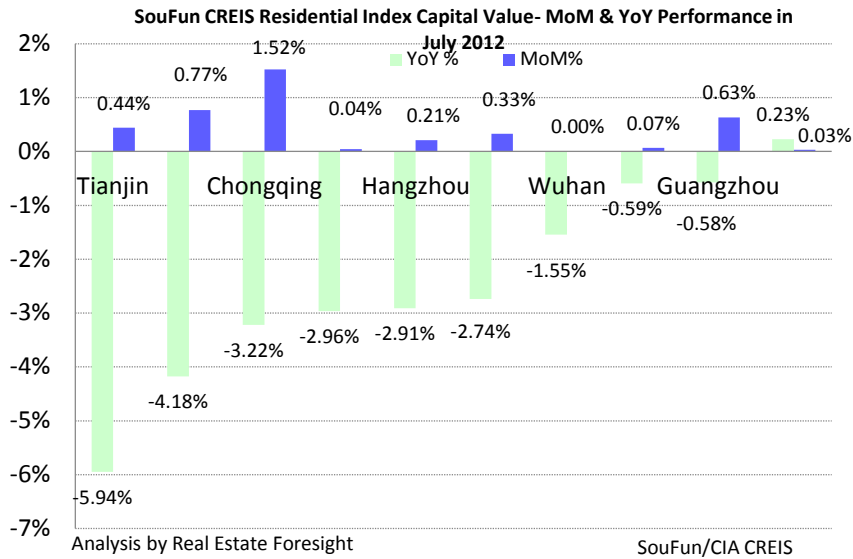


NBS reported that 49 out of 70 cities experienced price increases for the overall residential property sector in July and the primary housing markets for the same cities followed this uptrend closely. For larger house sizes (>144 sqm), however, only 38 cities reported an increase.



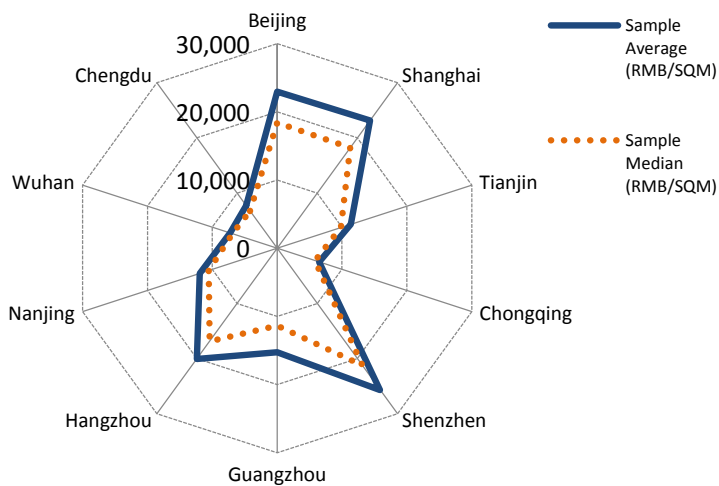
Based on SouFun-CREIS residential property indices for major cities, the chart summarizes information by overlaying YoY and MoM data. Bubble size reflects relative volume of floor space sold in the respective cities from August 2011 to July 2012 (12 months).

On a YoY basis, major cities continued to be in negative territory (left half of the chart). On a MoM basis, there was an increase in prices across the cities (upper half of the chart).



In July, price growth in the residential sector was mostly in the negative region on a YoY basis. On a MoM basis, however, most of the cities were showing positive growth momentum and the change for Chongqing is most notable. Tianjin, the worst performer on a YoY basis, has showed positive growth on a MoM basis.

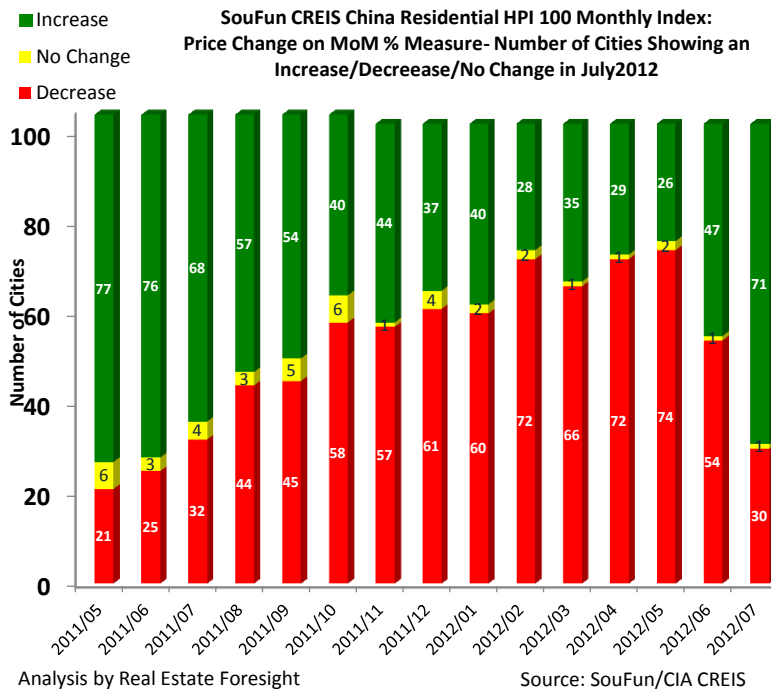
**Sample Average Price vs Sample Median Price of Selected Cities**



