

A Labyrinth? China's Property Market

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Agenda

- Major factors affected China's Property Market
 - 2011 Tightening Policy Review
 - Current Market Performance
 - Prediction upon 2011

Major Factors

1. **Rapid Economic Growth and Urbanization**
2. **Uneven Regional Development**
3. **Powerful Government Intervention**
4. **Fluctuated Monetary Policy and Liquidity**
5. **Weak Social Housing Supply**

2011 Tightening Policy Review

Even More Administrative Measures

- Ramp-up in purchase restrictions – from one new purchase in 2010 to maximum of two properties per household (non-local households restricted to one purchase).
- More cities affected by purchase restrictions – from just Beijing in April 2010 to all first-tier cities by September 2010 (2nd round Tightening Measures) and to all major cities nationwide in 2011 (3rd round)
- Price caps; rollout of “one home one price” and other administrative measures

Broad Coverage Of Cities

- All major cities affected – the two round tightening policies in 2010 only affected Tier-1 and other developed cities, and 3rd round caused the impact to spread to most Tier-2 cities

Increase Efforts To Tighten Liquidity

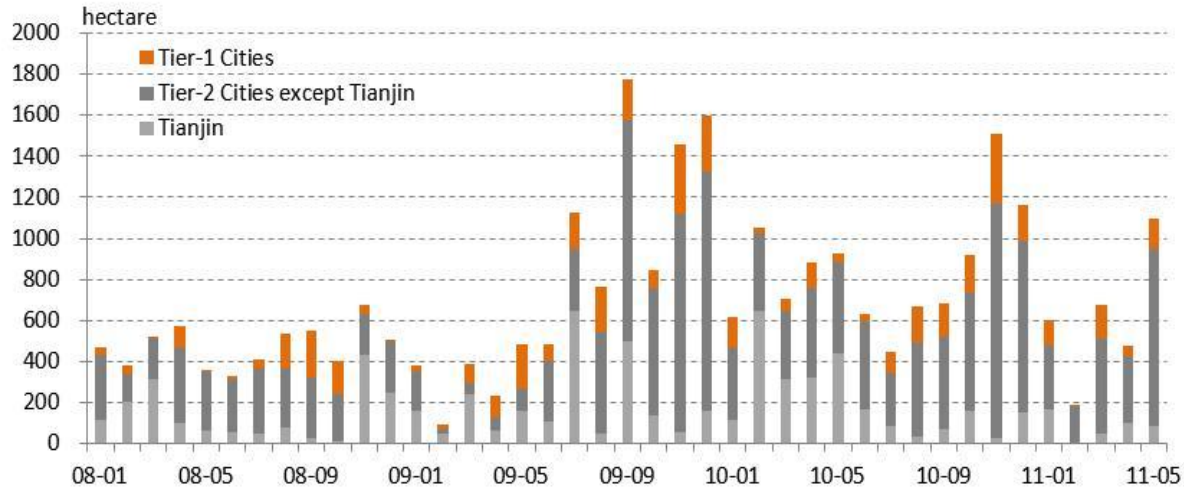
- 5 RRR hikes in 5 months, 2 interest rate hikes

Unprecedented Social Housing Construction Scale

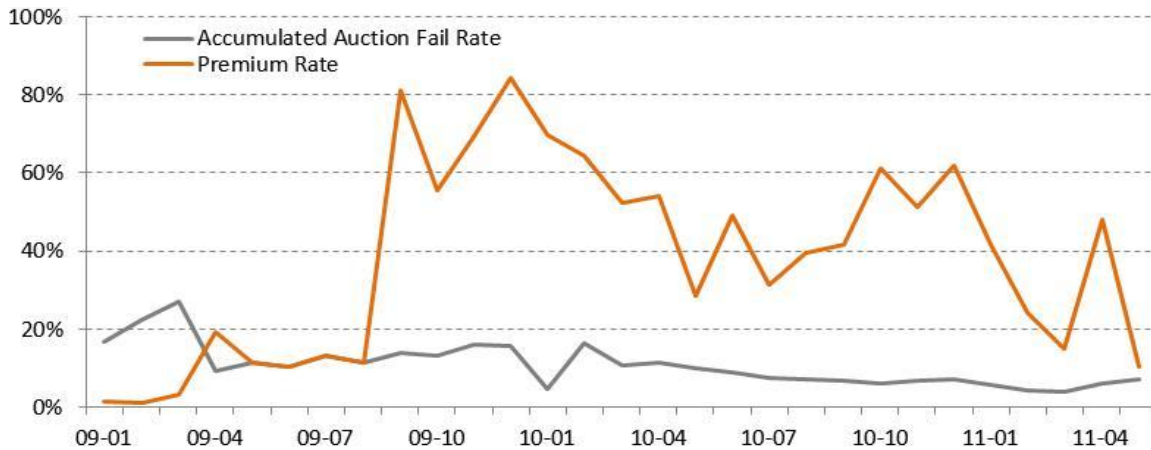
- 10m units in 1 year, 36m units in 5 years

