

Actual demands in YRD's real estate markets are being ensured and supported by several common factors such as rapid economic growth in YRD cities, rise of individual income and large population inflow of talent and college graduates. Further analysis of China's economy indicates that YRD's economic development plays an important role in the country's whole economy. Moreover, changes of Shanghai's economic development and property market have exerted a deep influence on other YRD cities. With real estate prices and development costs going higher, many developers have begun looking to explore more profitable investment opportunities in YRD tier-2 and tier-3 cities.

## YRD Review

The Yangtze River Delta (YRD) is considered one of the world's top 6 mega-cities (defined as a group of densely populated metropolitan areas that combine to form an urban complex). YRD lies along the east coastal line in China, and is one of the most prosperous, economically and culturally vibrant regions in China. YRD is comprised of Shanghai, an autonomous region, and two provinces – Jiangsu and Zhejiang. Together, 16 cities make up YRD:

Shanghai

Jiangsu Cities: Nanjing, Wuxi, Suzhou, Nantong, Changzhou, Zhenjiang, Yangzhou, Taizhou (泰州)

Zhejiang Cities: Hangzhou, Ningbo, Shaoxing, Jiaxing, Zhoushan, Taizhou (台州).

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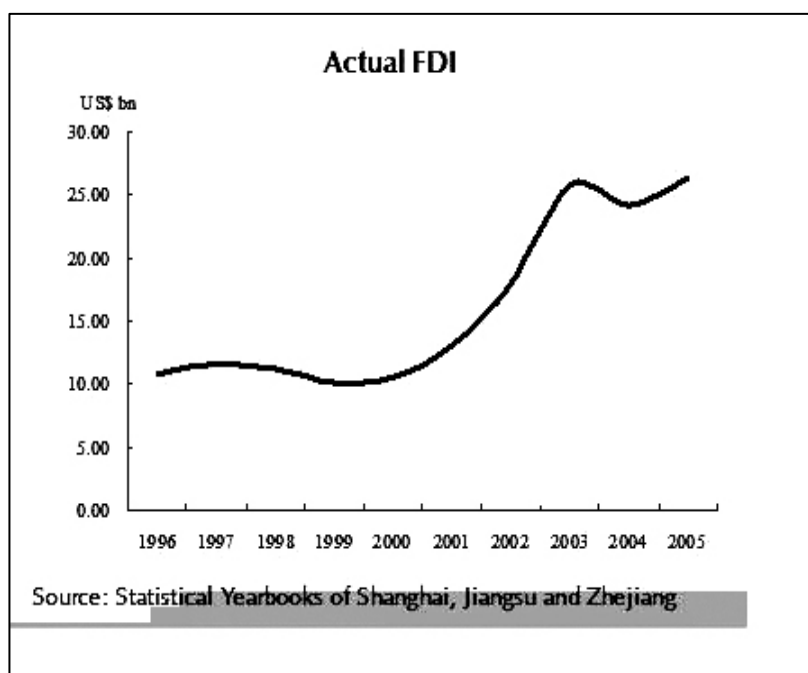
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YRD Cities

YRD cities are closely interconnected, sharing similar cultural background as well as economic ties and tourist visits. YRD is often described as an “economic monster”, having a “dragon head” - Shanghai, and two wings - Jiangsu and Zhejiang. With only 2.2% of the country’s land area and 10.4% of the total population, YRD makes up 22.1% of China’s GDP in 2006. It also makes up 24.5% of the fiscal revenue and 28.5% of the total volume of import and export in China last year.

As a result and also because of it, YRD is the largest recipient of China’s annual Foreign Direct Investment (FDI). In 2005, China’s FDI totaled \$60.3 billion, and 46% of it was designated for YRD cities.



YRD is home to 10 of China’s top 35 most economically advanced cities and half of China’s top 100 well-to-do counties, YRD’s retail sales totaled \$131.1 billion in 2005, about 16% of China's total retail sales.