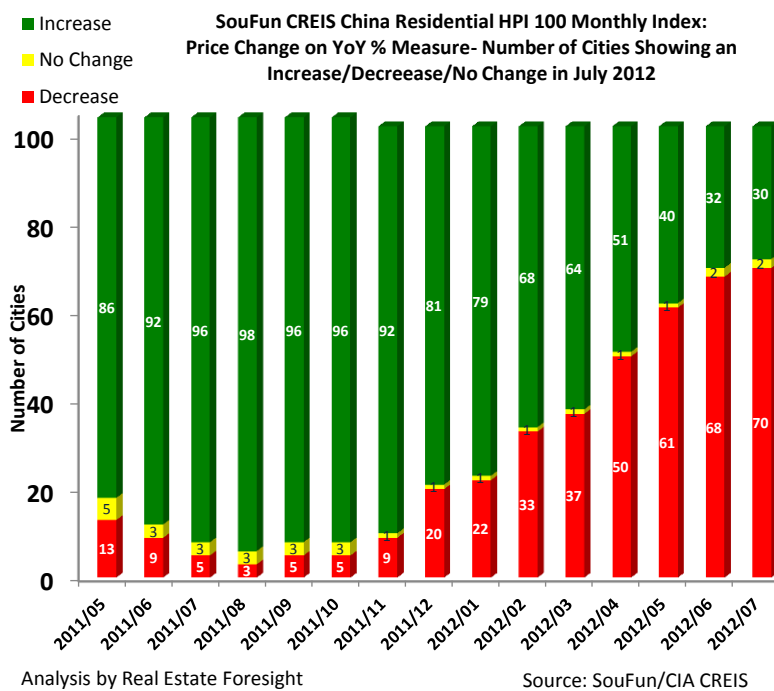
Analysis by Real Estate Foresight

Source: SouFun/CIA CREIS

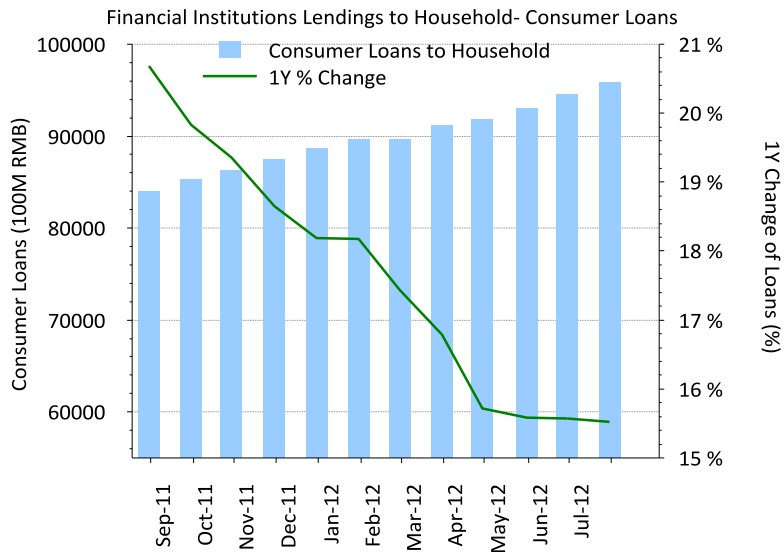
The chart provides a summarized view of the difference in the residential average and median prices among different cities. Tier 1 cities plus Hangzhou and Tianjin have shown a wide gap between the average and median prices, which indicates that the price range in the sample tend to be wider than the rest. For Chongqing, Chengdu, Nanjing and Wuhan, median and average prices were relatively close.



This chart shows the number of cities recording an increase/decrease/no change in Price in CREIS China Residential HPI 100 Monthly Index on a MoM basis. It is clear that over the shorter term of 3 months, prices have been increasing in an increasing number of cities.



This chart shows the number of cities recording an increase/decrease/no change in Price in CREIS China Residential HPI 100 Monthly Index on a YoY basis. It is clear that prices have been decreasing over time in increasing number of cities.

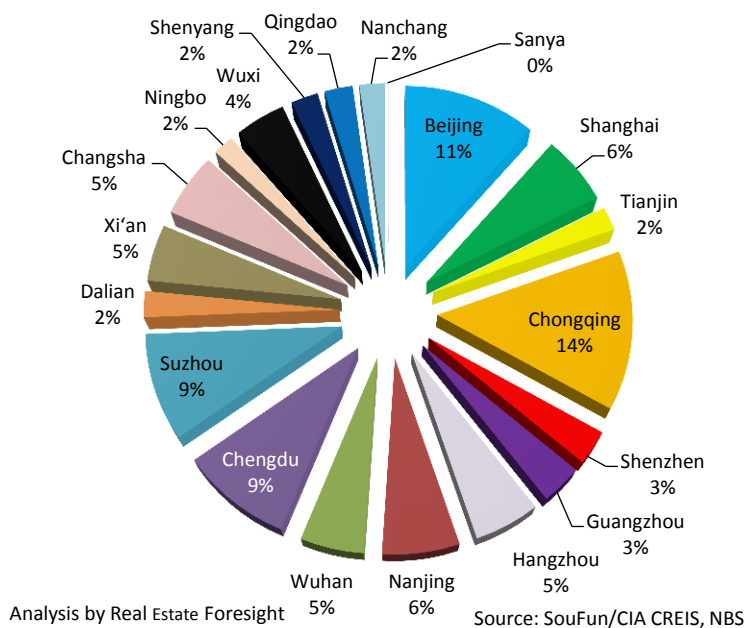


On a 12-month basis, the growth in consumer loans to households decelerated from close to 21% YoY to around 15.5% and stabilized at that level over the past 3 months.

Analysis by Real Estate Foresight

Source: Thomson Reuters Datastream

Mortgage Loan to Individuals Breakdown: July 2012



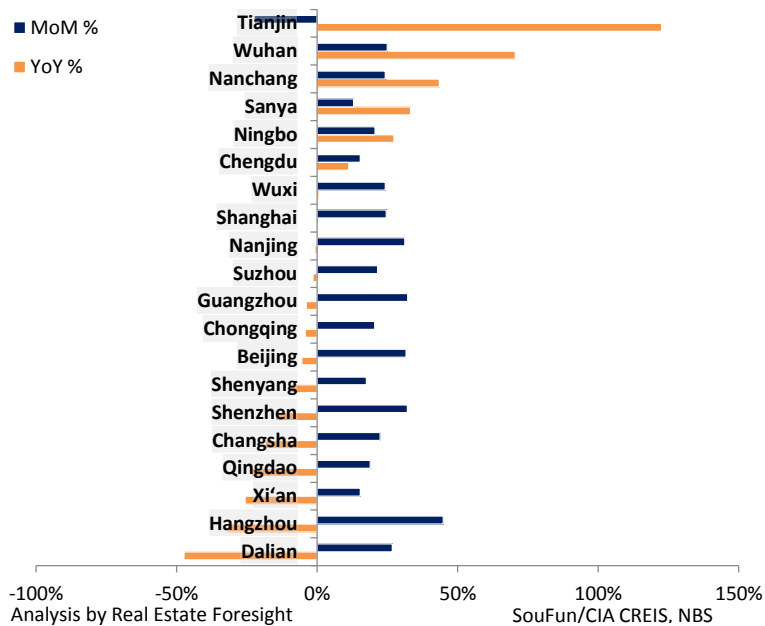
According to NBS, the national total mortgage loans to individuals were 509.4 billion yuan representing a YoY increase of 4.6%. Looking into more granular mortgage loan data available for the cities, the total mortgage loans for the selected cities on this chart account for 195.9 billion yuan. Notably, Chongqing alone took a share of 14% (of the total for these select cities).

