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China through the Global Slowdown: A bridge to the *future*

Looking at the year ahead

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2 December 2008

Fixed Asset Investment Drives China's Growth...

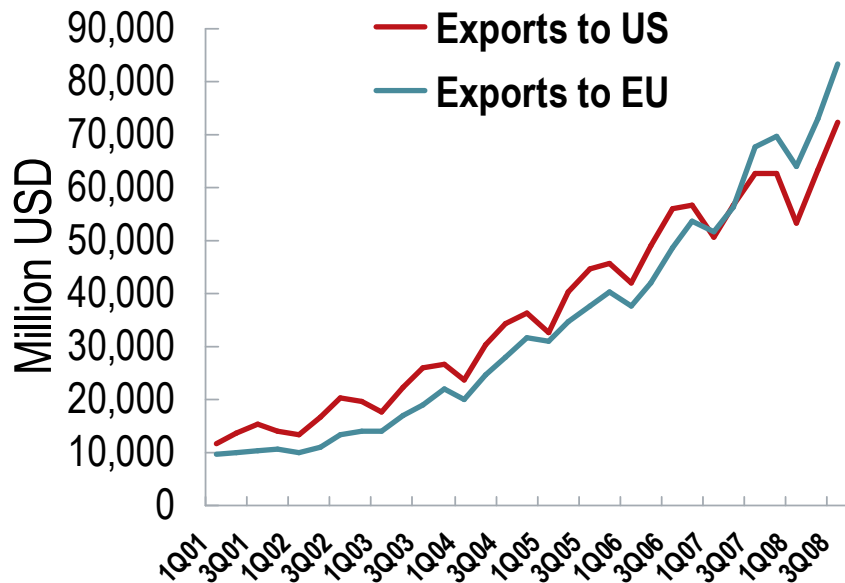
...But everyone likes to focus on exports

Exports as a % of GDP
on a value-added basis **10%**

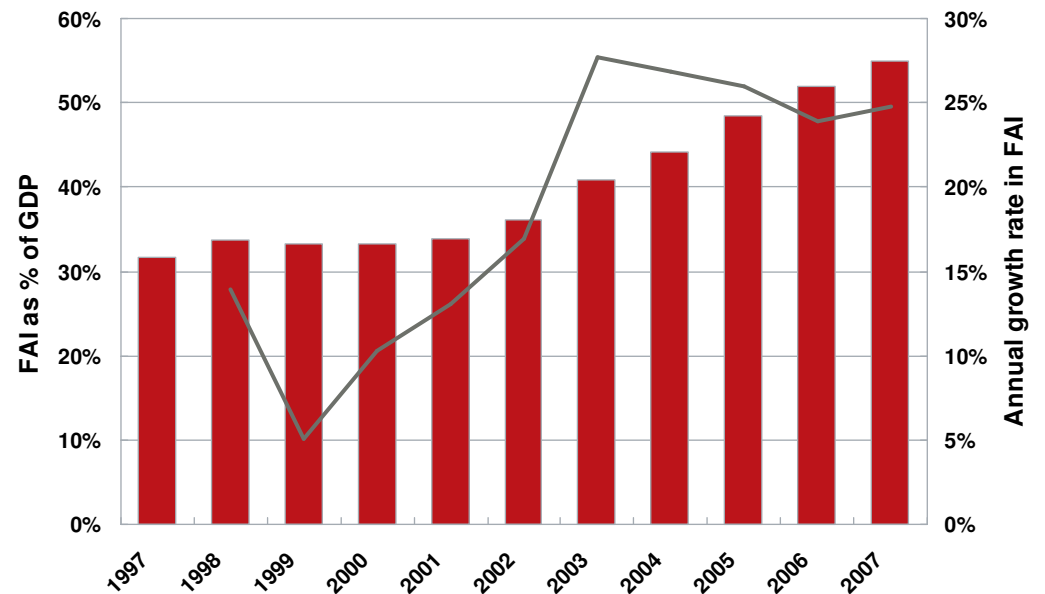
Fixed asset investment as
% of GDP 2007 **55%**

Annual growth in fixed
asset investment 2007 **25%**

Quarterly Exports



China Fixed Asset Investment as a % of GDP

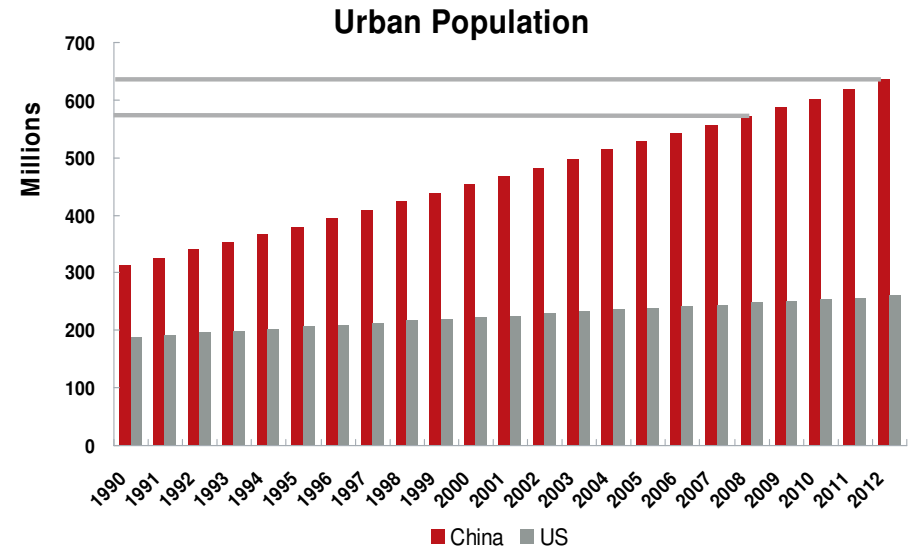


Source: CEIC

Role of property in the economy

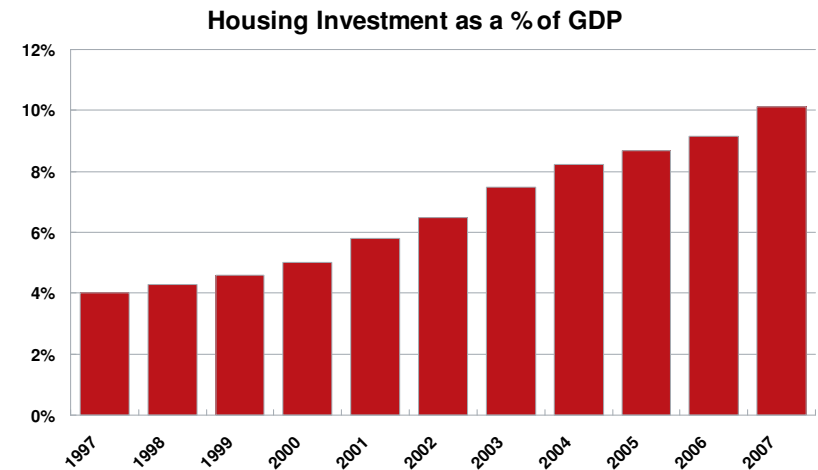
Rapid urbanization means millions need homes...and places to shop

