

Property Market In CHINA

Rationale, Challenges & Responses

From a real estate practitioner's point of view

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Property Market in CHINA



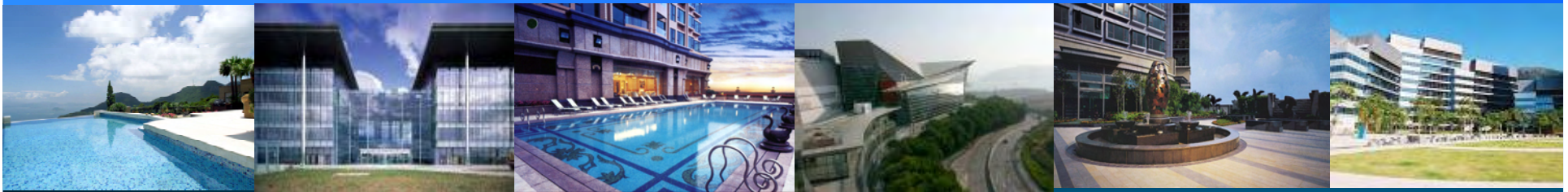
1. Why do we develop new market ?

2. Why do we choose China ?

3. Challenges Ahead



Why Do We Need To Develop New Market?



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Property Market In China
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Date: 18/1/2007

Answer : Market Saturation in HK

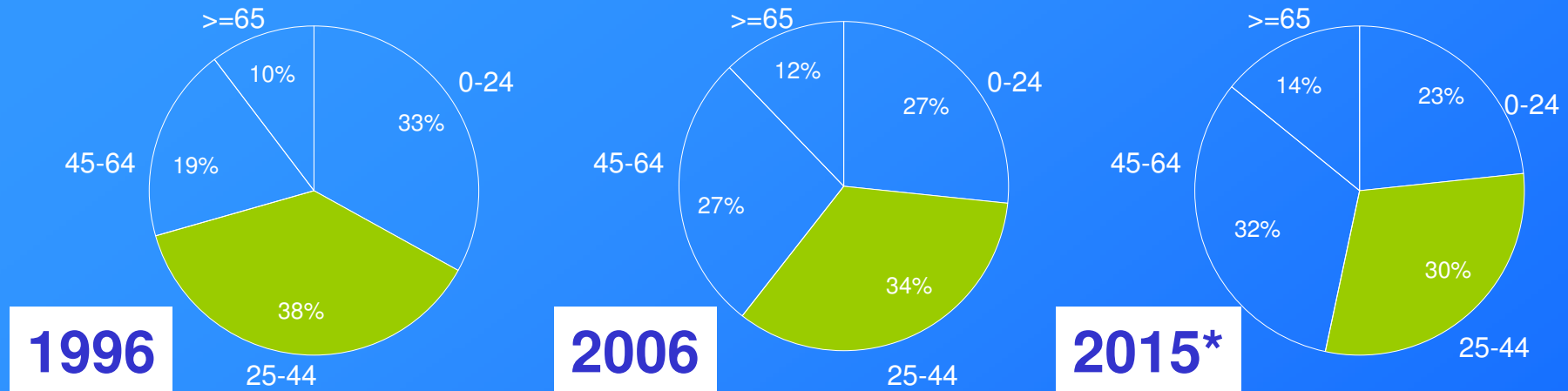
Simple Analogy :

- Primary Residential Market
 - Transaction in 2006: 13,824 units, \$60 billion
 - If profit margin was 30% → Total Profit: \$18 billion
 - Divided by 10 major developers: \$1.8 billion each
- Market capitalization of major developers (As of 16 Jan, 2007)
(e.g. SHKP: \$ 246 bn; Cheung Kong: \$ 239 bn; Henderson: \$ 94 bn; SINO: \$ 85 bn)
 - The profit is too small !



