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Emerging City Winners Profiles: China Chengdu

As the capital city of Sichuan province, Chengdu has emerged as the political, cultural and economic hub of China's rapidly developing western region.

A large graduate population, relatively low operating costs, a reputation as the most liveable large city in the western region, combined with the professional skills of the Chengdu government in dealing with foreign investment, has placed Chengdu as the top investment location in inland China.

With Chengdu's raised international profile, improving connectivity and business friendly government, we are confident that Chengdu will emerge as an important business hub of global significance.





ECONOMIC DASHBOARD

Size	Population (million 2005)	10.8
	GDP (USD billion 2005)	29.6
	Employment (million 2005)	6.2
Growth	Population (% pa 2000–2005)	1.3
	GDP (% pa 2000–2005)	13.5
Infrastructure	Air Passengers ('000 2005)	6,930
	Freight Traffic (million tons 2005)	266
Openness	FDI (USD billion 2005)	0.55
	Exports (USD billion 2005)	2.68
Wealth	GDP/Capita (USD 2005)	2,739
	Disposable Income /Capita (USD 2005)	1,420
Education and Labour	Higher Education Institutions (2005)	38
	Total Enrolments ('000s 2005)	526
	Unemployment (% 2005)	3.1
	Average Wage Rates (USD 2005)	2,500
Business	Business Environment (Score)	A
Lifestyle	Quality of Life (Rank)	12th*

* Please refer to Definition of Terms

CITY SUMMARY

Chengdu, the capital city of Sichuan province, has emerged as the political, cultural and economic hub of China's rapidly developing western region¹.

A large graduate population, relatively low operating costs, and a reputation as the most liveable large city in the western region, combined with the professional skills of the Chengdu government in dealing with foreign investment, has placed Chengdu as the current top investment location in inland China.

The Chengdu government has been aggressively promoting the city and is actively developing its high-tech industries. Intel's arrival in Chengdu in 2003 has encouraged further investment from other IT giants such as Motorola, IBM and Nokia, and has consolidated Chengdu's position as an IT hub. The service sector is also growing strongly, notably in professional and financial services. Chengdu is now poised for the next wave of inward investment, with the city expected to emerge as a favoured location for outsourcing.

The important position of Chengdu in western China, the increasing employment opportunities from MNCs, and its attractive quality of life is encouraging strong immigration into the city. Migration inflows are further contributing to the city's vibrancy and have helped to create a young labour pool.

We believe that strong economic fundamentals will underpin a dynamic real estate market over the remainder of the decade. Although the office stock is expected to double by 2009, shortages of high quality stock are likely to remain, and Grade A office rents should be solid over the next three years. Prospects for the residential market are also promising, buoyed by favourable demographics, and strong demand from non-local Chengdu residents.

Chengdu is benefiting from China's "Go West" policy, aimed at stimulating economic activity in the western region, while as part of the 11th Five Year Plan, regional policy will specifically target growth on the Chengdu-Chongqing axis. With Chengdu's raised international profile, improving connectivity and business friendly government, we are confident that Chengdu will emerge as an important business hub of international significance.

¹ Western China refers to the provinces of Gansu, Guizhou, Qinghai, Shaanxi, Sichuan and Yunnan; the autonomous regions of Guangxi, Inner Mongolia, Ningxia, Tibet, and Xinjiang; and the municipality of Chongqing.

DEMOGRAPHICS



Chengdu has a total population of 10.8 million, of which 4.8 million live in urban Chengdu². The city has the largest immigrant population in China, having experienced several major migration waves during its history. Strong immigration has contributed to the laissez-faire attitude of Chengdu's

inhabitants, who are perceived as easy-going and enthusiastic consumers.

The broad mix of residents from across China has ensured the city's vibrancy and fostered a young workforce. For example, 90% of those working in private and foreign companies, and 48% of those working in SOEs, are under 35³.

A "baby boom" is anticipated over the next decade, due to the significant number of women of child-bearing age (e.g. 1 million in the 20-29 age range). High fertility rates, together with continued immigration, are expected to result in rapid population growth. However, in order to control population expansion, the Chengdu government is aiming to limit the city's population to a maximum of 11.8 million by 2010.

The city's large population (which ranks 4th after Chongqing, Beijing and Shanghai), and its skilled and low cost labour pool, strongly caters to the needs of labour intensive businesses and companies serving domestic markets.

ECONOMIC BACKGROUND

As the political, cultural and economic hub of south west China, Chengdu has long dominated the economy of the vast western region, outperforming its regional peers, Chongqing and Xi'an. Although statistically Chongqing Municipality has a higher total GDP, Chengdu is recognised as the top city in the western region, both in terms of economic weight and wealth levels. Chengdu has more advantages in wealth creation, and its GDP/capita is twice that of Chongqing. Economic growth in Chengdu in 2005 was 13.5% compared to 13% in Xi'an and 11.5% in Chongqing.