Urban population in China + 80 million by 2012
+ 200 million by 2020



Housing investment as a % of GDP **10%**

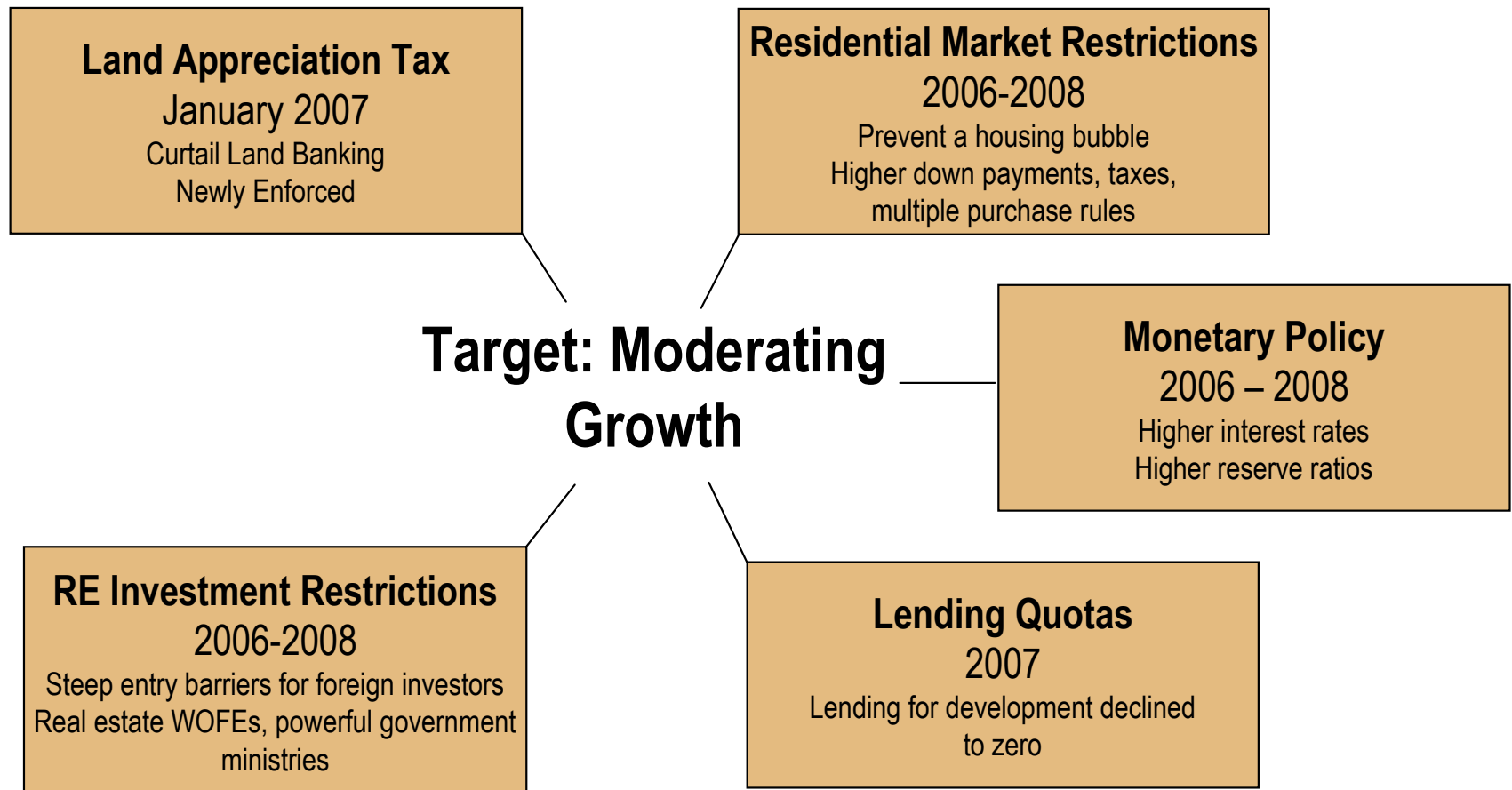
Families are upgrading to larger living space – driving demand for homes



Source: EIU, CEIC

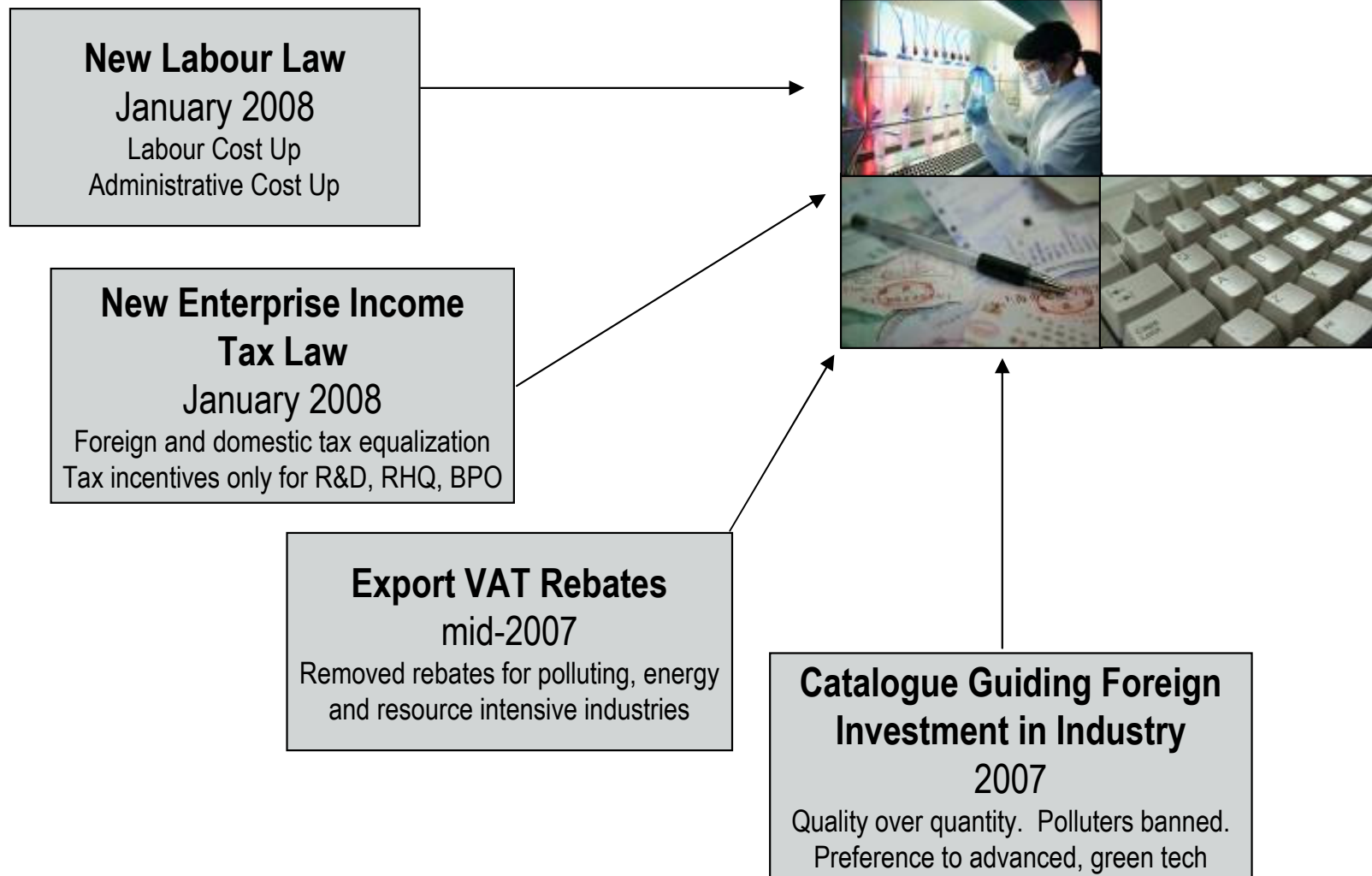
2006-2007: China aimed to “moderate growth”

