China’s City Winners

Shenyang City Profile
China’s City Winners: Shenyang

Jones Lang LaSalle’s View

As the capital of Liaoning Province and the largest city and transportation hub in Northeast China, Shenyang plays a key role in the region’s revitalization plan. Known throughout China as the “home of machinery”, the city’s heavy industrial base and its competitive manufacturing capabilities have made it a favoured destination for firms in the industrial sector. However, with the fifth biggest city economy in North China and with a robust infrastructure, Shenyang is also becoming an attractive proposition for companies and investors across all business sectors to establish new ventures.

In recent years, the city has become more business friendly, offering incentives to invest in and construct new factories and real estate projects. In addition, the local authorities have begun a campaign to build a greener and more environmentally-sustainable city. These factors have helped usher Shenyang into a new era, one that no longer resembles the dusty “rust belt” of the past, but a modern and more technically-advanced global city.

Shenyang’s rising status is evidenced by the growing presence of major multinational companies (MNCs) and, to maintain this trend, the local government is also implementing measures to move the city’s production credentials further up the value chain, by facilitating the establishment of IT, electronic, finance and service sectors.

Shenyang also has one of the country’s greatest concentrations of luxury vendors and retail space, making it the third largest market for luxury goods in China. The city’s position as the premier shopping destination in Northeast China, and the rising incomes of its satellite cities, bodes a strong future for the retail market, particularly on Taiyuan and Zhongjie Street, the city’s most popular shopping area, and in the Golden Corridor area, the emerging luxury shopping district.

A metropolitan population of over 25 million (that is only slightly smaller than the Yangtze and Pearl River Delta regions), a considerable and growing industrial weight, and a location at the hub of the region’s transport network, have combined to help accelerate the city’s economic growth in recent years. Shenyang’s ample business opportunities, competitive property values, and recent investments in infrastructure and the environment have strongly positioned the city to attract more companies, investors and new residents.

Over the next five years, Shenyang’s real estate market will move into a pivotal stage in its development, as sizeable quantities of new Grade A office and retail space come onto the market. As supply increases, tenants will see increasing opportunities to secure higher-quality space at more competitive prices. In the residential sector, all asset classes are expected to achieve strong price appreciation, and the ongoing integration of the Metropolitan Area will further help to attract wealthy buyers to high-end properties in the city, thereby supporting further price rises.
Shenyang in Numbers

## Economic Dashboard

### Size
- Population (million 2010): 8.1
- GDP (RMB billion 2010): 501.7
- Employment (million 2009): 2.41

### Growth
- Population (% pa 2000-2010): 1.19%
- GDP (% pa 2000-2010): 16.1%

### Infrastructure
- Air Passengers (millions 2010): 3.94
- Freight Traffic (000s tons 2010): 55

### Openness
- FDI (USD billion 2010): 5.05
- Exports (USD billion 2010): 4.08

### Wealth
- GDP/Capita (RMB 2010): 63,667
- Urban Disposable Income per Capita (RMB 2010): 20,541

### Education and Labour
- Higher Education Institutions (2010): 41
- Total Enrolments (2010): 349,000
- Unemployment (% 2010): 3.1
- Average Wage Rates (RMB 2010): 38,553

Note: See Definition of Terms

## Shenyang’s Competitive Position

### Vital Statistics
1. Largest city in Northeast China.
2. Nearly 2 million sq m of prime retail space
3. Projected to be the World’s 2nd fastest growing major city regional economy over the next decade
4. 3rd largest luxury goods market in China
5. 3rd in China for investment environment (2011)
6. 5th in China for development potential (2010)
7. 6th in China for government honesty (2010)
8. 10th in the World for the low cost of labour force (2010)
9. 12th largest city in China in terms of total retail sales (2010)
10. 13th largest city in China in terms of municipal industrial output (2009)
11. 16th largest city in China in terms of economic output (2010)
12. 25 million residents in the Metropolitan Area
13. 271,000 sq m of Grade A office space

Source: China Institute of City Competitiveness; Chinese Academy of Social Sciences; Jones Lang LaSalle Research
City Overview

One of the most important industrial cities in China

Shenyang is the largest city in Northeast China and the capital of Liaoning Province. Historically, it is one of the most important industrial cities in China, and in 2010 had a total industrial output of RMB 960.2 billion, which is approximately one-third the size of Shanghai's. Shenyang’s well-developed manufacturing sector and extensive transport infrastructure have allowed it to emerge as a key city in Northeast China’s economic development.

The city has a population within the Shenyang metropolitan region¹ that exceeds 25 million, and benefits from a pool of over one million workers that have received a tertiary education.

Shenyang’s position as a key transport hub in the Northeast and its proximity to several other major Chinese cities, as well as Japan, South Korea and Russia, have led many domestic and foreign companies to invest heavily in the city. Its recent establishment as one of China’s ten experimental economic zones, along with it being one of the country’s key urbanization zones, will sustain continued economic and social development.

