

Briefing Sales and investment

November 2015



Image: Guoson Centre, Dongcheng district

SUMMARY

The en-bloc sales market witnessed a pickup in activity in Q3/2015, with two deals concluded for a total consideration of RMB11.8 billion.

- Grade A office capital values continued to rise to an average of RMB69,700 per sq m in Q3/2015, up 0.3% quarter-on-quarter (QoQ) and 7.8% year-on-year (YoY).
- Grade A office gross reversionary yields further narrowed by 2 basis points (bps) to 5.50% by the end of Q3/2015.
- Both first-hand, strata-title office and retail markets witnessed a spike in transaction volumes in Q3/2015, with total consideration increasing 47.5% QoQ to RMB14.96 billion and 158.4% QoQ to RMB8.1 billion respectively.
- The en-bloc sales market was active in the third quarter of 2015, with the conclusion of two deals for a total consideration of RMB11.8 billion. With seven deals already concluded this year, the year-to-date (YTD) total transaction consideration reached RMB19.5 billion, surpassing last year's total.
- Given the positive performance of the residential market over the past six months, Beijing continues to be considered one of the most important strategic markets by most developers. As a result, land transactions increased 78.9% QoQ to RMB35.9 billion in the third quarter of 2015.

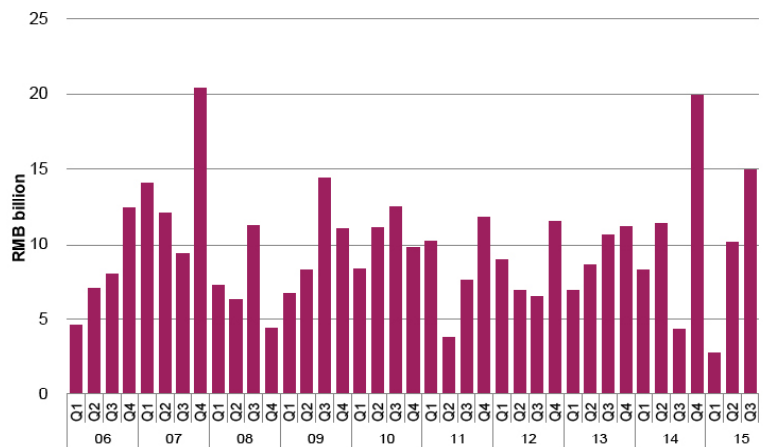
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 “Strong interest in land acquisition in the capital city was seen this quarter, emphasising the strategic importance of the Beijing market for developers.” Jack Xiong, Savills Research & Consultancy

➔ **Market commentary**

Beijing's en-bloc sales market witnessed a pickup in activity in the third quarter of 2015, with two deals concluded: HP Tower (8F–18F) was acquired by Foresea Life Insurance, and Guoson Centre was acquired by China Cinda Asset Management. The two deals saw a total consideration of RMB11.8 billion. With seven deals concluded this year, the YTD total transaction consideration reached RMB19.5 billion, already surpassing last year's total.

Strong performance of the residential market over the past six months saw the land market witness increased

GRAPH 1 **First-hand, strata-title office sales, Q1/2006–Q3/2015**

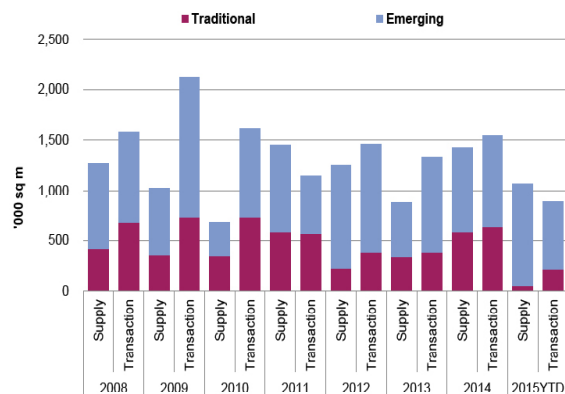


Source: Savills Research & Consultancy

activity in Q3/2015, with land transactions increasing 78.9% QoQ to RMB35.9 billion.

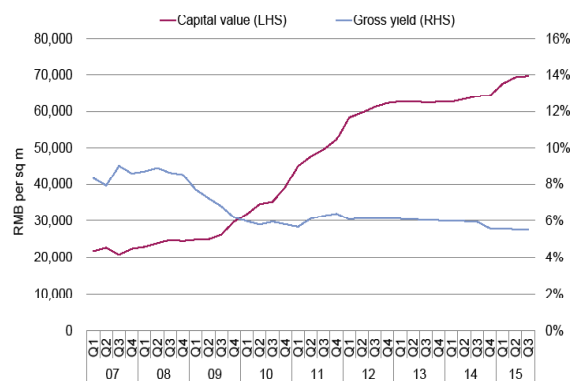
(金融街月坛中心) located in BFS district, all achieving an average price of greater than RMB60,000 per sq m.

