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Lofty Ambitions

MARK MOBIUS CONSIDERS HOW MISPLACED OPTIMISM BEHIND SOME OF CHINA'S RAPIDLY DEVELOPING NEW TOWNS HAS LEFT INVESTORS SCRATCHING THEIR HEADS

PICK UP ANY NEWSPAPER in China and you'll be hit with the headline "property prices rising". It's a statement that contradicts everything I've been hearing lately about the country's supposed real estate bubble or potential crash, and says nothing of China's bizarre new urban dilemma of modern day "ghost towns". Shiny new office towers and housing complexes lie empty, waiting for an influx of middle-class residents that have yet to arrive.

The reality is that China still has a long way to go in understanding the housing needs of its citizens. One of the reasons for these rows of empty apartment blocks and vacant suburban homes is that the Chinese treat property investment as a means of saving, rather than putting money in the bank at low interest rates or investing in the stock market, which many consider too risky. Property is a tangible investment, and one that they can eventually use for themselves or pass on to their children. And given the high savings rate in China, many buyers are able to purchase property in cash, meaning that they can sit on empty apartments indefinitely.

The coal-mining town of Ordos in Inner Mongolia is probably the most famous example. With its rich mineral resources and the

WIDE OPEN SPACES

ABOVE
A view of the Zhengdong New Area, a new town with thousands of empty apartments

There is a plethora of substandard housing and a growing need for urban renewal

highest GDP per capita in China, the municipal government amassed its wealth on the back of a booming economy and splashed out on infrastructure and public projects. One such development is the Kangbashi New Area, a district 25km from the city centre in a sparsely populated area of desert. Designed to house more than a million people, its museums, theatres and sports centres sit empty, with the exception of a few bored looking employees.

Similar cases can be seen at the opposite end of the country in Guangdong province. Located on the outskirts of Dongguan – once recognised as the “world’s factory” because of the large number of toy, garment and textile factories in the area – is the extravagant New South China Mall. Almost three times the size of the largest US mega-mall, it offers theme park rides between palm tree-lined canals and replicas of the Arc de Triomphe and an Egyptian Sphinx.

It opened in 2005 to hordes of frenzied shoppers, but now that many factories have relocated inland, the centre remains virtually deserted. Since migrant workers once accounted for 80 per cent of the population, when they departed a mall designed with them in mind became useless. Part of the problem can also be put down to its location. Dongguan lies between the bustling provincial capital Guangzhou to the west, and Shenzhen to the south. Who wants to shop in Dongguan with these two giants nearby?

The failure of many of these development projects stems from poor planning and speculation. Local officials from the Tianjin Municipality had big plans for its Yujiapu financial district, referred to during construction as China’s new “Manhattan”. But with Shanghai, Beijing, Shenzhen and Hong Kong competing, its chances for success were slim indeed. The RMB450b in government loans used to launch the project will not be easy to repay.

Some of these “ghost” cities are not yet heavily urbanised but show the potential for lots of growth. Chenggong, located on the once heavily polluted but now rehabilitated Dian Lake, is a new district of Kunming, the capital city of Yunnan province. The area is famous for its clean air and natural environment, something much desired by residents of smoggy Beijing and Shanghai or, for that matter, most cities in



the northern part of the country. Its close proximity to Southeast Asia also gives it the potential to become a commercial hub for the region.

Similarly, the Zhengdong New Area in Henan’s capital city of Zhengzhou shows promise. With a population of almost 100 million people, Henan is a large province with plenty of low-cost labour, a resource attractive to industries wishing to move from coastal areas.

For the right price and location, there is tremendous demand for housing in China. Apartments in the US\$50,000 range are affordable for many Chinese workers and, with real economic growth at 8 per cent and 18 million people moving to cities each year, the demand is definitely there. Migrant workers are a latent demand for housing in the cities. In 1998, homes were privatised and, since that time, about half of the country’s 250 million urban homes and apartments were built.

One of the major barriers to their establishing residence in the cities is the Hukou identification system, which makes it difficult for rural residents to buy property outside of their household registration zone. Despite this, the government continues to plan for large-scale urbanisation and expects that more than 300 million people will move from the rural areas and into cities in the next 10 years.

As I travel around China, it’s clear that these “ghost towns” are only a few isolated cases. We must remember that China has a population of over a billion people, an urban population of 700 million and 100 cities with more than one million people. You just have to walk the streets of these cities to realise that there is a plethora of substandard housing and a growing need for urban renewal. ■



URBAN MYTHS

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Villages were bulldozed to make way for Zhengdong New Area; Mark Mobius investigates a construction site for new properties in Beijing