Change of Demographics in HK

Population by Age Group



Source: Census and Statistics Department of Hong Kong

*: projection

- The population in age group 25 to 44, the major buyers in the residential market, has been decreasing
- No. of units of housing stocks exceeded no. of households since 1999
- Limited future demand; Limited future supply (~10,000-15,000units/ yr); Limited Land supply

HK Developers Vs. Mainland Developers

Company	SHKP	Cheung Kong & Hutchison Whampoa	Vanke	China Overseas Land & Investment
Market Cap (30 Dec, 2005)	HKD 190 bn	HKD 184 bn + HKD 315 bn	HKD 17 bn	HKD 21 bn
Sales Volume (2005)	2,900 units HKD 19 bn	2,700 units HKD 18 bn	~ 20,000 units HKD 14 bn	~ 10,000 units HKD 7.9 bn

Source: annual report, Bloomberg

- SHKP's market cap. was 10 times more than that of Vanke in 2005. However, SHKP sold much less units than Vanke did.
- Main reason: Vanke was exposed to a much larger market.
- Implication: For HK developers → Expansion is needed !

Implication: Expansion Is Needed

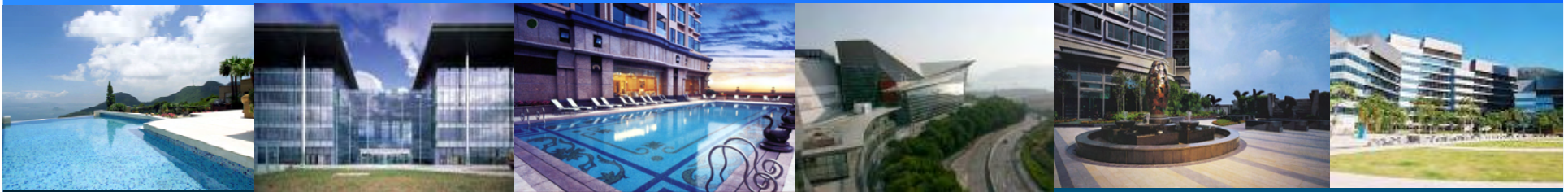


Implication: Expansion Is Needed





Why Do We Choose China?



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We know the market better

- **Competitive advantages**
 - Language
 - Culture
 - Network



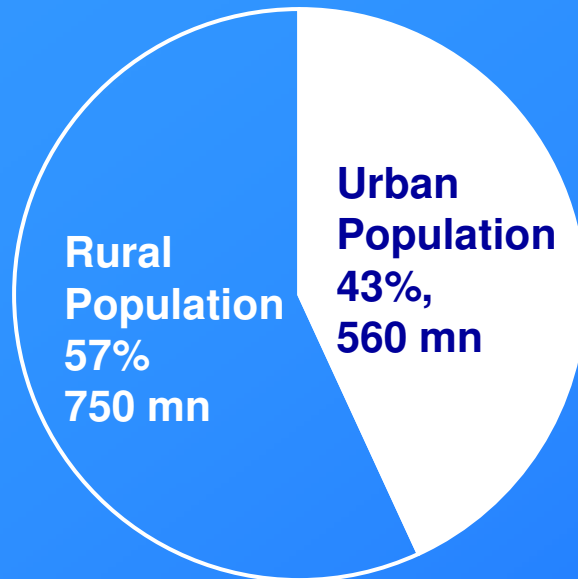
Rapid Economic Growth in CHINA

- Average real growth rate (1991-2005): GDP - 10.1%,
Compound growth effect: 424%
- Expected growth rate in the next decade : 8% to 9% / year
- According to CHINA's Eleventh-Five Year Plan
(service industry) / (overall GDP) will increase
- **Implication →**
**Strong demand for property market (including
residential, office, retail, hotel, industrial buildings)**