Restrictive policy measures



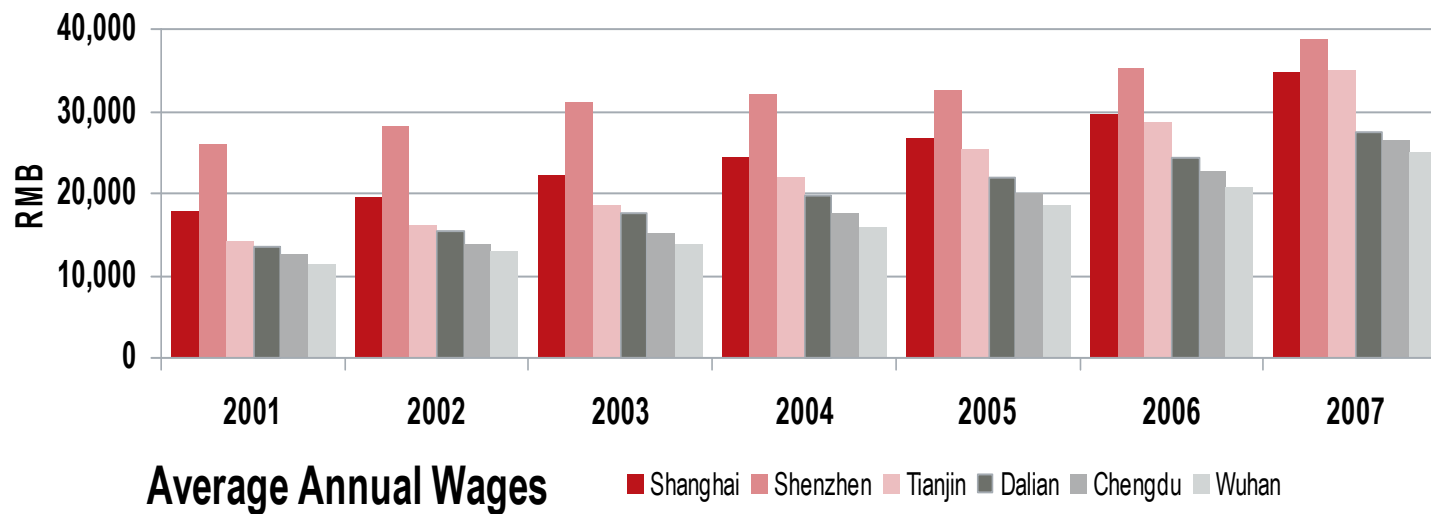
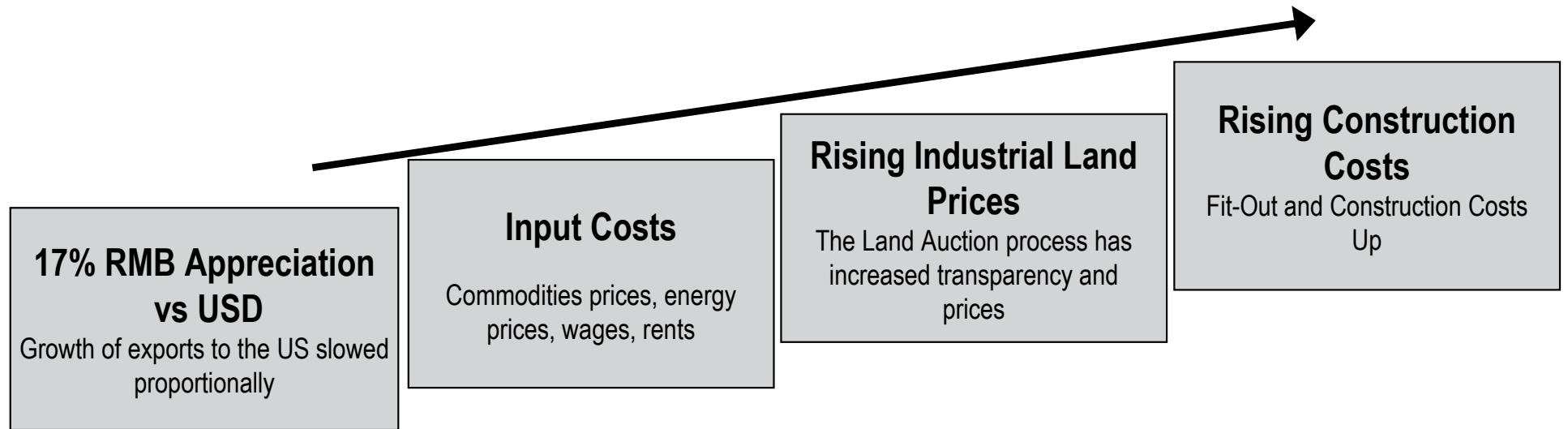
Industrial policy began to change investment patterns

China wants to “Move Up the Value Chain, but is it still “Factory to the World”?”



