



Mainland China Real Estate Markets 2014

ULI Analysis of City Investment Prospects

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Agenda for discussion

1. Geographic scope of cities surveyed
2. Composition of companies surveyed and interviewed
3. Present and future change in sector of involvement survey
4. Discussion of city survey investment prospects findings
5. City ranking by sector prospects
6. Investment prospects for various niche sectors
7. City ranking by livability
8. Impact of various issues on development and investment over next year
9. Summary of survey's major findings

Geographic scope of cities surveyed for the 2014 ULI Report

Section One:

Geographic scope of cities surveyed

Geographic scope of cities surveyed



- | | |
|--------------------------|-----------------------------|
| 1 Bohai Economic Rim | 10 Beibu Economic Rim |
| 2 Yangtze River Delta | 11 Nanchang Poyang Lake |
| 3 Pearl River Delta | 12 Central Yunnan Cluster |
| 4 Sichuan Basin | 13 Harbin Region |
| 5 Western Taiwan Straits | 14 Urumqi Tianshan N. Slope |
| 6 Guanzhong Cluster | 15 Lanzhou Cluster |
| 7 Wuhan Region | 16 Hainan Province |
| 8 Changsha Region | 17 Jiangjun Region |
| 9 Central Plains | 18 Jinzhong Region |

Urban Population and GRP of cities surveyed

Urban Population, 2010-2025 (Millions)

Population, 2010-2025 (Millions)

	2010-2025 Growth		2010-2025 Growth	
	2010	2025 ^a	Change	Percent
Shanghai ^b	19.55	28.40	8.85	45%
Beijing ^b	15.00	22.63	7.63	51%
Guangzhou ^c	10.49	15.47	4.99	48%
Shenzhen	10.22	15.54	5.32	52%
Chongqing ^b	9.73	13.63	3.89	40%
Wuhan ^c	8.90	12.73	3.82	43%
Tianjin ^b	8.54	11.93	3.40	40%
Dongguan	7.16	9.61	2.45	34%
Chengdu ^c	6.40	9.97	3.57	56%
Nanjing ^c	5.66	8.50	2.83	50%
Harbin ^c	5.50	8.21	2.71	49%
Shenyang ^c	5.47	7.43	1.96	36%
Hangzhou ^c	5.19	8.45	3.26	63%
Xi'an ^c	4.85	6.93	2.08	43%
Zhengzhou ^c	3.80	6.02	2.22	59%
Qingdao	3.68	5.44	1.76	48%
Jinan ^c	3.58	5.32	1.74	48%
Taiyuan ^c	3.39	4.99	1.59	47%

Population, 2010-2025 (Millions)

	2010-2025 Growth		2010-2025 Growth	
	2010	2025 ^a	Change	Percent
Kunming ^c	3.39	4.82	1.43	42%
Dalian	3.31	4.48	1.18	36%
Suzhou	3.25	5.83	2.58	80%
Wuxi	3.22	5.14	1.92	60%
Changsha ^c	3.21	4.94	1.73	54%
Urumqi ^d	2.95	5.06	2.10	71%
Hefei ^c	2.83	5.04	2.21	78%
Fuzhou ^c	2.80	4.24	1.44	51%
Shijiazhuang ^c	2.74	4.19	1.45	53%
Xiamen	2.70	4.87	2.17	80%
Wenzhou	2.64	4.04	1.41	53%
Ningbo	2.63	4.26	1.62	62%
Lanzhou ^c	2.49	3.61	1.13	45%
Nanchang ^c	2.33	3.53	1.20	51%
Nanning ^d	2.10	2.91	0.82	39%
Haikou ^c	1.59	2.28	0.69	43%
Zhuhai	1.36	1.98	0.63	46%
Sanya	<0.75			

Source: United Nations, Department of Economic and Social Affairs, Population Division, Population Estimates and Projections Section, World Urbanization Prospects. The 2011 Revision Data report, used here, is for urban agglomerations, which refer to the de facto population contained within the contours of a contiguous territory inhabited at urban density levels without regard to administrative boundaries. It usually incorporates the population in a city or town plus that in the suburban areas lying outside of but adjacent to the city boundaries. This source tracks only cities with an urban agglomeration of 750,000 or more.

a. Projections. b. Municipality with provincial status. c. Provincial capital. d. Autonomous region capital.

2012 Gross Regional Product

	RMB (billion)	US\$ (billion)		RMB (billion)	US\$ (billion)
Shanghai	2,018.2	319.9	Dongguan	501.0	79.4
Beijing	1,787.9	283.4	Jinan	480.4	76.1
Guangzhou	1,355.1	214.8	Harbin	455.0	72.1
Shenzhen	1,295.0	205.3	Shijiazhuang	450.0	71.3
Tianjin	1,289.4	204.4	Xi'an	436.6	69.2
Suzhou	1,201.2	190.4	Fuzhou	421.8	66.9
Chongqing	1,141.0	180.9	Hefei	416.4	66.0
Chengdu	813.9	129.0	Wenzhou	365.0	57.9
Wuhan	800.4	126.9	Kunming	301.1	47.7
Hangzhou	780.2	123.7	Nanchang	300.1	47.6
Wuxi	756.8	120.0	Xiamen	281.7	44.7
Qingdao	730.2	115.7	Nanning	250.3	39.7
Nanjing	720.2	114.2	Taiyuan	231.1	36.6
Dalian	700.3	111.0	Urumqi	200.4	31.8
Shenyang	660.3	104.7	Lanzhou	156.4	24.8
Ningbo	658.2	104.3	Zhuhai	150.4	23.8
Changsha	640.0	101.4	Haikou	81.9	13.0
Zhengzhou	555.0	88.0	Sanya	33.1	5.2

Source: National Bureau of Statistics of China.

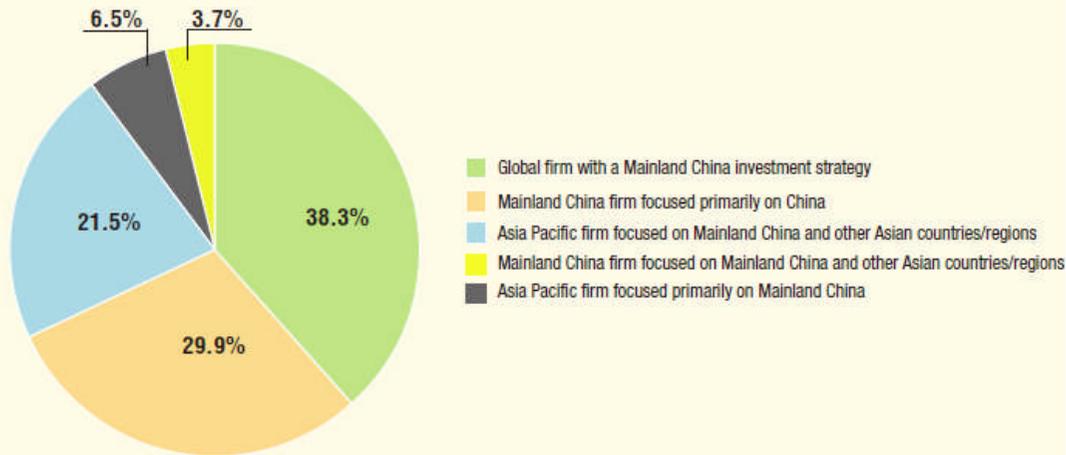
Composition of companies surveyed and interviewed for 2014 survey

