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Dear Sirs,

### **Introduction**

DTZ was commissioned to conduct a study of office and retail sectors of the real estate markets in Beijing and the Wangfujing submarket, in Mainland China. The market research report was prepared independently and all reasonable care was taken in the preparation of the report.

### **Assumptions**

Assumptions are a necessary part of this report. DTZ adopts assumptions because some information is not available, or falls outside the scope of our expertise. Whilst assumptions have been

adopted based upon the careful consideration of factors known as at the date of this document, the risk that any of the assumptions may be incorrect should not be ruled out. DTZ does not warrant or represent that the assumptions on which this report is based are accurate or correct. The assumptions used in this report are only adopted for the purpose of forecasting for some market figures.

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Yours sincerely,

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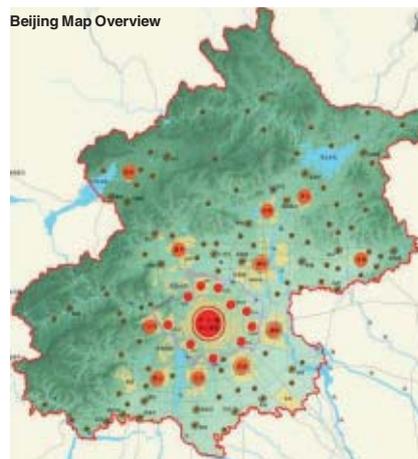
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**1. Beijing Economic Overview**

In this section, DTZ will provide an overview of Beijing and discuss the city's economic development in order to give a better understanding of Beijing's property development environment.

**1.1 Beijing Introduction**

Beijing comprises 16 districts<sup>1</sup>, and counties. It is divided into four development districts according to the city's overall plan: main commercial areas (Dongcheng and Xicheng districts), functional developing areas (Chaoyang, Haidian, Shijingshan and Fengtai districts), newly developing areas (Fangshan, Tongzhou, Shunyi, Changping and Daxing districts) and ecological developing areas (Mentougou, Huairou, Pinggu, Miyun and Yanqing districts).



Source: Beijing Municipal Commission of Urban Planning

By the end of 2009<sup>2</sup>:

Total land area of Beijing: 16,410.54 sq. k.m.;

Population: 17,550,000;

Population density of core areas (Dongcheng and Xicheng districts): 22,849 persons/sq. k.m.;

Nominal GDP per capita: US\$10,314

- **As China's political centre, Beijing enjoys strategic advantages**

Many government institutions and headquarters are established in Beijing because the city is China's political centre. Meanwhile, Beijing's economic development level is higher than many other

<sup>1</sup> In 2010, Chongwen merged with Dongcheng, Xuanwu merged with Xicheng, and the total number of districts and counties decreased from 18 to 16.

<sup>2</sup> Source: Beijing Statistics Bureau.

cities in China, accounting for 3.46% of China's total nominal GDP in 2010. Beijing is regarded as one of the country's Tier 1 cities and the economic centre of the Bo Hai Economic Area. As a result, Beijing plays an important role in China's political and economic development. The success of the 2008 Olympic Games in Beijing has further enhanced the city's international reputation. Presently, Beijing is striving to become an influential world-class metropolis.

- **Improvements in infrastructure provide perfect conditions for real estate property development**

<u>Subway Lines in Operation</u>	<u>Length</u>
Line 1 .....	31.1 k.m.
Line 2 .....	23 k.m.
Line 5 .....	27.5 k.m.
Line 13 .....	41 k.m.
Batong Line .....	19 k.m.
Phase 1 of Line 10 .....	25 k.m.
Olympic Line .....	5 k.m.
Airport Line .....	27 k.m.
Line 4 .....	28 k.m.
<b>Total Length</b> .....	<b><u>226.6 k.m.</u></b>
<b>Estimated Total Length in 2015</b> .....	<b><u>561 k.m.</u></b>

Source: Beijing Subway Company, DTZ Research



Beijing has a well-developed transportation network. The city's subways and other infrastructure not only stimulate economic growth, but also help relieve traffic congestion. Presently, the length of available subway lines is over 226.6 k.m.. It is estimated that the total length of subway lines will expand to 561 k.m. in 2015.

In addition to providing a convenient transportation system, the rapid development of the subway network increases the accessibility to commercial properties. To some extent, it promotes the development of retail and office properties. By making suburban areas more accessible, the expanding transport network extends commercial catchments in core areas, attracting more retail footfall. In addition to subway improvements, the airport, the highways and railways in Beijing have all developed rapidly. By the end of 2010, the highways in Beijing totalled at 28,484 k.m. in length, of which about 903 k.m. were intercity expressways, including roads to Tianjin, Shenyang, Harbin, Chengde, Baotou and Shijiazhuang. Beijing is also a railway hub for the whole of China. There are 50 railway lines with a length of about 956.4 k.m. located within Beijing, including the railway lines to Kowloon, Guangzhou, Shanghai, etc. These highways and railways in Beijing have strengthened the overland connections between Beijing and the other major cities.

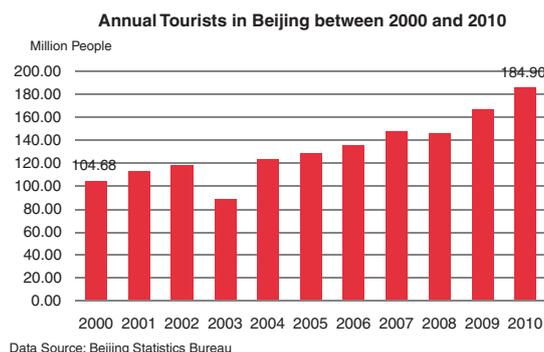
Meanwhile, Beijing Capital International Airport is the most important, largest and busiest international aviation hub with the most advanced facilities in China. It has three terminals and its annual passenger throughput has increased from 1.03 million in 1978 to 73.95 million in 2010, making it third ranked in terms of annual passenger volume in the world. There are 1,400 flights operated by over 70 airlines per day, closely connecting Beijing with 208 international cities.<sup>3</sup>

The developed infrastructure lays the foundation for Beijing as a political and economic centre. It not only strengthens connections with other major cities, but also attracts companies and investors, promoting the development of the real estate sector.

- **Beijing is very attractive**

Beijing is a historical and cultural city, as well as China's political and economic centre. Compared with other major cities in China, Beijing has higher total retail sales, more efficient governance, integrated legal systems and well-regarded educational institutions. All of these traits are attractive to companies and organisations, as well as tourists, both domestic and international.

For example, many local and central government organisations, as well as state-owned, private, and foreign companies are located in Beijing. The latest figures from the Beijing Statistics Bureau indicate that about 347,000 companies were located in Beijing as of 2009.



The office space required by those companies and organisations accelerated the development of Beijing's office market. The spending patterns of office markets and corporate expenditures have, in turn, driven the retail property sector.

Beijing is also a major tourism destination. Data from the Beijing Statistics Bureau indicates that the number of annual travellers to Beijing has been increasing at a consistently high rate. As of 2010, the annual number of tourists totalled about 185 million and is expected to increase in the future. This large number of tourists has further driven solid consumption. For example, tourist interest in major landmarks such as Tian'an Men and The Great Wall is a key source of shopping activity in the Wangfujing area; hotel, retail and apartment use; as well as development of related real estate.

## 1.2 Beijing's Rapid Economic Growth

In this section, DTZ will analyse Beijing's main economic indicators, including annual nominal GDP, retail sales and employed population, amongst others.

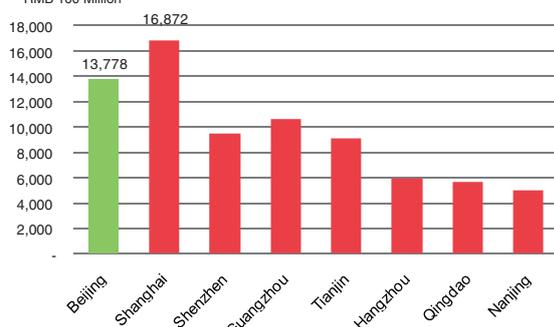
<sup>3</sup> Source: Beijing Capital International Airport.

- **Beijing's economy continued to grow rapidly and continued to be at the forefront of the leading cities in China, underpinning development of the real estate market**

Beijing has a large economy compared to the other major cities in China. In 2010, Beijing's nominal GDP was RMB 1,377.8 billion yuan, just below Shanghai's. Beijing's GDP is much larger than other major cities in China, including Shenzhen, Guangzhou and Tianjin.

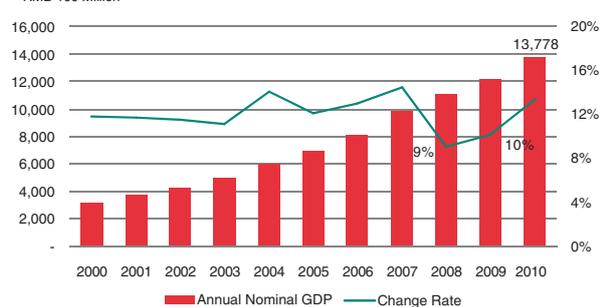
The Beijing economy has maintained a rapid growth rate throughout the past eleven years (from 2000 to 2010), with a compound annual growth rate of 15.9%. During the global financial crisis in 2008, Beijing continued to experience steady economic growth of 9.1% year-on-year.

**Nominal GDP Comparison among Beijing and Other Major Cities in China in 2010**



Data Source: Statistics Bureau of the Listed Cities

**Beijing Annual nominal GDP and Growth Rate between 2000 and 2010**



Data Source: Beijing Statistics Bureau

In 2009, the growth rate of the Beijing economy jumped back to 10.2%. According to the Beijing Statistics Bureau, 2010 nominal GDP increased by 13.4% year-on-year, which is indicative of strong economic growth. After casting off the shadow of the international financial crisis, the forecast consensus is that Beijing's economy will continue its rapid economic development.

