



JONES LANG
LASALLE®

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Emerging City Winners Profiles: China Suzhou

Suzhou is a city with 2500 years of history and cultural heritage. With its natural beauty and extensive waterways it is known as the Venice of the Orient, but in addition to its importance as a tourist destination, in recent years Suzhou has also become an industrial stronghold.

Its strategic location, business friendly environment and competitive costs are creating much interest from foreign investors.

Manufacturing is the key driver of Suzhou's economy and with a 2005 GDP of US \$50 billion; it ranked 5th in output among Chinese cities and 2nd in terms of its levels of foreign direct investment.

With 5 major development zones already established, Jones Lang LaSalle believes Suzhou will become an important "secondary city" for those with real estate interests.

CITY SUMMARY

Suzhou is a second-tier city in the hinterland of the Yangtze River Delta, its 2,500 years of history and its reputation for cultural heritage and natural beauty create a strong tourist attraction, but it is Suzhou's emergence in recent years as an industrial stronghold that is of particular interest. The city's manufacturing base has been a magnet for foreign direct investment which has supported the growth of 5 major development zones, while its position as a lower cost alternative to Shanghai has attracted numerous large enterprises.

Although the city's growth faces competitive challenges from Shanghai, we believe that its convenient location, favourable business environment and well established track record for manufacturing, alongside its natural advantages, place it in a good position to thrive as a manufacturing hub of global significance, after Shanghai and Dongguan (in Guangdong Province) and as an important tourist destination.

ECONOMIC BACKGROUND

Profile: Suzhou sits in the central area of the Yangtze River Delta, 80 km west of Shanghai. Historically renowned for its silk, canals and gardens, Suzhou, the "Land of Abundance" now has a population of just over 6 million and the modern city covers a land area of 8,848 sq km. The old "Garden of Paradise" has now become the modern manufacturing base of hi-tech industries and a favoured destination for foreign investment.

Recent Performance: Last year the city was placed 5th in national GDP terms with an output of US\$50bn, while it achieved second place in volume of foreign direct investment, of which 33% came from Japan, 30% from Europe and America and 34% from the rest of Asia. Its annual economic growth has been on average 21% over the past 5 years with forecasts indicating likely economic growth rates in Suzhou of 16% pa to 2010.

Outlook: The Government of Suzhou has adopted two major strategic directions: to build the city as the "leading destination for FDI", and as the "base for new and high-tech industries". With this encouragement Suzhou has established 5 state level development zones: Suzhou Industrial Park, Suzhou New District, Kunshan Hi-tech Development Zone, Zhangjiagang Bonded Zone and Taihu State Tourist & Resort Development Zone. With the strong momentum of continued positive economic performance and active support from the government, we believe Suzhou's commercial future will be bright.



ECONOMIC DASHBOARD

Size	Population (million 2005)	6.1
	GDP (\$ billion 2005)	50.3
	Employment (million 2005)	n/a
Growth	Population (% pa 2000-05)	0.95
	GDP (% pa 2000-05)	21
Infrastruct.	Broadband Users ('000 households 2004)	273
	Freight Traffic (million tons 2005)	104
Openness	FDI (\$ billion 2005)	6
	Exports (\$ billion 2005)	70
Wealth	GDP/Capita (\$ 2005)	8,353
	Disposable Income/Capita (\$ 2005)	2,035
Education & Labour	Higher Education Institutions (2004)	12
	Graduates ('000s)	36.7
	Unemployment (% 2005)	3.4
	Average Wage Rates (\$ 2005)	3,100
Business	Business Environment (Score)	B
Lifestyle	Quality of Life (Rank)	6 th

DEMOGRAPHICS



In 2005, Suzhou had a population of just over 6 million, of which the metropolitan area accounted for some 2.25 million. The city saw 0.95% pa overall population growth from 2000-2005, and 3.1% pa growth in its urban population.