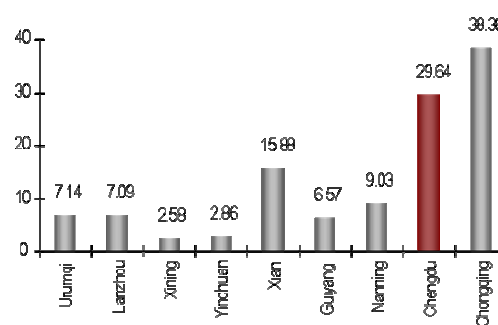
Chengdu's major industries are information technology, pharmaceuticals, food (including tobacco) processing and mechanical engineering, which combined generated 57% of

Chengdu's total industrial output in 2005. Information technology is the most important growth industry contributing 13% of total industrial output in 2005. The Chengdu government is actively promoting this sector, and is aiming to become the premier IT hub in China over the next five years.

A favourable climate, with an average annual temperature of 16 degrees Celsius, together with its topography, has contributed to a booming agricultural industry. Total agricultural output contributed 13% of GDP in 2005.

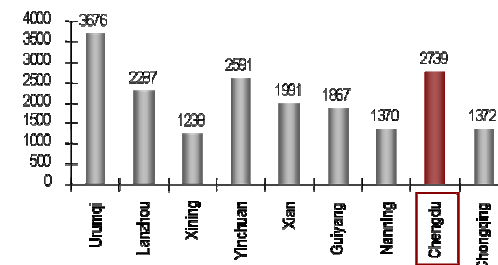
GDP Comparisons, 2005 - Major Cities in West China

US\$ billions



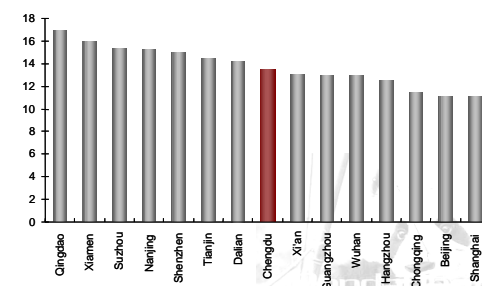
GDP/Capita Comparisons, 2005 - Major Cities in West China

US\$



Source: Statistics Yearbook

GDP Growth Rates (2005)

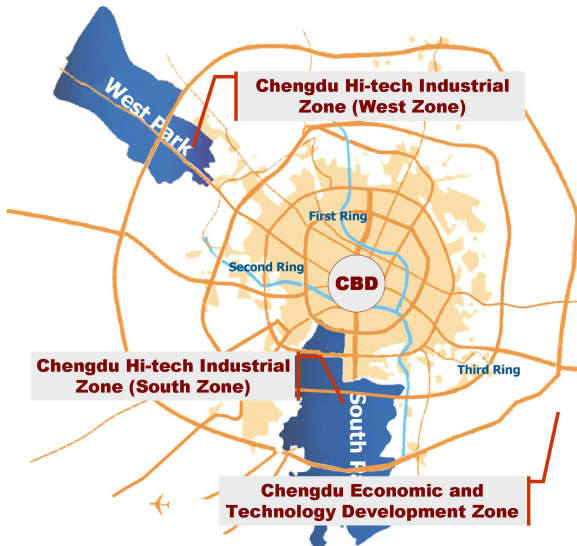


Source: Statistics Yearbook

² Includes Jinniu, Chenghua, Qingyang, Wuhou and Jinjiang Districts.

³ Source: Chengdu Statistics Bureau

URBAN PLANNING & INFRASTRUCTURE



Urban Planning

The urban form of Chengdu resembles that of a spider's web, defined by four concentric ring roads that constitute the main transport system. Areas within the outer ring road are referred to as "Urban Chengdu", with a land area of 466 sq km and an urban population of 4.8 million.

The main commercial areas are concentrated within the first ring road, while the area between the second and third ring roads is the focus of large residential clusters and supports low end retail.

The traditional middle-to-high end residential areas are located in western and southern Chengdu, while northern Chengdu is the home of railway related SOEs and their employees. The challenge for northern Chengdu is that it has tended to be more disordered compared to other parts of Chengdu city.

In order to improve the living environment of Chengdu residents, large heavy industrial SOEs have been forced to relocate their facilities outside of the outer ring road.

The main focus of development over the next five years will be on the Central Business District (CBD) and the South Business District, which will be developed as Chengdu's second city centre.

CBD: The CBD core covers an area of 2.5 sq km, and includes the traditional business and commercial districts such as Chunxi Road, Hongxing Road, Yanshikou, Luomashi, and Shuncheng

Street. The area specialises in banking, consultancy services, government administration and hotel related activities.

South Business District: The SBD is being developed as Chengdu's second city centre – and the municipal government has relocated to the SBD to facilitate its development. The construction of a new exhibition centre will further stimulate the IT cluster in this district.