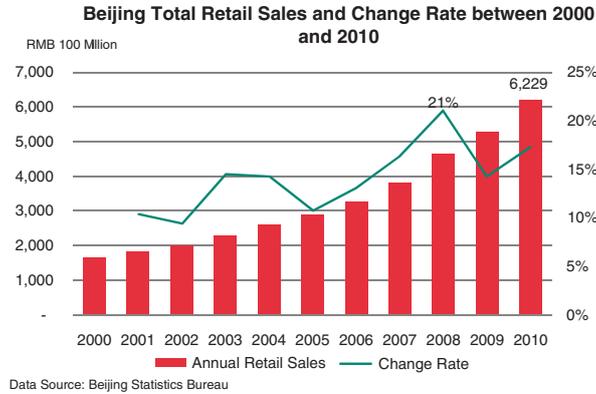
Rapid economic growth lays the groundwork for the prosperity of the real estate market, and with rapid economic growth raising incomes, the fundamentals are strong for the real estate market in Beijing to perform well over the long term.

- **Strong growth of total retail sales of consumer goods drove the rapid development of the retail property market**

Total retail sales of consumer goods are the most important indicator of retail property market performance. According to the Beijing Statistics Bureau, retail sales have consistently shown a very high annual growth rate between 2000 and 2010. Beijing benefits from the national economic development environment and the growth in per capita disposable income, which has grown with the economy.

From the annual retail sales chart, we can see that the global financial crisis had little effect on retail sales and the retail property market in 2008, with the year-on-year (y-o-y) growth rate topping 21%.

However, negative effects were seen in 2009, where retail sales reached RMB531 billion. The growth rate slowed but still remained at 14%, which was still very high.



Along with the improving economic environment, total retail sales of social consumer goods grew by 17.3% in 2010, compared with 2009. During this period, the government promoted measures to stimulate consumption by adjusting taxes, increasing wages, etc.

Therefore, it is expected that retail sales will maintain an annual growth rate of at least 10% (the average annual growth rate in the past ten years (from 2001 to 2010) has been 14.2%), which will create further demand for retail property.

- **The development of office buildings is specifically driven by the increase of the employed population in the tertiary industry**

Along with the growth of the urban population, the growth of the employed population has been remarkable, reaching a total of 9.98 million in 2009.

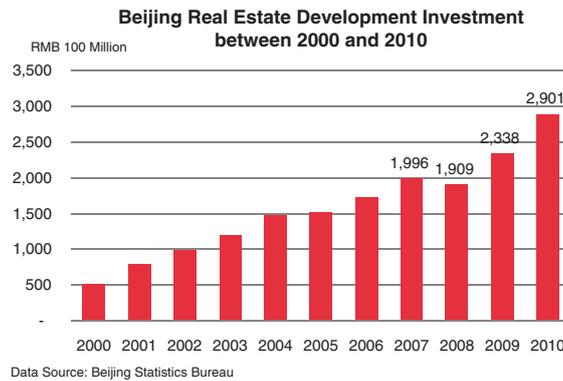


As the economy matures, more and more members of the labour force work in the tertiary sector. The percentage of employees engaged in the tertiary sector rose from 54.6% in 2005 to 73.8% in 2009.

The employed population in the tertiary sector has a significant effect on the demand for office space. Along with the continued shift of the economic structure towards services, employment in the tertiary sector is expected to rise in the future, a good sign for Beijing's office market.

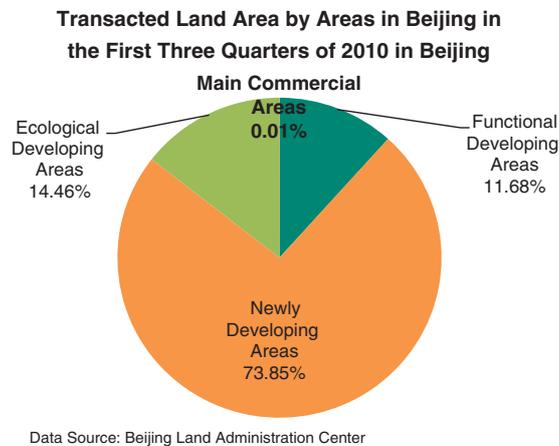
**1.3 Beijing’s Real Estate Market has seen Rapid Growth**

Whenever Beijing’s economy improves, the real estate market receives a boost. This pattern is clearly indicated by the annual real estate development investment chart. For example, due to the financial crisis in 2008, the GDP growth rate slowed. As a result, investment in real estate development declined by 4%. However, as the economic environment improved and market confidence strengthened, real estate investment returned to its previous rapid development trend.



On the whole, the Beijing real estate market has maintained rapid growth over the past 11 years (from 2000 to 2010). Real estate investment is forecast to increase further with the expectation that the economy will continue to remain healthy. With increased investment in all sectors, the real estate market is expected to further mature in the future.

At the same time, land for development will be more limited. Little undeveloped land area remains in the main commercial areas of Beijing, especially in the business areas such as Wangfujing/East Chang’an Avenue, CBD (Central Business District) and Financial Street. From the pie chart below, which shows the proportion of land transacted by district, it is apparent that little land (about 0.01%) in the main commercial areas of Beijing has been transacted this year (from Q1 to Q3 in 2010). This is because most of the land in these areas has already been developed. This is especially true of the land in the Wangfujing area, where retail projects benefit from the limited land supply. For example, The Malls at Oriental Plaza has no pressure for leasing activities because there are no significant competitors in the submarket. As a result, it maintains stringent principles for tenant selection. For example, tenants should be world-renowned brands, have good credibility, be attractive to customers, and fit comfortably within the mall’s trade mix in order to win a space at The Malls at Oriental Plaza.



## 2. Beijing High-end Retail Property Market Study

In recent years, the Beijing retail property market has seen rapid development, and different retail product types have emerged in the Beijing market. According to different development modes and trade mixes, retail projects can be divided into three retail types:

1. Retail podium below a residential and/or office property;
2. Stand-alone retail projects, including:
  - Mid to large scale retail projects with a total GFA<sup>4</sup> (Gross Floor Area) over 30,000 sq. m., including department stores and shopping centres;
  - Themed retail streets, including food & beverage streets, bars and fashion streets, etc;
3. Specialised retail property market: mainly for wholesale businesses.

Of all the retail types, shopping centres and department stores are the most promising and have become the main retail types in Beijing. In order to provide a specific understanding of the Beijing retail property market, we will analyse high-end retail projects (high-end shopping centres and department stores) with a GFA over 30,000 sq. m.. Moreover, we will focus on Wangfujing/East Chang'an Avenue, the most well-known retail precinct in Beijing.

### Differences Between Department Store and Shopping Center

Differences	Department Store	Shopping Center
Property Type	As a single retail project generally.	The big shopping centers are generally one important part of the mixed-use project which may include office, hotel, apartment etc, while the smaller ones are often seen as single projects, or as the supporting facilities for other properties.
Trade Mix	Generally have less trade mix. Mainly include retail goods, while part of space concentrated with restaurants and supermarkets.	More trade mix, such as retail goods, restaurants, coffee bars, hairdressing, entertainment and leisure.
Shop Mode	Open counter with no obstruction between different brands; small space for each brand.	Franchised stores with bigger separated space for each brand.
Floor Planning	The same kind of commodities will be concentrated together. The floors will be divided by different kinds of commodities.	Retail space stays together with other space. Floors often divided by brand grades not by commodity types.
Efficiency	Higher efficiency rate: 60-70%.	Lower efficiency rate 50-60%, due to more space for aisles and public use.
Customer Payment Mode	Centralized payment.	Payment at individual shop.
Rental Mode	A ratio of turnover returned to the operator.	Fixed leasing rental.
Management	Uniform business hours.	Free business hours.
Operator	Department operators.	Leasing agent or the shopping center itself.

Source: DTZ Consulting

<sup>4</sup> GFA is interpreted as the area bounded by the outside perimeter of the external walls or claddings or internal walls. In other words, that is the area bounded by the exterior envelop of the unit.

## 2.1 Beijing Retail Property Market Study

- **General Market Overview: The retail property market is continuing to develop and mature**

The Beijing retail property market has been developed in four phases:

**“Emerging” Phase** (before 1990): Core retail areas of Beijing are mainly concentrated within the Second Ring Road, including Xidan and Wangfujing. With a total retail area of 150,000 sq. m. (gross floor area), the most representative retail projects in the Beijing retail property market comprise Wangfujing Department Store, Dong’an Department Store and Xidan Market.

**“Developing” Phase** (1991-1998): With the rapid development of Beijing’s economy, the development core spreads from the Second Ring Road to the Third Ring Road. The total new supply of 700,000 sq. m. (gross floor area) is mainly concentrated in Jianwai, Lufthansa, Gongzhufen and the Asian Games Village, bringing increased competition to the Xidan and Wangfujing retail areas.

**“Upgrading” Phase** (1999-2004): Through the upgrade of retail streets in Wangfujing and Xidan, more and more customers are enticed to return to these two retail areas. As the market becomes more discerning, shopping centres become more popular and responsive to the changing consumption patterns of customers.

**“Specialising” Phase** (2004 to present): Along with the enhancement of the retail property market and increased living standards, the themes and functions of retail projects become increasingly specialised.

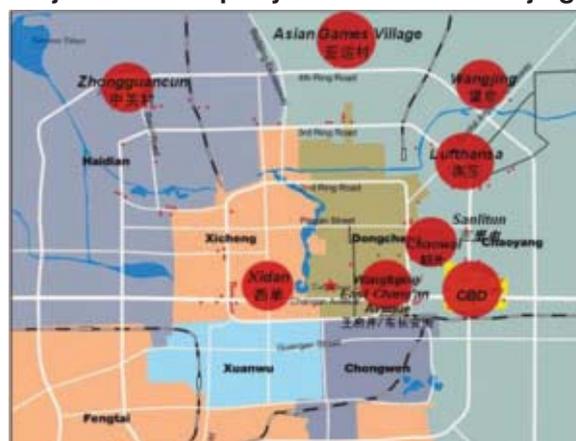
Retail projects with unique themes and positioning, such as The Malls at Oriental Plaza in Wangfujing and Joys City in Xidan, outcompete other projects.

- **Major Retail Areas: Wangfujing/East Chang’an Avenue, Xidan, CBD and the Lufthansa area comprise the most developed retail areas**

High-end retail projects are mainly concentrated in eight retail areas in Beijing, namely Wangfujing/East Chang’an Avenue, Xidan, CBD, Lufthansa, Chaowai, Zhongguancun, Wangjing and the Asian Games Village. The following analysis will focus on these areas.

