

Briefing Sales and investment

April 2015



Image: Central Park Plaza, Lufthansa, Chaoyang District

SUMMARY

Despite the residential market being relatively cool over the past year, strong interest in land acquisition in the capital city was seen this quarter, emphasising the strategic importance of the Beijing market for developers.

- Grade A office capital values largely stabilised at an average of RMB67,600 per sq m by the end of the first quarter, up 9.1% year-on-year (YoY).

- Grade A office gross reversionary yields compressed by 2.0 basis points (bps) to 5.55% by the end of Q1/2015.

- The first-hand, strata-title office market witnessed a slowdown in transaction volumes in Q1/2015, with total consideration decreasing 86.4% YoY to RMB2.7 billion.

- The en-bloc sales market was active in the first quarter of 2015, with the conclusion of two deals for a total

- consideration of RMB5.4 billion. Another deal signed in early April has brought year-to-date (YTD) total consideration to RMB6.7 billion.

- Despite rental compression, 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 moderately decline over the remainder of this year.

- Limited investable stock available for sale in Beijing is expected to see the market remain relatively calm for the remaining nine months of 2015.

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 “Despite the residential market being relatively cool over the past year, strong interest in land acquisition in the capital city was seen this quarter, emphasising the strategic importance of the Beijing market for developers.”
 Joan Wang, Savills Research

➔ **Market commentary**

Beijing's en-bloc sales market picked up in the first quarter with two deals concluded: CBD Ascott was acquired by Fantian Investment, and EC Mall was acquired by The Link REIT. The two deals saw a total consideration of RMB5.4 billion. Other deals saw Poly International Plaza acquired by a domestic company in early April for RMB1.3 billion.

The land market continued to remain active in Q1/2015, with total consideration achieving RMB48.4 billion, although this is down 36% quarter-on-quarter (QoQ).

Office sector

All grades

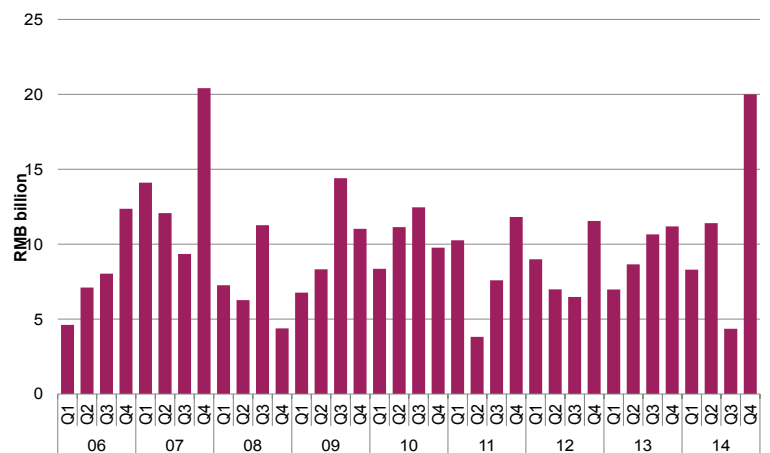
Unsurprisingly, given the traditional slow season marked by the Chinese New Year period, Beijing's first-hand, strata-title office transaction volumes and prices witnessed a slowdown during the first quarter. Transactions volumes fell 80.2% QoQ to 117,600 sq m for a total consideration of RMB2.7 billion, down 86.4% QoQ. Of the deals concluded, 95% were located within emerging areas.

The Wangjing area remained the hottest location for the first-hand, strata-title office market, recording average first-hand transaction prices of RMB48,000 per sq m in the first quarter, down 5.9% QoQ. Average prices of leading projects in the strata-titled sales market, such as Focus Times Square (方恒时代中心), ranged from RMB48,000 per sq m to RMB53,000 per sq m.

