

Briefing Sales and investment

February 2015



Image: EC Mall, ZGC area, Haidian district

SUMMARY

The en-bloc sales market remained active in terms of transaction volumes in the fourth quarter, with four deals concluded for a total consideration of RMB8.8 billion.

■ Grade A office capital values largely stabilised at an average of RMB64,300 per sq m by the end of 2014, up 4.5% year-on-year (YoY).

■ Grade A office gross reversionary yields compressed by 0.36 of a percentage point (ppt) to 5.57% by the end of 2014.

■ The first-hand, strata-title office market witnessed increased activity in transaction volumes in Q4/2014, with total consideration growing 78% YoY to RMB20 billion, nearly four times more than last quarter.

■ The en-bloc sales market was active in the fourth quarter of 2014,

with the conclusion of four deals for a total consideration of RMB8.8 billion. As a result, a total of nine deals were closed in 2014, contributing a total consideration of RMB20.6 billion, the second highest level since 2011.

■ Steady demand from both domestic and overseas investors for limited prime investment stock is expected to support Grade A office capital values. As a result, Grade A office gross yields are anticipated to continue the trend of moderately declining over the next year.

■ Despite the active performance of the en-bloc sales market in 2014, limited investable stock available for

sale in Beijing is expected to see the market remain relatively calm in 2015.

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 “Despite a slowdown in the residential market, 2014 year-on-year results reached a landmark high in Beijing, with land transaction consideration reaching a total of RMB191.1 billion.” Joan Wang, Savills Research

➔ **Market commentary**

Beijing's en-bloc sales market remained active in the fourth quarter with four deals concluded: Financial Street Guang'an Centre Plot D Office Building was acquired by China Taiping Insurance Group Ltd; Arca Building was acquired by Mapletree; EC Mall was acquired by Carlyle Group; and Fraser Residence was acquired by Ruicheng Capital. The deals saw a total consideration of RMB8.8billion. Nine deals were closed in 2014, contributing a total consideration of RMB20.6 billion, the second highest level since 2011.

The land market stayed active with Q4/2014 reaching a total consideration of RMB32.8 billion, down 30% quarter-on-quarter (QoQ). However, 2014 YoY results achieved a landmark high in Beijing, with land transaction consideration reaching a total of RMB191.1 billion.

Office sector

All grades

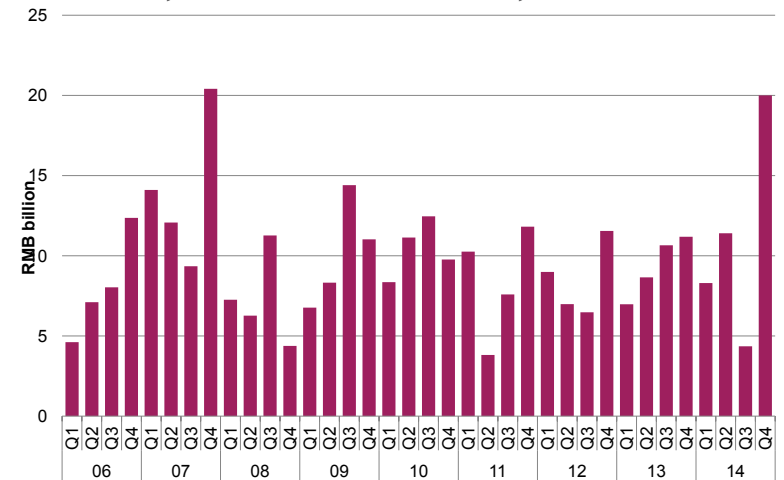
Supported by the good performance of several prime projects, the first-hand, strata-title office market witnessed increased activity in transaction volumes in Q4/2014, with total consideration growing 78% YoY to RMB20 billion, nearly four times more than last quarter. The performance was largely attributed to: Financial Street Yuetan Centre (金融街月坛中心) located in Beijing Financial Street; Central Park Plaza (中央公园广场) in the Lufthansa area; and Poly Hyde Park (保利海德公园) located in North Third Ring Road. These three projects contributed the largest proportion of transaction volumes in the quarter.

As a result, first-hand transaction prices in the fourth quarter achieved an average of RMB33,500 per sq m, up 43% QoQ and 25% YoY.

The Wangjing area remained the hottest location for the first-hand, strata-title office market. The area recorded average first-hand transaction prices of RMB51,000 per sq m in the last quarter, up 2.4% QoQ. Average prices of leading projects in the strata-titled sales market, such as Poly International Plaza Towers 1 and 2 (保利国际广场1, 2座) and Focus Times Square (方恒时代中心), ranged from RMB49,000 per sq m to RMB54,000 per sq m.