Section Two:

Composition of companies surveyed and interviewed

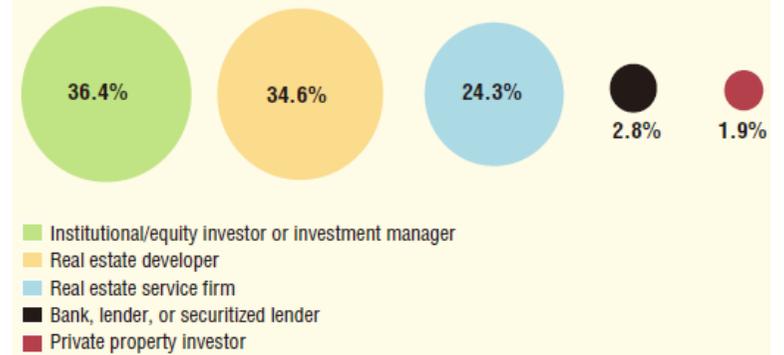
Companies surveyed for ULI 2014 Mainland China Real Estate Markets

Survey Responses by Geographic Scope of Firm



Source: Mainland China Real Estate Markets 2014 survey.

Survey Responses by Type of Firm



Source: Mainland China Real Estate Markets 2014 survey.

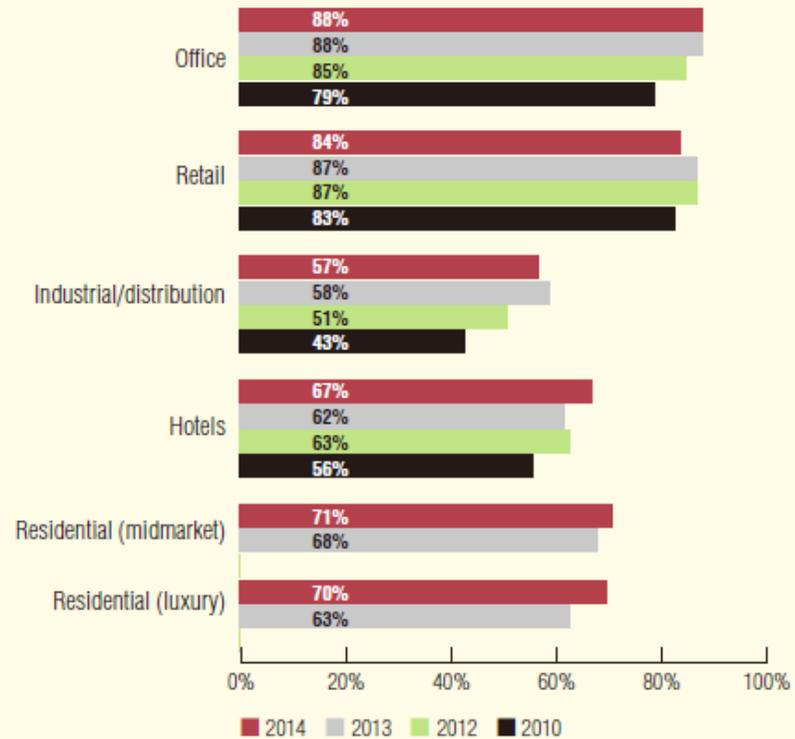
Respondents' present and future involvement by sector

Section Three:

Present and future change in sector of involvement survey

Present real estate sector involvement

Exhibit 2-1
Sector Involvement by Percentage of Respondents

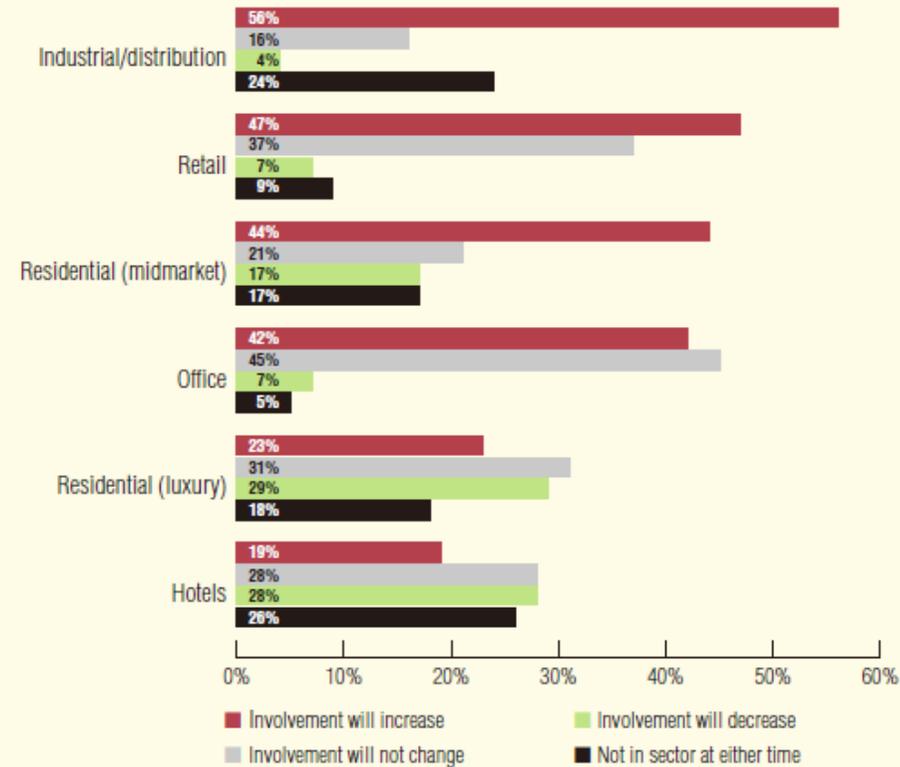


Source: Mainland China Real Estate Markets 2014 survey.

Change in sector involvement

Exhibit 2-2

Expected Change in Sector Involvement from 2014 to 2015, by Percentage of Respondents



Source: Mainland China Real Estate Markets 2014 survey.

