

Market Outlook

We are cautiously optimistic about the prospects of the housing market and we shall expedite the pace of development to meet our growth target.

China continued to lead the global post-financial crisis recovery last year, as its foreign trade sector rebounded while domestic demand sustained vigorous momentum. Recent sovereign credit rating upgrades attest to China's reputation for prudent macroeconomic management. Increased foreign direct investment flows indicate international business confidence in China. In 2010, China recorded 10.3% GDP growth, and the government has begun to exit its stimulus policies at a measured pace, while maintaining vigilance towards global economic uncertainty. As demonstrated during the recent financial crisis, China has the capacity to respond decisively to major economic shocks.

The housing market continued to show strength in terms of transaction volumes and price movements last year. Market sentiment was buoyant, and the government became concerned that home prices in certain cities were rising too quickly. Despite two rounds of tightening measures in 2010, housing demand remained persistently strong owing to robust economic fundamentals, such as rising personal incomes and an improving economic outlook. Inflationary expectations also helped to lift demand for property, which is perceived as a secure store of value. To stabilise inflationary expectations, the central bank has begun to tighten monetary policy,

raising interest rates three times between October 2010 and February 2011, and increasing the bank reserve requirement ratio multiple times.

The latest round of residential market tightening measures, announced in January this year, can be seen as a further move to dampen market sentiment and prevent overheating. These "temporary" measures are aimed at cooling speculative demand rather than end-user demand. The minimum downpayment for second-home purchase was raised from 50% to 60%. The measures call on a large number of cities – including municipalities, provincial capitals and cities with surging home prices – to implement purchase restrictions. Local residents with only one property may purchase one more property, while non-local residents with one property – and local residents with two or more properties – are banned from purchasing any additional properties. The State Council has also called on local governments to release implementation plans to control housing price during the first quarter.

The more stringent housing policy this year will shrink the pool of eligible buyers and is expected to bring about a downward price adjustment in some cities and a more prolonged slowdown in transactions compared with last year.

Chongqing and Shanghai have begun levying different pilot versions of an annual property tax. The tax rates for Shanghai range from 0.4% to 0.6%, and only apply to new purchases. The government is also taking action to address longer-term structural issues in order to achieve a better balance between housing supply and demand. It aims to steer housing prices to a sustainable path, in line with rising income and rapidly developing city economies. On the supply front, the government is making more land available for the development of public housing. The authorities have expedited housing construction on 5.9 million affordable housing units in 2010, and are targeting construction of 10 million units in 2011. Expanding provision of affordable housing to lower-income households should allow the government to take a more hands-off approach to the private-sector housing market in due course.

In Shanghai, the company's newly acquired site in Hongqiao is strategically positioned within the mainland China's first major air and land multimodal transport hub. Hongqiao Airport, which ranked fourth by passenger numbers amongst mainland China airports in 2009, is targeting an expansion of annual passengers from 29 million in 2009 to 40 million by 2015. The hub is currently served by two urban metro lines, which will eventually be expanded into



The Riviera II at Chongqing Tiandi

five. By year-end, Hongqiao Transport Hub will become a terminus for three major national high-speed rail trunk lines serving Beijing, Guangzhou and Chengdu. The hub's exceptional regional and international accessibility is an indication of its enormous commercial real estate development potential. In this vein, Hangzhou's tourism and retail sector is expected to benefit as well from its new high-speed rail connection with Shanghai, which reduces travel time down to around 45 minutes.

Chongqing and Wuhan are continuing to develop as the principal economic centres for West and Central China, respectively. In May 2010, the State Council approved the establishment of Chongqing Liangjiang New Economic Zone, which will enjoy a status similar to Pudong in Shanghai and Binhai in Tianjin. Liangjiang will enjoy preferential policies and become a testing ground for economic reforms. Liangjiang's positioning as the international gateway for inland China and the financial/innovation centre for the Upper Yangtze Region should attract foreign investment inflows and generate greater demand for the municipality's high-end commercial

and residential property. In early 2010, Wuhan East Lake High Tech Development Zone was designated as China's second National Innovation Model Zone after Beijing's Zhongguancun. The government of Wuhan plans to invest RMB240 billion in upgrading its transport infrastructure over the next five years. Planned projects include a second airport and high-speed rail lines that will shorten journey times between Wuhan and each of its eight surrounding cities to less than half an hour.

Foshan's local business-driven economy continues to power ahead, overtaking Qingdao to reach tenth place amongst Chinese mainland cities in terms of GDP in 2010. Foshan's housing market is benefiting from regional urban integration. The Guangdong provincial government has announced a plan to improve integration of infrastructure, industries, urban-rural planning, environmental protection and public services in the Pearl River Delta – which would benefit Foshan. Our project in Dalian taps into forward-looking growth themes in China's economy, namely the development of the software and service outsourcing sector. China has made development of

this sector a priority; and last August the Ministry of Finance announced a sales tax waiver until 2013 for service-outsourcing companies in a number of selected cities including Dalian. The Dalian Tiandi project, as a part of Dalian Software Park Phase II, is well positioned to benefit from this sector's outstanding growth.

Although the more restrictive policy environment will lead to short-term fluctuations in housing sales this year, the industry's fundamentals – namely urbanisation and income growth – remain solid. We believe that the locations and maturing communities within the neighbourhood of our projects are the competitive strengths which will be an effective shield during times of market uncertainty. Our portfolio of commercial properties, including Xintiandi-style developments and Hongqiao Tiandi, stand to benefit from growing middle class affluence and government policies to increase local consumption. We are cautiously optimistic about the prospects of the housing market this year and we shall expedite the pace of development to meet our growth target.