



Shanghai Flash

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When comes spring?

Shanghai Real Estate Market braces for cold winter

- § *The real estate market kept stable in the first half of 2008, but began to show a slump since the 3rd Quarter due to the tightening domestic policies at the beginning of 2008 and negative impact of global financial turmoil as well.*
- § *Shanghai Industrial Market grew steadily in 2008, offering enough supply to meet the industrial investment demands.*
- § *Ample office supply has been put onto the market in 2008, coupled with the falling demand, pushing the vacancy rate to unprecedented high since 2004.*
- § *Chinese central and Shanghai local governments put forward various stimulus plans to encourage the property transaction since October. However, the measures do not seem to stop the housing price from downward trend in a short period.*

The global financial turmoil is expected to further drag down the world economy, which is suffering a great recession and slowdown from the beginning of 2008. **China's GDP growth of the first three quarters fell to 9%, well below last year's 11.9%**, lying great **negative impact on investment and weakening confidence in China's real estate industry.**

I. Recent real estate market

For **the first half** of 2008, Shanghai real estate market kept **relative stable**. **The 3rd Quarter** marks the **inflexion** of the whole property market. With the conventional annual real estate boom known in the industry as "**golden September, silver October**" and the "**October golden week holiday**" **passing stagnantly** this autumn in China, the real estate industry is falling into a cold winter. Property prices in China's medium-sized cities began to show a downward trend from the 3rd Quarter.

Not many industries can be as both important and hard to manage as real estate. Much of a society's consumer spending is related to the pattern of its real estate market directly or indirectly. According to "**Shanghai Master Planning 1999-2020**", **the total population will keep 18 million with 85% city level covering 1,500 sq km in Shanghai in 2020**. The framework of facility foundation for modernizing and international metropolis should be established in 2020. The real estate industry should be the fundamental guarantee of this plan and the pillar industry of economic development.

According to the market survey in the centre of the Yangtze River Delta from the Development and Reform Commission, **sales property price below 90 sq. m. of new housing in Shanghai reduced by 0.9% and 0.4% in September and October.** The **supply** of residential market **increased by 38%, while trading volume fell by 20%**, which causes the proportion between supply and demand ratios reaching an unprecedented 3.3 to 1¹. Considering the continuous fall of residential price and expecting a further fall, people are holding a **wait-to-see attitude**, which is then a vicious circle.

II. Industrial Market

Industrial real estate refers to the nature of all land and buildings affixed for industrial purpose, like manufacturing plant, warehouse and logistics industry R&D buildings etc.

There was a total of 305,000 sq. m. of new industrial facilities completed in the market for the first half of 2008; therefore the total stock was increased by 3.28% year-on-year. As compared with last year, the supply growth rate slowed down. The decline in new supply led the **average vacancy rate of leading industrial parks to remain at a lower level of round 3.5%** at the end of first half of 2008. Currently, the average rent of main industrial parks kept steady growth rate of 8.5% year-to-year to RMB 0.89 per sq. m. per day².

The low price of industrial land made some companies consider another alternative to buy instead of renting. In a relative new industrial park in suburban area of east Shanghai, the land buyers have obtained **more profits on land purchasing with a low price and subleasing than renting**, benefiting from the appreciation of land.

III. Office Market

During the first 3 quarters of 2008, **ample supply has been put onto the market**, among which the bulk of them emerged in the second half of 2008.

The negative impacts from the China economic slowdown coupled with the more volatile global market seemed to penetrate the Shanghai Grade A office market till the end of the first half of 2008. New take-up amounted to 186,146 sq. m. **in the first half**, maintaining **vacancy rate at as low as 4.7%**. However, **the figure rose to 9.8%**³ **from the 3rd Quarter**, which is unprecedented high since 2004. Meanwhile, the average rent kept rising to RMB 9.9 per sq m per day, a 11.7% rise than on the year-on-year basis. Great pressure is laid on Pudong, as remarkable office building is put into use this year like **Shanghai International Financial Centre(210,000 sq m) with 50% vacancy rate, Mirae Asset Tower(51,800 sq m)**. Positioned as the financial and trade centre, Pudong Lujiazui area, is expected to attract more lessee and expands its convergent function.

The record-breaking high vacancy rate in recent years is closely related to the worsening external environment. A number of multinational enterprises would **bring down their business target and reduce office demands** with more preferential re-let offering. What's more, **investors begin to withdraw their speculative funds** after domestic tightening policies on foreign hot money.

