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Highlights

- **Chances of more new/aggressive policies are getting lower.** Following the statement made by the State Council in late April after investigation of 16 provinces, the senior official (Mr. Ni Hong) from Housing Department. in a press interview reaffirmed the government's view that the initial impact of the latest tightening measures has surfaced. The official also pointed out that current focus is to strengthen implementation. Meanwhile, PBOC stated in its quality loan report that mortgage loan growth is slowing down in 1Q11, in particular in tier 1 cities and indicated that tightening policies are making impact. With these, we believe the likelihood of new tightening measures being introduced in the near term is low.
- **Home prices continue soften in tier 1 cities and transactions show little signs to bottom out.** But in tier 2 and tier 3 cities transactions recovered strongly, which due to strong internal demand and external investment demand. Land market on the other hand froze. Developers are very conservative to pick up new land pieces. We expect land sales will drop 60% to 70% YoY.
- **Influx of bond issuances from Chinese developers:** COLI, Poly, Longfor, Mingfa, Franshion, SPG Land, Shimao, R&F. This indicates the tight credit situation facing them in the mainland. As the government tightens up credit and liquidity, it's getting harder and more expensive to borrow onshore construction loans from banks. In some extreme cases we know of, some developers needed to pay a hefty premium over the PBoC benchmark rate, and the funding cost could exceed 10% in those cases.
- **Good M&A opportunities for big developers with strong balance sheet and financing capabilities.** We expect the concentration of the property market will increase during this cycle.

Views of My Decker Capital

Funding hurdle is raising....

With April's CPI shooting over 5.3%, inflation has become a big challenge for the PRC Government. Continuous Reserved Replacement Ratio (RRR) hikes to historically high levels will likely go on while the direction of liquidity tightening is unlikely to reverse in the short run. Our channel checks with developers and other market participants indicate that the onshore funding rate is edging up while the loan approval process has also become more stringent. With the window of offshore capital markets remaining open, we see more developers seeking alternative funding channels. According to Soufun, in 1Q11, the 28 developers (included A-share listed) with financing activities have raised over RMB 60 billion in the open market. However, only 25% of the funding was raised through bank loans (at around 6%), while the rest mainly came from other financing channels such as Senior notes, Bonds, Trust Loan, etc. Given the more expensive borrowing cost (i.e. 10-15%), increased funding from these channels indicates that normal bank financing has being squeezed severely.

Top 10 developers' market share up to 15% in 2011

In 2008, when many small developers were in financial trouble and could have been knocked out of the market, the monetary easing of the Central Government after the financial turmoil came to their rescue. However, we do expect the duration of the tightening policy this time to be much longer than in 2008, unless some abrupt changes in external environment occur again. Greater challenges will be posed to the development and financial power of companies. Market leaders are therefore beneficiaries as more developers are eliminated from the game.

This is exactly what we note from the highly divergent contracted sales performance of the developers. In 2010, the top ten developers' (Vanke, Poly Real Estate, COLI, Evergrande, Greentown, Longfor, Country Garden, R&F, Agile and Shimao) market share jumped to 11.3% from 8-9% in 2008 and 2009. The consolidation trend further quickened in 2011; in Jan-Apr, the top ten developers' market share further increased to 15.2%. We expect the market share of the top ten developers to even reach as high as 18-20% in 2011.

Market share should climb to 20% due to strong differentiators and flexible pricing strategy of market leaders in prevailing market conditions with extensive government intervention, leading developers have outperformed and are grabbing market share mainly due to three key differentiating factors: 1) Diversified operation with meaningful exposure to Tier 2/3 cities; 2) Wide range of products, which enhance the adaptability to the market; and 3) Financing power with the capability of tapping sufficient financing at low cost.

Moreover, leading developers are also adopting more flexible pricing strategies, while smaller developers maintain their pricing. The most likely sales scenario in 2011 should be sales volume of leading developers rising 25-30% yoy while other developers decline or face a decline. Overall market transaction volume should come down by 15-20% yoy.

Two focuses: Social Welfare Housing + Price Control

Government is determined to tighten the property market this time. Rather than simply cool down the market, we believe the government is working out a radical solution –building a “Two-tier housing system”, which channels appropriate demand to corresponding markets.

Since 2010, the governments have been accelerating social welfare housing construction, 5.9 million units in 2010 and 10 million units in 2011, and this social welfare housing supply is expected to be released into the market from 2012, especially in 2H12. According, we do not expect the draconian tightening measures will be lifted until massive social welfare housing is released. Moreover, ample liquidity in the market keeps inflation threat alive. Stringent price control could be an important way to control inflation. Thus, we expect price stabilization will be another top priority in the private commodity property market.

Major Transactions

Major transactions are listed below:

Buyer	Seller	City	Property	Value(RMB)
Shui On Land	EPL	Shanghai	24.75% interest in the non-retail portion of Lot 6 of the Rui Hong Xin Cheng project	378 m
SOHO	Jingan Real Estate	Shanghai	Land plot No. 716-794 Wanhangu Road in Caojiadu	1.6 b
SOHO	Shanghai Government	Shanghai	Land in Hongkou District of 28,103 sqm and GFA 152,032 sqm	2.47 b
SOHO	Deluxe Family	Shanghai	31.5% stake in Hongsheng Real Estate	788 m
SPG Land	City Expert Limited	Ningbo	63.7% share of City Expert company	350 m
Uni Present	Cartelo Crocodile Group	Shanghai	Cartelo Crocodile Building with GFA 28,900 sqm	630 m
WanTong	Local Government	Shanghai	A total site area of 27,894 sqm in Hongqiao and a plot ratio of between 3.2 to 4.3.	1.5 b

Shui On buys a 24.75% stake in Rui Hong Xin Cheng

According to the company announcement, SODH, a wholly-owned subsidiary, acquired a 24.75% interest in the non-retail portion of Lot 6 of the Rui Hong Xin Cheng project at a total consideration of RMB 378 million from EPL. The non-retail portion includes the residential complex with a planned GFA of 116Km², clubhouse w/ GFA of 3Km², 695 car parks and related facilities. The site, located at Hongkou district, is expected to be most valuable plot of the company.

