New Normal: a Dual National Market

Property prices are currently falling and investors registering losses in China’s third- and fourth-tier cities; yet in Beijing, Shanghai, Guangzhou, Shenzhen and the more prosperous of the 2nd-tier urban centers, demand for homes is surging and commercial real estate markets are strong as well. In Shanghai, home prices surged by more than 16% during the first quarter, prompting the government to introduce new buying restrictions.

The national market, in other words, has split into markets heading in opposite directions. How to interpret this bifurcation, and does it imply that Shanghai and other upper-tier markets are now even more inflated and unbalanced than pre-2013?

At a quick glance that may seem to be the case, but close examination shows otherwise: In Shanghai at least, the big city property market is now more stable than it was during other recent years of rapid home price escalation. Following are three reasons why.

1. The apartment vacancy rate in Shanghai has dropped significantly, from about 18% in 2009 to 10% by 2015. This suggests a decrease in unhealthy speculation.
2. Residential property yields in Shanghai have generally improved. Between 2009 and the end of 2015, apartment rents rose by 75%, while average purchase price for city apartments increased by about 40%. Yields correspondingly rose from about 2% to 2.6% — still very low, but an improvement nevertheless. And 2.6% is comparable to yields in many other of the world’s booming megacities.

Additionally, the excess stock that had built up in Shanghai while transactions stagnated in 2014 has largely been sold off. According to Soufun, there were less than 40,000 new homes on the city market at the end of March, or about enough for six months at the current rate of transactions. This compares to sixteen months of available housing stock at the end of 2014 (based on the transaction rate at that time).

Add to all the above the fact that the city’s commercial property market remains strong and has a large amount of new supply in the pipeline, and it does appear that Shanghai has a more stable property market than it had at the start of the decade. Even though further rounds of government intervention may be required to maintain or increase that stability on the residential side, owners and investors are operating in a safer market environment now than they were five or so years ago.

While we haven’t carried out a similar analysis for other upper-tier cities, the situation in Shanghai suggests that the current bifurcated state of the national property market will likely persist for an extended period. Real estate in Shanghai will remain in high demand for the foreseeable future, while resolving problems of excess supply and feeble economies in the lower-tier markets will still require a significant amount of time.

3. Homes have become more affordable to city residents because average incomes have risen faster than average home prices. Home prices are still ridiculously high, of course: A worker making the city’s average salary of RMB 71,300 / year would need to contribute 49 years worth of his full income to buy a 100 sqm home priced at the city-wide average. But this is nevertheless an improvement over 2009, when the ratio was 56 years. Moreover, an abundance of affordable homes are being built in the city outskirts.
Property Play – Baoku Treasury

Commercial space in Shanghai can be expensive, but at 24 meters below Shanghai Tower it is now become near priceless. That’s because basement level 5 houses 宝库一号, or Baoku Treasury, which is said to be China’s largest underground owned storage space for precious items. Officially open for business since March 6th, the Baoku Treasury has been UL-certified for meeting the highest standards for the storage of both financial and cultural products.

Baoku Treasury was founded by Ma Weidou, a renowned art collector who also owns the Guanfu Museum on the 37th floor of Shanghai Tower. According to reports, the original inspiration for the Treasury was the museum’s needs for storage space and funding to cover operating expenses. The latter is achieved by renting out some of the Treasury’s 30,000 safety deposit boxes and 24 storage rooms.

According to a Jiefang Daily report from last November, the safety deposit boxes come in 5 different sizes ranging from 0.02 to 0.27 cubic meters. They are leased for a 15-year period, the rent settled with a one-time payment that ranges between RMB 38,888 for the smallest box to RMB 338,888 for the largest.

Based on the price for the largest 0.27 cubic meter box, we calculate the potential revenues generated per one cubic meter of vault space per day to be approximately RMB 220. Since the lockboxes are stacked one on top of another, potential revenues per square meter may be higher.

The total area of the Baoku Treasury is 7,000 square meters and it is said to have sold 3,200 boxes within the first week of opening. Customers reportedly include a number of financial institutions, but most are high net worth individuals, among them the renowned antique collector Giuseppe Eskenaz and executive director of Tomson Group Charles Chi Kar Tong.

Recently announced plans to open treasuries in other cities of China and build a mixed-use museum project on the West Bund would seem to suggest that business is going well for Baoku Treasury.

The Scene

© Sofia Group

Monopoly—the landlords’ game
Property Snapshots

K. Wah Center
The flagship city property of Hong Kong developer K. Wah, this landmark building includes several restaurants, a gym, indoor swimming pool, tennis court and an Executive Centre business center. Completed in 2005, the property now holds its own against the much newer ICC towers across the street, whose IAPM Mall is also a major convenience or K. Wah Center tenants.

