

Economic Overview

Despite the global economy showing signs of flattening, Shanghai's economic performance was still on the track for sustained growth in 2007 with GDP growth accelerating to 13.3% and marking the 16th consecutive year with double-digit economy growth. The annual disposable income of urban residents increased by 14.3% y-o-y to RMB23,623 in 2007 versus the national level of RMB13,786. The city has attracted actual foreign direct investment of US\$7.92 billion in 2007, up 11.4% over 2006. Real estate investment recorded a stable growth of 2.5% y-o-y to RMB130.8 billion in 2007. But stepping into 2008, both the US-led financial market volatility and central government's macro-economic tightening measures have produced ripple effects on the market, particularly in Shanghai's stock market.

Soaring property price and food inflation have pushed the Mainland's consumer price index to 8.7% in February, leading to a historical high level in 11 years. The annual session of the National People's Congress in March has put emphasis on controlling food prices and developing more affordable homes for low and middle income groups, demonstrating central government's determination in alleviating the inflationary pressure. Meanwhile, the People Banks of China announced the latest increase on the bank deposit reserve ratio by uplifting 0.5% to 15%, effective 25 March 2008. This move is expected to further tighten lending and slow inflation.

Adjustments on Deposit Reserve Requirement Ratio – 2007 - 2008:

Effective Date	% Change	New Rate (%)
25 March 08	0.5	15.0
25 December 07	1.0	14.5
26 November 07	0.5	13.5
25 October 07	0.5	13.0
25 September 07	0.5	12.5
15 August 07	0.5	12.0
05 June 07	0.5	11.5
15 May 07	0.5	11.0
16 April 07	0.5	10.5
25 February 07	0.5	10.0
15 January 07	0.5	9.5

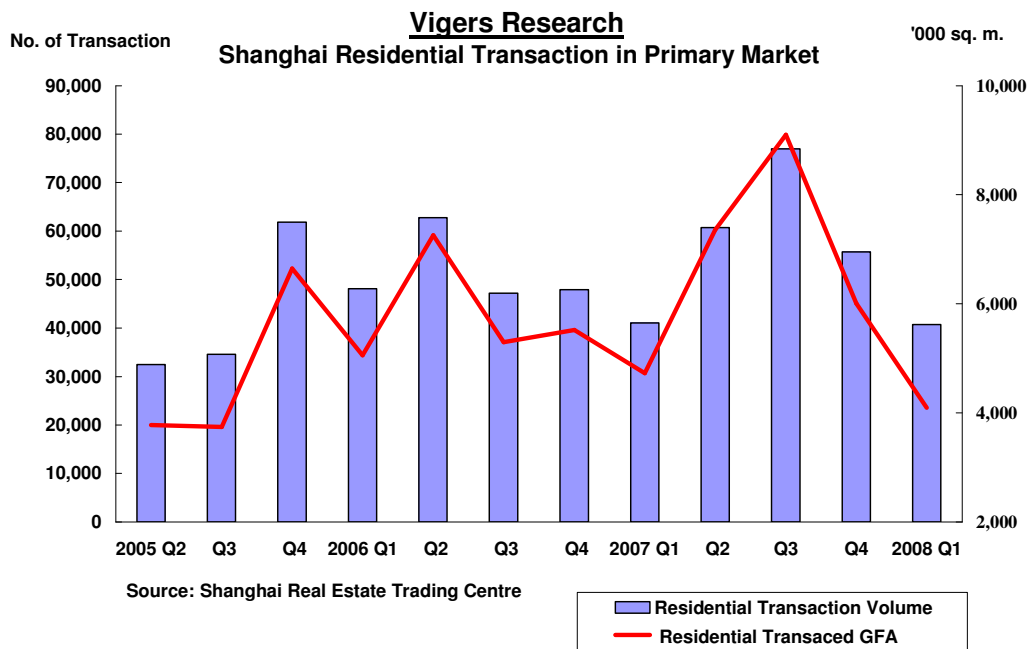
Major Land Transactions in Shanghai (Q1 2008)