Rollout Of Property Tax For First Time Ever

Current Market : Land Supply Decreased

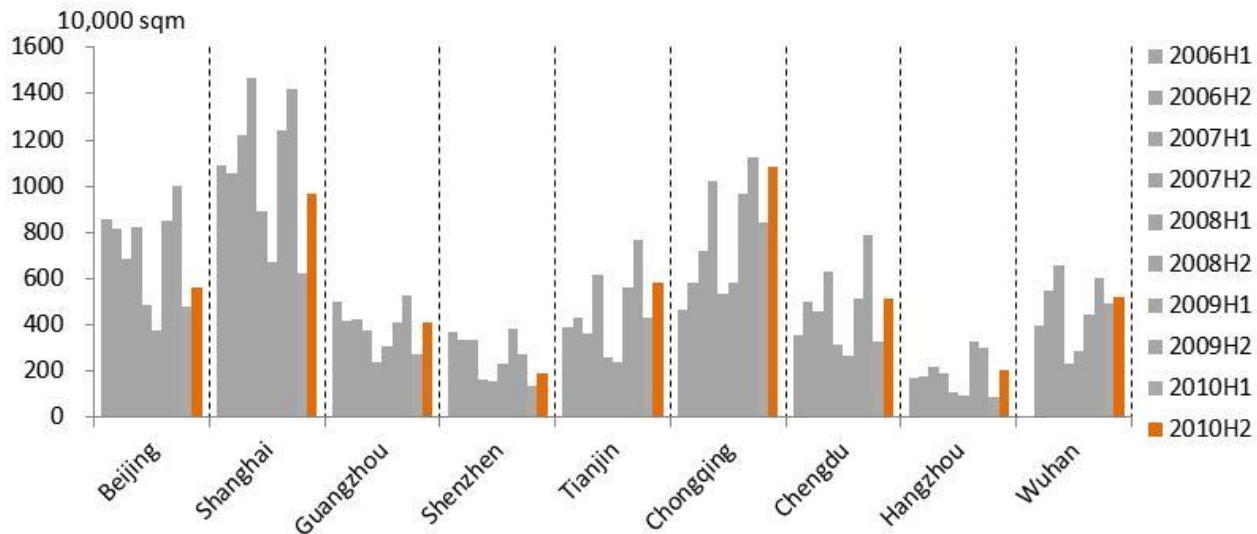


**Residential land
Large supply in Tier-2 cities**

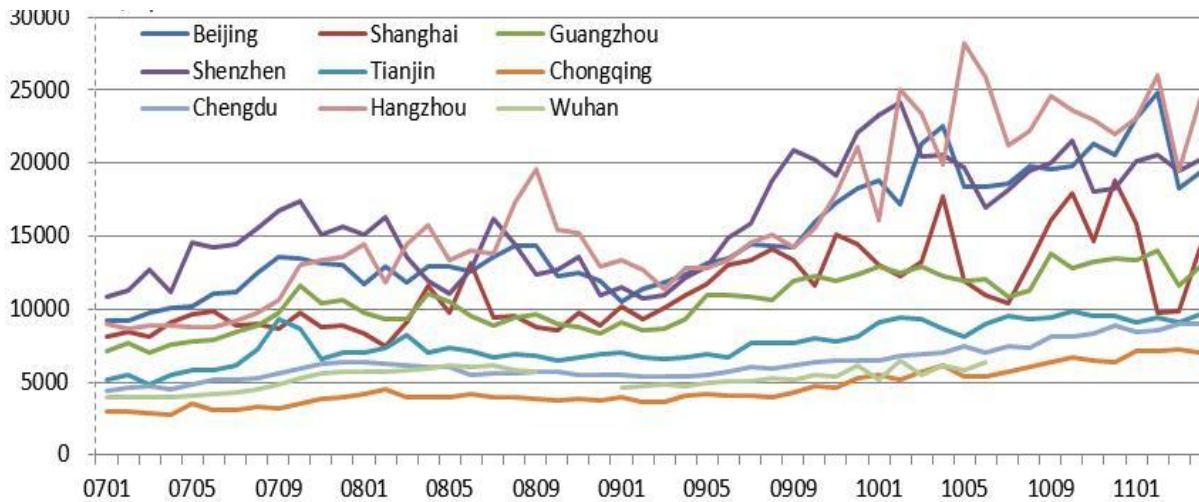


**Low Rate of Auction Fail
Low Premium**

Current Market :Primary Residential Volume Crackdown

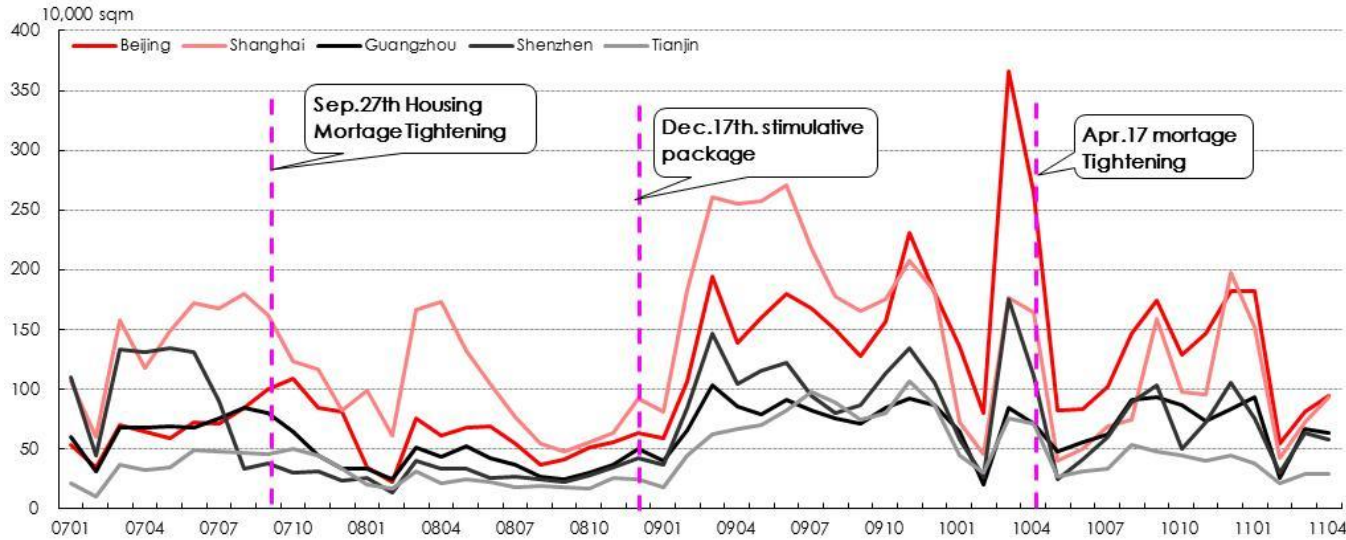


**Sales volume
Shrunk sharply in Tier-1
cities at a historical low**

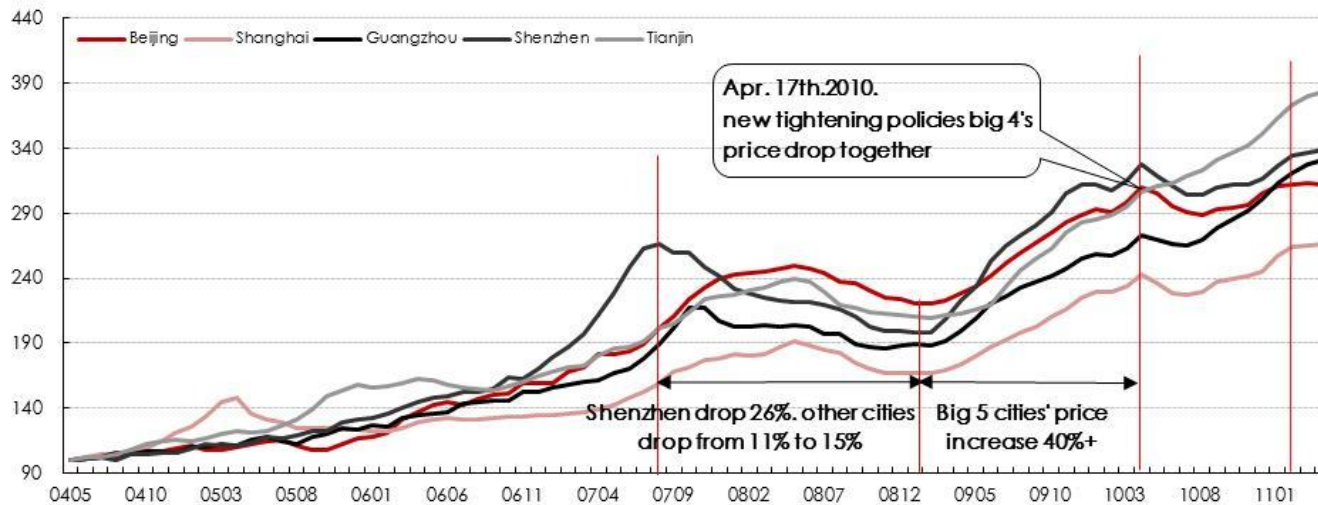


**Average selling price declined
due to the mix**

Current Market: Secondary Residential Price Dropped

