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# The Booming Housing Market in the Chinese Mainland

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# The Residential Property Market in the Chinese Mainland



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# A Property Bubble in the Mainland?

- This has been discussed for quite a while
- Property prices are in fact not rising as fast as GDP and discretionary income:
  - 2003 GDP growth: 9.1%
  - 2003 urban population's per capita discretionary income: RMB8,500 (+9.3% y-o-y)
  - Q4 03 residential property price: RMB2,142/m<sup>2</sup> (+4.6% y-o-y)
- China should not be seen as ONE market
  - Coastal and inland regions are in different stages of development
  - Conditions in various coastal markets are also different



# Buoyant Property Market

- Economic development and real estate market go hand in hand
  - More people can now afford to buy their own home
  - Buying properties has become an investment rather than serving a basic need. Buyers examine properties very carefully
- Rapid economic growth has also raised standards and buyers' expectations:
  - Bare shells, once the standard in the Mainland, is gradually being phased out
  - High demand for quality housing with full amenities
  - More attention paid to availability of education, medical and other amenities that enhance quality of life



# Growing Demand

- Medium to high end market supported by
  - entrepreneurs, expatriates and returning professionals
  - the emerging middle class
  - foreign investors (especially those from Greater China region)
- Secondary market continues to develop
  - Certificates of ownership are issued more quickly, enabling buyers to re-sell
  - As existing home owners upgrade to higher end housing, lower income groups join the secondary market
  - Growing secondary market in turns boost buyers' confidence



# Government Policies

- In-depth understanding required
  - A very important factor in the Mainland market
  - Relevant policies may vary from city to city
- In general, abolition of “welfare housing” has led to rapid commoditization of housing since 1998
- Integration of property markets for domestic and foreign purchasers has attracted more overseas buyers
- Government will continue to sustain growth while avoiding overheating



# Example: Shanghai

- Shanghai is one of the most developed markets in the Mainland
  - Yet, secondary market transactions account for only 52% of the total, indicating that Mainland property markets are still at early stage of development
- Shanghai housing market started to flourish in 1998 due to
  - Abolition of “welfare housing”
  - Bank mortgages more readily available
  - Tax rebate for home purchasers (ended in May 2003)
  - Strong economic growth



# Example: Shanghai

- Measures to cool down market:
  - Ban resale of properties during construction
  - Higher downpayment required for mortgages





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# The Boom Should Continue

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# China's WTO Accession

- Attract more foreign investment
  - Continued economic growth sustains property boom
- Boost demand for high-end properties
  - As more foreign companies set up offices in the Mainland, there will be more middle-to-top management and professionals in major cities
  - More expatriates will work in China
    - Expat population in international cities: 5%
    - Shanghai in end-2002: expatriate workers > 300,000 (+31.79% y-o-y) or 2.2% of total population
    - Further growth in expat population expected



# Hosting Major Int'l Events

- 2008 Olympic Games in Beijing and 2010 World Expo in Shanghai
- Further raise China's international status
- Drive infrastructure and property development in Beijing and Shanghai
  - Bring in more expertise in property development, property management, architectural design, engineering services, etc
- Drive economic growth which boosts housing demand
  - e.g. Beijing expects GDP per capita to rise from USD3,060 in 2001 to USD6,000 in 2008



## “Go West” Policy

- Central Government invests heavily in infrastructural development in western China and encourages companies from overseas and coastal regions to invest in inland regions
- Economic growth and urbanization boost housing demand
- Example: Chongqing
  - The designated economic centre of SW China
  - Q3 03 residential property price rises 9.9% y-o-y to RMB 1,976.50
  - Q3 03 investment in residential property development rises 57% y-o-y



# CEPA

- Closer Economic Partnership Arrangement:
  - Relax restrictions on HK construction and property related service suppliers in the Mainland
  - Lower capital requirement for HK developers
  - These measures are beneficial to the development of the real estate industry in the Mainland
- Attract more expatriates to the Mainland and further boost demand for high-end properties
- Enhance economic growth in general



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**THANK YOU !**