



Asset Management Market Guide: China

Standard Unit of Measurement	Unit of Measurement	Square meter (sqm)	Leases in China are typically on a base rent + management fee (operating expense reimbursement) basis. If the management fee is not equal to actual operating expenses, there is no obligation for either party to refund or pay extra by way of year-end "wash-up." In this respect, the leases behave like gross leases.
Transaction Fees	Agency Fee (expressed as X months rent)	Typically between 1 and 1.5 months (net rent)	Property management of Grade A or above assets is outsourced for an estimated 25% of assets in China; while less than 1% have outsourced asset management. Many large developers that controlled the land at project commencement mandate in JV agreements that they control the property and tenancy management services. With the recent global economic crisis increasing the need for strategic and proactive asset management, JV partners are likely to insist on the ability to outsource property and asset management going forward.
	Agency Fee (payable by landlord/tenant)	Few tenants in China retain agents on an ongoing flat-fee basis. Landlords typically pay between 1 and 1.5 months of net rent fee, which is split between the tenant's broker and landlord's agent	
	Legal Fees (payable by landlord/tenant)	Typically each party bears their own legal costs	
Rental Payment Fees	Rents	Reminbi (RMB or CNY) per sqm per day. Generally charged on a net basis with an additional fixed management fee to recover estimated operating expenses	Due to the developing nature of the economy and real estate markets in China, leases tend to be no longer than three years in fixed tenure. Tenants tend to pay for their own fit-out costs, while landlords continue to offer increasing periods of up-front fit-out and/or rent-free periods spread through the lease term to maintain higher face rents.
	Typical Lease Term	Typically two to three years, with one or two additional options to renew	The short-term nature of leases has benefits and pitfalls to both landlords and tenants however, leases are likely to remain short in the near-term. This allows for regular re-negotiation to accommodate ever-changing space needs as most tenants are facing changes including rapid growth, mergers/acquisitions or failure/retraction from the market.
	Frequency of Rent Payable (in advance)	Monthly	The global financial crisis is seeing most large tenants, especially MNCs, deciding to either stagnate or reduce headcount or, in some cases, exit certain markets altogether. At the same time, new supply continues to become available. This is causing vacancy rates of up to 25% in Shanghai and 40% in some Beijing sub-markets.
	Rent Deposit (expressed as X months rent)	Three months net rent + management fees	Over the longer-term, a lot of future demand is expected to come from domestic China organizations. However, without a strong recovery from MNCs, large vacancies remain, especially in new constructions.
	Security of Tenure	For the duration of the tenancy and reinstatement period at lease expiry	
	Statutory Right to Renewal	No (unless an option to renew is agreed at the outset and specified in the lease). Renewal options that are subject to a market rent review do not tend to be binding unless the rent review is agreed. There is currently no formal independent rental review tribunal or body to deal with such disputes	
	Basis of Rent Increases or Rent Review	Rents tend to be flat throughout the term of the lease, with upwardly capped market rent reviews typical as part of renewal option terms	
	Frequency of Rent Increases or Rent Review	As above, rent is normally only reviewed on exercise of a renewal option or commencement of a new lease	