Costs have been going up

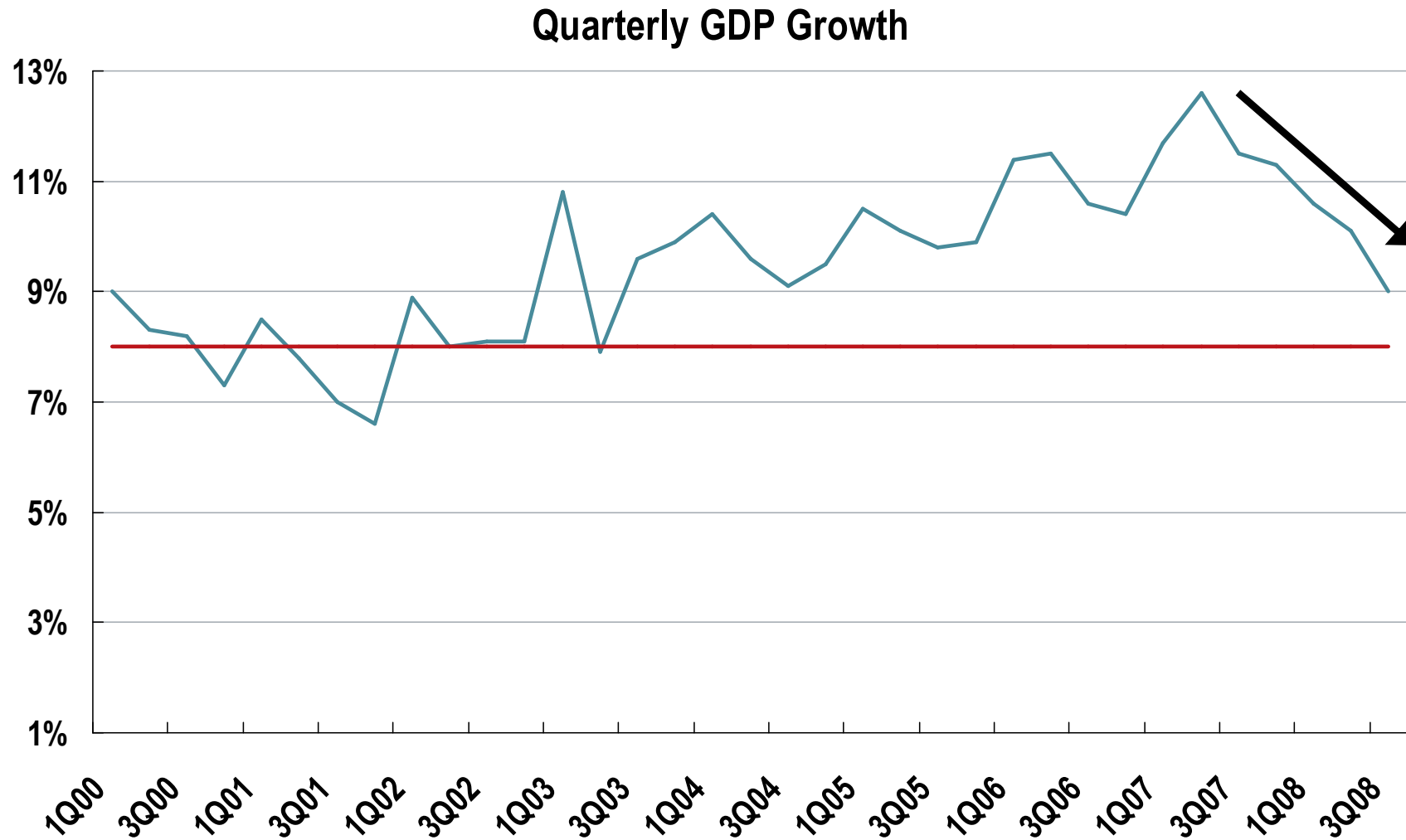
Some are policy driven ...but is China still competitive?



Source: Provincial Statistics Yearbooks

Internal and External Factors are Slowing Growth

Fast economic growth is needed for job creation



Source: CEIC

Policy Response – An About Face

Rural land reform will be Hu Jintao's lasting legacy

Implementation is, as yet, unclear

- Finally allow “ownership” of rural land, 30 years after urban housing was reformed (1978)
 - Urban housing wasn't fully privatized until 1994
- Farmers will be able to transfer land use rights and borrow against the value of their land, resulting in:
 - Increased agricultural productivity
 - Economic mobilization of rural China
 - Infrastructure investment in rural areas
 - Closing the urban / rural income gap
- **Massively** stimulating?
 - The government's “give away” could be worth \$2.5 trillion
 - Compared to \$150 billion in “economic stimulus” checks mailed out in the US in May

Four Days Later, the Central Government Rolled Back 3 Years of Residential Housing Restrictions

Time	Contents	Before adjustment	After adjustment
1 st Nov	Deed Tax lowered	1.5%	1.0%
1 st Nov	Stamp Duty waived	0.5‰	free of charge
1 st Nov	Land Appreciation Tax waived	1.0%	free of charge
30 th Oct	Reduction in Base Lending Rate	7.47%	7.20%
27 th Oct	Larger discount for mortgage rates	15%	30%
27 th Oct	Reduction in down-payment	30%	20%
27 th Oct	Reduction in Public Housing Fund mortgage rate	4.86%	4.59%
9 th Oct	Reduction in Base Lending Rate	7.74%	7.47%
16 th Sep	Reduction in Base Lending Rate	7.83%	7.74%

Case Study: Buying a House in China

	Shanghai			Chengdu		
	Before	After	% Change	Before	After	% Change
Upfront Cash (USD)						
Down payment	35,837	23,891	-33%	20,166	13,441	-33%
Transaction Cost	2,706	2,049	-24%	1,896	1,526	-20%
Monthly Instalment (USD)						
	516	470	-9%	288	264	-8%
Improved Affordability						
Down payment to household income	3.38 yrs	2.28 yrs		2.84 yrs	1.93 yrs	

- **Priming the Pump**

- Transaction volume is already picking up
- When will market sentiment change from negative to positive?