Ranking of cities by investment prospects

Section Four:

Discussion of city survey investment prospects findings

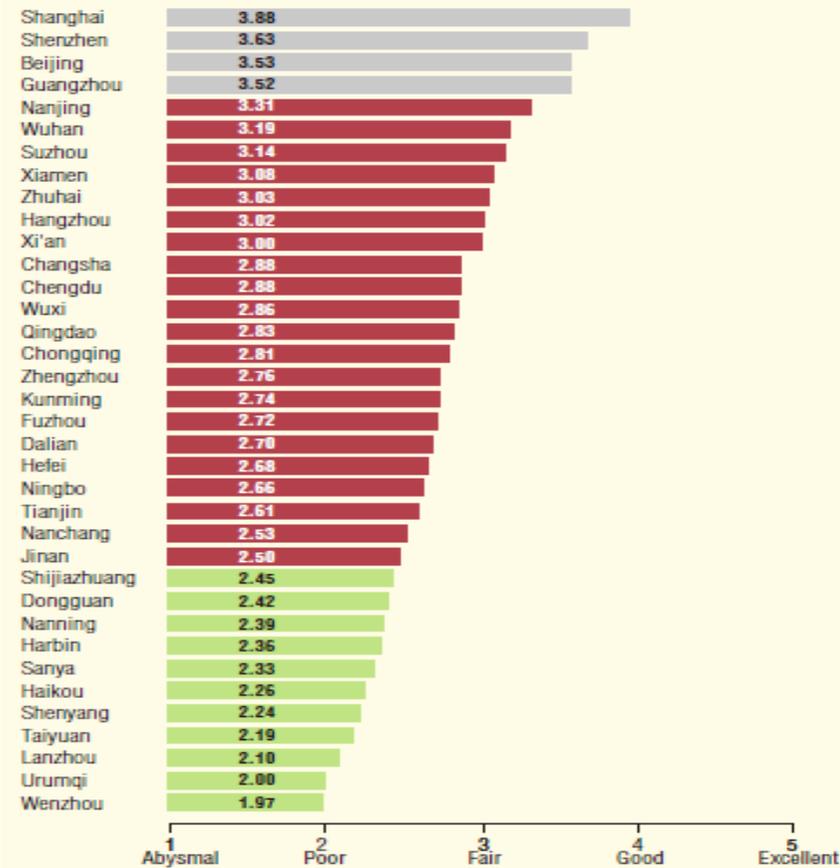
Ranking of cities by investment prospects



Rankings for investment and development prospects

Exhibit 1-1

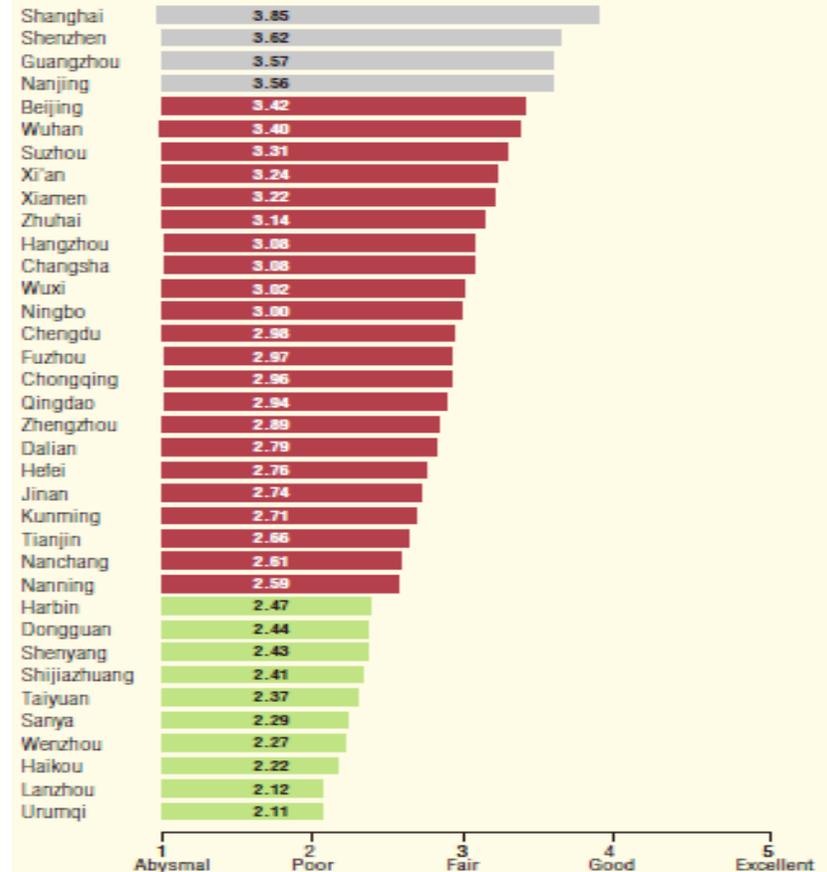
City Investment Prospects



Source: Mainland China Real Estate Markets 2014 survey.

EXHIBIT 1-2

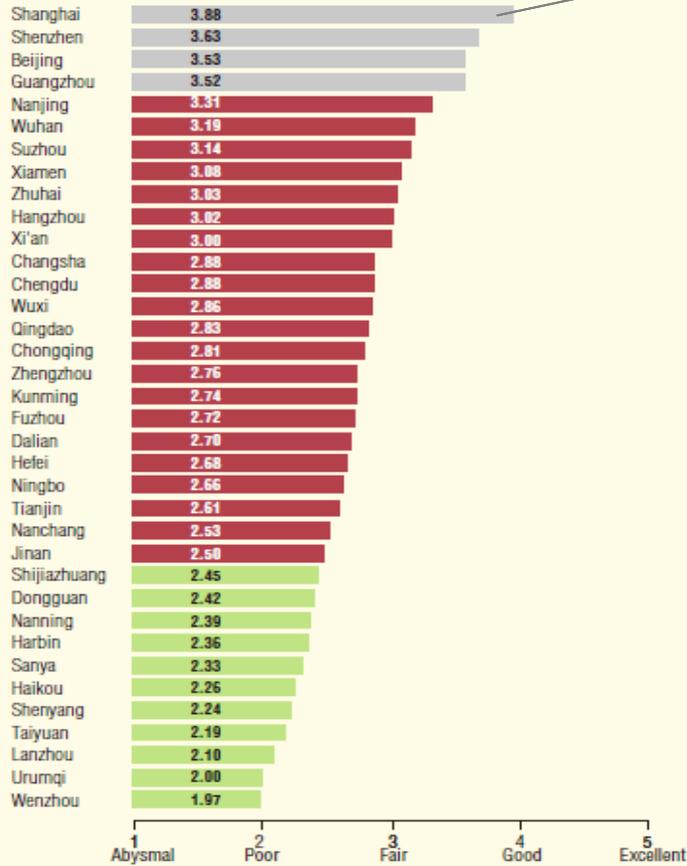
City Development Prospects



Source: Mainland China Real Estate Markets 2014 survey.