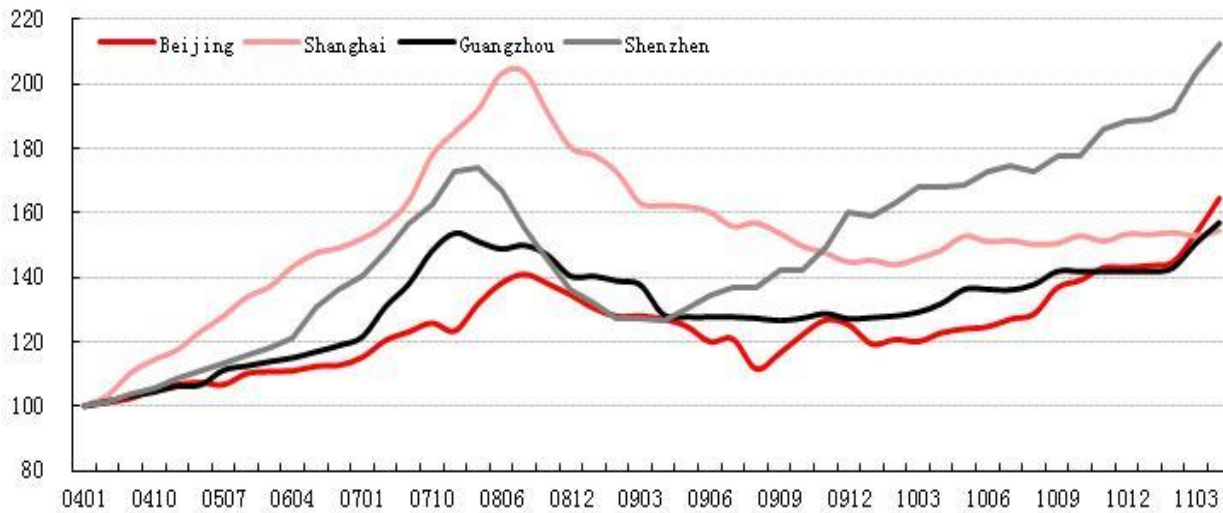


**Sales volume
Shrunk sharply
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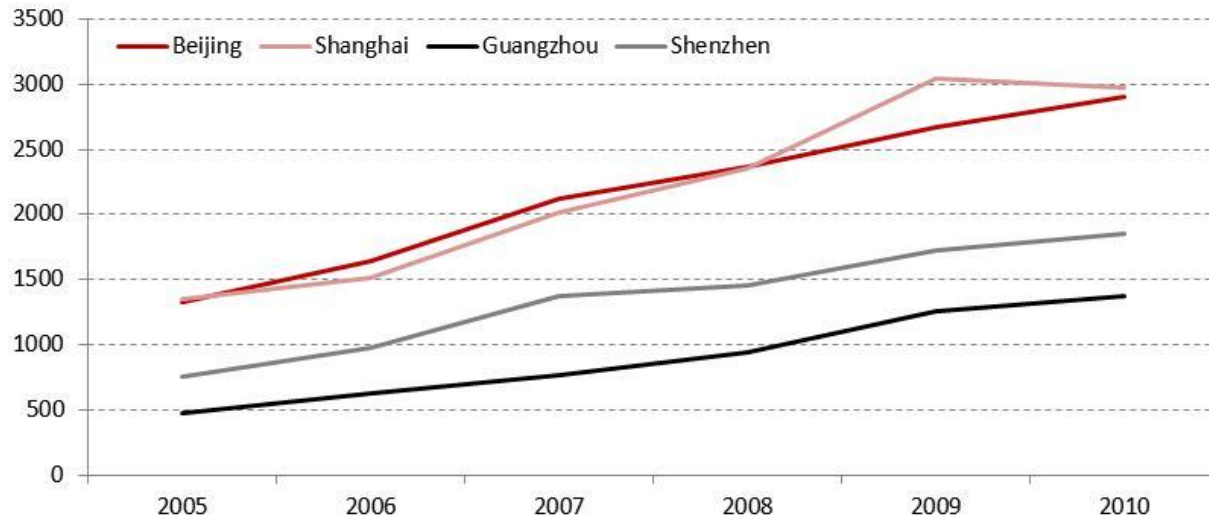


**CLI dropped
(Centaline Leading Index)**

Current Market : Office Rental Increased Substantially



**CLI Grade A Office Rental Index
in a sustained stable growth**



**Sum of FIR Value Added
grown steadily stimulating
the demand**

Developer's Dynamics : Better Performance Than 2008

Top 10 Developers' 4M2011 Sales Value Vs. 2010 Full-year Sales Value

Developer	2010 Sales Value	Sales Value Jan-Apr 2011	Ratio