Accelerated Urbanization

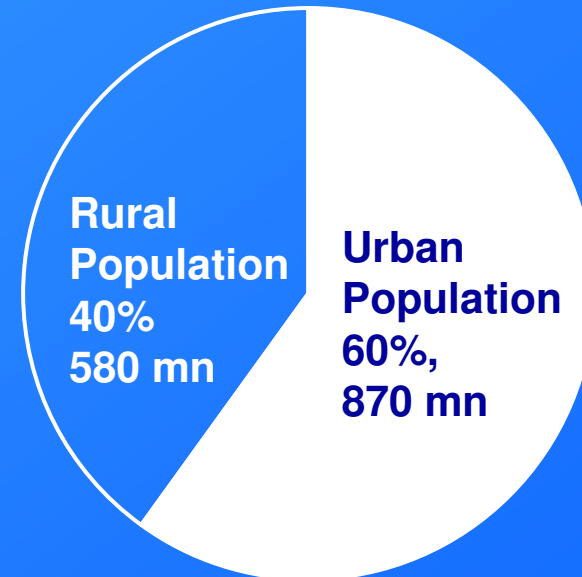
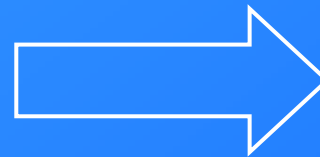
2005 Overall Population

1.31 billion



2020 Overall Population

1.45 billion

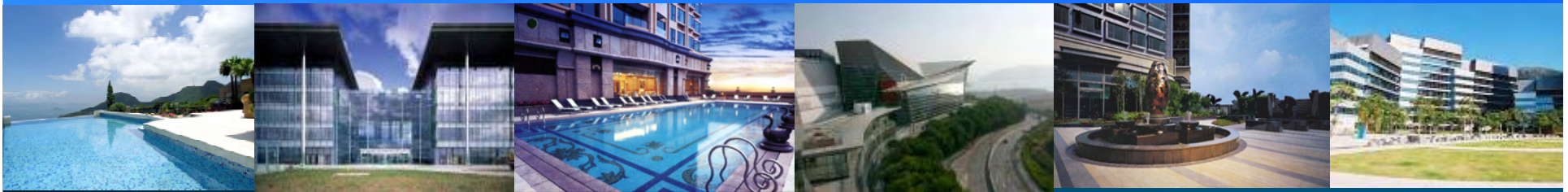


Source: National Bureau of Statistics of China

In the coming 15 years, urban population will increase by
~ 20 million per year (ie. 5 Singapore, 3 Hong Kong, 1 Taiwan, 2/3 Canada)



Challenges Ahead



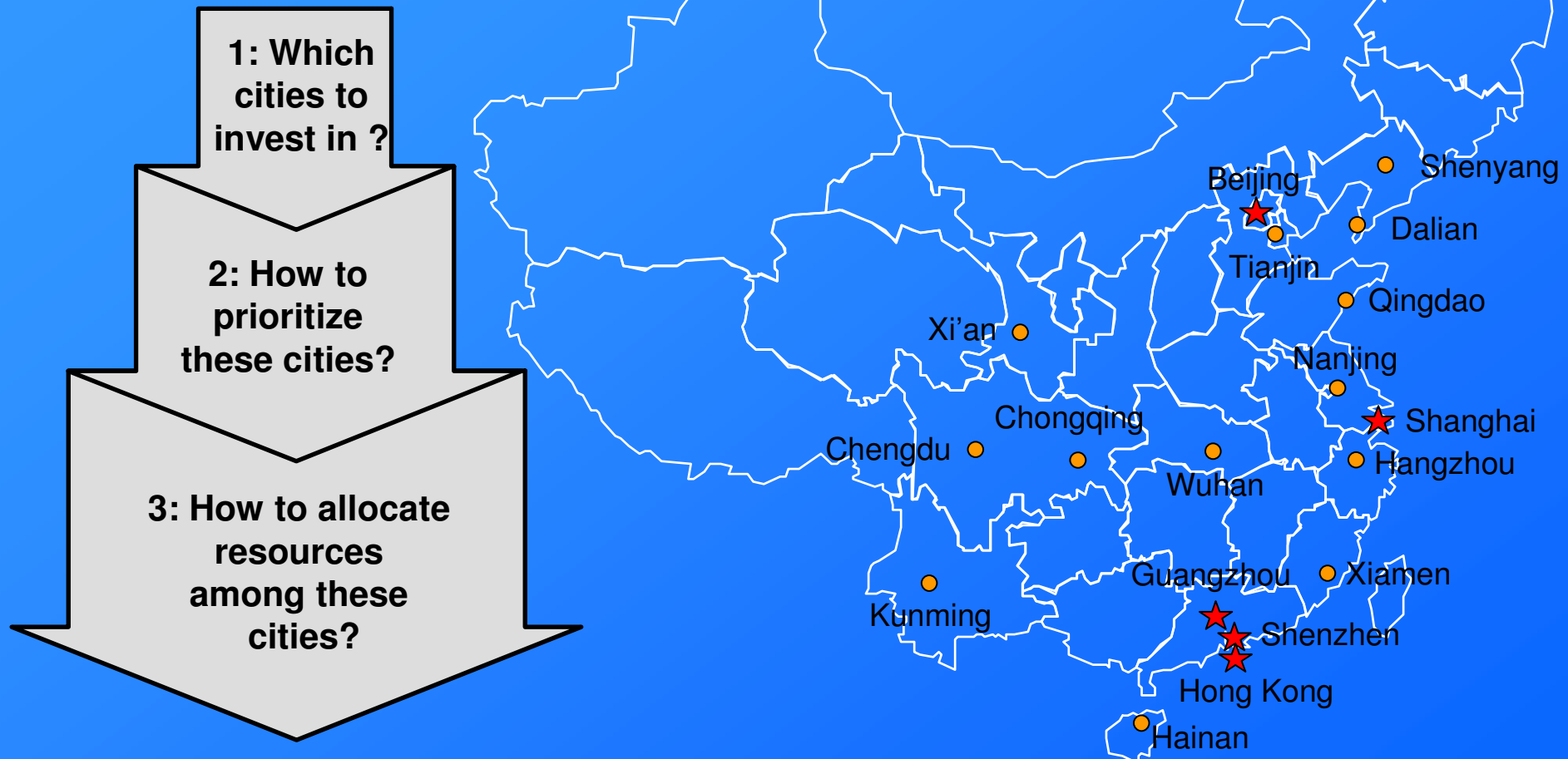
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Challenge 1: Huge Market Vs. Limited Resources