Survey findings: the top ranking city

Exhibit 1-1
City Investment Prospects



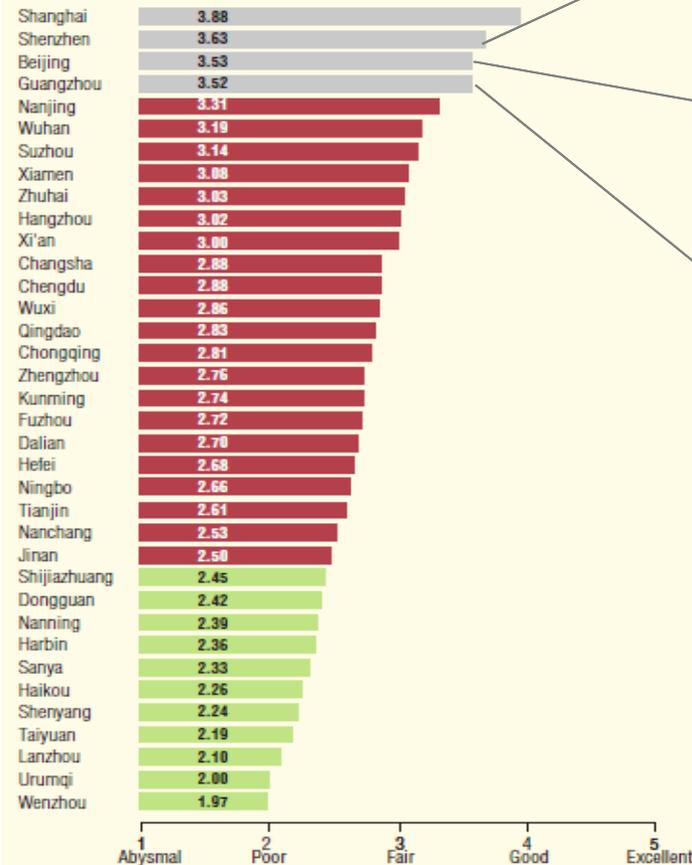
Shanghai (1 for investment and 1 for development): The most mature real estate market with a deep pool of investment assets; consider the most transparent; Hongqiao Transportation Hub, FTZ, and other large-scale projects in decentralized locations offer many development opportunities

Source: Mainland China Real Estate Markets 2014 survey.

Survey findings: Other top ranking cities

Exhibit 1-1

City Investment Prospects



Source: Mainland China Real Estate Markets 2014 survey.

Shenzhen (2,2): The Qianhai Zone creating a lot of development opportunities; limited greenfield sites in downtown and close integration with Hong Kong are key positives

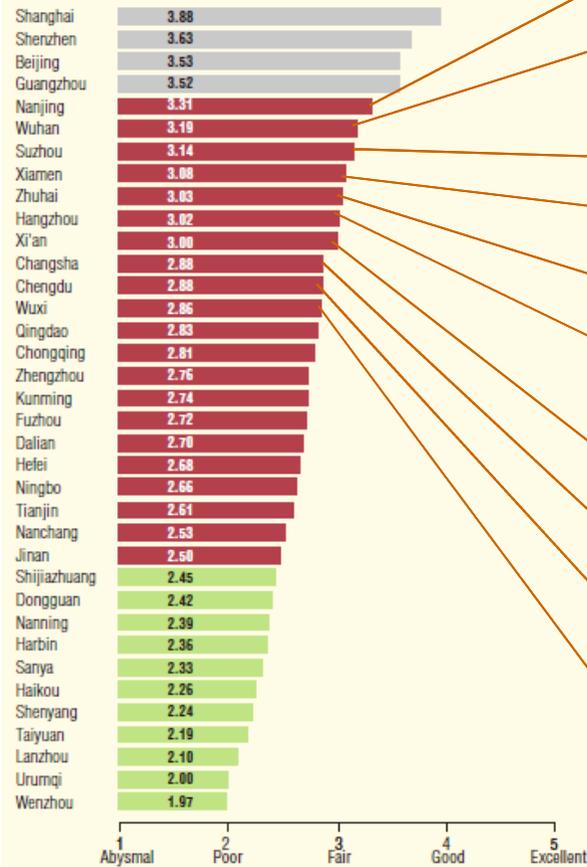
Beijing (3,5): Strong rent growth for office buildings; highest office rent due to limited new supply; low livability seen as negatively impacting high-end residential

Guangzhou (4,3): Helped by the maturing of the Pearl River New Town; relatively low office and retail rent versus the other Tier 1 cities due to a sizeable new supply; residential sector benefiting from the improved urban environment

Survey findings: The next 10 cities

Exhibit 1-1

City Investment Prospects



Source: Mainland China Real Estate Markets 2014 survey.

Nanjing (5,4): High speed railway and universities are key positive factors; perceived to be on the way to regain its former status as one of the most important cities in China

Wuhan (6,6): Transportation Hub and a key hi-tech center due to Optics Valley and a large number of universities; poised to benefit from the expanding of the subway network; lack of a clearly defined CBD and limited service industry are seen as negatives

Suzhou (7,7): Oversupply of office buildings

Xiamen (8,9): Benefits from strong economic ties with Taiwan and attracts a large number of wealthy individuals which has driven up residential price

Zhuhai (9,10): The Zhuhai-Macau-Hong Kong bridge expected to positively impact the city

Hangzhou (10,11): The residential market currently experiencing a price decline due to an oversupply, caused by aggressive land sale by the local government in the past several years; a strong demand from other parts of Zhejiang is expected to eventually help correct the current oversupply situation

Xi'an (11,8): Relatively low price and sound market fundamentals including strong job creation from the hi-tech industry

Changsha (12,12): Stable price but a large new supply expected in the next several years due to a large volume of land sales in the past few years

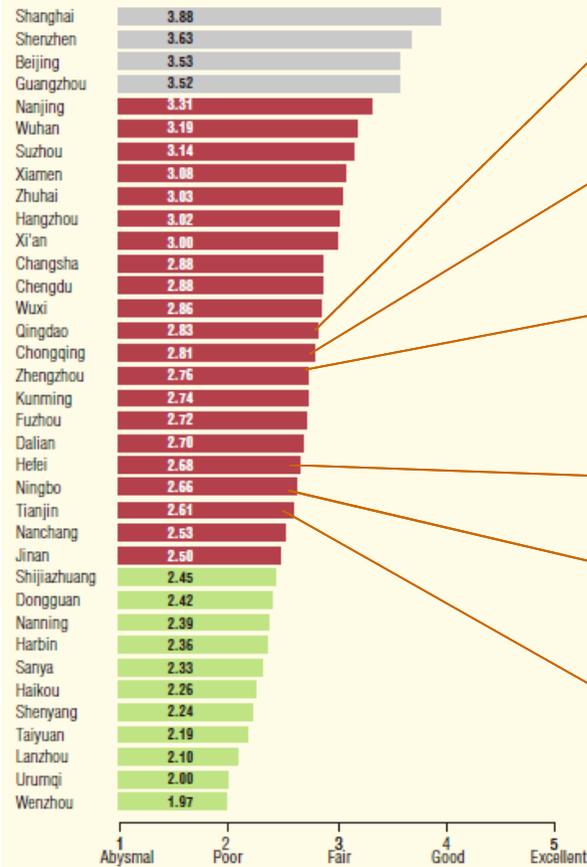
Chengdu (13,15): Oversupply of commercial properties in downtown and in the Tianfu New City; residential market seen as more stable though some price cutting is happening

Wuxi (14,13): Oversupply remains a concern but its proximity to Shanghai is a clear positive

Survey findings: Middle ranking cities

Exhibit 1-1

City Investment Prospects



Source: Mainland China Real Estate Markets 2014 survey.