According to the Jing Daily, the city has become the third largest luxury market in China, ranked only behind Beijing and Shanghai, making the city a key destination for major retailers.

Demographics

A metropolitan region of over 25 million people

The permanent resident population of Shenyang is currently around 8.1 million², and has grown by nearly one million people over the past 10 years, making it the fourth largest population in North China, only slightly behind Qingdao. According to the 12th Five Year Plan, the city’s population is expected to reach 9 million people by 2015, an increase of 11.1% on 2010.

Shenyang is the hub of a metropolitan region of approximately 25.8 million, nearly 62% of the total provincial population. The Shenyang Metropolitan Area, established in 2010 by China’s State Council, covers a combined area of 65,000 sq km or about 44% of Liaoning Province.


The city comprises five urban districts (the core), four outer suburbs and four peripheral counties, with the majority of the population living in the city’s core. Shene, the city’s most densely populated district, is home to the city’s government and most of Shenyang’s commercial sub-markets. The outer suburbs and peripheral counties contain an extensive amount of land and have a low population density. Over the past 10 years, the local government has focused on the development of Dongling (Hunnan) and Shenbei Districts with a policy to extend the city in the south and the north. The city of Xinmin is the largest and most developed economy on Shenyang’s periphery.

Shenyang’s Districts

1. The Shenyang metropolitan region is comprised of Anshan, Fushun, Liaoyang, Tieling, Yinkou, Fuxin, Yinkou and Shenyang; the Shenyang Municipality functions as the core city.
2. According to the Government’s Sixth Population Census, November 2010
Economic Background

Benefiting from “Revitalize the Northeast” initiative

At the height of its productive peak in the 1970s, Shenyang, along with Tianjin and Shanghai, was one of China’s three major industrial cities. Its heavy industry became well developed before the Second World War, with most of its factories centred in the Tiexi District. However, as heavy industry began to decline in the 1980s, Shenyang’s economy stagnated, but due to China’s growing economy and the national government’s “Revitalize the Northeast” initiative, Shenyang has seen invigorated and significant growth in the past decade.

In 2010, the city had a total output value (GDP) of RMB 501.7 billion\(^3\), representing an increase of 14.1% on 2009, and making it the sixteenth largest city by GDP in China and the second largest in Liaoning Province behind Dalian. Since 2001, Shenyang’s GDP has quadrupled with an annual growth rate of 16.8%; in 2010, its primary industries increased 6.0% y-o-y to RMB 23.2 billion, while secondary and tertiary industries rose 15.6% and 13.2% respectively.

With double-digit economic growth, the city’s average disposable income has increased dramatically in recent years. In 2005, urban per capita disposable income was RMB 10,098; by 2010, it had doubled to RMB 20,541. Retail sales have also been growing rapidly, increasing on average by 10% per year over the past five years, and hitting RMB 206.5 billion at the end of 2010, an increase of 18.5% y-o-y. The rapid growth in retail sales and disposable incomes make Shenyang an attractive market for retailers to enter.

Shenyang’s Districts (2010)

<table>
<thead>
<tr>
<th>District</th>
<th>Area</th>
<th>Population</th>
<th>Density (person/sq km)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Core</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dadong District</td>
<td>100</td>
<td>702,987</td>
<td>7,030</td>
</tr>
<tr>
<td>Heping District</td>
<td>60</td>
<td>656,271</td>
<td>10,938</td>
</tr>
<tr>
<td>Huanggu District</td>
<td>66</td>
<td>808,460</td>
<td>12,249</td>
</tr>
<tr>
<td>Shenhe District</td>
<td>58</td>
<td>735,333</td>
<td>12,678</td>
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<tr>
<td>Tiexi District</td>
<td>484</td>
<td>857,827</td>
<td>1,772</td>
</tr>
<tr>
<td>Subtotal</td>
<td>768</td>
<td>3,760,878</td>
<td>4,896</td>
</tr>
<tr>
<td><strong>Suburban/Periphery</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yuhong District</td>
<td>499</td>
<td>387,969</td>
<td>777</td>
</tr>
<tr>
<td>Sujiatun District</td>
<td>782</td>
<td>428,730</td>
<td>548</td>
</tr>
<tr>
<td>Dongling District</td>
<td>600</td>
<td>257,855</td>
<td>430</td>
</tr>
<tr>
<td>Shenbei New District</td>
<td>819</td>
<td>318,809</td>
<td>389</td>
</tr>
<tr>
<td>Qipanshan</td>
<td>203</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Xinmin City</td>
<td>3,353</td>
<td>698,381</td>
<td>208</td>
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<tr>
<td>Faku County</td>
<td>2,320</td>
<td>448,107</td>
<td>193</td>
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<tr>
<td>Kangping County</td>
<td>2,175</td>
<td>353,605</td>
<td>163</td>
</tr>
<tr>
<td>Liaozhong County</td>
<td>1,460</td>
<td>541,714</td>
<td>371</td>
</tr>
<tr>
<td>Subtotal</td>
<td>12,577</td>
<td>3,435,170</td>
<td>273</td>
</tr>
</tbody>
</table>