SOHO China bought a project in Caojiadu for RMB1.64 Billion

SOHO bought land plot No. 716-794 Wanhangu Road in Caojiadu from Jing'an Real Estate for RMB1.6 billion. The land is zoned for commercial, office and residential use with total site area of 15,000 sqm and GFA of 81,000 sqm (aboveground GFA of around 50,000 sqm).

The unit price based on GFA above ground is RMB 30,000 per sqm. If on a saleable area basis (including belowground), then the price is around RMB 27,000 per sqm.

SOHO China acquisition of land at Shanghai subway line 10 Hailun Road Station

Land is located at Subway Line 10 Hailun Road Station in Hongkou District, Shanghai, the PRC. Situated in the centre of Hongkou District, it is in close proximity to the Sichuan North Road business district and is only 2.5 kilometer from the city center The People's Square, six minutes away from Lujiazui Pudong and the Bund. It is the converge point for Subway Line 10 and Subway Line 4. Subway Line 10, which is renowned as Shanghai's underground "Golden Corridor", runs through the city centre and the city's major business districts. Subway Line 4 is the circle subway line in the city centre that connects Puxi and Pudong. The Land is of an area of 28,103.3 square metres for retail and office uses. Its total planned gross floor area is approximately 152,032 square meters, including approximately 112,132 square meters above ground offices and retail area and approximately 39,900 square meters underground retail area and auxiliary car parks.

Treasury China Trust completes acquisition of Central Avenue Mall, Qingdao

As outlined in the announcement dated 9 December 2010 Central Avenue Mall is a large scale retail property in the Laoshan District of Qingdao, designated as the city's new central business district. The Mall comprises an existing 43,643 square metre retail shopping mall, currently 98% leased, and 3 adjoining development sites zoned for retail use totaling 335,000 square metres in gross floor area. TCT's acquisition was completed via the purchase of 100% of the shares in Central Avenue Limited, a Hong Kong domiciled company which ultimately owns a 55% interest in Sanyang Property Development Co. Ltd ("Sanyang"), a Qingdao domiciled special purpose vehicle which owns 100% of the Central Avenue Mall property including the existing mall and adjoining development sites.

The acquisition was settled with the payment of SGD 20.23 million (RMB105.0 million) and issuance of five year convertible bonds for SGD 6.93 million carrying an annual coupon of 6%p.a with a conversion price of S\$2.80/unit. Funds for the acquisition were sourced from the equity placement TCT completed in December 2010 which raised S\$26.7 million and the recent convertible bond transaction which yielded S\$59.7 million. As previously announced DTZ Debenham Tie Leung confirmed a market valuation of RMB1.045 billion as at September 2010 for TCT's 55% ownership stake, representing a premium of RMB568.0 million (S\$109.45 million) to TCT's acquisition cost.

SPG Land (00337) buys Ningbo land development project

SPG Land (Holdings) (00337) said its wholly-owned subsidiary agreed to acquire a 63.75% shareholding in City Expert Limited at RMB350m (equivalent to about HK\$417m). Upon completion of the share sale & purchase agreement, the SPG Land Group will hold an indirect 51% interest in Chengbo (Ningbo) Real Estate Co Limited.

Uni-Present bought the entire share of Cartelo Crocodile Building

Uni-Present announced that they will buy the entire share of Cartelo Crocodile Building for RMB630 million. The unit price is around RMB21,800 per sqm based on the total GFA of 28,900 sqm. The building is located on 568 Tianshan West Road and was completed in October 2007. The project is composed of three independent buildings. After its completion, the building became the headquarters for Cartelo Crocodile Group, while additionally leasing out part of the building.

Wantong Alliance acquired a commercial land plot in Hongqiao

On March 31, Wantong Alliance acquired a plot of commercial land, named No.4, in Hongqiao CBD for RMB1.5 billion, 21% higher than the starting price. The plot has a total site area of 27,894 sqm with a plot ratio of between 3.2 to 4.3.

Chinachem plans RMB 20 billion developments in Hebei

Chinachem Group is planning a big push into the mainland with a 20 billion yuan (HK\$23.7 billion) proposal to build 30 landmark development projects in Hebei province. Chinachem, in partnership with China Lerthai Commercial Real Estate Group and retailer Carrefour China, yesterday signed contracts with government officials that will involve building commercial, retail, hotel and residential developments in the northeast.

Mori sells 5 floors of tallest tower

Mori Building Co, owner of China's tallest building, said it sold five floors of the property and may offer more in the tower following demand from investors.

Japan's biggest privately held developer said it sold the 68th to 72nd floors of the 101-story Shanghai World Financial Center. The 16,248-square-meter space was sold at an average price of 82,142 yuan (US\$12,588) per square meter, according to information from the government-run Shanghai Real Estate Trading Center, which tracks property transactions.

Mori's value per square meter is the highest for China's office space after the Shanghai Port International Cruise Terminal's record price in the second half last year, according to Cushman & Wakefield Inc. The property brokerage said the city's prime office rents rose 23 percent in the first quarter, while Colliers International Research said this week Shanghai's 37.5 million square

feet of office space being built at the end of 2010 was the most among 50 cities worldwide.

"We have been very stubborn not to sell, but we found some clients who wanted to buy higher floors," Michiho Kishi, spokesman for Mori's unit that manages the building, said in an interview yesterday, declining to comment on the price. "We didn't face financial difficulties but it may be better to collect some fresh cash as we prepare for future businesses."

Many buyers approach Mori for more space in the building, he said. The property is 90 percent filled, leaving the company with "not so many" floors to sell, Kishi said.