Location	Category	GFA (sq.m.)	Price (RMB million)	Accommodation Value (RMB)	Developer
Tangzhen, Pudong District	Residential/Retail	178,700	818	4,578	Poly Hong Kong Investment
Zone A Kangqiao Town, Nanhui District	Residential	144,688	832	5,750	Shanghai Poly Jianjin Real Estate Co Ltd
Plot F, New Jiangwan Urban Area, Yangpu District	Residential/Office/Retail/Hotel	901,152	6,751.7	7,492	Tishman Speyer Properties
Jiading District	Residential	214,900	680	3,164	Poly Hong Kong Investment
East of Rulin Road and South of Huangbei Road, Jiading District	Residential/Retail	399,479	1,162.7	2,911	(Helian Real Estate Development) Hutchison Whampoa
Beiwaitan Huishanzhong, Hongkou District	Office/Retail	73,790	1,123.3	15,223	Franshion Properties (China)
Plot No. 2 Kangqiao Town, Nanhui District	Residential	145,830	820	5,623	Shanghai Greenland Group

Source: Vigers Research

Residential Property Market

With buyers and investors staying on sideline, buying sentiment appeared to far lag behind the buying frenzy during the peak time last year. There was downside pressure on the property prices. The primary residential transaction experienced downturn for second consecutive quarter with 40,687 deals concluded in the primary market during the 1st quarter, down 27% from the 4th quarter of 2007. A total of 4.1 million sq.m. of residential space were sold in the primary market for the 1st quarter, down 31.8% over the previous quarter. Apart from the cautious investment sentiment, decreasing new supply was the main cause for dragging down the primary transaction volume. To boost transaction activity, some developers offered discount and incentive to lure home buyers. There was a “pull and tug” exerting itself on the market with homebuyers waiting for additional signs of market stabilization as well as plenty of pent-up demand.



On the land sale frontline, a number of notable lands have been put up for land auction and listing-for-sale during the quarter. The overall response seemed to be less competitive than those overwhelming land sales last year, driving down the land cost to a reasonable level. One of the examples was the acquisition by the US-based Tishman Speyer Properties. Due to no competition, Tishman Speyer acquired a land parcel in New Jiangwan Urban Area at a consideration of RMB6.75 billion or an accommodation value of RMB7,492 per sq.m. in January. Around a month ago, another developer, Singapore-listed Yanlord Land Group purchased a residential land parcel in the same area at an accommodation value of RMB20,000 per sq.m..

Luxury Residential Property

The softening transaction was also found in the luxury residential market. Faltering demand was attributable to market uncertainty in both domestic and international levels. Since yuan continues to appreciate against the US dollar, foreign investment keeps pouring into the city on speculation of further yuan appreciation. For foreign investors, Shanghai still holds the most appeal. Despite central government's restrictions on foreign investment, foreign investors are still keen to pick up on the new opportunities in the city's property market. According to market source, Korean-based Mirae Asset Financial Group has agreed to invest approximately RMB1 billion in acquiring Shama Luxe (尚明居) at Xintiandi, Shanghai. The subject property is a 31-storey serviced apartment with 100 apartments.

The continuing influx of expatriates and increasing wealth will continue to support the investment sentiment in Shanghai. Furthermore, fuelled by the upcoming 2010 World Expo, the luxury residential leasing market is full of potential in Shanghai. Thus, both luxury property capital value and rental turned to be relatively resilient during the period. Following a minor correction in the 4th quarter of 2007, average capital values for luxury residential properties in Shanghai slightly bounced back, rising by 1.5% q-o-q to RMB33,790 (US\$4,693) per sq.m. in the 1st quarter. Average monthly rentals were capped at RMB201.6 (US\$28) per sq.m., up 1.8% q-o-q.. Shenzhen-listed China Merchants Property Development Co Ltd has recently secured a villa

development, Hyde Garden (海德花園) in Baoshan district, by acquiring 60% stake of the villa developer, Fengyang Real Estate Development Co Ltd.