Qingdao (15,18): While the rankings dropped, some interviewees expressed positive outlook due to the city's good urban planning and expanding subway system

Chongqing (16,17): Oversupply of retail and office properties while the residential sector is seen as more balanced; strong demand for strata office properties; property tax on high end residential units seen as having some impact

Zhengzhou (17,19): A sharp increase in ranking from 31st and 17th; developers say low land cost and a huge demand for mass residential products from the 8 million population in Zhengzhou and over 80 million in other parts of Henan Province

Hefei (21,21): Benefits from booming industrial development and transportation infrastructure

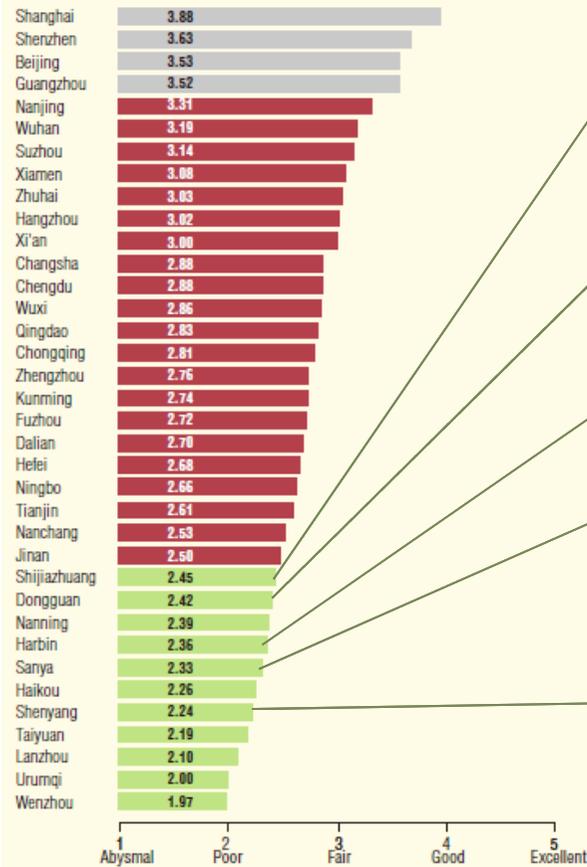
Ningbo (22,14): Large inventory of residential properties, caused by large land sales in the past few years by the local government; limited demand from out-of-town unlike Hangzhou

Tianjin (23,24): "No need to build an additional one square meter of office buildings for the next ten years" in Binhai New Area. But the old Tianjin area is relatively healthy"

Survey findings: Low ranking cities

Exhibit 1-1

City Investment Prospects



Source: Mainland China Real Estate Markets 2014 survey.

Shijiazhuang (26, 32): Moved up from 35th and 36th, largely due to the central government's recently announced plan to integrate the economic development of Beijing, Tianjin, and Hebei Province

Dongguan (27, 28): The lowest ranking city in the Pearl River Delta; perhaps better days ahead with the growing integration of the region

Harbin (29, 27): Local developers suffering from the arrival of national developers

Sanya (30, 32): Hotel ADR and occupancy suffering from a large supply of new hotels in Haitaing Bay and other areas; poor urban infrastructure and high air fare seen as obstacles to the tourism sector; residential sales down due to the slow down of mainland China's economy

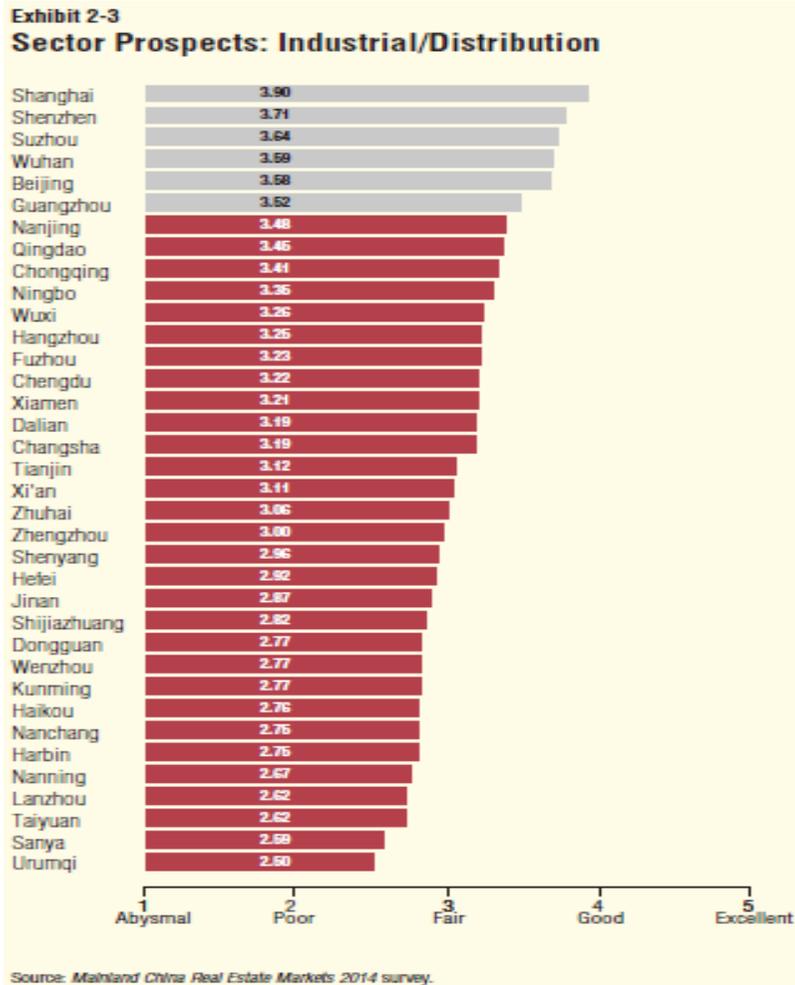
Shenyang (32, 29): Oversupply of commercial properties in downtown, especially along Qingnian Street; some still find attractive opportunities in areas with limited retail properties

City ranking by sector prospects

Section Five:

Cities survey ranked by sector prospects

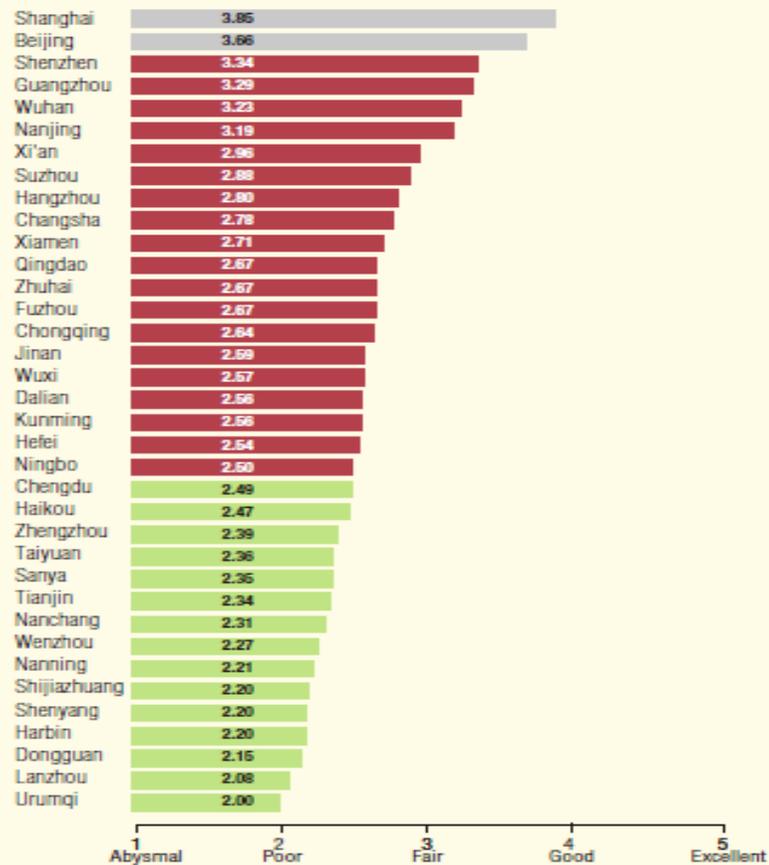
City ranking by industrial/distribution prospects



- A severe shortage coupled with a double digit growth in retail sales and on-line sales
 - Only 20 million square meters of grade A warehouses
- Low level of interest among local governments to release land for logistics use
- Shanghai, Shenzhen, Suzhou, Wuhan, taking up the top four places, followed by Beijing and Guangzhou
- The industry may be challenged by a reduction of land lease period to 20 years by Shanghai

City ranking by office prospects

Exhibit 2-4
Sector Prospects: Office



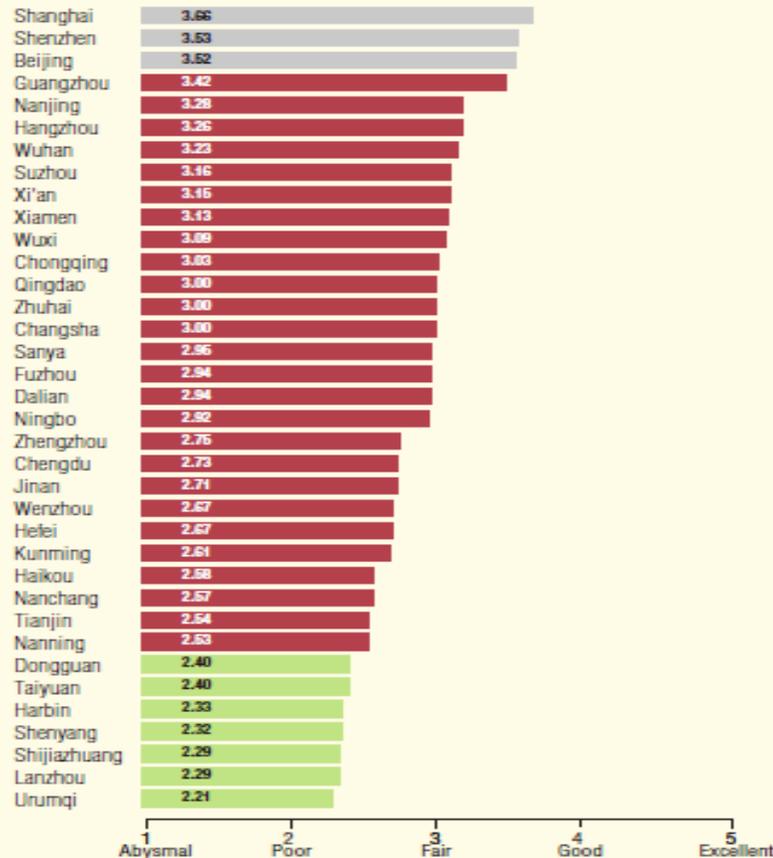
Source: Maitland China Real Estate Markets 2014 survey.

- Favorable outlook for Tier 1 cities
- Concern over oversupply of office buildings in Tier 2 cities
- Shanghai, Beijing, Shenzhen, and Guangzhou taking up the top four places, followed by Wuhan and Nanjing
- High rents in Beijing considered not sustainable
- Decentralization of office buildings in Shanghai and Beijing

City ranking by retail prospects

Exhibit 2-10

Sector Prospects: Retail



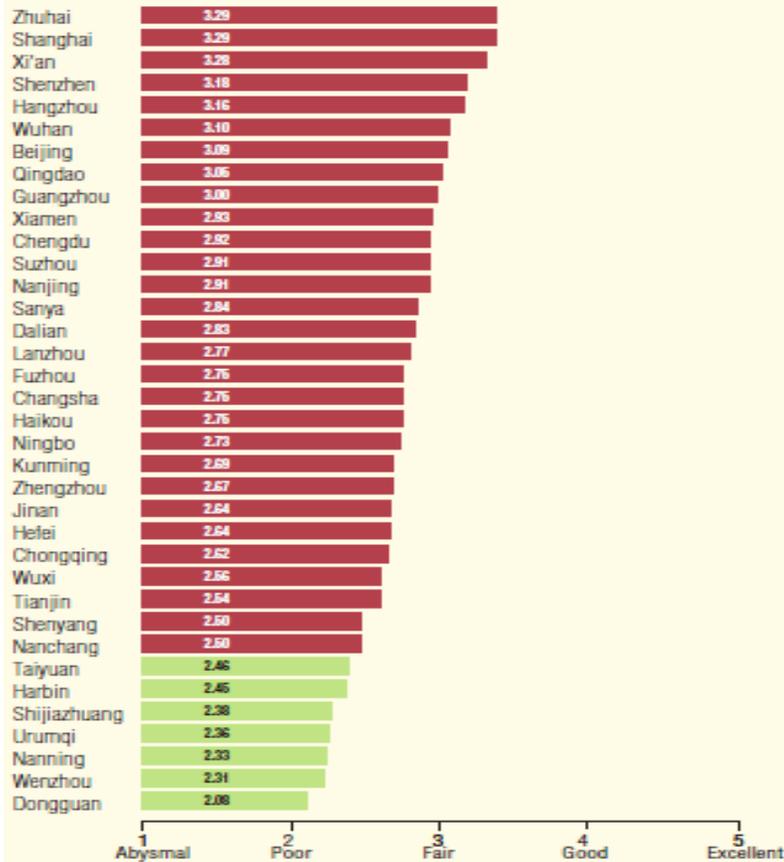
Source: Mainland China Real Estate Markets 2014 survey.