Other retail areas, such as Financial Street and Sanlitun, are in the developing phase and at present have little impact on the retail property market, so they will not be analysed further in this section.

**Major Retail Property Submarkets in Beijing**



***Wangfujing/East Chang'an Avenue***

The retail area of Wangfujing/East Chang'an Avenue is based on the pedestrian street, which comprises a mass of traditional time-honoured brands and also plenty of international brands. Wangfujing is the earliest retail area in Beijing and enjoys a good reputation. The most representative retail projects are The Malls at Oriental Plaza and Beijing APM.

After the upgrading phase from 1999 to 2004, Wangfujing continued to move upmarket after 2007. Many projects were launched onto the retail property market from 2007 onwards, such as Lotte Yintai Department Store and Jinbao Place. As some existing projects were renovated, the trade mix and brand structure changed to accommodate the new market situation and consumer preference. For example, The Malls at Oriental Plaza renovated some areas every 2 to 3 years during the past, and was continually adjusting and promoting the brand structure in order to offer customers attractive new points of interest. Beijing APM has also been renovated and positioned as a destination for the young and fashionable.

The major customers of Wangfujing/East Chang'an Avenue are local people and tourists from home and abroad. With its high-end positioning, The Malls at Oriental Plaza attracts not only wealthy locals and tourists, but also high-spending consumers from its own office buildings and hotels, since many MNCs (Multi-National Corporations), finance and investment industry companies and syndicates are located within the development.

In Q4 2010, the average asking rent of ground floor shops in Wangfujing/East Chang'an Avenue is the highest in Beijing and has reached RMB780 to RMB 2,400 per net sq. m. per month. (Net sq. m. in the retail property market section refers to floor area that is in business operation uses only, which means the area in a building which is available for rent to tenants (excludes common areas, wasted space, etc.))

***Xidan***

One of the more famous retail areas in Beijing, Xidan enjoys great pedestrian flows and mature retail environments. With a fashion, taste and leisure positioning, the major customer focus is on local people under the age of 35.

Most retail projects in Xidan are department stores, such as Zhongyou Department Store and Grand Pacific Department Store. In addition, the total high-end retail stock is 353,000 sq. m. (gross floor area). Central points of sale (POS) systems are installed in department stores, which usually charge turnover rent (a percentage of turnover is returned to the department store operators as rent). Generally, the turnover rent in Xidan ranges from 20% to 30%. In Q4 2010, the average ground floor asking rent in this area ranged from RMB350 to RMB 1,000 per net sq. m. per month.

***CBD***

As the international business centre of Beijing, modern, super high-rise buildings and a mass of supporting facilities surround the CBD. Many international headquarters and regional offices are located here, providing for strong consumer spending and giving the CBD an advantage in developing retail property.

The mature business environment with high income workers and residents in the CBD has led to the popularity of high-end shopping centres in the district. The most relevant projects are China World Shopping Mall, Shin Kong Place and Yintai Centre. The average ground floor asking rent in the CBD ranged from RMB350 to RMB 1,500 per net sq. m. per month in Q4 2010.

***Lufthansa***

Lufthansa was one of the earliest commercial zones for foreigners and foreign affairs. Youyi Shopping City is the core of the Lufthansa area. Many high-end hotels such as the Great Wall Hotel, Kunlun Hotel, Kempinski Hotel and Cosmopolitan Hotel are located nearby, and the Lufthansa area

has a unique cosmopolitan commercial atmosphere. The Lufthansa area enjoys good accessibility to the airport expressway, and is expanding northeast to connect with the Jiuxianqiao and Lido areas. Youyi Shopping City is the first Chinese-foreign joint venture retail enterprise in China and was the most high-end retail project in the Beijing retail property market in the last century. However, Youyi Shopping City's influence has gradually reduced due to the launch of other high-end retail projects in the CBD and other prime areas.

Major clients include business people, embassy officials and locals. The average ground floor asking rent in the Lufthansa area reached RMB280 to RMB900 per net sq. m. per month in Q4 2010.

### ***Chaowai***

Chaowai retail area is located near the CBD. Because it is planned to connect the Chaowai retail area with the CBD and transform it with both retail and business facilities, Chaowai is regarded as part of the CBD area. In 2003, Huayuan Group developed Shangdu International Center with a total land area of 300,000 sq. m. opposite Blue Island Mansion. Meanwhile, many retail projects and office buildings are coming to Chaowai, such as the Kuntai International Center, Chaowai MEN, Fenglian Square, Unity Building, Fanli Building and Huapu Building.

Major clients include business clients and surrounding residents. The average ground floor asking rent in Chaowai ranged from RMB500 to RMB800 per net sq. m. per month in Q4 2010.

### ***Zhongguancun***

Zhongguancun is the largest distribution centre for electronic products in China. For many years, the consumption pattern in Zhongguancun was almost solely focused on electronic products as compared to other retail areas in Beijing. As of 2006, however, the market situation has changed. Many new retail projects have launched in the market and the previous electronic focus has changed. Additionally, Line 10 and Line 4 of the subway have brought more customers to Zhongguancun.

Zhongguancun comprises many themed retail zones, including Digital Retail Street and Book Retail Street. Moreover, the nationally regarded Zhongguancun Science and Technology Park is located here. Zhongguancun is characterised as a distribution centre for electronic products, a hi-tech business centre and a university cluster (including Beijing University and Tsinghua University). Recently, the number of shopping centres has visibly increased and the most representative cases are Jinyuan Shopping Mall and Zhongguancun Plaza.

Major customers in Zhongguancun include white-collar workers, technical staff and local residents living in the northwest of Beijing. The average ground floor asking rent in Zhongguancun was maintained at a mid-level when compared with other retail areas in Beijing and ranged from RMB280 to RMB700 per net sq. m. per month in Q4 2010.

### ***Wangjing***

Recently, the retail property market in Wangjing has been developing quite rapidly. Wangjing used to be known as the "Sleeping City", due to its lack of supporting facilities and its largely residential character. Good accessibility, quality high-end apartments and enterprise interest have improved the prospects of retail projects in Wangjing.

The population of Wangjing has reached 400,000, and one-third of the people are foreigners, including 80,000 Koreans and 90,000 people from other countries. Wangjing is becoming a regional retail area and a 'golden triangle', surrounded by Jingcheng Highway, Wangjing West Road and North-east Fourth Ring Road. The retail property market in Wangjing has experienced rapid development and the most representative projects are Jiamao Shopping Center and Focus Square.

Major customers in Wangjing include surrounding residents. The average ground floor asking rent of retail projects in Wangjing ranged from RMB250 to RMB700 per net sq. m. per month in Q4 2010.

### **Asian Games Village**

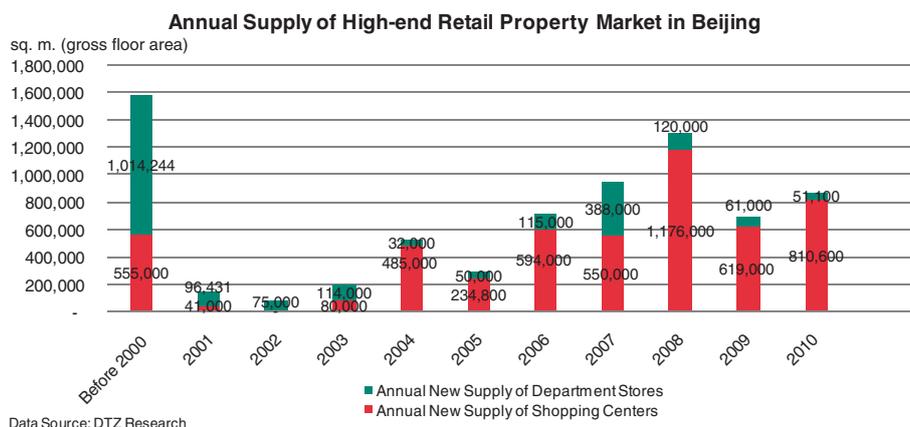
The Asian Games Village is the cultural and sports sub-centre of Beijing. This area already has high quality living standards, with an appropriate provision of retail streets and restaurants. Moreover, a number of office buildings have been launched in the market due to the construction of a new business centre in the north of Beijing.

The majority of existing retail projects are not positioned as high-end. The representative retail projects are Beichen Shopping Center and Piaoliang Shopping Center. Beichen Shopping Center is the most representative retail project in this area, and quality has improved after renovation and repositioning.

The major customers are surrounding residents, and the average ground floor asking rent in this area ranged from RMB250 to RMB750 per net sq. m. per month in Q4 2010.

- **Supply Analysis of the High-end Retail Property Market in Beijing: Retail supply is increasing and shopping centers are developing at a faster pace**

This analysis of the high-end retail property market will focus on shopping centers and department stores with a GFA of over 30,000 sq. m..



According to DTZ, the total stock of high-end retail property is as at the end of 2010 over 7 million sq. m. (gross floor area). Shopping centers account for 70.0% of the total stock.

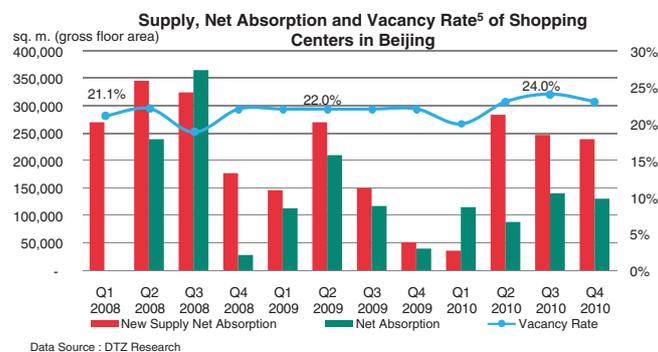
As a result of the upgrading phase of the retail property market in Beijing, more and more people frequent shopping centers. In 2005, the stock of shopping centers exceeded that of department stores. New supply of shopping centers has far surpassed department stores since 2004. In 2008, the new supply of shopping centers exceeded the historical peak and reached 1,180,000 sq. m. (gross floor area), much higher than that of department stores which is 120,000 sq. m. (gross floor area).

Shopping centers have become the most popular retail type in the Beijing high-end retail property market.