Source: Shenyang Statistical Bureau, Jones Lang LaSalle Research

Source: CEIC; Municipal Statistics Bureaus

North China GDP (2010)

North China Retail Sales (2010)

Source: CEIC; Municipal Statistics Bureaus

Shenyang’s major industrial GDP contributors are labour-intensive industries, with equipment manufacturing leading economic output. The city has invested heavily in several areas, including manufacturing, high-tech equipment and IT, as well as in developing high-end service sectors.
According to Shenyang’s 12th Five-Year Plan, the city’s GDP is forecast to grow more than 12% per year over the next five years, with growth rates of fixed asset investment and total consumer expenditure expected to stay above 10% and 13% per year respectively. In addition, the disposable income of urban and rural residents is anticipated to rise approximately 13% per year.

The local government has outlined economic goals for its five primary development districts: Hunnan New Area, Yuhong New City, Changbai Area, Dongling District and the southern area of the Shenyang Development Zone. In the Yuhong, Changbai, and Dongling (Hunnan) districts, development plans have concentrated on improving the modern service industry and the overall quality of commercial and residential conditions. Meanwhile, in the Shenyang Economic Development Area (SEDA) the focus has been on developing the zone as the new industrial centre of the city after factories began moving out of the Tiexi District in 2002.

Planning and Infrastructure

Infrastructure investment helping to integrate the metropolitan region

As a key transport hub in Northeast China, Shenyang has developed a relatively extensive transport infrastructure, with an advancing road and rail network and an expanding international airport. After the creation of the Shenyang Metropolitan Area, the city government started to heavily invest in infrastructure improvements as, along with seven surrounding cities in Liaoning Province, it attempted to create the so called “one hour economic ring”. This “ring” will be an integrated transport system that will make travel between the cities easier and significantly reduce journey times.

Rail

Currently, there are four main railway lines running through Shenyang, connecting it to Harbin, Changchun, Beijing, Dalian and Dandong, as well as to most cities in Liaoning Province and the Northeast region. Over the next five years the city is also set to start benefiting from the national government’s plan to construct

Shenyang’s Railways and Expressways

Source: Jones Lang LaSalle Research
With passenger and freight traffic forecast to continue growing, the municipal government began an expansion project in March 2011, which includes the construction of a new 240,000 sq m terminal, scheduled for completion in July 2013. By 2020, the airport is expected to have the capacity to handle 25 million passengers and up to 420,000 tons of cargo.

Metro/Subway
The city’s metro plan was approved by the State Council in 2005 and construction started in the same year. The current plan calls for the building of 11 lines, of which Line 1 has been completed; Line 2 is still under construction; and the remaining nine lines are still at the design stage. Line 1 links the prime office areas with the major retail hubs in the Golden Corridor and the Taiyuan Street and Zhongjie Street areas. Line 2, which will run through the Golden Corridor, will greatly improve transportation in this geographically-elongated area; it will also connect to the airport, significantly reducing travel times to and from the city centre. The completion of these metro lines will greatly improve Shenyang’s traffic conditions and, furthermore, is already leading to increased real estate activity in areas close to the metro stations, which is pushing some downtown residents to the urban periphery.
Core Activities

Five core development areas underpin Shenyang’s future growth
The repositioning of Shenyang as the economic centre of Northeast China has raised a question over what specific business sectors the city should develop. According to the municipal government’s 12th Five-Year Plan, the aim is to create five core development areas (which encompass the districts discussed in the Economic Background section): the Industrial Corridor in the west; Hunnan New District in the south; the Golden Corridor in the centre of Shenyang; the agricultural and food centre in the north; and the automobile industry centre in the east.

Industrial Corridor
The Industrial Corridor is in western Shenyang and covers around 850 sq km. The local government has supported the area’s development by granting incentives such as low cost land and temporary tax cuts to companies that decide to locate in the area. These incentives have attracted companies such as Yuanda China Holdings Ltd., which invested RMB 1 billion in a one sq km land plot in 2006, and CNR Shenyang Locomotive and Rolling Stock Co. Ltd., which set up a new factory covering 1.1 million sq m in 2009.

Hunan New District: National New and High-Tech Industrial Development Zone
Located in the centre of the Hunnan New District, the National New and High-Tech Industrial Development Zone covers an area of around 400 sq km and is focused on the development of Shenyang’s IT industry, particularly its software, hardware and communications sectors. Neusoft was the first company to establish a base in the zone in the 1990s, and after 17 years of operation, the output of Neusoft alone, has reached RMB 20 billion. The Shenyang International Software Park Co. Ltd. is another company that has been attracted to the area, investing RMB 6 billion in the development of a leading software research and development park. The local government is also encouraging the establishment of a civil aircraft engine-manufacturing base in the zone, and output has already reached RMB 50 billion in this industry.

