

Briefing Sales and investment

November 2014



Image: Poly Hyde Park, ZGC area, Haidian district

SUMMARY

The en-bloc sales market witnessed a pick-up in transaction volumes in the third quarter, with three deals concluded for a total consideration of RMB5.7 billion.

- Grade A office capital values rose 0.8% quarter-on-quarter (QoQ) to an average of RMB64,100 per sq m, up 4.3% year-on-year (YoY).
- Grade A office gross reversionary yields compressed by 3 basis points (bps) to 5.93% by the end of Q3/2014.
- The first-hand strata-title office market witnessed a slowdown in transaction volumes in Q3/2014 with total consideration of only RMB4.3 billion, down 61.9% QoQ. Meanwhile, first-hand strata-title retail consideration also fell 48.5% QoQ to RMB4.7 billion.

- The en-bloc sales market witnessed a pick-up in transaction volumes. Three concluded deals brought in a total transaction consideration of RMB5.7 billion; while pushing year-to-date (YTD) total transaction volumes up to RMB12.0 billion, this was still less than half of that in FY2013.

- Despite rental compression, steady demand for a limited availability of prime investment stock is expected to support Grade A office capital values. As a result, Grade A office gross yields are anticipated to moderately decline in Q4/2014.

- Given Beijing's limited investable stock available for sale, the en-bloc sales market is expected to remain relatively quiet in Q4/2014.

.....
 “The land market rebounded during the third quarter, reaching a total consideration of RMB46.9 billion.” Joan Wang, Savills Research

➔ **Market commentary**

Beijing's en-bloc sales market picked up in the third quarter, with three deals concluded: Poly International Plaza Tower 3 was acquired by Hunan TV; Electronic Town IT Industrial Park A5 & 1 was acquired by 58.com; and Financial Street Guang'an Center Plot C Office was acquired by China Reinsurance. The deals saw a total consideration of RMB5.7 billion – only half of the figure for the same period in 2013.

After a slowdown in Q2/2014, the land market rebounded in the third quarter, reaching a total consideration of RMB46.9 billion, up 29% QoQ. As a result, the total consideration in the first three quarters reached RMB158.4 billion, up 37% compared with that period in 2013.

Office sector

All grades

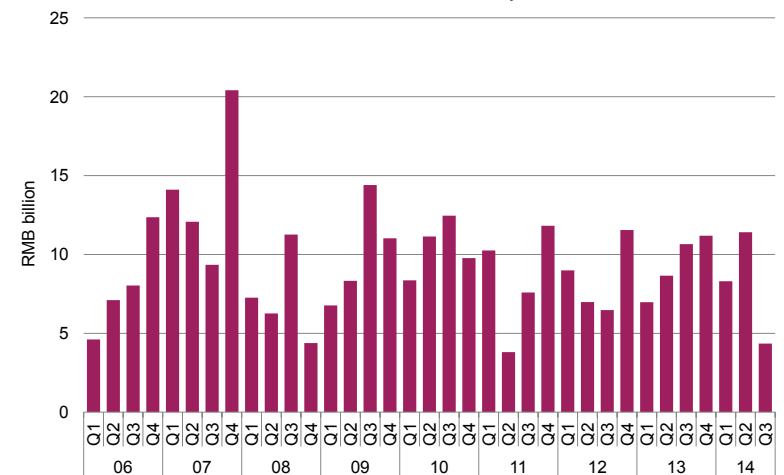
Despite supply growing this quarter, Beijing's first-hand strata-title office transaction volumes and prices continued to fall. Transactions volumes fell 55.3 % QoQ to 186,000 sq m for a total consideration of RMB4.3 billion, down 61.9% QoQ.

The majority of transactions executed this quarter were for projects located in suburban areas, with only 5% of transactions for office projects in the downtown area. By submarket, the Wangjing area continued to be the hottest area in terms of prices for strata-title office buildings, largely attributable to its mature business environment and positive retail ambience. Leading projects transacted in the strata-title sales market included Focus Times Square (方恒时代中心), Poly International Plaza (保利国际广场) and Wangjing Chengying Centre (望京诚盈中心). All these projects are located in the Wangjing area and achieved an average price of RMB49,300 per sq m.