- **Demand and Vacancy Rate Analysis: Net absorption<sup>5</sup> of shopping centres is growing; vacancy rate is forecast to increase due to abundant new supply in 2010 and decrease from 2012 onwards**

Department stores and shopping centres have different business patterns. Additionally, the operators of department stores are usually the department stores themselves. Due to unified planning in the early stage, department stores have a higher efficiency rate in retail areas and the vacancy rate is under 5%. This means that areas with a high vacancy rate would not have a great negative effect on the market. Therefore, we will focus on analysing the vacancy rate of shopping centres.

Demand for department stores is slowing in the developed urban retail areas in Beijing. On the other hand, demand for department stores is increasing in developing suburban areas. For example, the Pacific Department Store launched a new branch in Fuxin Road, Haidian District in 2009 with a GFA of 30,000 sq. m..



Recently, the supply and demand of shopping centres have both been strong. Even during the financial crisis, the demand of the retail property market was only slightly affected. In 2009, new supply was about 619,000 sq. m. (gross floor area) and net absorption reached 483,000 sq. m. (gross floor area). The vacancy rate rose slightly when compared with Q4 2009, and reached 22.0%.

New supply increased in 2010 but this has not affected the operation of mature retail projects such as The Malls at Oriental Plaza and China World Shopping Mall. However, the new market supply will place huge pressure on new retail projects that are still on the drawing board or in the development pipeline.

In Q4 2010, the vacancy rate of shopping centres was 23.0%, and 2011 is expected to witness substantial new supply. Therefore, the vacancy rate will still remain at a relatively high level. However, we do not believe the increasing vacancy rate will have a negative effect on mature retail projects like The Malls at Oriental Plaza, which still maintains a 100% occupancy rate and a significant competitive advantage with a long waiting list of retailers. The vacancy rate is expected to decrease along with the limited supply from 2012 to 2013.

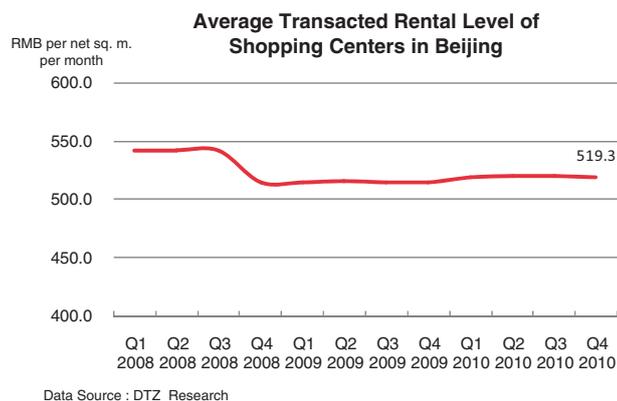
<sup>5</sup> New Supply means the completions in the single quarter (or single year in the next part of this report). Net absorption = leasing areas in this quarter (or year) — leasing area in last quarter (or year). Vacancy rate = Vacant area/ Total gross floor area, in the next part of this report, the year-end vacancy rate will be used to describe the vacancy rate in the whole year.

- **Rental Level of Beijing Retail Property Market: Turnover rent range of department stores is from 8% to 30%, while the average transacted rent of shopping centers is RMB519.3 per net sq. m. per month<sup>6</sup>**

<u>Trade Mix</u>	<u>Return Ratio of Turnover Rent</u>
Clothing .....	15-30%
Cosmetics .....	25-30%
Supermarket .....	3-7%
Restaurant .....	8-10%
Electronics .....	8-10%
Entertainment (e.g. cinema) .....	approx. 5%

According to the above analysis, there are different methods for calculating rent in department stores and shopping centers. Central points of sale (POS) systems are installed in department stores. Department stores usually charge turnover rent, which shares the sales profit of retailers and do not have fixed rental levels. The percentage is decided by the type and brand of commodities. Generally, turnover rentals ranged from 8% to 30%.

On the other hand, shopping centers usually charge fixed rent. The average transacted rental level of shopping centers fell from RMB541.4 per net sq. m. per month in Q3 2008 to RMB514.8 per net sq. m. per month in Q4 2008 during the financial crisis. Following that period, the rental level recovered slowly in line with the economic rebound.

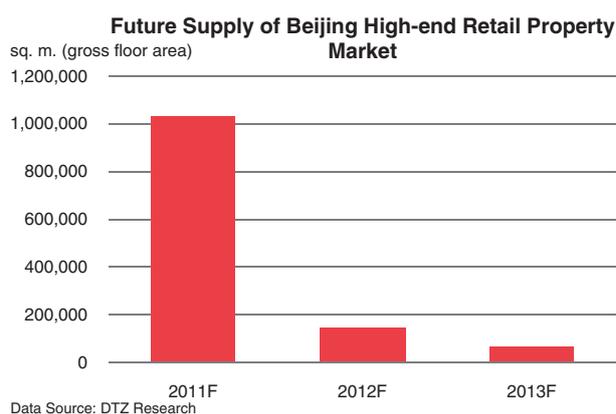


At Q4 2010, the average transacted rental level of high-end shopping centers reached RMB519.3 per net sq. m. per month.

6 Average transacted rent hereinafter is derived from average asking rent of ground floor sourced by DTZ Research. Here we assume there are 3 floor levels above ground and 1 basement floor level for shopping center. The estimations are: 2F asking rent is 75.0% of ground floor asking rent, and B1 and 3F rents are 55% of ground floor asking rent, respectively. Then we made a 15% discount to convert asking rent to transacted rent.

- **Future Supply: 1,249,000 sq. m. (gross floor area) of future supply will be launched in the market over the next three years (from 2011 to 2013), while some projects will postpone their launch date; the supply will decrease after 2011, and the future supply of Wangfujing/Dong Chang'an Area will be limited**

According to DTZ, approximately 1,249,000 sq. m. (gross floor area) of new supply will be launched in the market from 2011 to 2013, (approximately 1,000,000 sq. m. (gross floor area) of which will be launched in 2011). Shopping centers will provide the majority of the future supply, and department stores will provide very little supply.



In the next six months after January 2011, the retail property market, especially newly launched retail projects, will face fierce competition, increasing the vacancy rate and slowing the growth rate of the rental level. Mature projects like The Malls at Oriental Plaza still have competitive advantages as a result of many years of successful operation.

Moreover, according to market practice, many new projects can be expected to postpone their launch date due to market pressure and investment progress. Therefore, it is forecast that the whole market supply will be adjusted based on the market situation. Future supply in Wangfujing/East Chang'an Avenue is limited and only accounts for approximately 14.3% of the total future supply in Beijing.

- **Sale Situation of Beijing Retail: Few en bloc transactions of retail projects**

There are very few en bloc transactions of retail projects, especially in mature retail areas, since the quality and operation of retail projects are difficult to maintain after strata-title sales.

#### Selected Latest Retail Project Sales Transactions

Project Name	Address	Sales Type	Sales Area sq. m. (GFA)	Transaction Time	Transaction Price (RMB/sq. m. (GFA))
Sanlitun Shimao . . .	Sanlitun	Strata Title	8,019	2009Q4-2010Q3	70,126
Yinhe SOHO . . . . .	Xiaopaifang Hutong in Dongcheng	Strata Title	50,851	2010Q2-2010Q3	78,908

Data Sources: Beijing Municipal Commission of Housing and Urban-Rural Development, DTZ Research

We have selected some strata-title cases as reference of retail property market sales prices in Beijing. The average price of Sanlitun Shimao and Yinhe SOHO are RMB70,126 and RMB78,908 per sq. m. (gross floor area), respectively.

## 2.2 Retail Property Market Study for Wangfujing/East Chang'an Avenue Submarket

- **Wangfujing/East Chang'an Avenue Retail Property Market Overview: Long development history, good development planning and a mature retail property submarket**

Wangfujing Street has over 700 years of history and has been an important retail street for the last 100 years. The street's reputation will be a key driver for further retail property market development in the Wangfujing / East Chang'an Avenue submarket.

As a result of this historical standing, good reputation and significant influence at home and abroad, Wangfujing / East Chang'an Avenue retail street has become the most popular shopping destination in Beijing for locals and international tourists.



Plenty of famous retail projects are located in this submarket, for example, The Malls at Oriental Plaza, the Beijing APM and the Wangfujing Department Store.

The customer flow averages at approximately 200,000 on working days, and approximately 250,000 to 300,000 during weekends and public holidays. The average customer flow can range from 70 to 90 million annually, which is the guarantee for the development of this retail submarket.<sup>7</sup>

The government has a detailed and rational plan for retail development around the Wangfujing area. The plan is proceeding one step at a time, aimed at building a branded, characteristic business core area with a practical layout.

<sup>7</sup> Data Source: The 11<sup>th</sup> five-year retail development plan for Dongcheng District, the development plan for Wangfujing modern retail centre.

- **Retail Supply Analysis: Little supply from 2001 to 2007, vast development potential for the future; The Malls at Oriental Plaza spearheads the high-end retail development**

According to the statistics from DTZ, there were seven high-end retail projects in Wangfujing / East Chang'an Avenue, with a total gross floor area of approximately 532,000 sq. m. as at the end of 2009. Up to 2009, shopping centres account for the majority of retail stock (about 80.0%).



The annual supply of high-end retail projects from 2001 to 2007 was limited, which provides an opportunity for future retail projects.

**Introduction of major high-end retail projects:**

**Major High-end Retail Projects in Wangfujing/East Chang'an Avenue Submarket**

Name	Property Type	Completion Date	GFA (sq. m.)
Wangfujing Department Store	Department Store	1955	28,000
COFCO Plaza	Shopping Mall	1997	60,000
Beijing APM	Shopping Mall	1998	120,000
Henderson Center	Shopping Mall	1998	80,000
The Malls at Oriental Plaza	Shopping Mall	2000	130,000
Lotte Yintai Department Store	Department Store	2008	83,600
Jinbao Place	Shopping Mall	2009	40,000

Source: DTZ Consulting

**Wangfujing Department Store:** As the department store with the longest history in Wangfujing area, the Wangfujing Department Store has been repositioned as a more fashionable store after redecoration and product line improvement. For example, some fashion brands such as Ports and Swarovski were introduced. The customers are mostly wage and salary earning workers and tourists from home and abroad. The Wangfujing Department Store uses turnover rents (usually as a ratio of 8% to 30% of the total sales revenue) to drive profits.