Golden Corridor
Launched by the local government in 2003, the Golden Corridor project is a vertical area connecting the north and south of Shenyang, and is the base of most of the city’s modern service industries. Serving as the showpiece of a new metropolitan image, the area is home to several landmark buildings and is also the location of 29 key projects currently under construction for the
National Games, which will be hosted by the city in 2013. At the Golden Corridor’s core is the city’s CBD, which has attracted many foreign and domestic banks, such as Bank of China, The People’s Bank of China, UOB (United Overseas Bank) and BEA (The Bank of East Asia). The Corridor contains more than half of Shenyang’s Grade A and Grade B office buildings – including the China Resources Building, the city’s first international Grade A office – as well as high-end retail properties and five-star hotels.

**Agricultural and Food Processing Centre**
Shenbei New District is being developed as the largest agricultural and food processing centre in Northeast China. Famous domestic and foreign corporations such as Pepsi-Cola, Huishan Dairy and Mengniu Dairy have already set up factories in this development zone.

**Automobile Industry Production Base**
The government plans to establish Shenyang’s Auto City (located in Dadong District) as an important base for the automobile industry. According to the 12th Five-Year Plan, the local government will fully support the development of four new car and auto-accessories factories to be built in Auto City by the Huachen Auto Group and Shanghai Beisheng.

**Business Environment**

**Favourable business environment attracting high FDI**
Since 2003, Shenyang has been both the centrepiece and the largest beneficiary of the State Council’s “Revitalize the Northeast” initiative, which has given national support for the local government to implement policies and financial incentives to improve the city’s business environment. For example, the Shenyang government has been able to help companies such as BMW and General Motors (GM) with land purchasing, development of facilities and employee recruitment.

With the local government encouraging more foreign direct investment (FDI) through tax incentives and preferential material supply services, an increasing number of MNCs have begun to move into Shenyang. Relatively low labour costs have also enticed domestic and international companies to invest in the city. In 2010, the average salary in Shenyang was RMB 38,553, which is 76% of Beijing’s average salary and 82% of Shanghai’s. Moreover, the abundance of well-trained and highly-skilled workers has acted as a serious draw for several international firms to establish manufacturing bases in the city.

**Key Industries/Sectors**

**A heavy industry centre**
Shenyang is one of the largest heavy industry centres in China, with a total industrial output value of RMB 768.7 billion from eight key industries in 2010. The three most important industries are equipment manufacturing, agricultural products processing and automobile and auto parts manufacturing, and together they comprise 80% of total industrial output.

**Pillar Industries in Shenyang (2010)**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Industry</th>
<th>Industrial Output (RMB Billion)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Equipment Manufacturing</td>
<td>341.3</td>
<td>44.4%</td>
</tr>
<tr>
<td>2</td>
<td>Industrial Processing and Manufacturing of Agricultural Products</td>
<td>172.6</td>
<td>22.5%</td>
</tr>
<tr>
<td>3</td>
<td>Automobile and Auto Parts Manufacturing</td>
<td>100.5</td>
<td>13.1%</td>
</tr>
<tr>
<td>4</td>
<td>Raw Chemical Materials and Chemical Products</td>
<td>59.4</td>
<td>7.7%</td>
</tr>
<tr>
<td>5</td>
<td>IT Technology Products</td>
<td>28.6</td>
<td>3.7%</td>
</tr>
<tr>
<td>6</td>
<td>Smelting and Pressing of Ferrous Metals</td>
<td>27.0</td>
<td>3.5%</td>
</tr>
<tr>
<td>7</td>
<td>Aerospace Vehicle Manufacturing</td>
<td>20.1</td>
<td>2.6%</td>
</tr>
<tr>
<td>8</td>
<td>Smelting and Pressing of Non-ferrous Metals</td>
<td>19.3</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

Source: Shenyang Statistics Bureau

**North China Industrial Output Comparison (2009)**

Source: CEIC
Labour and Education

Education hub of Northeast China

In 2009 Shenyang’s total employment reached 4 million, an increase of 0.9% on 2008. Tertiary industries accounted for the largest proportion (52%) at 2.1 million, while secondary and primary industries employed 1.1 million and 0.8 million people respectively. Manufacturing, the largest sector of the city’s economy, employed 0.3 million people, while the construction and real estate sector employed a further 69,000 people.

According to the Sixth Population Census data, the number of people with a tertiary or higher education accounts for 20% of the city’s total population, a figure fed by the 41 higher education institutions in the city that produce 90,000 graduates annually, and make Shenyang the academic hub of Northeast China.

High-profile universities include Northeastern University (renowned for its IT faculty and industrial degrees); Shenyang University of Technology (known for its electrical engineering and automation schools); Liaoning University; the China Medical University; the Luxun Academy of Fine Arts; and the Shenyang Conservatory of Music. Universities in Shenyang cover nearly all majors, especially those relating to the industrial sector, such as equipment manufacturing and metallurgy.