EMPLOYMENT STRUCTURE



The solid economic performance of the city is attracting an increasing number of economic migrants who are taking advantage of the employment opportunities in manufacturing which accounts for 54% of total employment. The number available for work is keeping

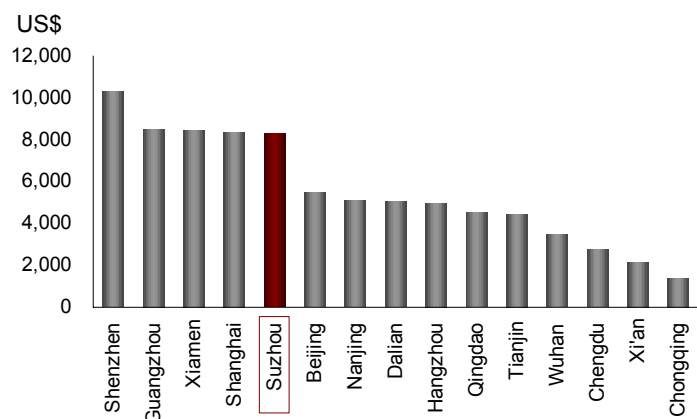
the wage costs relatively low with the average annual wage in this sector being circa US\$2,270. The rise in job creation has resulted in a decrease of 0.3% in unemployment to 3.4% in 2005.

In 2004, of the total 4.72 million employees in Suzhou, 73.5% were working in secondary and 26.5% in tertiary industries. Almost 41% of tertiary industry employees were in the wholesale and retail sector.

In terms of education background, 85% of the workforce have high school education, and 5.1% have a bachelor degree or above.

WEALTH

GDP per Capita (2005)



Source: Statistics Yearbook

KEY INDUSTRIES / SECTORS



Suzhou has the largest gross industrial output in Jiangsu province, accounting for 31% of the total in 2005. The GDP contribution of primary, secondary and tertiary industry was 2%, 67% and 31% respectively (2005).

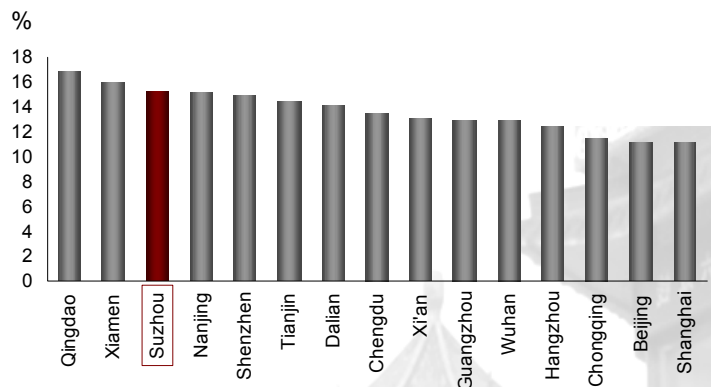
The six pillar industries in Suzhou are: electronics, IT, electrical machinery, biotechnology and medicine, chemicals and household electrical appliances. The cumulative output of these sectors accounted for 56% of the total gross 2005 industrial output of the city.

The secondary sectors are raising their importance to GDP contribution with the percentage increasing from 56% in 2000 to 67% in 2005, a reflection of the Suzhou government's emphasis on economic growth.

The relatively cheaper land and labour costs have enabled Suzhou to attract US\$6.1bn utilised capital in 2005, a 19.4% increase in FDI on 2004. Among the top Fortune 500 international companies, 107 MNCs have invested in Suzhou, and 95% of them are in the manufacturing sector, such as TFT-LCD, IT/IC Semiconductor and Precision Engineering.

ECONOMIC PERFORMANCE

GDP Growth Rate Comparison (2005)



Source: Statistics Yearbook

INFRASTRUCTURE & CONNECTIVITY



Suzhou is well connected with nearby cities by various transportation means, including the Shanghai-Nanjing Expressway, 312 National Highway, and the Shanghai-Nanjing railway. Hongqiao International Airport, which is 80km away, also serves most of the tourists visiting Suzhou.

Infrastructure investment in the city still has room for improvement, especially in terms of the construction of the inner city subway system. Traffic congestion in downtown Suzhou is acting as a constraint on the further development of the city. The Suzhou government is working hard to alleviate the traffic problem and to invest more in infrastructure. But in the interim an increasing number of companies and residents are moving from downtown Suzhou to the Industrial Park and New District

MAJOR EMPLOYERS

Asus: is one of the largest computer hardware manufacturers in Taiwan and occupies 540,000 sq m in Suzhou New District (SND) where it employs 50,000 workers.