Inflation is no longer a big concern

“Active” monetary policy has been engaged

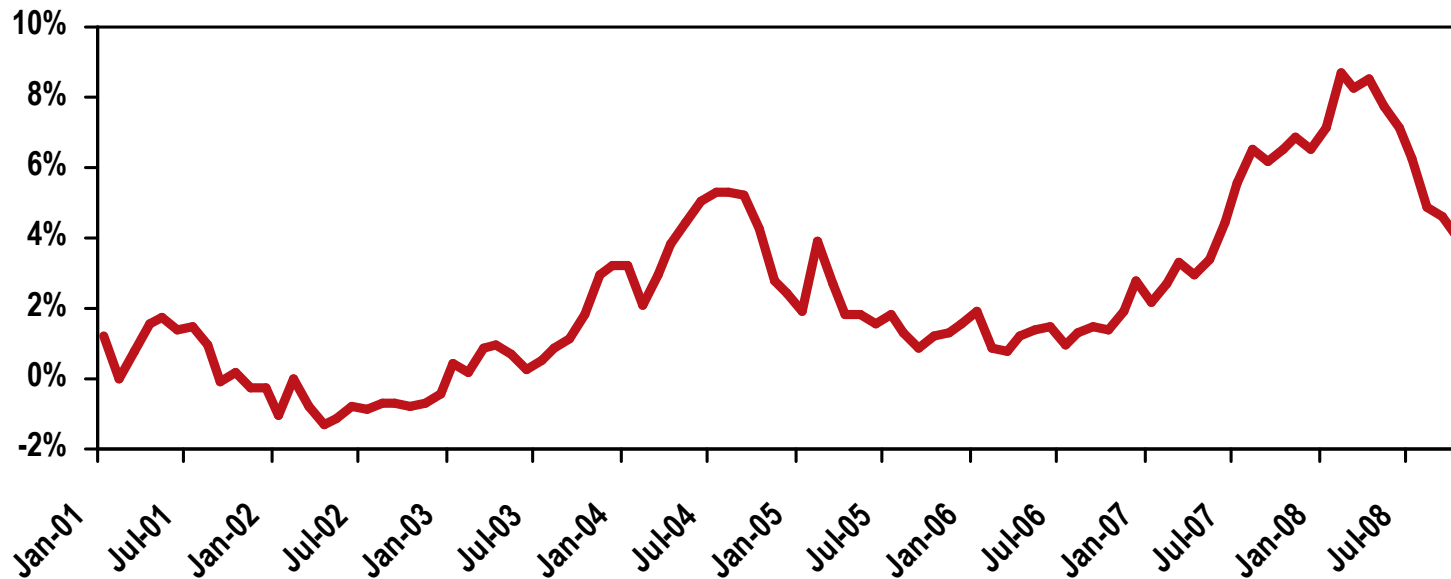
8.5%

April 2008 CPI

4.0%

October 2008 CPI

China Monthly CPI



Source: CEIC

Infrastructure Expenditures Expanded and Accelerated

While most previously announced projects are under construction and on schedule

- Total investment in railway infrastructure increased by \$110 billion in the next two years
 - That's on top of the \$150 billion investment already announced for the 5 years ending in 2010
- Airport investment increased to \$29 billion in 2009 and \$36 billion in 2010 from \$3.6 billion per year
- Railway Bond: \$6 billion recently issued another \$6 billion awaiting approval
- Power Grid: \$750 million increase in investment in Kunming's grid by 2010, doubling earlier amount

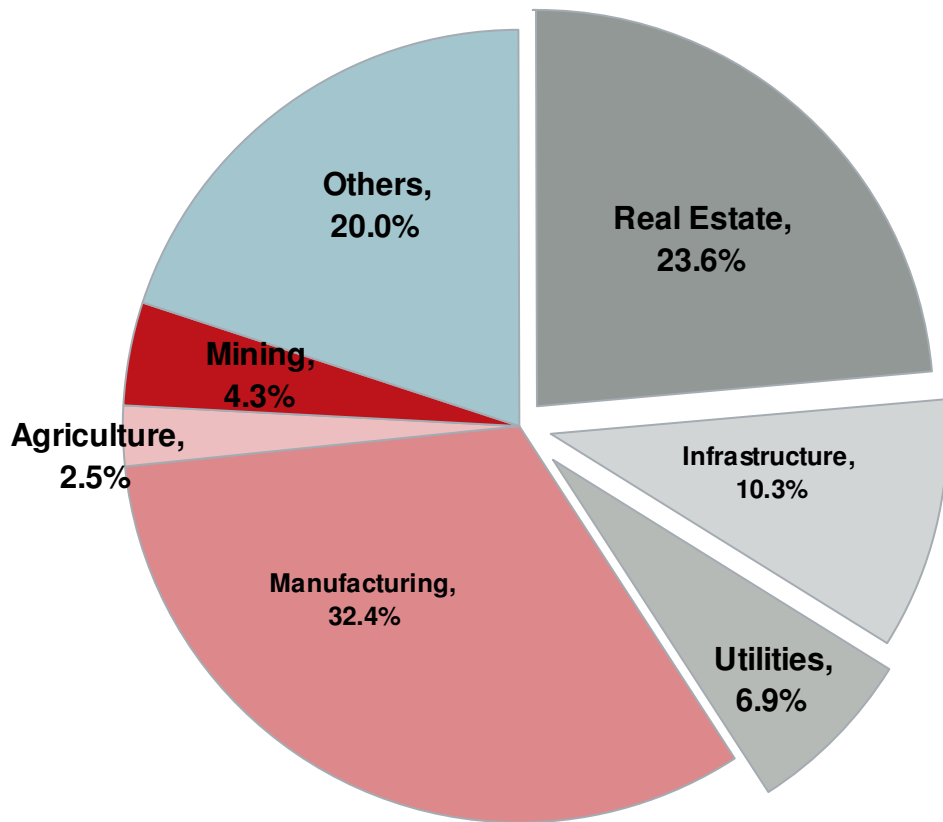
4 trillion RMB more in November

But how much of it is new spending? 30%? 25%? 20%?

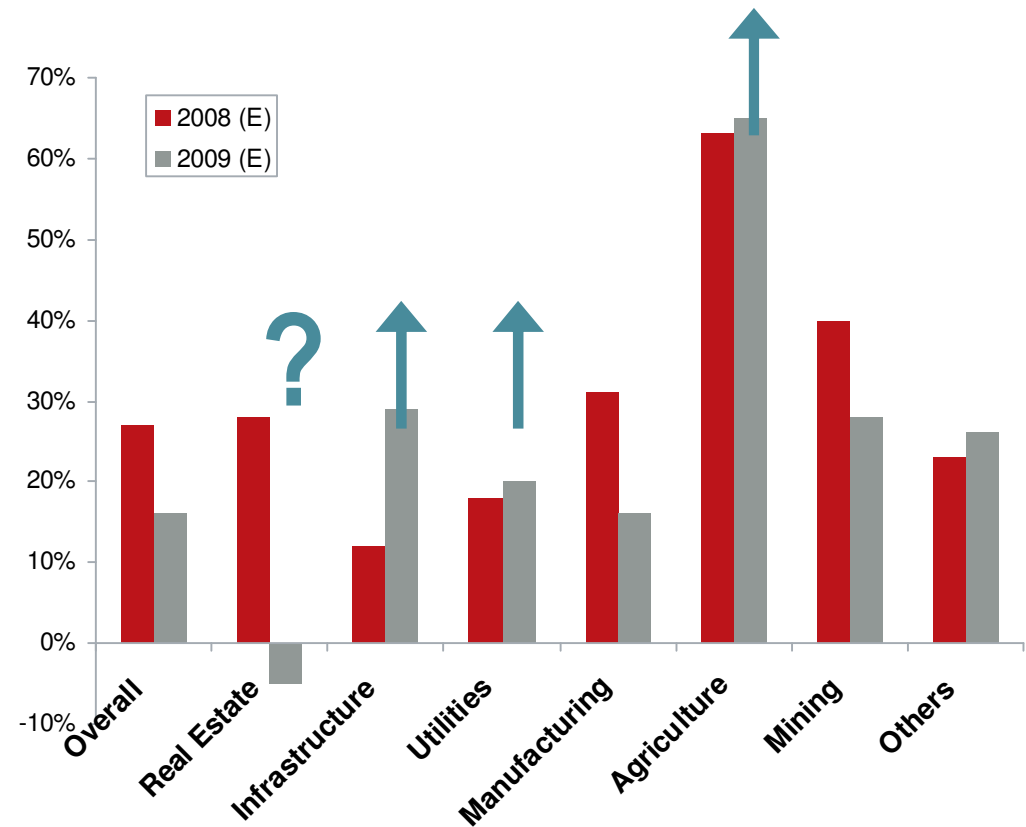
Stoking the Fixed Asset Investment Engine