Infrastructure Improvements

The Chengdu government's initiatives to upgrade the living environment and improve its infrastructure are illustrated by the following:

- The Chengdu Funan River renovation project, with a total investment of USD 250 million, achieved the 1998 "National Habitat" award from the UN for its contribution to human habitation.
- Chunxi Road, Chengdu's main commercial street has been refurbished, and is considered the most dynamic and prosperous commercial pedestrian road in the western region.
- The old buildings in Tianfu Square⁴ have been demolished, and a brand new city square is under construction.

Subway Construction

To facilitate the integration of the different city functions, and to ease transportation problems in urban Chengdu, a total of seven subway lines have been planned, and two have been approved. Subway Line 1, connecting Chengdu's north and south areas, has started construction and is due for completion in 2010. Line 2 will start early in 2007, and is expected to be in use by 2015. For residents living outside the outer ring road, these two subways will reduce travelling time from 2.5 hours to only 0.5 hour. They are also expected to improve the economic integration between the city and outer areas, and it will encourage more suburban people to shop in the city centre, therefore benefiting the discount retail market.

As well as upgrading of the inner city infrastructure, connectivity has been improved by the expansion of its airport:

Airport Expansion

Air transportation is the most efficient means of travel to and from other regions of China, and from other countries. Chengdu is 1,400 km from the main coastal cities and is surrounded by

⁴ The core of Chengdu.

mountains, and so travel by road or rail is both time consuming and inconvenient.



With seven million passengers annually, Chengdu's Shuangliu International Airport is China's fourth largest airport hub (after Beijing, Shanghai and Guangzhou); it surpassed Shenzhen in 2005. Air passenger movements are increasing by circa 20% y-o-y.

Shuangliu International Airport has been actively upgrading its international connections. KLM, the Royal Dutch Airlines, has been capitalizing on the booming Chengdu economy and has established a direct air link from Chengdu to Amsterdam, representing the city's first long distance air route. A direct link to Frankfurt or Munich is expected to open in late 2006, and a Chengdu-San Francisco route is expected to be functioning by 2007. Chengdu has ambitions to replace Bangkok as the key hub in eastern Asia connecting Europe.

Improved air connectivity will further facilitate cooperation between Chengdu and other countries, as well as easing the rail and expressway problems faced by the city. It will also help the development of the city's logistics and IT industries.

BUSINESS ENVIRONMENT

Chengdu is one of the most attractive Chinese cities in terms of business development potential. The professional skills of the Chengdu government in dealing with foreign investors have been cited as a major pull for many inward investors. For example, the Chengdu government has provided support for facilities' development and employee recruitment for companies such as Intel and Motorola.

According to officials from the Chengdu Foreign Investment Promotion Centre, the Chengdu government's skills in dealing with foreign investors have been honed since Intel arrived in the city in 2003. A professional office was established specifically to work with Intel's investment, and its successful conclusion in 2003 has attracted more MNCs, such as IBM, Motorola and Nokia, who have subsequently set up facilities in the city.

The government has also developed a strong commercial outlook by recruiting senior managers from large foreign firms. Their participation has improved the service level of the Chengdu government, and created a more business friendly administration.

The Chengdu government has also focused on improving intellectual property protection for foreign enterprises, a critical issue for IT companies.

The intensive efforts of the Chengdu government have been reflected in a foreign investment boom in recent years. 107 of the top 500 MNCs had a presence in Chengdu in 2005. Total realized foreign direct investment reached USD 550 million, a 66% growth on 2004.

KEY INDUSTRIES/SECTORS

Chengdu's location has historically constrained the city's industrial structure. The city has been isolated from the major coastal cities, and exports which require water-borne transportation have been hindered by its distance from the main ports. Chengdu's modern economy has therefore developed towards light industrial higher-value sectors, such as IT and medicine.

Among the four pillar industries, the IT industry is the government's main target in the 11th 5 year plan Chengdu has strong potential to further develop its IT industry on the back of existing investment. A clean and cheap water supply⁵ (fed by the Dujiang Dam, a large hydraulic water project which automatically diverts the Minjiang River), the availability of highly skilled labour and a relatively complete supply chain will underpin the sector's future development.

EMPLOYMENT STRUCTURE

The tertiary industry has been the main support for Chengdu's economy historically and it still plays a significant role. It is the industry sector showing the fastest growth rates, and the greatest number of job opportunities.

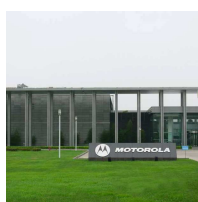
Within the tertiary industry, professional services have seen rapid expansion, with employment reaching 30,000 in 2005, almost double the 2004 level. The financial sector has also witnessed rapid growth, with total staff employed rising by 56% in 2005, due to the number of foreign financial firms entering the market.

⁵ Clean water is crucial for IC products.

MAJOR EMPLOYERS



Intel: Intel's close relationship with Chengdu dates back to 2003, when the company announced a USD 200 million investment to establish its second assembly and test plant, with circa 675 employees. In March 2005, Intel announced that it would build another factory in Chengdu, with an additional investment of USD 250 million, which is to be opened in 2007. Chengdu has now surpassed Shanghai as Intel's main production hub in China.