Building quality: Grade A
Address: 1010 Huaihai Middle Road
Ceiling height: 2.7 meters
Recommended Floor/Area: 1,800 sqm
Rental/sq.m/day: RMB 12
Total Floors: 45
Metro: 3 min walk to lines 1, 10 (Shanxi South Road)
Location: Xuhui
Availability: Limited space available

Silver Tower
Suitable for companies seeking relatively inexpensive space in the People’s Park / East Huaihai Road area, Silver Tower is a mixed-use development that includes a 28-floor serviced apartment tower, 18-floor office building and 5-level retail building cluster. The property was completed in 2001 and purchased in 2011 by Singapore-based real estate giant Mapletree.

Building quality: Grade A
Address: 218 Xizang South Road
Ceiling height: 2.6 meters
Recommended Floor/Area: 1,067 sqm
Rental/sq.m/day: RMB 8.5
Total Floors: 18F
Metro: 5 min walk to lines 1, 8 (Huangpi South and Dashijie stations)
Location: Huangpu
Availability: Limited space available

BEA Finance Tower
Completed in 2008, this property in the heart of Lujiazui comprises a tower and a low-rise building joined by a glazed atrium, with the low-rise structure housing restaurants and public facilities. Most spaces within the modern and well-designed building offer excellent views of the Huangpu and the city. The property has a mix of international and domestic tenants and occupancy is generally high.

Building quality: Grade A
Address: 66 Huayuanshiqiao Road
Ceiling height: 2.8 meters
Recommended Floor/Area: 1,100 - 2,200 sqm
Rental/sq.m/day: RMB 13
Total Floors: 45
Metro: 5 min walk to line 2, Lujiazui Station
Location: Pudong
Availability: Limited space available

Contact NAI Sofia Group Shanghai at 021-6230 1919 for further information on the three office building properties listed above, or for information on any other commercial property in the city.
Events – Architecture and Music

Two architectural exhibitions are in progress at the Power Station of Art:

**Name of Architecture** runs through May 29th and presents the holistic, pan-design approach of the studio Atelier FCJZ and its recent buildings, furniture, apparel, jewelry, publications and videos.

**BERNARD TSCHUMI - Architecture: Concept & Notation** runs through June 19th and explores the work of the French-Swiss master who is widely considered one of the foremost architects and architectural theorists of our time.

PSA is open Tuesday through Sunday and is located at 200 Huayuangang Road, Huangpu District. Admission is RMB 50 for the Tschumi exhibit and the Atelier show is free. [www.powerstationofart.com](http://www.powerstationofart.com)

Several interesting performances will be taking place at Shanghai Oriental Art Center:

- **Quartetto Fauves**, the renowned Italian chamber music ensemble, plays works by Battista, Mozart and Schubert on June 3rd.
- **St. Petersburg Philharmonic Orchestra under Yuri Temirkanov** perform Shostakovich’s Symphony No. 5 and Tchaikovsky’s No. 6 “Pathetique” on Jun 7th.
- **Royal Danish Ballet presents Napoli** on June 23rd & 24th and **La Sylphide** on 25th & 26th
- **Lucerne Symphony Orchestra under James Gaffigan** present works of Weber, Grieg and Dvorak on June 28th.

Tickets for all these performances can be purchased at the Center’s booking office on 425, Dingxiang Road, Pudong, ordered by phone at the numbers 4006-466-406 or 021-68541234, or booked online at Damai.cn/.

The yearly organic foods industry trade show **Biofach China** takes place May 26-28th at the Shanghai World Expo Exhibition & Convention Center. [www.biofachchina.com](http://www.biofachchina.com)
Dining Suggestion – Gin 108

We recommend this restaurant because it seems to be run by people who have a true passion for creating great dining experiences. The chef, Andy, honed his craft for eight years under an elite 3-Michelin-star master. Moreover, Gin 108 is located inside the historic Pacific Hotel, a property that still carries some of its original 1920s charm, and has a cozy and elegant interior that seats only 30.

Specializing in French flavors, Gin108 offers delicious set lunches for RMB 198, scrumptious afternoon tea and a unique “Travel Zoo” set dinner of international flavors that goes for RMB 588, 688 or 888, with mouthwatering options such as wagyu beef tenderloin with black truffle sauce and potato gratin; terrine de Foiegras with port wine sauce and fresh fruit salsa; roast miso cod fish with seasonal vegetables and apple-vinegar butter sauce and more.

Open Monday through Friday, 11:30 am - 9:30 pm.

Gin 108
Nanjing West Road #108, 2nd Floor
Reservations: (21) 61314898

Market Notes

The citywide average rent rose by about 2.3% during the 1st quarter as only two new buildings came online in the period: the United Overseas Bank Building, which brings an additional 30,000 sqm of office floor space to Lujiazui; and the second phase of the Kechuang Dongli Technology Park that brings 70,000 sqm to the Caohejing area of Xuhui District.

The average rent should soon plateau and begin falling, however, as a whole 2 million sqm of new supply is scheduled to enter the market by year’s end.

The meeting and events facilities in the podium buildings of Shanghai Center opened for business at the end of April.
Our consultants will be delighted to personally assist you at any time. You may call our main Shanghai office number, (86 21) 6230 1919, or contact directly a consultant who handles your specific concern:

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