

Residential

May 18, 2010

"Despite a fall in short-term demand, rents recorded their second quarter-on-quarter increase in the first quarter owing to optimism over the business and economic environment"



Image: New World Executive Apartment, Zhujiang New Town

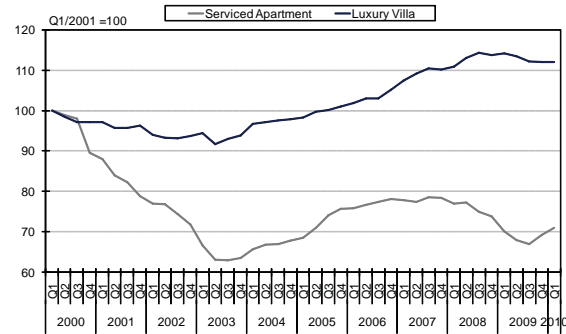
- Serviced apartment rents rose by 2.4 per cent in the first quarter to an average of RMB166.4 per sqm per month while citywide vacancy rates increased 0.2 of a percentage point to 19.5 per cent.
- Serviced apartment vacancy rates rose in the first quarter as demand from short-term tenants fell during the slow season
- High-end villa rents remained unchanged at an average of RMB136.1 per sqm per month in the first quarter while citywide vacancy rates remained unchanged at 16.2 per cent
- Transaction prices rose by 8.3 per cent in the first two months of 2010 reaching an average of RMB13,181 per sqm
- The transaction volume fell 36 per cent in the first quarter to 1.3 million sqm as high prices deterred buyers

Luxury Residential Leasing Market

The citywide vacancy rate fell 0.2 of a percentage point in the first quarter to 19.5 per cent as short stay demand fell during the slow winter months.

Despite the increase in vacancy rates landlords increased rents by 2.4 per cent in the first quarter to RMB166.4 per sqm per month as optimism of increasing demand from corporate relocations returned.

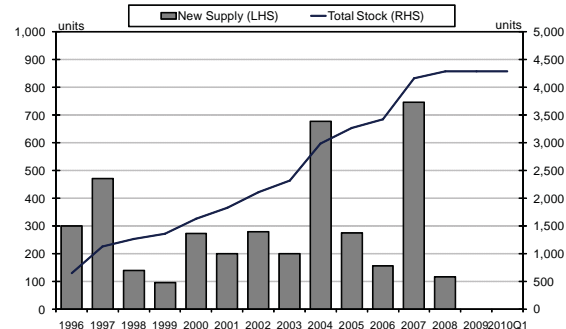
Serviced Apartment and Luxury Villa Rental Indices, Q1/2000- Q1/2010



Source: Savills Research & Consultancy

Serviced apartment rents recorded their second consecutive quarter-on-quarter increase in the first quarter rising 2.4 per cent to an average of RMB166.4 per sqm per month. As the office market is a leading indicator for the high-end residential leasing market, the recent increase in demand for office space with the expectation of a further rise has heartened landlords of serviced apartment projects with many predicting a resurgence in expatriate secondments.

Serviced Apartment Supply and Stock, 1996 - Q1/2010



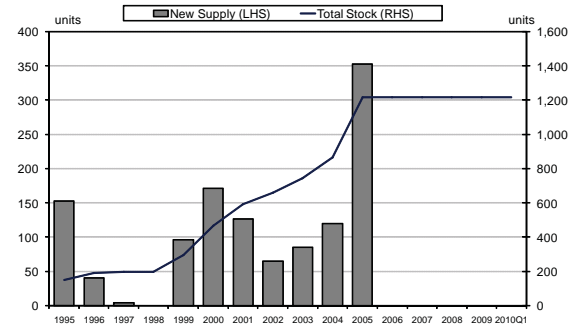
Source: Savills Research & Consultancy

No serviced apartments were launched onto the market in the first quarter.

Despite no new supply for eight quarters, the Guangzhou market is gearing up for a significant increase in lease only stock. Over the next three quarters, three projects are expected to be launched onto the market including W Serviced Apartment, Grand View Marriott Golden Palace, and Guangzhou International Financial Center (The West Tower).

New supply is not expected to substantially abate in 2011 and 2012 as international serviced apartment operators Oakwood, Shama and Frasers are expected to launch projects in 2011 and the Marriott is planning to launch one of its Executive Apartments in 2012. In total, close to 1,800 units are expected to be launched onto the market over the next three years bringing the total stock of serviced apartments to 6,087 units.

