

EG special: Chinese projects building success for ABP, despite a market in crisis

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On the ground with one of China's biggest developers as the economy hangs by a thread

It is the worst fall since 2007. As Chinese stocks plunge for a second day, The Shanghai Composite, China's main stock exchange, fell 7.6% on Tuesday – after losing 8.5% the day before.

But as recently as the end of last month, stepping onto a private jet with ABP's Xu Weiping (pictured right), entrepreneur and Chinese property developer on a grandiose scale, you could be forgiven for forgetting the Chinese market is in crisis.

It was all smiles and small talk between the delegations from ABP and the UK as the plane takes off into the sunny Beijing sky. Despite there already being some major indications of a stock market crash on the horizon.

As the plane weaved between the thunder clouds surrounding the city generated in the oppressive Chinese summer, one cannot help wondering how much weaving Xu has had to

do. At the time 30% had been wiped off the Shanghai stock market in less than three weeks by mid-July, and the office and residential markets – which crashed in 2013-14 – were still slowly ‘rebalancing’.

It did not seem to bother the enigmatic Xu, as he relaxed into the plump leather seats and joked with members of Newham council. With thousands of offices in the pipeline across three enormous schemes in China – alongside a fourth in Beijing complete, sold and profitable – he is upbeat about ABP’s prospects, and especially its development of the Royal Albert Docks.

Estates Gazette spent a week with ABP touring its Chinese projects, and, at least as far as construction work can be any gauge of success, it seems to be very much business as usual.

Confidence is key

In part, the reason for this optimism is ABP’s business model.

Instead of focusing on developing prime towers in city centre locations, they find undeveloped land on the periphery of the fast-growing cities, that local governments are keen to develop. On this they build on a huge, but cheap, scale, creating hundreds, if not thousands of individual office buildings – and an entirely new business district.

According to Xu, this has been key to ABP’s success, shifting away from building in the central business district.

“Traditionally, in the city centre, if we want to make more profit, we increase the height or intensify the investment density. But we changed it fundamentally, through reform and innovation. We moved the CBD to the outskirts of the city, because it has a better ecosystem and traffic and to lower the investment and the service costs.”

Local governments are keen to cooperate and attract this kind of investment, providing infrastructure to accompany schemes which provides them with millions in business tax.

And, according to Billy Chau, Savills managing director for Northern China, it is still a good business model, despite the oversupply of office space in the Chinese market.

“ABP will normally not be in central business district areas, where land is expensive. They will build in a suburb, where land is plentiful. Some businesses will not require using offices in a very densely populated office area, and maybe they want more space, more accessibility, parking.

“These factors add together, and for the same money they can buy a building, instead of maybe two storey’s in a CBD office. So they are more relaxed.”

It is a model designed to appeal to the expanding small and medium-sized businesses in China, which gives them the opportunity to own their own building outright, or larger companies a chance to open a regional office in key cities, at a fraction of the cost of city centre schemes.

ABP vice-chairman Nancy Xu – Xu’s daughter – explained that for a company growing up to a certain stage, it is important to show confidence and project a brand image to the market: “So to own your own building is very important.”

Popular project

It is a model that has worked well for Xu on his one completed project, ABP Beijing, located in the Feng Tai district on the city’s Fourth Ring Road, our first stop on *EG’s* grand tour of China.

Consisting of more than 300 individual offices it dwarfs ABP’s London project, and was built in just 10 years, between 2003 and 2013.

And it was popular. According to a spokeswoman for the project, all the units had been sold by the time it was completed, with prices rising from 6,000 RMB (£593) per m² in 2003, to 16,000 RMB in 2011 as the area gathered momentum as a new business district.

But while the scheme may be big and successful, it is far from pretty. Jet lagged and hot, we were chauffeured to the development on a grey Beijing morning, rolling past row after row of identical buildings, differentiated only by the neon corporate logos at their top.



The streets at ground level were almost deserted – especially by thriving Beijing standards – and there was little emphasis on retail or the creation of a public realm. We spent three days there in ABP’s Mayan inspired hotel – itself seven converted office buildings – and the whole area seemed underused, despite employing 60,000 people. Finding somewhere to eat nearby was a difficult process.

But Zhang Bing, vice general manager of Zebo, which manufactures and sells electronic musical instruments online, said it moved to the area because of the better environment, the better transport connections and government policies introduced to lure tenants – which included lower taxation and an easier registration process for employees from other parts of China.

Zebo is one of more than 500 businesses in the park, ranging from telecommunications to construction, banking to steel.

And as Xu says, the area was not built for fortune 500 companies: “There are many companies in the world not ranked in the world 500 which have also made a good contribution to the world economy, and have enjoyed rapid growth, so ABP focuses on serving those companies.”

The factory store concept

Of course, ABP’s Beijing development was done and dusted by 2013, before the economy slowed.

With 600 cities with more than 1m people, that is still a lot of growth to tap into, although, according to Andy Wu, senior economist at RICS Hong Kong, it is the SMEs that will be hit hardest by the economic slowdown.

“Larger enterprises will hold out pretty well, because they are protected by the government, but the smaller ones will be in trouble. One of the difficulties will be financing, as smaller companies do not have a lot of channels to the credit they need.”

That has not dented ABP’s enthusiasm for a fordist level of office construction, but it has led to changes in their business model, with new schemes tailored more to their individual markets.

