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# **Strategy Analysis of Real Estate Company Property Development in Medium Size City in China**

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# Master of Science Thesis

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Title: Strategy Analysis of Real Estate Company Development in Medium and Small Size Cities in China, A case study of the development of Fuxing Huiyu Company

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## **Abstract:**

Real estate industry is a new economic growth point and main industry in Chinese gross domestic product nowadays. This paper analyzes the trend of Chinese real estate market development to help investors to understand the current situation of Chinese real estate markets and policies better, so as to make better real estate investment decisions in China in the future. Because of oversaturated with investment and higher cost of investment there are more and more limitations in investing in big cities in China. With the rapid development of the economy, the huge inner demand of real estate is increasing in medium and small sized cities. Some investigations show that there are huge spaces of the appreciation in Chinese real estate market in medium and small sized cities. The author will describe and analyze the investment strategy and development of Fuxing Huiyu Real Estate Corporation as a case study. The demonstrated company is a public company with rapid growth in a medium sized city named Wuhan in the central part of China. Other investment companies or real estate companies could get some ideas by analyzing the development and decision making process of this company.

**Key word:** Real estate market, Policies, Housing demand, Housing supply, Medium and small size of cities.

## Content

1. Introduction .....	6
1.1 Background .....	6
1.2 Aims and Objectives.....	7
1.3 Methodology .....	7
2. General development of real estate market .....	8
2.1 Urbanization process .....	8
2.2 Globalization process .....	8
2.3 Strategies for real estate companies.....	9
3. General description of Wuhan city.....	10
3.1 Introduction of the general information of Wuhan.....	10
3.1.1 Introduction of location of Wuhan .....	10
3.1.2 Introduce the regional features and resource advantages of Wuhan .....	10
3.1.3 Introduction of transportation.....	12
3.2 Introduction of main industry and investment situation in Wuhan .....	13
3.3 Introduction of related real estate policies and influences.....	13
3.3.1 Monetary and financial policies in recent year.....	14
3.3.2 From the view of control .....	15
3.3.3 From the view of support.....	16
3.3.4 Influence by policies .....	17
3.3.5 Some new real estate policies of Wuhan .....	18
3.4 Introduction of the economic development situation and trend in Wuhan.....	19
3.5 Housing demand analysis in Wuhan .....	20
3.5.1 Transportation.....	20

3.5.2	Increasing the GDP.....	21
3.5.3	Disposable income.....	21
3.5.4	Consumption.....	21
3.5.5	Population demand .....	22
3.5.6	Investment demand.....	23
3.6	Housing supply analysis in Wuhan .....	23
3.6.1	General housing supply information in Wuhan.....	24
3.6.2	The influence to house market provision resulted from the quantity of land supply and land price.....	24
3.6.3	The influence for house supply market by GDP and GDP per capita .....	25
3.6.4	The influence for housing supply market by housing price .....	27
3.6.5	The influence for housing supply market by operation situation of construction .....	28
3.6.6	The influence for housing supply market by government policy .....	29
3.7	Description and introduction of Xiaogan city .....	29
3.7.1	Why choose Xiaogan as their target.....	29
3.7.2	Introduce of Xiaogan.....	30
3.7.3	Demand analysis in Xiaogan .....	30
4.	Introduction of Fuxing Huiyu Real Estate Company .....	32
4.1	General introduction of the company .....	32
4.2	The introduction of parent company .....	32
4.3	General introduction of the financial aspect of the company .....	32
4.4	Market strategy-- reconstruction of the old city (urban renewal).....	33
5	Description and analysis of the Shuian Xingcheng project in Wuhan .....	34
5.1	Backgroud of the project .....	34

5.1.1 Introduction of the competition in bidding the land .....	34
5.1.2 Introduction the characteristics of the district for the project.....	34
5.2 General residential supply in Wuhan.....	34
5.3 Analysis the situation and development trend in the project area .....	34
5.4 Target customers and demand analysis .....	35
5.5 Compare with general high-end residential property .....	36
5.6 SWOT analysis of the project.....	36
5.6.1 Strength .....	36
5.6.2 Weakness.....	38
5.6.3 Opportunity.....	38
5.6.4 Threat.....	39
6. Comparable in different size of cities (focus on the projects in Fuxing Huiyu Real Estate Company) .....	40
7. Conclusion.....	43
Reference.....	45

# 1. Introduction

## 1.1 Background

As we all know there is a huge negative impact of economic crisis for the whole world especially of those international investment companies in the western countries. Many businesses have closed down and some investment banks have bankrupted all over the world because of economic crisis and recession. The Chinese economy suffered losses in the crisis too. Because of huge, sustaining domestic demand and successive improvements of basic construction, the economic growth of China didn't slip as much as in western countries. Even though the export industry got a huge negative impact in the economic crisis, the Chinese government had announced that the growth of GDP has been kept at 8.7% in 2009. The most contribution towards the Chinese GDP growth was the real estate industry. Most global investors want to get profit from China's booming economy. One of their best choices is to invest in Chinese real estate market as part of their portfolio diversification.

Real estate is a new economic growth point and main industry in Chinese gross domestic product nowadays. Real estate market in China is facing unprecedented opportunities and challenges now. This paper analyzes the trend of Chinese real estate market development to help investors to understand the current situation of Chinese real estate markets and policies better, and make better real estate investment decisions in China in the future. Some investigation shows that there is a huge space of the appreciation in Chinese real estate market.

From the aspect of Chinese real estate development trend analysis, on the one hand the current trend in China is that there are more and more limitations in developing real estate market in big cities that leads to less demand for residential and office buildings. On another hand, urbanization process was never stopped in small and medium cities and most of them are located in west and north China. The demand of real estate is huge and the space of appreciation in these areas is bigger than east and south of China.

In this paper the author will focus on the real estate market in medium size city and small size city in China. The medium city is Wuhan and the small city is Xiaogan which are all in the middle of China. Because there is not too much information for the small city, most of the paper will focus on medium city Wuhan. There are different methods to differentiate the size of cities. From population aspect, permanent population in urban district less than 0.5 million is small city; 0.5 to 1 million is medium size city; 1 to 3 million is big city; 3 to 10million is megalopolis; over 10million is super huge city. On another hand, the total GDP of Wuhan is about 450 billion Yuan in 2009 which is the 13<sup>th</sup> in whole China. From the above perspectives, Wuhan is a megalopolis because the permanent population is about

6.66million and the rank of GDP is good. But from another point of view, GDP per capita of Wuhan is 44148 Yuan in 2009 which is the 43th in all cities of China in 2008; it is the 114<sup>th</sup> in 2007; it is the 104<sup>th</sup> in 2006. GDP per capita is more meaningful and realistic than total GDP, from this perspective, Wuhan is a medium city in China.

## **1.2 Aims and Objectives**

This paper will analyze the trend of Chinese real estate market development to help investors to understand the Chinese real estate markets current situation, policies better and make better real estate investment decisions in China in the future. With the rapid development of the economy, the huge inner demand of real estate is increasing in medium and small cities. Meanwhile, there is more and more limitation to invest in big cities, such as, oversaturated with investment and higher cost of investment. This paper analyses the reason why Chinese domestic real estate companies are expanding the investment in medium and small cities instead of big cities. I will describe and analyze the investment strategy and development of Fuxing Huiyu Real Estate Corporation as an example which is a native, medium sized real estate company in a medium city. But the company grows rapidly. The analysis of the decision made by this company will help the investment companies to make their investment decisions in future. How global investors can profit from China's booming economy? They could get some idea from the investment trend of Chinese local investment companies.

## **1.3 Methodology**

This paper contains two main parts. The first part is a general introduction of the urbanization process and globalization process of the city which I focus on and policies of the real estate development. The second part is a case study; I focus on analysis the development of investment strategy of Fuxing Huiyu Real Estate Company. It is a medium size real estate company which is only famous in a medium size city---Wuhan. I analyzed the development process of the company and how it is growing in the residential real estate field.

The main method used in the paper is comparative analysis. I have compared two local famous residential projects which belong to my target real estate company. And these projects were constructed in two different cities, one is in a medium size city Wuhan and another one is in a small size city Xiaogan. The medium size city (Wuhan) which I chosen is a capital city in the province of Hubei (it is one province in the middle of China). The small size city which I have chosen is a secondary city and it is close to the capital city Wuhan. The comparative analysis approach is compared investment situation and demand and supply in these two different sizes of cities.

There is a SWOT method when I analysis the main project in the medium size of city Wuhan. It contains four parts with strength, weakness, opportunities and threat. It will be used in the market analysis sector of case study.

The information of the cities and government policies comes from the official website of local government and quantitative data of the project are comes from the official website of Fuxing Huiyu real estate company.

## **2. General development of real estate market**

### **2.1 Urbanization process**

If we want to find out the demand of real estate in China, we should know the Chinese policies and understand the urbanization process in China. Baizhan Li, Meng Liu and K.G. McKinnell(2006) indicated that “after 1978, with the introduction of the economic reform policy, the urbanization process began to seriously take off.” They also found the regional differences in China’s pattern of urbanization. “Generally speaking the eastern coastal areas are more developed with the west only receiving serious attention over the past two to three years”. There is a research shows “In the last 20 years, the level of urbanization in China has increased rapidly and in 1999, it reached 30.9 per cent.” There is a prediction shows that in 2010, “the urban population should reach 570 million and the level of urbanization 40.7 per cent; and it is expected that the level of urbanization will be 52 per cent by 2020 (Xun, 2000).”

The real estate industry and its investment in China are developing together with the progress of urbanization. Arthur O’Sullivan studies that urbanization economics is one type of agglomerative economics. There are two types of agglomerative economics: localization economics and urbanization economics. The large industrial city develops because of agglomerative economics in production. By locating close to one another, firms can produce at a lower cost. If one company moves to a city may leads another company moves to the city too. From another aspect, economic globalization is one of the important incentives for the progress of urbanization in China. Globalization is often used to refer to economic globalization, that is, integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration, and the spread of technology (Bhagwati, Jagdish 2004).

