Price Appreciation Motivating Foreign Company Property Sales

Foreign firms in China have most often played the role of buyer in property sales transactions, but in recent years we have been seeing more and more foreign companies playing the seller.

The more challenging business environment that has emerged is one driver of this trend. Higher costs of labour and other resources, expiring tax breaks, burdensome new industry regulations, etc. are motivating firms to downsize, or to move production from booming eastern areas to inland provinces like Anhui, Sichuan or Hubei where operational costs are still relatively cheap.

A second reason why so many foreign companies are selling China properties is the fact that they can now sell for triple, or even quadruple the amount of money that they originally paid for their properties just eight to ten years ago.

As for who to thank for boosting up the prices of their properties, foreign firms will certainly want to give a big “Xiexie” to the Chinese investors and enterprise buyers who now account for a much greater share of market demand than they did years ago, and who are often at the buying end of these transactions.

Should you sell YOUR property?

Cashing in on a capital increase is always an attractive prospect for a company, and not necessarily because it means a distribution of funds to shareholders. The freed up cash can be used to finance further growth or pay debts, or there may be other reasons for wanting to sell.

Consider for example the sales-and-leaseback agreement, a kind of deal that many foreign companies have used in recent years. In this scenario, the company sells its property to an investor while at the same time signing a lease agreement with the new owner that allows the firm to continue using the premises. This enables the company to not only cash in on their property’s price appreciation, but also to better focus on their core business by divesting of a capital-intensive asset. From the buyer’s perspective, the addition of a stable tenant makes the purchase more attractive.
If you believe it might be a good idea to sell your property but are not fully decided, be aware that the opportunity may be fleeting. The demand that is sustaining prices at their current levels could fall off. Currently the Shanghai market does support the selling of pretty much any type of commercial property, from production space to warehouse space to retail space and office space. In other words, buyers are fairly easy to find.

**Points for sellers to consider**

When planning for any kind of divestment it’s important to be aware of taxes that apply on the gain in land value. In China, these taxes generally increase in proportion to the size of the capital gain, reaching as high as 60%.

Additional basic points to consider before putting your premises out on the market:

- **When will the premises be available for a potential new owner to take over?** Foreigners are often surprised at how long the transaction process takes, and confusion on this point can lead to complications. Your real estate advisor should be able to give a reliable timescale.

- **How to keep the project confidential both externally and internally.** With regards to external divulgences, the perhaps most important consideration follows.

- **How will you avoid premature attention from tax officials and the real estate transaction bureau?** Achieving this is important in order to: a) ensure that you remain in the driver’s seat instead of suddenly being pushed to leave, and b) avoid having tax officials put measures in place that may prevent certain transaction scenarios.

- **You will want to have a competent and reliable brokerage or consultant working in your interest, as well as experienced lawyers and accountants.**

- **What type of transaction you prefer – offshore shareholder purchase or domestic asset transfer?** If it’s an offshore transaction, whether it will be carried out by a parent company etc.

- **You may also wish to get a broker’s opinion of value (BOV) report done during the early confidential phase of the project.** Such a BOV is different from a tax appraisal and analyzes how quickly under current market conditions the premises can be sold, to what kind of buyer and at which price level. This information helps you form realistic expectations, avoid unnecessarily large risks and effectively design property marketing activities.

Key documents that you will need for your property transaction include:

- A certificated valuation report
- The land grant contract
- Property certificate and acceptance certificate
- Property drawings

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The Scene

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Century Link
Century Link is a Grade A tower in Pudong District. Average floor size is 2,500 square meters across 38 floors. The building has direct access to Century Avenue Metro Lines #2, 4, 6, and 9. Five-minute drive from the highway. Good mix of tenants, including Caitong Asset. Developed by Hutchison Whampoa Limited, one of the Hong Kong's largest developer.

Building quality: Grade A
Address: Century Avenue Dongfang Road
Ceiling height: 3.0 meters
Recommended Floor/Area: 1,000-1,400 sqm
Rental/sq.m/day: RMB 9
Total Floors: 13
Metro: 5 minutes walk to Metro Line #1, 9, 11 (Xujiahui)
Location: Huangpu
Availability: Limited space available

T20 Building
T20 Building is a Grade A office tower located in Xuhui that boasts a a 5-minute walk from Metro lines #1, 9, and 11 (Xujiahui) and 10-minute drive from the highway. T20 offers several space options ranging from 1,000 to 1,400 square meters, making it a great choice for company headquarters. Nearby hotels include Huating Hotel & Towers, Shanghai Hengshan Picardie Hotel, Crowne Plaza Shanghai, and Regal International East Asia Hotel.

Building quality: Grade A
Address: 20 Tianyaqiao Road
Ceiling height: 3.0 meters
Recommended Floor/Area: 1,000-1,400 sqm
Rental/sq.m/day: RMB 9
Total Floors: 13
Metro: 5 minutes walk to Metro Line #1, 9, 11 (Xujiahui)
Location: Xuhui
Availability: Limited space available

3 Corporate Avenue
3 Corporate Avenue is a 31-storey office tower in Huangpu. Convenient 7-minute walk to the Huangpi South Road Metro station servicing Line #1. Building-to-highway time is 5 minutes by car. High space efficiency with an excellent tenant mix, including Lanxess, TEC, and iQiyi. The building was purchased at the end of 2015 by Vanke, a company that comes highly recommended with a good service record and experience.