Grade A office market

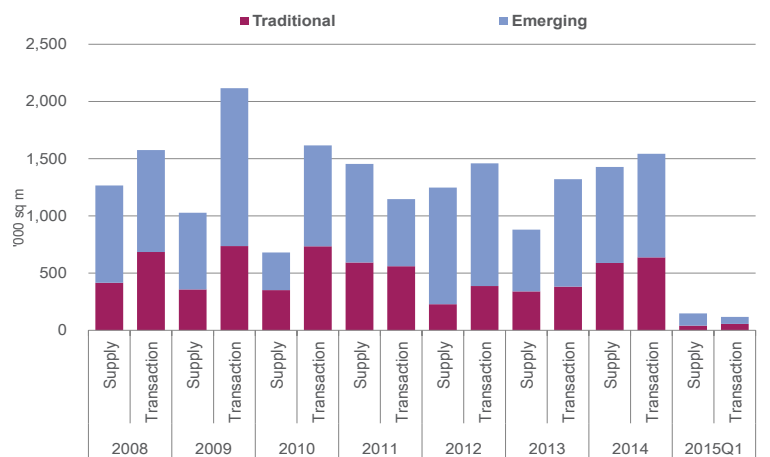
Supported by limited prime investment stock and steady demand from both domestic and overseas investors, Beijing's Grade A office