Motorola: A software development centre was set up by Motorola in 2001, which committed to invest some USD 75 million within five years to develop its Chengdu facility into a global software centre. As Motorola's third software facility in China, Chengdu's software development centre mainly focuses on R&D of 3G networks, handset integration and governmental broadcasting networks. Motorola is also carrying out a series of high-tech cooperation projects with local software companies. In October 2004, Motorola announced an expansion of Chengdu's R&D centre by increasing its staff by 30%.

SAP: SAP opened its second China-based R&D centre in Chengdu with an initial investment of USD 1.25 million in January 2006. SAP plan to employ 150 engineers by 2007, almost triple the current number.

Esmertec: A leading provider of software solutions for mobile phones and embedded devices, Esmertec opened its R&D and Customer Support Centre in Chengdu in July 2005. Known as the "Microsoft" of the mobile phone sector, Esmertec attaches great importance to Chengdu, evidenced by its plan to recruit more employees in Chengdu than any of its other global branches. Testimony to their confidence in the Chengdu market, Esmertec brought nine venture companies (investors of Esmertec) into Chengdu to seek investment opportunities in local projects.

Molex: Molex, the second largest manufacturer of electronic connectors in the world, invested around USD 70 million to build a factory in Chengdu in July 2005, which will reach full capacity in January 2007. Due to the favourable investment environment and the huge market potential of western China, Molex expanded its investment to USD 100 million in December 2005, to make the Chengdu factory its largest in the world in terms of investment volume.

Alcatel: In February 2003, Alcatel, the world leader in optical networking, established its Optical Communications R&D Centre in Chengdu. The centre, with about 150 R&D specialists, engages in the research of a full range of optical communication products and solutions. In August 2005, a new R&D centre was set up in Chengdu by Alcatel Shanghai Bell to focus on the development of world-class technologies and product concepts covering fixed and mobile communication areas. Around 300 R&D engineers will be employed in this new facility.

SMIC: With a total investment of about USD 175 million, Semiconductor Mfg. Int. Corp. (SMIC) is developing a chip assembly and test plant in the Chengdu Export Processing Zone. The plant is expected to hire 2,500 people.

MAJOR INVESTMENT DEALS

Newegg: Newegg, a leading online computer hardware and software retailer, has expanded its operation in China by setting up its largest overseas R&D centre in Chengdu in September 2005, and plans to recruit about 400 IT professionals. Newegg also plans to establish a logistics centre in Chengdu.



Synnex: Synnex Corporation, a global IT supply chain services company, has set up its new company in Chengdu with an initial investment of USD 7 million in August 2006. Synnex has recruited 300 employees for its IT and computing solutions services and plans to recruit up to 2,000 employees with an additional investment of USD 35 million by 2008. The new Synnex base will cover 3,000 sq m in Tianfu Software Park.

Nokia: Nokia has established its sixth R&D unit and second 3G R&D centre in Chengdu in August 2005, focusing on developing new mobile applications based on 3G and IP Multimedia Subsystems (IMS) for both domestic and global markets. The centre will cover an area of 10,500 sq m.

Microsoft: Microsoft set up its video game R&D centre for Xbox in Chengdu in September 2006. The newly developed video game R&D centre covers an area of 1,700 sq m in the Digital Software Park in Chengdu Hi-tech Industrial Development Zone.

Kingway: Hong Kong listed company Kingway Brewery Holdings has invested USD 90 million in Chengdu Hi-tech Industrial Zone in July 2006, to build a brewery covering a site of circa 130,000 sq m. The factory will be completed in 2007.

LABOUR AND EDUCATION

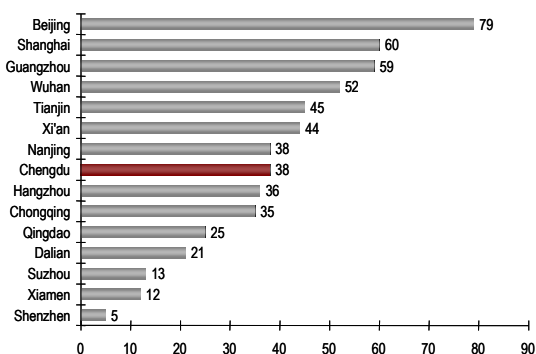
Chengdu's dynamic IT industry can be largely attributed to its wealth of skilled labour. The city's 38 universities and colleges churn out 92,000 graduates each year (of which 9,000 have majored in electronics), providing a large labour pool for a growing number of R&D centres.

Low labour costs, which are almost one-third that of Shanghai, have also been a major driver of inward investment. However, it is the stability of the labour force which is a key differentiator for Chengdu. Unlike other secondary cities where graduates have tended to migrate to first-tier cities for employment, Chengdu has a much higher retention rate due to its favourable living environment. In fact, Chengdu is the only city in the western region with strong net immigration. Government action to retain and attract graduates has focused on providing high quality graduates with easy access to city amenities.