Nokia: Nokia invested US\$120mn in Suzhou Industrial Park (SIP) in 1998 to establish one of the largest processing centres in Asia Pacific for the manufacture of high quality GSM equipment and transmission products.

Samsung: Opened in SIP in 1995, with an initial investment of US\$100 million. By the end of 2005, Samsung had opened 5 operations including an R&D facility.

Philips: Opened in SND in 1994 in a joint venture with Peacock Electronic Group. Philips has 4 facilities in SND, manufacturing TV monitors, electronic and mechanical products.

L'Oreal: L'Oreal has a 10-year history in SIP with a 150,000 sq m manufacturing facility, the largest in Asia. The completion of the second phase of its manufacturing facility will double L'Oreal's output

Metro: Opened a 15,000 sq m facility in January 2006 in SND.

MAJOR INVESTMENTS

Semi-Conductors: Panasonic invested US\$1bn in SND in July 2005 to build the world's largest semi-conductor workshop. The processing centre will comprise 10 sub-factories.

Medical: Suzhou Capsule Ltd, now the largest producer of pharmaceutical capsules in China, has been invested in by the Capsule Division of American Pfizer Pharmaceuticals Ltd. The new plant built by SCL went into operation with annual output of 14 billion capsules, making SCL the most advanced capsule producer in the world.

Manufacturing: SCA Packaging Co. Ltd invested US\$ 20 million in SIP in February 2005. With a site area of 70,000 sq m, the manufacturing base will be the biggest in terms of total investment in the Asia Pacific Region.

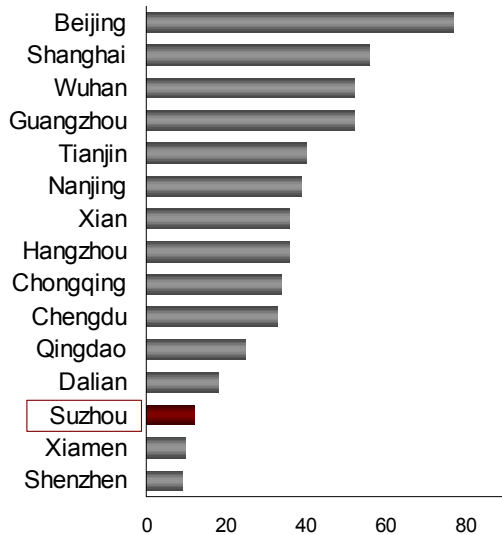
LABOUR & EDUCATION



The availability of a low cost labour force is a key factor in attracting foreign direct investment. Four universities in the city and 13 technology based colleges also added 36,700 graduates to the skills base in 2005. This large labour pool provides Suzhou's economy with a well-trained work force and good research and development capabilities. To cater to the needs of expatriates working in Suzhou, 20 cross sectional programs have been established with the number of bilingual schools reaching 120. Research institutions have been set up in Suzhou not only by the top 10 universities in China (like Beijing University, Fudan University and China Renmin University), but also by foreign schools, such as the Universities of Liverpool and Warwick and the National

University of Singapore. However, labour shortages do exist in the R&D sector, as most of the specialized colleges focus on technical training and the supply of such graduates is not sufficient to meet the quickly expanding research sector. Suzhou will have to work hard to increase the number and quality of its graduates and skilled workers.

Higher Education Institutions (2004)



Source: Statistics Yearbook

BUSINESS ENVIRONMENT

The business friendly environment provides companies with “one-stop” services, and favourable tax incentives. The corporate income tax rate is 15% compared to a normal rate of 33%. The tax holiday is 2 years, with no taxes in years 1-2, and a 7.5% tax rate in years 3-5. The VAT rate is 17%, refundable on exports.

Export-oriented enterprises have additional tax privileges. Corporate income tax is only 10% after normal tax holidays.

POLITICS & POLICIES

The government is playing an important role in invigorating the rapid development of Suzhou and has gained a widespread reputation for its efficiency and responsiveness to the business sector.