Shenyang’s Employment by Industry (2009)

Source: Shenyang Statistics Yearbook

Shenyang’s Graduates

Source: Shenyang Statistics Bureau

In 2009 Statistical Yearbook
Lifestyle

Diversity and sustainability

As the birthplace of the Manchu Qing Dynasty (1644-1911), Shenyang has a rich history, and its proximity to other Asian countries has introduced, over time, a diverse blend of cultures and ethnicities to the city. The Manchu, Hui Muslim and Koreans make up the more vibrant minority communities, and numerous cultural events held throughout the year, such as “Korean Week”, all add to the vitality of the city.

With a vast array of economic opportunity and a relatively low cost of living, Shenyang continues to attract immigrants from across China and beyond. This in itself is putting a strain on the existing environment, but it is also producing a compelling need for the local government to significantly improve the city’s environment if it is to continue to attract new residents and workers, as well as to retain those who are already there.

Shenyang is designated as a national “forest city” and, in order to preserve this status and to respond to escalating pressures on the environment, the local government has begun to address issues surrounding the city’s air and water quality as well as its domestic and industrial waste concerns.

With Shenyang hosting China’s 12th National Games in 2013, the local government plans not only to promote the city as a centre for finance and trade, but also as a major transportation hub, a nexus for culture and education, and a tourist destination. The Games are therefore a major stimulus not only for the city to improve its services, but also for it to become a national showcase of environmental sustainability.

With the environment a focal point in the municipal government’s decision making, it has therefore set out to reconstruct four rivers, ten squares and twelve parks in the city; to plant nearly 20,000 trees along main roads; and to take active measures to raise the quality of its air and water. The planned reconstruction of historical sites around Shenyang is also expected to improve the city’s tourism industry, and with new facilities and environmental improvements set to remain in place after 2013, the overall quality of life will be elevated for both residents and visitors.
### Major Employers

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern Heavy Industries Group (NHI)</td>
<td>Located in the Shenyang Economic Development Area (SEDA), NHI is one of the top 500 domestic enterprises in China and employs 10,000 people.</td>
</tr>
<tr>
<td>Shenyang Blower Works Group Corporation</td>
<td>Located in SEDA with a total area of 800,000 sq m, the corporation employs 5,700 people, has investments amounting to RMB 2 billion, and total assets of RMB 9.6 billion.</td>
</tr>
<tr>
<td>Northeast Pharmaceutical Group Co. Ltd.</td>
<td>Located in SEDA with 110,000 employees, the company has total assets of RMB 6 billion and annual sales of RMB 5.6 billion.</td>
</tr>
<tr>
<td>Neusoft</td>
<td>Located in the National New and High-Tech Industrial Development Zone, Neusoft was founded in 1991 and, after 20 years of development, it now employs 18,000 people.</td>
</tr>
<tr>
<td>AVIC Shenyang Aircraft Corporation</td>
<td>Located north of Shenyang with 15,000 employees, the corporation focuses on aircraft research and production, and has set up more than 20 subsidiary companies for civil aviation-related products.</td>
</tr>
<tr>
<td>Shenyang Machine Tool Co. Ltd. (SMTCL)</td>
<td>Located in SEDA with total assets of RMB 10.5 billion, SMTCL employs 13,830 people.</td>
</tr>
<tr>
<td>Bridgestone</td>
<td>Located in SEDA, Bridgestone has a site area of 167,000 sq m, employs 1,214 people, and has a registered capital of USD 50 million.</td>
</tr>
</tbody>
</table>

### Major Investments

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Michelin</td>
<td>In 2010, Michelin broke ground on a new USD 1.4 billion plant which is expected to open by 2014. The new factory will be located in Shenyang’s Economic and Technological Development Zone, and will have an expected annual capacity of 10 million car tyres, 1.8 million truck tyres and 295,000 retreads. This represents a major expansion from Michelin’s existing plant in the city, which has a capacity of 2.2 million car and 0.8 million truck and bus tyres per year.</td>
</tr>
<tr>
<td>BMW</td>
<td>Founded in May 2003 as a joint venture between the BMW Group and Brilliance China Automotive Holdings Ltd, BMW Shenyang’s operations include the production, sales and after-sales services of BMW cars. By 2010, its factory was producing over 55,000 cars per annum, an increase of 26.3% on 2009. The construction of a new 220,000 sq m plant in SEDA (Shenyang BMW Phase 2) began in June 2010 and is expected to be completed by December 2012. The total investment is RMB 5 billion.</td>
</tr>
<tr>
<td>General Motors (GM)</td>
<td>GM and SAIC Motor, China’s largest car maker, opened a new manufacturing facility in Shenyang in 2004. The first phase of the facility had a gross floor area (GFA) of over 300,000 sq m and involved a total investment of USD 898 million. Phase 2 was completed in 2008 with a total investment of USD 197 million and a GFA of 136,000 sq m. In July 2011, GM announced plans to invest a further RMB 7 billion in expanding the Shenyang factory. The expansion will increase GM’s production capacity in China. The new plant will produce 300,000 vehicles and 450,000 engines per annum.</td>
</tr>
<tr>
<td>China Mengniu Dairy Company Limited</td>
<td>In 2003, Mengniu invested RMB 421 million to set up a new base in Shenyang’s Hushitai Development Zone which, by 2009, had led to the group employing 1,200 people and annual sales reaching RMB 950 million. In 2010, Mengniu invested a further RMB 200 million to build the second phase of its workshop, adding 11,000 sq m of total floor area, which will increase its annual output to RMB 1.4 billion.</td>
</tr>
<tr>
<td>CNR Shenyang Locomotive and Rolling Stock Co. Ltd</td>
<td>CNR Shenyang Locomotive and Rolling Stock Co. Ltd. moved into its new 1.1 million sq m base in SEDA in 2009, and was then acquired by CNR for RMB 1 billion at the end of 2010, raising the total asset value of the company to RMB 3 billion. As the first to move into Shenyang’s Industrial Corridor, the corporation has significantly helped to advance the area as an equipment manufacturing base.</td>
</tr>
</tbody>
</table>
Real Estate Overview