The large supply of quality labour relative to levels of inward investment has ensured the stability and reliability of labour. According to the government statistics bureau, Chengdu's annual turnover rate is around 10%, which is much lower than that of other Chinese cities, such as Shanghai and Beijing (where turnover rates reach around 30%).

The most high profile universities in Chengdu are Sichuan University, the University of Electronic Science and Technology of China, Southwest Jiaotong University, and South Western University of Finance and Economics.

Higher Education Institutions (2005)



Source: Ministry of Education, China & Government Statistic Reports, 2005



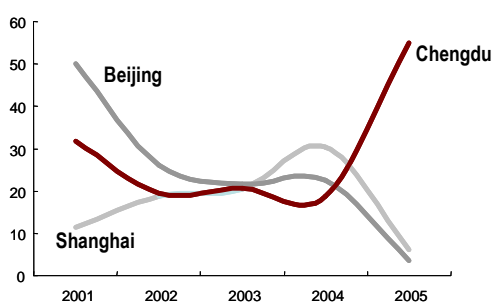
REAL ESTATE DASHBOARD

Market Size/Stock	
Offices Grade A (000s sq m, Q2 2006)	280
Retail (000s sq m, 2006)	460
Number of Five Star Hotels (2005)	7
Market Activity	
Office Construction Grade A (000s sq m by 2009)	330
Office Vacancy Grade A (% , Q3 2006)	35
Benchmark Values	
Offices Grade A – Rents (USD per sq m pa)	120-225
Retail – Rents (USD per sq m pa)	750-2,700
Industrial – Rents (USD per sq m pa)	17-60
Hotels – Room Rates (Five Star, USD)	73-213
Residential Prices (USD per sq m)	750-1,250
Grade A Offices – Indicative Yields (%)	11-13

Source: Jones Lang LaSalle Research

REAL ESTATE TRENDS

Real Estate Investment Growth Rate (%)



Source: Statistics Yearbook

JONES LANG LASALLE'S VIEW

Office Sector: The Grade A⁶ office market in Chengdu has been dynamic since 2005, with annual demand reaching more than 30,000 sq m, almost equivalent to combined total of 2003 and 2004. Occupier demand has been mainly generated from the expansion of existing hi-tech and industrial companies, and new market entrants in professional and financial services.

Current office requirements are usually small scale, within the range of 100-300 sq m. Many occupiers are seeking to expand to 300-500 sq m, but expansion plans are being constrained by lack of availability. Most Grade A office space is strata titled and is not usually of the standard required by international occupiers. Plaza Central, managed by Jones Lang LaSalle, is the only wholly owned Grade A office building available for lease.

New office supply coming on stream over the next three years (at about 330,000 sq m) will partially ease the inherent supply shortages for high quality buildings⁷, but with expectations of strong occupier demand, high quality stock will remain in limited supply. Rental levels for Grade A offices are expected to remain solid over the next three years.

Retail Sector: The retail sector is dominated by middle-range department stores and a few shopping malls. Wang Fu Jing Department store, Pacific Department Store and Ito-Yokado are the most successful operators in Chengdu, due to their central location and their middle-range target customer base. In contrast, retail turnover has been more subdued in Seibu, the high-end retail operator, which opened in April 2006. Demand levels are likely to be insufficient to absorb the additional 564,000 sq m of high-end department stores and shopping malls that are expected to be added to the current stock by 2008.

Residential Sector: The residential market has seen strong performance since 2001, with demand exceeding supply for three consecutive years (2002-2004). Although a marginal excess of supply was recorded in 2005, we are nonetheless confident about the future prospects for the residential market. The market is still very vibrant, with half of the supply absorbed by non-local Chengdu residents. Most of the residential buyers are wealthy individuals from Tibet, other cities in Sichuan Province and from Chongqing. With the most favourable living environment in western China, reasonable residential prices, and solid demand, the future prospects for the Chengdu residential market look promising.

⁶ Graded according to local standards.

⁷ Refers to international standard lease only Grade-A office building

KEY PLAYERS

Investors

Residential: China Overseas, Keppel Land, Hutchison Whampoa, CapitaLand, China Resources, Kerry Property, Greentown, Vanke, New World Development, Surbana

Offices: Shangri-La, Wharf, Lippo, Yanlord, SEA Holdings

Industrial: Intel, SMIC, Unisem, Motorola,

Hotels: Shangri-La, Sheraton, Sofitel, Kempinski, Hyatt, IHG(InterContinental),Cendant

Retail: CapitaLand, Yanlord, Wangfujing, SM Group

Logistics: Prologis

Occupiers

Retail: Carrefour, Wal-Mart, Auchan, Metro, Lotus, IKEA, B&Q, New World Department Store, Sogo, Seibu, Isetan

Service Firms: HSBC, Standard Chartered, Citibank, BNP, ABN AMRO, BEA, UOB, OCBC, KPMG, Jones Lang LaSalle, New York Life, Allianz

KEY TRANSACTIONS

Investors

CapitaLand: In May 2006 CapitaLand established a joint venture with a local developer Chengdu Zhixin Group, investing USD 136 million. This joint venture will focus on developing residential projects in Sichuan Province. They plan to develop 5-7 projects in Chengdu before 2014, with a total construction area of 4.5 million sq m.