Taxation	Stamp Duty	E.g. in Shanghai the landlord will pay 0.1% of the total rent consideration (excluding management fee) as stamp duty for all leases	<p>It is important to note that taxes often vary by city and/or province in China.</p> <p>To generate economic activity, many cities in China provide significant tax benefits to developers, landlords, and tenants.</p>
	Local Property Taxes	Based on PRC law, 1.2% of the total cost of the property is paid as property tax. In addition, there is a rental income property tax, e.g. in Shanghai this is 12% of rental income (including car parking income)	
	VAT/GST Payable on Rent and Service Charge	<p>There is no VAT/GST in China however in some markets, e.g. in Shanghai, there are:</p> <ul style="list-style-type: none"> - Business Tax: 5% of total revenue - Local Levy: 1% of business tax. <p>Corporate Income Tax is at 25% of gross profit and Land Use Tax is at RMB 20–30 per sqm per year</p>	
Disposal Of Leases	Sub-letting and Assignment	Sub-letting and/or assignment is only typically offered by landlords to direct affiliates or related parties of the tenant	<p>The vast majority of leases do not have the ability to sublease or assign to unrelated third parties. Under pressure from the global financial crisis, and restricted by a relatively limited Chinese legal system, many tenants are simply walking away from their lease obligations if landlords are not quick to negotiate rent abatements or settlements.</p> <p>Accordingly, landlords need to select tenants carefully and then remain nimble, flexible, and well informed during each tenant's lease to mitigate income risks.</p>
	Early Termination	Any lease longer than three years almost always has a break clause after a period of three years or less. Some of the current three-year leases also have 18-month or 2-year break clauses	
	Tenant's Building Reinstatement Responsibilities at Lease End	Even though tenants pay for their own fit-outs through landlord incentive payments, they are typically required to reinstate the premises to base-building condition (allowing for wear and tear)	
Service Charges, Operating Costs, Repairs, and Insurance	Service Charges/ Management Fees	Operating expenses are paid for by the landlord. In return, a fixed management fee is charged in addition to the base rent. There is no year-end "wash-up" if the management fee is not equal to actual operating costs	<p>In the face of escalating vacancies landlords need to ensure their assets remain as attractive as possible to tenants. As such, management fees have tended not to increase recently.</p> <p>As a result, landlords are either running their assets at a loss with regard to fully recovering operating expenses or have significantly cut back on the level of service being provided. In some cases this has led to tenants being dissatisfied with service levels and deciding to relocate.</p> <p>Some local landlords provide not only property management but also additional services via subsidiary or JV relationships for an asset or portfolio. This makes knowing the true cost of the services being provided very difficult.</p>
	Utilities	Electricity and telecommunication consumption are separately metered and are payable by each tenant. Water consumption is included in the management charges	
	Car Parking	Car parking charges tend to be either included in the tenant's lease or handled via independent short-term agreements	



	Internal	Due to the short-term nature of leases in China, clauses that require redecoration within the lease term by the tenant are not common	
	Common Parts (reception, lifts, stairs, etc.)	Landlord recovers via the receipt of management fees from the tenants, which can be increased periodically	
	External/Structural	Landlord's cost	
	Building Insurance	Landlord recovers via the receipt of management fees from the tenants, which can be increased periodically	
Purchasing Property	Land Title	A land use right of 40 years (commercial), 50 years (industrial) and 70 years (residential) for granted land	The figures outlined here are on the assumption that the transaction involves an on-shore asset rather than on or off-shore equity shareholding sale.
	Foreign Ownership	Federal government exercises control over foreign investment via the need to set up Wholly Owned Foreign Entities (WOFE) in which to hold the asset	For on-shore equity transactions, stamp duty is still payable by both the vendor and the purchaser as well as a corporate tax by the vendor, with the rate dependent on whether the shareholder is from PRC or foreign.
	Strata Title (partial ownership of the building)	Strata-titled ownership is available by registration	Off-shore equity sales are tax free but have several other implications that require consideration.
	Security Deposit	10% of purchase price	
	Agency Fees	1–2% of the purchase price is payable by the owner depending on size and likelihood of transaction	
	Legal Fees	Each party bears their own legal costs	
	Stamp Duty	0.05% of purchase price is paid each by the vendor and the purchaser	
	Other Transaction Costs	Vendors are responsible for Business Tax (around 5.35%), Land Appreciation Tax (30–60%) + Corporate Tax (25%) Purchasers are responsible for Deed Tax 3%	



Market Conditions Snapshot: Greater China and North Asia

A key element of asset management is to consider the long-term results of current decision making by looking into the future at potential markets dynamics to limit risks and increase returns. The following table provides an outlook for the major markets in Greater China and North Asia over the coming five years. To find out what current market conditions mean for your asset on a tenant-by-tenant and return basis, please don't hesitate to contact one of our Asset Management Services specialists.