### **2.2 Globalization process**

Depending on the rapid development of the economy of China, the market of real estate is much more mature than ever before. An investigation by Ling Hin Li (1996)

shows that Real estate development and investment in China is not an investment opportunity for most international investors, it has become a strategy. However, there are still a lot of deficiencies in the Chinese real estate market. “One of these is the difficulty in establishing values for real estate assets. The other is the complication of the development procedures which affects property investment analysis”.

### **2.3 Strategies for real estate companies**

Patrick X.W. Zou and Alison Wong (2008) identified the opportunities and risks and develop effective business strategies for foreign design and construction management companies to penetrate into the Chinese market. From interviews with some top managers in construction and engineering firms who are operating in China they all optimistic about the China market but there still some risks. The most risk is that the company must cultivate a network of contacts, which comes from Chinese culture. For example, the company must have a good relationship with local government to get more profit. Most of local companies did it well than international companies.

The recent investigation from Antonio Wong (2009) suggests a mixed investment strategy designed to capture the long-term growth of the Chinese economy. In an international context, The investigation of Martin Hoesli, Jon Lekander and Witold Witkiewicz in 2003 shows that real estate is found to be an effective portfolio diversifier, and even more so when both domestic and international real estate assets are considered.

### 3. General description of Wuhan city

#### 3.1 Introduction of the general information of Wuhan

##### 3.1.1 Introduction of location of Wuhan

Being the capital city of Hubei Province, Wuhan urban agglomeration is the core central city in the middle of China and the political, economic, scientific and technological and education center in inland China. It connects 9 provinces from geographical position; we can see it from the China map below. Because it is about 1000 kilometers away from Shanghai in the east, Chongqing in the west, Guangzhou in the south and Beijing in the north. There are 13 administrative districts in the city. It covers an area of 8467 square kilometers and has a population of 8.31 million involve 6.66 million permanent populations. Since the opening to the outside world, Wuhan has developed very quickly and the economy has kept a continual and steady growth. The average economy growth from 1992 to 1998 reached 16% which is above the average level of the province and country. Belonging with the policies of rising middle of China; Wuhan is the leader city of middle state of Yangzi River economic circle. Wuhan is the 13<sup>th</sup> largest city of China with the GDP is 456 billion RMB in 2009.

Figure 1 Map of China



##### 3.1.2 Introduce the regional features and resource advantages of Wuhan

There are some comparative advantages in Wuhan such as natural eco-environment, educational resources, industry basis, trade and logistics. First of all, from the map of

Hubei province, we can see there are some big lakes in Wuhan obviously and it along Yangtze River. It brings Wuhan good natural eco-environment, rich freshwater resources and tourism resources to attract more business opportunities and populations to live in there.

Figure 2 Map of Hubei



Secondly, there are high quality educational resources. Wuhan urban agglomeration is the most densely educational resource area of China, both the quantity of researchers and the quantity of research results are in the top of China. There are 59 research institutes, 920,000 full time colleague students, 55 academies, 14 national top laboratories at the end of 2008. The general strength of science research is the third of China, only after Beijing and Shanghai. Meanwhile, there is some historical significance in the city, because it was the birthplace of Chu Culture in ancient history of China.

Thirdly, there are some abundant strength industries in Wuhan such as WISCO Company and China Petrochemical Corporation Wuhan Branch. WISCO is short for Wuhan Iron and Steel Groups Corporation; it commenced its construction from 1955, and put into production on Sep 13, 1958. It is the first giant iron and steel complex established after the founding of the People's Republic of China and one of the backbone enterprises under the leadership of the Central Government and the State Council. China Petrochemical Corporation Wuhan Branch gained project of 800000 ton of ethylene which makes Wuhan as the base manufactory and produce supply center in the middle of China. The two industries consist of the main raw material suppliers in China.

Lastly, there are advanced commercial and logistical market in Wuhan. As one of the important commercial cities in China, there are 69 in top 500 companies of the world

established their branch in Wuhan. Moreover, there are series professional and general merchandise trade markets which are famous in whole China.

### **3.1.3 Introduction of transportation<sup>1</sup>**

#### **1. Road**

Higher transportation cost is a problem to attract inner and foreign investment and progress of urbanization in Wuhan. The government did two important policies for them: one is construct a ring road outside the city and it's completed early 2008, another is that the city is building Subway and Light Rail Transport system distribute in whole city. The prediction of the project will be finished in 2012.

Because the main development zones are around the outskirts of the city, construct a ring road is convenience for those companies to deliver the product to different cities. As Wuhan is a big city with large population, going through the city will takes more than two hours. Ring road is benefit for both citizen and enterprisers. Firstly, the cargo trucks which pass by Wuhan could go through without entering the city. Secondly, it will reduce pollution and congestion of the city.

#### **2. Railway**

There are 5 main railways through Wuhan as Jingguang, Jingjiu, Wujiu, Handan, Changjing, and some branch line. The operating railway lines total archived 1129 km in Wuhan Urban Agglomeration. Wuhan is the only city in China who has three big train stations because of the high import geographic position.

#### **3. Water transportation**

Wuhan City is in the confluence of the Yangtze River and Han River and there are some inland rivers like Hanbei River, Liangzi Lake, and the operating inland river lines total archived 3773km, 970 berths in docks. There are 8 bridges across Yangtze River inner Wuhan urban agglomeration and there are 4 bridges across Yangtze River building now.

#### **4. Air transportation**

Wuhan City has a largest size airport in the middle of China which is named Wuhan Tianhe International Airport. There are 158 air lines which connected 60 cities; annual turnover is over 500million populations.

#### **5. Inner city Rail Transit**

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<sup>1</sup> All the resource about transportation of Wuhan is come from <Wuhan Transportation Planning>, the statistical data is close at the end of 2007.

There is 10 kilometers rail transit line inner the city.

#### 6. Pipe transportation

There are 1073 kilometers high pressure and intermediate pressure petroleum and gas pipe inner the city.

### **3.2 Introduction of main industry and investment situation in Wuhan**

Targeted industries in Wuhan are optoelectronic information, automobile and steel production, biological engineering and pharmaceuticals. The main economic development zones are the Wuhan China Optics Valley located in the Wuhan East Lake High Tech Development Zone (which specializes in laser and optics products), the Wuhan Wujiashan Technology Development Zone (which specializes in the food and bioengineering industries), and the Wuhan Economic and Technological Development Zone (which specializes in high-tech and automobile industries). Most of the technology development zones are led by foreign direct investment. For example, the earliest and most famous develop zone in Wuhan is Wuhan Economic and Technological Development Zone which is led by a French automobile company Citroen and a Japanese automobile company Honda. At the beginning there is a traditional truck manufactory company with their brand called Dongfeng in Wuhan. But it is only good at truck industry which is not enough for modern life and economic development. It attracted foreign investor by the good foundation of truck industry and technology. There are 7 big automobile industries in the zone; and meanwhile there are more than 160 auto part companies around them. The accumulative total investment is 60 billion RMB till 2008. This zone is the biggest agglomerated automobile industry in China already and the annually output will be 1 million automobile in 2008.

Except for the benefit of local government policy, the cheaper labor cost is another attraction for foreign investor. Such as Citroen from above example, the French company closed their factory in middle England (Ryton) and expanding their investment in Wuhan as their operation strategy recently. The primary reason is lower labor cost. The most active part of economic globalization is transnational companies. Their main purpose is seeking the most advantage anywhere. Meanwhile, Wuhan is a developing city of middle China, the cost of land, laborage, payment, consuming, transportation are cheap here, so it is a best city for the transnational companies to establish their industry.

### **3.3 Introduction of related real estate policies and influences**

The development of real estate industry is very close to the policy direction in China. Recent year, the government paid attention to real estate industry and concerned about real estate economic, land transaction, real estate tax, commercial residential, low-income housing and so on.

### 3.3.1 Monetary and financial policies in recent year

The most powerful tools for the macroeconomics control by the government are monetary and financial policies. Along with financial policies and real estate periodic adjustment, the government has a series flexible adjustment. Because of economic crisis there are some adjustments of monetary policy in real estate industry recent year. From the beginning of 2007 till the end of 2008, the central bank of China adjusted 19 times of RMB (Ren Min Bi) deposit reserve ratio.