Prologis: In February 2006, Prologis signed an investment contract with the governments of Chenghua and Jinniu Districts to develop two logistics parks. The total investment is expected to be USD 100 million, with a secured site area of more than 710,000 sq m. The two projects are scheduled for completion within the next three years.

Occupiers

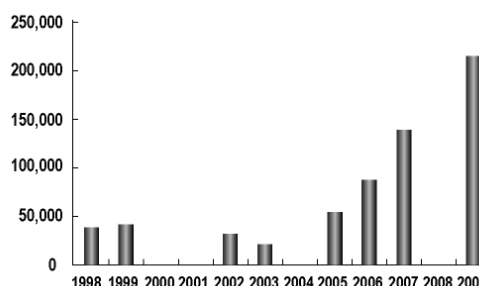
Hong Kong New World Department Store: In July 2006, Hong Kong New World Department Store signed a lease for the retail part of Plaza Central (with its owner, SEA Holdings). It was reported that they leased a total of 30,000 sq m GFA and the total investment will reach USD 19 million. The department store is scheduled to open in December 2006.

KPMG: KPMG leased office space in Plaza Central to set up its first office in western China. The office opened in September 2006.

OFFICES

Grade A offices are mainly located in the CBD, in areas such as Luomashi & Shuncheng Street, Chunxi Road, Yanshikou & Tianfu Square and Renmin South Road. The latter two areas account for three-quarters of the current stock.

Grade A Office Supply (sq m)



Source: Jones Lang LaSalle Research

Historically the Chengdu office stock has been small, with only 140,000 sq m constructed over the past 7 years. However, supply has picked up since 2005 with the release of Time Plaza. Nonetheless, supply shortages of high quality space remain acute, and a number of companies have been forced to occupy hotel and residential buildings.



Supply is expected to grow strongly over the next three years, with the total stock estimated to reach over 630,000 sq m by the end of the decade, double its current level.

However, most of the future supply is strata titled, only a few buildings will be available for lease and the local

standard of Grade A office space is low, barely meeting the requirements of international companies. Moreover, with the aggressive expansion plans of existing tenants, combined with expectations of a significant number of new market entrants, we anticipate a continued supply-demand imbalance, and in particular, shortages of high quality space for lease.

Jones Lang LaSalle's tracking of existing Grade A office occupiers, indicates that financial institutions and business services firms account for 33% of total occupancy, followed by that of industrial companies (29%) and hi-tech companies (22%). 70% of new demand in H1 2006 was generated by financial

institutions and business service firms, evidenced by the arrival of companies such as Allianz, UOB, ABN Amro and Jones Lang LaSalle. This structure of demand is slightly different from other secondary cities where trading, logistics and manufacturing firms account for a large proportion of demand.

INDUSTRIAL

Industrial zones and business parks are found in almost every district of Chengdu. However, the Chengdu Hi-tech Industrial Development Zone is the most popular zone, and is the focus of the Chengdu government's industrial strategy. The zone hosts 70% of hi-tech firms in Chengdu, and over half of the hi-tech firms in Sichuan Province. The Hi-tech Industrial Development Zone consists of four functional areas: Chengdu Returning Overseas Students & Doctor Pioneer Park, Chengdu Hi-tech Incubation Park, Hi-tech West Zone Incubation Centre and Tianfu Software Park.



Most industrial facilities are built by the government for lease, although a few are available for sale. Rents range from USD 2.5 - 5/sq m/month, which are attractive levels for those SMEs who are seeking to expand in Chengdu. The Tianfu Software Park, for example, has been 80% leased in just one year.

Nokia, Synnex and NEC all set up their R&D centres in the park. Meanwhile, some big state-owned companies such as China Telecom have bought stand-alone buildings within the park.

Intel and SMIC, however, have their major commitments in the Chengdu Export Processing Zone. The Chengdu government has provided significant incentives such as lower land costs, cash reimbursements for facility development, and assistance with employee recruitment. The arrival of Intel in 2003 has



subsequently stimulated the development of a large supplier network, as well as encouraging competitors. Intel has been a major factor in the development of the IT industry in the Hi-tech Zone.

The success of the Hi-tech Zone has also stimulated residential and hotel sector development. Three five-star hotels and 6-7 sq km of residential will be developed along the Hi-tech Zone (South Zone) to capture the potential of this area.