**Beijing APM:** Beijing APM, opposite to the Wangfujing Department Store, is a modern multifunctional shopping centre. The target customers are the high income, young demographic aged between 25 and 40. After redecoration and repositioning, the project has been heavily promoted and the rental has increased to RMB200 to RMB850 per net sq. m. per month.

**The Malls at Oriental Plaza:** As a part of Oriental Plaza — a large commercial complex in Beijing — The Malls at Oriental Plaza has a length of 500 metres long. Since Oriental Plaza has been positioned as an international business centre, lots of international conferences have been held in Grand Hyatt Beijing, Oriental Plaza’s hotel. The majority of office tenants in Oriental Plaza comprise Fortune 500 companies. Additionally, most of the apartment residents are middle and senior management from MNCs. More than 20,000 employees live and work in Oriental Plaza, providing a steady source of stable and high-end customers for the retail part of the project.

The success of The Malls at Oriental Plaza is not only due to the customer flow from the whole Wangfujing area, but also the customers brought in by the complex itself.

The Malls at Oriental Plaza is one of most luxurious shopping centres in Beijing. The occupancy rate has been at or near 100 percent for a long time with rental being amongst the highest in Beijing. After ten years of successful operation, The Malls at Oriental Plaza has become the most influential retail project in the Wangfujing / East Chang’an Avenue submarket, spearheading the development of Beijing’s high-end retail property market.

- **Retail Demand and Vacancy Analysis: Vacancy rate far below the Beijing average, operation of retail property market remains positive**

DTZ recognizes two high-end department stores on Wangfujing/East Chang’an Avenue, namely the Wangfujing Department Store and Intime Lotte Department Store. The Wangfujing Department Store has consistently maintained good operations. However, the Intime Lotte’s performance has been poorer because it is still a newly-opened department store and requires several years to build a reputation in the market. We will mostly analyse the demand and vacancy rate of shopping centres in the following section.

From 2008 to 2010, few new shopping centres have come onto the market in the area of Wangfujing/East Chang’an Avenue. Meanwhile, the net absorption of shopping centres remains relatively stable.

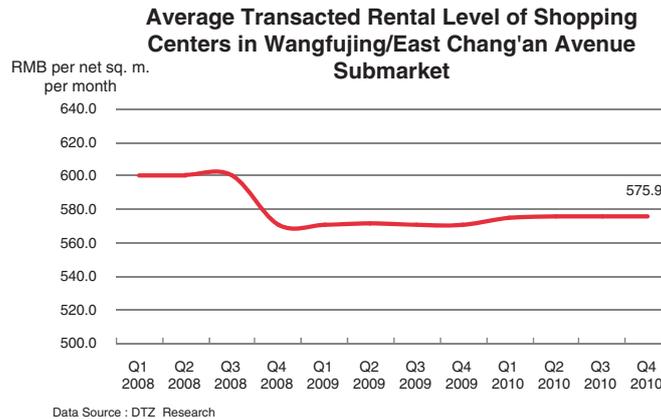


The high-end shopping centres perform well in this submarket, with a high occupancy rate (about 90.7% on average, far higher than the retail properties in Beijing on average).

At Q4 2010, the vacancy rate of the Wangfujing/East Chang’an Avenue retail submarket averaged 7.5%, much lower than the Beijing overall retail property market vacancy rate (24.0%) in the same period. These market facts indicate a strong competitive edge as well as a healthy operational environment of the Wangfujing retail submarket.

- **Retail Rental Analysis: Highest Average Transacted rental level in Beijing (Transacted rent averaged RMB 575.9 per net sq. m. per month in Q4 2010); witnessed stable growth after financial crisis**

Since there is no fixed leasing rental for department stores in this submarket, the turnover rental percentage is almost the same as the overall Beijing market, remaining at 8% to 30%.



For shopping centers in the Wangfujing/East Chang'an Avenue submarket, the transacted rental has stayed at a high level for a long time (much higher than the average of the whole Beijing market), and currently remains the highest of all the major Beijing submarkets.

During the financial crisis, affected by the macro-economic environment, the average transacted rental has suffered a remarkable decline in a short period. After the crisis, the transacted rentals began to climb as the submarket improved. At Q4 2010, the transacted rent of high-end retail properties in the Wangfujing/East Chang'an Avenue submarket averaged at RMB 575.9 per net sq. m. per month.

- **Retail Future Supply Analysis<sup>8</sup>: Future supply forecast to be 179,000 sq. m., little pressure on the market**

According to DTZ, the future supply of high-end retail properties in the Wangfujing/East Chang'an Avenue submarket from 2011 to 2013 is forecast to be approximately 179,000 sq. m. (gross floor area), about 33.3% of the current stock, majority of which will be shopping centres.

#### Future Supply of High-end Retail Projects in Wangfujing/East Chang'an Avenue Submarket

Name	Property Type	Estimated Completion Date	GFA (sq. m.)
Wangfujing International Shopping Mall . . . .	Shopping Mall	2011	40,000
Beijing Gong Project . . . . .	Shopping Mall	2011	46,000
Macao Center . . . . .	Shopping Mall	2011	23,000
Wangfujing International Brand Center . . . .	Shopping Mall	2013	70,000

Source: DTZ Consulting

<sup>8</sup> The future supply means those projects that have clear plannings or have been under construction already. Those projects that have been sold before completion or have an unclear or changeable planning will not be accounted into our statistic basket.

DTZ believes that there will be little market pressure after these high-end retail properties come onto the market in the future, for the following four reasons:

1. Little supply came onto the submarket between 2000 and 2008. New completions have been anticipated for some time. 2. The operation of the retail property market in Wangfujing/East Chang'an Avenue has remained solid for a long time and the market will be capable of absorbing these new completions. 3. These future projects are forecast to be completed over the next three to four years (ie, from 2011 to 2014), which provides enough time for market absorption. 4. All future projects are forecast to be high-end quality, which will upgrade the quality of this retail property submarket. Meanwhile, the aggregation effect will help to drive up the rental levels in the region.

- **Retail Transacted Rental Forecast: Expected to remain the highest level in Beijing and continue stable growth in the future**

To recap, first, after the financial crisis, transacted rent in 2010 has witnessed a growth of 1%, which can be perceived as a normal annual rental growth rate.

Second, because the macro economy has performed well, the GDP and total retail sales in Beijing are both expected to witness continued double digit growth in the foreseeable future. Therefore, the Wangfujing/East Chang'an Avenue retail submarket, the most famous in Beijing, is expected to trend upwards accordingly. It is predicted that the transacted rental in the submarket will keep increasing over the next couple of years.

Third, in line with the previous analysis, it is expected that the future supply will not place undue pressure on the market rental.

Fourth, the average inflation rate over the past ten years (from 2000 to 2010) was 1.53%, which will be perceived as the future inflation rate for the next few years (from Q4 2010 to Q4 2013).

In conclusion, it is forecast that the average transacted rental growth rate of retail properties in the Wangfujing/East Chang'an Avenue submarket will be 2.53% year on year (from 2011 to 2013).

#### **Average Transacted Rental Forecast of Retail Properties in Wangfujing/East Chang'an Avenue Submarket**

<u>Submarket Rental Forecast</u>	<u>2010 Q4</u>	<u>2011 Q4</u>	<u>2012 Q4</u>	<u>2013 Q4</u>
Forecast Value (RMB per net sq. m. per month) . . . . .	575.9	590.5	605.4	620.7

Source: DTZ Consulting

### **3. Beijing Overall Grade A Office Market Study**

The Beijing office market has experienced rapid development, along with economic expansion and internationalisation. Currently, there are a full set of offices available for selection, ranging through Grade A, Grade B and Grade C offices. The majority of high quality offices are concentrated in the city's core area and functional growth areas. The quality of new supply has improved noticeably in recent years, and it will be a future trend for high quality offices to enter into the market. The following study focuses on the Grade A office market only, and especially the Grade A offices in the Wangfujing/East Chang'an Avenue submarket.

DTZ has specified minimum criteria<sup>9</sup> for Grade A offices. Based on the current Grade A office market status in Beijing, we define and classify them into various levels mainly according to the specifications of the building itself (i.e. the lobby, the air-conditioning system, the lift brand and the location).

<sup>9</sup> The following criteria means the minimum criteria for Grade A office buildings. The quality of most of the existing Grade A office buildings in Beijing is higher than this minimum criteria.

For example, Grade A office buildings are generally located in the core business area, and most of them are steel frame structures. The floor plan is practical, with office space that can be divided freely. The standard floor area is more than 1,000 sq. m. (gross floor area), with a floor loading of above 200 kilograms per sq. m.. Most of these office buildings provide dual power, with an electricity capacity of above 60 VA per sq. m., and utilise brand-name air-conditioning systems, which enable the adjustment of temperature and humidity in different areas. Additionally, fresh air should be more than 30 cubic metres per person per hour; and 24-hour cold and hot water should be provided; Other features and services should include branded elevators, with a waiting time of less than 40 seconds; sufficient car parking lots, with the serviced area of every single lot less than 250 sq. m.; intelligent office operation systems (named as 5A systems); and a reputable property management company.

### 3.1 Beijing Grade A Office Market Study

- **Market Overview: Office market is still in the fast development stage**

As a first-tier city in China, the development of the Beijing office market began relatively early. Both the gross development area and product quality are amongst the highest in the country. The development of the office market in Beijing began in earnest in the mid 1980's. The following tracks the history of Beijing office development:

**“Starting” Stage:** (mid 1980's to 1996)

With the commencement of reform and open policies, as well as rapid economic growth, the Beijing office market began to takeoff. The earliest offices were co-located with luxury hotels catering to foreign embassies. Thus, Jianguomenwai Avenue to the east Chang'an street area of Ritan road legation quarter became the initial office centre. The opening of China World Trade Centre Tower 1 in 1990 signaled development of the CBD.

From 1992 to 1996, the Beijing economy experienced rapid expansion and the massive inflow of foreign companies led to a sharp increase in the demand for office space, resulting in a shortage of supply. Therefore, both the rental cost and price of office buildings was pushed up, and there was a significant increase in the attractiveness of the office market. At the same time, according to the open policy, real estate developers, particularly Hong Kong developers, started to invest heavily in office projects. Therefore, the Beijing office market experienced rapid growth in the early stage.