Figure 3 Monetary policy adjustment in 2007-2008

Year 2007	Deposit reserve ratio	benchmark one year deposit rate	benchmark one year lending rate
2007-01-15	↑0.5%(9.5%)	—	—
2007-02-25	↑0.5%(10%)	—	—
2007-03-18	—	↑0.27%(2.79%)	↑0.27%(6.39%)
.....	.....		
2007-12-21	—	↑0.27%(4.14%)	↑0.18%(7.47%)
2007-12-25	↑1%(14.5%)	—	—
<b>Year 2008</b>			
2008-01-25	↑0.5%(15%)	—	—
.....			
2008-06-07	↑1%(17.5%)	—	—
2008-09-16	—	—	↓0.27%(7.2%)
2008-09-25	Exclude main banks others financial institutions ↓1%		
2008-10-08	—	↓0.27%(3.87%)	↓0.27%(6.93%)

.....			
2008-12-05	All banks ↓1% Medium and small financial institutions ↓2%	—	—
2008-12-23		↓0.27%(2.25%)	↓0.27%(5.31%)
2008-12-25		—	—

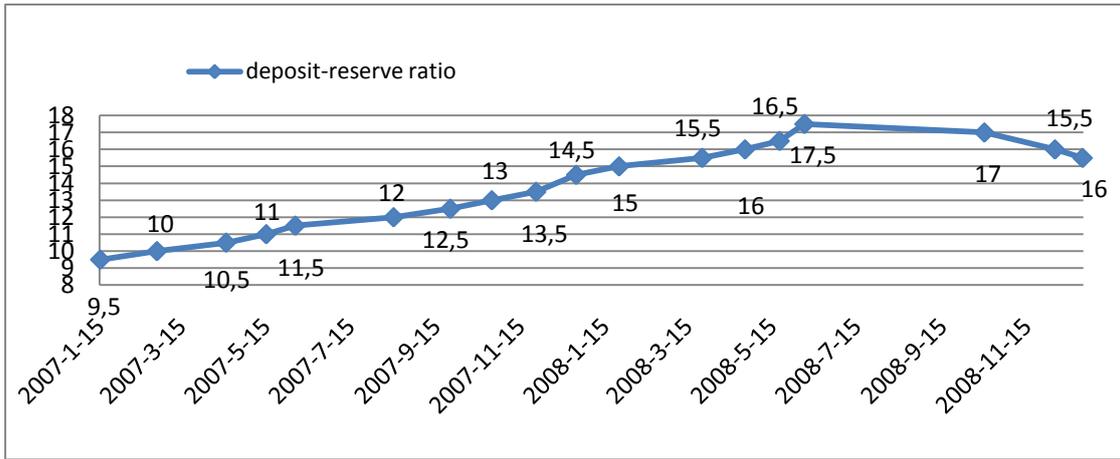
Data resource: People's Bank of China (central bank of China)

From the graph above we can see that deposit reserve ratio raised from 9.5% in the beginning of 2007 to 15.5% (big size banks) and 13.5% (medium and small deposits financial institutions) in the end of 2008. Benchmark one year deposit rate decreased from 2.79% to 2.25% in 2007 to 2008. Benchmark one year lending rate decreased from 6.39% to 5.31% in 2007 to 2008.

**3.3.2 From the view of control**

Before September of 2008, in order to control the over-heated development of real estate market and excessive growth of housing loans, decrease financial liquidity in the market and reduce economics risk in real estate market, the central bank of China used tight financial and monetary policy. There is the highest deposit reserve ratio of 17.5% in 7<sup>th</sup> of June in 2008 which broken historical records in the last 20 years.

Figure 4 Financial institutes' deposit reserve ratio fluctuate in 2007 to 2008 in China



Data resource: People's Bank of China (central bank of China)

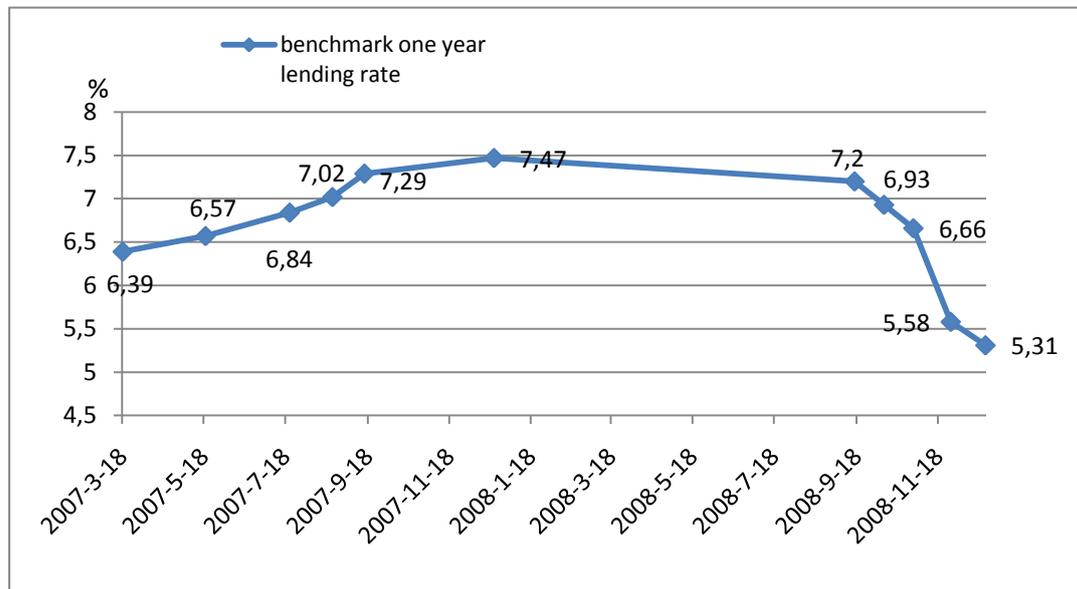
As we know, the government published series real estate policies for macroeconomic control. And there are some more policies by government to control overheated development of real estate market from the beginning of 2003. Such as, controlling

land supply; controlling debt of real estate, etc. The purpose of these policies were set up the standard of development of real estate market; controlling real estate market was overreached in some areas of China; controlling over investment in real estate market; controlling over increasing in real estate market in some areas; controlling low standard reconstruction; controlling unlawful appropriation of cultivated land; controlling unbalance in real estate debt market. These series of policies bring certain shocks in the real estate market in Wuhan, it makes some part of customers are anticipating the housing price to go down and delay their purchase plan. But from long views, these policies will make the real estate market more mature, rational and keep the market health and steady development.

### 3.3.3 From the view of support

From the September of 2008, the government wanted to reduce the negative influence of international economics crisis, the Chinese monetary and financial policies changed to accommodative monetary policies to create incentives for company investment and personal housing consumption. From 16<sup>th</sup> September of 2008, the central bank turns down deposit reserve ratio 4 times, turns down benchmark one year lending rate 5 times till the end of 2008.

Figure 5 Financial institutes' housing mortgage loan fluctuated in 2007 to 2008 in China



Data resource: People's Bank of China (Central Bank of China)

From the graph4 and 5, following the monetary adjustment, we can see that the deposit reserve ratio decreased from 17.5% to 15.5% in big size deposit financial institution, the deposit reserve rate decreased from 17.5% to 13.5% in medium and

small size financial institutions. The benchmark one year lending rate went down from the highest 7.47% to 5.31% in 2008.

On the other hand, there are some other policies that were issued as support the people to buy the first house; low income house mortgage loan management; decrease the first payment of normal residential mortgage loan and so on.

In the beginning of 2005, it was the first time that in government documents shows that real estate industry was one support industry in Wuhan. It is meaning that the government will be support, foster and encourage developing real estate market in Wuhan. The behavior and documents of government made the local people and public opinions are full of confidence in real estate market, and house price are increasing with the publish of government document. The government documents also bring high demand and supply in local market.

#### **3.3.4 Influence by policies**

Following the tight financial and monetary policy, there are some influences in the real estate market. Firstly, the rate of residential mortgage loan kept working at a high rate. Each commercial bank decides to control personal residential mortgage loan one after another. The process and requirement turns stricter of mortgage loan for the purchasers. Secondly, with the influence of the special loan policy of purchase the second house, it is reduced the purchasing of the house only for investment not for real living. Because the bank increased the rate of the first payment till 50% of the total house price. It is a high threshold for most of people. The policy reduced investment purchasing and real consumer purchasers are remaining hesitant. Thirdly, some people are worrying about increase the interest rate of mortgage; they decided to pay the mortgage in advance if they have enough money. Fourthly, the demand and supply in real estate market are decreasing in most of cities in China in 2008. Especially, the personal housing consumption mortgage loan is going down rapidly. Finally, there is an increasing pressure of real estate developers and investors to pay back the loan and short of cash flow. The developers turn down new real estate investment and there are more and more housing are on sales.

But from another hand, macroeconomics control will not be hurt the development of real estate market in China and Wuhan. Maybe there are some negative effects in the source of money and sales for some real estate developers, but the policies will control the condition of over higher price in real estate market.

Meanwhile, there would be survival of the fittest in real estate market during the policies controlling process. Some excellent real estate companies will stand out in the market, some low level and low strength real estate companies will be eliminated in policies controlling process. At the end, whole level of real estate industry will

increase in Wuhan. From another point of view, the government controlling policies were raised up admittance and requirements for new real estate companies to enter in real estate industry. It is a threat for some smaller real estate companies but it is a good opportunities for high strength companies to develop the market.

All in all, belong with the real estate controlling policies; the real estate market will be more marketization, fairer and more open.

### **3.3.5 Some new real estate policies of Wuhan**

There are some new real estate policies in Wuhan to create incentive for the real estate market out of the negative influence of international economic crisis in 2008.

#### **1. From tax aspect**

The deed tax decreased from 4% to 3% for personal purchasing non-ordinary residence. The deed tax went down from 2% to 1.5% for personal purchasing ordinary residence. The first house purchaser with the house area lower than 90 square meters just need to pay half of the transaction fee. No land value added tax for personal housing transaction.

#### **2. From loan support and interest rate support**

The lowest down payment rate decreased to 20%. If you buy an apartment at first time for the children who is older than 18 years old, the purchasing policy could be treated as the first housing purchase policy in a family.

#### **3. Migrants could get the registered for permanent residence through house purchase**

Migrants could get the registered permanent residence if they buy a house which the area is over than 100 square meters and the total payment should be exceeded 500,000 RMB.