RESIDENTIAL

The growth potential of Chengdu's residential market has attracted a number of large residential players. Hutchison Whampoa, Keppel Land and CapitaLand are all high profile examples of cross-border developers that have obtained large parcels of development land. Hutchison Whampoa, for example, has secured 667,000 sq m of land in the south area. China Overseas, one of the top five China residential developers, has also been very successful in Chengdu, and despite the large scale of its projects (at over 2 million sq m), this has not impeded the sales process (unlike its experience in other cities). China Overseas projects such as "Greenwich Village" and "International Community" are high-end and have successfully raised the profile of the whole surrounding area.

As there are so few high-quality projects on the market, those developed by big name developers have quickly become favoured projects. Market acceptance of high quality, but reasonably priced residential projects, indicates the strong demand in this sector. Demand is generated from both local Chengdu residents and wealthy individuals from other western cities in Tibet, Chongqing and Guizhou. Non-local Chengdu residents account for half of total demand, most of which is for their own occupation. Chengdu's superior living environment (compared to other western cities), reasonably priced consumer goods and cluster of top universities will continue to support strong residential demand.



Most local Chengdu residents inhabit accommodation that is around 10-20 years old, with a relatively large living space at circa 27 sq m per person⁸. Their imperative to upgrade is not so apparent at this stage, but we are confident that

with the more aggressive progress of city renovation, this section of demand will be substantial over the next 10 years.

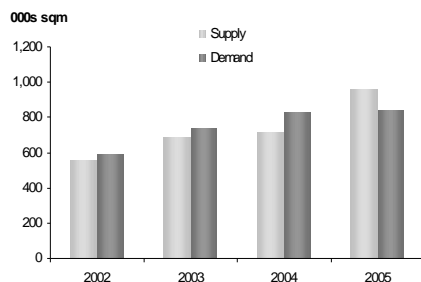
South and west Chengdu have been the traditional middle-high end living areas, and they continue to be the preferred residential locations for most residents. South Chengdu is home to most of the universities, while west Chengdu has traditionally been the location of government officials.

The serviced apartment sector has the potential to be highly dynamic, given demand from those senior managers working in MNCs and living in Chengdu. Currently there are no serviced apartments on the market; the Shangri-La and Yanlord projects,

⁸ In most China cities, the average living area is only 20 sq m per person.

to be released within the next two years, will ease some of the supply constraints on this sector.

Housing Supply and Demand



Source: Statistics Yearbook

RETAIL



The retail market is prosperous with a mixture of retail styles co-existing in Chengdu. Hypermarket operators, department stores, shopping malls and various wholesale markets are all active. The four main commercial areas are Chunxi Road, Yanshikou, Luomashi and South Area. Chunxi

Road hosts most of the popular department stores – for example, Wang Fu Jing, Ito-Yokado, and Pacific department stores, all targeted at the medium range market, have achieved Chengdu's top retail turnovers. Rents for shop units along Chunxi Road have reached USD 7/sq m/day, and are continuing to rise.

The high-end department stores such as Renhe Spring, Maison Mode Lessin in Yanshikou, and Spring Zone Bei Store in Western Tower, have effectively met the needs of both local wealthy residents and those of surrounding western Chinese cities. The newly opened high-end department store, Seibu, has also attracted a number of luxury brands such as Louis Vuitton and Dior.

However, the quality and design of local department stores⁹ has constrained investment opportunities in the retail sector, although there is significant investor interest. Some 564,000 sq m of high-end retail space is expected on the market by 2008, which will create greater opportunities for retail investors.

⁹ Compared to international standard, the design and quality is relatively poor.



Hypermarket operators are showing strong interest in the Chengdu market. Wal-Mart opens its first store in Oct 2006¹⁰; Carrefour has four stores, and IKEA is expected to open in Chengdu soon. Retailer enthusiasm for the market is mainly driven by the strong local

consumption outlook, combined with a large retail catchment spanning China's western region.

A special feature of the Chengdu retail market is the organic development of wholesale markets. Hehuachi Wholesale Market, for example, has driven the development of various markets, focused on books, clothing and food. Operators are attracted from all over China, and excellent distribution channels are greatly facilitating the further development of wholesale markets.

CLOSING THOUGHTS

Chengdu's recent story has been one of rapid evolution - the city is now a bustling, modern, energetic city, with strong high-tech industries and an expanding service sector. Chengdu is also poised to attract the next "corporate wave", and together with Beijing, Shanghai, Xi'an and Dalian is likely to emerge as a base for outsourcing activities. A number of major Indian outsourcing firms are expected to target the city, attracted by its high quality labour and favourable living environment. Their interest in Chengdu points to a positive future for the outsourcing sector.

Although Chengdu has been aggressively targeting and successfully attracting foreign investment, it still lags behind the coastal cities in terms of wealth levels. Whilst Chengdu is the western region's most successful city, its inland location has impeded development of those export industries that rely heavily on water transportation. Therefore, Chengdu's economy has been focusing on domestic consumption, and it is likely to benefit from the rapid growth of the western region; a region of 350 million people. On the other hand, the lack of a strong traditional industrial base could constrain its future development.