GRAPH 1 **First-hand, strata-title office sales, Q1/2006-Q1/2015**



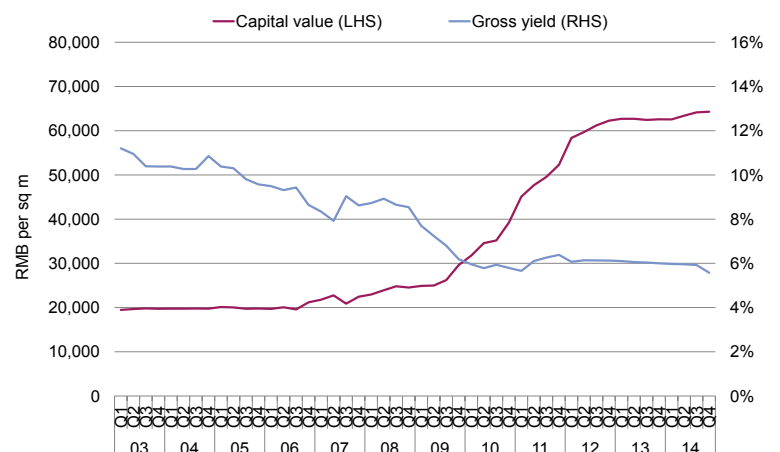
Source: Savills Research & Consultancy

GRAPH 2 **First-hand, strata-title office supply by area, 2008-Q1/2015**



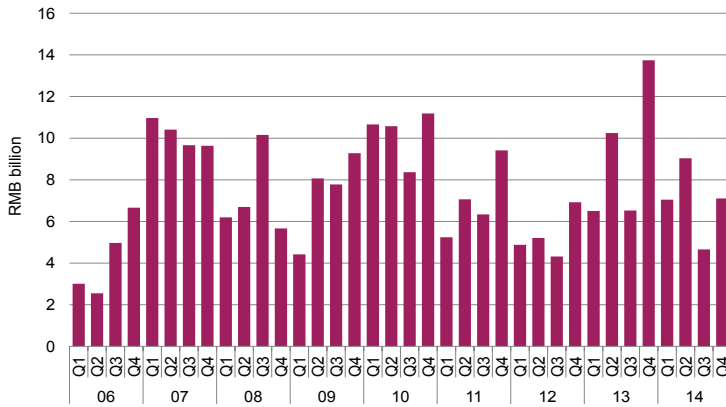
Source: Savills Research & Consultancy

GRAPH 3 **Grade A capital values and yields, Q1/2007-Q1/2015**



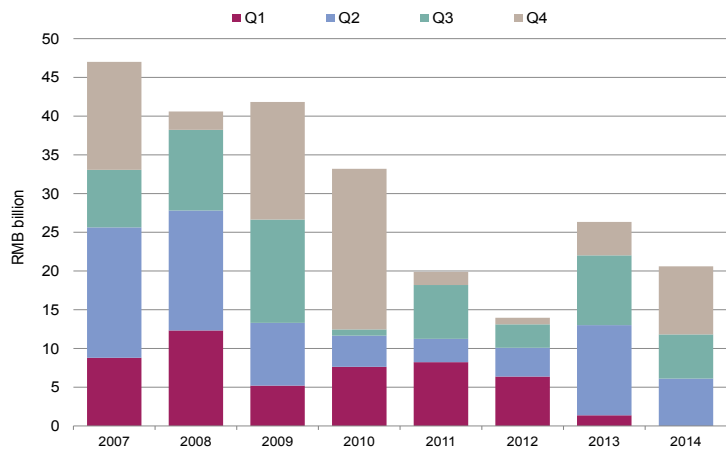
Source: Savills Research & Consultancy

→ GRAPH 4 **First-hand, strata-title retail sales, Q1/2006–Q1/2015**







Source: Savills Research & Consultancy

GRAPH 5 **En-bloc investment volumes, 2007-Q1/2015**



Source: Savills Research & Consultancy

TABLE 1 **Major first-hand, strata-title office projects in Q1/2015**

Project	Central Park Plaza	Poly Hyde Park	Damei Central Plaza	Focus Times Square
				
Location	Lufthansa	North 3rd Ring Road	CBD vicinity	Wangjing
Opening date	Q2/2014	Q4/2013	Q1/2013	Q2/2013
Completion date	2016	2015	2015	2015
GFA (sq m)	84,000	24,889	94,045	39,104
Price (RMB/sq m)	100,000-120,000	65,000-80,000	50,000-60,000	45,000-55,000
Developer	Junhao Holdings	Poly Real Estate Group	Damei Investment	Focus Real Estate

Source: Savills Research & Consultancy

capital values grew 4.7% QoQ to an average of RMB67,600 per sq m by the end of Q1/2015. As Grade A office rents increased by just 0.6% QoQ, Grade A office gross reversionary yields continued to compress by 2 bps to 5.55%.

Retail sector

Echoing the performance of the first-hand, strata-title office market, the first-hand, strata-title retail market also witnessed a slowdown in terms of performance, with total consideration decreasing 59.4% QoQ to RMB3.8 billion in Q1/2015. Non-prime areas dominated 85% of transactions, of which nearly 80% were retail podiums within residential projects.

En-bloc investment market

Despite limited available prime investable stock, investors continued to eagerly seek out opportunities within the market. As a result the en-bloc sales market continued to remain active in terms of transaction volumes during the first quarter.

Two deals were concluded during the quarter for a total consideration of RMB5.4 billion. This included Fantian Investment, a domestic investment company, acquiring Ascott CBD Beijing from China Merchants Group for RMB2.9 billion and The Link REIT, an overseas investment company, purchasing EC Mall for approximately RMB2.5 billion.

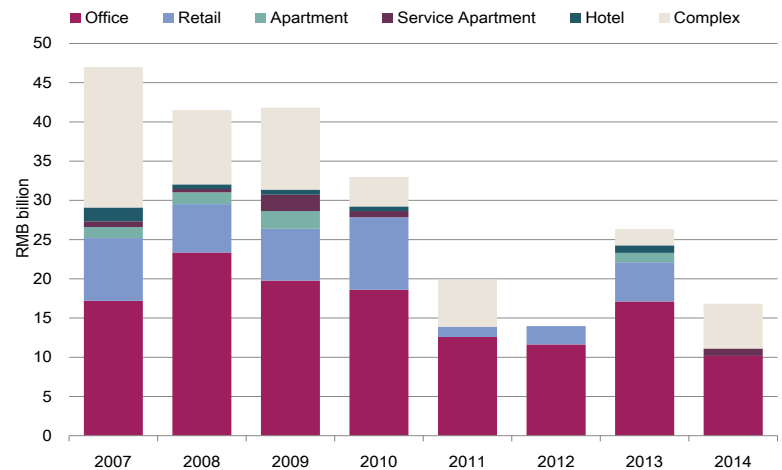
Other news saw an important en-bloc deal close in early April. The deal saw domestic company Beijing Enterprises Water Group (BEWG) purchase Poly International Plaza T3 for RMB1.3 billion from Poly Real Estate Group. As a result, total YTD transaction volumes in 2015 reached RMB6.7 billion, accounting for approximately one-fifth of last year's total.

In terms of sales volume, overseas corporations were active in this quarter, however, domestic companies continued to be the main driver of demand. A shift in the market was seen in the traditional dominance of office projects in the market, with serviced apartments and retail projects concluding the majority of details in 2015 YTD.