IV. Retail Market

From late 2007 to middle 2008, despite the continued pressure of inflation, **total retail sales of consumer goods grew rapidly and per capita income kept rising.** In the second half year of 2008, Shanghai retail property market will be sustained. In Pudong, new supply of retail property will meet the local growing need concerning with the maturity of residential and commercial areas. In

¹ Data: the national Development and Reform Commission

² Data: <http://www.colliers.com/Content/Repositories/Base/Markets/China>

³ Data: <http://house.ocn.com.cn/20081029/Info20081029727.html>

the next half year, round 202,600 sq m of shopping centre space will be launched in Shanghai property market.

V. Residential Market

Trend of Shanghai Residential Market from 2007-2008



Policy at the national level

China is witnessing a down-turn in the growth of property-related fixed-asset investment while the global recession makes it urgent for China to rely more on domestic demand for economic growth. As a result, the central government and local governments at all levels attach great importance to this industry and a number of major Chinese cities have recently take actions to boost local real estate markets: **offer a preferential subsidy for first-home buyers, cancel restrictions on a second private property or reduce property tax.**

For the first half of 2008 there is no tightening policy issued in the real estate market, however the continuous stringent loan policy was a negative effect to real estate developers in obtaining funding. To prevent further declines in property prices and to protect the industry, on **Oct. 23, 2008** the Chinese Ministry of Finance and central bank announced **to lower deed taxes¹, reduce down payments and lower mortgage rates**, aiming at increasing consumption to shore up the national economy amid the global and domestic economic slowdown.

1. **Deed tax** will be lowered to **1 percent** for people buying their first home if it is smaller than 90 sq m. The previous rate was 3 percent, with those buying houses bigger than 90 sq m but smaller than 140 sq m with 1.5 percent.
2. For an initial purchase of ordinary house and improved ordinary house for own use, the **down payment ratio** will be **lowered to 20 percent**. The previous down payment ratio is 30 percent, or even higher for those buying large luxury houses or in areas where property prices were believed to be rising too fast.
3. For people buying their first home, the People's Bank of China has allowed banks to permit a **maximum discount of 30 percent on the benchmark lending rates** for such mortgages, up from the previous 15 percent. However, the central bank did not make it clear what type of mortgage applicants can enjoy the new preferential lending rate and the lower down payment. And different banks will carry out different preferential policies.
4. **Housing provident fund rate** of each level of the public **will be cut 0.27 percent** respectively.

¹ Deed Tax: A written document, proving the ownership of real property purchased from the government at a Tax Sale.

Shanghai Local Policy

Right after the Central Bank's preferential policies, Shanghai Municipal Government put forth additional 14 rules complementary to the central government's : **"Measures to Promote Healthy Development of the Local Housing Market"**, which are regarded as the stimulator to the market. The new measures will take effect from Nov. 1st 2008 to Dec. 31st 2009.

Major policies by Shanghai Municipal Government:

- **Waiver of business tax** on individual selling **ordinary house** where the holding period exceeds 2 years.
- **Waiver of individual income tax** on selling **ordinary house** for own use where the holding period exceeds 2 years.
- **Raise the provident fund loan** from RMB200,000 to RMB300,000 for first-time home buyers. Each household will be allowed a total of RMB600,000 mortgage loan plus a supplementary loan of RMB200,000 from Provident Fund.

The implementation of the encouraging measures may have more positive impacts on the property market for balancing demand and supply of the property market. On the one hand, the policies would be positive to stimulating demand, as the reduced transaction cost in subsequent re-sale of the property would induce more potential buyers to enter the market. On the other hand, the lower transaction cost would also encourage more sellers to put their property onto the secondary market for sale. The measures therefore should be able to stimulate market activity.

As especially emphasized in the rules, the definition of **"ordinary house"** is essential to the beneficiary group. It is mainly **standard family houses for low to middle-class** in Shanghai. Shanghai has released new standards for "ordinary house" on Oct. 24th, 2008, according to which the ordinary houses will be restricted by area(no more than 140 sq. m.) and unit price(depending on different areas) together. Under the new standards, the supply of ordinary houses has increased by a large amount. Transaction volume of second-hand homes rose in November in Shanghai though average prices continued to decline compared by October.

VI. Conclusion

The global financial storm is far from dropping away, bringing great uncertainty to domestic economy. **According to a report by World Bank, China's economic growth will slow to 7.5 percent next year** from 9.4 percent this year—the slowest growth since 1990, reflecting the grim realities of the international financial crisis. Shanghai real estate price, representative of the property price of Chinese top-tier cities, to a large extent is connected with the global and domestic economic situation. From the overall economic situation, it would take a long time for the adjustment in the real estate market, which could hardly rebound in a short term. Winter has already come, but when comes spring?

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