Analysis by Real Estate Foresight

Source: SouFun/CIA CREIS, NBS

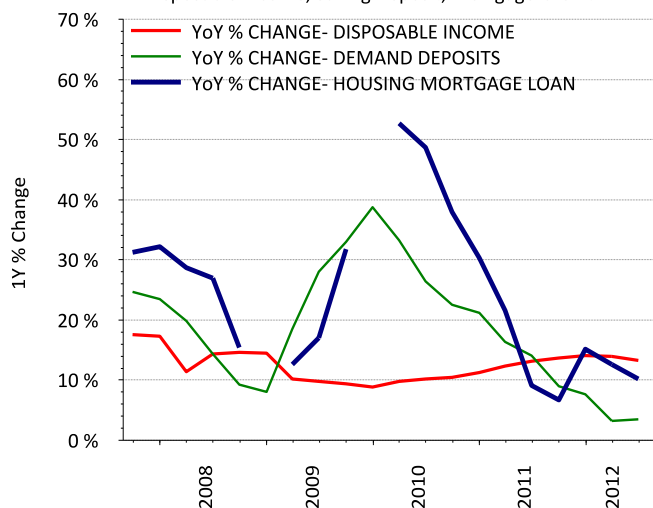


Mortgage Loans MoM &amp; YoY Growth to Individuals : July 2012



According to NBS, the national total mortgage loans to individuals in July were 509.4 billion yuan representing a YoY increase of 4.6%. Looking into more granular mortgage loan data available for the cities, the total mortgage loans for the selected cities in the chart account for 195.9 billion yuan. Notably, Chongqing alone took a share of 14% (of the total for these select cities).

Disposable Income, Saving Deposit, Mortgage Growth

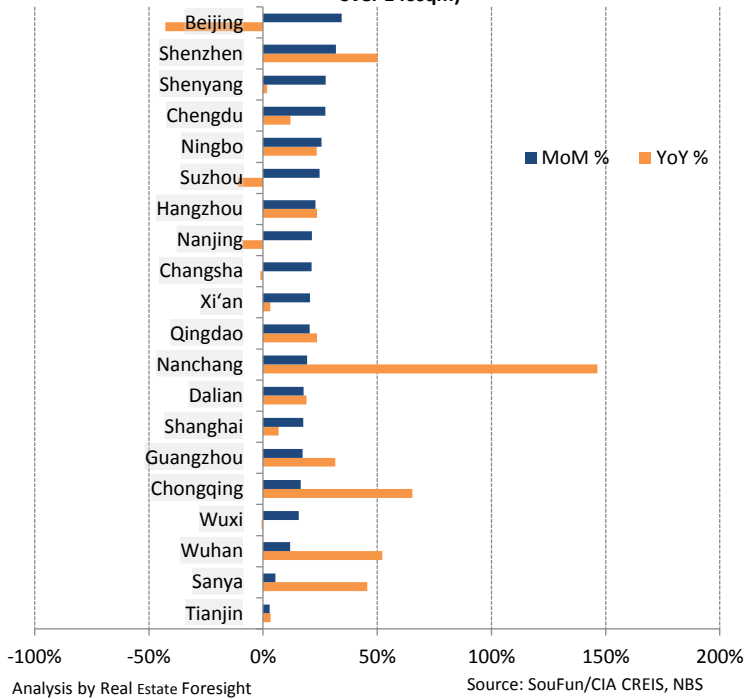


Analysis of Real Estate Foresight      Source: Thomson Reuters Datastream, NBS, PBOC

In Q2 2012, the YoY % growth in Disposable income, Demand Deposit, and Housing Mortgage Loans were 13.29%, 3.5%, and 10.22% respectively. What's noticeable is a continued trend since 2010 in decline in the growth of demand deposits, while disposable income growth remained at relatively stable level.



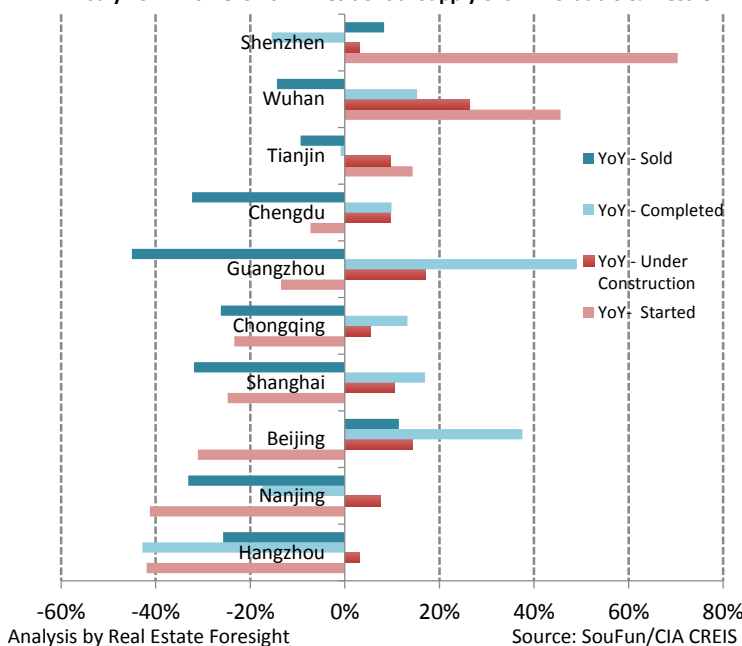
July 2012- Investment YoY & MoM Growth of Residential (with size over 140sqm)



In July, cities that recorded highest % growth YoY in investment in residential real estate (unit size over 140sqm) were Nanchang, Chongqing, Wuhan, Shenzhen and Sanya.

On MoM basis, Beijing, Shenzhen, Shenyang and Chengdu saw highest growth, although with less variation among all the cities analysed.

July 2012- YoY Growth in Residential Supply excl. Affordable & Presale

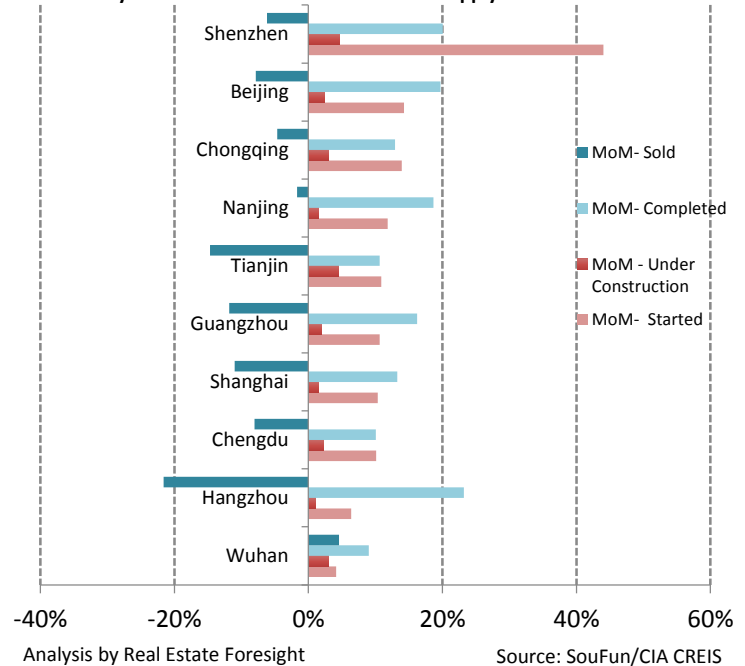


In July, Shenzhen, Wuhan, and Tianjin recorded highest % increases in newly started construction activities (70.36%, 45.64%, and 14.31%) on YoY basis, while Hangzhou, Nanjing and Beijing recorded significant decreases.