Land market

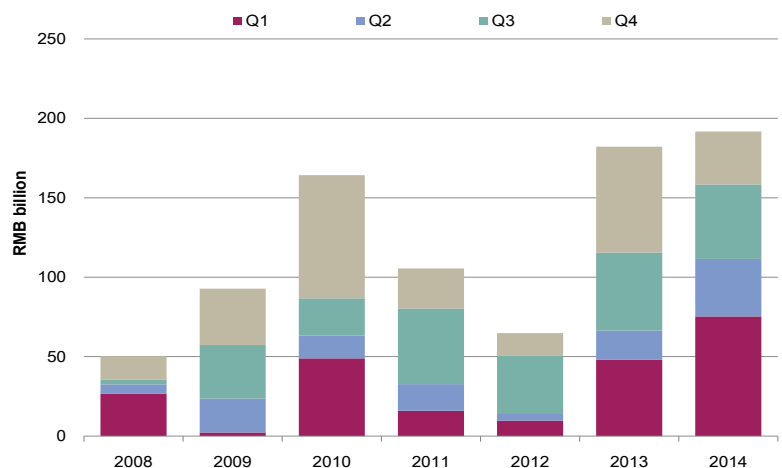
Beijing land market transaction volumes decreased 36% YoY to RMB48.4 billion. Despite the residential market being relatively cool over the past year, strong interest in land acquisition in the capital city was seen this quarter, emphasising the strategic importance of the Beijing market for developers. As a result, residential land plots contributed nearly 60% of total transaction volumes, with notable deals including three land plots located in the Fengtai district, two of which were acquired

GRAPH 6 En-bloc investment volumes by property type, 2007-Q1/2015



Source: Savills Research & Consultancy

GRAPH 7 Land transaction volumes, 2008-Q1/2015



Source: Savills Research & Consultancy



through joint acquisitions, for a total price of RMB17.3 billion.

Market outlook

Despite rental compression, 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 moderately decline over the remainder of this year.


Limited investable stock available for sale in Beijing is expected to see the market remain relatively calm for the remaining nine months of 2015. ■

TABLE 2
Major strata-title retail projects in Q1/2015

Project	Meijing Dongfang	Poly International Plaza
		
Location	Chaoyang district	Wangjing
Property type	Residential retail podium	Office retail podium
Opening date	Q4/2003	Q2/2013
Price (RMB/sq m)	75,000-85,000	70,000-80,000
Developer	Dayixingye Real Estate	Poly Real Estate

Source: Savills Research & Consultancy

TABLE 3
Major en-bloc transactions, 2015YTD

Project	Ascott CBD Beijing	EC Mall	Poly International Plaza T3
			
Buyer	Fantian Investment	The Link REIT	BEWG
Seller	China Merchants Group	HSBC NF China	Poly Real Estate
Property type	Serviced apartment	Retail	Office
Location	CBD	ZGC	Wangjing
Purchased area (sq m)	64,107	52,471	23,300
Sales volume (RMB million)	2.9	2.5	1.33
Unit price (RMB per sq m)	45,000	47,600	57,000
Purchaser nationality	Domestic	Overseas	Domestic
Usage	Lease	Lease	Self-use

Source: Savills Research & Consultancy

TABLE 4
Major land transactions, Q1/2015

Plot	Location	Planned GFA (sq m)	Consideration (RMB billion)	Usage	Accommodation value (RMB per sq m)	Buyer
Chaoyang Taiyanggong plot	Chaoyang district	9,543	1.7	Residential zoned plot	46,300	Greenland
Changping Qijiazhen plot	Chaoyang district	63,081	4.49	Residential zoned plot	28,100	China Merchants& China Resource& Ping'an Real Estate
West Yalin plot	Fengtai district	27,393	1.37	Residential zoned plot	28,000	Future Tech Cityi
West Yalin plot	Fengtai district	105,853	4.2	Residential zoned plot	23,500	China Merchants& China Resource& Ping'an Real Estate
Huaxiang Baipenyao plot	Fengtai district	155,676	8.63	Residential zoned plot	20,600	China Merchants& Beijing Capital& Ping'an Real Estate

Source: Savills Research & Consultancy

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