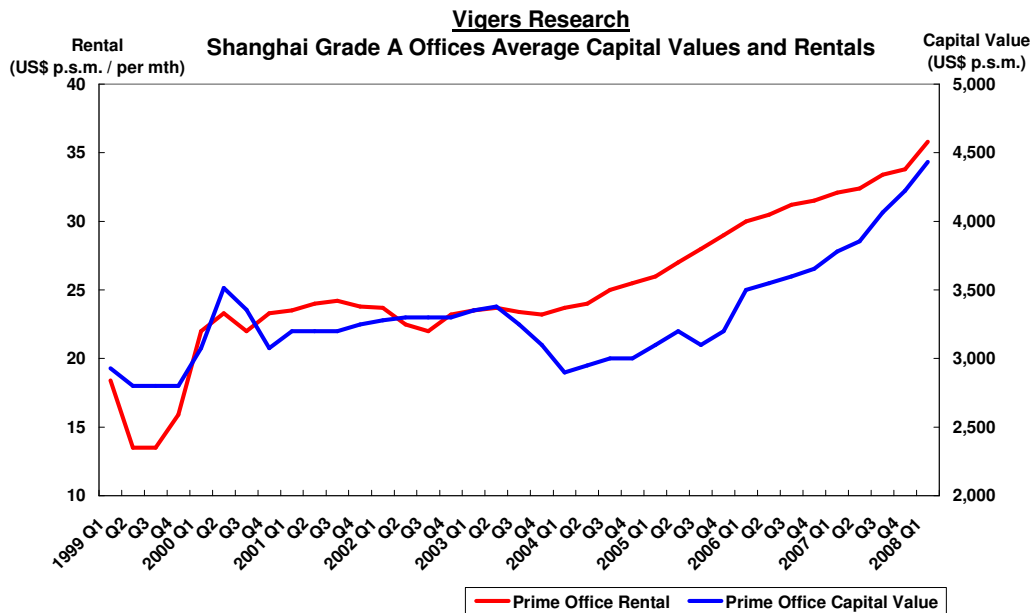
Office Property Market

The Grade-A office market appeared to be less vulnerable to the current market uncertainty. The Shanghai office property market is characterized by strong institutional investment. Leasing demand remained strong in response to the approaching of 2010 World Expo. The fundamentals of the office property sector remained solid with vacancy rate falling and rents strengthening due to current limited supply. It is estimated that approximately 900,000 sq.m. of office space will come on stream in 2008. Majority of the new supply would be located in Pudong New Area.

With comparatively limited supply coming on stream in Puxi. Rentals in Puxi remained at an upward trend, piquing developers' interest in this submarket. Hong Kong-listed Van Shung Chong Holdings Ltd invested US\$4.7 million (HK\$36.7 million) in acquiring one-third of the shares of the Sunshine International Business Centre (靜安陽光企業中心) located in Jingan district. The property is a 11-storey office tower atop a retail podium providing a total floor area of approximately 27,000 sq.m. Notable future supply includes Standard Chartered Tower (渣打銀行大廈), Shanghai World Financial Centre (環球金融中心) and Shanghai International Finance Centre (上海國際金融中心) in Lujiazui, Kerry Centre Phase 2 (嘉里中心二期) in Jingan district.

According to government statistics, foreign companies in Shanghai has realised a total profit of RMB107.6 billion during the first 11 months of 2007, up 37.9% in respective to the same period in 2006. Foreign companies prove to be the most dominant demand component in the Grade-A office sector. Banking and finance sector continued to act as the main engine for the Grade-A office property, underpinned by the recent opening of the Russia's largest bank, Venshtorgbank in the city. With increasing supply coming to market especially in Pudong, the overall Grade-A office market will continue to perform well in Shanghai. Despite the global financial volatility, average capital values for

Grade-A office in Shanghai during the 1st quarter increased by 5% q-o-q to RMB31,932 (US\$4,435) per sq.m. Monthly rentals for Grade-A office also rose to RMB257.8 (US\$35.8) per sq.m. during the 1st quarter with an increase of 5.9% q-o-q.



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