The major cities recorded YoY declines in volume of floor space sold, except for Shenzhen and Beijing.

Note that the Floor Space Under Construction includes the newly started floor space and SouFun CIA/NBS reports this as cumulative figures.

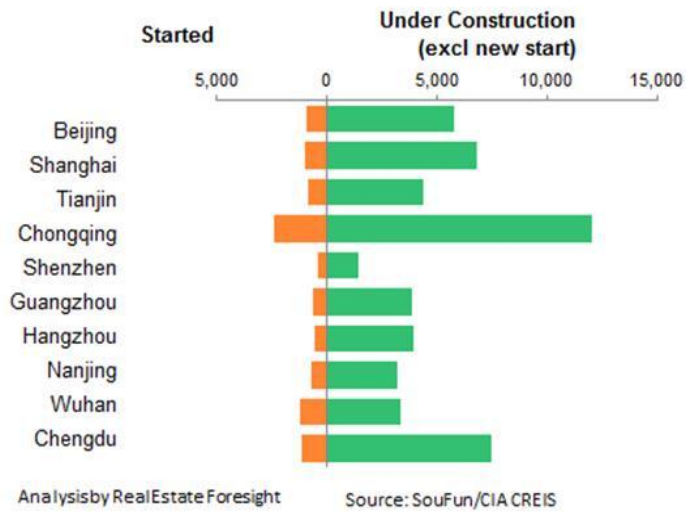
July 2012- MoM Growth in Residential Supply excl. Affordable & Presale



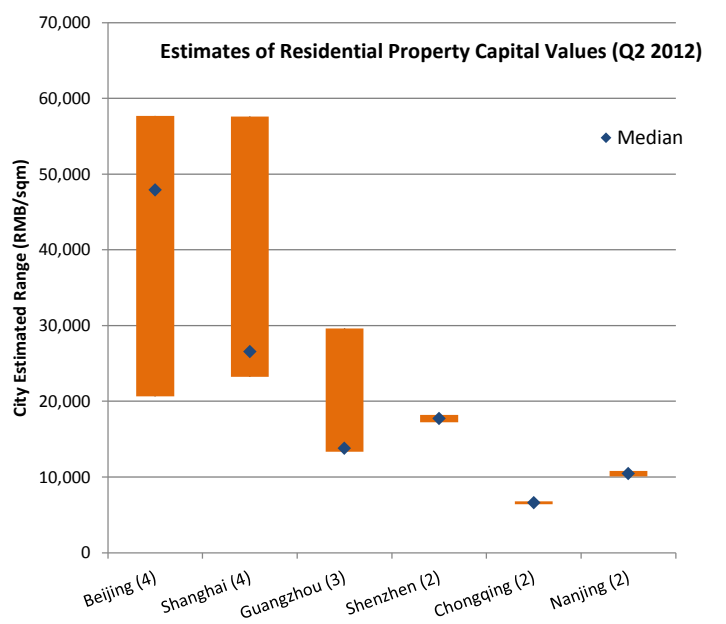
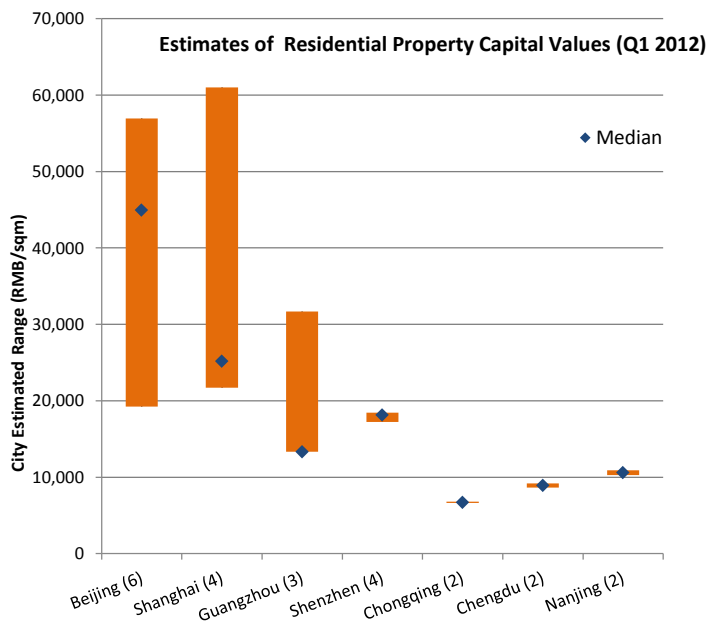
Compared to YoY measure, the MoM data shows consistent growth in newly started construction, though the sales volumes declined across cities, except for Wuhan.



### July Aggregate Floor Space (10,000 sqm) in Residential (excl affordable and Pre Sale)



The newly started floor area accounts for 22% and 26% of the floor space under construction for Shenzhen and Wuhan. The average ratio for the 10 cities is 16%



**Source:** Based on research reports and data from CBRE, Jones Lang LaSalle, Knight Frank, Cushman & Wakefield, DTZ, Savills, Colliers, Centaline and SouFun CREIS. Numbers in parenthesis beside city names denote number of data points captured for a particular city.

The charts above give a visual indication of the range of estimates that are reported for each city's residential property sector.

Comparing Beijing's price movement across Q1 and Q2 2012, it can be seen that the lower bound has gone above the RMB20,000 range and the median value is closer to the RMB 50,000 mark in Q2 2012.

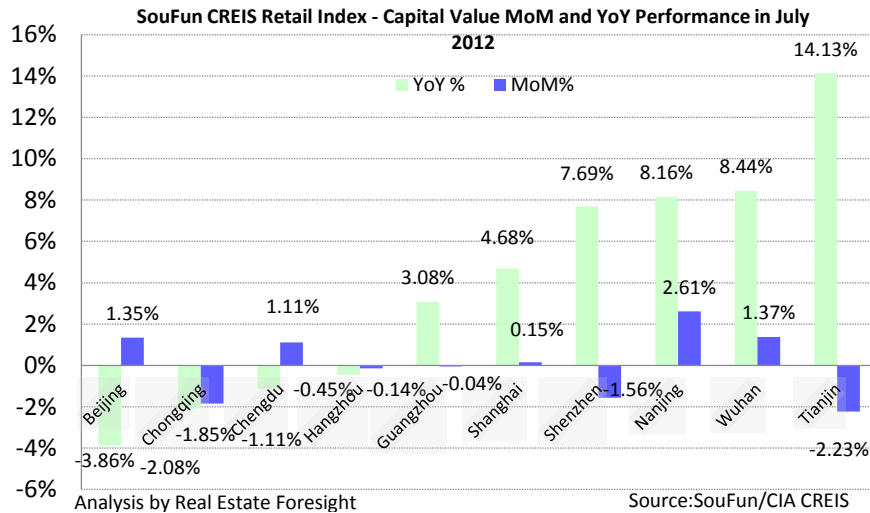
In Shanghai's case, the lower bound moves closer to the RMB 25,000 mark. Similarly, the median value has also inched up. For the upper bound, however, prices are below the RMB 60,000 mark and possibly suggest that the luxury segment is cooling.

