

Property Market In CHINA

Rationale, Challenges & Responses

From a real estate practitioner's point of view

WONG CHIK WING, MIKE

Executive Director
Sun Hung Kai Properties Ltd.



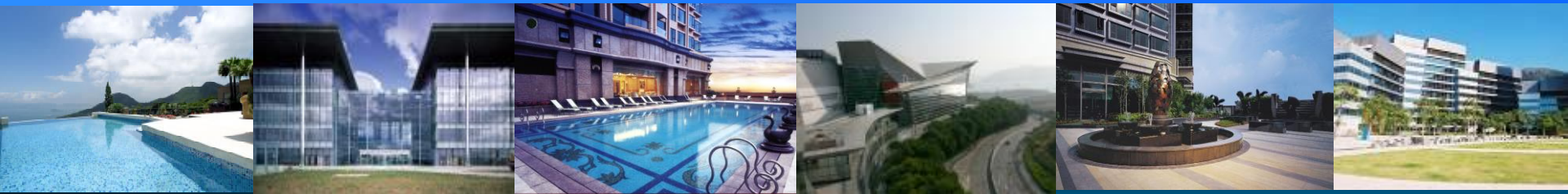
Property Market in CHINA



- 1.** Why do we develop new market ?
- 2.** Why do we choose China ?
- 3.** Challenges Ahead



Why Do We Need To Develop New Market?



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)

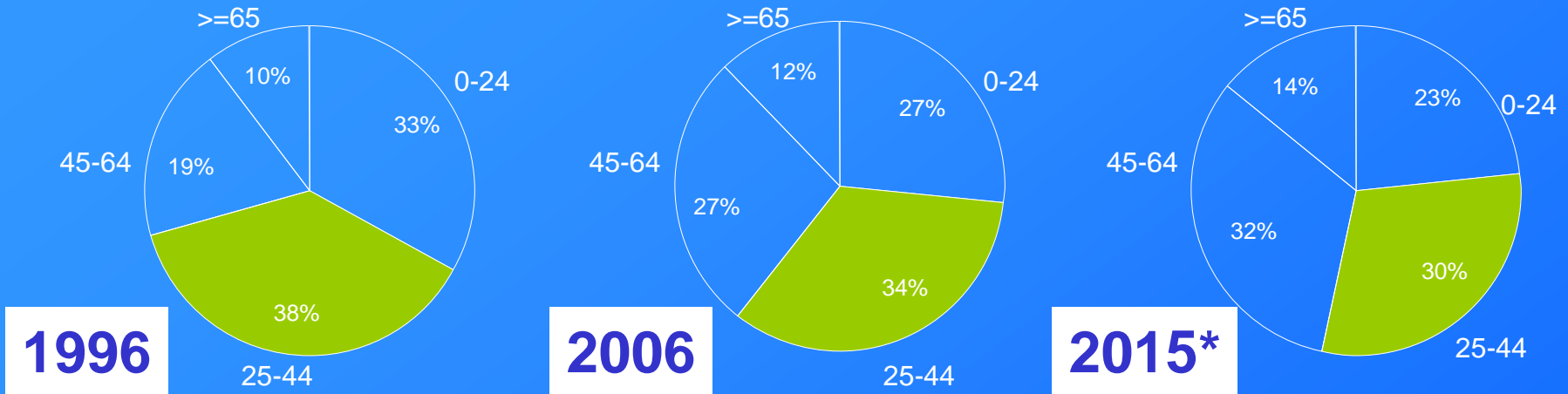
(e.g. SHKP: \$ 246 bn; Cheung Kong: \$ 239 bn; Henderson: \$ 94 bn; SINO: \$ 85 bn)