Grade A office market

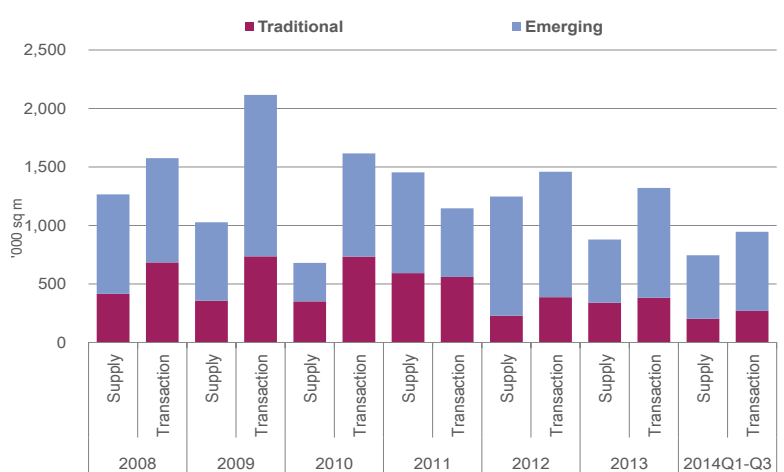
Supported by limited prime investment stock and higher rental levels than other cities, combined with steady demand from both domestic and overseas investors, Beijing landlords' price expectations have continued to strengthen when

GRAPH 1 **First-hand strata-title office sales, Q1/2006–Q3/2014**



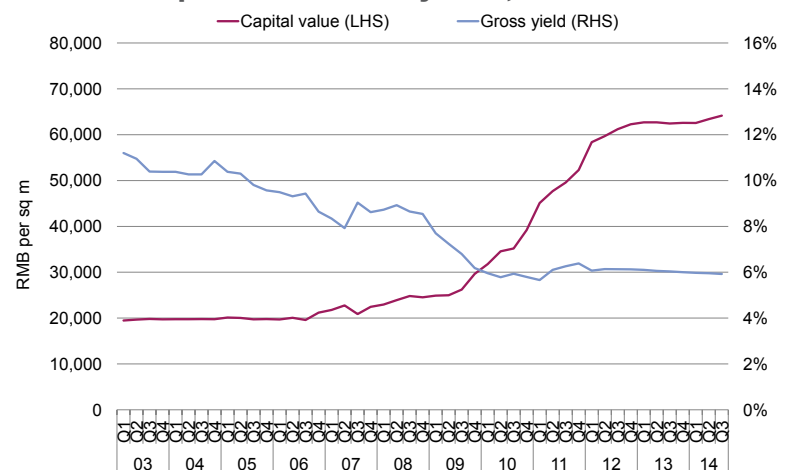
Source: Savills Research & Consultancy

GRAPH 2 **First-hand strata-title office supply by area, 2008–Q3/2014**



Source: Savills Research & Consultancy

GRAPH 3 **Grade A capital values and yields, Q1/2003–Q3/2014**



Source: Savills Research & Consultancy

→ disposing of assets. Reflecting this, Grade A office capital values appreciated by 0.8% QoQ to RMB64,100 per sq m, up 4.3% YoY. While Grade A office rents increased 0.9% QoQ, Grade A office gross reversionary yields compressed by 3 basis points (bps) to 5.93% by the end of the quarter.

Retail sector

Both Beijing's first-hand strata-title office supply and transaction volumes fell significantly, by 68.6% and 55.6% QoQ to 61,700 sq m and 152,500 sq m respectively. As a result, Q3/2014 saw first-hand strata-title retail consideration fall 48.5% QoQ to RMB4.7 billion. The third quarter witnessed only 14% of retail project transactions executed in traditional retail areas. This can be attributed to the majority of landlords choosing to retain their quality retail assets, showing a preference for

long-term rental revenue as opposed to shorter term capital appreciation. By the end of Q3/2014, prime strata-title retail transaction prices fell by 1.5% QoQ to RMB44,900 per sq m, down 1.1% YoY.

En-bloc investment market

Despite the lack of prime investment stock, investors are expected to continue eagerly seeking opportunities in the market. While several projects are currently under negotiation, higher than expected prices may delay the process of transactions.

Nevertheless, the en-bloc sales market continued to witness a pick-up in transaction volumes in the third quarter. Three deals were concluded in the quarter for a total consideration of RMB5.7 billion, bringing YTD total consideration to RMB12.0 billion. En-

bloc transactions this quarter included:

- Hunan TV, a domestic media company, acquired Poly International Plaza Tower 3 from Poly Real Estate for RMB1.37 billion.
- 58.com, a domestic internet company, purchased Electronic Town IT Industrial Park A5 & 1 from Beijing Electronic Town for approximately RMB1.03 billion.
- China Reinsurance, a domestic financial enterprise, purchased Financial Street Guang'an Center Plot C Office from Financial Street Holdings for RMB3.3 billion.