"It is unusual for a landmark building to change hands in portion but not in bulk, because it'll be hard to control the quality of small owners" said Jack Ye, director of investment for Cushman & Wakefield in China. "If they are aiming for cash, they could have chosen to sell shares of the building." The buyers can't sell or lease the space without Mori's nod for seven years, said Kishi.

Financing market

Major financing projects in this period as below:

Financing party	Value	Term	Vehicle	Rate
Longfor	USD 750M	5 Year	Senior note listed in Singapore	9.5%
Agile	USD 500M	5 Year	Convertible bond	4% and convertible premium 35% to 45%
R&F	CNY 2.6B USD 150M	3 Year 5 Year	CNY loan and USD notes	7% for CNY loan; 10.875% for USD notes
Mapletree Commercial Trust	SGD 983m	N/A	IPO	Yield 5.7%

Longfor Properties sells \$750m 5 year notes

Longfor (960.HK) to issue USD750m senior notes due 2016 at 9.5%. The net proceeds of the note issue is expected to reach USD 735 million. The Company will use the proceeds to finance development projects and for general corporate purposes. Managers: Citigroup Global Markets, HSBC Securities, Morgan Stanley, Standard Charter. Amount: \$750 million, Coupon: 9.5%, Issue Price: 100%, Maturity: April 7, 2016, Settlement: April 7, 2011, Listing: Singapore

Franshion Properties Plans To Issue Senior Notes (Dow Jones International News) - Hong Kong-listed developer Franshion Properties (China) Ltd. (0817.HK) said Friday it plans to issue bonds, & it will start the roadshow for the proposed issue Monday for institutional investors in Hong Kong, Singapore, London, & the U.S.

Agile to issue US\$ 500 million Five-Year 4% Convertible bond

Agile also announced that it will issue a US\$ 500 million, five year convertible bond at an interest rate of 4%. The interest will be payable semi-annually. The initial conversion price will be HK\$ 18.26 per share which, when fully converted will translate to 213 million of new shares. The new shares represent ~6% of existing issued share capital. The conversion price also is also at a 47% premium to 7 April's closing price of HK\$ 12.46. The company plans to use the proceeds for potential land acquisition and general working capital purposes. The base offering size is about US\$400mn, with an upsizing option of US\$100mn. Conversion premium ranges from 35% to 45%, based on the closing price of HK\$13.04 on Wednesday. There is an investor put after 3 years at 100% of principal amount. Compared to the other CB which Shui On Land issued in Sep-10 (4.5% coupon rate; 36% conversion premium; RMB denominated), Agile's cost looks reasonable, in our view. But Agile is a bigger and better company which should command an advantage over Shui On Land.

R&F (02777) mulls yuan & USD senior notes issuance

Guangzhou R&F Properties (02777) said it proposes to conduct an international offering of yuan-denominated senior notes & US-dollar senior notes. Credit Suisse, Goldman Sachs, Citi and Morgan Stanley as the joint lead manager and joint bookrunners are managing the proposed notes issue. Guangzhou R&F issued two tranches of notes issue totalled of RMB3.6 billion (equivalent to US\$0.5 billion). It included a CNY2.6billion loan of 7% interest pa with a maturity of 3 years and a US\$150m notes of 10.875% interest pa with a maturity of 5 years. We understand they have received positive market response and managed to finish the issue of US\$0.5b, exceeding its original market expectation of US\$0.2b.

The notes will be used to finance offshore expansion and to repay existing debt of USD200m. The newly raised loans amounted to 17% of the outstanding debt as of end FY10 of RMB21b. Even

though it is unlikely to change its high net gearing, it offers a good breakthrough for the company to diversify its financing to offshore from pure onshore bank financing in the past. We consider it is a positive outcome as it managed to refinance with longer maturities but only at slightly higher effective interest rate of around 8%, against current onshore bank financing of ~7.5% (10% premium to PBOC benchmark rate).

MCT listed on 27th April

Mapletree Commercial Trust listed on 27th April at 2pm. The offering price is S\$0.88, above the mid-point of the range of S\$0.84 to S\$0.91 and total gross proceeds to be raised is S\$893m (S\$983m including greenshoe). Based on the DPU forecast of 4.97 S cents and 5.42 S cents in FY3/12 and FY3/13 respectively, the annualized distribution yield is 5.7% for forecast year FY3/12 and 6.2% for projection year FY3/13. Sponsor Mapletree Investments will maintain a sponsorship stake of 40% (post exercise of greenshoe) post IPO. The forecast 9% growth in DPU is a combination of organic growth from rental reversions as well as contribution from completed asset enhancements at PSA Building that are expected to begin in FY3/13. The three initial IPO properties - VivoCity retail mall, PSA Building and Bank of America Merrill Lynch Harbourfront (both office buildings) are valued at S\$2.8billion totalling 1.8m sq ft NLA. VivoCity, with an NLA of 1.04m sqft makes up 70% of portfolio value and 73.8% of portfolio net property income. The trust will have an initial gearing of 39%, with weighted average debt maturity of 3.4 years. 85% of its borrowings are fixed. MCT has a Right of First Refusal over a pipeline of 10 properties in its Sponsor's portfolio, totalling 5.1m sq ft NLA, including buildings such as Mapletree Business City, The Comtech and Harbourfront Centre.

Policy and Economic Watch

The following policy changes are worth noting:

China to ban foreign investment in villas

China is to ban foreign investment in the construction of villas, apparently part of government efforts to cool the real estate market, Reuters reported. To tame the record-high home prices and control inflation, the government has tightened bank lending to domestic property developers and introduced a long-debated property tax in Shanghai and Chongqing, the report said.

China may tighten rules for property trusts again

China may further tighten control over property trusts as Beijing stays on high alert for risks in the country's booming housing market.

Among new requirements, property developers may be ordered to set aside more cash before they sell their projects to investors via trusts, the newspaper said, citing unidentified industry sources.