**“Adjustment” Stage:** (Year 1997 to 2003)

During this period, supply exceeded market demand due to the impact of heavy investment in the early stage. This imbalance led to intense competition in the office market (only some prime projects such as China World Trade Center and The Tower Offices at Oriental Plaza were minimally affected). In addition, the Southeast Asian financial crisis, the burst of the internet bubble, and SARS led to difficulties for the Beijing office market.

This period is considered the adjustment stage. Development and investment in the office market became more rational due to the impact of the recession. Notably, business centres started to form in the Financial Street and Zhongguancun areas. At the same time, other business centres, such as Wangfujing/East Chang'an Avenue, matured. Therefore, a multi-business centre form began to take shape.

**“Growth” Stage:** (Year 2003 onwards)

From 2003 until the present, the Beijing macro economy has continued its sustained development (double digit growth rate of GDP successively for many years), and the office market experienced stable growth. The supply of office space increased, especially after 2005, and the overall quality of the new supply experienced a dramatic improvement. There is an increasing amount of Grade A office

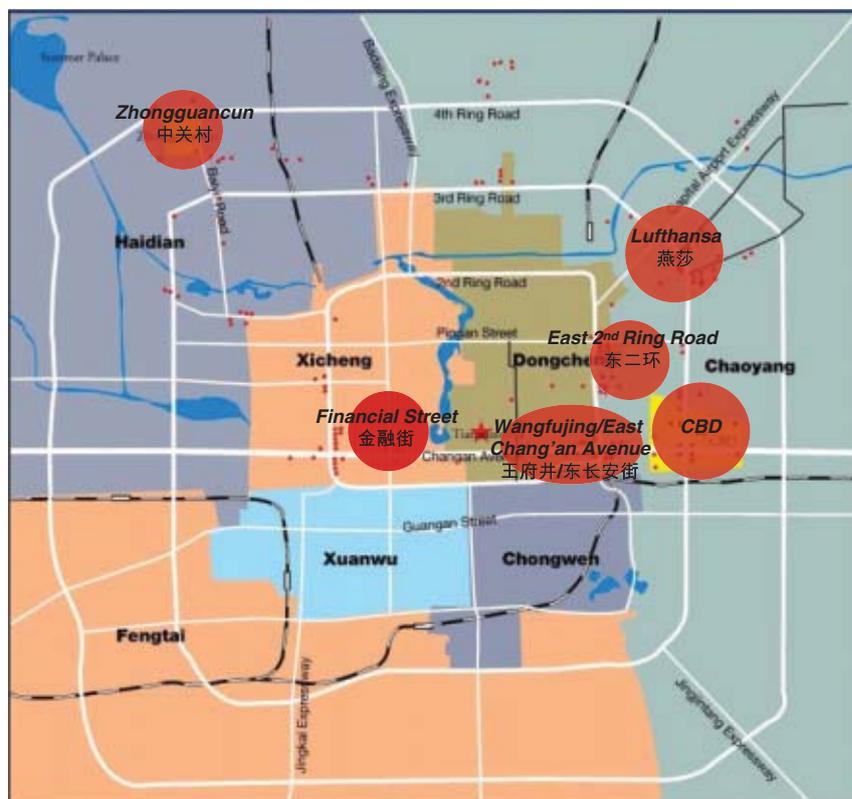
available in the market, while rent has risen accordingly. After the short impact of the global credit crisis in 2008, the Beijing office market has continued its rapid growth.

Thus far, the Beijing office market is still considered to be in its developing stage, compared to relatively mature foreign markets. However, there is huge potential for future development.

- **Overview of Beijing Main Office Districts: There are six key office submarkets in Beijing; Wangfujing/East Chang'an Avenue has the longest history whereas CBD is the largest business centre in Beijing**

Beijing Grade A office towers are distributed across six districts, namely the CBD, Financial Street, Zhongguancun, Lufthansa, East 2<sup>nd</sup> Ring Road and Wangfujing/East Chang'an Avenue submarkets.

### Major Office Submarkets in Beijing



Source: DTZ

The Asian Games Village, Wangjing, Advanced Business Park area (Fengtai District) and Yizhuang Economic and Technical development Area have also developed to a certain extent. However, those business centres are slightly inferior to the six key business districts, in terms of quality, stock, operation and market influence.

We will analyse the six key business districts listed in the above map.

#### **Wangfujing/East Chang'an Avenue**

Wangfujing/East Chang'an Avenue business district is located along east Chang'an Street, which has a geographic advantage. Moreover, the legation quarter is located nearby. These factors provide a strong foundation for this district to be the cradle of the Beijing office market. The opening of the CITIC Building in 1985 was the first sign of the commencement of commercial office development in this area and in Beijing overall. Therefore, this business district was the pioneer for all business districts in Beijing.

The high-end commercial retail in this district provided necessary supporting facilities for further development. Due to this, office market growth has been primarily driven by market factors.

The core of the district extended to Wangfujing area due to the opening of Scitech Place, COFCO Plaza and Everbright China Chang'an Building. After the adjustment period, the most influential, largest and high-end office project, The Tower Offices at Oriental Plaza in Wangfujing/East Chang'an Avenue submarket, was launched. It has been instrumental in the area's maturity, and is considered an influential market leader.

The GFA of The Tower Offices at Oriental Plaza is 300,000 sq. m., which accounts for one-third of the district's current stock of approximately 825,000 sq. m. (gross floor area). Due to its significant influence on the market, The Tower Offices at Oriental Plaza acts as a benchmark for other Grade A office towers in this district in terms of tenant mix. The major tenants in the district include professional services (law firms, accounting firms, etc), IT companies, syndicates, financial and insurance service companies, as well as hi-tech manufacturers. The average transacted rental<sup>10</sup> of Grade A offices reached RMB 157.9 per sq. m. (gross floor area) per month<sup>11</sup> in Q4 2010. The vacancy rate was approximately 11.14%, lower than the average of the whole city.

### ***CBD***

There were some high-end office buildings which arrived on the market in the China World Trade Center vicinity in the 1990s. In particular, the launch of the landmark China World Trade Center boosted office market development in the whole district. The office market took its initial shape after 2000, after which the government started to make development plans. The scale of buildings presented a stable growth trend. After 2007, the office market in the district experienced rapid expansion, and many high-quality office buildings came onto the market. The reputation and quality was further improved, and the role of this business district consolidated.

After 20 years of development, the international finance industry, cultural media industry and modern business service industry have become the mainstay of CBD. Finance, trading, law and accounting firms represent 34% of tenants. The district is now a typical mature service industry centre. There are many Grade A office buildings, typical examples of which include China World Trade Center, Yintai Center, Kerry Center and China Central Place.

Major tenants comprise Top 500 foreign companies, financial institutions, consulting firms, and law firms. The stock of Grade A offices was approximately 2.15 million sq. m. (gross floor area) in Q4 2010, and the average transacted rent was approximately RMB 180.4 per sq. m. (gross floor area) per month. Because of the increased supply in recent years, the vacancy rate is relatively high amongst all districts, at 19.72%.

### ***Financial Street***

Planned by the State in 1992, Financial Street was the first large-scale development for the financial industry in Beijing. It was appointed by the State Council to be the financial administrative centre. Initially, there were only financial supervision institutes and some state-owned company headquarters. Massive corporations, especially financially-related businesses started to locate here after 2001, leading to a boom in this area. However, due to the smaller size of the region (only 1.18 sq. k.m. in the core area), development was limited. As a result, the market remains tight and the vacancy rate is relatively low, pushing up the rentals to a high level.

The GFA of office buildings for lease in this district is currently more than 1,000,000 sq. m. (with an average vacancy rate of 7.14%), whereas the GFA for own-use offices has a similar scale of one

<sup>10</sup> The average transacted rental means the rent agreed in the contract signed in Q4 2010. Generally, tenants move into the new office two to three months after signing the contract (time needed for decoration). Therefore, such rent will reflect on the landlords' book several months later.

<sup>11</sup> Gross rental figures throughout the office market section are calculated based on the assumption that the office efficiency rate will be generally at 70%.

million sq. m. The main feature of the Financial Street area is the large amount of owner-occupied office buildings. A number of examples of lettable office buildings include Winland International Financial Center, Fortune Resource International Center and Excel International Financial Center.

The major tenants are banks, insurance companies, security institutes, onshore/offshore investment corporations, financial supervision institutions and some state-owned companies. In Q4 2010, the average transacted rent was approximately RMB 212.12 per sq. m. (gross floor area) per month.

### ***Zhongguancun***

Since there are many universities and research institutions located in the Zhongguancun area, the government authorised it as both the hi-tech development centre of Beijing and the rest of the country. The office market in this district grows with the general development plan. However, because of the clear-cut characteristics of the region, the tenants are highly unique, limiting the expansion of the district to a certain extent.

The stock of Grade A offices in the district is about 760,000 sq. m. (gross floor area), and the vacancy rate is 1.78%. Typical projects include Raycom InfoTech Park, Ideal International Plaza and Tsinghua Technology Plaza. Major tenants are high tech corporations and R&D institutions, including IT, electronics and telecommunications. In Q4 2010, the average transacted rental level of Grade A offices was relatively low, about RMB 140.86 per sq. m. (gross floor area) per month.

### ***Lufthansa***

The Lufthansa submarket is close to the legation quarter and is one of the pioneers of office development. As the first international department store, Lufthansa shopping mall stimulated the growth of the district. The full sets of business facilities, as well as the cosmopolitan atmosphere, have provided favourable conditions for the office market to develop.

The stock of Grade A office premises is currently about 610,000 sq. m. (gross floor area), and the average vacancy rate is approximately 13.07%. The typical office projects comprise Landmark Tower, Hyundai Motor Tower and Phoenix Square. Major tenants are overseas enterprises, manufacturing (especially automobile manufacturing), as well as trading and professional services companies. In Q4 2010, the average transacted rental level of Grade A office was approximately RMB 154.38 per sq. m. (gross floor area) per month.