Domestic buyers who have easier access to core assets were the main demand drivers in Q3/2014, all making purchases for self-use. Office developments proved to be the most favoured by investors in the en-bloc sales market, with particular interest

TABLE 1 Major strata-title office projects, Q3/2014

Project	Location	Price (RMB per sq m)	Opening date
Poly Hyde Park 保利海德公园	ZGC	62,000-66,000	Q4/2013
Damei Central Plaza 达美中心	CBD vicinity	52,000-57,000	Q2/2013
Focus Times Square 方恒时代中心	Wangjing	50,000-55,000	Q2/2013
Poly International Plaza 保利国际广场	Wangjing	50,000-53,000	Q2/2013
Wangjing Chengying Centre 望京诚盈中心	Wangjing	44,000-48,000	Q4/2013

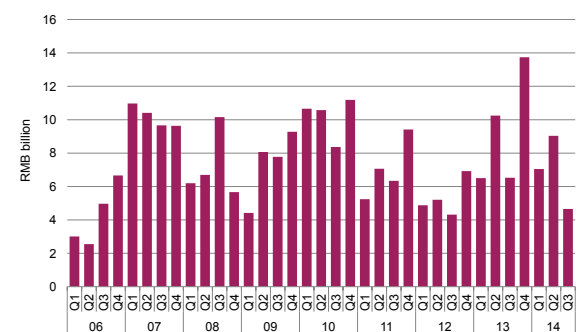
Source: Savills Research & Consultancy

TABLE 2 Major strata-title retail projects, Q3/2014

Project	Location	Price (RMB per sq m)	Opening date
Tongzhou Wanda Plaza 通州万达广场	Tongzhou district	50,000-70,000	Q4/2013
Linkin Park 林肯公园	Daxing district	55,000-60,000	Q4/2012
Thaihot NO.1 Avenue 泰禾·1号街区	Tongzhou district	50,000-60,000	Q4/2013
Nuode Centre 诺德中心	Fengtai district	48,000-53,000	Q4/2011
R&F Plaza 富力城	Chaoyang district	48,000-52,000	Q4/2013

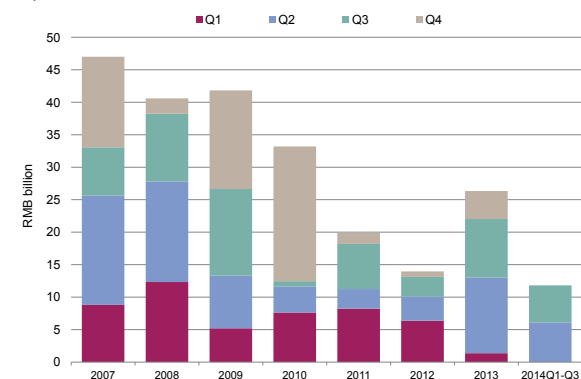
Source: Savills Research & Consultancy

GRAPH 4 First-hand strata-title retail sales, Q1/2006-Q3/2014



Source: Savills Research & Consultancy

GRAPH 5 En-bloc investment volumes, 2007-Q3/2014



Source: Savills Research & Consultancy

in the Wangjing and BFS area.

Land market

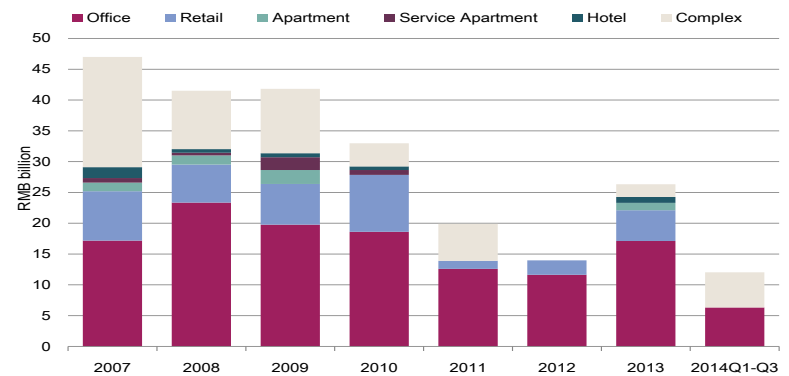
The land market rebounded in the third quarter, reaching a total consideration of RMB46.9 billion, up 29% QoQ. Q3/2014 saw Beijing Huarong Investment acquire the commercially-zoned land-king plot for a total consideration of RMB7.4 billion and accommodation value (AV) of RMB96,000 per sq m. However, echoing the slowdown of the residential sales market, the residential land market remained calm with only seven plots transacted in Q3/2014.