Since the adoption of two major strategic directions, the Suzhou government has established 5 state level development zones:

Suzhou Industrial Park, Suzhou New District, Kunshan Hi-tech Development Zone, Zhangjiagang Bonded Zone and Taihu State Tourist & Resort Development Zone. These development zones have attracted large amounts of foreign investment and have accelerated the development of a market economy in the city.

The significant achievements of the development zones have positioned Suzhou as the most influential manufacturing hub in China and the city's per capita GDP closely follows that of Shanghai, ranking 2nd in the Yangtze River Delta Region in 2005. However, the city's per capita disposable income is still relatively low compared to other Yangtze River Delta cities. In response to this the government's 11th Five Year Plan has put more emphasis on increasing the incomes of Suzhou's residents.

Environmental concerns, tertiary industry development, city utilities and low disposable incomes have been major issues which the Suzhou government seeks to address in the near future.

LIFE STYLE



Entertainment for local residents is available both in downtown Suzhou and SIP. Guanqian Street in downtown Suzhou, one of the top 10 commercial streets in China, is the main place for high-end department stores (e.g. the Meiluo Department Store, etc). Shiquan Road is the major pub and night life area. Zuo'an commercial area in SIP is the most popular dining place for young Suzhouese.

To cater for the needs of the middle classes and expatriates working in Suzhou, a 27 hole golf course with joining fees ranging from US\$48,000 (personal) to US\$120,000 (corporate) opened end 2005. The Kowloon Hospital in SIP funded by Hong Kong investors and the only bilingual hospital in Jiangsu Province provides more than 1,000 beds.



REAL ESTATE DASHBOARD

Market Size/Stock	
Offices Grade A ('000s sq m)	442
Retail -SIP('000s sq m)	250
Warehouses ('000s sq m)	n/a
Number of Hotels (2004: 4-5*)	29
Market Activity	
Office Construction Grade A ('000 sq m)	355
Office Vacancy Grade-A (%)	10-20%
Benchmark Values	
Offices Grade A - Rents (US\$ / sq m pa)	150-180
Retail - Rents (US\$ / sq m pa)	750-1,500
Industrial - Rents (US\$ / sq m pa)	18-45
Hotels - Room Rates (4-5*) (US\$)	90-110
Residential Prices (US\$ / sq m)	658-1,000
Grade A Offices -Indicative Yields (%)	10%

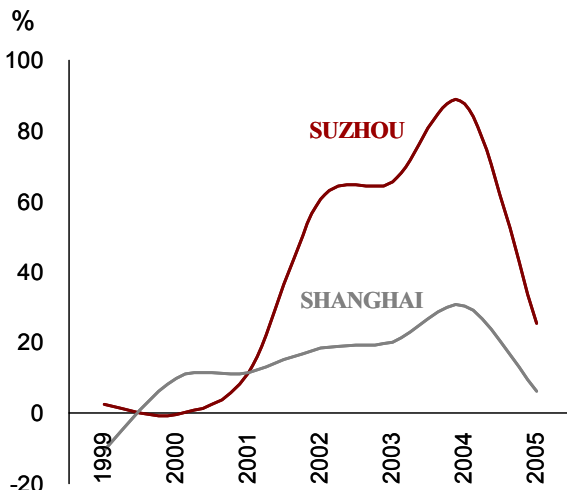
REAL ESTATE INVESTMENT TREND



The Suzhou real estate market has seen a fast pace of development since 2001, when the public land tender system was introduced. The real estate investment market grew dramatically from 2003-2004, when the growth rate reached 87.9% yoy. However, due to successful

government intervention to “cool” the market, the growth rate dropped back to 25.6% in 2005.

Growth rate of Real Estate Investment



Source: Suzhou & Shanghai Statistics Yearbook

JONES LANG LASALLE VIEW



Office Sector: To date we believe that the office market in Suzhou has seen only limited demand for Grade A buildings. This is due to the fact that historically manufacturing has accounted for 95% of all investment in Suzhou. Accordingly professional services needs have been managed

from Shanghai (due to the short distance) restricting office demand to small bank branches or representative offices.