Focusing on Guangzhou, lower bound and median prices remain largely similar but upper bound prices have gone below the RMB 30,000 mark.

Shenzhen, Chongqing and Nanjing remain largely unchanged.



## Retail Sector



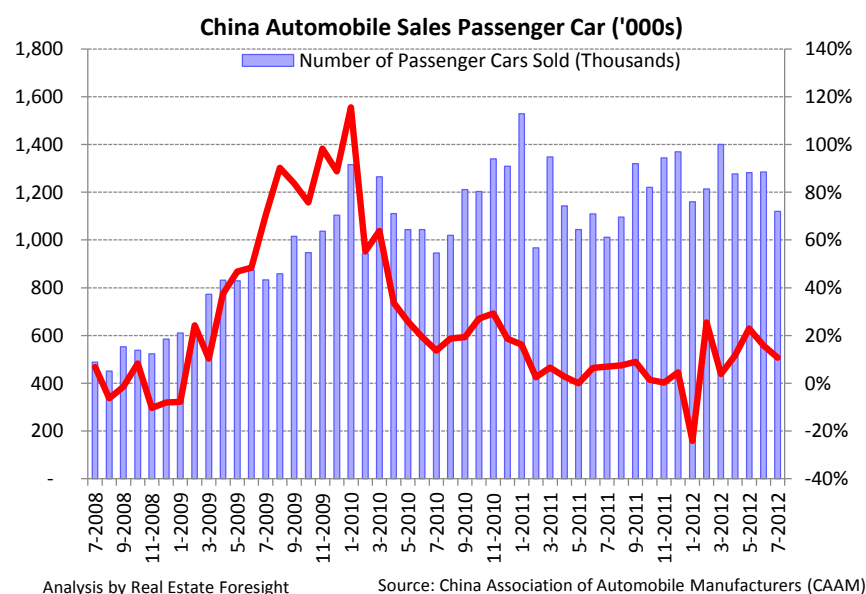
In July in the retail sector (in terms of capital values) Tianjin, Wuhan, Nanjing, Shenzhen, Shanghai, and Guangzhou had a very positive year on year growth, while Beijing, Chongqing, Chengdu, and Hangzhou were in negative territory.

However, on MoM measure, Tianjin declined and Beijing noted an increase.



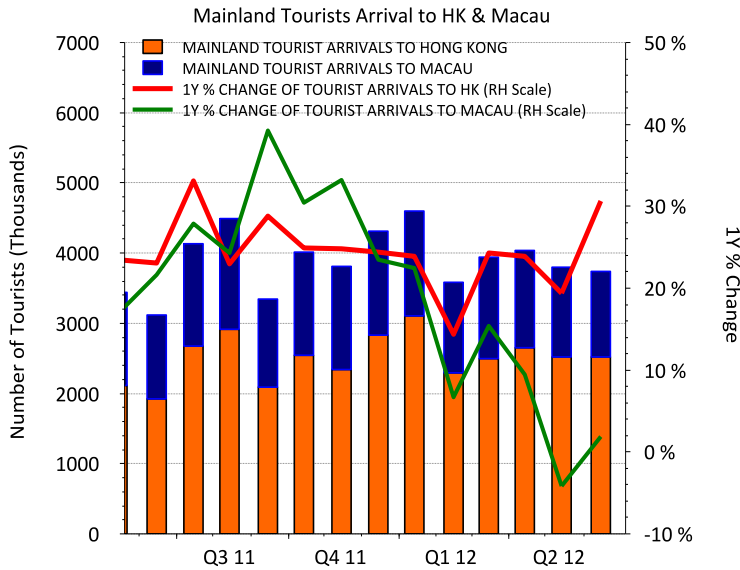
In July, the retail sales growth rate continued to decline. Retail sales were 1,631.5 billion, representing +13.1% YoY change.

Note that Chinese retail sales figures include government to business and business to business transactions rather than just business to consumer, the figures are in nominal terms and exclude services.



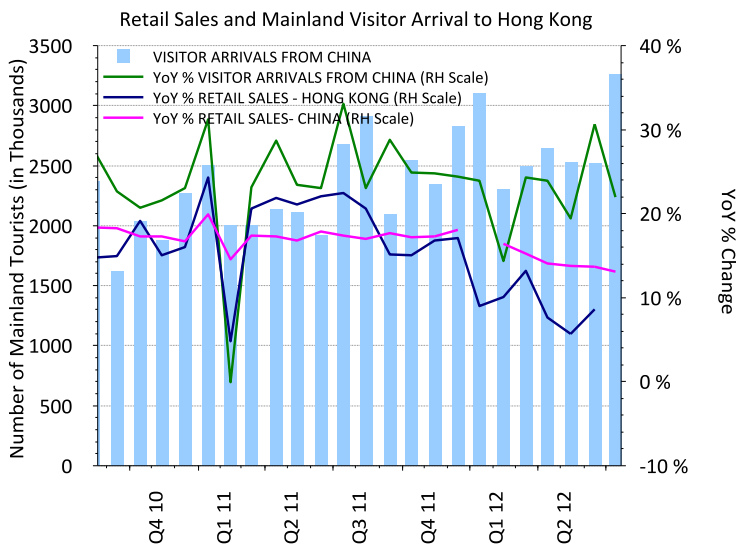
In July, the number of passenger cars sold, another proxy metric for market conditions for retail, was 1.12 million, representing a +10.71% YoY increase, -12.77% decrease MoM.

## Retail Sector



Analysis by Real Estate Foresight Source: Thomson Reuters Datastream, CENSTATD Hong Kong, DSEC Macau

In June, the number of mainland tourists arrivals to Hong Kong was up 30.66% YoY to 2.51 million. The number of mainland tourist's arrivals to Macau was up 1.84% YoY to 1.22 million. Total mainland departures to HK & Macau were 3.74 million. The tourists departures to HK/Macau can serve as an indicator of consumer confidence.