Market outlook

Despite rental compression, steady demand for limited prime investment stock from both domestic and overseas investors is expected to support Grade A office capital values. Grade A office gross yields, as a result, are anticipated to moderately decline to a range of 5.8% to 6% in the last quarter of 2014.

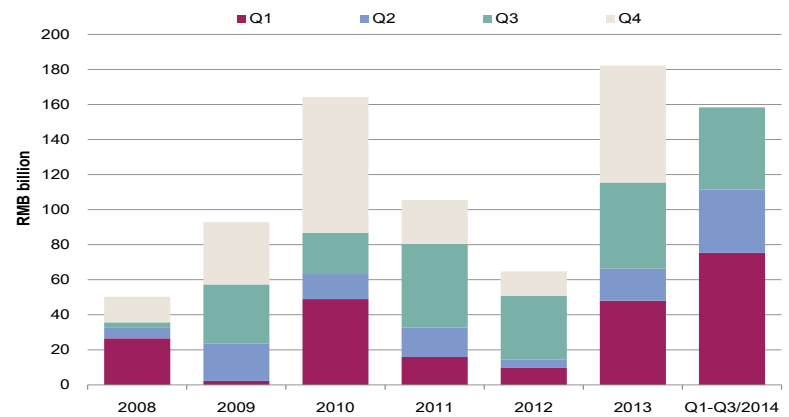
Given Beijing's limited investable stock available for sale, the en-bloc sales market is expected to remain relatively quiet in Q4/2014. ■

GRAPH 6 En-bloc investment volumes by property type, 2007–Q3/2014



Source: Savills Research & Consultancy

GRAPH 7 Land transaction volumes, 2008–Q3/2014



Source: Savills Research & Consultancy

TABLE 3 Major en-bloc transactions, Q3/2014

Project	Poly International Plaza Tower 3 (保利国际广场3座)	Electronic Town IT Industrial Park A5& 1 电子城IT产业园A5号楼、1号楼	Financial Street Guang'an Center Plot C Office (金融街广安中心C地块写字楼)
Buyer	Hunan TV	58.com	China RE
Seller	Poly Real Estate	Beijing Electronic Zone Investment & Development	Financial Street Holdings
Property type	Office	Office	Office
Location	Wangjing	Jiuxianqiao	BFS
Purchased area (sq m)	23,300	45,000	56,140
Sales volume (RMB million)	1,370	1,033	3,300
Unit price (RMB per sq m gross)	59,000	23,000	59,000
Purchaser nationality	Domestic	Domestic	Domestic
Usage	Self-use	Self-use	Self-use
Deal structure	Asset	Asset	Asset

TABLE 4
Major land transactions, Q3/2014

Plot	Location	Planned GFA (sq m)	Consideration (RMB million)	Usage	Accommodation value (RMB per sq m)	Buyer
Huajia hu tong plot	Xicheng district	117,708	7,460	Commercial-zoned plot	63,400	Jinjia Real Estate
Liu niang fu plot	Shijingshan district	151,706	4,920	Residential-zoned plot	32,400	Dejun Real Estate & Ao chen Real Estate
Fengtai Nanyuan plot	Fengtai district	205,093	4,220	Residential-zoned plot	20,600	Tianheng & BFS Chang'an Real Estate
Shunyi new city plot	Shunyi district	100,124	2,930	Residential-zoned plot	29,300	Shunyi New City Real Estate
Changping Shahe plot	Changping district	82,754	2,330	Residential-zoned plot	28,200	RuiKun Real Estate

Source: Savills Research & Consultancy

Please contact us for further information

Savills Research



James Macdonald
 Director, China
 +8621 6391 6688
james.macdonald@savills.com.cn

Savills Beijing Research & Consultancy



Joan Wang
 Director
 +8610 5925 2042
joan.wang@savills.com.cn

Savills Agency



Anthony McQuade
 Senior Director
 +8610 5925 2002
anthony.mcquade@savills.com.cn

Savills Investment



Grant Ji
 Senior Director
 +8610 5925 2088
grant.ji@savills.com.cn

Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 500 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.