- 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

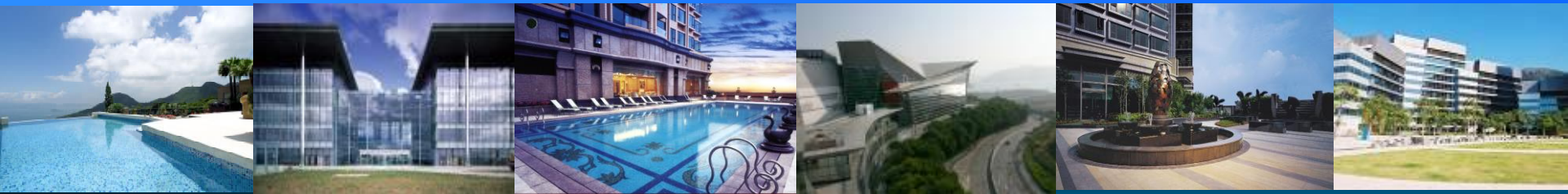


Implication: Expansion Is Needed





Why Do We Choose China?





We know the market better

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



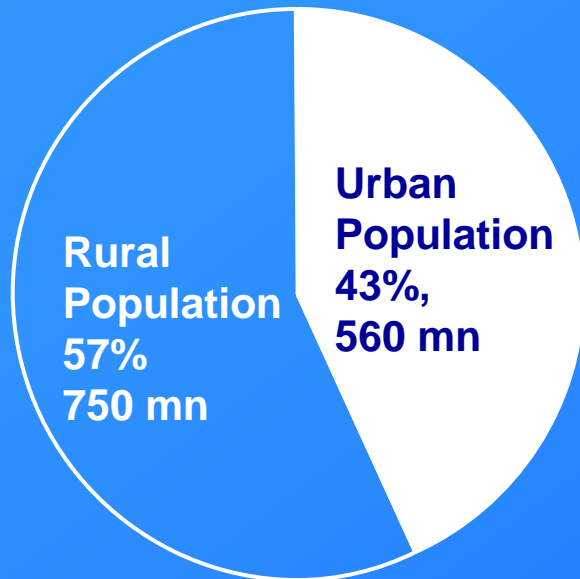
Rapid Economic Growth in CHINA

- 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

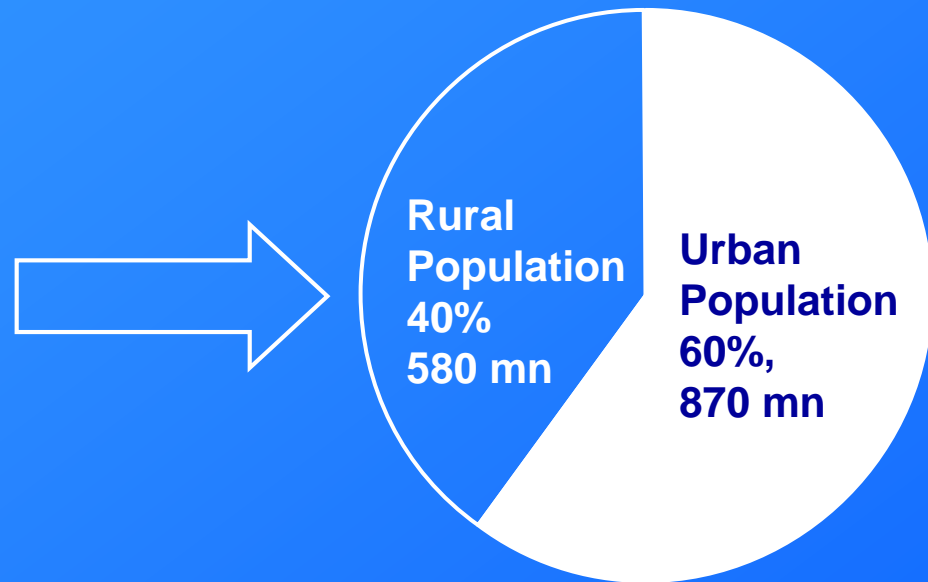
2005 Overall Population

1.31 billion



2020 Overall Population

