

Adding China Properties to Your Shopping Cart

China's real estate market used to be closed to foreigners. As more foreigners live and work in the country, owning property in the mainland has become possible and even desirable for some. Hong Kong entrepreneur and author, Christopher Dillon, talks to Kenny Lau about his new book, Landed China, an all-you-need-to-know guide for foreigners interested in buying property in China



When Canadians Janet De Silva and Yves Therien moved to Beijing from Hong Kong in 2005, they made a big decision. They bought a home in a country where purchases by expatriates are rare, even among long-term residents.

"We looked into renting, but many of the places just weren't to our taste. And it was difficult to get landlords to renovate," De Silva recalls. "We decided to buy a house because we needed a place for our own use, where we could host friends and colleagues."

De Silva and her husband are part of a growing trend in China, notes Christopher Dillon, an award-

winning writer who has lived in Hong Kong for more than 20 years. Dillon is the author of the new book, *Landed China*, an all-you-need-to-know guide to buying property in China.

"Some expatriates in China choose to stay, especially if they meet the love of their life," Dillon says. "China is also making it easier for expats to become permanent residents. If you intend to stay or start a family, the next thing is to buy a place to live."

The market

The good news from a buyer's perspective is that China's constitution was amended in 2004 to protect

the right of private property ownership and there are plenty of homes for sale. The bad news is that prices are high, particularly in tier-1 cities — Beijing, Shanghai, Guangzhou and Shenzhen — and there are restrictions on home ownership for expatriates.

"The first thing to understand is that real estate in China is expensive," Dillon says. "Prime homes in Beijing or Shanghai, especially near good schools, will cost as much or more as properties in Manhattan, Mayfair or the Peak right here in Hong Kong."

"Second, China is not a homogenous market. Beijing is no more representative of China than Manhattan is of the US," he adds. "Tier-1



Modern apartments in Shekou, a port city very near Hong Kong and conveniently linked with ferry service.
(Photos courtesy of Christopher Dillon)



Christopher Dillon
(Photo by Idalina Silva Photography)

How it works

“It’s important that expat buyers understand how the market works,” he suggests. For example, China’s urban land is owned by the state, while rural land is owned by collectives. When you buy property, you own the structure and the right to use the land through a fixed term lease — 70 years for residential property, 50 years for industrial and 40 years for commercial — or the balance of the lease for a pre-owned property.

China imposes a number of restrictions on foreign ownership. Regulations introduced in 2006 specify that expatriates must have lived in China legally for at least a year before they can make a purchase and may only own one home for personal use. A foreign company may buy a property only for its own use.

“These are national rules. There are also local regulations that vary by city,” Dillon points out. “More desirable cities generally have stricter requirements.”

cities are more expensive than secondary or tertiary cities because they have the largest, most liquid real estate markets, and more opportunities.”

Home prices in China have risen drastically, with prices for a new home in Beijing or Shanghai more than doubling in seven years. This has prompted the central government to implement market-cooling measures to counter the threat of a bubble.

There are competing interests at work in China’s real estate market, Dillon points out. “The central government wants to maintain social stability and affordability in the real estate market. Local governments generate revenue through land sales and developers want to increase sales.

Finally, you’ve got homeowners, who want prices to rise.”

However, there are several factors that will support property prices, particularly in large cities. This includes a rapidly growing urban population, which is estimated to increase by 300 million people by 2030, and a lack of attractive investment alternatives in the domestic market, which makes real estate one of the better options.

“The threat of a bubble is real,” Dillon believes. “But if you are an end-user who plans to live in China for the medium- or long-term and have a reasonably secure income and a manageable debt load, you should be fine.”



New homes in China, like this Shenzhen townhouse, are usually sold as bare shells.

Even if you meet the requirements, buying isn't for everyone. "You should think twice if you might be re-assigned to a different city on short notice," he adds. "You don't want to sell into a depressed or falling market. A forced sale is rarely a good thing."

It is generally not a problem for an expat homeowner to sell a property. But repatriating the proceeds can take a bit more work. China's capital controls allow individuals to transfer US\$50,000 per year, and you will need to demonstrate that the source of the funds is legitimate and that all taxes have been paid.

"China is not the same as Hong Kong in terms of property flipping," Dillon says. "Hong Kong is a deep, liquid market where it is easy to get in and out; China is certainly less so. You have to approach China on its own terms and assume nothing."

Good experience


In their search for a home in Beijing, De Silva and her husband Therien discovered a two-story, four-bedroom home in a small, gated community in an area known for prestigious international schools. They sought advice from an architect on the design, quotation process, contractors and material sourcing.

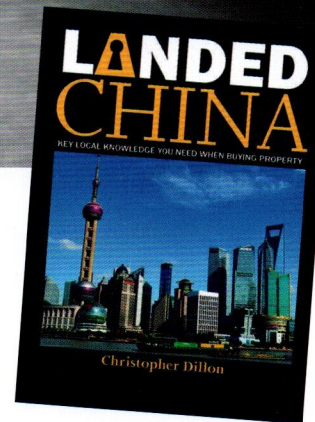
"It was in a stunning community, which had a beautiful landscape in a park-like setting with a fabulous clubhouse," De Silva says. "But, in buying a new home, while the exterior and gardens are finished, the interior is a bare shell. It meant we had to completely fit out everything."

The project was a challenge, as the contractor had little experience with Western fittings. "We had to be on top

on the project every single week," she says. "It took multiple attempts to get a few things right," including a curved staircase and a wine cellar in the basement.

"We were very happy once we moved in and felt very fortunate to have had someone with tremendous architectural experience to help us through the construction process," she adds.

"We lived there for a couple of years and then upon relocating back to Hong Kong we leased it for a couple of years and then sold it later," she adds. "It proved to be a really good lifestyle decision for us." 





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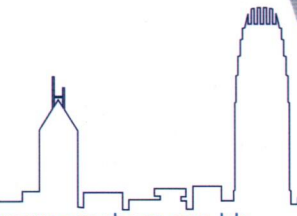
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