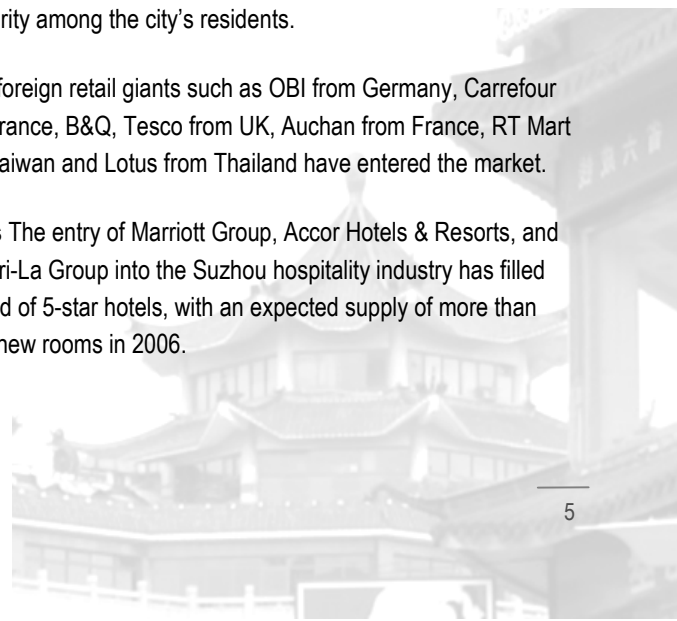
In the most recent period there has been an increased level of interest in Suzhou with several service companies now taking advantage of lower rents as well as the improving critical mass of the white collar work force. It will take time for the growing level of demand to match the significant amount of recent office completions; however the pace of that will accelerate should Suzhou capture a larger share of the back office functions of grade A Shanghai occupiers.

Industrial Sector On the other hand, the industrial market in Suzhou is well developed with 4 state-level industrial development zones and increasing demand from foreign manufacturing companies. Thanks to a business friendly environment and its strategic location, more companies are expected to move into Suzhou market. In 2005, more than 500 projects were registered. To February 2006 around 100 projects were approved with most of the investment from Taiwan.

Retail Sector The retail sector is currently evolving with a growing mix of retail outlets. Apart from traditional department stores, which are mostly located in four major retail strips, various retail outlets such as chain stores, supermarkets, warehouse-type hypermarkets and convenience stores are experiencing growing popularity among the city's residents.

Major foreign retail giants such as OBI from Germany, Carrefour from France, B&Q, Tesco from UK, Auchan from France, RT Mart from Taiwan and Lotus from Thailand have entered the market.

Hotels The entry of Marriott Group, Accor Hotels & Resorts, and Shangri-La Group into the Suzhou hospitality industry has filled the void of 5-star hotels, with an expected supply of more than 1,000 new rooms in 2006.





Residential The residential sector is in a difficult transition phase: the vacancy rate in 2005 reached 2.24 million sq m - triple the amount from 2004. The future supply according to Suzhou Statistic Bureau will hit 8 million sq m this year, far exceeding the 7 million sq m demand. Price

increases have therefore slowed with no immediate sign of an increase in demand from local residents or expatriates working in Suzhou.

KEY PLAYERS

Investors

Residential: China Overseas, Vanke, China Merchants, Sunco, Greenland, Yanlord, Poly Group and Shimao Group.

Office: Genway

Industrial: Ascendas, Prologis, Genway

Hotel: Marriott Group, Accor Hotels & Resorts, and Shangri-La Group, Ascott (service apartment)

Retail: Auchan (France), Emerald, OBI, B & Q, Tesco

Occupiers

Standard Chartered: 1,100 sq m in the International Building

HSBC: 600 sq m in Century Financial Tower

Deloitte: Deloitte entered Suzhou in July 2004 with 50 employees and occupies 500sq m in Century Financial Tower.

KEY TRANSACTIONS

Investors

Yanlord: Yanlord acquired land west of Jinji Lake with a site area of 104,700 sq m and bid price of US\$606/sq m.

Emerald: 270,000 sq m Emerald City development in SND has been completed, and will start operation in November 2006. This project will be the largest shopping mall in SND.

Occupiers

Carrefour: Carrefour rented 10,000 sq m in SIP. The second outlet is scheduled to open in the first half of 2007.

DBS: DBS has leased 800 sq m in International Building, and opened in May 2006.