When it comes to growth, Real Estate is the key sector

Fixed Asset Investment by Sector



Year on Year Sector Growth in Fixed Asset Investment



Massive Infrastructure Investments to Bolster Economy

Enormous commitments to push the economy forward



Airports

\$17.5b

Through 2010.

Renovation/Expansion: Shanghai, Shenzhen, Kunming, Wuhan, Zhengzhou.

New airports in 45 cities



Railways

\$242b

Through 2020.

Wuhan-Guangzhou

Shanghai-Nanjing

Beijing-Shanghai Express

Shanghai-Hangzhou Express

Silk Route, aka Eurasian Bridge



Expressways

\$253b

Through 2030.

The "7918" Network

Beijing to Major Cities

9 North-South trunk lines

18 East-West lines

Main Investment Projects

Enormous commitments to push the economy forward

- Develop the Tianjin new coastal district (Binhai New Area): \$150+ billion
- Reestablish the earthquake effected area in Sichuan Province: \$175 billion
- Western area development: \$125+ billion
- Invigorate the industrial base in North-east China: \$30+ billion
- Subway and light rail developments in 40 cities
- Develop 12 hydro-power bases: \$30+ billion
- Expand and develop the state power network: \$180 billion
- Transporting electric power from west to east: \$78 billion
- Transporting water from south to north: \$75 billion

China's Killer App

The Domestic Market

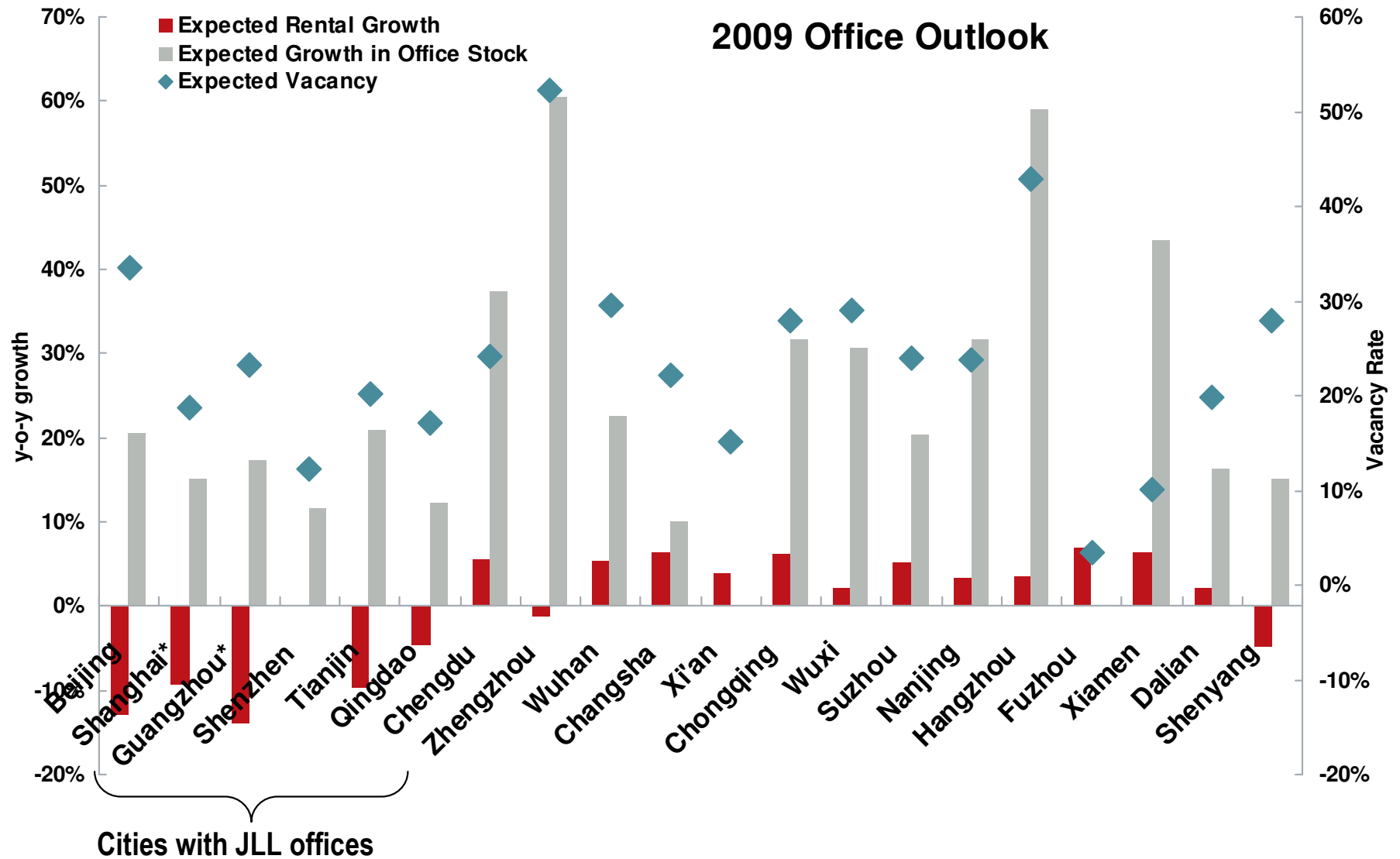
- The domestic market and robust industry clusters will keep China's growth strong
- Recent stimulus can support massive domestic growth even if exports crash
- Will this be the real story of 2009?