If implemented, these new requirements would make it even harder for property developers to get funding. As it is, China has cut bank lending to developers and restricted them from raising money in the stock market.

The China Banking Regulatory Commission, the banking watchdog, has clamped down on off-balance financing as well since the second half of last year, ordering banks to bring their off-balance-sheet trust loans back onto their books.

Despite the crackdown, trusts have mushroomed to meet the demands of cash-thirsty developers. In March alone, at least 35 property trusts were launched, totalling 9.8 billion yuan (\$1.5 billion), double February's level, the Beijing Times said.

MOHURD to raise personal housing provident loan rate

MOHURD announced to raise ≥ 5 - year and < 5 - year housing provident loan rate to 4.2% and 4.7%, respectively, with effect from April 6, and also noticed that if housing provident loans are used to afford social housings construction in some pilot cities, the interest rate will be set to 10% more than the rate of ≥ 5 - year housing provident loan rate.

PBOC has raised RRR by 50 bps to be effective from Apr 21

China will continue tightening monetary policy for "some time," and there is no maximum limit on RRR, central bank Governor Zhou Xiaochuan said a day after the world's 2nd-biggest economy reported inflation accelerated to the fastest pace since '08. "We will remove the monetary factors that are related to inflation," Zhou said. After the adjust, large-scale bank's RRR will hit a record of 20.5%, and small to medium size financial institution's RRR will reach 17%. It is the 10th time to raise RRR hike since 2010 and the 4th time RRR hike since 2011.

China raises rates to clamp down inflation

China's central bank has raised interest rates by 25 basis point, for the 4th time in six months. The People's Bank of China says it's to bring stubbornly high inflation, under control. It's the second interest rate hike this year...up 25 basis points effective from Wednesday. The People's Bank of China said on its website that the benchmark one-year deposit rates will be lifted by 25 basis points, to 3.25 percent. And one-year lending rates will be raised by 25 basis points to 6.31 percent. Experts say the interest rate hike at the beginning of the second quarter will effectively maintain the current inflation levels.

Lian Ping, Chief Economist of Bank of Communications said "The main purpose of the interest rate hike is to curb further price surges. The growth scope of CPI has been quite obvious in the first quarter. It's highly possible that the CPI growth might exceed the 5 percent peak in March.

And we predict the CPI might hover around the 5 percent level in the future three months. The inflationary pressures remain high so it's necessary to hike it now. It will promote the healthy and positive growth of the economy."

Consumer prices jumped 4.9 percent in February from a year earlier, topping the governments' full-year target of 4 percent. Premier Wen Jiabao has described inflation as a tiger that "once set free will be very difficult to put back into its cage." It's already the fourth rate hike in six months. But experts are saying there is room for more reserve requirement hikes in coming months. Lian Ping said "There's still room for more reserve requirement hikes in the second quarter or in the second half of the year. The liquidity injected into the market in April will remain at a high level."

The central bank boosted bank reserves, or the amount of cash that banks have to put aside, by 50 basis points to 20 percent on March 18th. That's to lock up cash that banks could otherwise lend out, and potentially fuel inflation in the world fastest growing major economy.

ADB sees economy growing by 9.6%

China's economy is expected to grow 9.6 percent this year as inflation remains a threat for the Asia's growth engine as well as other economies in the region, the Asian Development Bank said in its annual report released.

With inflation pressures building and tightened monetary policy, China's gross domestic product growth was forecast to moderate this year, compared with 10.3 percent growth in 2010, the ADB said. It forecast growth of 9.2 percent in 2012. The cutback in growth compared to last year is primarily a result of slowing investment and exports, the Manila-based bank said. Inflation may rise to 4.6 percent this year, lifted by abundant liquidity and higher food and commodity prices. It will scale back to 4.2 percent in 2012 as commodity prices level off, the bank said.

"Fixed asset investment will remain a key driver of growth over the next two years, although the rate of expansion is set to decelerate slightly from past levels due to the winding back of fiscal stimulus measures and tighter monetary policy," it said.

"A moderation in export and industrial output growth will also cost the growth rate somewhat as demand from major markets will remain sluggish and as tax rebates on some export products expire," it added.

The bank said further weakening in external demand would pose a risk to China's economic outlook, especially in the European Union. "With the slowdown in major industrial economies, China has been diversifying its export markets, as well as increasing direct overseas investments which hit a record US\$59 billion in 2010," the bank said. "The government has laid out measures to rebalance economic drivers by putting more emphasis on domestic consumption and services."

The bank predicted private consumption will expand by 12.6 percent this year. Merchandise export growth will weaken to about 20 percent and 18 percent in 2012.

China's provinces record slower GDP growth in 1Q11

China's provinces posted declines in year-over-year GDP growth in 1Q11 as a result of high base figures and the central government's cooling measures. Provinces and regions including Guangdong and Beijing posted a higher increase than the national level of 9.7% in 1Q11, but year-over-year growth was lower.

China's consumer confidence index rises in 1Q11

China's consumer confidence index rose to 108 in 1Q11, up 8 points from 4Q10, according to the Chinese Consumer Confidence Report released on 21 April. Mainland Chinese became more satisfied with the current economic situation and more optimistic about the economic outlook.

Views of opinion leaders

Regulatory squeeze on China's real estate may prompt mergers

Since the implementation of restrictions on real estate purchases, the turnover in first-tier cities has dropped drastically. Moreover, the central bank announced on March 18 it will raise the reserve rate by 0.5 percentage points to 20 percent, which will put stress on the insufficiently-funded real estate enterprises. Some experts even predicted a merger wave in the next half year.

The move by the People's Bank of China, China's central bank, to raise the reserve rate marks the ninth time since last year that the central bank has raised the reserve rate, and the rate has reached a new high. The current increase has frozen about 360 billion yuan worth of bank financing.

