

Sanya Shows it's Hand: Special Report on China Hottest Property Market

Sanya is China's only year round tropical seaside resort. 5 star hotels are plentiful and well built but at peak times rooms can be in short supply and rates eye watering. Add to that service and food quality that frequently falls short of resorts elsewhere in Asia and buying a holiday home has become an attractive option for many of China's wealthy.

The result has been explosive growth in property prices in the last 3 years. There are currently two schools of thought on the Sanya property market: a property bubble ready to burst or a natural extension of China's consumer society. Either way the last month has seen the high prices of the last few years jump several notches higher.



Chinese New Year Sunset in Sanya

Waves of Policy News Turns Sanya into Property Hotspot

Triggered by waves of policy moves to support Hainan's economic development, a series of policies were announced in early January 2010:

ü4th January 2010, China State Department published <The Advice of Promoting the Development of Hainan International Island>, the statement positioned Hainan for development into a world class leisure island.

ü6th January 2010, State Department promulgation of <The Planning of Hainan International Island>.

ü15th January 2010, Hainan Government decided to halt land sales and conduct a review of development plans.



New Landmark in Phoenix Island, Sanya

An example of a major new project is Phoenix Island. Built on reclaimed land in Sanya Bay to give cruise ships a dedicated port. The project also comprises a 180m super star hotel, five 99 meter apartment buildings and an international conference centre.

Sanya Residential Goes Nuts...

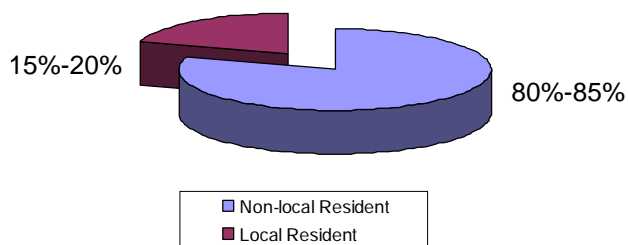
The rate of increase for prices of newly launched residential property in Sanya was a stellar 5.1% during December 2009. 5.1% in one month is astonishing even in China, but the market jumped up to a whole new level in January 2010. Based on preliminary statistics of house prices from Hainan's main cities Sanya and Haikou, jumps of 30% in the first two weeks of 2010 were seen. The average residential price of Sanya housing has reached Rmb9,000/sq.m. with prime beachfront property selling for Rmb60 to 70,000 per sq/m., levels that wouldn't put Shanghai or Beijing to shame.

Property Name	Historic Price (Rmb/sq.m)	Date	Jan. 2010 Price (Rmb/sq.m)	Location
泰德白石郡	50,000	Dec-09	70,000	Sanya Bay
三亚湾国际公馆	35,000	Nov-09	60,000	Sanya Bay
万宝威尼斯蓝湾	7,588	Oct-09	25,000	Dadonghai
天泽湖畔	13,000	Dec-09	16,000	Sanya Bay
金润豪庭	10,000	Oct-09	16,000	Sanya Bay
美丽新海岸	9,500	Oct-09	16,000	Sanya Bay
三亚魅力之冠	8,400	Aug-09	15,000	Hedong
山水国际	11,000	Nov-09	15,000	Phoenix Island
海岳半岛城邦	11,000	Dec-09	15,000	Hedong

Source: CPIM Research

Attracting China Wide Buyers

80 to 85% of home buyers in Sanya are from other provinces in China. Originally, non-Hainanese residents chose Hainan as their second home or holiday home because it is China's only tropical island in China. Sanya benefits from being up to 10°C warmer than Haikou during the crucial winter holiday seasons of Christmas for foreigners and Chinese New Year for locals. While it is warm enough to swim in unheated pools in Sanya in winter months, Haikou can best be described as 'bracing'.



Source: CPIM Research

The most recent indicators, however, suggests that holiday homes may not be all that this is about. With over Rmb400 billion of capital flooding into real estate, travel and other businesses in Hainan there has to be more than just an element of 'stir-frying' or speculation going on. Sanya and Haikou are the two main target cities for that capital.

On the other hand, locals are concerned to see rapid property price increases putting home ownership beyond reach for many. Those that can have brought their house purchase plans forward, further fueling the recent demand spike.

Developers Revel in It...

According to data from Hainan's Department of Land Environment & Resources only 260,000 ha of the land approved for real estate development remains undeveloped. This is 8% of the total land area of the island, including farms and mountainous areas, of 3.54 million ha. This means those developers sitting on large land banks will be the masters of the future market.

Developer Name	Hainan Land Banks (Ha)
COFCO (中粮集团)	1,860
CRC (华润集团)	180
Luneng Group(鲁能集团)	1,900
RF China(富力地产)	660
Agile(雅乐居)	1,000
Haihang Property (海航置业)	15,000

Source: CPIM Research



Under the current torrid market, several developers have opted to halt sales in anticipation of even higher prices as the market enters the prime Chinese New Year selling season. This artificial shortage of supply will serve as an effective support on present price.

The Future...

Hainan is often compared to Hawaii. This seems a bit of a stretch for those with access to both places but China's holiday makers don't and the comparison serves as a reference of Hainan's ambition rather than where it is today. A number of factors contribute to further intense development of the property markets in Hainan, and in particular Sanya. Travel by Chinese citizens to almost any overseas destination requires visas and there are language difficulties. Buying a second home overseas involves getting large amounts of cash out of China which is not an easy thing and even if they can, there are still problems with language, law, visas, car rental etc.

Where else can Chinese buy their holiday escape or a winter home for their parents within, say, a 3 or 4 hour flying time of China's major cities? Property ownership in Thailand is complicated by title issues in all but a few developments. Closer to China's east coast is Hokkaido, a surprisingly interesting option for Chinese buyers, but not much of an escape from northern winters until you get in the onsen. Although you can spend US\$6 million on a top of the range house, you can also get a 2 bed serviced holiday apartments in Niseko's top 4 season resort area for prices from less than Rmb3 million and 1 bedroom units for less than Rmb2 million, well within buying range for China's holiday makers, comparable or cheaper than Sanya and very easy to reach by air too.



The sandy beaches of Hainan or the snowy slopes of Hokkaido? Perhaps both...

Although the present prices per sq.m. in Sanya appear to many to be irrational, the total cost for a flat is still at a level that is acceptable to wealthy Chinese buyers who lack other simple options. This, Government policies and severely limited supply of sea view properties will continue to push prices up. The development trend of Sanya's residential market will aim at high end and boutique houses for China's wealthiest buyers. The city does not lack supply of high end and high quality properties but needs upgraded infrastructure including roads, traffic management, international terminal, green space, shopping malls, tax free shopping, casinos and so on. This will come and when such 'infrastructure' develops to match standards in other Asian resort cities in the coming years, current prices will then seem reasonable. The recent price spike is the first bet in the casino...

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Company Profile

Crispins Property Investment Management is a wholly foreign owned real estate consultancy company, founded in 2002 by Sam Crispin. Sam Crispin first came to China in 1988 and has been working full time in the real estate industry since 1994. CPIM specialise in managing intelligence led real estate transactions, providing real estate development consultancy services to Chinese and foreign private and public companies, Government departments and agencies as well as managing individual property investments for high net worth clients. Our reputation in the industry is the result of delivering advice and services on a range of assignments across China with intelligence and integrity. In the interests of integrity and transparency, we are happy to declare that the directors and shareholders of CPIM hold property interests, and that CPIM conducts business, in locations covered by this report.



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