ABN AMRO: ABN has leased 900 sq m in Sovereign Building, which they will occupy later this year.

OFFICES



Grade-A offices are currently located mainly in two districts - Suzhou Industrial Park (SIP) and Suzhou New District (SND), with 4 buildings in SIP and 3 buildings in SND. The area west of Jinji Lake (in SIP) will be developed into Suzhou's future Central Business District.

The current stock of Grade-A offices is circa 442,000 sq m, including Century Financial Centre, Genway Mansion, International Building, and Golden River (in SND). The New Land Centre (SND) and Sovereign Building (SIP) were completed in Q2 2006 has provided 198,000 sq m (JLL is the sole agent of Sovereign Building)

Grade-A office rents are around US\$12.5-15/sq m/month, including property management fees. The vacancy rate is circa 10-20%. Most of the buildings are offered for strata sales. The tenant mix is mainly from local trading and machinery industry companies.

INDUSTRIAL

Most of the industrial buildings are located in the 4 national level zones, with Suzhou Industrial Park and Suzhou New District being the largest.

Suzhou New District: West of downtown Suzhou, with a planned area of 258 sq km. Suzhou New District has attracted cumulative contracted FDI of US\$15bn and utilized foreign investment of US\$9bn (end 2005) since its inception in 1992. The major industrial sectors are IT, precision machinery, bio-medicine and fine chemicals. Several sectors such as computers, communication products and auto parts have formed comprehensive supply chains.

Suzhou Industrial Park: East of downtown Suzhou is the only industrial zone in China founded as a joint venture between two countries – China and Singapore. It covers an area of 282 sq km, of which 70 km is a China-Singapore cooperation area. The pillar industries in SIP are semiconductors, opto-electronics and electrical mechanics. By the end of February 2006, more than 2,300 companies (including AMD, Samsung, AU, Bosch and Primus) had invested in SIP, with cumulative utilized foreign investment of US\$10.2 billion.

Pre-built industrial facilities rents range from US\$1.5-3.75 /sq m /month. Warehouse rents are in the region of US\$3-4.1 / sq m/month and industrial land is valued at US\$24.4 /sq m, almost half that of Shanghai. Around 100,000 sq m new facilities will be released every year both in SND and SIP; the strong demand has pushed the pre-lease rate to about 60-70%. Given the high occupancy rate of 95% and limited land supply in both the parks, we estimate that the rents will undergo moderate increases in the medium term.

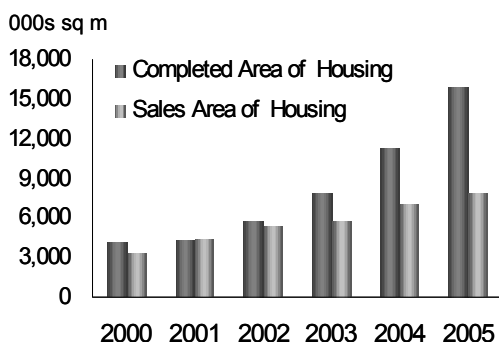
RESIDENTIAL



The past two years saw residential supply peak in Suzhou. New completions in 2004 to 2005 exceeded the cumulative supply for 2000-2003. Average asking prices for new downtown apartments have risen from US\$475/sq m in 2004 to circa US\$658/sq m in 2005.

Newly developed high-end residential projects are located mainly in SIP, with average prices of US\$750-1,000/sq m. However, the target customer base of senior staff and expatriates is limited. For example, the most expensive project “Zhongyin Crown International” with an asking price of US\$2,000/sq m has not seen positive feedback from local residents and expatriate community working in Suzhou. It was mostly purchased by overseas Chinese for investment purposes.

Housing Supply & Demand



Source: Suzhou Statistics Yearbook

RETAIL

Suzhou's retail market is supported by local residents and a substantial inflow of tourists (37.5 million in 2005). Retail sales of consumer goods increased by 31% to US\$10.3bn in 2005, accounting for 1.2% of China's total.

The traditional retail area is mostly around Guanqian Street, Shiquan Road, Fenghuang Road, and Shi Road, with some low-to-middle tier department stores and street-level retail outlets. The popularity of these areas with locals and tourists are keeping rents relatively high at US\$1,500/sq m pa.