The analyst Li Huiyong considered the rise a reasonable expectation, and predicted another rise in April. Fan Gang, the member of currency policy committee of the People's Bank of China said that more than 30 percent currency quantity has been fixed by central bank. The analyst interpreted the rise to reduce the impulse of bank loans, therefore adding up difficulties for estate enterprises' financing from banks.

The constant real estate adjustment policies are targeting the developers and their finance chains. Most of the developers are taking measures, such as pricing down the properties, slowing down purchases of real estate or diversifying the types of commodities. Compared with the conglomerates, the small-sized firms are rather passive in this game.

Public data shows that 30 public real estate companies in 2011 released merger plans and external investment involving turnover of 30 billion yuan..

Shanghai's new home transactions up 125% M-O-M in March

The transaction volume of new residential properties in Shanghai surged 125% month on month to 3,680 units in March this year, according to the latest statistics released by the Century 21 Real Estate LLC.

However, the transaction volume last month was 48.4% less than in the same month of last year. Average price for new homes in March stood at RMB 21,000 per square meters, up 1.8% from February and 6.1% from March 2010. Transaction volume for high-end residential properties with average price above RMB 50,000 per sq m rose 148% month on month but fell 20% year on year. Last month, the city's new home supplies totaled 1.09 million sq m, 690,000 sq m or 173% more than in February.

Foreign participation surges in China's property development

More capital is coming into China's property market in the form of privately raised property funds. China has seen an influx of foreign investment since 2H10. During 1Q10, foreign capital used for property development dropped 33.7% year-over-year, while during 2Q10 and 3Q10, foreign investment surged by 2.8% and 26% year-over-year, respectively.

Moody's lowers China's property sector outlook

Moody's Investors Service has lowered its outlook for China's property sector to 'negative' from 'stable' on concern that residential sales could decline by as much as 30% as local governments enforce housing curbs.

Macquarie Paul Cavey's comments on Another RRR Hike

It doesn't seem policymakers in China ever rest. The RRR was hiked by 50bp, and now stands at 20.5% for the biggest banks. That more tightening is needed is the easy takeaway from Friday's macro results, which showed growth strong and inflation up. The easy takeaway, but not necessarily the right one. Another highlight last week was the rapid rise in forex reserves. If these aren't sterilised, the PBC would be loosening policy. Selling PBC bills to soak up the liquidity is difficult because a lot of paper sold last year needs to be rolled over. So that puts all

the pressure on RRR hikes. It seems to us the current aim is not to tighten more, but to try and maintain a policy stance that is roughly the same as Q1. Again, we think monetary conditions particularly in January and February were very tight, shown in the slowdown in lending growth. In a country experiencing big liquidity inflows, it is through the rate of credit growth, not the level of the RRR, that we should judge whether policy is tight or not. This tightness wouldn't have affected growth in the first quarter, because monetary policy, even in China, doesn't work immediately. It is significant that in the last few days both Wen Jiabao and the PBC governor, Zhou Xiaochuan, have talked about the need to remember policy lags, with the risks they create of over-tightening. We expect the effects of the Q1 tightening on growth to become increasingly obvious as we move through Q2, allowing easier policy in H2.

Property Fund Pulse

Major activities of property funds as below:

Fund	Country	Activity
CITIC Fund	China	targeting a fundraise of \$600m for its latest opportunity real estate fund after investing more than 70 percent of the capital of its predecessor.
GIC	Singapore	Buys into TPG with KIA, acquiring 4.5% stake
CIC	China	Together with Goodman and APG to acquire ProLogis Euro Properties
ARA	Singapore	Launches USD 1Billion fund
AMB	US	JV with ADIA to invest in China Real Estate market

CITIC sets sights on \$600m for fourth China fund

CITIC Capital, the Hong Kong-based private equity and real estate firm is targeting a fundraise of \$600m for its latest opportunity real estate fund after investing more than 70 percent of the capital of its predecessor. Hong Kong-based private equity and real estate firm CITIC Capital will begin fundraising this year for its fourth opportunity fund.

The firm is aiming to raise up to \$600 million for a fund with the working title of CITIC Capital China Retail Investment Fund, the capital of which is expected to be used for retail investments in across China.

Stanley Ching, senior managing director at CITIC Capital, who leads a team of 26 in CITIC's real estate division, said the fund would seek to take full-ownership positions with the capital, although shared ownership with long-term development partner China Vanke was a possibility at this stage. In total, he expected the fund to be able to manage between six and seven acquisitions.

Ching described CITIC's real estate strategy in a recent interview with PERE, published in this month's magazine. In the interview, he said China's demographic shift towards increased consumer spending, coupled with more stringent residential investing policy measures adopted by the government in light of recent market bubble fears, had prompted the firm's switch from residential to retail investments.

He said: "We're still hearing people talk about second tier city residential, but we're out of there already. Now that the government is shifting from export-orientated growth to domestic consumption, we'll be in the right sector. These demographic changes will help retail."

The fund is expected to attract commitments from a range of institutional investors from the US, Europe, the Middle East and Japan. It will be a closed-ended, seven-year vehicle that will be used to target returns of approximately 18 percent IRR and an equity multiple of 2x.

Hong Kong-headquartered-CITIC, which was established in 2002 and has grown to include offices in Shanghai, Beijing, Tokyo and New York, launched its first real estate fund in 2005, the CITIC Capital China Property Fund. The vehicle, effectively a one-asset club deal, closed on \$86 million before exiting in less than two years generating a 30 percent IRR and 1.48x equity return. Since then, the firm has been able to raise an increasingly bigger series of funds, bringing it to this year's fourth effort.

GIC buys into TPG

TPG Capital has reportedly agreed to sell a 4.5 percent stake in itself to a joint venture of the Government of Singapore Investment Corporation (GIC) and Kuwait Investment Authority (KIA).