Real Estate Dashboard, 2011

<table>
<thead>
<tr>
<th>Market Size</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Offices Grade A (sq m)</td>
<td>271,000</td>
</tr>
<tr>
<td>Number of Hotels (Five Star)</td>
<td>9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Market Activity</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Office Construction Grade A (sq m)</td>
<td>785,000</td>
</tr>
<tr>
<td>Office Vacancy Grade A (%)</td>
<td>19.3%</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Benchmark Values</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Offices Grade A – Rents (RMB per sq m pa)</td>
<td>1,068</td>
</tr>
<tr>
<td>Retail – Rents (RMB per sq m pa)</td>
<td>3,828</td>
</tr>
<tr>
<td>Industrial – Rents (RMB per sq m pa)</td>
<td>298</td>
</tr>
<tr>
<td>High-end Residential Prices (RMB per sq m)</td>
<td>9,351</td>
</tr>
<tr>
<td>Offices Grade A – Indicative Yields (%)</td>
<td>6-8%</td>
</tr>
</tbody>
</table>

Source: Jones Lang LaSalle Research

Note: Data as at Q2 2011

Key Players

<table>
<thead>
<tr>
<th>Investors</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Metersbonwe</td>
<td>Metersbonwe purchased the New World Taiyuan Store en bloc for USD 32.8 million in Q1 2010</td>
</tr>
<tr>
<td>New World Department Store</td>
<td>New World bought Wisdom Plaza en bloc for USD 42.1 million in Q3 2008</td>
</tr>
<tr>
<td>China Overseas Land &amp; Investment Ltd</td>
<td>COLI acquired a 716,100 sq m site for residential villa development in Q4 2009</td>
</tr>
<tr>
<td>Hang Lung Properties</td>
<td>Hang Lung Properties invested USD 1 billion to develop a mixed-use project in Q2 2007</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Occupiers</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Siemens Group</td>
<td>Siemens Group leased 3,300 sq m in the Fortune Centre Tower in Q2 2008</td>
</tr>
<tr>
<td>Ericsson</td>
<td>Ericsson leased 1,200 sq m in the CR Building in Q2 2011</td>
</tr>
<tr>
<td>MSD</td>
<td>MSD leased 1,450 sq m in the L’Avenue Building in Q4 2010</td>
</tr>
<tr>
<td>Huawei</td>
<td>Huawei rented 2,200 sq m in the L’Avenue Building in Q4 2009</td>
</tr>
</tbody>
</table>

Source: Jones Lang LaSalle Research
Jones Lang LaSalle’s View

Industrial
With its seven industrial development zones and robust demand from foreign manufacturing companies, Shenyang’s industrial market has developed rapidly over recent years. An improving business environment, its strategic location and a pool of well-skilled employees will also encourage more companies to set up and expand manufacturing bases. Moreover, the local government continues to implement policies focused on beneficial financial support, taxation, infrastructure, state-owned enterprise regrouping and employment. These are designed to foster a better business setting, particularly one in which high-tech industries will be able to grow at a faster rate over the next five years.

Residential
The residential market in Shenyang has been booming since 2000. Even in 2010, when policies were implemented to control market activity, transactions continued to increase, causing a surge in residential prices. Although the government is resolute on slowing the growth of residential prices, we still expect prices to rise and housing quality to improve, especially as the government works to enhance living conditions and the local environment. The city’s plans to further develop the transport network and integrate the Shenyang Metropolitan Area will only help to attract more buyers from outside Shenyang.

Offices
Currently, the typical tenant demand for Grade A office space in Shenyang, which generally ranges from 300 to 500 sq m, is smaller than Tier I cities. However, we believe that the existing supply of Grade A office space in the city is rather limited given the recent expansion of MNCs and large domestic enterprises. As the city’s economy and transportation network continue to develop, we expect more companies to establish regional headquarters, thereby escalating demand for Grade A office space over the next few years.

Since 2007, many prime offices’ developers, such as Eton, Hang Lung Properties, Lotte and China Resources Land, have started key office projects. Shenyang is therefore forecast to experience a supply peak in the next three to five years, as around 2 million sq m of prime office space is scheduled to be completed. This will relieve current supply constraints within the prime office market, will gradually shift power towards the tenants, and will inevitably lead to growing competition between buildings.