Among these newly policies, the last one is quite important and useful and meaningful. Having a registered permanent residence is the difference between urban residents and rural residents in China. Through the method to buy a house in big city is a main opportunity for some rich rural residents or people who want to move to another city. Because the unbalance development in China, the welfare, benefit, retirement pension, health insurance and education for the children and so on are various in different cities. There are lots of people even living so many years in big city but they do not get the registered permanent residence of the city, they can't have the benefit and welfare of the city. The standard to get the registered permanent residence in Wuhan is not too difficult compared with other big size of city as Beijing or Shanghai. Through buying

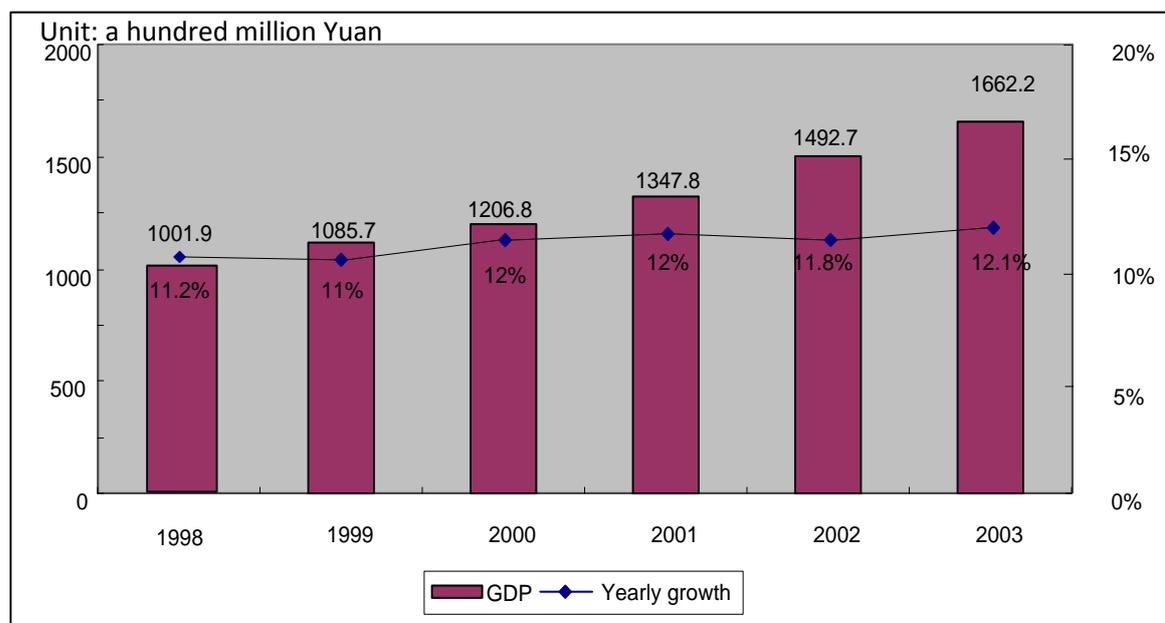
a house is a shortcut for some people to be a Wuhan citizen who are living in the smaller city or town nearby Wuhan. It is the attractive method to get more money for developing of the city by local government.

### 3.4 Introduction of the economic development situation and trend in

#### Wuhan

The growth speed of gross domestic product in Wuhan increase more than 10% every year after 1990. The growth speed is higher than the average of China. All the information shows that the growth of economics in Wuhan is in the high speed increasing period, economic strength is continually expanding in Wuhan. Below is the table shows the GDP in Wuhan and annual rate of growth GDP from 1998 to 2003 (unit a hundred million Yuan)

Figure 6 GDP and annual rate of growth GDP in Wuhan



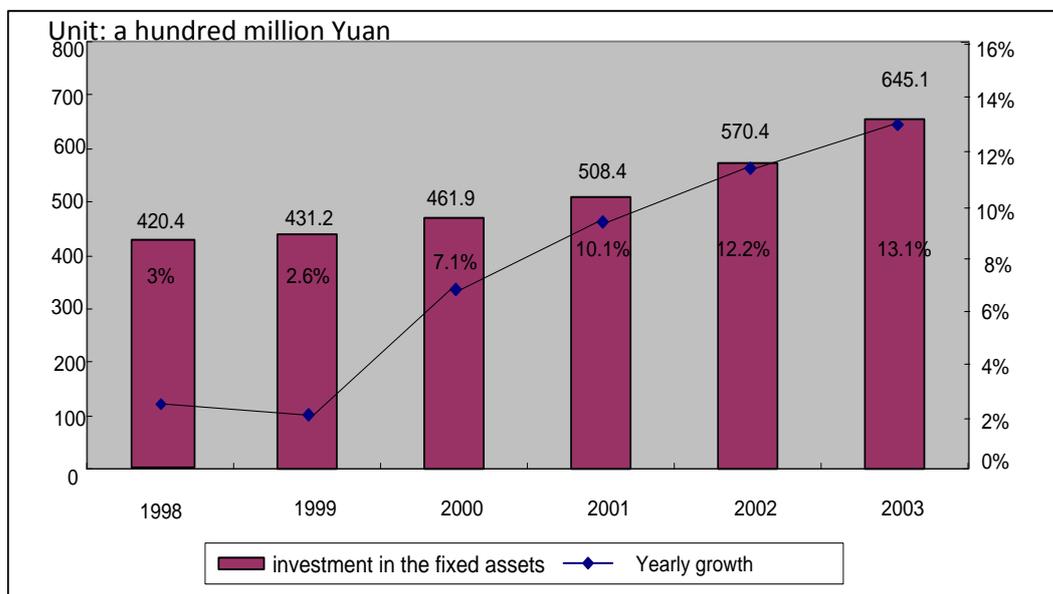
Source: Statistic yearbook of Wuhan in 2004

From the table we can see that there is a rapid increase from 1999 to 2000. From 2000, the yearly increase rate almost kept in 12% till 2003 and the GDP was raised from 1206.8 hundred million Yuan in 2000 to 1662.2 hundred million Yuan in 2003.

In recent years, the Wuhan city speeds up the transformation of economic growth, the provincial uses great efforts to optimize the industrial structure. The overall GDP of this region continues to grow, the economic proportion of Wuhan Urban Agglomeration occupy the province's economy has also increased year by year.

From another part of view, there is an increase of investment in the fixed assets in Wuhan from 1990. Government statistics shows the rate of investment in the fixed assets achieved 51.5% in whole economic growth of Wuhan. Meanwhile, the rate of infrastructure construction and development of real estate are raising the rate in investment in the fixed assets in Wuhan. Below is a table that shows the investment in the fixed assets with the annual rate of growth in Wuhan from 1998 to 2003.

Figure 7 Investment in the fixed assets with the annual rate of growth in Wuhan



Source: statistic yearbook of Wuhan in 2004

### 3.5 Housing demand analysis in Wuhan

Wuhan is trying to develop high technology industry like fiber optic, automobile, biological medicine these years. The development of the city is creating more and more job opportunities and investment opportunities. The city is attracting more and more high-quality out-comer to live and work in Wuhan, meanwhile it is attracting natives to live and work in the city instead of work in big cities as Beijing, Shanghai, Guangzhou, and etc. There will be a huge housing demand on long terms in Wuhan.

#### 3.5.1 Transportation

The total mileage of high speed road reached 2300 kilometers in Hubei province which is the 8<sup>th</sup> longest high speed road of China. The government of Wuhan raised the traffic integration within the 8 small cities around Wuhan. It increased transmission efficiency by logistics, information flows and stream of people. All of these will lead the 8 small cities increasing the speed for urbanization process. The urbanization process will enlarge the demand for real estate in some extent.

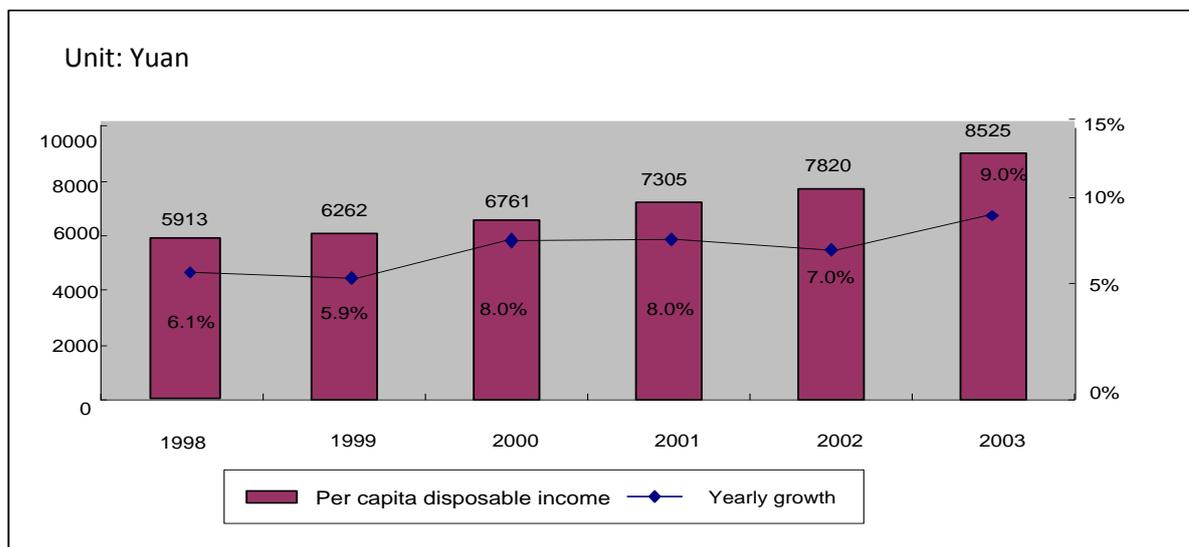
### 3.5.2 Increasing the GDP

From the international view of relationship between GDP and real estate development, if the increasing rate of GDP is higher than 8%, the real estate market will be in high speed increasing situation. It will raise the demand in real estate market.

### 3.5.3 Disposable income

The view of disposable income shows that there is an increasing of per capita disposable income of the urban residential in Wuhan from 1990. The per capita disposable income is 8525 Yuan in 2003 and the per capita living space for urban residents exceeded 23 square meters. And the trend is the living conditions will improve in future in Wuhan.