The transaction marks GIC's second acquisition of a stake in a Western private equity firm. In February 2009, the Singaporean sovereign wealth fund partnered with Australia's Future Fund and a third investor to buy a stake of around 10 percent in Apax Partners. Both TPG and GIC declined to comment, while KIA could not immediately be reached.

According to a Wall Street Journal report, though, TPG sent a letter to investors Thursday informing them of the transaction but without naming the purchasers. Sources told WSJ that the two sovereign wealth funds are to pay "several hundred million dollars" for the stake.

"Yesterday we completed a private sale of a small, passive minority economic stake in the consolidated general partner of TPG," David Bonderman, TPG's co-founder, reportedly said in the letter.

Although rivals have raised billions through public markets, Bonderman said in the letter TPG "have chosen a private transaction as a path to provide capital to our firm".

Other sovereign wealth funds that have bought directly into a private equity firm include China's CIC, which owns stakes in London-headquartered Apax Partners and the publicly listed Blackstone Group; Abu Dhabi Investment Authority, which acquired a reported 9 percent stake in Apollo Global Management in 2007; and Abu Dhabi Government fund Mubadala, which bought a 7.5 percent interest for \$1.35 billion in The Carlyle Group, also in 2007.

TPG has long been exploring options to secure a capital injection. In February 2009, the firm abandoned plans to sell a single digit stake in its management company, having been in talks with KIA, the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS).

TPG may still follow its peers by going public in future a source told the WSJ, although no decision has been made.

Last week, Apollo raised \$565.4 million through an initial public offering on the New York Stock Exchange, selling 29.7 million shares.

CIC, CPPIB back €1.2billion bid for ProLogis European Properties

APG and Goodman Group have the backing of China's \$300 billion sovereign wealth fund, China Investment Corporation, as well as the Canada Pension Plan Investment Board, in their attempted €1.2 billion takeover of ProLogis European Properties (PEPR).

It is understood the consortium, which is vying for control of Europe's largest owner of distribution facilities, is the same as that which successfully bid and took over ING Industrial Fund in Australia for \$2.5 billion earlier this year.

CIC and the \$140 billion CPPIB, which manages investments on behalf of Canada Pension Fund's 17 million pension holders, were both part of the ING club deal.

News of their inclusion in the investment consortium comes just hours after APG Alegemene Pensioen Groep and Goodman revealed they had submitted an informal, non-binding indicative proposal to takeover PEPR at €6 a share, which equates to a premium of around 20 percent to the share price at the close of trading on Monday.

By lunchtime today, news of the informal offer had sent PEPR's share up 15 percent on the NYSE Euronext stock exchange to €5.75, giving the company a market capitalisation of just over €1 billion. The company owns 232 properties in 11 countries valued at around €2.8 billion with a portfolio that covers 4.9 million square metres of industrial distribution space.

ProLogis insisted in response to APG and Goodman's public disclosure of an approach it had not been contacted by the investor group or any other pension or sovereign wealth fund in relation to any offer to acquire the ordinary units in PEPR.

Nevertheless, APG and Goodman said in their statement yesterday evening they were considering making an offer together with a group of "like-minded investors" to acquire for cash 100 percent of shares in PEPR. Their proposal includes a desire for the transfer of PEPR's management rights away from US group ProLogis to Australia's Goodman, which already has a sizeable presence in Europe.

However, the investor group faces an uphill task as it said no deal could happen without ProLogis' support.

APG, as an existing shareholder, and Goodman, are hoping ProLogis will open its books and accede to an offer in order to realise shareholder value having witnessed the company's shares trade at a "persistent" discount to net asset value. A take-private would also resolve widely-held concerns regarding PEPR's strategy and governance structure, said APG and Goodman.

In addition, it would also mitigate concerns that have arisen in respect of the "additional conflicts of interest" that will result from the proposed \$14 billion merger between ProLogis and fellow US industrial property group, AMB, which announced the tie-up at the end of January. "Following this merger, and taking into account the recently announced joint venture between AMB and (German insurance group) Allianz, there would be a total of five ProLogis/AMB vehicles that invest in core European logistics assets and may therefore be competing for the same opportunities in the same territory," the pair said.

It is expected that should any takeover be successful, APG and Goodman would each hold around 25 percent of the privatised company with remaining stakes being taken by its partners in the deal, which APG and Goodman referred to as "leading global real estate investors".

PEPR is managed by ProLogis Management Sarl, which in turn is owned by ProLogis. "If ProLogis were to reconsider its rejection of the indicative proposal, a fully documented proposal could be ready within 6 to 8 weeks, with the full cooperation of ProLogis, ProLogis Management Sarl and the independent directors of the board of PEPR," said APG and Goodman.

Patrick Kanters, managing director global real estate at APG, said in a statement: "As manager of its clients' assets, APG has the obligation to its clients to maximise the value of the investments we manage on their behalf. Ever since PEPR's IPO we have repeatedly called upon the ProLogis and PEPR management to address PEPR's governance and strategy issues, to try and close the persistent gap between PEPR's unit price and underlying NAV, but to no avail. With this proposed transaction APG is seeking to deliver value for all unitholders."

Greg Goodman, chief executive of Goodman, added: "We look forward to working alongside our consortium partners to deliver value for all unitholders in PEPR. The geographic location of PEPR's portfolio is complementary to our existing European footprint. Our experience of managing assets across these markets is a key factor behind our participation both as an investor in the consortium and as its operational and strategic partner."

Macquarie Capital Advisers is acting as financial adviser to APG, Goodman and the consortium.

Singapore's ARA AM launches \$1billion fund

ARA Asset Management (ARA AM), the Singapore-based real estate fund manager, has launched its second pan-Asia real estate opportunity fund with a fundraising target of \$1 billion.