1.45 billion

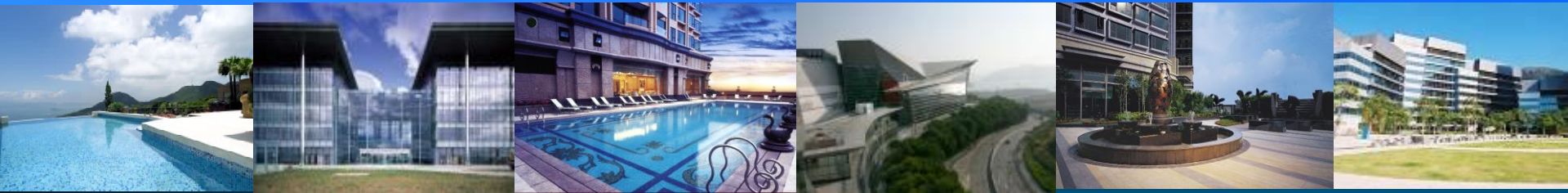


Source: National Bureau of Statistics of China

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)

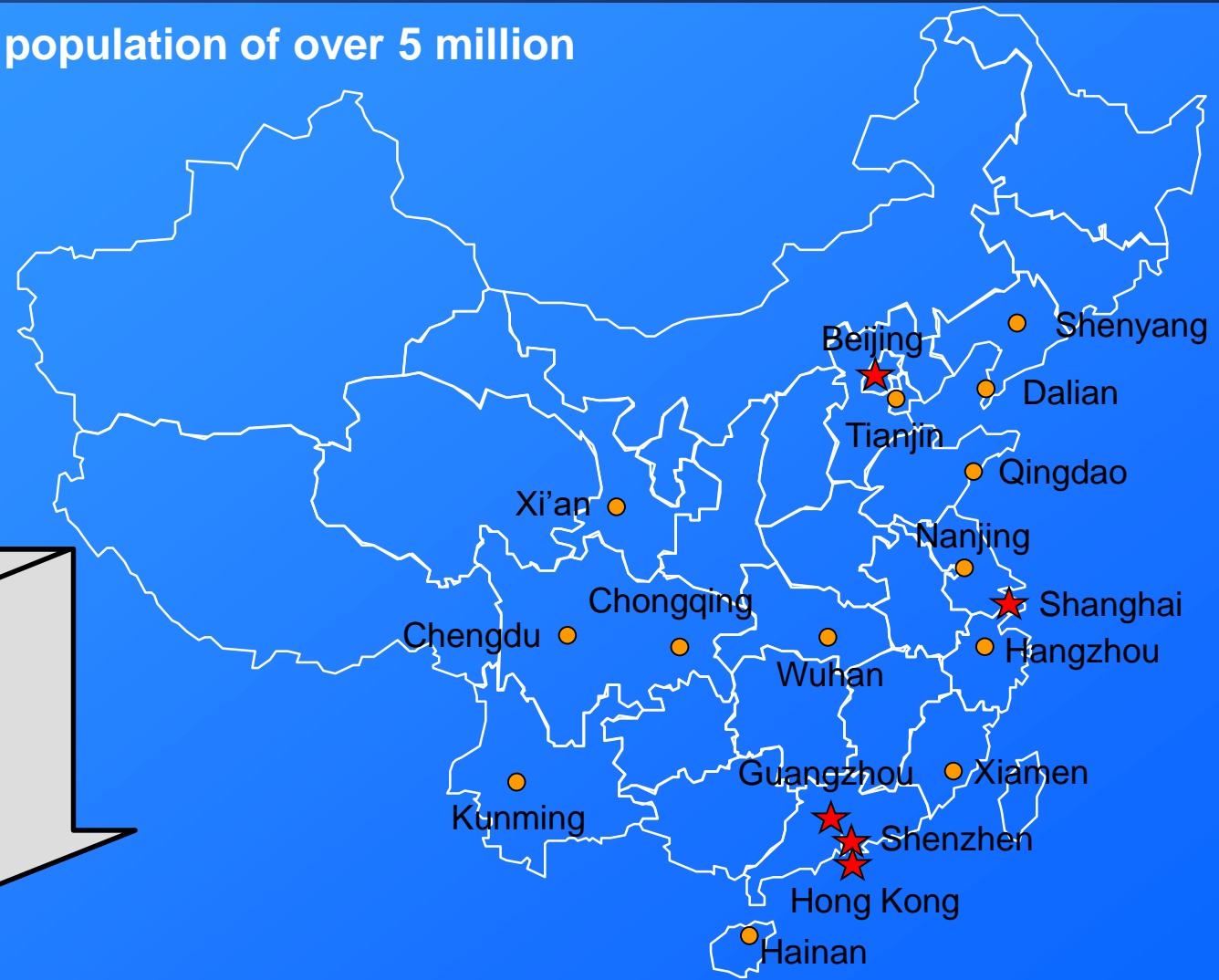
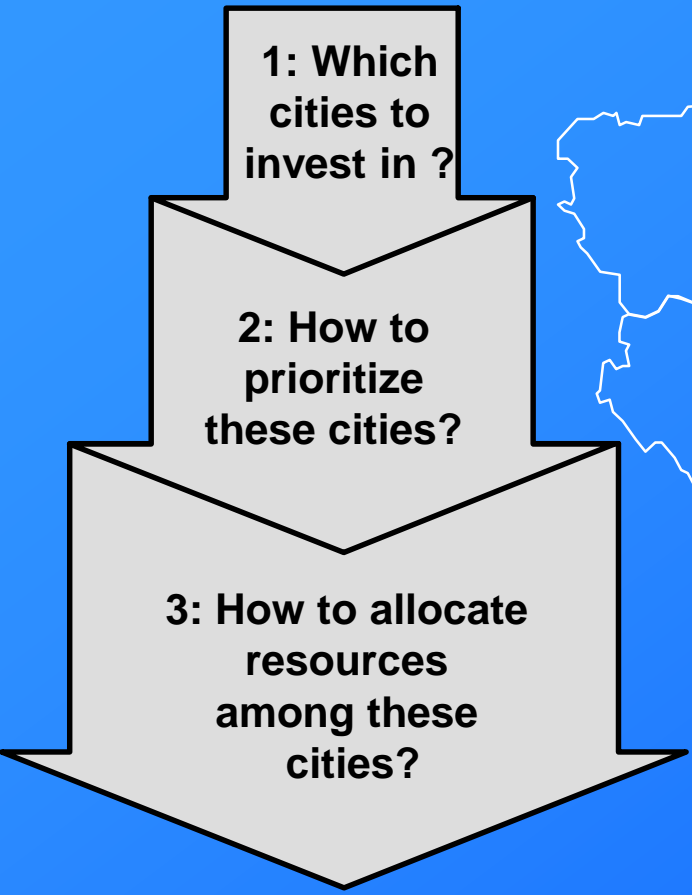