Figure 8 Per capita disposable income of the urban residential with the annual rate of growth in Wuhan



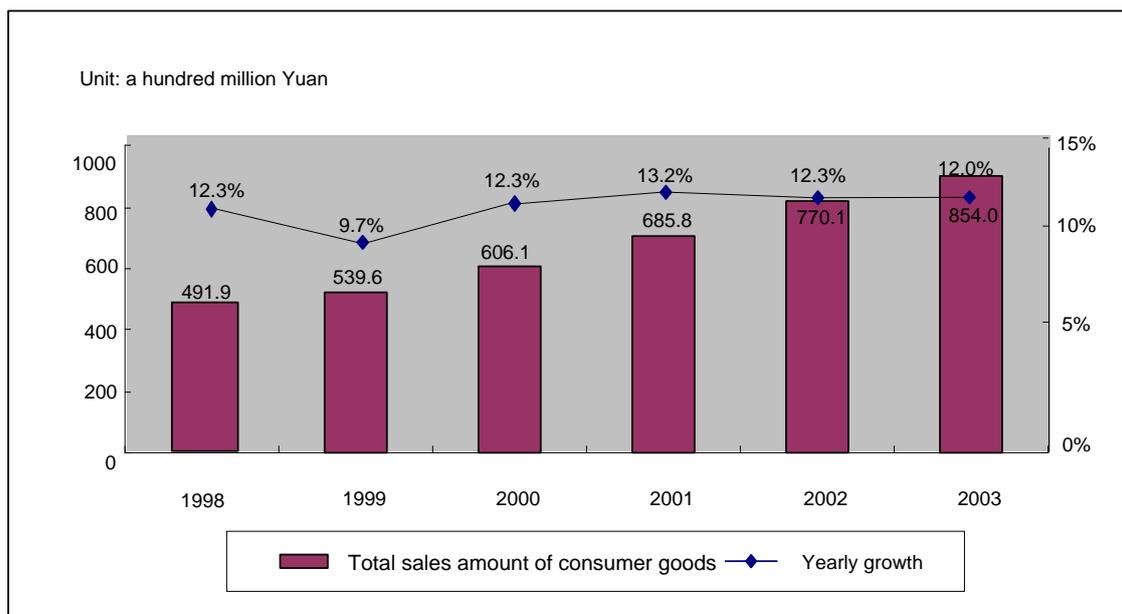
Source: statistic yearbook of Wuhan in 2004

### 3.5.4 Consumption

From the view of consumption in Wuhan these years, the consumption is not only for daily life. The consumption is increasing in some new kind of hot consumption aspect

such as residential house, automobile, communications and so on. For example, the total value of retail sales was 12.4 billion Yuan for commercial residential building in 2003 by urban residential of Wuhan.

Figure 9 Total sales amount of consumer goods in Wuhan



Source: statistic yearbook of Wuhan in 2004

### 3.5.5 Population demand

We can see Wuhan demographics information below, the population is steady growth these year. While the people who were born in baby boom years of 1980s are reached in marriageable age, and the social development, the size of families tend to become smaller and smaller, and the desire from the children to live separately with their parents also become stronger and stronger. All of these results in the rigid demand of residence for owner-occupier, and this part of requirement are not sensitive to the

price. Besides, in the process of the forming the Wuhan City urban region, the demolition activity promoted by the Old City reconstruction also makes the potential demand of residence become rigid one, which increases the requirement for house in the urban city.

Figure 10 Wuhan demographics from 2000 to 2008

Unit: million people

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Total population</b>	7.49	7.58	7.68	7.81	7.86	8.01	8.19	8.28	8.33

Resource: Wuhan statistic bureau

### 3.5.6 Investment demand

In 2007, the increasing speed of the residence price slowed down, and the investment prospect became unclear. All these factors weakened the confidence of investor to some degree; they just hesitated about their actions. And, because of the recession of the global economy, the China economy was also impacted. But, due to the sole channel of doing investment in China, and the bear market of the stock market, real estate market still attracted the eyes of investor as a relatively safe field to put their money in. With the 5 years' macro-control from the Chinese government, the speculative investment in the real estate market in China is suppressed, but from the long run point of view, the real estate market still has strong attraction to the investor due to the existence of inflation pressure and the unrest of the stock market.

### 3.6 Housing supply analysis in Wuhan

Most of the supplies in Wuhan are normal and traditional residential apartments; there are not many light spots and special, new creativities design in the local residential market. Because of high rate of return in investment in real estate market in China, there are more and more real estate companies going into residential market even some industries companies are opening their residential apartments or branches. It looks as a new industry in Wuhan, it is very important to build a famous brand in real estate market for attracting customers. The real estate market in Wuhan need some public praise real estate company with their famous brand and good after sales service and good facilities services to be the leader in the market. The supply situation is the market is lack of high quality residential and sub districts.

### **3.6.1 General housing supply information in Wuhan**

The total investment in real estate market in Wuhan is about 46 billion Yuan in 2007, there is a big increasing which is 25.63% compare with 2006 which include the investment in residential market is about 33 billion Yuan in 2007. The total real estate construction area is about 32000 thousand square meters which include residential construction area is about 26600 thousand square meters in 2007. The total commercial real estate sales 11354 thousand square meters which include residential real estate sales 10700 thousand square meters in 2007 in Wuhan city. The total commercial real estate sales 53 billion Yuan and it includes residential real estate sales 48.3 billion Yuan in 2007. The total commercial vacancy area is 1319 thousand square meters which include residential vacancy area 507 thousand square meters in 2007.

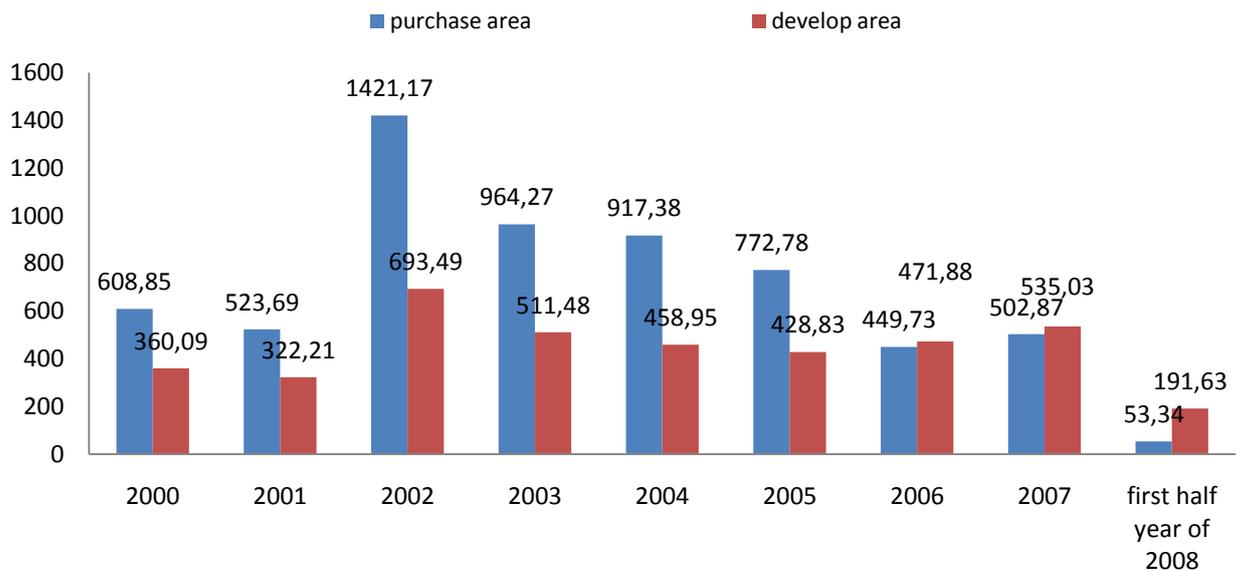
The residential real estate purchasers come from different groups in the first half of the year of 2008: 40.52% purchasers are the local citizen but the rate of last year is 58.24%; 35.18% purchasers are the people comes from Hubei province but the rate from last year is 27.19%; the purchase rate from outside Hubei province is 22.37% and 14.45% in 2007; the purchase rate from foreigners is 1.93% and 0.12% in 2007.

### **3.6.2 The influence to house market provision resulted from the quantity of land supply and land price**

Because the land cost is the main part of the cost of real estate, the increasing in land cost is meaning increasing in net cost for developers. Meanwhile, the quantity of land supply determined the maxi volume of real estate supply. Land supply including two parts: one part is the newly increasing of land supply and liquidizing remnant land. And another part is depending on the marketing, if the market is booming the developers will be more activity to develop and increasing the supply of the real estate, vice versa.

From the table below, we can see that the land purchasing situation in Wuhan from 2000 to 2007. The land purchasing of square meters were in a downtrend after 2002. But the rate of area for developing was increasing in area of land purchasing. Because of the booming of the economy, the area of land developing is rapidly increasing in 2006 to the first half year of 2008.

Figure 11 Land purchase and develop situation in Wuhan from year of 2000 to the first half year of 2008



From the table above we can see the information of land stock situation in Wuhan. For example, the total purchase area is 6088 thousand square meters in 2000, besides the total develop area is 3600 thousand square meters, the difference between those area is land stock area which is around 2500 thousand square meters. This kind of land stock area is total archived 23800 thousand square meters from 2000 to 2007. There will be a huge volume of land supply for Wuhan in future if we plus the unused area before year of 2000 and the land stock area from 2000 to 2007.