The sun was out as our group was driven to the airport to board a luxury jet chartered especially to show us how ABP’s business model is changing – and conveniently allow us to skip the hassle of check in by using the private terminals dedicated to the use of Chinese mega-money.

From Beijing we headed 1,200km south to the banks of the Yangtze River – and the relatively small city of Haining – to ABP Southern Yangtze, a 2,000 unit project spread over 12 square kilometres on the periphery of the city. In a relatively rural location, Southern Yangtze is 40 minutes from Hangzhou and 90 from Shanghai, and the scheme intends to tap into the incredible economic growth of the Zhejiang region of China, one of the most affluent in the country.

According to the project spokesman: “The area has the most developed private economy in China, with smaller and medium-sized private companies gathering here, and these private companies need space to produce, design and show their product.”

Here, ABP is trying to develop their factory store concept – essentially rolling offices, retail, design and production into one – providing office and development space for the mass of manufacturing sectors located nearby.

Individual offices are complemented by nearby retail outlet stores, where products can be displayed and sampled, tapping into what Xu and ABP call the Online to Offline (O2O) offering – which means an online experience, with an offline delivery.

For the moment just a handful have been built, but, incredibly, ABP intends to complete phase one in under eight years.

Our delegation was led around some of the show units by Xu as the heat rose to 35 degrees, as were the mayor of Haining and the local CCCP official, there to welcome Newham and sign a ‘Friendship’ agreement to explore options for future trading.

The local government has been instrumental in providing infrastructure for the scheme, namely roads, and they and ABP is keen to publicise the potential the area has for UK companies – and especially their brands – to use as a construction base.

According to Alan Liu, managing director of North Asia at Colliers International, the Haining area and anything along the corridor to Shanghai is well placed to see a large amount of future growth, although he did caution about the absorption rate in such an area.

“Business parks with 10-storey structures, generally it does take time to dissipate, it is not a very quick process. Most new buildings will take quite a bit of time to absorb, because the demands for space are generally not big from local companies.”

Judging by the scale of the scheme and the speed of construction, Xu is not worried, but it's still a tremendous amount of development with the economy on the ropes.

Cautious approach

However, Liu was less confident for the prospects of other cities in China, particularly those not in the first tier, or for secondary space.

It is a thought echoed by Wu, who says the economic slowdown is going to hit occupier activity, leading to "SMEs and larger firms exercising a cautious approach, in space all around, not just in the CBD."

Qingdao, about 800km to the south east of Beijing, and the third stop on our tour, is one such city that has weaker prospects for future growth, though Xu and ABP are hoping to tap into the status awarded to Qingdao as a deputy province city, giving it significantly more political clout.

ABP's scheme there is nevertheless more conservative in scale, consisting of around 80 buildings and 6.5m sq ft of space. At the moment, around 24 have been built, but the site is scheduled for completion by 2019.

On a flying visit – the development's proximity to the airport meant we were in and out in just three hours – and in sweltering humidity we were ushered by ABP staff around the Georgian and neo-classical-fronted buildings of phase one, 40% of which have apparently been sold.

The top floors of the offices we visited had been converted into luxury residential spaces, not for individual sale, but as a base for the company executives when in that city – a model that Xu is keen on expanding.

According to the ULI's analysis of the Chinese Mainland Real Estate Markets in 2015, the investment prospects for the city are poorer than for an area such as the Southern Yangtze. As one research analyst noted, "The market size is very small. Multinational corporations won't set up large offices in Qingdao. The branches in Qingdao only cover the Shandong province."

Expansion and the economy

But nowhere in China, according to the same ULI report and a number of other commentators, is rated lower in its investment prospects than in the north eastern city of Shenyang, which is suffering from considerable over development and a stagnant local economy.

The last stop on our tour, our jet flew low over the mountainous northern Chinese landscape, the Hunhe River glinting in the evening sunlight below, before a bus ferried us through the city and out to ABP's park.

As we rolled through the balmy North Eastern sunset, ABP's scheme seemed to stretch for miles, though there were not so many logos atop the buildings, and some were still visibly just shells.

Home to roughly 7m people, ABP is here building an enormous scheme of over 2,000 individual office buildings. Currently, 400 units have been built, and 350 of them apparently sold.

The company was unable to comment on whether it was worried the oversupply in the market, although there were two further phases planned for the scheme – and Xu was upbeat about further expansion. With the city's massive industrial base slowly moving to a more service and design orientated economy, it still believes there is a considerable market for their product.

Reasonable quality is fundamental

ABP is upbeat about the effects of the economic slowdown on its developments, and Xu says it has changed its model sufficiently for local economies.

As long as it can sell the initial units, the state of the Chinese economy or real estate industry is irrelevant – which is one of the advantages for building smaller units and selling them, against CBD towers that it has to consistently let. It's a model that has worked well for them in the past, and still bears credence with agents in China.

Liu said: "There is a huge drive for decentralisation, so what has done well, other than occupancy on prime, is that a lot of offices have gone outside the CBD, and that is definitely a strong trend, and rent and demand are all healthy. If you have a big area with reasonable quality, there will be demand there – the caveat is that you have a reasonable quality."

By developing smaller offices, but on a mass scale, and using the initial pre-sales to fund subsequent phases of construction, ABP clearly think they can circle the storms in the Chinese economy. Of course, and perhaps aptly, one of the reasons they are developing in London is to diversify that risk.

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<http://www.egi.co.uk/news/eg-special-chinese-projects-build-on-success-for-abp-despite-a-market-in-crisis/>