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CHINA ALERT

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China's Real Estate Market: Where the Opportunities Are

Much has been written about China's efforts to revive its economy and, specifically, its real estate market. Where do the opportunities lie? Some points to consider:

- Most of the measures adopted to date relate to lowering transaction costs for purchase and sale of residential real estate. The immediate focus is on increasing transaction volume in residential housing, both new construction and existing housing stock. Purchases of new construction are preferred because, in China, housing units are typically purchased as shells, with buyers then acquiring all the appliances, fixtures and other items to fit out the units, so the follow-on effects of these purchases are, perhaps, the greatest.

- Another focal point is the effort to increase the supply of affordable housing. For example, Beijing is reportedly planning 8.5 million square meters of affordable housing in 2009, and news reports indicate that Singapore-based CapitaLand is negotiating with the Tianjin government on the development of affordable housing units.

- In contrast to messages the government was sending in 2007 and 2008 however, the focus is not only on low-end or affordable housing. CB Richard Ellis, a leading global commercial real estate services firm, reports that Sun Hung Kai Properties, one of the largest Hong Kong property companies, has received approval from the Shanghai government to construct Shanghai's most expensive complex, the Wei Fong project. The total site area is more than 60,000 square meters (645,840 square feet) and the average price of the villas will reportedly reach RMB150,000-200,000 per square meter, breaking the Shanghai record for high-end real estate (some reports suggest that the average price per square meter of housing in Shanghai is RMB14,000, although there is considerable variation in location and market segments). Presumably, Sun Hung Kai would not announce the project if the company thought there was any possibility it would not be able to complete required filing of the project with the central government.

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These facts suggest that the spigot allowing for foreign investment in real estate (especially high-end housing) that was turned off by China's government at the end of 2007 has been turned back on. Fear of an overheating market has been transformed into fear of economic stagnation, which suggests that those wishing to get into China real estate now have a better opportunity than has existed for the past two or three years.

The business news media are reinforcing the message that in the current global financial crisis, China's economy may suffer less, and prove more resilient, than some other countries' economies. In Access Asia's *Weekly Update Newsletter* dated February 5, Matthew Crabbe reported, "China's economy remains apart from the rest of the world in many ways. Chinese consumers have almost no debt, are sitting on sizeable savings deposits and have very few weak mortgages." Meanwhile, "the local banks are still lending, the property market is being given more rein and average incomes continue to grow. At the same time, industrial activity continues to show positive growth outside the export manufacturing sector, indicating that layoffs there will hopefully be assuaged by new employment growth elsewhere."

In *Forbes.com's* listing of the world's top 10 best places for real estate buys, Shanghai clocked in at no. 5: "According to Deutsche Bank, China is poised for its worst deflation in a decade, driven by property price declines. What makes Shanghai attractive, however, is the chance at getting discounted properties in a market that overheated in the last decade. Unless you believe China won't be important by the time the global economy bounces back, it's difficult to bet against a blue-chip locale like Shanghai, which will likely have a quicker recover[*sic*] cycle than secondary cities like Shenzhen."

At the same time, the real estate industry in China, with assistance from the government, is taking positive steps to cope with the impact of the economic meltdown. "We have had discussions with the government to adjust the development pace of our projects to sustain growth through the crisis," reports David Nieh, general manager of planning and development for property development company Shui On Land Limited. Shui On has focused on retaining quality in the design and construction of its properties, says Nieh, and is planning projects it will poise for launch as the market reaccelerates. The company is also seeking to develop projects incorporating elements of sustainability and efficiency that will qualify it for funding programs targeted at developing green building projects.

For more information on how you can discover and take advantage of opportunities presented by China's real estate market, contact a member of the Squire Sanders China team.