Market	2009	2010	2011	2012	Remarks
Beijing					New supply totaling 2.8 million sqm is scheduled for completion in 2009–2010. Demand is likely to be weaker on account of global economic problems. Marginal rental growth projected in 2011–12 but coming off rental values that will be at 10-year lows. Market conditions to remain tenant favorable through 2012.
Shanghai					Average market rents will continue to decline but at a slowing rate with a projected bottom in 2011. However, 2.2 million sqm of new Grade A supply to reach completion in the CBD before 2012 will keep vacancy rates at tenant-friendly levels.
Guangzhou					Oversupply looming with Grade A office stock to nearly double over the next five years. The concentration of development and emergence of the new CBD in Zhujiang New Town will offer tenants an array of properties at attractive prices. Rents, at an aggregate level, are expected to return to growth in 2012, albeit weak.
Hong Kong					Rising vacancy and the emergence of Kowloon East to provide leveraging opportunities for tenants in leasing negotiations. Decentralization of some larger tenants and new supply will lead to some larger tracts of vacant space coming onto the market in core areas over the next 18 months. No upward pressure on rents until 2011.
Taipei					Although supply remains relatively tight, demand has dropped off altogether. We anticipate that the market will begin to recover in 2010, but remain tenant favorable until then. Current average vacancy of 19% in 2009 is forecast to fall to approximately 10% by 2012.
Seoul					Vacancy has increased, but remains low by global standards (3% in 2Q09). Rentals have only contracted marginally, reflecting local market rigidities. The large supply pipeline will test the market in 2010 and 2011, providing more power for tenants and further minor falls in rentals – a situation which landlords in the market have not faced for a decade.
Tokyo					Despite the rental decline slowing, the declining trend will continue during 2009. However, with the moderate supply and expected economic recovery, rent will hit bottom in 2010 and gradual recovery is expected to be seen from 2011.

	Timing for lease expiries and rent reviews should be avoided
	Market uncertainty – timing for lease expiries improving
	Landlord market forecast – good timing for lease expiry and rent reviews.

Source: Jones Lang LaSalle



Asset Management Services

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The Authors



Richard Fennell
Head of Asset Management Services, Asia Pacific

Richard has over 15 years of experience in property and asset management and is currently responsible for Asset Management Services across the Asia Pacific region. He manages a large group within Jones Lang LaSalle and is tasked with providing consistent service delivery for clients across Asia Pacific. Richard is also the direct regional contact for South Asia and is based in Singapore and Australia.



Dr Jane Murray
Asia Pacific Head of Research

Based in Hong Kong, Jane leads a team of over 100 professional researchers, which forms part of a network of 250 researchers globally. The outputs of the Asia Pacific Research team include comprehensive market analysis and forecasts for major real estate markets in the region; consultancy projects; thought leading research papers on topical issues as well as regular publications.



James Peterson
Head of Asset Management Services, Greater China

James has more than seven years of experience in property, asset, and investment management in the real estate industry, including experience with A-grade and Premium-grade assets in Australia, China, Hong Kong, and the USA. He has been involved in lease renewals for more than 2 million sq ft of commercial space. James has delivered leasing and asset management strategy development for international institutional clients' assets in Shanghai, Beijing, Tianjin, and Guangzhou, China. He has been involved in due diligence and underwriting for the acquisition of assets across the USA.

FOR MORE INFORMATION

Richard Fennell
Head of Asset Management Services, Asia Pacific
Tel. +61 2 9220 8690
richard.fennell@ap.jll.com

Michael George
Head of Asset Management Services, Australasia
Tel. +61 2 9033 0302
michael.george@ap.jll.com

Amandeep Sawhney
Manager, Asset Management Services, India
Tel. +91 124 4658415
amandeep.sawhney@ap.jll.com

James Peterson
Head of Asset Management Services, Greater China
Tel. +852 2846 5761
james.peterson@ap.jll.com

Midori Suzuki
Head of Asset Management Services, Japan
Tel. +81 3 5210 8323
midori.suzuki@ap.jll.com

WWW.JONESLANGLASALLE.COM

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