The firm, which has S\$16.9 billion (€9.3 billion; \$13.6 billion) of assets under management across its public REIT and private funds platforms, launched the vehicle at the start of the year and is expecting a first closing before the summer, PERE has learned. A final closing is anticipated before the end of the year.

The ARA Asia Dragon Fund II (ARA ADF II) will be used for a similar strategy to its predecessor

vehicle, ARA Asia Dragon Fund (ARA ADF), targeting investments in key cities of China, Singapore, Hong Kong, Malaysia as well as cities elsewhere in southeast Asia. The new fund will have a proportionately higher exposure to China than the previous vehicle, sources said, with a higher upper exposure limit to the country of 70 percent from 50 percent previously. The fund would be used to invest in both development and completed properties across a range of real estate sectors including offices, retail and residential.

In a further nuance from the first fund, ARA ADF II will run for ten years instead of seven years.

ARA Dragon Fund closed on \$1.13 billion three years ago but is already approximately 80 percent invested enabling ARA AM to market its second fund. The fund has invested in 10 properties and is said to be on track to delivering its targeted return of 20 percent IRR before fees and 1.92x equity. ARA ADF II is expected to target similar returns.

ADIA in AMB's China JV

The Abu Dhabi Investment Authority is a substantial equity partner behind AMB Property's recently-announced China joint venture, PERE has learned. In March, the San Francisco-based industrial REIT and private fund manager said it had launched a \$588 million venture to target logistics development and acquisition assets in major Chinese cities. AMB committed \$88 million of its own capital to the scheme and with another \$500 million coming from HIP China Logistics Investments Limited.

HIP is a special-purpose entity established under Jersey law on 23 February and backed by international capital, people familiar with the deal said at the time. However, senior sources have since told PERE that the Abu Dhabi sovereign wealth fund is involved in the transaction. It was unclear if any other equity sources were part of the JV. Both AMB and ADIA declined to comment.

Since the appointment of former Goldman Sachs executive Bill Schwab as head of ADIA's real estate group in 2009, the sovereign fund has primarily invested in real estate either directly or through club-style structures with two or three partners or as the sole financial partner to a specialist. Speaking to PERE in March 2010, Schwab said "[GPs] need to know that the high degree of discretion people had in the past will be very different today. Some people come to us with numbers that are just too high and don't make a lot of sense. We want to deploy capital, but we want a premium for something other than just risk."

With leverage, the AMB JV - which is expected to run until March 2018, according to a first quarter earnings report from AMB - will target investments up to a total of \$1.1 billion over the next four years. A majority of the REIT's operating and development properties in China, including land, already have been contributed to the venture, which initially will target regions such as the Yangtse River Delta, the Bohai Bay Area, the Pearl River Delta and Western China. In a statement on the China JV in March, Guy Jaquier, president of AMB's Europe and Asia operations and president of the firm's private capital arm, said China represented a "compelling investment opportunity".

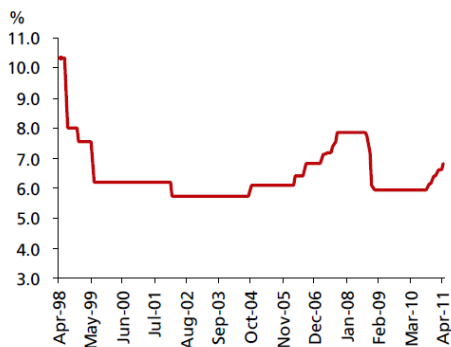
Data Quick Views

1. Key Economic Indices

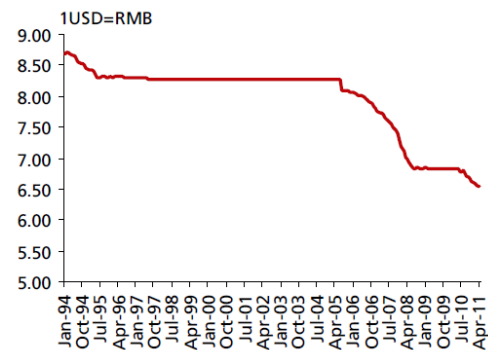
Major Economic Indicators	Data	Notes
GDP (RMB billion)	9,631	First Season
	YoY	9.70%
Industry Value Add Growth	14.40%	First Season
Fixed Asset Investment (RMB billion)	3,947	First Season
	YoY	25.00%
Real Estate Development Investment (RMB billion)	8,846	
	YoY	34.10%
Total Retail Consumption (RMB billion)	4,292	
	YoY	16.30%
CPI	5.30%	April
		5.00%
PPI	6.80%	April
		7.10%
RRR	20.50%	Upward 0.5%
New loan growth	6,794 亿	March
M2 Growth	16.60%	March
Foreign Reserve (RMB billion)	23,704	April
USD to CNY	6.499	4/29/2011
Current Account (USD billion)	0.14	March
Saving rate	3.25%	1 Year term
Loan rate	6.31%	1 Year term