### 3.6.3 The influence for house supply market by GDP and GDP per capita

GDP or GDP per capita is an important index to measure the real estate development situation for the city. The relationship between GDP, increase speed of GDP per capita and development of real estate from World Bank Research are below<sup>2</sup>:

Figure 12 The relationship between increasing speed of GDP and real estate development

Increasing speed of GDP	Less than 4%	4%-5%	5%-8%	Bigger than 8%
Real estate development step	shrink	stagnation	Steady development	High speed development

<sup>2</sup> Chen, B.D., Xu, S.H., Chen, N., (2010), "The Effect of Construction of Wuhan Urban Agglomeration on the Housing Price in Wuhan City", Social Sciences Academic Press China, PP.400-432

Figure 13 The relationship between GDP per capita and real estate development

Unit: us dollar

<b>GDP per capita</b>	<b>0-800</b>	<b>800-4000</b>	<b>4000-8000</b>	<b>8000-20000</b>
<b>the step of real estate development</b>	starting period	High speed development period	Steady development period	Slow down development period

Figure 14 The change of GDP and GDP per capita every year in Wuhan (1999-2007)

<b>year</b>	<b>GDP (million Yuan)</b>	<b>Increasing rate (%)</b>	<b>GDP per capita (Yuan)</b>	<b>Increasing rate (%)</b>
<b>1999</b>	108568.37	--	14667	--
<b>2000</b>	120684.00	11.16	16206	10.49
<b>2001</b>	134780.00	11.68	17882	10.34
<b>2002</b>	149274.00	10.75	19560	9.38
<b>2003</b>	166218.00	11.35	21460	9.71
<b>2004</b>	195600.00	17.68	24889	15.98
<b>2005</b>	223800.00	14.42	26238	5.42
<b>2006</b>	259076.00	15.76	29890	13.92
<b>2007</b>	314200.00	21.28	35264	17.98
<b>First half year of 2008</b>	183309.00	15.6	--	--

Resource: statistic yearbook of Wuhan in 2000 to 2008

From the form above we found that the increasing speed of GDP is in high speed development period after year of 1999 in Wuhan. Because the rate of increasing speed of GDP in Wuhan was reached 10% every year and GDP per capita was bigger than 800 US dollars. (The current exchange rate of US dollar to Chinese Yuan is 6.65:1)

### 3.6.4 The influence for housing supply market by housing price

The must have an influence for housing supply by the changing of housing price. Higher housing price will bring real estate developers higher profit and they will be more activity to develop the land when the construction cost was fixed. And there is an indirect influence for housing price. There will be more housing supply when the housing price is higher than average price. If price of residential real estate is higher in the market, there will be more profit of residential real estate for developers, and they will prefer to develop more residential real estate, it brings more residential real estate supply in the market, vice versa. If the other conditions are fixed, higher housing price brings more housing supply.

Figure 15 Average prices per sqm. Residential real estate in Wuhan from 2000 to 2008

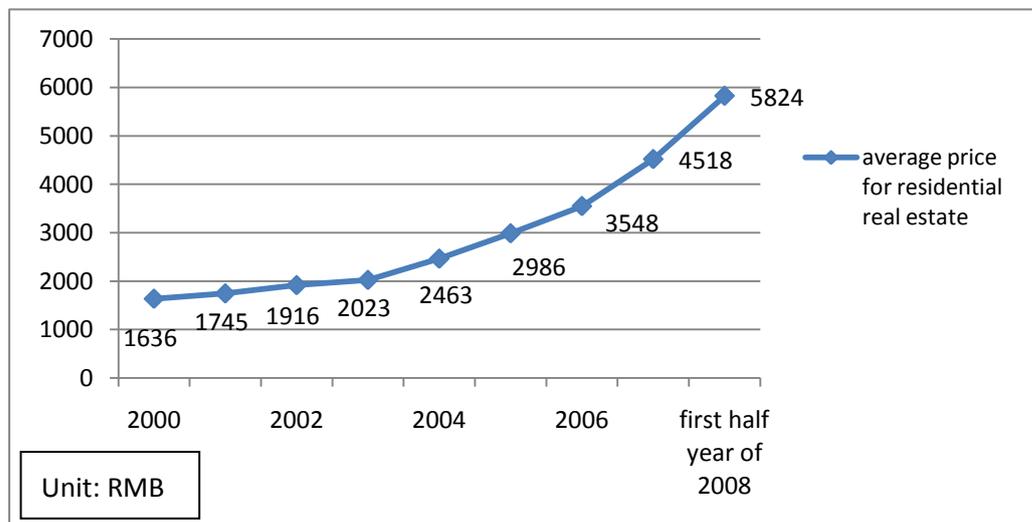
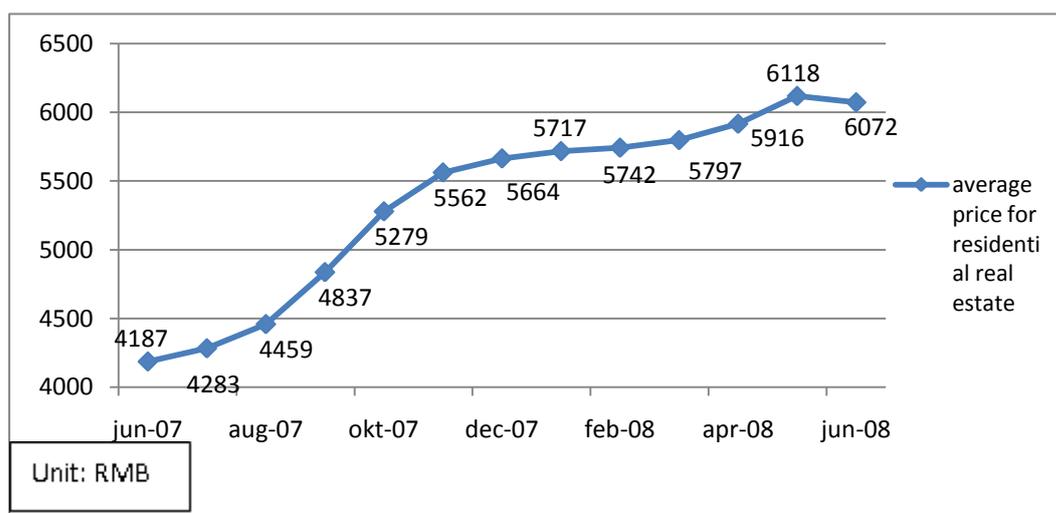


Figure 16 Average prices of residential real estate market in Wuhan from June 2006 to June 2008.



From the figure above we can see that the housing price for residential in Wuhan is uptrend from year of 2000. The average increasing speed is around 20% after 2004 and it reached 27.34% in 2007. Because the steady increasing of house price the developer will be optimistic to the situation in future market and they will raise the supply of residential house in Wuhan. But the increasing speed of house price turns slowdown from the end of 2007 in table 7.

### 3.6.5 The influence for housing supply market by operation situation of construction

The real estate operation ability shows directly from volume of construction areas and complete construction areas.

Figure 17: The real estate development information from 1999 to 2007 in Wuhan

Unit: million square meters

year	Construction area	Complete area	Newly started area	Vacancy area
1999	8.60	3.37	3.75	--
2000	10.31	4.26	4.88	1.57
2001	12.08	5.00	5.07	2.07
2002	13.87	5.23	6.35	2.07
2003	16.20	6.00	6.59	1.23
2004	20.12	6.09	8.97	0.70

<b>2005</b>	22.98	7.22	10.48	1.09
<b>2006</b>	24.29	7.74	9.68	1.28
<b>2007</b>	26.60	8.12	10.38	0.51
<b>First half year of 2008</b>	22.59	2.33	6.21	0.69

Resource: statistic yearbook of Wuhan in 2000 to 2007

The research shows the average complete construction of real estate is above 6 million square meters in Wuhan. Besides, real estate construction areas and complete construction areas are upwards trends yearly.

### **3.6.6 The influence for housing supply market by government policy**

There are some prerogatives and power by the government for land using in China. For example, the local government has the power to decide the land to be used as residential real estate or commercial real estate; the credit issued from bank to developers was directed by government policy.

From the side of land, the government published a series of policies to tighten the limit of land from the year of 2004. The policies reduced supply of land besides it reduced supply of residential real estate. After that, the government adjusted the land supply policy to enlarge the land supply to medium and small size residential use. Meanwhile, the government had policies against developer is that was hoarding land. If the developers didn't operate the land after one year in contract it will be charged land vacancy fee to the developers. The government has the power to retake the land if the land was unused in two years.

From the side of bank, the government published a policy that the equity must be above 30% for developers to get the loan from bank in June of 2003. The equity rate changed to 35% in February of 2004.

## **3.7 Description and introduction of Xiaogan city**

### **3.7.1 Why choose Xiaogan as their target**

The parent company of Fuxing is located in one subordinate city which belongs to Xiaogan. It has a good relationship with local government. And when a company

turns big it always wants to do something contribution for its hometown to gain a good in fame. That's a simple guess why the company chooses Xiaogan as their first station for the extension to secondary cities.

### **3.7.2 Introduce of Xiaogan**

Xiaogan is a secondary city in Hubei province. The south part of Xiaogan connects with Wuhan which is the capital of Hubei province. It has the longest common boundary with Wuhan compare with other secondary cities in the province. The distance is around 100 km between two cities and it takes about an hour's drive by car. There is 11600 sq.km and population is 5.8 million which includes 0.3 million population in inner urban district.

### **3.7.3 Demand analysis in Xiaogan**

From demand of the market, the government policy is encouraged to develop and invest in the medium size of cities. There is a trend that some manufacture companies will establishing their factory in medium and small cities to replace of big cities because of high cost in big cities. The company will get more loan and preferential policies to invest in medium and small cities. It will lead that more and more people come back to their hometown as Xiaogan to work who were used to work in southeast coast of China. It's a reason of increase of demand of new house.

China has opened its market several years, some people have been worked out of their hometown many years from early period, and they already got enough money, it's the retire time for them to back and buy an apartment to spend their rest live.

Not all the successful people were born in big cities. Another demand comes from the young and middle-aged people who are success with their work. In traditional Chinese culture it is the time to repay to their parents. Maybe these kinds of people are still working in big cities but their parents are living in their hometown. A comfortable and high level of apartment and low price compare with big cities for them is not difficult to afford. And it is an asset and low risk investment for people to buy a house. And maybe they will consider back to stay their hometown as their parents when they are retired.

