



Voluntary Report - public distribution

Date: 10/9/2002

GAIN Report #CH2825

China, Peoples Republic of

Solid Wood Products

Turnkey Housing Update

2002

Approved by:

Scott Sindelar

U.S. Consulate General, Shanghai

Prepared by:

Ralph Bean

Report Highlights:

Initial press reports indicate that demand for fully finished housing is strong. A shift to turnkey housing in China's major urban centers could provide new opportunities and better distribution for imported wood products used in interiors and decoration.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Shanghai ATO [CH2], CH

Blazing a New Trail

Traditionally, Chinese apartments are sold as empty shells. Once owners take possession of their new home, they must hire a company to finish the apartment and install fixtures, plumbing, air conditioning, etc. Chinese consumers favored this arrangement as it gave allowed them to supervise the work and specify the materials used. As homeowners find their time increasingly limited, however, there is a growing demand for quality, fully finished housing.

The Chinese government has recognized this trend, and is supporting its development. China's house-finishing industry is plagued by huge numbers of very small companies, and has long been a major source of consumer complaints. Officials view the construction and sale of finished housing as a means of consolidating the industry while improving quality and simplifying regulation. To this end, the city of Shanghai has launched a project to convert all new housing construction to a finished basis by the year 2005. The goal for 2003 is for 50 percent of new housing to be built on a finished basis.

The following article from the Shanghai Daily indicates that demand for finished housing and government support for the trial remain high.

Buyers showing interest in pre-decorated homes

Reprinted from Shanghai Daily, October 9, 2002

by Shan Yanfei

A local government push to drastically change the way city residents buy new apartments is already paying off as about half of the 100,000 new units expected to hit the market next year will be sold pre-decorated, complete with floors, doors and bathroom fixtures, according to the Shanghai Municipal Housing Bureau.

The bureau hopes that all new houses in the city will be sold with decorations by the end of 2005.

In the past, local residents preferred to buy completely undecorated units—some little more than concrete blocks—and then spend months having basic decorations such as doors and light fixtures added before they could move into their new apartments.

Just last year, only 3,000 new apartments in the city were sold pre-decorated. While the government has been pushing for decorated apartments for several years, the market has only recently begun to accept the idea.

“The efforts are made to lower the cost of labor and save time,” said Li Juanjuan, an official with the housing bureau, explaining the government's interest in the way homes are sold.

Li said the amount of time spent on decoration will be shorter if real-estate developers manage the project instead of letting homeowners hire private contractors.

A 150-square-meter apartment, for instance, would only take 20 working days to decorate,

compared with up to two months normally required by private contractors, said Li. And, since developer (sic) can buy materials wholesale, decoration costs should drop between 15 and 20 percent.

The government is also concerned with noise and pollution created every time a new homeowner buys an apartment, which can disturb their neighbors for months, even years.

The shift can also help new home-buyers, as they will be able to get a mortgage based on the entire cost of their home, including decoration, instead of paying for basic interior design out of their own pocket before they move in.

Shui On Group, which became one of the city's earliest marketers of decorated apartments when it introduced Rui Hong City in 1998, said the change in people's attitude toward buying pre-decorated apartments is clear.

"Since 1998, the sales of our apartments have increased gradually as more and more people take to the concept due to the government's promotion," said company official Zhang Chi.

To date, the company has sold 90 percent of the apartments in its 10 building complex (sic).

While analysts say some consumers still haven't bought into the new concept, property investors are thrilled with the shift.

"Decorated apartments save the time and effort of white-collar investors, most of whom buy properties to earn rent," said Maria Mao, a real-estate appraiser with DTZ Debenham Tie Leung International Property Advisers.

So What?

The movement of China's major cities from shell construction to turnkey housing could have important implications for imports of wood products, particularly for interiors and decoration. As noted in the article, the interior finishing market is dominated by small companies that are more concerned with price than quality, and rarely if ever select imported materials unless specifically requested by the owner. Movement to sales of finished housing is expected to result in consolidation of the industry into a few large companies that are able to integrate construction and finishing, and to guarantee high quality. The appearance of such large companies is likely to a) increase demand for high quality materials, since these companies will have a high public profile, b) reduce the overall cost of finishing, allowing for the specification of higher quality imported materials, and c) allow U.S. exporters to focus their marketing efforts on a smaller number of high-volume importers.