Poly	662	207	31%
R&F	322	86	27%
Evergrande	504	260	51%
CR Land	223	103	46%
Gemdale	283	55	19%
Greentown	541	122	23%
Vanke	1082	434	40%
Agile	323	114	35%
CMPD	146	65	44%
COLI	591	238	40%

Top developers' GFA Sales Distribution by City (2011.01-04)

	Poly	R&F	Evergrande	CR Land	Gemdale	Greentown	Vanke	Agile	CMPD	COLI
Tier-1	4%	54%	8%	8%	22%	5%	23%	12%	25%	25%
Tier-2 I	47%	36%	36%	45%	31%	26%	34%	12%	50%	23%
Tier-2 II	44%	3%	47%	47%	47%	43%	40%	76%	25%	53%
Tier-3	5%	7%	9%	0%	0%	26%	3%	0%	0%	0%
Type	Balanced	Tier-1	Tier-2 II	Tier-2 II	Balanced	Tier-2 II	Balanced	Tier-2 II	Tier-2 I	Tier-2 II

NB: Top 10 Developers refer to Vanke, Poly, COLI, Forte, R&F, CR Land, Gemdale, Greentown, Agile, CMPD

Prediction Upon 2011

Opportunities:

- Aggregate demand should remain fundamentally stable, but structural imbalance is serious.
- The experience of other economies' developments shows that China is in the period of rapid growth of the overall economy and real estate market
- Unsound market mechanism (land-based finance), supervision and security system
- Unbalanced regional developments
- Limited investment channels