New retail formats are gradually moving into Suzhou Industrial Park, with current stock of 250,000 sq m. It is forecast that a further 990,000 sq m retail space will be added to SIP within 4 years. Our view is that rental values in SIP will soften as the major consumer base is limited, and current rents are not as competitive as those in traditional retail areas at only US\$750/sq m pa.

The major foreign hypermarkets that have a presence in Suzhou include Walmart from the USA, Metro and OBI from Germany, Carrefour and Auchan from France, B&Q from the UK and RT Mart from Taiwan. Carrefour will open its second outlet in SIP in 2007 and Walmart has acquired land and is ready for development.

Emerald City, the first shopping mall in Suzhou New District, will add 270,000 sq m of retail space by end 2006. It was noted that Ascott Group will provide management services for 225 units of serviced apartments in Emerald City.

HOTELS

The 5-star hotel market is dominated by industry heavyweights such as the Marriott Group, Accor Hotels & Resorts, and Shangri-La Group. The daily room rate is currently US\$90-110, significantly lower than Shanghai, at US\$ 140-200.

In 2008, the completion of the “Gate of Orient” will provide a further 3,500 rooms, creating pressure on room prices and occupancy rates.

DEFINITION OF TERMS

ECONOMIC DASHBOARD

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

There are 2 definitions of population:

Registered Population - those officially registered with the police

Permanent Residence Population – those actually residing permanently in a location, usually longer than ½ year.

Suzhou's population refers to Registered 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 & 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 5 year period 2000-2005

GDP Growth: Refers to the annual GDP growth rate over the 5 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 organizations 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 which 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: 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 in a location.

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

Average wage of fully employed staff and workers = total wages of fully employed staff and workers/ average number of fully employed staff and workers.

Business Environment: Grading measured by an assessment of a locations macro economic 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: 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, X'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-SIP Stock: Represents the total modern retail stock in Suzhou Industrial Park.

No of Hotels: Refers to the number of hotels of 4 and 5 star standard.

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 or 2008.

Office Vacancy Grade A: Refers to Grade A office floor space (as a % of total Grade A stock) in existing properties, which are physically vacant, ready for occupation in the next three months and being actively marketed.

Benchmark Rents: Refers 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\$ per square metre per year.

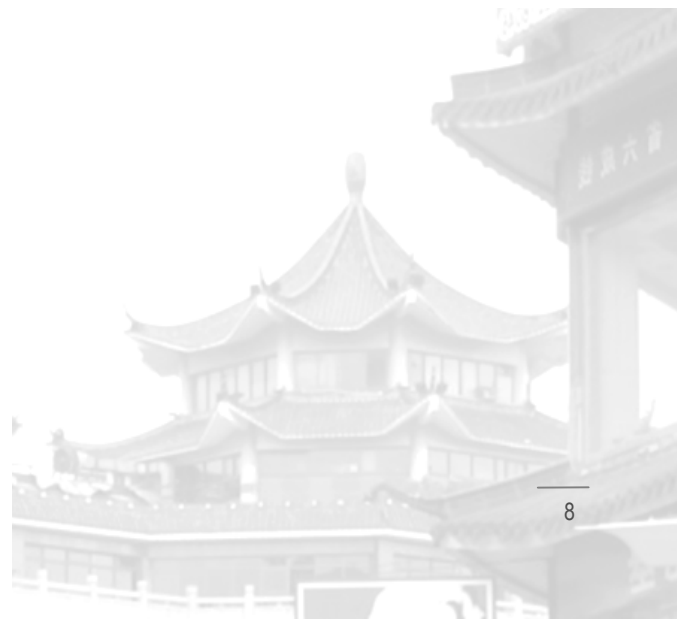
Grade A Office Rents: Includes management fees. Refers to property in Suzhou Industrial Park and Suzhou New District.

Retail-Rents: Refers high-street shops.

Industrial-Rents: Refers to rents of pre-built industrial facilities mainly in Suzhou New District and Suzhou Industrial Park.

Residential Prices: Refers to typical prices (within a range) for high end residential projects in Suzhou Industrial Park, expressed in US\$ per square metre.

Grade A Offices – Indicative Yields: Refers 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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