There are 86 cities with population of over 5 million



Possible Responses



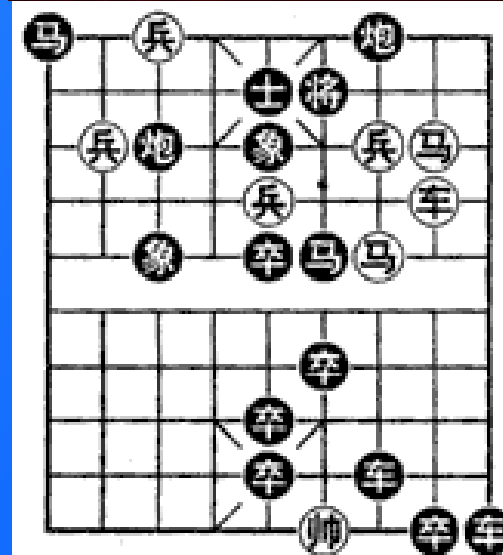
Challenge 2: Different Market Environments

Rules of the game:

- Different from Hong Kong
- Vary from city to city, region to region
- Rules of the game change from time to time

e.g. Yesterday's Announcement:

From February 1 - National Tax Administration would start collecting from developers a Land Appreciation Tax (30 % - 60 %) on the appreciation of property values introduced in 1993.



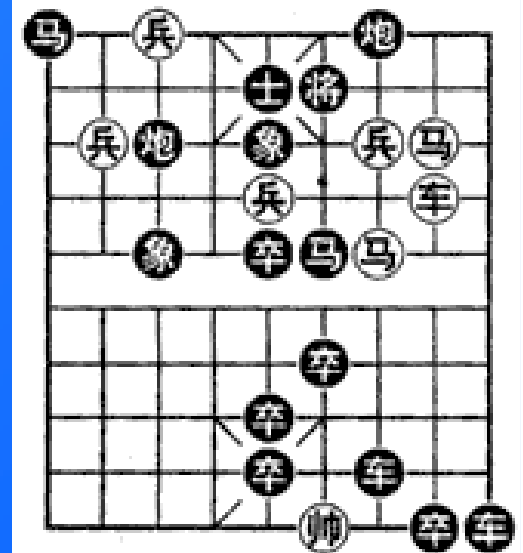
Challenge 2: Different Market Environments

e.g. Announcement in mid 2006 :