GRAPH 2 **First-hand, strata-title office supply and transaction by area, 2008–Q3/2015**



Source: Savills Research & Consultancy

GRAPH 3 **Grade A capital values and yields, Q1/2007–Q3/2015**



Source: Savills Research & Consultancy

Office sector

All grades

The total value of Beijing's first-hand, strata-title office sales increased 47.5% QoQ to RMB14.96 billion during the third quarter of 2015. Landlords of projects located in traditional business areas have continued to display a reluctance to sell; as a result, both supply and transaction volumes in these areas have experienced a sharp decline. Transactions in traditional business areas only reached 224,000 sq m YTD, accounting for 25% of total transactions in the period; while supply only reached 49,000 sq m YTD, accounting for less than 5% of total supply in the period.

Given the limited level of supply in core areas, the average transaction prices of prime projects continued to remain high in the third quarter of 2015, with leading projects Central Park Plaza (中央公园广场) located in Lufthansa district, Shoujian Financial Centre (首建金融中心) located in Xizhimen district and Yuetan Centre

Grade A office market

Supported by limited prime investment stock and steady demand from both domestic and overseas investors, Grade A office capital values continued to rise to an average of RMB69,700 per sq m in Q3/2015, up 0.3% QoQ and 7.8% YoY. As a result, Grade A office gross reversionary yields further narrowed by 2 bps to 5.50% by the end of Q3/2015.

Retail sector

Echoing the performance of the office market, the first-hand, strata-title retail market also witnessed a pickup in terms of performance, with total consideration increasing 158.4% QoQ to RMB8.1 billion in Q3/2015.

En-bloc investment market

The silence in the en-bloc sales market was broken in the third quarter, with two deals concluded for a total consideration of RMB11.8 billion. With seven deals already concluded this year, YTD total

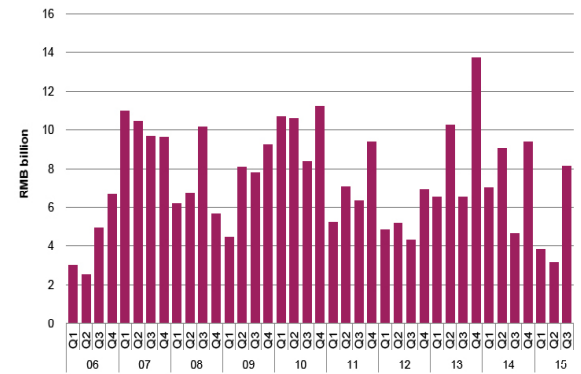
→ transaction consideration reached RMB19.5 billion, surpassing last year's total.

HP Tower (8F–18F) in CBD district was acquired by Foresea Life, a domestic insurance company, for a total consideration of around RMB1.3 billion. A reflection of the limited availability of prime investment stock in core areas, the asset traded at a 54% premium compared to what the previous owner, Starcrest, purchased it for in 2013.

Guoson Centre, a mixed-use development in Dongzhimen district, was acquired by China Cinda Asset Management for a total consideration of RMB10.5 billion, marking the largest deal in terms of consideration witnessed in the past decade. Boasting a total GFA of 510,000 sq m, the project includes office, retail, residential and hotel facilities. Plagued by property disputes and legal battles, the project only briefly opened a section of its retail arm in 2012.

GRAPH 4





First-hand, strata-title retail sales, Q1/2006–Q3/2015



Source: Savills Research & Consultancy

TABLE 1


Major first-hand, strata-title office projects in Q3/2015

Project	Central Park Plaza (中央公园广场)	Shoujian Financial Centre (首建金融中心)	Damei Central Plaza (达美中心)	Thaihot Chang'an Centre (泰禾长安中心)
				
Location	Lufthansa	Xizhimen	CBD vicinity	Shijingshan
Launch date	Q2/2014	Q3/2014	Q2/2013	Q3/2015
Handover date	2016	2015	2015	2015
GFA (sq m)	84,000	19,693	94,045	137,316
Price (RMB/sq m)	85,000–100,000	75,000–80,000	55,000–60,000	45,000–50,000
Developer	Junhao Holdings	Beijing Keyuan	Damei Investment	Thaihot

Source: Savills Research & Consultancy

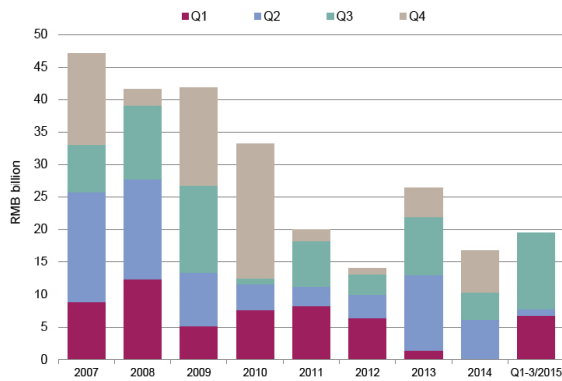
TABLE 2

Major strata-title retail projects in Q3/2015

Project	Poly Hyde Park (保利海德公园)	Tongzhou R&F Centre (通州富力中心)	Glory Centre (中国铁建耀中心)
			