Retail
The retail sector has recently evolved from a predominance of department stores on Zhongjie and Taiyuan Street, to more diverse retail formats with large shopping centres scattered throughout the city centre. The Golden Corridor is expected to soon become the third core retail hub in Shenyang and also the largest, attracting more customers from other cities. In addition, chain stores, supermarkets, community shopping centres and convenience stores are all experiencing a growth in popularity among the city’s residents. Although the supply of retail space expanded dramatically in 2011, causing an increase in vacancy rates, demand is still robust in the third largest market for luxury goods in China and we expect growth in the retail market to continue, especially in the Golden Corridor.

In the future, the prime retail market will begin to face further pressure on the supply side and a potential period of oversupply, as some 3 million sq m is expected to enter the market in the next three to five years.
Industrial

Moving up the value chain
Known as “the rust belt of China,” Shenyang’s industrial activity has been historically based on heavy industry. However, the industrial sector is now being developed to encompass advanced industrial activities which, in 2010, accounted for RMB 185.3 billion of added value. Today, the city’s industrial facilities are clustered in the suburban areas of the city.

Key areas include:

- The Shenyang Economic Development Area (SEDA) in Tiexie New District, companies such as BMW, NHI, Michelin and Coca-Cola;
- The Shenyang High-Tech Industrial Development Zone, which focuses on advanced technologies and is home to firms such as LG, Neusoft and Mitsubishi;
- Dadong Auto City which concentrates on automotive and aviation production, such as BMW, GM’s facility in China, Sanyo Heavy Industry and Shenyang Lining Aero-Engine Group;
- The Shenyang Daoyi Economic Development Zone focuses on biotechnology, mobile phone production and R&D, and is the base for firms such as aigo, SIM Technology and Eutech Instruments; and
- The Shenyang Huishan Agriculture High-Tech, Development Zone which is Northeast China’s main agricultural centre and houses Shenyang Huishan Dairy Co. Ltd, COFCO, Hualong Food and Nissin.

A strong manufacturing base boosting demand for logistics
Like several other cities in China, the increasing demand for logistics space in Shenyang is largely attributed to the rapid national economic growth. Shenyang is home to a large pool of major manufacturers, such as BMW, GM, Brilliance and SMTCL, who require large amounts of modern logistics facilities and who mostly have ambitious plans for expansion. For example, BMW is investing RMB 5 billion in the construction of a new 220,000 sq m factory in SEDA, scheduled for completion in 2013. In anticipation of growing demand, several large-scale logistics developers and operators have now established or plan to establish key logistics projects in Shenyang, including Global Logistic Properties (GLP) and Yupei.

According to the 12th Five Year Plan, Shenyang will continue to focus on enhancing competitive advantage in its key industrial sectors, such as manufacturing, and to encourage the development of high-tech and more high value-added industrial sectors. Software parks, such as Shenyang International Software Park, will be the next big sector for Shenyang’s industrial market and will lead the growth of these high-tech sectors which, within the next few years, are expected to account for some 45% of the total industry output, up from 42.6% in 2010.

Offices

A surge in Grade A office development expected
The current prime office market has evolved since the mid 1990s, when only two buildings - located in the Taiyuan Street area and in the Golden Corridor - provided prime office space for MNCs and domestic enterprises. Over the past 10 years however, a large wave of office construction has swept through the Golden Corridor, which has included the building of Fortune Centre Tower E and the North Media International Centre - the two most tenant-popular buildings in Shenyang. The overall expansion of construction activity has added a significant amount of supply to the prime office market and developed the Golden Corridor into the city’s most important prime office hub.

There are currently six Grade A office buildings totalling 270,798 sq m in Shenyang. The completion in 2Q 2011 of Shenyang’s first International Grade A building, the China Resources Building, marked the beginning of a series of higher quality Grade A office projects being delivered in the city. Excluding China Resource Building, which was recently completed, the historically small Grade A office stock has achieved low vacancy rates (below 5%). However, in the next three to five years, more than 2 million sq m is scheduled to come onto the market, which will dramatically raise the level of Grade A stock and put upward pressure on vacancy rates.
Currently, domestic firms are generating most office demand, comprising 75% of new demand. Financial institutions, including banks and insurance companies, represent the largest proportion of occupier demand, accounting for 40% of the total, while IT and high-tech companies account for 24% and legal and other professional consulting companies for 36%. This composition is quite different from other Tier II cities where trading and manufacturing firms account for a substantial proportion of office demand.

Residential

*High-end projects set new benchmarks*

During the early 1990s residential developments were clustered mainly in and around the city centre, and focused largely on owner-occupiers in the high-end residential market. Developed by Singapore’s Wearnes and located in the Wulihe area, Riverside Garden was considered Shenyang’s first high-end residential project. From 2005, as the number of mixed-use developments began to grow, more high-end residential projects came on to the market, such as Wulihe Mansion and Lingxian International Apartments.

