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Real Estate Deals in China: Know the Market

by Mike Sheridan



China World Trade Center plaza, Beijing

Tom Fox, SWA Group

Thinking of doing real estate development in China? Then beware of the late-night deal.

“Some potential clients will wine and dine you, and then bring you back to their offices to negotiate contracts,” says Bill Callaway, a member of ULI’s Global Exchange Council and principal at SWA Group, a Sausalito, California–based international landscape architecture and planning firm. “So, know your own capacity. Socializing is also a way the Chinese size you up, but don’t overdo it at the expense of your mental sharpness.”

Callaway should know. SWA Group has been active in the Middle Kingdom for three decades and currently has 100 projects either in planning or under construction. Those projects range from Kunshan New City near Shanghai, where SWA is designing an entirely new riverfront district to accommodate growth in sync with environmental and sustainability objectives, to the 100-acre (40.5-ha) green spaces of Beijing Finance Street, the capital city’s first “central park.”

“China means big business, but companies need to understand how things work,” continues Callaway. “For instance, a shared passion for the project or its vision is critical. It is important to size up the client and decision-making process reasonably quickly, without short-circuiting the relationship-building process. Gauge the client’s level of experience in the area of business you are working in.”

China is providing a vast arena for U.S. real estate firms to engage in very innovative work, adds Gene Schnair, a ULI member and managing partner in the West Coast offices of the international architecture firm of Skidmore, Owings & Merrill LLP (SOM), noting that SOM is currently working on a large-scale urban master plan in Guangdong to transform an old industrial village into a high–density, mixed-use development about a third the size of San Francisco. “But you need to understand the country and how business operates. It’s absolutely critical to partner with a local entity to understand the local culture and practices.”

SOM has developed more than 150 projects in China, Schnair adds. Based on his experiences as well as those of his colleagues, he advises entrepreneurs to always produce high-quality work. “You are only as good as your last

project,” he emphasizes. “So do your best, because the Chinese are very concerned about maintaining reputation and quality.”

Many Chinese clients may have deep capital resources but may be new to the sector, or new to the kind of real estate they are planning to develop, says Callaway. “So understand the client’s level of commitment from the governing authorities, which control all entitlements, or you may find that your extensive negotiations for a potential project are wasted for lack of entitlements. You must also ‘break bread’ with the client. Lengthy meals and multiple Maotais [a Chinese liquor, or *baijiu*] are still a key part of building a relationship, then building business.”



Gubei Gold Street, Shanghai
Tom Fox, SWA Group

While a partner or principal must be the lead contact, another key player is a competent, professional Mandarin speaker—ideally a staff member. “It can be tricky to use outside translators because of the importance of nonverbal communication and the intricacies of your company—especially during negotiations,” says Callaway.

Among other suggestions:

- *Look to the future.* Understand where investments are being made not only now, but also in the years ahead. “China develops five-year economic plans. It’s important to have a good understanding and know the flavor of these massive centralized plans,” says Schnair. “It’s where the ‘stimulus’ money will be, so get in on the ground floor.”
- *Do more than average homework.* “Demonstrate real knowledge [of] and interest in the project or concept,” says Callaway. “Visit the site, insist on seeing maps, plans, and documents; know something about the context of the project, physically and socially.”
- *Consider secondary and tertiary cities.* “Most of China’s mega-cities are filling up, so development is now occurring in secondary and tertiary cities,” says Schnair. “It is much more difficult for developers to make the same level of investment in second- and third-tier [cities] because the price point isn’t there, but it is a way to enter the market.”