Compare with other big cities, the supply of house types are quite simple in Xiaogan. The situation supplies of house are simple and traditional types of apartment. There is a demand for different types and high level of house in Xiaogan. The apartments with big and more than one balconies are successful in Wuhan, Fuxing copied the business model and the design of house in Wuhan then introduce this kind of apartment to Xiaogan and they hope it will bring more profit as they got in Wuhan.

There is another demand that comes from government. The local government wants to raise the level of the city through attract such a big real estate investment. It will bring a lot of opportunity for local employment. High level of houses is a symbol of high level of cities. High level of house with high price will lead an increase of average price of house in the city. It's an incentive of local economic and brings more tax for the local government. When the company just opened, they sold the apartment with 3000-3500 Yuan per square meter, and in 2007, the average price in the city was about 1500-2000 Yuan per square meter. At present the price of per square meter sold by Fuxing is the highest apartment in Xiaogan city.

## **4. Introduction of Fuxing Huiyu Real Estate Company**

### **4.1 General introduction of the company**

Fuxing Huiyu Real Estate Corporation is a subsidiary company of Fuxing Technology Corporation. At present, the core business of Fuxing Technology Corporation is real estate and the basic business is metal product. The total employees are 5210 people. It comes into the market in 1996 in Shenzhen stock market. The trademark of the company "Fu Xing" was named by the national administration for industry as "Famous Chinese Trademark".

### **4.2 The introduction of parent company**

From aspect of metal production industry, there are four series of leading products: zero-angle tire steel cord, inherent stress PC steel cord, wire cable and steel wire. And there are 80 kinds, more than 1000 specifications products in those series. The steel products are used for transportation, telecommunication, aviation, navigation, electricity, coal, construction, petro chemistry and agriculture industry. There are more than 50 sales agencies around whole world with more than 1000 long-time and stable customers. The steel products have been sold in whole China and exported to more than 80 countries. The output of the company reached 0.32 million ton which is at the top in the same industry in China. Meanwhile, the company passed some certifications like ISO9001, ISO/TS16949, and Europe CE and Chinese AAA grade of good standardization enterprise.

### **4.3 General introduction of the financial aspect of the company**

From aspect of Real estate industry, Fuxing Huiyu Real Estate Corporation is the wholly-owned subsidiaries of Fuxing Technology Corporation which got the first class land develop qualifications in China. With some famous and successfully residential projects that were built in Wuhan, the company got the title of "famous enterprise of China" for many years.

From financial view of the company: first, in terms of stability: in the end of 2009, the asset debt ratio is 57.6%, which is lower than the average level of Shanghai and Shenzhen market by 5 percentage points. And the capital structure is quite stable. In 2009, deposit received from the customers is 940 million yuan, which increases of 309%. The substantial increase in the deposit in advance made the income of the company in 2010 reach a high value, which also laid the foundation for steady development of the enterprise in 2010. Second, Fuxing's share turnover in 2009 was 0.49, 18 percent higher than the average level of listed companies in Shanghai and

Shenzhen. The inventory turnover is 0.87, much higher than the average value of 0.41 calculated from listed companies in Shanghai and Shenzhen. The speed of Enterprise asset turnover is high, the fund is efficiently used, and the operational efficiency advantage is prominent. The enterprise Land Reserve area is 10,550,000 square meters, the majority of which are city reconstruction project. The enterprise has the obvious advantage on cost control, and the location for those reconstruction projects are basically in the central part of Wuhan, which made those projects have very good earning prospects. Therefore, judging from the analysis of the study group, besides the Fuxing won the "2010 Shanghai and Shenzhen listed companies in the stability of the real estate TOP10", the value of their investments also ranked the top 20 listed real estate companies in Shanghai and Shenzhen.

In the end of 2008, the general capital is 705.23 million shares, general asset is 7.216 billion RMB, and net asset is 3.586 billion RMB<sup>3</sup>. Fuxing Real Estate Corporation was established in 2001 and the registered capital is 0.8 billion RMB. It has the first standard of real estate develop capability and it could develop 1000 thousand square meters residential per year. It is the one of the top real estate companies in Wuhan (capital city of Hubei Province). In 2007, the total income of the company was top 10 in the stock market. At the same year, income from real estate is higher than metal products in the company.

#### **4.4 Market strategy-- reconstruction of the old city (urban renewal)**

Reconstruction of the old part of a city could get some benefit policies with lower price from local government. Along with the development of the city, the city is expanding now, more and more economic development zones and residential area are established in the external part of the city. But there is still some areas in the inner city that become older and out of date. For example, the new policy asked heavy industry must move out of the city because of decrease the pollution; some parts of old apartments that have potential safety hazard need to reconstruction. Usually, Fuxing Company would not like to bid for the vacant lot in the city; it likes to bid some projects as reconstruction of the old part of city. The reason is not only the low cost of land but also the good location of these areas. It will get good perspective and high rate of return for the real estate company.

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<sup>3</sup> The data come from the company's official website. <http://www.whfxhy.com/qygh.asp>

## **5 Description and analysis of the Shuian Xingcheng project in Wuhan**

### **5.1 Backgroud of the project**

#### **5.1.1 Introduction of the competition in bidding the land**

The bidding process and result of the land of Shuian Xingcheng Project shocked every property developers in the end of 2002. It is the biggest area to be developed inner city cycle and the total area is 429 acres. There are 1500 meters lakeshore line and total construction area are over 600,000 square meters. There was a fierce competition between all the developers during the process to bid the land. The bidding price was begin with 0.38 billion RMB and after 294 round, it was bidden by FuXing company which cost 0.8 billion RMB. It is create the records of the highest amount of money and biggest area of bidding land in 2002. It is the biggest area with lakeside inner the city where Fuxing Company built a high-end residential project of Shuian Xincheng.

#### **5.1.2 Introduction the characteristics of the district for the project**

Wuchang district is one of the biggest districts of Wuhan with the total area is about 635 square-kilometers and 1.9 million population. Wuhan is the capital city of Hubei province, and the administrative center of Wuhan is located in Wuchang. Such as the committee and government of Hubei province are located in Wuchang. Wuchang is the political, culture and information central of Wuhan which collected lots of high income people. From the geography aspect that there are 21 lakes in Wuchang district which is much more than other district. The project is beside to the Sha lake of Wuhan.

### **5.2 General residential supply in Wuhan**

At present, most residential type of supply is Large Dwelling-size house which living area is over 120 square meters in Wuhan. There are less supply with living area is 90-120 square meters. The reason is lower housing price in the local market in a long time and people's living habit. Along with increasing of housing price the living area per apartment will be smaller than before. Because of Wuhan is the capital city of Hubei and Hubei is named by the province with thousands of lakes, people in Wuhan prefer to live nearby lake.

### **5.3 Analysis the situation and development trend in the project area**

From the view of the location of the project

The transportation is very convenient in the area. It is close to the new business cycle center in Wuhan. It is 5 minutes to the second Yangzi river bridge, 3 minutes to shopping mall and 1 minute to the supermarket by car. It is 15 minutes by walk to the metro station which is constructing now and the prediction of the metro is that it will open in 2012.

Figure 18 Map of the location of the project



## 5.4 Target customers and demand analysis

The income from this area is increasing which shows from the new shops and supermarkets and restaurants are opening more and more. There are three main profitable companies are located near there. First one is China Railway Siyuan Survey and Design Group Co., Ltd, which company is one of companies in charge of design at railway road, bridge and tunnel in whole China. The second is Hubei University (first level of university in local), teachers and professors who work in university is high income level of people in China; it is the same in Wuhan. The third is Hubei Electric Power Company, as we know electric industry in China is monopolized industry which means the income of the employ is higher than others. So the high-end residential property will be acceptable and preferable in the area.

From another hand, the project is located in a new business cycle center; most of people are living in their old apartment which lives more than 10 years, the housing design and facility are out of date. People who are living in this kind of apartment are the potential customers. Because about 20 years ago, house is supplied free by the people who are working for the company. These kinds of houses are lack of good organized facility management and maintenance.

## **5.5 Compare with general high-end residential property**

### 1. from the view of plot ratio of the house

High-end residential property is one of the properties between normal residential and magnificent residential building. With the international standard, if the plot ratio is more lower it is better for the property. The plot ratio of high-end residential property is lower than 1.0, the plot ratio of townhouse is between 0.6 and 0.8. Because of obviously geographic advantage brings high cost of land, the developer have to increase the general plot rate till 1.7 to balance the cost and profit. (This kind of situation appears each project and everywhere in China.) Plot rate lower than 1.5 in China is high end residential property in the market at current situation. But Shuian Xingcheng project offers different kinds of house type for customers to choose, such as villa, townhouse, medium, high-rise dwelling buildings. The average plot rate is 0.89 for villa and townhouse area.

### 2. from the view of total area of the house

The Chinese government has defined that the total area of common residence is between 120 to 144 square meters, the total area more than 144 square meters is high-end residential property, the total area less than 120 is economically affordable housing. But there are several disputes about the standard to make difference types of house. High-end residential property is not only for big living size but also for comfort level to live.

In the project of Shuian Xingcheng, most of the sizes of houses are bigger than 144 square meters. But there still have some sizes of houses are less than 144 square meters, even less than 120 square meters. We can't define that this kind of small house is low end residential property. In some respect, the small area of houses in high-end residence community is high-end residential property. Maybe the tenants for small houses are single person that don't need too big size for living.

### 3. from the view of the landscape of the project

The real high-end residential property is based on the non-renewable and scarce resources for the project. Most of the scarce resources are nature resource, but it could be man-made resources. The scarce resource of the project are contains nature resource which is Sha Lake and man-made resource which is the park near the lake. It doesn't have some other man-made resource like golf course.