Analysis by Real Estate Foresight

Source: Thomson Reuters Datastream, NBS, CENSTATD Hong Kong

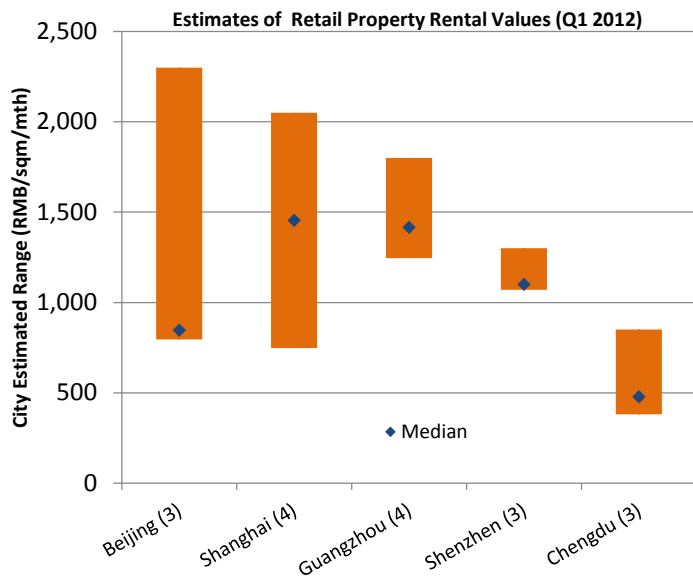
In June, the number of mainland tourists arrivals to Hong Kong was up 30.66% YoY to 2.51 million.

This is a major factor for Hong Kong retail sales and retail rents, for shops catering to mainland visitors.

## Retail Sector

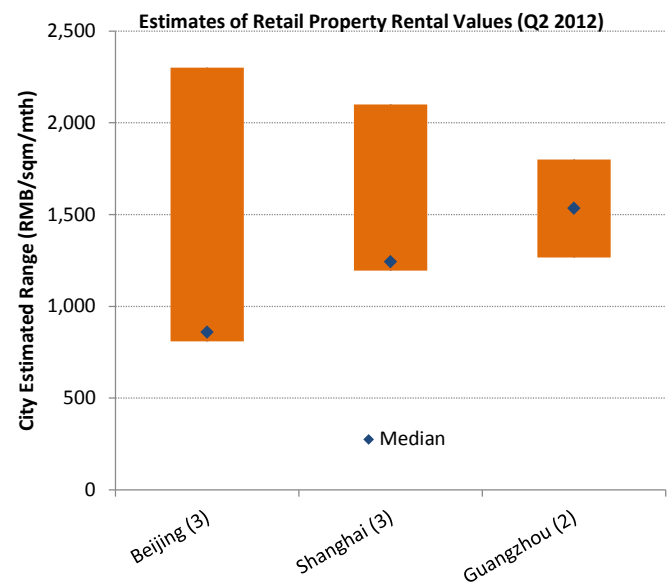


Real Estate Foresight



Analysis by Real Estate Foresight

Source: Various Research Reports



Analysis by Real Estate Foresight

Source: Various Research Reports

**Source:** Based on research reports and data from CBRE, Jones Lang LaSalle, Knight Frank, Cushman & Wakefield, DTZ, Savills, Colliers, Centaline and SouFun CREIS. Numbers in parenthesis beside city names denote number of data points captured for a particular city.

The charts above give a visual indication of the range of estimates that are reported for each city's retail property sector

Due to the timings at which the various cities' reports are released, direct comparison would only be applicable to Beijing, Shanghai and Guangzhou.

In Beijing's case, median and range of price estimates for retail property rental values remain largely unchanged.

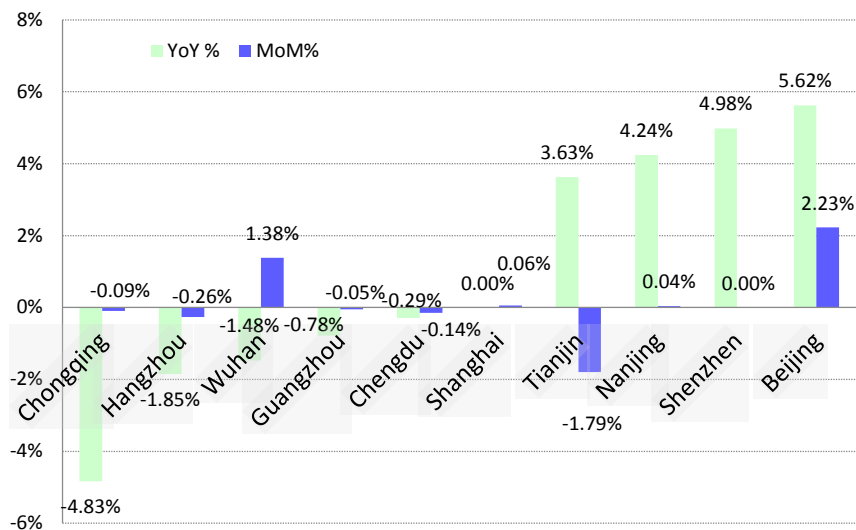
For Shanghai, lower bound prices went up significantly above the 1,000 RMB/sqm/mth mark but interestingly, median value moved down- suggesting that the bulk of estimates are closer to the lower bound than to the upper bound.

Focusing on Guangzhou, lower bound and upper bound prices remain largely unchanged. Median value, however, went above the 1,500 RMB/sqm/mth mark.

## Office Sector



SouFun CREIS Office Capital Value Indices MoM and YoY Performance in July 2012



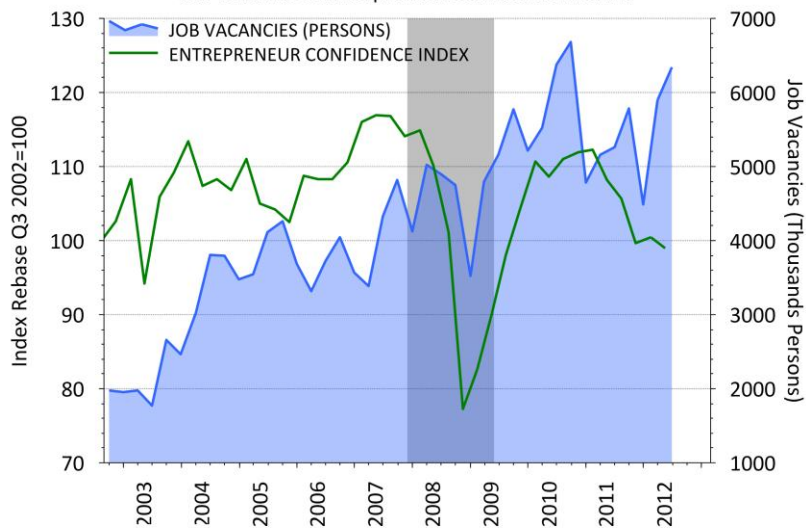
Analysis by Real Estate Foresight

Source: SouFun/CIA CREIS

Using SouFun CREIS capital value indices for Office sector, we see in July data that majority of the cities recorded little change on MoM basis except for Beijing, Tianjin, and Wuhan of +2.23%, -1.79% and +1.38% changes, respectively.