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### YRD' GDP in 2006

Region	2006 GDP (trillion RMB)	Changes from 2005	Share of China's 2006 GDP
China	20.94	12%	
Shanghai	1.02	12%	4.87%
Jiangsu	2.15	15%	10.26%
Zhejiang	1.5	13.5%	7.16%

Experts believe that, in years to come, YRD will continue to act as the navigator of China's growing economy, and is very likely to become a propelling force of future global economic developments.

## Property Investment Market Analysis

### Solid Economic Foundation

YRD's stellar and growing economic developments are creating solid ground and support for sustainable real estate development in this region. In the last five years, YRD has accounted for an increasingly proportion of China's GDP. By the end of 2006, YRD GDP exceeded 4 trillion RMB, accounting for over 20% of China's GDP.

### Impact of Real Estate Investments in YRD

Real estate investments in YRD play a significant role in YRD's overall economy in 2006. While YRD real estate investments account for 21.6% of China's total real estate investments, they also contributed 2.9% to China's GDP, nearly twice as much as the proportion of 1.5% contributed by the rest of China's overall real estate investments. Latest data also indicate that development volume of YRD's property markets have accounted for a quarter of the country's real estate developments.

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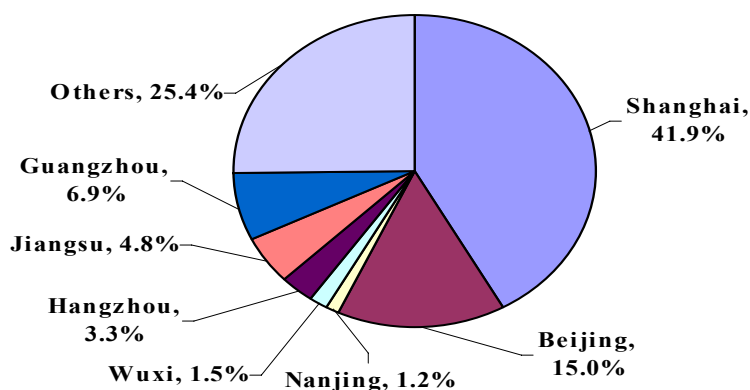
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## FDI in China's Real Estate

### 2006 Announced FDI Destinations



In 2006, \$18 billion of the total FDI was earmarked for China's real estate markets, with a little over half of this amount designated for YRD cities. Foreign investments in China's real estate markets continue to pour in, as over \$11.1 billion went into this sector in the first half of 2007.

### Market Policy Update

In attempts to further restrict foreign investments in China's real estate markets, the Beijing government issued Circular 130. Circular 130 stipulates that State Administration of Foreign Exchange (SAFE) will not register any foreign debt of a foreign-invested real estate enterprise (FIRE) if filed after June 1, 2007. Enactment of this policy will limit foreign investors' use of debt and increase their reliance on equity for their real estate investments in China.

In June 2007, Shanghai government relaxed the rules on foreign investment in commercial real estate. Foreign buyers are no longer required to have a registered business in China, and can use foreign currency to pay deposits on their bids.

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## Shanghai Property Market

### Office — Demand Stays Strong

During the first half year of 2007, shanghai property market showcased strong supply and demand for office buildings. Multi-national corporations and domestic enterprises continue to expand and set up their new offices in Shanghai. The average rental price for Grade-A office space has risen by to 307.4 rmb/sm in June 2007. As reflected by its low vacancy rate of 4.4%, the office market is expected to remain strong in the second half of the year.

### Retail — Robust tendency

In 2007, the retail market remains its good growth trend, as Shanghai's GDP and disposal income per capita respectively increased by 11.5% and 11% year-on-year. International retailers continue to develop and expand in Shanghai, and help to drive up retail space demand. Vacancy rate in this sector dropped to 5.3% by the end of June 2007. Headline grabbing en-bloc transactions in first half of 2007 mostly involved retail properties, strong indication of this sector's attractiveness to foreign institutional investors.