Building quality: Grade A+
Address: 150 Hubin Road
Ceiling height: 2.85 meters
Recommended Floor/Area: 6-8F 2,501 sqm, 9-18F 2,517 sqm
Rental/sq.m/day: RMB 18-19
Total Floors: 31
Metro: 7 minutes walk to Metro Line #1 (Huangpi South Road)
Location: Huangpu
Availability: Limited space available

Contact NAI Sofia Group Shanghai at 021-6230 1919 for further information on the three office building properties listed above, or for information on any other commercial property in the city.
Events – Drama, Ballet & Music

“Classic Flamenco Carmen” follows the classic “Carmen” drama but adds a new comedic bent. The show is directed by Manolo Marin, a well-known Spanish flamenco dancer and choreographer. Performances will be held Sunday and Monday, October 2 & 3, at the Majestic Theatre, 66 Jiangning Road, Jingan District, Shanghai.

“Les Petits Chanteurs de Saint-Marc” is a children’s choir founded in 1986 by Nicolas Porte. This tour commemorates the choir’s 30th anniversary and features 75 schoolchildren 10-15 years old. Available Saturday and Sunday, October 29-30, at Shanghai Oriental Art Centre, No.425, Dingxiang Road, Pudong District.

“Romeo and Juliet by Stuttgart Ballet” is Shakespeare’s classic as performed by the Stuttgart Ballet. Hailing from Germany, the Stuttgart Ballet continues to be among the most innovative ballet companies in the world. Available October 28-30 at Shanghai Grand Theatre - Lyric Theatre, No. 300, Renmin Dadao, Pudong District.

“MOZART! from VBW Austria” commemorates the 260th anniversary of Mozart’s birth. Performed by Vereinigte Bühnen Wien (VBW) from Austria, “MOZART!” is a creative take on the life of the famous German composer. Available December 13, 2016 through January 15, 2017 at Shanghai Culture Square, No. 597, FuXingZhong Road.

“2016 Fashion Rocks China” is a music concert and fashion show that has toured the world since 2003. Cutting-edge fashion is featured on the catwalk while music artists such as Charli XCX and Coco Lee perform on stage. Available October 14, at Shanghai Oriental Sports Center, Yanjiang Highway, Pudong.
Dining – Sushi Xiaobo

Sushi Xiaobo is a Japanese restaurant located near the Hilton Hotel just off Changshu Road, and a wonderful spot for fans of Japanese cuisine.

Lovers of beef will appreciate the high end, Grade A5 Wagyu served at Xiaobo and how it melts in your mouth. But eat your Wagyu quickly or your beef might get oily as it cools! The rest of the menu is worth your time, too, featuring fresh, delicious food complemented by excellent customer service.

For lunch time all this delicious food can be ordered as one of three set menus ranging from RMB 200, 580, or 880.

Sushi Xiaobo ships all its food via international air freight and takes the utmost care in the handling and preparation of its dishes.

Sushi Xiaobo, 寿司小波
No 137 Changshu Rd
Tel: 021 6422 6837
For companies with need for about 500 m² of office space there is currently an attractive lease transfer opportunity available for a great space at Xujiahui. The space is ready for immediate use with the following parameters:

- Convenient Transportation: Easy access to metro and bus station, 3 minutes walk to metro line 4 (Shanghai Stadium Station)
- Premium Location: Located at Xujiahui commercial area, surrounded by many high-end compounds. Close to shopping mall, supermarkets and restaurants.
- Special features: Office unit located in high zone and directly facing the elevator lobby.
- Furnished Office: Unit area of 552.19 sqm and ceiling height of 2.7m.

Grade A office buildings during Q2 continued to be active as many have finished construction. With these finished buildings come more than 469,000 square meters of space soon to hit the market, the office space is increased to 6,840,000 square meters until Q2 2016.

Along the North Bund, high quality office buildings such as the Landmark Centre and Sinar Mas Centre are going to be handed over in the coming months. Landmark Centre is scheduled to be handed over on January 1, 2017, and the Sinar Mas Centre will be handed over on June 1, 2017. Overall rentals along the North Bund have slightly increased.

Despite CenturyLink and Century Metropolis having been handed over during Q2 of 2016 rents in the Century Avenue area have still increased, because continually there is such a strong demand for office space in the area.

Since many P2P companies have closed, some rental space is now available, causing the occupancy rate to go down.

Consulting companies and law firms are keen to occupy these spaces as soon as possible, whereas many multinational firms decentralize their headquarters away from the CBD as a cost-cutting measure.
Our consultants will be delighted to personally assist you at any time. You may call our main Shanghai office number, (86 21) 6230 1919, or contact directly a consultant who handles your specific concern:

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