2. Data Graphics

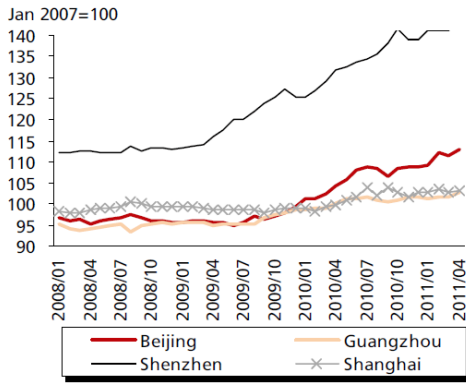
Benchmark Interest Rate



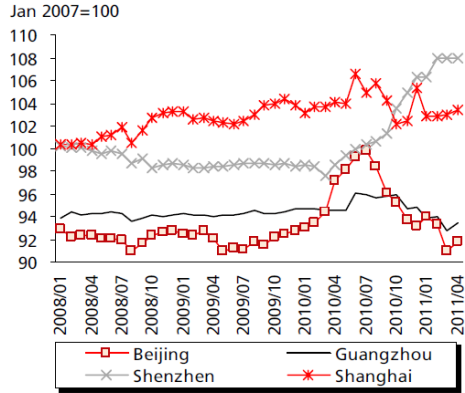
RMB Exchange Rate



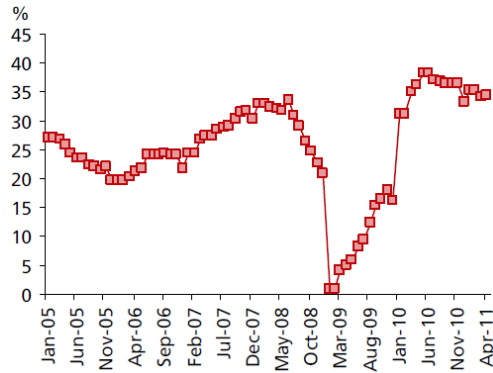
Office Price Index



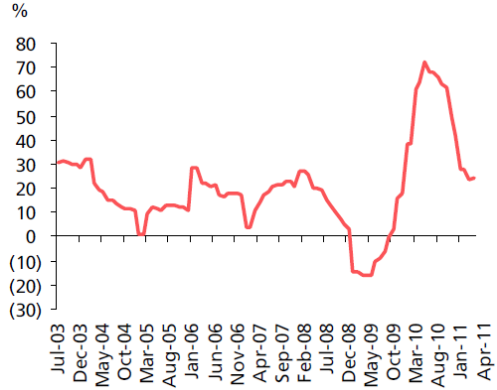
Retail Price Index



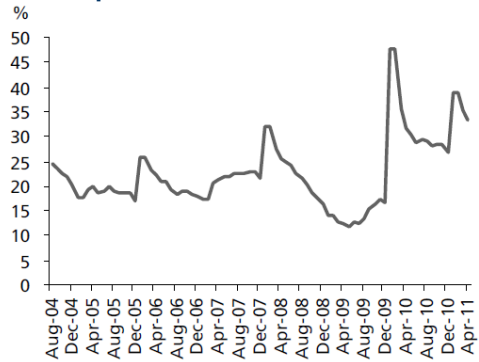
Real Estate Investment Growth



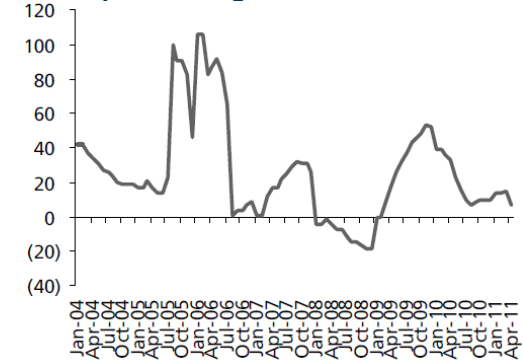
Floor space start growth



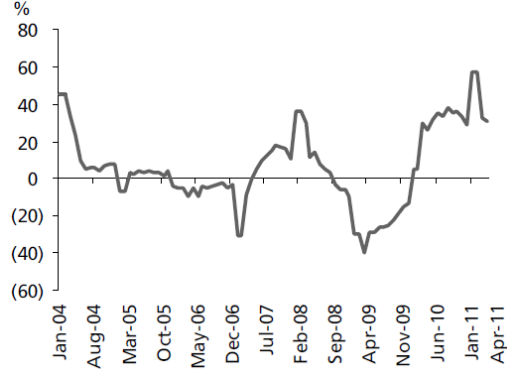
Floor space under construction Growth



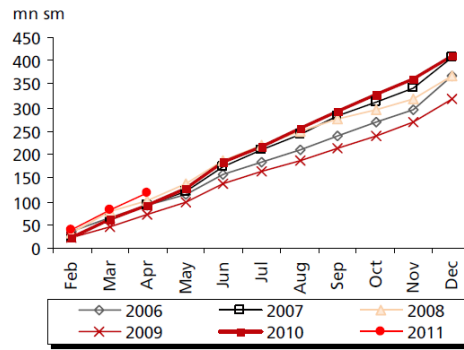
Floor space sold growth



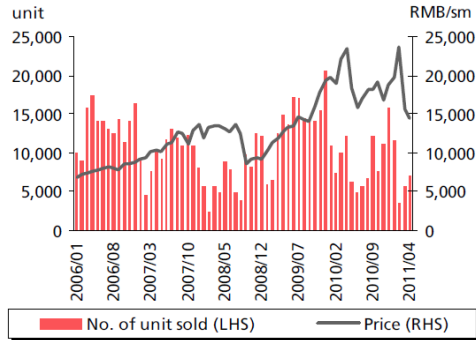
Land Supply Growth



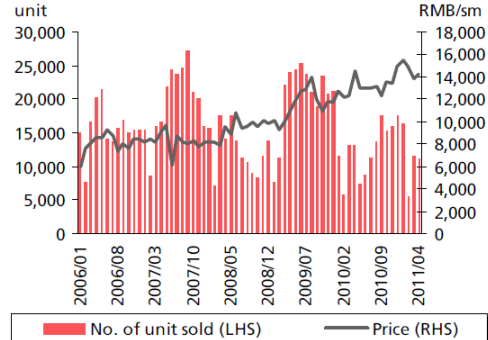
New Land Supply



No. of units and price - Beijing



No. of units and price - Shanghai



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My Decker Capital manages its own private equity fund focused on investing in retail and consumer products industries. It successfully completed \$40 million investment into a leading Chinese retail chain: Beijing New Cooperation Supermarket Chain. Tianjin My Decker Capital Fund, a RMB Fund, intends to benefit from the China urbanization process and is interested in investing in real estate projects. My Decker Capital's professional team would like to work with Chinese entrepreneurs with advanced management skills and clear vision together and deliver superior returns for investors.

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