

CHINA'S VISION FOR XIONGAN NEW AREA

13 APRIL 2017

IMPLICATION FOR COMMERCIAL REAL ESTATE

Headlines

Xiongan New Area will develop into a “modern, green and smart city” expanding to the size of Shenzhen

Over the long run, Knight Frank believes policy consistency will ensure sustained development

Concentrated infrastructure building in the area will bring a need to develop offices, hi-tech campuses, industrial parks and logistics facilities which will in turn generate a whole range of opportunities for real estate services

The Central Government has announced on 1 April to establish near Beijing a new administrative region, the Xiongan New Area (XNA), in order to build a “modern, green and smart city” and alleviate the heavy population and economic burdens of the capital. Through central planning, the government is to relocate some governmental functions and people from Beijing and at the same time, develop green and high tech industries in the area, eventually emulating the successes of areas such as Shenzhen Special Economic Zone and Shanghai’s Pudong New Area.

The designated XNA is situated at an intersection between three counties of Hebei Province - Xiong Xian, An Xin and Rong Cheng, which is about 130 kilometers to the south of Beijing. The initial zoning will encompass over 100 sq kms of land, gradually expanding to over 2000 sq kms, roughly the size of Shenzhen. Although the area is envisaged to attract over 1 million people moving in to begin with, it is expected that the figure will double in 10 years.

Although immediate market reaction on the announcement was a rush to

buy apartments in these counties, the government has acted quickly by imposing strict purchasing restrictions in order to discourage speculation. Over the long run however, we think that the real opportunities that the new zone will bring are in the commercial real estate market. Two fundamental aspects support this:

First, policy consistency. Some regional clustering and cooperation initiatives in the past were less successful because of the local government policies and their implementation was fragmented, especially facing conflicting regional interests. The XNA, however, is initiated by the Central Government which not only plans but will also lead by moving some of its own institutions out of Beijing to the region. Given the support from the senior leadership, we can expect that the government policies, once formulated, clarified and implemented, to be consistent throughout the decades to come. This will ensure a focused development direction which bodes well for attracting both talent and businesses. This, in turn, will benefit commercial real estate development.

Xiongan New Area

Distance from Beijing	▶ Approx. 130 km
Area	▶ 100 sq km ▶ Expanding to 2,000 sq km
Population	▶ Attracting 1 million initially ▶ Expanding to 2 million in 10 years' time
Why there are opportunities for commercial real estate?	▶ Strong policy support ▶ Huge need for infrastructure
Potential real estate services required	▶ First, town planning, feasibility and strategic advisory ▶ Then, valuation, leasing and investment advisory

Source: Knight Frank Research



DAVID JI
Director, Head of Research & Consultancy, Greater China

“Over the long run we think that there are real opportunities in the commercial real estate market that the new zone will bring.”



Secondly, the need for infrastructure. The location of the proposed XNA is not adjacent to major high speed rail or expressway clusters, and is some distance away from the nearest international airport. It is mostly rural so it may not have the urban environment city dwellers prefer.

Whatever the designated aim of the project - be it to build a new satellite city for Beijing absorbing some of its "non-capital" functions, or to incubate its own high-end innovative industries as new growth drivers, and ultimately to evolve itself into a hi-tech and green manufacturing base, we will see a period of concentrated infrastructure building in the area. We are not just talking about roads and pipelines, but offices, hi-tech campuses, industrial parks and logistics facilities.

At the onset of these developments, services such as town planning, feasibility and strategic advisory will be eagerly

required. This will lead to a second phase which will also see services such as valuation, leasing and investment consultancy all benefit from large scale government requirements and development demand.

As Beijing will maintain its status of a financial hub, prime Grade-A offices that are favoured by multinational financial institutions will not be mushrooming in the XNA. But this area, as the Government's communique indicates, will serve as a model for population planning, economic transformation and city building. As the area currently only generates a GDP the size of one percent of that of Shenzhen, there is a long way to go for the XNA to catch up with the country's existing "new areas". However this also means that there is tremendous potential for professionals and businesses, including those in commercial real estate, to cash in on the great demand for expertise.



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