GRAPH 1

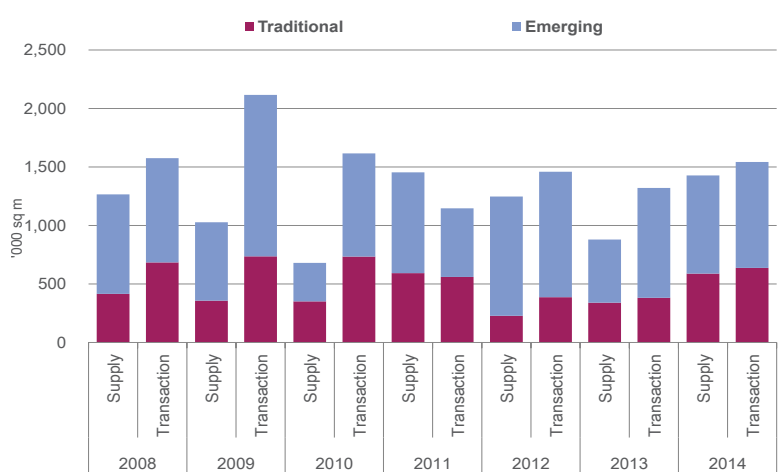
First-hand, strata-title office sales, 2006-2014



Source: Savills Research & Consultancy

GRAPH 2

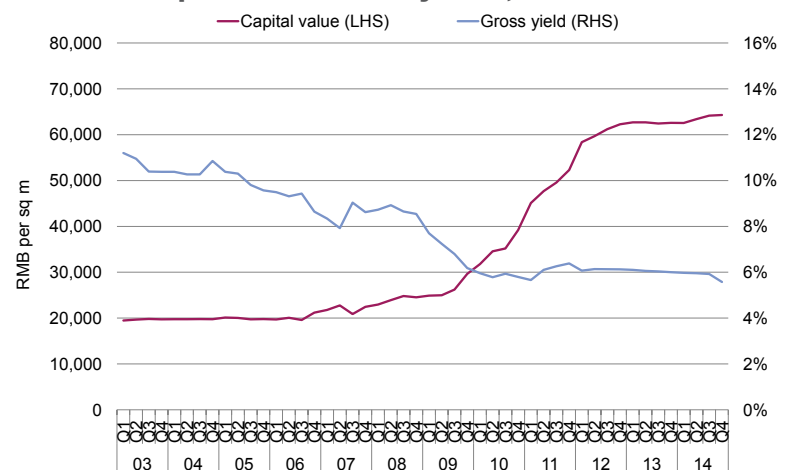
First-hand, strata-title office supply by area, 2008-2014



Source: Savills Research & Consultancy

GRAPH 3

Grade A capital values and yields, Q1/2003-Q4/2014



Source: Savills Research & Consultancy

→ **Grade A office market**

Grade A office capital values remained stable in the fourth quarter at an average of RMB64,300 per sq m, up 4.5% YoY. This was largely supported by limited prime investable stock in the locality, and strong demand from both domestic and overseas investors. However, Grade A office gross reversionary yields fell 0.36 of a ppt to 5.57% by the end of Q4/2014, down 0.43 of a ppt YoY, as Grade A office rents increased 2.2% QoQ to RMB317.1 per sq m per month by the end of this quarter.

Retail sector

Echoing the performance of the first-hand, strata-title retail market, first-hand strata-title retail consideration was also positive, rising 53% QoQ to RMB7.1 billion in Q4/2014. As a result, the total consideration reached RMB27.8 billion in 2014 YTD. Despite there being an increase in transaction consideration, 90% of projects are located in non-prime areas, of which 80% are comprised of retail podiums.

En-bloc investment market

Investors were eagerly seeking opportunities and the en-bloc sales market still remained active in transaction volumes in the fourth quarter, despite the lack of prime investment stock.

Four deals were concluded in the quarter for a total consideration of RMB8.8 billion, bringing YTD total consideration to RMB20.6 billion.