Challenges Ahead



Challenge 1: Huge Market Vs. Limited Resources

There are 86 cities with population of over 5 million



Possible Responses



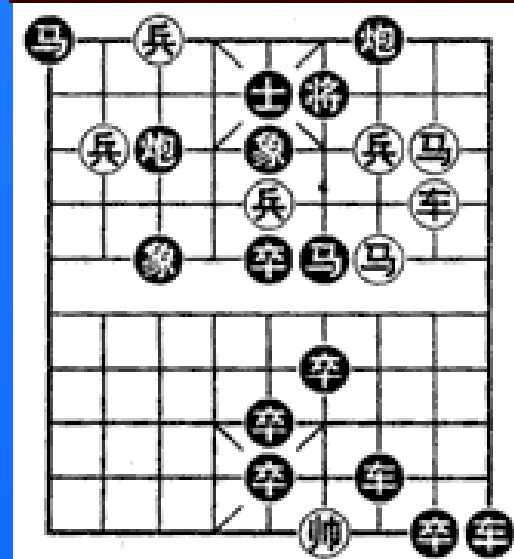
Challenge 2: Different Market Environments

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.



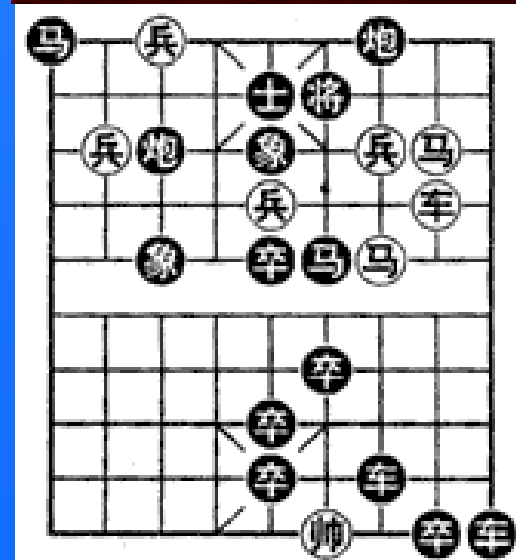
Challenge 2: Different Market Environments

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

HK Developers

Mainland Developers

Financial Strength	✓	Growing rapidly
Project Mgt.	✓	Improving rapidly
Quality Control	✓	Improving rapidly
Time Control		✓
Local Experience		✓
Network (e.g. Government)		✓

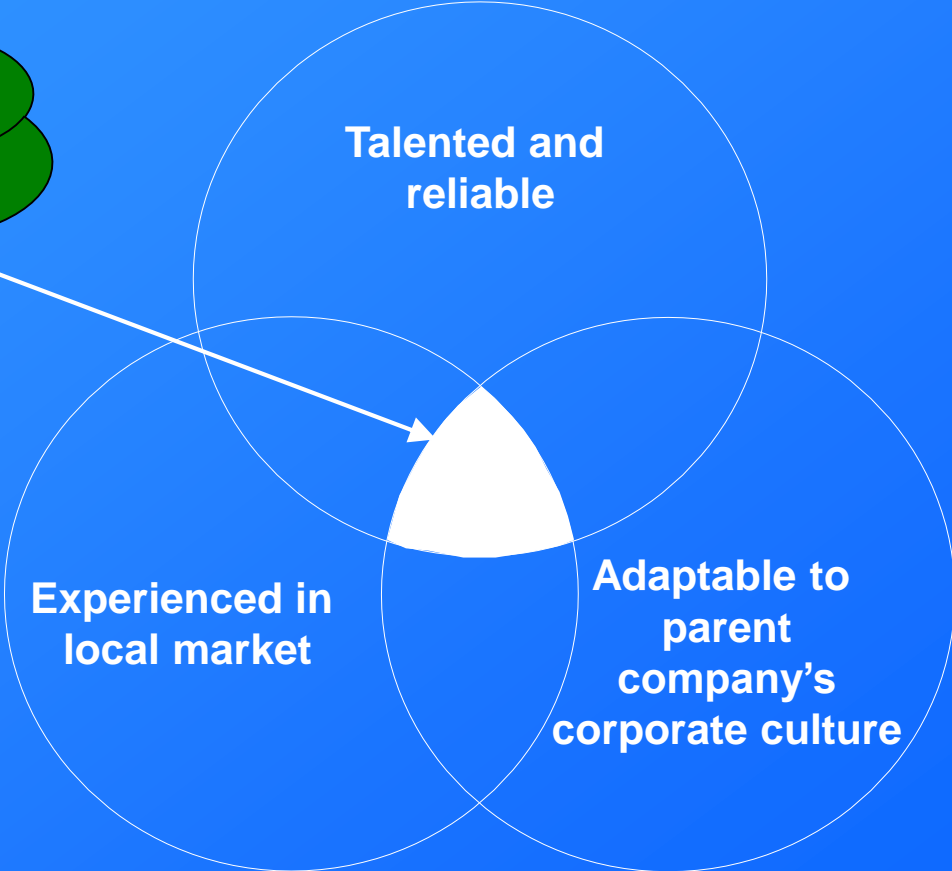
Possible Responses

- 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”

We need “right people”.
But who are the “right people”?



