

## **A China Real Estate Perception**

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“ **All generalizations are false, including this one**” . Notwithstanding the statement, the author is about to offer his perhaps not so well informed views on the overall real estate situation in China, with the understanding that while generalizations may not apply to specific needs, they do offer a quick and relatively handy reference. Here we go:

- a) **Degree of Maturity** = strictly speaking, no real estate markets in China today can be described as mature, though several of the major cities such as Beijing, Shanghai, Guangzhou, Shenzhen etc are most likely to tread the path given time. There are certain aspects of a real estate market that can tell you how mature or what stage the market is roughly at. For instance, the number of real estate developers. In the major cities, there are literally hundreds, if not thousands, of real estate developers, be they large, medium or small. At any one time, there could be over a hundred projects on active sale, which is unimaginable in most developed cities or economies including Hong Kong.
- b) **Huge Difference in Project Performance** = this relates to the development projects being completed. While the overall vacancy is relatively high, it is not evenly distributed. Even for projects within a similar neighborhood and with similar quality of construction, one may very well sell far better than the other, owing to differences in marketing effort, design or brand.
- c) **Effective Vacancy** = there is little data available yet the author via observations suspects that some of the vacant properties can be described as non-usable, both from a construction point of view and a market point of view, i.e. they really do not qualify as viable substitutes for any existing floor space, thus they are in fact NOT a threat to landlords of such occupied / usable floor space especially in terms of lease negotiations. Hence, the vacancy rates for some real estate markets or sectors may not be as high as they appear to be.
- d) **Foreign, Local Market Sectors and Perceptions** = the market sectors which interest foreign investors are different from those that concern the locals, although there may be some overlaps. For instance, based on published sources, while market sectors such as Grade A offices have yet to really pick up in activity, the local private residential sectors have been quite vibrant in some cities with increased sales and slightly improved pricing.
- e) **Improvements in Market Operation** = there seems to be an intention to improve the various operational aspects of the market such as the reduction of real estate development and transactional fees, the introduction of more stringent quality control, the protection of the environment, and the enhancement of the consumers' rights etc. Nonetheless, some of these aspects take time to develop before any significant improvement can be observed.

- f) **Costs Orientated** = based on published articles, many still regard the costs involved such as construction costs, development costs, administrative fees and the like to have an impact on the price levels. While this may have some bearing in view of specific circumstances in China, costs do not generally have a close relationship with what the market “can” pay or “is willing” to pay.
- g) **Consolidation Ahead** = based on the more developed economies and markets, it is inconceivable that there can be hundreds of competing real estate development entities in the long run for each city / market, even for very large ones. Consolidation lies ahead and even this may be carried out in stages. For instance, the first stage may involve reducing the hundreds of competing developers to less than one hundred, the second from one hundred to several dozens, and the final stage from these few dozens to no more than ten really outstanding and sizable real estate developers. At each of these stages, the market characteristics and opportunities can be quite different, and thus so are the possibility and level of return and risk.

To summarize, the above is good only as a general reference and individual cases require specific attention and further analysis. As a very rough rule of thumb, the more daring and speculative the investor, the earlier the market should be entered, and vice versa for the conservative investor.

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