

HIGH PRICE FOR A HIGHRISE

FOREIGNERS GET BURNED IN CHINESE REAL ESTATE FIRE

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When Dutch entrepreneur Jan-Jaap Verolme started the Beijing operations of his trading and consultancy company Chin-Tou BMS in 1993, he would have never expected that something as simple as finding a place to live would become a major headache in the Chinese capital.

(Door Jan van der Made)

BEIJING (CER) It was almost impossible to find something for a price under one thousand dollars. After months of living in hotels, he found a small four hundred dollars, seventy five square meter one bedroom flat in Huajiadi, a compound in the north-east of Beijing where apartments were partly owned by local Chinese, partly by Chinese work units. The location was "safe", he thought, since many foreigners lived there already. But after one month, the People's Armed Police hold an overnight raid and evicted most of the foreigners, questioning some for as long as five hours, forcing them to register and demanding fines from the landlords who were not permitted to directly let their flats to foreigners. Mr. Verolme was forced to move into a foreign-managed compound which has an official license to "rent and sell" property to foreigners.

He now lives in the Singapore managed Vanke City Garden complex not far from Beijing Capital Airport. Rent is still considered cheap here: one thousand Dollars a month for an eighty square meter apartment. Major problem: it takes at least forty five minutes by car from the Vanke compound to his downtown office; when roads are jammed (and they are at eight in the morning), travel time can go up to almost two hours one way. As things are getting better, Verolme is considering moving up market and even buy his own property in a location near the city center. But when buying a house in Beijing, new problems are likely to arise.

LEAK

Bad maintenance, shady contracts, untrustworthy developers are among the most frequently noted problems in the Beijing real estate market for foreigners. "You look at the building quality and the track record of the developers", says Karel Buesink, representative of ABN-AMRO in Beijing. The bank last year decided to buy apartments for it's employeess rather than rent them and Buesink took a look at several real estate projects. In the end he choose for apartments in the "Beijing Riviera", to the east of the Great Wall Hotel in Chaoyang district. Other villa's were "too small for the price, built badly with tubes of the air conditioners burst open. fresh paint which was already coming down from the walls".

But in spite of Beijing Riviera's "developer with a good name" (Hong Leong and Kwek), several problems remained. Says Buesink: "The laborers who come here to repair things obviously don't have any supervision, and they don't know the material they work with". After a reparation of a leak in a waterpipe, tiles were stained with cement and paint, and had to be completely replaced. "The weird thing", he noted, "is that just after construction of an apartment block starts, they already install the toilet pots and the bathtubs. They throw tools in it, it's scratched and full of paint spots, so if the house is ready all those things can be replaced again".

Leaks, cracking floors and walls, bathrooms which are not made waterproof are among the common complaints of inhabitants of the Beijing luxury market... and sound. One woman who lives in an apartment of the People's Armed Police owned "Marco Polo Club" complains of the noise made at the local shooting range. "It's not even a recreational shooting range", she complains, "It's where they train themselves!"

LUXURYMART

Buyers don't have much legal recourse. "It's almost impossible to fight the developers", says one property consultant. "The contracts are very favorable for them", if the apartments are not finished in time, you bet they will use some clause about bad weather conditions. "They say, look, it rained for thirty days, we could not work. Contracts contain clauses on penalties for the developer on damage caused due to bad construction, but even then it's very difficult to get some money back quickly, if at all"

For the price foreigners have to pay for luxury property in Beijing, they could expect something better. Sales prices for residential property in China's capital ranked third in the world last year but now seem to come down to an average of 1200 Dollars per square meter, although some of the downtown-luxury apartments go for as much as 2800 Dollars per square meter.

Rental prices are also coming down, but are still not very attractive. According to banker Karel Buesink, "renting residential property is way too expensive". A typical fully furnished two bedroom flat in or around the city center goes for 4000 - 6000 dollars a month. Buesink estimates that buying a house in the Beijing luxury market would cost about the same as renting it for seven or eight years...the reason why his bank decided to start buying.

SPECULATION

Not only the buyers are at risk. For a developer, investing in the Chinese real estate market is a difficult undertaking too. Before getting an "Overseas Sales Permit", which permits a developer to look for foreign customers, some two hundred different chops, permits and fees are needed varying from construction permits, environmental permits to education fees, compensation for peasants removed from their premises and a payment of 25% of the capital invested of the project.

According to Colliers Jardine Citic, the Beijing Real Estate Administration gave "Overseas Sales Permits" to more than 170 project developers since 1992 before the Beijing government issued a stop on the expansion of the luxury housing market because of fears which might have been caused by a combination of rampant speculation by Hongkong developers and a predicted slump in the real estate market. Total stock of apartments is expected to 14,900 apartments by the end of this year as projects previously approved approach completion.

DISSAPPOINTED

Developers are now desperate to get rid of their real estate, offering all kinds of deals. "Roman Gardens" ("So grandiose this moment") offers a lease/sales plan, in which a company or individual can "rent" the place for five years after which period the apartment becomes his property. Other developers offer payment of "three years rent in one bulk and one year free" deals.

But in spite of attractive looking names like "Greenland Garden", "Manhattan Garden", "Purple Jade Villa's" ("The art of European Living") or "Dragon Villa's", developers have a hard time. Oulu Property Development Co., is planning to build 154 villa's of its "Beijing Eurovillage", not far from the city, of which only twelve were sold. "The demand for villa's is not very big" according to a disappointed spokeswoman. "Because there are too many residential projects in Beijing." Until now, Beijing Oulu sold only 12 of its planned 154 villa's, half of them to mainland Chinese, half of them to foreigners. Some apartment style buildings sell better. "Parkview Towers" is already sold for 80% and "Regent Court" for 95%, but property consultants expect an occupancy rate of maybe 40-50% because of the high rents. Prices might go down, however after a rumored lowering of the land-lease price by the end of this year.