Location	North Third Ring Road	Tongzhou district	Shijingshan district
Property type	Residential retail podium	Residential retail podium	Office retail podium
Launch date	Q4/2013	Q3/2015	Q3/2014
Price (RMB/sq m)	110,000–120,000	60,000–65,000	53,000–55,000
Developer	Poly Real Estate	R&F Properties	China Railway Construction

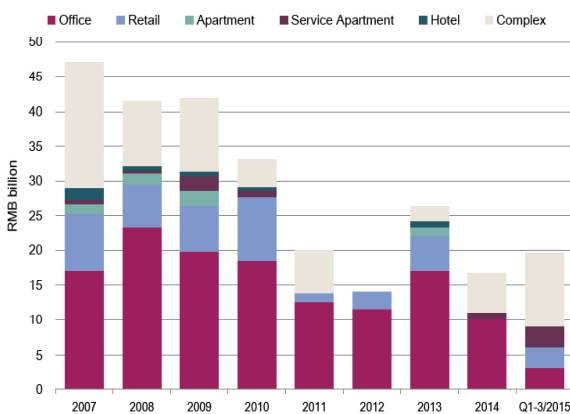
Source: Savills Research & Consultancy

GRAPH 5
En-bloc investment volumes, 2007–Q3/2015



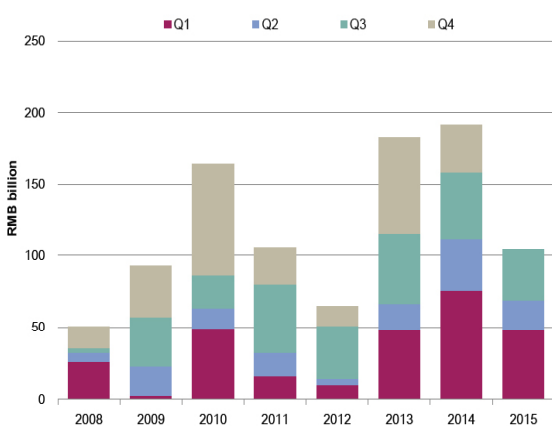
Source: Savills Research & Consultancy

GRAPH 6
En-bloc investment volumes by property type, 2007–Q3/2015



Source: Savills Research & Consultancy

GRAPH 7
Land transaction volumes, Q1/2008–Q3/2015



Source: Savills Research & Consultancy

TABLE 3
Major en-bloc transactions, Q3/2015

Project	HP Tower (8F – 18F) (中国惠普大厦 - 8-18层)	Guoson Centre (国盛中心)
Buyer	Foresea Life Insurance	China Cinda Asset Management
Seller	Starcrest Capital Partners	Guocoland
Property type	Office	Mixed-use (office, retail, residential and hotel)
Location	CBD	East Second Ring Road
Purchased area (sq m)	21,830	510,000
Sales volume (RMB billion)	1.3	10.5
Unit price (RMB per sq m)	60,000	20,600
Purchaser nationality	Domestic	Domestic
Usage	Lease	Lease (office, retail and hotel)/ sale (residential)

Source: Savills Research & Consultancy

Domestic companies dominated demand this quarter, responsible for all acquisitions recorded. Amid a slowing retail market, office projects located in core areas continued to be the most favoured properties by investors.

Land market

Beijing's land market transaction volumes increased 78.9% QoQ to RMB35.9 billion. Returning consumer confidence in the residential market, combined with Beijing continuing to be viewed as one of the most strategically important markets, has resulted in strong interest in land acquisition in the capital. As a result, residential land plots accounted for the majority of total transaction volumes, and the most notable deal of the quarter was the Sunhe plot located in Chaoyang district being

acquired through a joint acquisition for a total consideration of RMB6.48 billion.

Market outlook

Limited prime investment stock, combined with steady demand from both domestic and overseas investors, is expected to support Grade A office capital values despite further rental compression. As a result, Grade A office gross yields are anticipated to decline moderately in the last quarter of 2015.

Despite there being a pickup in activity in the en-bloc sales market in Q3/2015, in light of the limited investable stock available for sale in Beijing, the en-bloc sales market is expected to remain relatively calm in the last quarter of 2015. ■

TABLE 4
Major land transactions, Q3/2015

Plot	Location	Planned GFA (sq m)	Usage	Consideration (RMB billion)	Accommodation value (RMB per sq m)	Buyer
Dongba plot	Chaoyang district	159,783	Residential	4.25	60,000	Poly & Beijing Capital Development & Longfor
Sunhe plot	Chaoyang district	143,685	Residential	6.48	56,000	Poly & Beijing Capital Development
Shiliuzhuang plot	Fengtai district	166,387	Residential	5.03	34,000	China Railway Construction & Franshion Properties
Huaxiang Plot	Fengtai district	110,000	Commercial	1.76	16,000	Financial Street Holdings
Gongchen plot	Fangshan district	226,086	Commercial	3.18	14,000	Tianheng Development

Source: Savills Research & Consultancy

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