By 2007, larger domestic and foreign developers had entered the market with Kerry Group, Eton and Sino-Ocean investing in plots in Heping District with a combined land area of nearly 300,000 sq m. However, during the Global Financial Crisis (GFC) in 2008, building activity slowed as developers became more cautious.

Once the effects of the GFC started to fade, developers were quick to start launching new projects and, by the end of 2009, Shenyang’s total turnover of residential land was 9.5 million sq m, an increase of 130% y-o-y. During this period, several domestic developers were actively purchasing land. For example, Vanke secured 83,227 sq m of land with a total investment of RMB 700 million and launched its Park Residence project with a sales price of RMB 18,000 per sq m, and COLI purchased two land plots with a combined GFA of 2 million sq m in Huanggu District and Yuhong District.

Perceiving that the worst of the GFC was behind them, developers have remained active, particularly in the Golden Corridor and Wulihe areas. At present, these two areas have the largest concentration of high-end projects; however, with luxury projects underway in the Heping, Dadong and Huanggu Districts, these areas are now predicted to become the city’s new prime high-end residential markets.

Although the current housing purchase restrictions are likely to continue and to put downward pressure on demand, developers are not expected to cut prices. Over the next three to five years, we forecast prices in Shenyang’s high-end residential market to record a steady increase, reflecting:

- Strengthening owner-occupier demand, and the return of investors, who will play an increasingly important role.
- Key residential projects, by developers such as Greentown and YueXiu, are increasing the quality of the city’s high-end market, which will help to push capital values to new benchmarks.
- Shenyang’s residential prices, compared to those of Tier I cities and other major Tier II cities, are still relatively low, which is likely to encourage investors from across the country.

Retail

*China’s third largest luxury retail market*

Shenyang’s retail market is mostly concentrated in the traditional shopping areas of Shenhe, Heping, Tiexi, Huanggu and Dadong districts, and in the new shopping centres that have been constructed in Hunnan and Shenbei. First-tier retail is primarily located in and around Taiyuan and Zhongjie Street and the Golden Corridor; second-tier retail is mainly within the Beihang Street and Tiexi Square areas.

A number of international chains have set up supermarkets in many of the city’s major residential areas, and these stores...
are now leading the development of local community retail markets. Tesco has six stores in Tiexi, Shenhe, Huanggu, Yuhong and Hunnan districts; Walmart opened four stores in Shenhe, Heping, Dadong and Hunnan districts; and Carrefour has nine stores in Shenhe, Dadong, Huanggu, Tiexi and Hunnan districts.

The most popular department stores in Shenyang are the Zhongxing Commercial Building, the Happy Family store and the Commercial City department store, which are all located in the Taiyuan and Zhongjie Street areas and targeted at mid to high-end shoppers. The Zhongxing Commercial Building is the most successful retail property in the city, with sales exceeding RMB 2 billion in each of the past five years.

To date, the majority of high-end retail properties are concentrated in the mid Golden Corridor, Wulihe and the CBD, and draw from local residents and visiting shoppers from surrounding cities. The newly opened shopping centre, The MixC in the Golden Corridor (developed by China Resources Land) is emerging as one of the most prominent high-end retail schemes in Shenyang, attracting a number of luxury brands, such as, Hermès, Fendi, Ermenegildo Zegna, Prada, Burberry and D&G.

By the end of 2011, six new retail projects are scheduled to open. This is good news for retailers, as the increase in supply is putting a downward pressure on rents. However, despite large amounts of new supply (3.2 million sq m over the next five years), the market will still face increasing supply pressures and competition will become more fierce.
Definition of Terms

Economic Dashboard

**Population:** Population refers to the fifth and sixth population census on 1st November, 2005 and 1st November, 2010. 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.

Shenyang’s population refers to permanent residence population.

**GDP:** Refers to the gross domestic (i.e. regional) product of a location over a ten-year period.

**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 ten-year period 2000–2010

**GDP Growth:** Refers to the annual GDP growth rate over the five-year period from 2000 to 2010.

**Freight Traffic:** Refers to the volume of freight transported by various means, measured in thousands 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 and 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 Shenyang urban disposable income per capita that can be used for final consumption, other non-compulsory expenditure and savings.

**Higher 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 and others. Higher 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 unemployed 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.

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. Grade A office criteria is local standard.

**Retail Stock:** Represents the total prime retail stock.

**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 2011 or 2012.

**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 in the next three months and being actively marketed.

**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 RMB per square metre per annum.

**Grade A Office Rents:** refer to the effective rents, excluding management fees.

**Retail Rents:** Refer to the transaction effective average rent in ground floor of Shenyang shopping centres.

**Industrial Rents:** Refer to rents of pre-built industrial facilities mainly in Shenyang SEDA, Hunnan New Area and Shenbei District, including the rent of warehouse and factory facilities.

**Residential Prices:** Refer to typical prices (within a range) for high-end residential projects in RMB 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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World Winning Cities

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