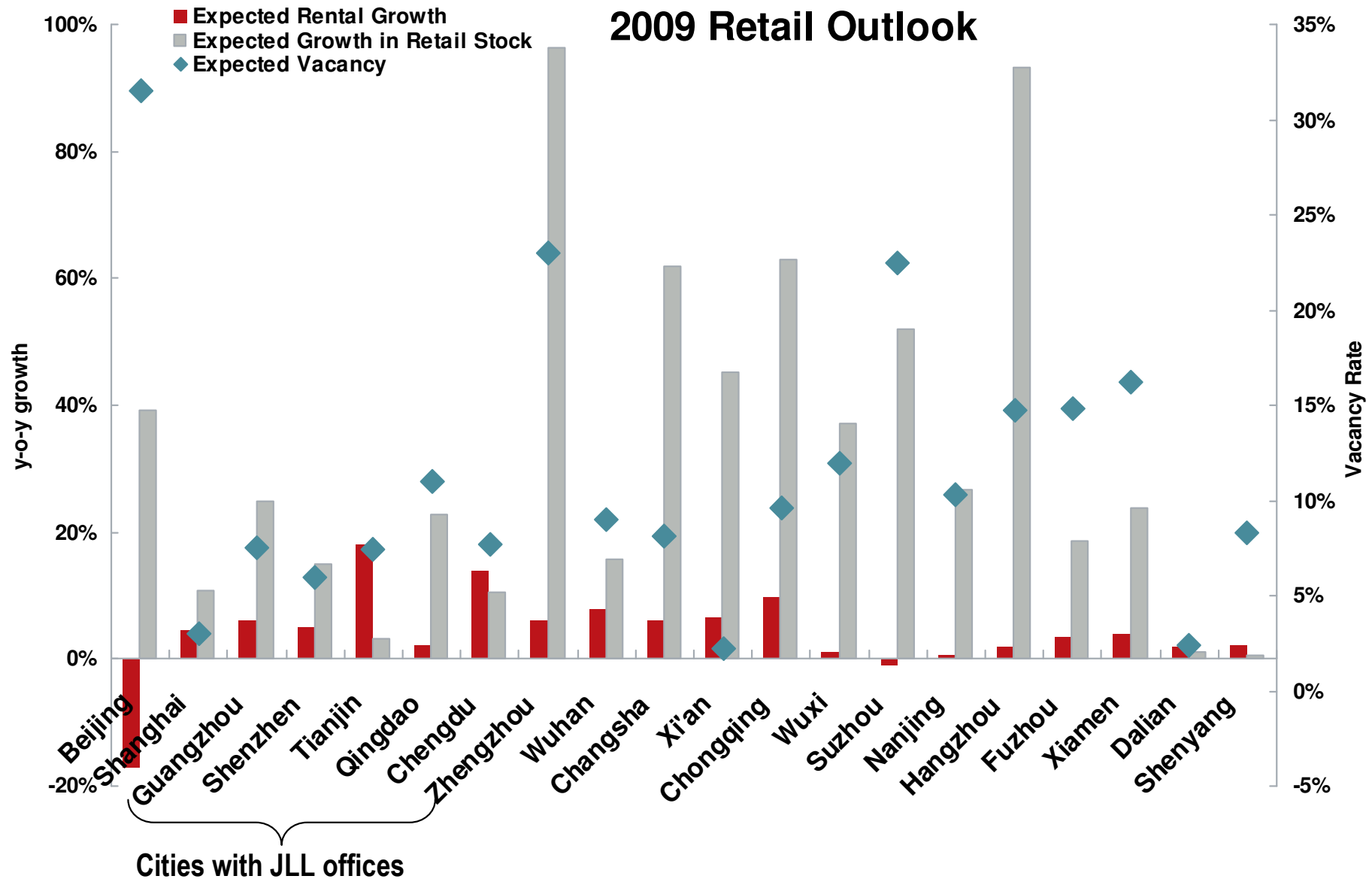
What does it mean for Property? A look at the Markets

The Office Market

Outlook is bad in Tier I cities

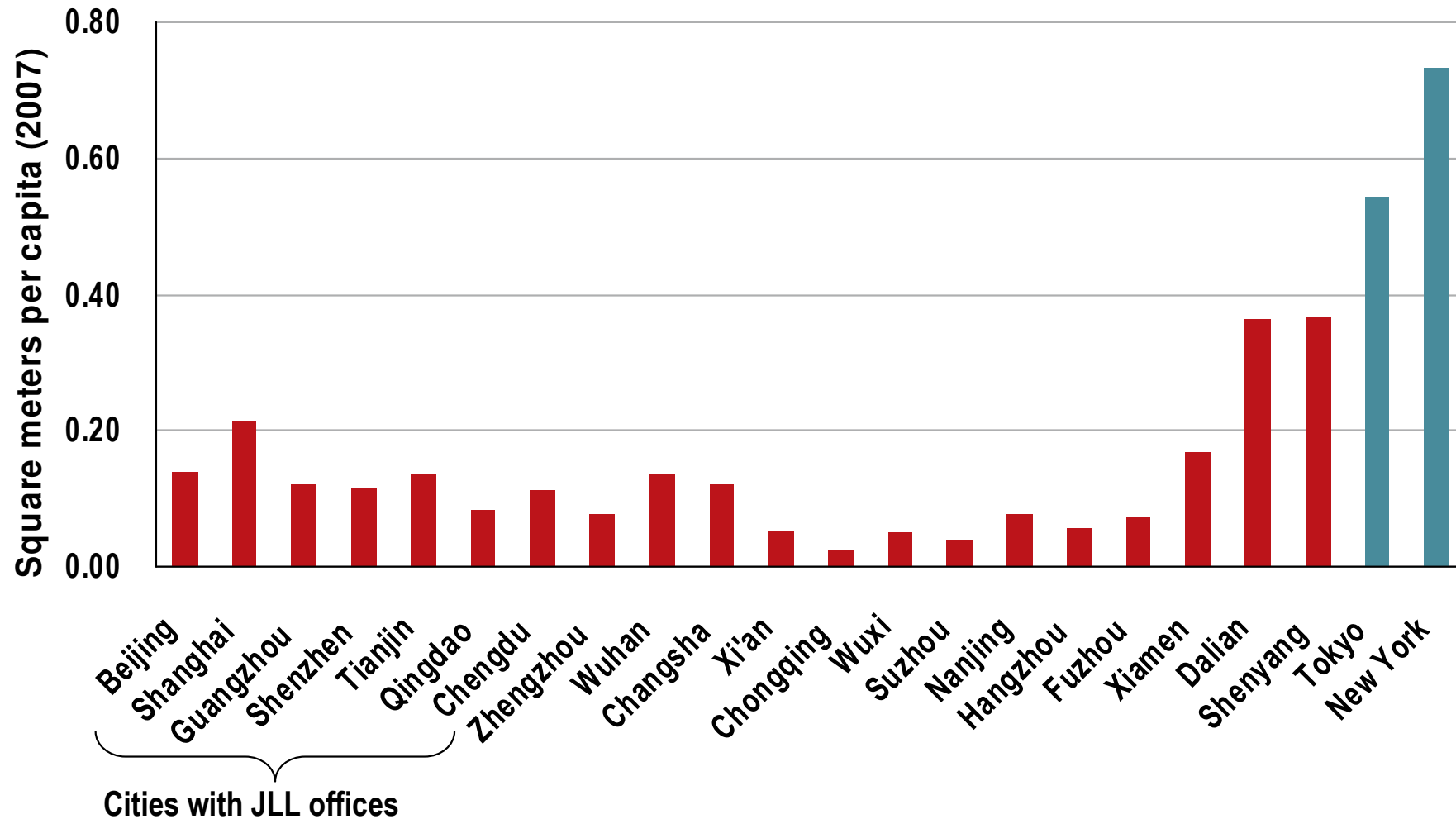


2009 China retail – a brighter spot in property



Source: Jones Lang LaSalle Real Estate Intelligence Service (REIS)