En-bloc transactions this quarter included:

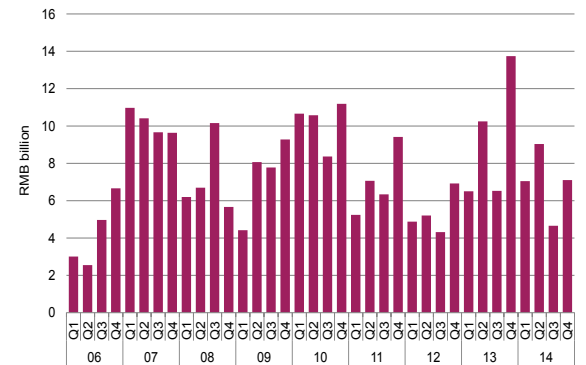
- China Taiping Insurance Group Ltd, a domestic insurance company, acquired Financial Street Guang'an Centre Plot D Office Building from Financial Street Holdings for RMB5.02 billion.
- Mapletree, an overseas fund, purchased the Arca Building for approximately RMB420 million.
- Carlyle Group, an overseas investment company, purchased EC Mall from HSBC NF China for RMB2.4 billion.
- Ruicheng Capital, a domestic investment company, purchased Fraser Residence for approximately RMB950million.

In terms of sales volume, while overseas corporations were active in concluding two transactions in Q4/2014, domestic buyers continued to be the demand drivers. Office projects continued to be the most favourable properties for investors, accounting for 56% of the total consideration.

Land market

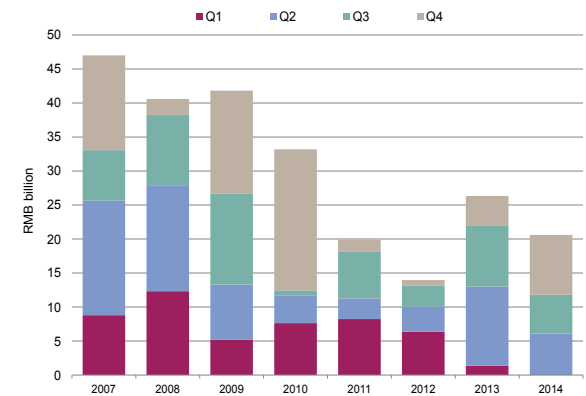
Despite a slowdown in the residential market in 2014, the land market remained active, with Q4/2014 achieving a total consideration of RMB32.8 billion, down 30% QoQ. However, 2014 YoY results reached a landmark high in Beijing, with land transaction consideration reaching a total of RMB191.1billion. The majority of Q4/2014 transactions were residential plots, accounting for 80% of all deals.

GRAPH 4 **First-hand, strata-title retail sales, Q1/2006–Q4/2014**



Source: Savills Research & Consultancy

GRAPH 5 **En-bloc investment volumes, 2007-2014**



Source: Savills Research & Consultancy

TABLE 1 **Major first-hand strata-title office projects in Q4/2014**

Project	Central Park Plaza	Poly Hyde Park	Financial Street Yuetan Centre	Poly International Plaza (T2&3)
Location	Lufthansa	North 3rd Ring Road	BFS	Wangjing
Opening date	June 2014	December 2013	October 2014	June 2013
Completion date	2016	2015	2015	2014
GFA (sq m)	84,000	24,889	186,000	55,000
Price (RMB/sq m)	100,000-120,000	60,000-80,000	60,000-80,000	55,000-65,000
Developer	Junhao Holdings	Poly	Financial Street Holdings	Poly

Source: Savills Research & Consultancy

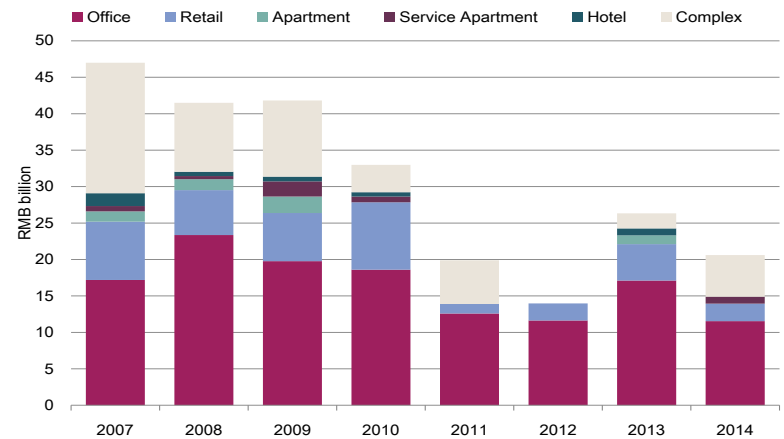
The land market is expected to continue to see active performance in early 2015. The anticipated activity is largely attributed to the government issuing a series of policies aimed at stimulating the market, along with developers holding the belief that risk is significantly lower in first-tier cities and choosing to invest accordingly. The confidence of developers is already evident, with January 2015 seeing two major residential plot transactions in the Yuquanying area. A cooperative effort between China Resources, Merchants, Wharf Holdings and Ping An Real Estate, saw the group execute two transactions for a recorded total consideration of RMB4.2 billion and RMB4.5 billion.