Chengdu government's strategy of developing the IT industry will underpin the city's future growth. However, the challenge remains to establish a complete supply chain for IT firms, and to

¹⁰ Strategic partner is Shenzhen International Trust & Investment Co, and CapitalLand.

integrate Chengdu into those companies' global supply chains. As cost advantages are easy to replicate in tertiary cities, only a comprehensive supply chain network will enable Chengdu to maintain its competitive advantage.

China's "Go West" policy has exposed Chengdu to foreign investors and raised its city profile. Focusing its economy on the domestic market, utilizing its strong distribution channels for consumer goods; and improving connections with coastal cities will be the key challenges facing Chengdu over the next few years.



DEFINITION OF TERMS

ECONOMIC DASHBOARD

Population: Population refers to the total population as at 31 December.

There are two definitions of population:

- Registered population – those officially registered with the police.
- Permanent residence population – those who actually reside permanently in a location, usually longer than one-half year.

Chengdu's population refers to permanent residence population.

GDP: Refers to the gross domestic (i.e. regional) product of a location.

Employment: Refers to the number of persons engaged in labour and receiving remuneration payment or earning business income, including fully employed staff and workers in state-owned, collective-owned or other kinds of economic sectors and otherwise employed persons.

Population Growth: Refers to the compound annual growth rate over the five-year period 2000–2005

GDP Growth: Refers to the annual GDP growth rate over the five-year period from 2000 to 2005.

Freight Traffic Refers to the volume of freight transported by various means, measured in millions of tons.

FDI: Foreign direct investment refers to investments made inside China by foreign enterprises and economic organisations or individuals (including overseas Chinese, compatriots in Hong Kong, Macau and Chinese enterprises registered abroad).

GDP/Capita: Refers to total gross domestic product divided by the registered population.

Disposable Income: Refers to the actual income at the disposal of a household that can be used for final consumption, other non-compulsory expenditure and savings, which is part of the urban households' income that can be disposed by the urban households themselves.

High Education Institutions: Refers to the number of higher education institutions providing higher education courses and training for senior professionals. They include full-time universities, colleges, high professional schools, high professional vocational schools and others. High education institutions are set up according to the central government evaluation and approval procedures.

Unemployment Rate: The registered urban unemployment rate refers to the ratio of the number of the registered unemployed to the sum of the number of persons employed and registered unemployment in a location.

Average Wage Rates: Average wage rate refers to average wage of fully employed staff and workers. It is calculated as follows:

$$\text{Average wage of fully employed staff and workers} = \frac{\text{total wages of fully employed staff and workers}}{\text{average number of fully employed staff and workers}}$$

Business Environment: Jones Lang LaSalle's grading, measured by an assessment of a locations macroeconomic environment, its policy towards private enterprise and foreign investment, and its labour market and tax regimes. A location's business environment is graded from A (highest) to C (lowest), with Shanghai providing the benchmark.

Quality of Life: Jones Lang LaSalle's grading, refers to the quality of health, culture and environment in each city. A city is ranked among 15 cities (Shanghai, Beijing, Guangzhou, Shenzhen, Chongqing, Chengdu, Tianjin, Wuhan, Xi'an, Qingdao, Hangzhou, Suzhou, Nanjing, Dalian and Xiamen).

REAL ESTATE DASHBOARD

Offices Grade A Stock: Refers to the total completed Grade A office space (occupied and vacant). Grade A reflects an above average property in the market, with quality criteria being at the upper end of the scale.

Retail Stock: Represents the total stock of mid-high end department store and all shopping malls in Chengdu.

Number of Hotels: Refers to the number of five-star hotels.

Office Construction Grade A: Refers to the total amount of Grade A office space in properties where construction has commenced, and completion is expected in 2007, 2008 or 2009. Grade-A is local standard.

Office Vacancy Grade A: Refers to Grade A office floor space (as a % of total Grade A stock) in existing properties that are physically vacant, ready for occupation today and being actively marketed. Grade A office vacancy rate levels are approximately 35% by 3Q06. The relatively high vacancy rate is mainly caused by the completion of Plaza Central and Unionsun-Yangkuo International Plaza in 2Q06, which brought 88,000 sq m lettable area to the relatively small Grade A office market (total stock 280,000 sq m).

Benchmark Rents: Refer to the typical open-market rents (within a range) that could be expected for a unit of the highest quality and specification in the best location expressed in US Dollar per square metre per year.

Grade A Office Rents: Refers to net effective rents excluding management fees.

Industrial Rents: Refer to rents of pre-built business parks mainly in Chengdu HI-tech Industrial Development Zone.

Residential Prices: Refer to typical prices (within a range) for high-end residential projects in US Dollar per square metre.

Grade A Offices – Indicative Yields: Refer to the best (i.e. lowest) yield estimated to be achievable for a notional office property of the highest quality and specification. Indicative yields represent Jones Lang LaSalle's 'market view', based on a combination of market evidence where available and a survey of expert opinion.





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