Possible Responses



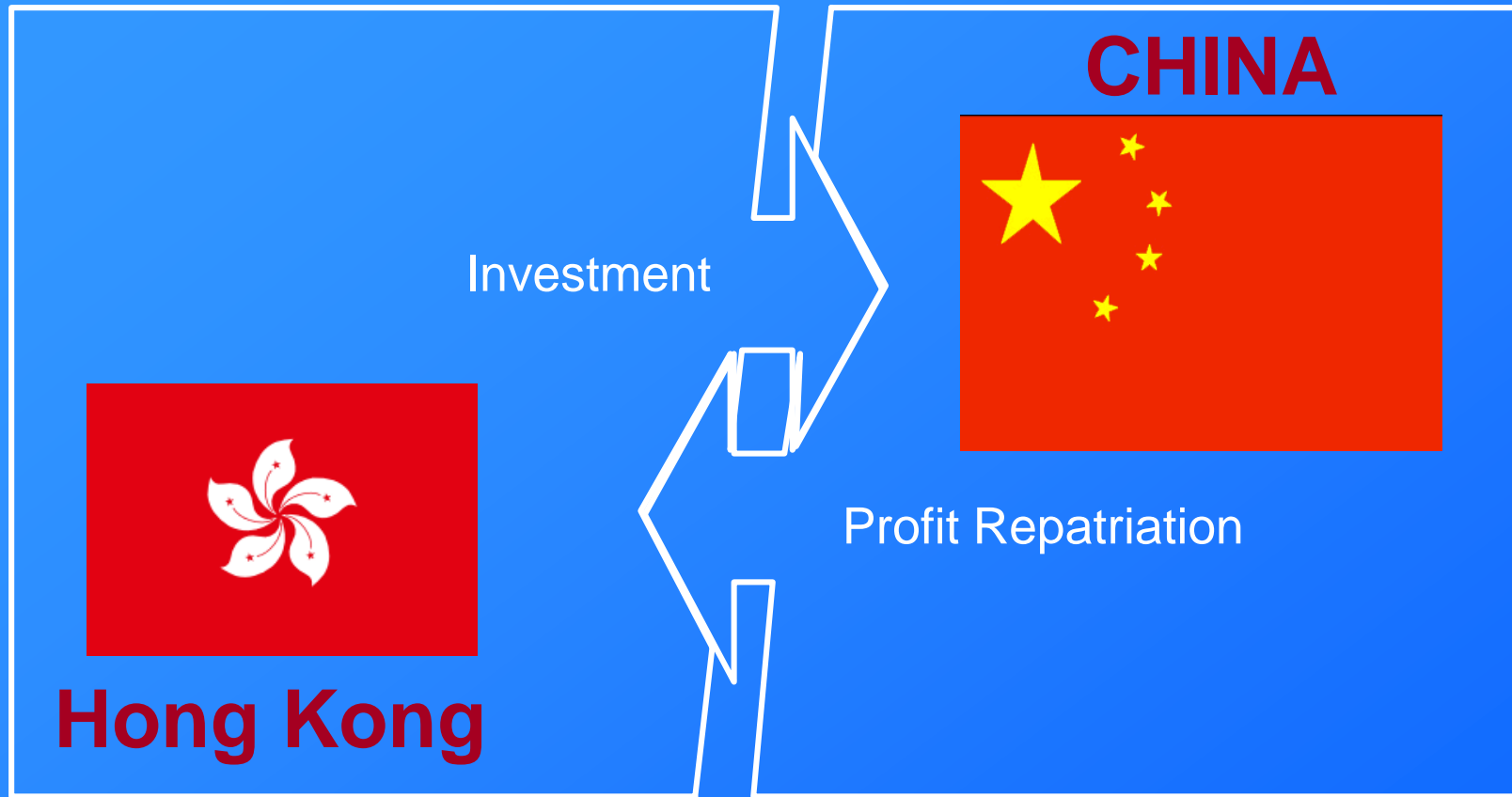
Hong Kong Developers In China

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



WIN



WIN



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 ?



Property Market In CHINA

Rationale, Challenges & Countermeasures

From a real estate practitioner's point of view

Thank You

WONG CHIK WING, MIKE

Executive Director

Sun Hung Kai Properties Ltd.