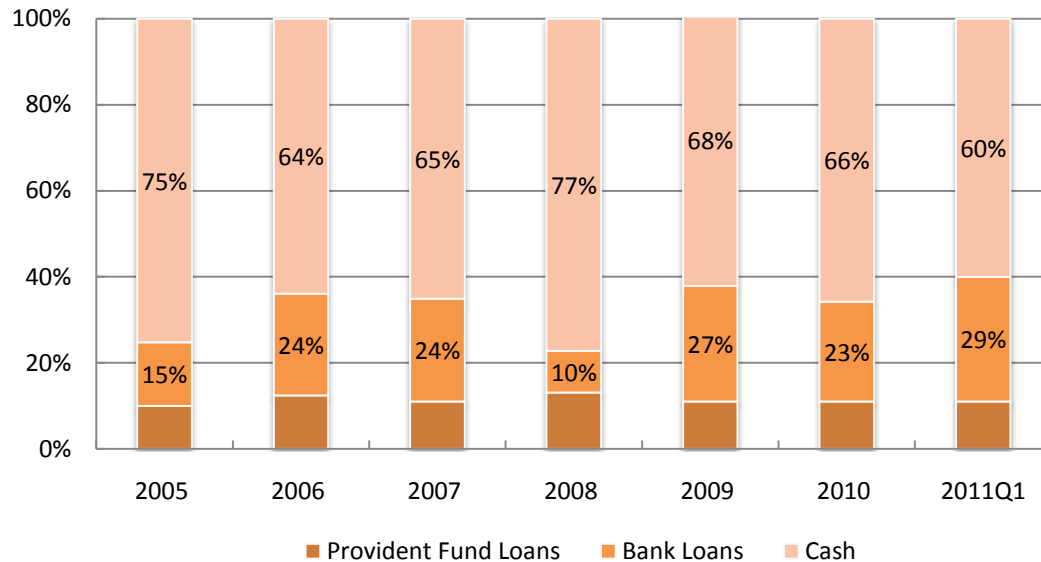
Potential Risks:

- Uncertainty of the economy recovery
- Compulsory government intervention
- Large scale economic housing development

Prediction Upon 2011

Healthier Mortgage Housing Purchase Ratio

Bank loans, housing provident fund and cash payment as % of national housing sales value
(including new and secondary housing market) (2005-2011Q1)

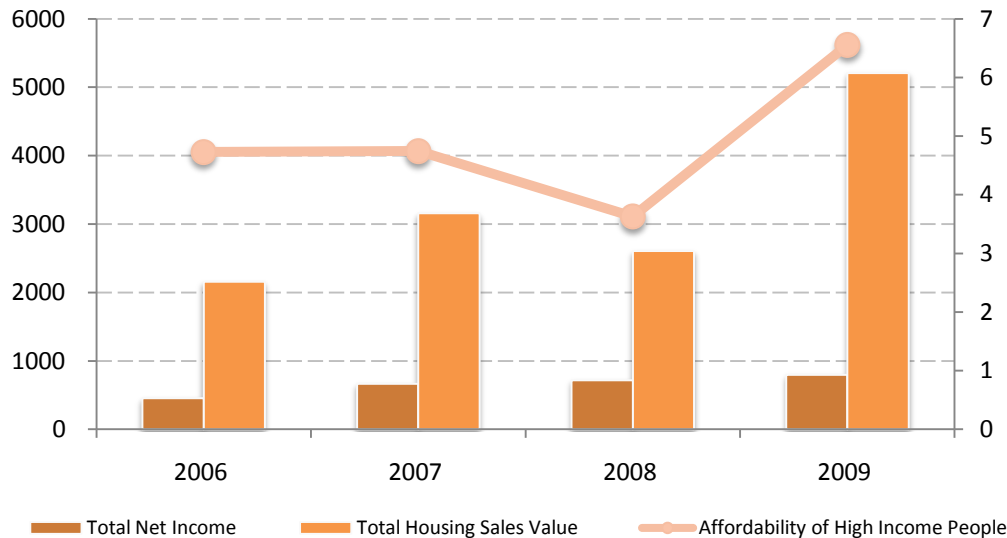


Compared to the US before subprime mortgage crisis, China's property market is far healthier, as US mortgage ratio was high as 70%

