

“Although supply pressure remains, strong demand continued to support rental appreciation in the third quarter, especially in projects in prime areas.”



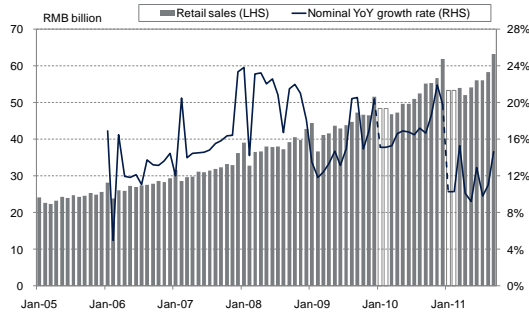
Image: Fenzhongsi iShine City, Fengtai

- Retail sales in the first nine months of 2011 totalled RMB500.8 billion, representing an 11.5% year-on-year increase.
- Only one new retail project was launched in Q3/2011, adding 50,000 sq m to the market.
- First-floor prime shopping mall rents increased by 7.2% quarter-on-quarter to RMB808.8 per sq m per month.
- The city-wide prime shopping mall occupancy rate rose by 1.0 percentage point quarter-on-quarter to 91.3%.
- Six projects with approximately 306,000 sq m of new space are expected to be added to the market in Q4/2011. However, this additional supply is unlikely to influence city-wide occupancy rates and rents due to the high pre-commitment levels which the projects have already achieved.

Economic indicators

Retail sales for the first nine months of 2011 totalled RMB500.8 billion, representing an 11.5% year-on-year increase. The consumer price index (CPI) in September was 6.5%, just 0.1 of a percentage point off the recent high of 6.6% in August. Per capita disposable income for the first nine months totalled RMB24,164, up 10.7% year-on-year, the highest growth rate for the year.

Beijing retail sales and growth rate, Jan 2005–Sep 2011



Source: Beijing Municipal Bureau of Statistics, Savills Research & Consultancy

Retailers in Beijing, in an attempt to attract more shoppers, held more promotional activities over the festive period than in the previous years. The success of this campaign was reflected in sales figures for a sample of 40 retailers over the mid-autumn festival, which recorded an increase of 22.2% year-on-year to RMB1.17 billion¹. Department store sales rose by 17.8%, supermarket sales by 12.2%, specialty store sales by 31.1% and F&B sales by 30.1%.

High-end projects have also recorded promising results. Sales turnover in Yansha Youyi Shopping City and Shin Kong Place, two luxury malls, increased to RMB3.42 billion and RMB3.05 billion respectively during the first half of 2011, up by 46.6% and 42.8% year-on-year.

¹Source: Beijing Municipal Commission of Commerce (BCOC)
Source: BCOC

The public sector has also been active in the Beijing retail market. Looking to foster domestic demand, the government has supported foreign retailers and brands in their efforts to establish outlets in Beijing by hosting exhibitions. There were roughly 3,559 foreign-invested retail stores in Beijing by the end of August 2011², representing an increase of about 20.7% year-on-year.

Supply

Fenzhongs iShine City was the only shopping centre to open in the third quarter of 2011. The 50,000 sq m project was originally positioned to accommodate supermarkets and furniture stores. Yang Guang Co Ltd acquired the property in 2007 and started renovations to convert it into a shopping centre in 2010 with Stellar International Cineplex and CR Vanguard supermarket serving as anchor tenants. Fashion brands such as Uniqlo, Only and Etam have also opened outlets in the centre since, aiming to serve customers from the Southeast Third Ring Road area.

New projects, Q3/2011

Projects	Retail GFA (sq m)	District	Retail type	Positioning
Fenzhongs iShine City	50,000	Fengtai	Shopping mall	Mid-end

Source: Savills Research & Consultancy

Project information

In August 2011, Pacific Department Store (PDS) announced its intention to temporarily withdraw from the Beijing market in which it currently operates two stores. PDS stores in Wukesong and Pacific Century Plaza (PCP) closed on the 20 and 25 October respectively. The company attributes its decision to rising rents at the PCP location and landlord disputes at Wukesong. According to the company's annual results, however, Beijing was the only market in China where PDS was recording a financial loss. The company claims it will not give up on the Beijing market, but is currently looking for suitable locations to re-enter in around one year's time.