- Increase the portion of smaller properties
Residential average size : 70% of GFA < 90 sq m
- Add levy on 2nd hand property transaction
20% Personal Income Tax,
5% Business Tax for transaction of properties w/in 5 yrs
- Restrict Foreign Buyers (incl. HK, Taiwan, Macau)
from purchasing properties for non-self use purpose

Possible Responses:

- Follow the rules of the game
- Match rule-setter's way of thinking
- Be prepared

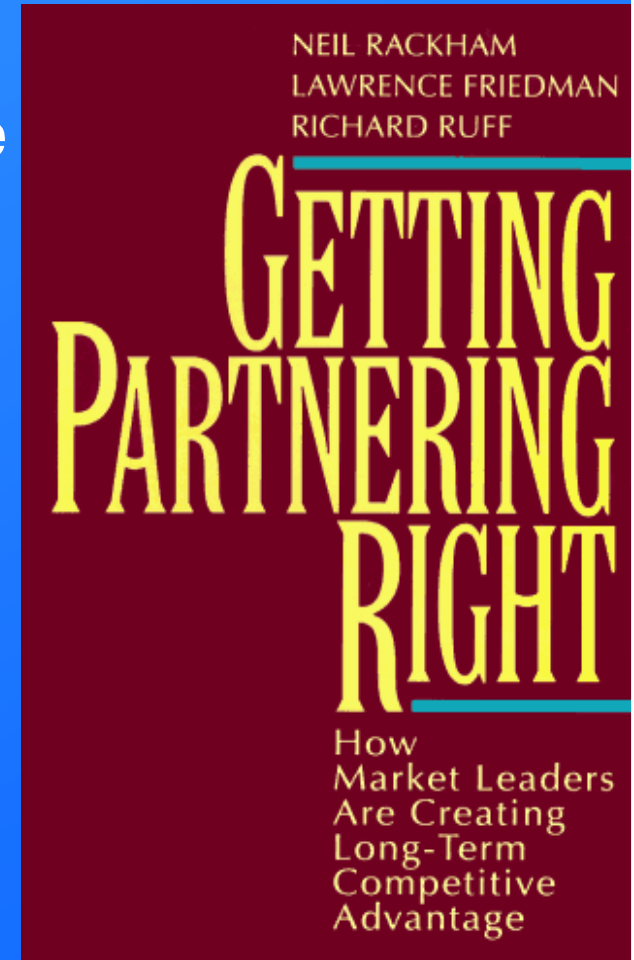


Analysis of competitive advantages - Market Players

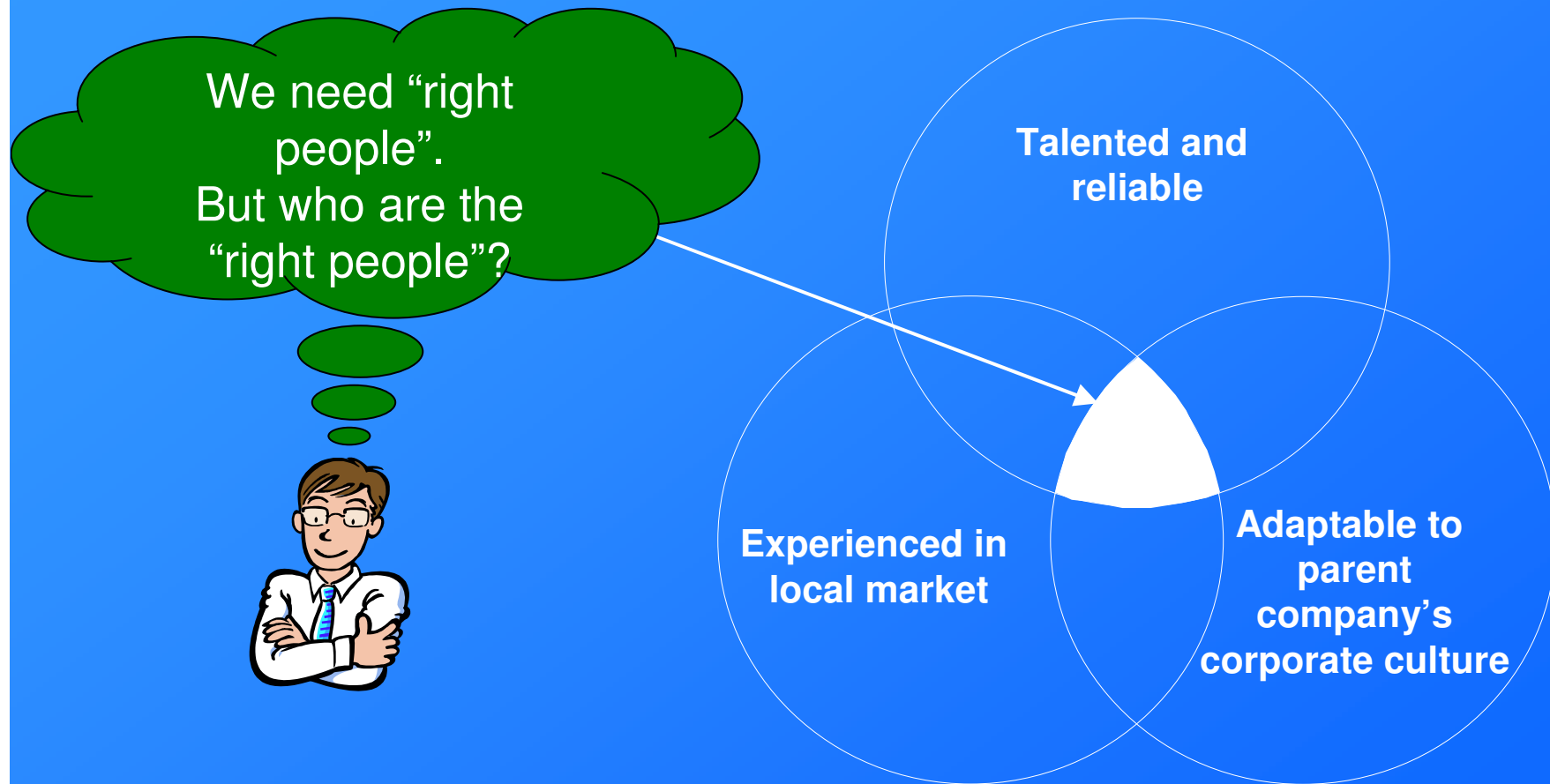
	<u>HK Developers</u>	<u>Mainland Developers</u>
Financial Strength	✓	Growing rapidly
Project Mgt.	✓	Improving rapidly
Quality Control	✓	Improving rapidly
Time Control		✓
Local Experience		✓
Network (e.g. Government)		✓

Possible Responses

- Make best use of our competitive advantage
 - To start with high-end projects
- Learn step by step
- Find a good local partner in China market
 - Local experience
 - Good relationship with Government



Challenge 3: To Get The “Right People”



Possible Responses



Hong Kong Developers In China

Company	Land Bank (sq.m)	Company	Land Bank (sq.m)
New World	17.5 million	Cheung Kong + Hutchison Whampoa	14.4 million
Wharf	2.7 million	Hang Lung	2.6 million
Henderson	2.4 million	SHKP	1.9 million
Kerry Property	1.7 million	Sino Group	1 million
Swire	0.5 million	HK Land	0.4 million
China Overseas	14 million	CR Land	9.6 million

Source: Public Information (As of end 2006)

- Some of the developers have nationwide business exposure:
e.g. New World (17 cities), Cheung Kong & Hutchison Whampao (15),
China Overseas (14) and China Resource Land (9)
- Most of other HK developers currently invest in selected cities only

The Way Forward



A Final Note :

Quoting **Prof. Lin Yifu**

(A famous economist from Peking University)

China is a very complicated book.

If you understand this book,

YOU WILL BE the WINNER !!

The Question Is ...

Are you ready to read this book ?



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Thank You

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