

FOCUS ON CHINA

A New Era for Real Estate Professionals in Mainland China: Blending the Best of Local and International Experience

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THE PACE OF ECONOMIC AND INFRASTRUCTURAL DEVELOPMENT in Mainland China can only be described as phenomenal, but progress is advancing at a scale and speed that frequently induces errors and solutions that are inappropriate socially, economically or environmental-

ly. As a result, real estate and construction professionals have an opportunity to contribute added-value services combining the best of local knowledge, expertise and international experience.

Statistics that illustrate, in very obvious terms, the size and scale of that opportunity include:

- *Gross domestic product growth*—Averaged 9 percent or more for last 10 years, and even higher in the main cities
- *Housing*—150 million square meters constructed each year
- *Foreign direct investment*—Likely to exceed US\$60 billion in 2006
- *Small and medium-size enterprises*—27 million SMEs employ 200 million people
- *New foreign-funded enterprises*—Averaging more than 20,000 every six months

To fully understand the opportunity, this article will first define what professional services are, then differentiate these from the traditional trading and technical services that are familiar to Mainland leaders and businessmen. The services are best defined as advice and recommendations provided by members of professional organizations that have high-level entry requirements, high ethical standards and codes of conduct, and require lifelong learning to keep members aware of evolving practices and trends.

Until recently, the pattern of cooperation between international firms and local service providers in Mainland China was somewhat erratic, with lawyers and accountants leading the way, followed by architects and those involved with construction—who often have no alternative but to enter into partnerships with design institutes and construction units to meet local regulatory requirements.

However, as a result of reforms arising from Mainland China's entry into the World Trade Organization and initiatives such as the Closer Economic Partnership Arrangement between Hong Kong and China, under

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which Hong Kong-registered companies have accelerated access to Mainland markets, a very different attitude and environment exists today. The needs of the client now determine the most appropriate service provider, and this sea change encourages and enables professionals such as CREs with relevant experience to respond with the optimum team reflecting the best of local and international expertise.

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Mainland China to offer the relevant, best-practice solution to the client. Relevance is a key word and stems from a clear understanding of the client and his objectives. Relevance comes not only from an appreciation of the challenge and the opportunity, but also from an understanding of the national, regional and local economic and regulatory environment as it affects the case in question. Hence, input from the local professional is essential.

Yet knowledge of best international practice—what works and doesn't and how that experience can be adapted in a way that is relevant in the context of the Mainland—is a crucial component to any well-conceived and balanced professional recommendation.

In simple terms, it involves combining the best of local and global to the advantage of the client. My profession is that of chartered surveyor and counselor, for ease of translation I am often called a property doctor, and my role in Mainland China has been to work alongside and in partnership with Mainland counterparts primarily to deliver added-value services in the following areas:

1. *The sustainability of cities*—Many cities wish to develop a more market-driven business plan that is framed around and driven by the principles of sustainability and economic fundamentals. Similarly, cities have

moved from copying one another to differentiating themselves, and there is the need to identify core drivers and specialties. Working with local professionals in the fields of strategic planning and sustainable development, we have produced business plans that are the basis for infrastructure provision, land-use allocation and prioritizing cities' objectives.

2. *Land-use planning*—At the provincial and city level, conceptual drawings that reflect the hopes and aspirations of a succession of senior officials and mayors are in abundance. But few in reality are action plans capable of delivery. Arguably, the vision is the easy part; the challenge is devising a holistic approach to the implementation and management of that action plan, and gaining the support of the community. The plan needs to be flexible and responsive to changing market circumstances, which is where combining the best of local and international experience works at its best.

3. *Optimization of development*—The “build and they will come” or “Mall Mania” mentality hopefully is a reflection of the past, but many still pay insufficient regard to project viability and feasibility. Working with local development professionals, we have analyzed the aspirations of the end-user—purchaser or tenant—examined the choice of materials in terms of quality and maintenance costs; critiqued layouts to maximize efficiency of floor space; and established mechanisms to ensure prompt delivery to the required quality and within budget. These achievements require local knowledge as well as the experience of development across a wide spectrum of international markets. What is particularly important is the ability and experience to give the client the best advice, even though it might not always be what he wants to hear.

4. *Valuation to international standards*—Foreign direct investment, or FDI, is targeting Mainland China in a significant way, and a growing portion of that funding is going toward existing or new businesses, development and construction projects. However, an essential ingredient from the international investor's perspective

is a common valuation platform that will value all assets and businesses on the basis of recognized international standards. Providing opinions of value that will withstand close scrutiny requires a detailed understanding of the local market and all issues that have an impact on value—and an appreciation of what the investor expects in terms of a robust report and opinion that institutions and advisors around the world can understand. Again, real estate professionals, working with appraisal counterparts in Mainland China, are responding to the challenge. They now are producing reports and opinions that will withstand the scrutiny of the best international experts, and anticipating the questions and issues that will require expert advice.

5. *Affordability of residential accommodation*—This issue is important not only in Mainland China, but also in many mature economies of the world. Whether the government should intervene—and, if so, how and when and how it should provide for those unable to get onto the housing ladder—is a challenge for many societies. Working with the relevant government ministries

and various city authorities, we have contributed international case studies ranging from extensive involvement to a leave-alone approach, and to suggest a range of measures ranging from the provision of social housing to the levy of a development charge to fund or subsidize homes for those who are less well-off.

This overview offers just a few examples of how blending the best of local and international experience already is having an impact in Mainland China. I genuinely believe that this is a new era of opportunity for Mainland professionals and their international counterparts.

Responding to this opportunity will be a challenge for The Counselors of Real Estate. Very few counselors currently work or reside in the region. As a result, an effective response will require a commitment of resources, and a shift of mindset and culture. It will be interesting to see whether there is the appetite, energy and willingness on the part of The Counselors of Real Estate to step up to the plate. ■