- Shanghai, Shenzhen, Beijing, and Guangzhou taking up the top four places
- Majority of retail developers seen as inexperienced
- Growing competition from new shopping center and e-commerce
- Shanghai, Shenzhen, Beijing, and Guangzhou taking up the top four places
- Growing opportunities to acquire and fix “broken malls”

City ranking by hotel prospects

Exhibit 2-12

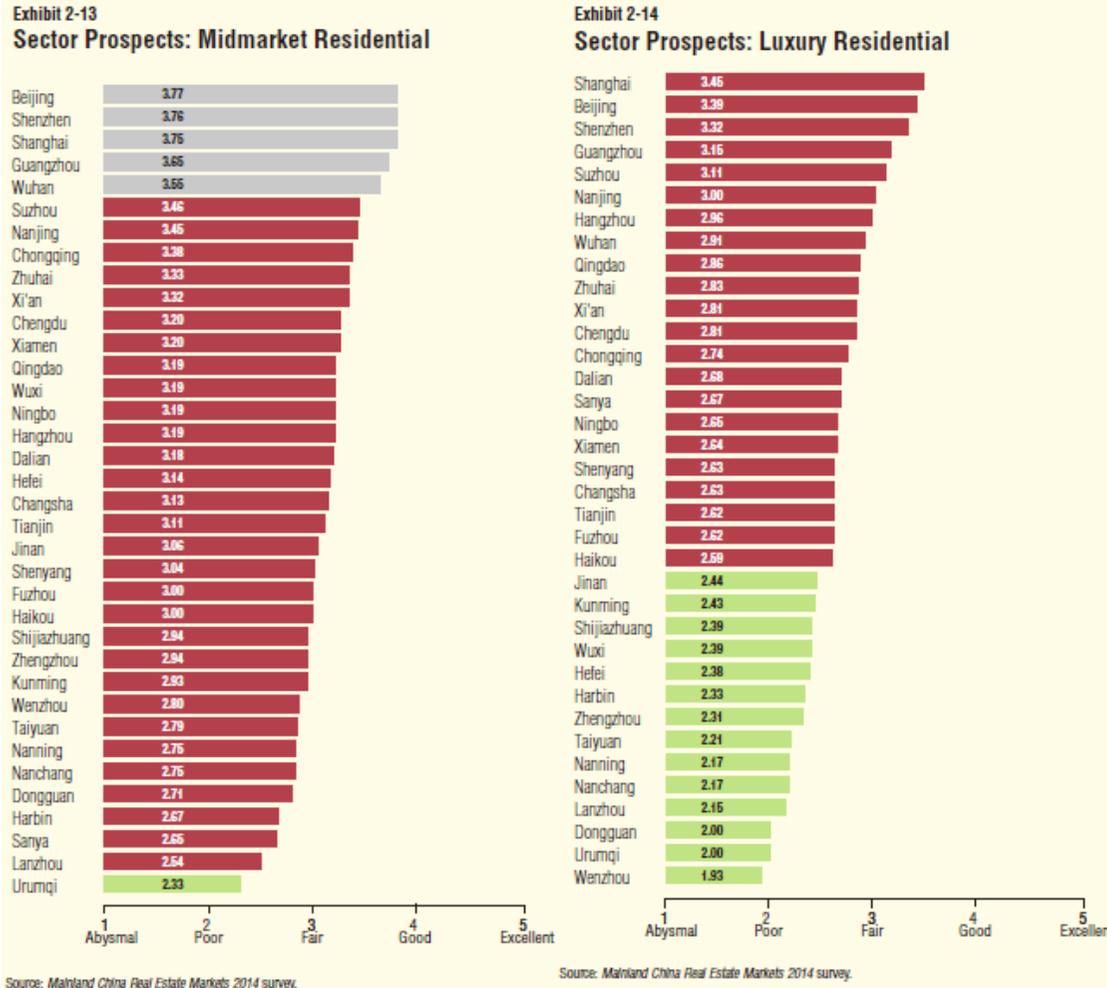
Sector Prospects: Hotel



Source: *Mainland China Real Estate Markets 2014 survey.*

- Oversupply of five-star hotels in general with many mixed-use projects required by local governments to have five-star hotels
- Low profitability plaguing the sector
- Zhuhai, Shanghai, Xian and Shenzhen taking up the top four places
- Sanya dropped to 14th place from second place last year due to a new supply of hotels in Haitang Bay

City ranking by midmarket and luxury residential prospects



- Tier 1 cities taking up the top four places for both midmarket and luxury residential
- Local governments' land sale policies are a key determinant of the health of the sector
- Expectation of gradual relaxation of the home purchase restrictions and other policies intended to suppress the residential market
- Luxury residential expected to bounce back more if and when restrictive rules are relaxed

Investment prospects for niche sectors

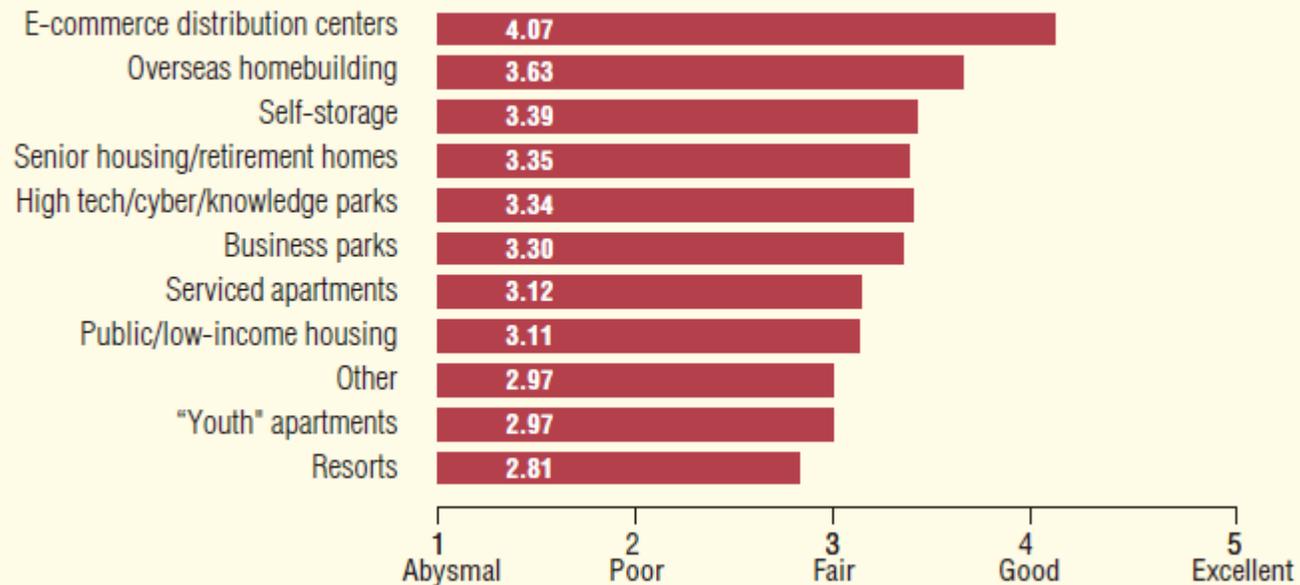
Section Six:

Investment prospects for various niche sectors

Investment prospects for niche sectors

Exhibit 4-1

Investment Prospects for Niche Sectors



Source: *Mainland China Real Estate Markets 2014 survey.*

City ranking by livability

Section Seven: City ranking by livability

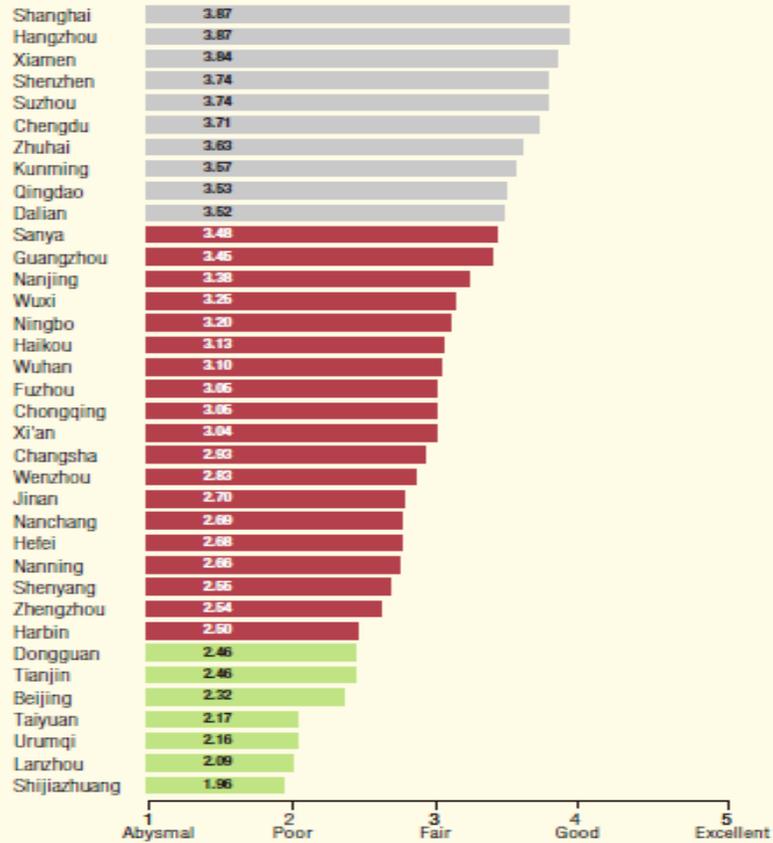
City ranking by livability



City ranking by livability

Exhibit 4-4

City Livability



Source: Mainland China Real Estate Markets 2014 survey.

- Shanghai rated first due to a combination of good job opportunities, good living conditions, and amenities such as education
- 8 out of top 10 located along the coast: Shanghai, Hangzhou, Xiamen, Shenzhen, Suzhou, Zhuhai, Qingdao and Dalian
- Chengdu and Kunming, two inland cities among the top 10
- Tianjin, Beijing, and Shijiazhuang, ranked 31st, 32nd, and 36th places

Major Issues Impacting Real Estate Investment and Development

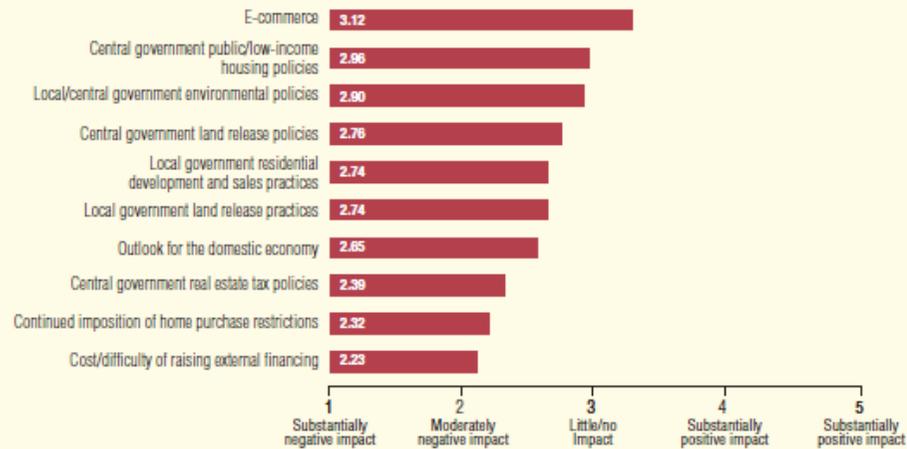
Section Eight:

Impact of some key issues on the respondents' China real estate strategy

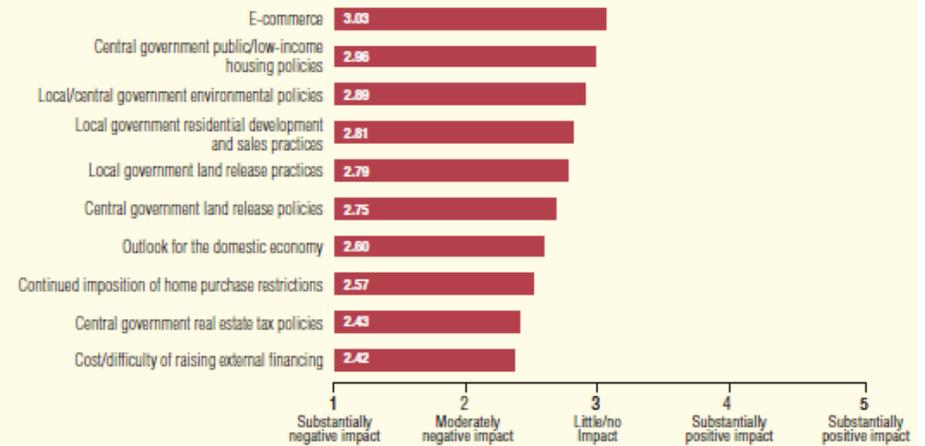
Impact of various issues on development and investment

Exhibit 3-1
Impact of Various Issues on Development and Investment over the Next 12 Months

Impact on Development



Impact on Investment



Source: Mainland China Real Estate Markets 2014 survey.

Survey report major findings

Section Nine: Summary

Summary of report findings

- Clear preference for Tier 1 cities
 - Relatively deep pool of investment grade assets
 - More balanced land supply
 - Strong fundamentals: well-paying jobs, amenities like top universities and hospitals
 - Still sizeable development opportunities caused by favorable government policies and infrastructure investment
- Tier 2 cities with more controlled land sale and strong hi-tech industry fared well
 - Nanjing, Wuhan, Xian
- Significant investment in subway systems in Tier 2 cities is expected to create many development opportunities
- Among the key sectors, industrial/distribution, mid-market residential, office, and retail are popular while hotels and luxury residential are the least popular
- Among niche markets, e-commerce distribution centers and overseas homebuilding are the two most popular sectors while resorts are ranked at the bottom. Despite huge potential, seniors' housing sector suffers from no clear business model while service apartments benefit from growing demand from local professionals and families
- Among the factors impacting on development and investment, 1) cost/difficulty of raising external financing, 2) real estate tax policies, and 3) home purchase restrictions are seen as having the most negative impact

Thank You!