Market outlook

Steady demand from both domestic and overseas investors for limited prime investment stock is expected to support Grade A office capital values despite further rental compression. As a result, Grade A office gross yields are anticipated to continue the trend of moderately declining over the next year.

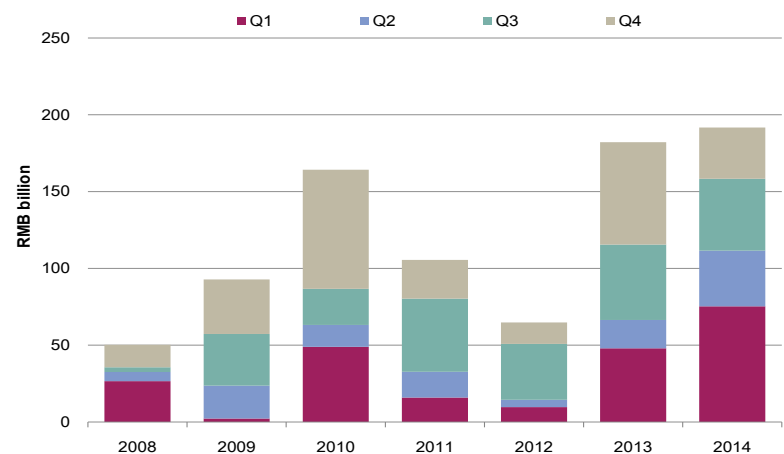
Despite the active performance of the en-bloc sales market in 2014, limited investable stock available for sale in Beijing is expected to see the en-bloc sales market remain relatively calm in 2015. ■

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



Source: Savills Research & Consultancy

GRAPH 7 Land transaction volumes, 2008-2014







Source: Savills Research & Consultancy

TABLE 2 Major strata-title retail projects in Q4/2014

Project	Tongzhou Wanda Plaza	Thaihot NO.1 Avenue	Nuode Centre
Location	Tongzhou district	Tongzhou district	Fengtai district
Opening date	Q4 2013	Q4 2013	Q4 2011
Price (RMB/sq m)	55,000-70,000	50,000-55,000	50,000-60,000
Developer	Wanda	Thaihot	CREC

Source: Savills Research & Consultancy

TABLE 3
Major en-bloc transactions, Q4/2014

Project	Financial Street Guang'an Centre Plot D Office Building	Arca Building	EC Mall	Fraser Residence
				
Buyer	China Taiping Insurance Group Ltd	Mapletree	Carlyle Group	Ruicheng Capital
Seller	BFS Holdings	Arca Technology	HSBC NF China	JP Morgan
Property type	Office	Office	Retail	Serviced Apartment
Location	BFS	Shangdi	ZGC	CBD
Purchased area (sq m)	87,800	15,000	52,471	26,967
Sales volume (RMB million)	5,019	420	2,400	950
Unit price (RMB per sq m)	58,000	28,000	46,000	35,000
Purchaser nationality	Domestic	Overseas	Overseas	Domestic
Usage	Lease/Self-use	Lease	Lease	Lease/strata-title sales
Deal structure	Asset	Offshore equity	Offshore equity	Offshore equity

Source: Savills Research & Consultancy

TABLE 4
Major land transactions, Q4/2014

Plot	Location	Planned GFA (sq m)	Consideration (RMB billion)	Usage	Accommodation value (RMB per sq m)	Buyer
Haidian Taipingzhuang plot	Haidian district	16,316	0.6	Residential zoned plot	37,700	Gemdale
Fengtai Changxindian A plot	Fengtai district	129,615	2.6	Residential zoned plot	27,000	Jinyu & Fang di
Fengtai Changxindian B plot	Fengtai district	93,545	1.8	Residential zoned plot	25,000	Jinyu & Fang di
Dongba plot	Chaoyang district	56,369	1.4	Residential zoned plot	24,500	Fuxing Group
Laogucheng plot	Shijingshan district	334,883	5.9	Residential zoned plot	24,200	China Overseas

Source: Savills Research & Consultancy

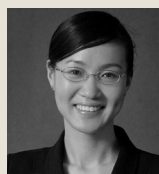
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