## **5.6 SWOT analysis of the project**

### **5.6.1 Strength**

#### 1. Good view

It offers better view for the householders. The project beside to the Sha Lake and the company has made it as a public park. The project is close to Yangzi River in north and East Lake (the biggest lake in China) in south, the important is there is no high construction between them. People who are living in high layer multi-storied building of the project would see both the lake and Yangzi River. People who are living villa in the project are close to Sha Lake and the public park. All the different types of house have their advantages for sale.

## 2. Transportation

As I mentioned before, it is 5 minutes to the second Yangzi river bridge, 3minutes to shopping mall and 1 minute to the supermarket by car. It is 15 minutes by walk to the metro station. It is convenient to some other main roads by car or bus.

## 3. Complete the supporting facilities

### Education:

In the future plan of local government, there will establish a middle school and primary school in the north part of the project. There will be a kindergarten inside the project. Hubei University is located next to the project.

### Medical:

There are two hospitals near the project which takes 5 minutes by car. One of the hospitals is particular for the emergency of traffic accident.

### Medical treatment:

There are six big sized and general hospitals that all have modern medical equipment. And it is within 30 minutes' drive from the project to any of these hospitals. There are some small kind of medical clinics and specialty clinics around this area, such as Chinese medical clinics and Children medical clinics.

### Athletic facilities

There is a popular stadium named Hongshan stadium near the project. It's only cost 20 minutes' drive from the project to the stadium. It has performance shows or sports match sometimes like basketball match and diving competitions. There are some athletic facilities next to the project in Hubei University which open to everyone.

## 4. Easy to go shopping

There are 5 minutes to Metro which is the biggest German supermarket and 10 minutes to Carrefour which is a famous French supermarket; 20 minutes' drive to

Xiao dong men home decoration and fitment market; 30 minutes to Guang bu tun electronic market could buy something like computer or camera.

#### 5. Multiple choices for customers

The project offers different types of house for the customers to choice. There are townhouses which offer total area is 195 to 275 square meters with 3 floors; row houses which offer total area is 220 square meters; large dwelling size houses which offer total area from 140 to 195 square meters; high-rise buildings offer total area from 95 to 210 square meters; and there are few luxurious dwellings on the top of high rise buildings with the total area is between 300 to 600 square meters.

6. Because it is a big residential area, it will attract more facility services here.

#### **5.6.2 Weakness**

1. The cost of land is higher which makes the selling price is higher than other area. It brings high pressure for sale.

2. Some potential customers are not satisfied with the quality of the water in Sha Lake. Even the government promised to improve the quality of the water but it takes time.

3. There are not many public buses for transportation near the project. It is only convenient to go out by private car. But it seems that the local government is going to offer some public bus stops near the project.

4. The selling point is that the project is located near the lake with view of nature water, but the first and second floor's purchasers can't see the lake view. It is lack of attraction to sell the lower floors.

5. Most of the house types are big house with the total area is over 160 square meters. With the higher cost of per square meters of the house, there is big pressure for sales.

#### **5.6.3 Opportunity**

1. The environment outside the project is improving now.

2. There are two projects holding by other famous companies opened at the same time. These projects are high-end residential property which will increase the average selling price in the whole area.

3. Sha lake control project is going to start; it will raise the fame of the project and raise the environment around the project to attract more potential customers.

4. Transportation around the project is built in process; it will raise the advantage of the project.

5. There will appreciation of the project because of the house supply situation in local real estate market is lower, the demand in market need some higher level supply.

#### **5.6.4 Threat**

1. The biggest threat is the competition with Vanke project

China Vanke Company Limited is the largest residential real estate developer in the People's Republic of China. It is engaged in developing, managing and selling of the properties across 20 cities in Pearl river delta, Yangtze River Delta and Bohai-Rim Region, with the provision of investment trading, consultancy services and e-business. Its parent company is China Resources. It is headquartered in Shenzhen, Guangdong. China Vanke was listed on the Shenzhen Stock Exchange in 1991, the second listed company in the Shenzhen Stock Exchange after Shenzhen Development Bank. It had the largest market capitalization in 2006 on the Shenzhen Stock Exchange.

The competition project of Vanke is maximum 10 minutes by car from Shuian Xincheng project. And Vanke is more famous than Fuxing Company. Vanke is the top one real estate company in China, but Fuxing is only famous in local city and province. The size of the company is bigger than Fuxing Company and history is longer than Fuxing. The project was constructed only about two year later than Fuxing. The build and sales time is too close to each project. This is the first time for Fuxing to build high level residential property in local city, but Vanke is famous in China to build high-end residential property.

2. Another threat is coming from the real estate controlling policies from the government. Because the real estate market is sustaining overheating, the government is going to control the overheating and abnormal phenomenon of the real estate market.

## 6. Comparable in different size of cities (focus on the projects in Fuxing Huiyu Real Estate Company)

### 1. General real estate index comparable in different size of cities

From the table below, I can find that land cost is almost equal the average wage in different cities. But the average residential selling price is three times of average wage in small and medium cities, average residential selling price is four times of average wage in the capital of China Beijing. Most of data comes from local government statistic bureau in year of 2008.

Figure 19 Comparable in different size of cities

	<b>Xiaogan</b> <b>(small city)</b>	<b>Wuhan</b> <b>(medium city)</b>	<b>Beijing</b> <b>(Big city)</b>
<b>Land cost</b>	757 Yuan/sq.m.	1800Yuan/sq.m.	3541 Yuan/Month
<b>Average selling price</b>	2096 Yuan/sq.m.	6174Yuan/sq.m.	15000/ Yuan/sq.m.
<b>Average wage</b>	730 Yuan/Month(2005)	2268 Yuan/Month	3726n/Month

### 2. Profit comparable in the different projects in Fuxing Huiyu Real Estate Company

Although the average selling price is higher than average wage in those cities, Fuxing Huiyu Real Estate Company insists to focus on developing the high standard residential market. Because there is a gap between the rich and the poor in China and the company thought that it is easier to earn money from rich people. The company did develop high standard residential even in small cities like Xiaogan.

High risk brings high profit. For the company, invest in small city is a risk but from another hand it will occupy market in this kind of city first. The best and potential high profitable location will be hold by the first coming company. If the strategy is correct the profit will higher than invest in big and medium cities and the company could earn much profit in boom period. And the company will earn much money because it establishes its business in the new market before than others.

From the table below we found that the operating margins of the company is quite good which are 31.8% and 28.97% in small city and medium city in 2009. The profit in those projects means the correct marketing strategies of the company. It doesn't open market blind in bigger city like Beijing or Shanghai, because these are a higher land cost and intense competition with lots of powerful competitors in the market.

Figure 20 Annual reports in 2008

Unit: Thousand Yuan

	<b>Xiaogan project</b>	<b>Shuian Xincheng</b>
<b>Total area</b>	179500sq.m.	363400sq.m.
<b>Construction area</b>	369100sq.m.	650000sq.m.
<b>Income</b>	239169.5	934537.6
<b>operating costs</b>	178221.3	523719.2
<b>operating margins</b>		43.96%
<b>Growth rate of operating margins than last year</b>		9.78%

Figure 21 Annual reports in 2009

Unit: Thousand Yuan

	<b>Xiaogan project</b>	<b>Shuian Xincheng project</b>
<b>Income</b>	261178.28	1326605.4
<b>operating costs</b>	178118.08	942336.19
<b>operating margins</b>	31.8%	28.97%
<b>Growth rate of operating margins than last year</b>	6.32%	-14.99%



## 7. Conclusion

From the aspect of long term trend in the real estate market in China, the house price will increase in the future excluding a few megalopolis. In secondary cities as Wuhan and the level under secondary cities, with the increasing of the salary, the house price will be accepted by the local resident. At the present, the house price is downward because of the central bank constrains commercial banks when they issue loan, and increases the ratio of down payments for the personal second house purchase and increase interest of loan. That is the adjustment by central bank for the overheated real estate market in the last few years. The downwards trend is not the long term trend for Chinese property market. The long term trend depends on urbanization process, change of population size and structural, resident income change and etc.

China is a big country with 1.3 billion populations but the ratio of urban population is less than 50%. According to <World Cities Outlook 2007> issued by United Nations, there are about 3.3 billion people that lives in urban cities which means the world urban population is more than 50%. China urbanization level is lower than average of world. General speaking, China is in high speed increasing process of urbanization, but there is a distance with a lot of western countries. Because most people are living in middle and small size of cities and towns except for few big cities in China. However, from the view of whole country, rural population trends to small and medium size of cities and people in small and medium size of cities trend to live in big size of cities in future.

From the trend of short and medium term in China property market, there will have a long adjustment period. There are some limits and reasons which will affect the adjustment period. The first one is the real economy and industry development; if the real economy keeps grow steadily, the salary and employment rate will increase steadily and that brings house demand increase. The second is inflation changes; if the inflation doesn't work in the normal range the central bank will adjust the monetary policy. All of these reasons will lead the house price change which brings uncertain factors in real estate market.

From the general view of the project, Fuxing Huiyu Real Estate Company has chosen their marketing strategy in a smart way. It focuses their energy to high end residential apartment in secondary cities and small cities which brings the company high profit.

From summing up experiences of the projects I found some good advises for real estate companies. Firstly, good location is very important. Both of the projects in

different cities are located in a good communications and good views areas. Because most Chinese families like take a walk after dinner, a street park is quite important for them to choose apartment. Secondly, they must know consumer psychology very much. It is easier to earn money from rich people than poor people. Rich people prefer to live together which area is must much higher than other areas, a real estate company with a good reputation satisfied customers' vanity. Thirdly, they must deeply know the marketing demand and supply. From the projects the company knows the high end residential is demanded in secondary city and small city; because the income is increasing in these kinds of cities and the customers need to buy a comfortable apartment for their parents and it could be their holiday apartment. As a well-known real estate company with a good reputation, it is not enough to build a suitable apartment but also need to build a good living environment such as a street park. Fuxing Huiyu Real Estate Company did well in local market but the facility service department needs more improvement in future.

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