Prediction Upon 2011

Reasonable Ratio Of Property Value To Affluent Residents' Income

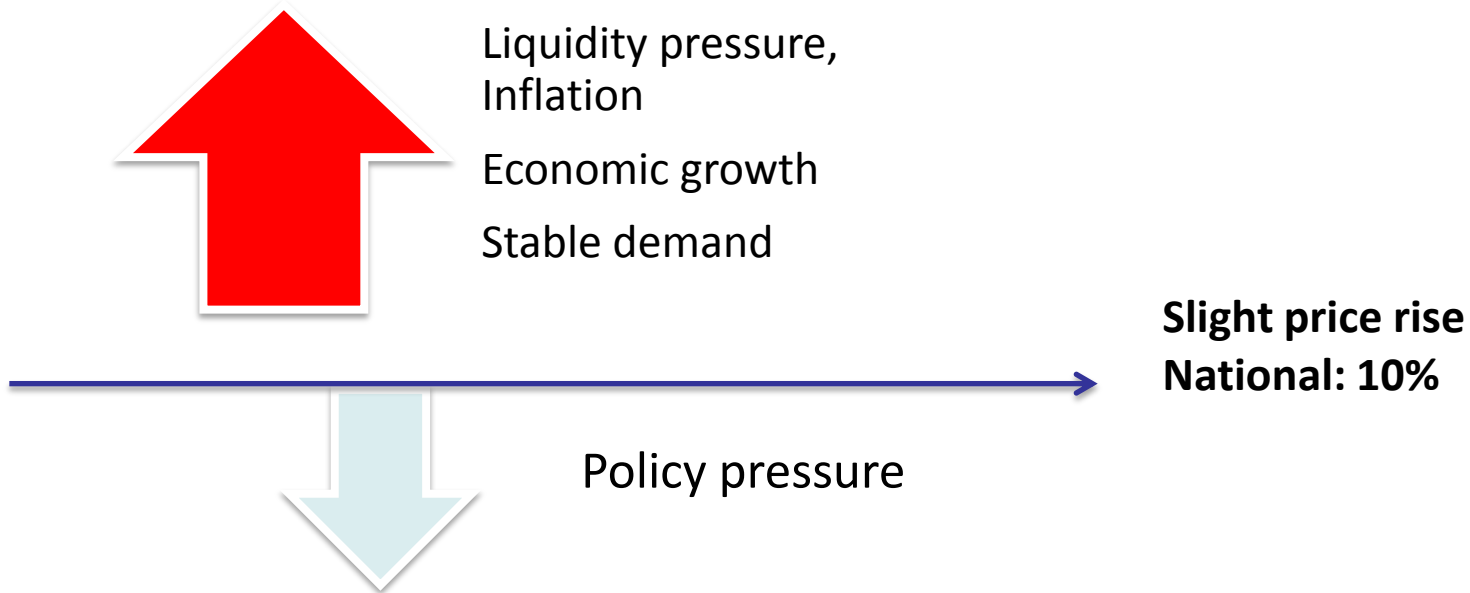
Total Income Of Individual Tax-payers (Annual Income > Rmb 120,000) In China Vs. Total Housing Sales Value (both New and secondary housing)



According to National Bureau of statistics (NBS), China had 2.69m taxpayers with an annual income of more than Rmb 120,000 in 2009. They paid Rmb 52,000 in taxes on average. The net income after tax per capita amounted to Rmb 295,000. As such, this population segment had a total net income of Rmb 794bn. In 2009, China's total housing sales value was Rmb 5.2trn.

With the assumption that all housing units in China were sold to these individuals with an annual income of more than Rmb 120,000, the property value to income ratio stands at 6.6, in line with the "international standard".

Prediction Upon 2011: Price Estimates



In 2011, the effectiveness of tightening policies hinges on the government's attitude and strength of enforcement.

NB: In Jan-Apr 2011, the national ASP for housing rose 12% from 2010 avg.

In April, the 4 major tier-1 cities' secondary housing price rose 7% on average from the end of 2010

Prediction Upon 2011: Transaction Volume Estimates

(10,000 sqm)	Tier-1 Cities	Other cities	Nationwide
1998	2,570	9,615	12,185
1999	3,044	11,513	14,557
2000	3,688	14,949	18,637
2001	4,455	17,957	22,412
2002	5,565	21,243	26,808
2003	6,361	27,357	33,718
2004	8,171	30,061	38,232
2005	8,548	46,938	55,486
2006	7,706	54,151	61,857
2007	7,778	68,415	76,193
2008	5,100	56,989	62,089
2009	7,872	85,841	93,713
2010			104,349
2011E Growth Rate	0%	+20%	+10-15%
Historical avg. growth rate	Tier-1 Cities	Other cities	Nationwide
1999-2004	21%	21%	21%
2005-2009	3%	26%	22%

Thank You!

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