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### **China housing following U.S. path in some ways**

When it comes to houses, world's newest economic superpower embraces all things California.

Fewer than 900,000 new homes were built in the United States last year, according to the National Association of Home Builders. In China, more than 10 million new housing units were completed in 2007, according to independent estimates.

And riding the current crest of China's 30-year housing boom is a growing luxury market that mirrors many of the Bay Area's suburban communities in architecture and even names.

"What's the luxury housing market like in China?" asks Colleen Edwards, who recently visited a number of residential developments across China. "It is California Tuscan goes to China. One of my favorite discoveries during our trip was a development in Cheng-du called San Ramon."

When China's new wealth goes house shopping, "they want to recreate success," according to Edwards, co-founder of EMC Creative, a marketing and communications firm in Danville. "There is so much money, and such a great desire to have what looks best from the West," she added. "The wealthy Chinese want residences that re-create successes, especially from the West Coast, from California." In late spring, Edwards and other toured China, visiting several planned communities.

But even with the architectural similarities, much of China's luxury residential development retains some older traditions. One example is mao pei, the buying of a residence and completing the interior after purchase.

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“There is a luxury development near Shanghai where the shells are priced at the equivalent of \$9 million, and it is not unusual for a home buyer to easily spend another \$2 million to finish the inside. But the lot itself is sold completely landscaped,” Edwards said.

“The Chinese are slavishly European in their taste for residential design,” said Bay Area architect Chip Pierson, who has worked with Chinese developers for more than seven years. “Here’s an example: in Beijing, there was a subdivision that was a reproduction of the Forbidden City right next to other developments that were Western and called Napa Valley and Orange County. Here’s the irony: The Europeans bought the homes in the Forbidden City; the Chinese live in the Western-style developments with West Coast names.”

Pierson is principal and general manager of Dahlin Group Architecture Planning in Pleasanton. In 2001, Dahlin Group opened an office in Beijing, which has grown into a full service firm with 40 staff.

Money, and plenty of it, has been driving the Chinese luxury market, Pierson said. “But the concept of single-family homes in China is relatively new – or at least a return to something that Chinese families haven’t had for generations.” Another part of the Chinese housing boom equation, he adds, is that many of the residential developers are people who have made their money in other endeavors. “They provide the money and pass on the designs. And, in some cases, they make huge profits,” Pierson adds.

More than American architecture has come to China. State ownership was the mantra 30 years ago. But during the past three decades, the most important economic step to private ownership has been to bring Western-style mortgages to China.

“And the mortgage market in China does resemble the U.S.,” according to Yongheng Deng, a professor at USC School of Policy, Planning and Development. Deng is a specialist in China’s real estate and mortgage markets.

“In the last two to three years, the mortgage market has grown in China. Before that it was cash,” he said, “People would just show up with cash.

“In 1998, the first mortgages were written. Three years ago, the mortgage terms became

standard. And now a range of mortgage types is available. Most of them are ARMs (adjustable rate mortgages) with China's central bank setting the rate each year. It's not like the ARMs in the U.S., where the index for adjusting the rate relies on a number of economic factors."

A commonly written mortgage in China today is for 20 years at 4 percent, often with low down payments. The longer, 30-year fixed mortgage, common to U.S. buyers, is little used.

"In China, there is no such things as a FICO score (a home buyer's credit score used by U.S. lenders to determine risk). One reason is that income data is not reliable. The lender can't rely on the income reported by a family to the government." Families usually have income larger than what is reported, Deng said.

China's development during the past 30 years has seen its economic position leapfrog from isolation to its position today as one of the world's largest economic engines. A milestone economic change was the Chinese government's shift away from providing housing. This allowed the government to pass along the financial burden to private ownership and simultaneously create a spectacular residential building industry.

China has nearly four times the population of the United States. There are more than 200 Chinese cities with a population of 1 million or more, compared with nine in the United States. More than 75 percent of this growing urban population lives in multifamily housing. And a third of Chinese city dwellers live in high-rise apartment buildings.

Low-density housing – which includes luxury homes, built for China's newly minted wealth and a small, but growing, number of expatriates living there – accounts for less than 1 percent of urban housing.

"But don't forget that 80 percent of the Chinese people live in the countryside," noted Deng. "And they have been part of a nearly 30-year government program of creating private ownership. In the countryside," according to Deng, "80 percent of the homes are now privately owned." That compares to the U.S. home-ownership rate of about 70 percent.

With the slower economic growth in China, the housing markets have cooled in the past year. The Chinese government has imposed higher minimum down payment requirements, increased



sales taxes for residential properties owned less than five years, added a 20 percent capital gains tax and stepped up restrictions on foreign investments. The investment restrictions could also be a result of the less-than-profitable building boom in Beijing during the run-up Olympics.

“There was spectacular investment in Beijing,” said Deng, “but a lot of the developments underperformed,” and the housing market softened. “The same thing that happened in Beijing is happening now on Shanghai,” he added, “which will be the site of a World Expo in 2010.”