### Residential — Quantity & Quality↑

Although policies aimed at cooling down the real estate market have taken effect as prices and number of transactions in dropped noticeably, demand in the residential rental market remains strong, as newcomers from other cities and abroad continue to move into Shanghai.

New supply coming to market will put pressure on demand, and overall demand in the residential market is expected to drop in the short term. In the long run, the residential market will continue to be on a slow but steady rise. Notable large-size transactions of service apartment and high-end residential projects highlight foreign investors' appetite for attractive projects in Shanghai.

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## Nanjing Property Market

### Office — Demand & Value↑

Lack of supply in Nanjing office market is fueling its annual 8% growth. Over 75% of the existing high-end office buildings (GFA of about 200,000 square meters) are located in Xinjiekou, Nanjing's busiest commercial area.

The Hunan Road area is the other district with concentrated office properties. This area is currently the hub of several Grade-B and lower quality office properties. Because of the relatively poor building designs, the future office quality will far exceed those of most of the existing office properties in Nanjing. Additional supply between now and 2009 is estimated to total around 347,421 sq m.

The average occupancy rate of high-end office space in Nanjing remained stable at a high level of 93%, due to the absence of new supply in the market. Occupancy rate of high-end office space held steady at about 95% throughout 2006.

### Retail — Limited supply & Increasing demand

As of early 2007, vacancy rate stood at 10% for mid/high-end retail market. The take up of high-end shopping center property has steadied over the past year, and was 85% occupied at the end of 2006. The current rental price lies within a broad range of RMB 250 (\$32.89) to RMB 500 (\$65.79) per sq m per month. By 2008, Nanjing will witness a surge in mid/upper-end retail development, totaling an estimated 508,661 sq m. Looking ahead, the current tight market for high-end shopping center space, limited future supply in prime downtown retail areas, and growing demand by high-end retailers are projected to support steady rental growth over the next three years.

### Residential — Supply & Demand balance, Price↑

In June 2007, newly constructed residential sales price in Nanjing rose by 11.3% from a year ago. This growth rate ranks as the third highest rate in China's 70 large and medium-sized cities.



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**Foreign investors are confident of high rental return of Shanghai Grade-A office market and serviced apartments. Since the end of 2006, foreign capital has successfully participated over 10 property projects via acquisitions. It is noticeable that many overseas funds have full investment confidence in China's future property market, especially in YRD region. Acquisition deals will increase sharply as YRD tier-2 matures.**

On the whole, increases in land supply, gross floor area (GFA) of newly constructed projects and projects under construction help to meet most of the growing demand in this sector, but there still exist pent-up demand, as Nanjing's economy continue to expand rapidly. Rising income level and disposal income of Nanjing residents are also fueling the latest surge in residential property prices. Sales prices of high-end residential properties have reached 17,000 rmb/sm, fast approaching levels seen in tier-1 cities in China.

## Overseas Investors

Currently, YRD is still one of the major investment destinations for overseas funds, as an increasing number of overseas funds are steadily entering into YRD's real estate market, primarily driven by factors such as the RMB appreciation and high investment returns. While investment returns are stuck in the single-digit range many of the matured global markets, mid to high double-digit returns in China's real estate markets look very appealing to foreign investors.

### 1H07 Acquisitions by Overseas Funds

Buyer	Project	Project	Transaction Type	Price
Morgan Stanley	Novel City	22,000	Service Apartment	57.9 mm
Salim Group	Laximen	43,000	Land Site	1,2 bn
HK Yongxin International	Shanghai Dynasty	36,000	Development Rights	19.28 mm
Holland Fund	Ramada	18,000	hotel	59.21 mm
Evergreen	WuDa	26,000	Office proerty	65.78 mm
JP Morgan Real	258 Xujiahui	95,000	Joint-Venture with China Overseas Land & Investment Ltd.	67 mm
Korean Real Estate	Huaxu International	29,145		131.58 mm

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