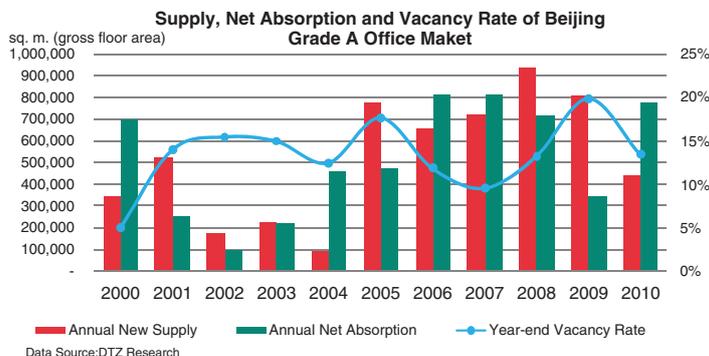
### ***East 2<sup>nd</sup> Ring Road***

This region is the preferred office location for many state-owned corporations due to the convenient transportation location. China National Offshore Oil Corporation, Sinopec group, China CYTS, China Telecom and China Mobile (Beijing) are all located here. Although the East 2<sup>nd</sup> Ring Road business district began relatively late, there are high-end office buildings in the market due to the demand from owner-occupied corporations.

The stock of Grade A offices is currently approximately 420,000 sq. m. (gross floor area) with the highest vacancy rate of 20.26% among all districts. Typical projects include Guohua Plaza, CYTS Plaza, Raffles City, and the Fifth Square. Major tenants are large scale state-owned companies, especially energy-related ones. In Q4 2010, the average transacted rental level of Grade A office was approximately RMB 171.52 per sq. m. (gross floor area) per month.

- **Beijing Grade A Office Supply, Absorption and Vacancy: Total stock is 6.6 million sq. m. (gross floor area); Large supply since 2005 with strong absorption at the same time; vacancy rate is low at 13.8%**

According to DTZ, little new Grade A office supply was completed before 2005. As a result, the whole market was still in recession and demand was not strong.



After 2005, much more new supply came onto the market, with an annual average of approximately 780,000 sq. m. (gross floor area) during the five years since 2005. The large supply was supported by the large office demand in a good economy. The tenants were also eager for high quality office space. By the end of 2010, the Grade A office stock totalled approximately 6.6 million sq. m. (gross floor area), with The Tower Offices at Oriental Plaza currently being the largest Grade A office development in Beijing (and has been since its opening).

Although plenty of Grade A offices were completed, the average vacancy rate remained at a relatively low level. This was especially noticeable at the end of 2007, when the vacancy rate was 9.6%. Due to the financial crisis during Q4 2008 and 2009, the vacancy rate increased remarkably to 19.9% in a short period. However, in 2010, benefiting from the recovered office demand after the financial crisis, the average vacancy rate has fallen to 13.5% in Q4 2010, an acceptable level.

- **Beijing Grade A Office Rental Analysis: the transacted rental remained at a high level (except during the financial crisis) of about RMB159.19 per sq. m. (gross floor area) per month in 2010**

Despite high annual new supply since 2005, the Grade A office rental performed well because of the strong demand over the same period.

For example, transacted rentals during Q2 2006 and Q3 2008 witnessed stable growth of about RMB155 to RMB161 per sq. m. (gross floor area) per month.

At the same time, rentals suffered a sharp decrease to RMB140.78 per sq. m. (gross floor area) per month in Q2 2009 as a result of the financial crisis which began to impact the market in Q4 2008.



After Q3 2009, the Grade A office market trended upwards, with rentals rebounding to levels of before the financial crisis. The average transacted rent reached RMB171.15 per sq. m. (gross floor area) per month in Q4 2010. It is predicted that the rentals will keep rising in line with the expectation that the overall economic environment will remain positive.

- **Beijing Grade A Office Future Supply<sup>12</sup> Analysis: Lower future supply over the next three years (from 2011 to 2013) than the past five years (from 2006 to 2010); low market pressure and bright prospects**

#### Future Supply of Beijing Grade A Office Market

Name	Submarket	Estimated Completion Date	GFA (sq. m.)
CITIC Securities Plaza .....	Lufthansa	2011	70,000
Xidan Yinzuo Centre .....	Others	2011	80,000
Meisheng International Plaza .....	Others	2011	43,000
Parkview Green .....	Others	2011	80,000
Guosheng Center .....	East 2 <sup>nd</sup> Ring Road	2011	140,000
Fortune Plaza Phase III .....	CBD	2011	150,000
Aether Square .....	CBD	2011	50,000

Source: DTZ Consulting

According to DTZ, the future Grade A office supply in Beijing in the next three years (from 2011 to 2013) is about 0.61 million sq. m. (gross floor area), with nearly half concentrated in the CBD area. Most of the future supply is expected to come onto the market in 2011, with little supply in 2012 and 2013. Naturally, there will be little pressure on the Grade A office market in the future. On the basis that the absorption will remain at the same average level as before, the Grade A office vacancy rate is predicted to stay at a low level with rentals increasing further in the near future (up to the end of 2011).

- **Beijing Grade A Office Rental Forecast: Rental is forecast to have a y-o-y increase of about 5.21% in the next three years (from 2011 to 2013)**

DTZ takes into account several factors in deriving the rental forecast, including the historical rental change rate, the future supply and demand, as well as the inflation rate.

According to DTZ, Beijing Grade A office rental has witnessed an average y-o-y increase of 3.68% during the period from 2007 to 2010 (the abnormal rate of change during the financial crisis has been excluded). Since we are optimistic about future economic development, it is forecasted that the whole Beijing Grade A office rental will see the same average increase of 3.68% in the near future.

Since less future supply will come onto the market, the vacancy rate in 2013 is expected to be approximately 5.0% (8.5% lower than the vacancy rate of Q4 2010) on the basis that the absorption rate will remain at the current absorption level. As a result, a rental increase will naturally be expected.

According to the Beijing Statistics Bureau, the average inflation rate over the last decade (from 2000 to 2010) was about 1.53%, which is forecast to remain steady over the next three years (from 2011 to 2013).

<sup>12</sup> The future supply means those office buildings that have been clearly planned or have been under construction already, and have been expected to be Grade A offices. The completion date may be changed according to the actual construction schedule.

To sum up, DTZ forecasts that the Beijing Grade A office rental may have a y-o-y increase of about 5.21% (here, we considered two aspects: the expected rental growth rate and the expected future annual inflation rate) in the next three years (from 2011 to 2013).

#### Transacted Rental Forecast of Grade A Office in Beijing

<u>Beijing Rental Forecast</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Forecast Value (RMB per net sq. m. per month) . . . . .	227.41	239.26	251.72	264.83
Forecast Value (RMB per sq. m. (GFA) per month) . . . . .	159.19	167.48	176.20	185.38

Source: DTZ Consulting

- **Sales Performance of Beijing Grade A office: En-bloc Sales transactions in 2009 were active, with an average sales price of about RMB30,000 per sq. m. (gross floor area)**

In 2009, Grade A office en-bloc sales transactions were active because the sales price of Grade A offices declined during the financial crisis and many investors were inclined to buy some office properties on expectations of future appreciation.

#### Selected Office Sales Transactions in Beijing

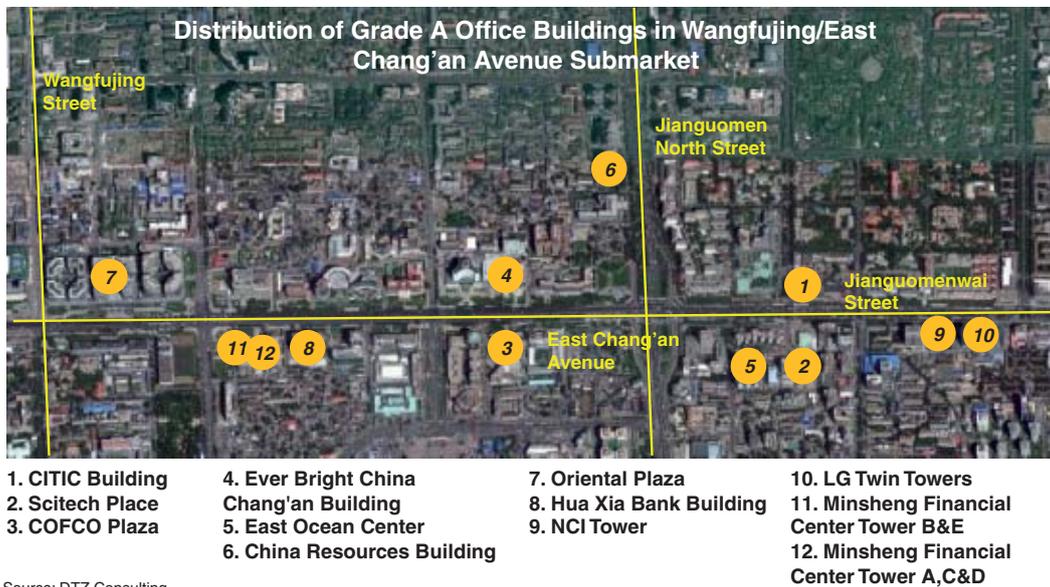
<u>Name</u>	<u>Submarket</u>	<u>Sales Type</u>	<u>Sales Area (sq. m. (GFA))</u>	<u>Transaction Date</u>	<u>Transaction Price (RMB/sq. m. (GFA))</u>
Raycom InfoTech Tower D . . . . .	Zhongguancun	En-bloc Sale	29,856	2009Q3	23,395
Zhaotai Beifeng C1 Tower . . . . .	Financial Street	En-bloc Sale	45,966	2009Q3	35,015
Jiasheng Center . . . . .	Lufthansa	En-bloc Sale	82,200	2009Q4	28,467
Gateway Plaza . . . . .	Lufthansa	En-bloc Sale	102,735	2010Q2	28,227

Date Source: Beijing Municipal Commission of Housing and Urban-Rural Development, DTZ Research

The sales price of the latest en-bloc transactions fluctuated around RMB 30,000 per sq. m. (gross floor area).