On YoY measure, Beijing had 5.65% increase, followed by Shenzhen of 4.98%, Nanjing 4.24%, and Tianjin a 3.64% increase. The worst performer was Chongqing, 4.83% YoY decrease.

Job Vacancies &amp; Entrepreneur Confidence in China

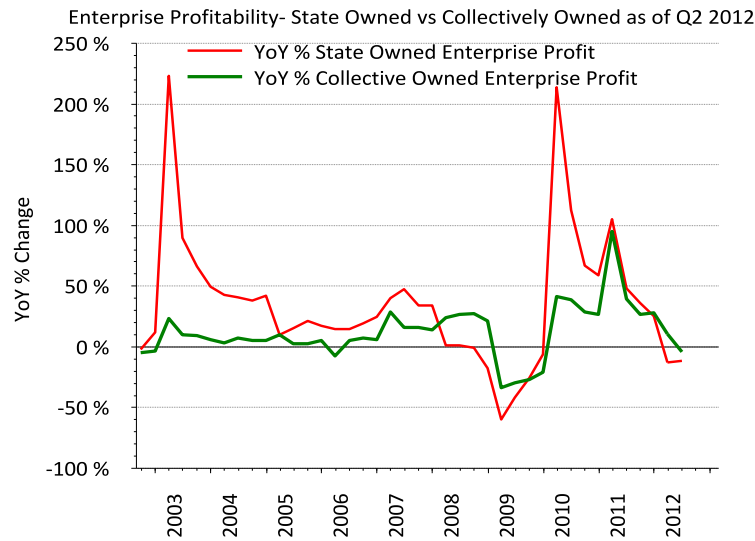


Analysis by Real Estate Foresight

Source: Thomson Reuters Datastream, NBS, Ministry of Human Resources &amp; Social Security

The Entrepreneur Confidence Index (ECI) is indicative of entrepreneurs' confidence on their respective industries and the macroeconomic outlook. This Q2 data shows a decline in confidence over the last quarters since 2011.

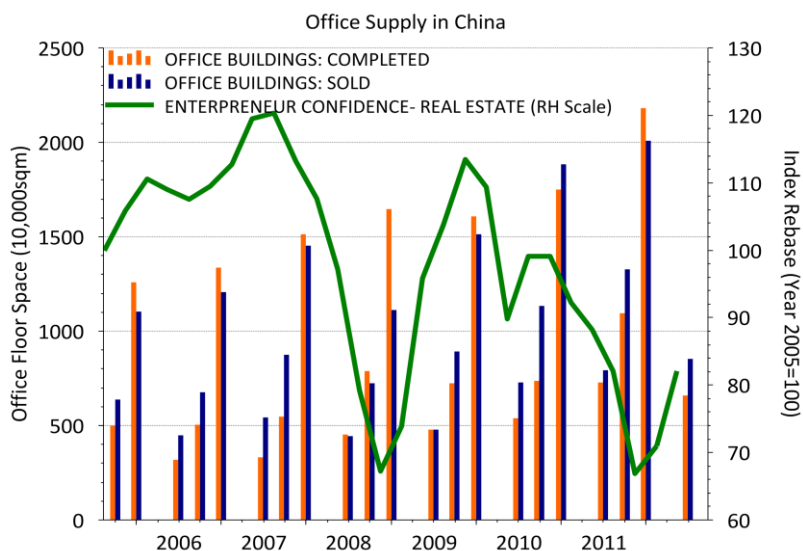
## Office Sector



Analysis by Real Estate Foresight

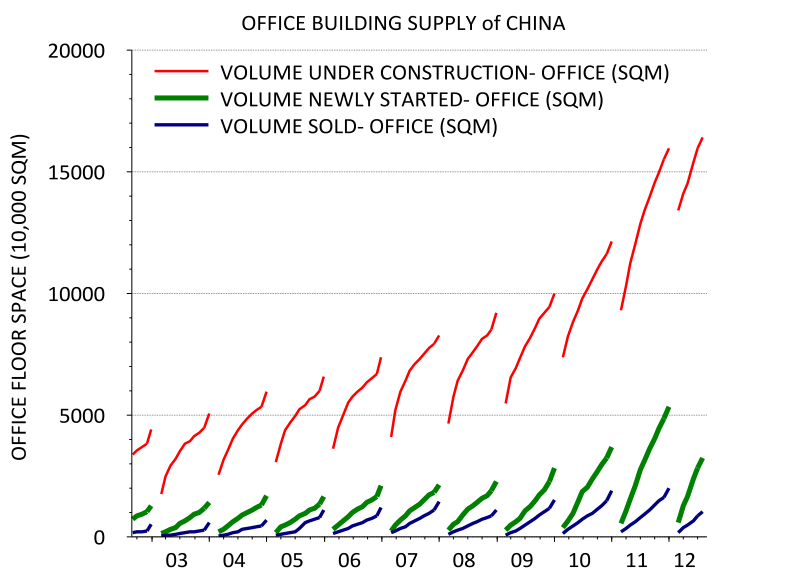
Source: Thomson Reuters Datastream, NBS

This chart summarizes the YoY change of enterprise profitability of SOEs and Collective Owned Enterprise. Collective owned refer to economic units where the assets are owned collectively and which have registered in accordance with the Regulation of the People's Republic of China on the Management of Registration of Corporate Enterprises. In Q1 of 2010, the enterprise profit growth for SOEs peaked at 213.95% and slowed to 58.7% in Q4 2010 and went back up to 104.91% in Q1 of 2011. With the economic slowdown, profits started to decline in Q1 2012 by 13.04% and 11.3% in Q2 2012.



The chart summarizes the office floor space completed and the floor space sold in China. The line overlaying the bars is the entrepreneur confidence sub index in real estate, indicating the sentiment of entrepreneurs' sentiment on real estate industry normalized at year 2005 as a reference point. The entrepreneur confidence index stood at 82.12, lower than the figure back in Q2 2009, indicating a rebound from the recent low at 66.93 in Q3 2011.

The volume of office floor space completed dropped 9.46% on a YoY measure, while floor space sold rose by 7.09%.



Analysis by Real Estate Foresight

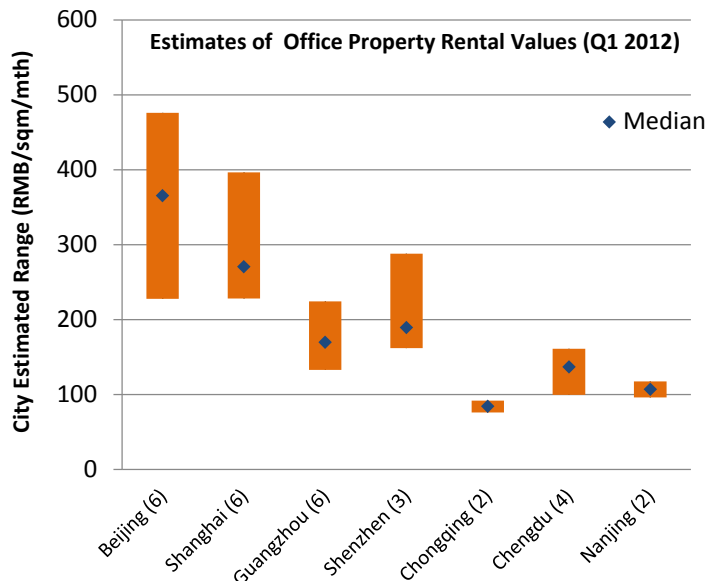
Source: Thomson Reuters Datastream, NBS

Volume of floor space under construction for office has been increasing consistently. Changes in floor space for all measures are cumulative on this chart for any given year.