Serviced Apartment and Luxury Villa Vacancy Rates, Q1/2006- Q1/2010



Source: Savills Research & Consultancy

Limited short-term demand in the first quarter pushed up the serviced apartment vacancy rate by 0.2 of a percentage point to 19.5 per cent. Stable long-term demand and lack of new supply meant that the luxury villa vacancy rate remained unchanged over the same period of time at 16.2 per cent.

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New Project

Oakwood Premier Serviced Apartment



Developed by Fineland Group, Oakwood Premier serviced apartment is the second project managed by Oakwood in Guangzhou.

The project, originally scheduled for completion in 2010, has been postponed to the first quarter of 2011. It is located at the crossroads of Tianhe Road and East Tiyu Road. The serviced apartment is within walking distance of metro lines 1 (Tiyu Zhongxin station) and 3 (Shipaiqiao Station).

Location:	Tianhe Road and East Tiyu Road, Tianhe District
Landlord:	Fineland Group
Operator:	Oakwood
No of units:	108
Completion date:	Q1/2011
Asking rent:	TBC

Residential Leasing Market Outlook

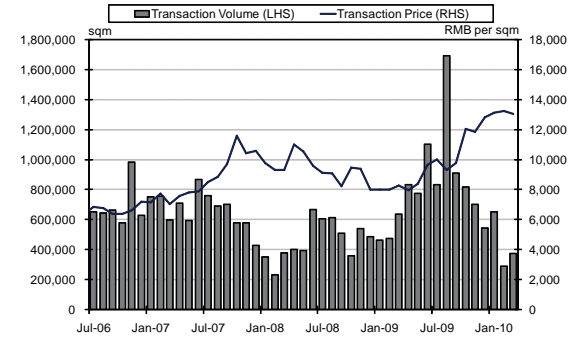
An increase in short-term demand is expected in the second quarter due to the Canton Fair and continued economic growth, which is expected to result in increasing rents and falling vacancy rates. However, with three new projects expected in the second half the year competition is expected to result in a rise in vacancy rates and slower growth in rents.

Overall Residential Market

The central government launched a number of policies towards the end of 2009 and the start of 2010 geared towards slowing the red hot residential sales market in a number of key cities. These policies include increasing land supply, ensuring adequate supply of low-income housing, and setting up stricter limitations on developers' use of land.

The regulations have started to have a notable impact on the residential market with transaction volume falling 36.0 per cent quarter-on-quarter to 1.3 million sqm and residential price growth slowing to 8.0 per cent quarter-on-quarter.

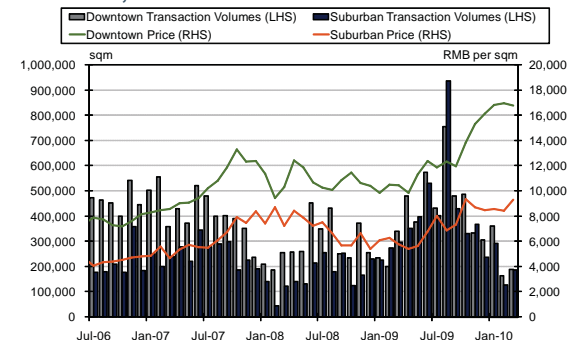
Serviced Apartment Supply and Stock, 1996 - Q1/2010



Source: Savills Research & Consultancy

By the end of March the average transaction price stood at RMB13,054 per sqm down 1.5 per cent from a month earlier.

Suburban versus Downtown Transaction Volume and Price, Jun 2006 - Mar 2010



Source: Savills Research & Consultancy

Both downtown¹ and suburban² districts saw a decrease in transaction volumes in the first quarter falling 36.7 and 35.3 per cent respectively. However, transaction prices differed between the two areas with the downtown districts recording a 13.0 per cent growth quarter-on-quarter, while suburban districts fell 0.9 per cent quarter-on-quarter. Nevertheless, the price trend in downtown districts suggests that prices may have reached their apex after having risen 105 per cent from their trough in Q4/2008 while suburban prices seem to be more stable having only risen 50 per cent from their trough.

¹ Downtown districts: Liwan, Yuexiu, Tianhe, Baiyun, Huangpu
² Suburban districts: Panyu, Huadu, Nansha, Luogang

Market Outlook

With a number of the government policies being released towards the end of the first quarter and with the prospects that more will follow, sentiment in the residential market is likely to worsen with the result that transaction volumes are expected to remain low and soon after transaction prices will fall.

With a number of the regulations targeting investors, projects and areas with a high percentage of investors are likely to be most affected while those focusing on end user demand are expected to remain comparatively stable.

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