### 3.2 Wangfujing/East Chang'an Avenue Grade A Office Market Study

- **Wangfujing/East Chang'an Avenue Grade A Office Market Overview: Relatively mature submarket with good location**



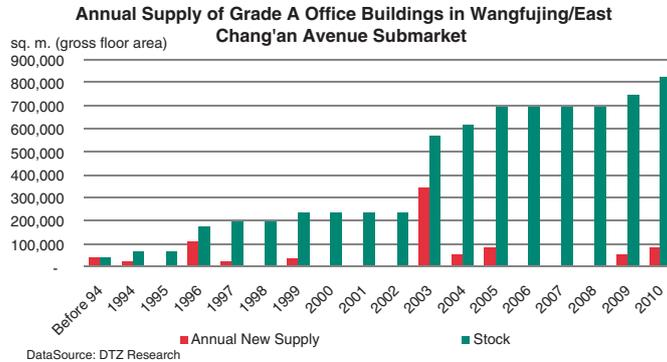
Most of the Grade A office buildings in this submarket are distributed along Chang'an Avenue and Jianguomenwai Avenue, with good accessibility (four stations of Line 1 are located in the area). The Wangfujing/East Chang'an Avenue submarket developed early and many high quality office buildings were completed in a phased process. This submarket is much more mature than other office submarkets. For example, the vacancy is as low as about 10.0%, especially for high quality office buildings such as the China Resources Building, The Tower Offices at Oriental Plaza and LG Twin Towers, which enjoy high occupation rates. The average rental has been stable over a long period of time.

- **Submarket Grade A Office Supply Analysis: The current Grade A office stock in the submarket totals at approximately 825,000 sq. m. (gross floor area), with few completions over the past seven years (from 2004 to 2010). The market outlook is positive**

The annual supply chart for the Grade A office submarket of Wangfujing/East Chang'an Avenue indicates that the average annual supply is small, while the total stock (stock meaning all the existing supply) is relatively large amongst all the major submarkets due to its long development history. By the end of 2010, the total stock of Grade A office buildings in Wangfujing/East Chang'an Avenue submarket was approximately 825,000 sq. m. (gross floor area).

It is noteworthy that annual new supply in 2003 was much larger than other years. This is because The Tower Offices at Oriental Plaza, with a total office GFA of about 300,000 sq. m. (gross floor area), came onto the market that year. The Tower Offices was appraised as the best office building in Beijing by the Beijing Municipal Bureau of Commerce and the Beijing Administration for Industry and Commerce as soon as it was completed. The office project has run well since completion, with an occupancy rate of approximately 95.0% since The Tower Offices launched in 2001, benefiting from its own supporting facilities as well as the submarket. Many high quality tenants of the professional services industry, IT industry, finance, insurance and investment industry are located therein. For example, three of the 'big four' accounting firms have leased office space in The Tower Offices at Oriental Plaza. Moreover, both Deloitte and Ernst & Young have naming rights to the respective office

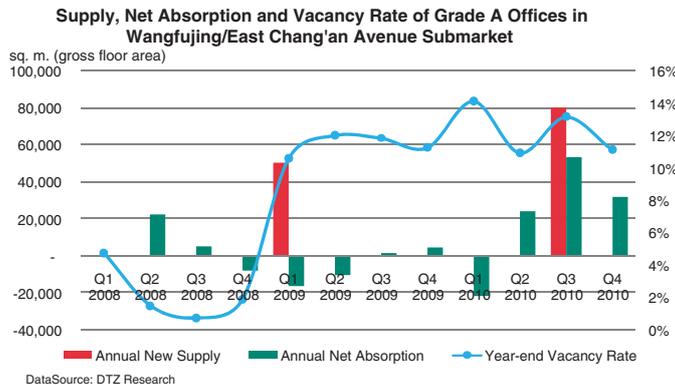
towers where their offices are located. The rental prices of The Tower Offices at Oriental Plaza are of the highest level in this submarket of Wangfujing/East Chang'an Avenue.



Meanwhile, it is apparent that new supply in 2006 and 2008 was limited in this submarket. Compared with the quantity of supply in other submarkets in Beijing over the same period, the market faced less pressure and a better business environment.

- **Submarket Grade A Office Net Absorption and Vacancy: Strong demand with current low vacancy rate of 13.15%.**

Office demand in Wangfujing / East Chang'an Avenue performed relatively well over the period from 2008 to 2010 (except during the period of the financial crisis). The vacancy rate in 2008 was as low as 2.2%. Not only was office demand affected during the financial crisis, but on the supply side, the Minsheng Financial Center was completed in phases over 2009 and 2010. The vacancy rate increased somewhat, but still remained at a level of about 11.9% during this period. As of Q4 2010, the vacancy rate of Wangfujing/East Chang'an Avenue submarket was 11.14%.

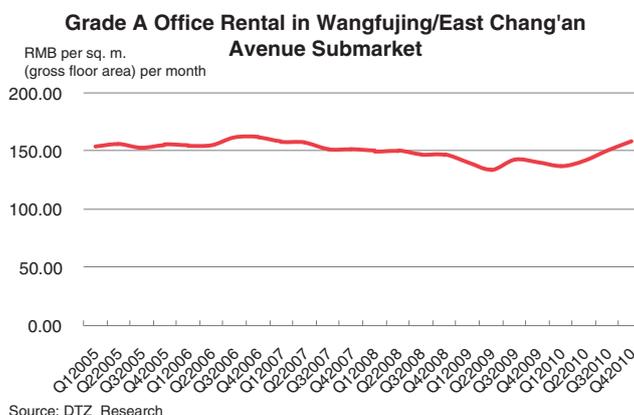


- **Submarket Grade A Office Rental Analysis: Average transacted rental remained stable (in Q4 2010, averaged at RMB157.90 per sq. m. (gross floor area) per month; Rental differences between the major projects**

According to DTZ, the average transacted rental of Wangfujing/East Chang'an Avenue Grade A office submarket was stable over the past five years (ie, from 2005 to 2010). As of Q4 2010, the average transacted rental was RMB157.90 per sq. m. (gross floor area) per month.

It is noteworthy that rental differed between office buildings in this submarket due to different facilities and building ages. For example, the rental of the best office buildings, such as The Tower

Offices at Oriental Plaza, China Resources Buildings and LG Twin Towers, is approximately 20% to 40% higher than the average rental level in this submarket.



- **Submarket Grade A Office Future Supply Analysis: Bright market prospects with little future supply in the next three years**

In an analysis of the future supply for the whole of the Beijing Grade A office market, most of the future supply will be concentrated in the CBD area, and it is forecast that there will not be any new completions in Wangfujing/East Chang'an Avenue submarket in the next three years (from 2011 to 2013). Therefore, the lack of future supply will bring less competition and market pressure, a positive sign for this Grade A office submarket.

- **Submarket Grade A Office Rental Forecast: The rental growth is forecast to be in line with that in Beijing, a y-o-y increase of approximately 5.21%.**

First, it is expected that there will be no future supply in the next three years (from 2011 to 2013). Second, the vacancy rate in this submarket is to remain at a low level (about 7.5% lower than the whole Beijing vacancy rate during the past three years (from 2007 to 2009)). Third, office demand in this submarket performed well and is forecasted to keep the same trend in the foreseeable future.

In light of these assumptions, the rental of Grade A office in Wangfujing/East Chang'an Avenue submarket is forecast to increase over the next three years (from 2011 to 2013), with an annual growth rate of about 5.21% (at least not lower than the predicted annual rental growth rate of the whole Beijing market).

**Transacted Rental Forecast of Grade A Office in Wangfujing/East Chang'an Avenue Submarket**

<u>Rental Forecast</u>	<u>2010 Q4</u>	<u>2011 Q4</u>	<u>2012 Q4</u>	<u>2013 Q4</u>
Forecast Value (RMB per sq. m. (GFA) per month) . . . . .	157.90	166.13	174.78	183.89

Data Source: DTZ Consulting

**4. Conclusion**

- **Beijing's economy has developed quickly, with improved infrastructure and an increase in the city's appeal; the development of commercial property will benefit tremendously**

Total retail sales in Beijing witnessed a strong increase in the last decade (from 2000 to 2010), which led to the development of retail properties. Meanwhile, the office market has benefited from the increased number of employees in Beijing, especially those in the tertiary sector.

With better infrastructure, a more efficient government and the appeal of a higher living, work and consumption quality, increased investment and consumption will continue, thus propelling the development of the Beijing real estate market.

- **The whole Beijing retail property market is currently performing well, especially the submarket of Wangfujing/East Chang'an Avenue, which is currently outperforming the entire market and is forecast to remain strong.**

The major high-end retail projects are concentrated in eight submarkets. The Wangfujing/East Chang'an Avenue submarket, with a longer history and a good development plan, is more mature and maintains stable growth.

The high-end retail properties have developed quickly. Demand in both the whole Beijing market and the Wangfujing/East Chang'an Avenue submarket has remained strong. The retail property market of Wangfujing/East Chang'an Avenue has performed well, with the vacancy rate far lower than that of the whole Beijing retail property market.

Plenty of future retail supply in Beijing is expected to come onto the market. However, a small percentage is located in the Wangfujing/East Chang'an Avenue submarket, which indicates little market pressure on this submarket in the foreseeable future.

In 2010, the retail rental of Wangfujing/East Chang'an Avenue submarket was the highest amongst all the major submarkets, and is predicted to increase further in the foreseeable future.

- **The office market has developed rapidly, and is still growing. Wangfujing/East Chang'an Avenue office submarket has performed well and has bright prospects.**

The major Grade A office buildings are concentrated in six submarkets. The Wangfujing/East Chang'an Avenue submarket has the longest history.

The supply of Beijing Grade A office buildings began to surge as of 2005, while, in Wangfujing/East Chang'an Avenue submarket, little new supply has been completed in the past seven years (from 2004 to 2010). This means there is little competition and low market pressure.

Grade A office demand in Beijing's entire market and the Wangfujing/East Chang'an Avenue submarket has performed well, with the average vacancy rate currently remaining at a relatively low level.

In the next three years (from 2011 to 2013), the annual future Grade A office supply for the whole Beijing office market is predicted to be less than the annual supply over the past five years (from 2006 to 2010). No future supply is expected to come onto the market in the next three years (from 2011 to 2013), especially for the Wangfujing/East Chang'an Avenue submarket. All the projects in this submarket will benefit from the lack of future supply.

The average rental for the Grade A office market has rebounded from the financial crisis, and is forecast to increase further over the next three years (from 2011 to 2013).