## Office Sector

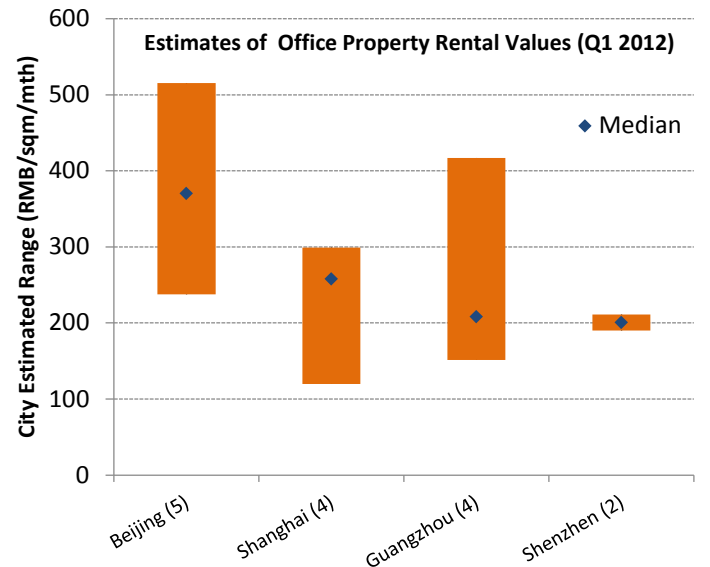


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Analysis by Real Estate Foresight

Source: Various Research Reports



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**Source: Based on research reports and data from CBRE, Jones Lang LaSalle, Knight Frank, Cushman & Wakefield, DTZ, Savills, Colliers, Centaline and SouFun CREIS. Numbers in parenthesis beside city names denote number of data points captured for a particular city.**

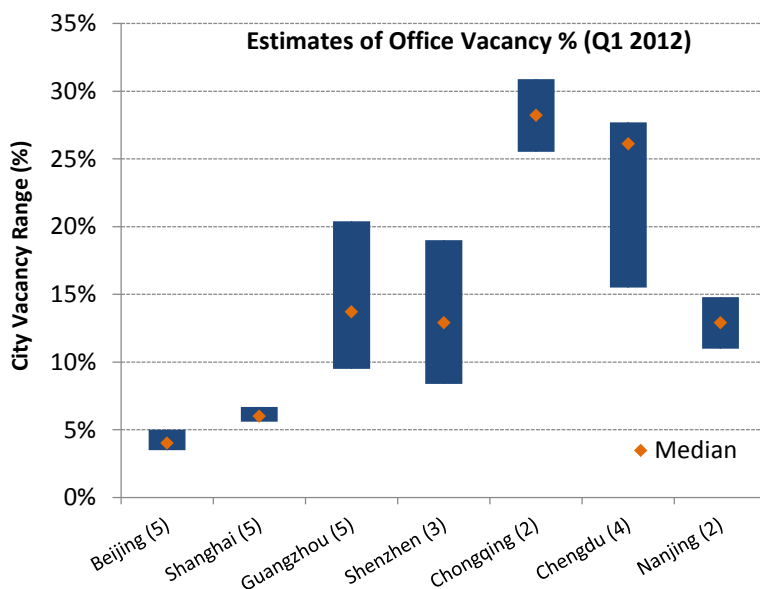
The charts above give a visual indication of the range of estimates that are reported for each city's office property sector.

Looking at Beijing, upper bound prices crept up above the 500 RMB/sqm/mth mark while median prices and lower bound values remain largely unchanged.

In Shanghai's case, there has been a downward shift of approximately 100 RMB/sqm/mth but median value has remained intact across Q1 and Q2.

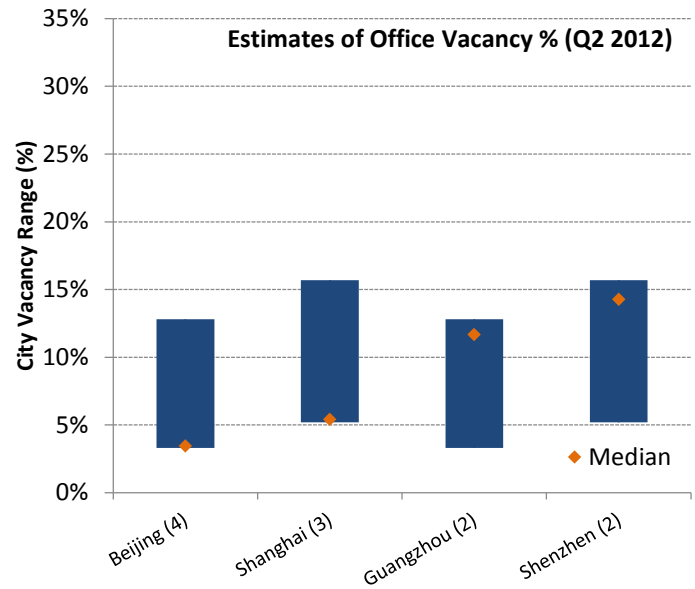
For Guangzhou, upper bound prices nearly doubled from 200 RMB/sqm/mth to 400 RMB/sqm/mth.

Focusing on Shenzhen, upper bound prices came down and hovered slightly above the 200 RMB/sqm/mth from close to 300 RMB/sqm/mth.



Analysis by Real Estate Foresight

Source: Various Research Reports



Analysis by Real Estate Foresight

Source: Various Research Reports

**Source: Based on research reports and data from CBRE, Jones Lang LaSalle, Knight Frank, Cushman & Wakefield, DTZ, Savills, Colliers, Centaline and SouFun CREIS. Numbers in parenthesis beside city names denote number of data points captured for a particular city.**

The charts above give a visual indication of the range of vacancy estimates that are reported for each city's office property sector.

Comparing Q1 and Q2, median values for office vacancy remained largely unchanged for Beijing, Shanghai, Guangzhou and Shenzhen.

For Beijing and Shanghai, upper bound vacancy estimates have gone up to the low teens but lower bound vacancies remain largely unchanged.

For Guangzhou and Shenzhen, there was a downward shift of upper bound and lower bound vacancy estimates.

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