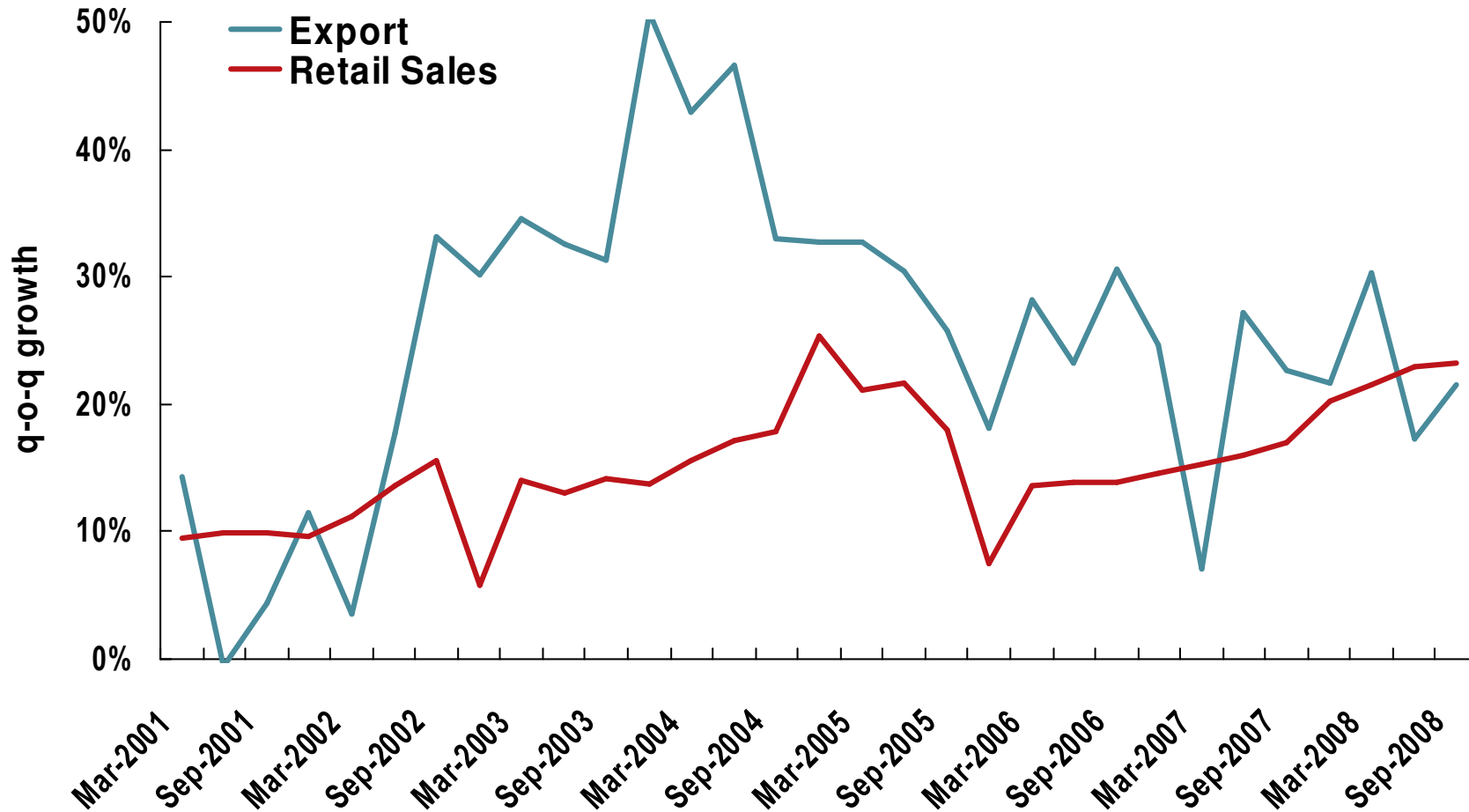
Prime Retail Space Available per Person



Source: Jones Lang LaSalle Real Estate Intelligence Service (REIS)

The Industrial Market

Shifting from export focus to domestic DCs



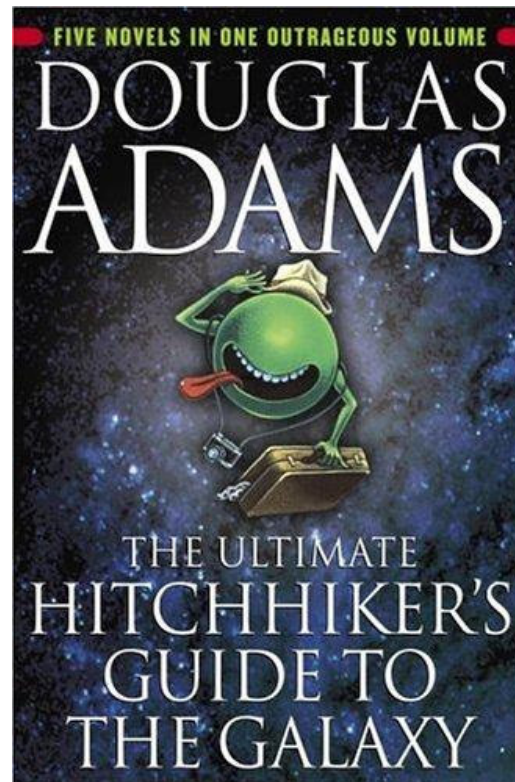
Source: CEIC

Investment Transactions in China

More closely tied to credit markets than a bottom in prices?

- Pressure from decompressing yields in Europe and the US
- Capital values will fall in 2009
- Credit spreads remain at all time wides and leverage is unavailable
- If capital values fall, will investors forsake Tier II cities for “lower risk” Tier I deals?
- The regulatory environment offers glimmers of hope

DON'T PANIC



Conclusion

- The opportunities are high, but the risk are growing
- 2009 can be China's *real* coming out party
 - When domestic markets keep her out of recession
- China's growth will draw MNC's interest back in 2H09
 - Because they can't afford to miss the boat



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Thank you

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