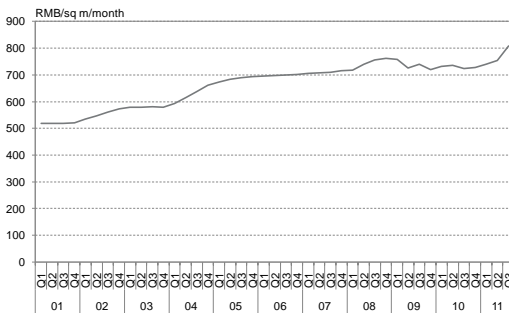
On 12 August, Hongkong Land Limited secured a prime commercial development site in Wangfujing through WFJ Development Ltd, a 95%-owned subsidiary, for RMB2.9 billion. The site, named Wangfujing International Brand Center, is located on the western part of Wangfujing Street and has a total GFA of approximately 131,100 sq m. As a member of the Jardine Matheson Group, Hongkong Land will develop the project into a premier integrated retail and commercial centre, with a Mandarin Oriental hotel. The project is scheduled to be completed in 2014.

Rent and occupancy

Spurred by an active leasing market, the city-wide retail occupancy rate increased by 1.0 of a percentage point in the third quarter to 91.3%.

First-floor shopping mall rents increased 7.2% quarter-on-quarter to RMB808.8 per sq m per month. The successful operation of malls such as Xidan Joy City, Solana, Chaoyang Joy City and Sanlitun Village and the waiting list of retailers eager to enter these malls have enabled landlords to adjust tenant mixes in line with prevailing market trends and increase rents.

First-floor shopping mall rents, Q1/2001–Q3/2011



While a number of established international brands look at moderating their expansion plans in first-tier cities as certain sectors of the market begin to reach saturation point, new entrants continue to open stores across the city.

Xidan Joy City welcomed Paul Frank's first store in China and Gap's fourth store in Beijing.

Solana introduced Clarks' flagship store and Oysho.

UGG and Canali committed to retail space in The Mall at Oriental Plaza.

Moncler and Catalog opened stores in Sanlitun's the Village North with areas of around 516 sq m and 300 sq m respectively. The Village South welcomes the debut of WrongWorks.

Dutch fashion brand Protest opened its second store in Beijing in The Place with an area of around 170 sq m.

MaxMara's first flagship store in Beijing opened in Seasons Place with an area of 300 sq m.

Chaoyang Joy City introduced brands including Zara, Massimo Dutti and Edwin Jeans.

Zara Home's first two stores in Beijing opened in The Place and Solana.

Selected leasing transactions, Q3/2011

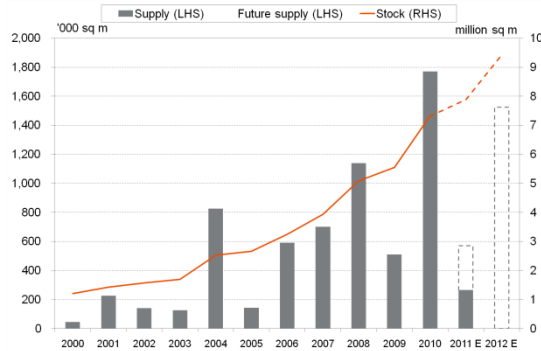
Tenant	Trade	Project	Location	GLA (sq m)
Apple	IT	Beijing APM	Wangfujing	2,500
Joyce	Fashion	China World Mall (Ph 3)	CBD	2,000
Hollister	Fashion	Indigo	Wangjing	1,180
Moussy	Fashion	Indigo	Wangjing	485
OYSHO	Underwear	Solana	Chaoyang Park	160

Source: Savills Research & Consultancy

Market outlook

Six projects are expected to be handed over to the market in the fourth quarter, adding approximately 306,000 sq m of new space. This will bring total stock (shopping mall and department stores) to around 7.7 million sq m. All of the new shopping malls have achieved high pre-commitment rates and should therefore not add any significant downward pressure on rents and occupancy rates.

Mid to high-end retail supply and stock, 2000–2012E



Source: Savills Research & Consultancy

Supply pressure is expected to pick up dramatically in 2012, with more than 1.5 million sq m expected to be added to the market. However, only 20% of new supply is located in core retail areas. Given the buoyant leasing market and limited supply in the downtown locations, rents and occupancy rates are expected to hold firm.

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

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
Albert Lau - Managing Director, 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: ccchan@savills.com.hk
EA Co. Licence: C-023750

Savills Property Management Holdings Limited

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

Savills Guardian (Holdings) Limited

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

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 Adelaide, Brisbane, Canberra, Gold Coast, Liverpool, Melbourne, Parramatta, Perth, Sunshine Coast and Sydney.

NEW ZEALAND

Savills - New Zealand

Barfoot & Thompson
Level 5, 50 Kitchener Street, Auckland, New Zealand
Tel: (64) 9 307 5523 Fax: (64) 9 303 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.



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