

Commercial Property Markets and Property Cycles in Chinese cities

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Abstract:

This paper uses interview data to explore and examines property markets in three Chinese cities with the focus placed on the emergence of the commercial property markets and the government-market interplay, noting the market formation process and cycles that are 'unexpected' in a transitional economy. The research identified varying opinions and perceptions among key stake-holders about cycles in China's emerging commercial property markets. Interviews in the three cities suggested a spectrum of factors that may substantially affect the stability of China's office markets. A cross-sectional comparison of the three cities has revealed a similar pattern of cyclical behaviour highlighting structural change and state intervention with leads-and-lags, in spite of the dispersion in geography, culture and market maturity. The various views offered about market mechanism and cyclical behaviour represent varying levels of market maturity. These brief insights offer an opportunity to develop an alternative approach to measure property market conditions in emerging or immature markets such as China.

Introduction

The creation and emergence of a market system in China is clearly evident. After considering the different social, economical and political settings, basic issues such as defining of emerging market and its defining characteristics are yet to be fully explored. To-date there is not a clear definition of emerging markets in a transitional economy context. Hence the approaches to studying emerging property markets remains challenging and therefore it is important to improve the understanding of emerging markets so that existing theory and tools can be refined and used effectively to study unfamiliar markets. This paper discusses an approach for analysing emerging commercial property markets. It notes that market formation and cycles are 'unexpected' in transitional economy, where (a) market and government perceptions, (b) city-specific views and evidence, and (c) the role of the State with regards to cycles in Chinese cities are the reasons for selecting the three cities.

China is a large country comprising a large number of cities of varying sizes and in different stages of development. The top 30 cities in China (in terms of size) should be capable of having their own commercial property markets. However they are different in competitiveness and it is evident that the emergence of city groups represents bigger-scale competition among regions within the country. China has experienced continual structural change or transition since the late 1970s, yet it only has a relatively short history of property market emergence which infers a possible lack of experience with dealing with the emergence of property markets and property cycles (Wu et al., 2004, Wu et al., 2006, Wu et al., 2007, Wu, 2007b). Therefore it is important to identify and understand key factors and patterns associated with the complex Chinese commercial property market.

This paper identifies factors that affect China's commercial property markets, with special reference to the cyclical behaviour. An investigation of Chinese commercial property markets can examine key factors affecting market stability. This paper commences by reviewing basic theoretical issues associated with the research issue; it then describes the research approach and design followed by the analysis of interviews conducted in three Chinese cities. Relevant results are then discussed which leads to the main concluding remarks.

Perception and market emergence

Business cycle theory is an investigation of market system dynamics. Property market fluctuations or cyclicity reflect the inherent instability of the modern market system, where this paper examines property cycles within rapidly changing institutional settings. It is critical to examine what key stakeholders think about the market because their perception and decision can be closely associated with historical and future aggregate market behaviour (i.e. the path-dependent nature). It is especially so in emergent markets. "Signs" of economic downturn affect people's perception and behaviour significantly; the problem is that people cannot predict or even identify an economic downturn before they actually enter into a particular cycle stage. The current global business downturn reminds us the fact that cyclical ups-and-downs is part of the nature of the politico-economic system where even the 'real-time' data of currency exchange or stock markets cannot be prevented, being a sign of efficient or mature markets. However it is clear that people who are active in a specific/general market can respond strongly to instant (i.e. 'real-time') or historical information

impacting future or the actual market. A typical example is property valuation, based on historical information in relation to different views of market participants (Lind, 2005).

It is almost certain that market outcome is closely correlated with stakeholders' perception. Information and views about market facts are interactive social reality. For example, given existing market information (i.e. expectation) then a firm's decision about its location is based on the perception of its decision maker(s) normally within the firm. In other words it is not a pure neo-classical model which assumes individuals in the market are equal in terms of his/her influence on decision-making. There is authoritarian power working at various levels within the market as one of the key contributions to the transaction cost theory originated in (Coase, 1937, Coase, 1960). The reason for firms existing in a market system are clear, where it helps explain the importance of perception or belief of key stakeholders in a specific sub-market and also explain the behaviour of that sub-market over time (North, 2005). Ideally a firm should have full authority from inside of the entity, together with the typical market way (e.g., fair negotiation or collective actions) to make business decisions; higher order often exists to affect the actual market performance. A typical example is the impact on government or Mother Company in the decision-making process. Therefore the *external and internal* factor approach is a way to describe the situation. The reason is that market institutions are rarely close systems. The sharp distinction between *external and internal* will eventually cause confusion in explaining market behaviour. This is a weakness of some system-based market dynamic models.

The decision of a firm often does not follow the market process, but rather follows a combined process based on key stakeholders' perception. However the basis of their decisions can be linked to the cost-benefit framework. The operation of the market mechanism is not costless in a vibrant modern society which has its hierarchy levels that goes beyond the descriptive capacity of the neo-classical model. The same perspective applies to sub-markets and small systems such as firms. It is essential to understand the way that firms or individuals, being market players or stakeholders, interact with market reality. This is more sophisticated than a simple 'cause and effect' flow. On the other hand the stakeholders' views, being aggregated, represent the market view. Unfortunately it is hard to obtain a 'pure market view' because market players are intrinsically unequal compared their influences on the system. Also market reality affects each individual's view which then forms their perception about market behaviour. A potential problem social science methodology is regardless of however careful and clever a study's research design is, what it reveals is based on correlations rather than causes (Grayling, 2005). The relationship between stakeholders and the market is a typical 'chicken-and-egg' case since they are covariants. Despite the seemingly unlikely of reaching final conclusion in this debate, the study of stakeholders' views is a useful way to explain market behaviour.

Among emerging markets, especially those that are undergoing profound transition, key stakeholders such as those who hold political and economic power can play a key role in the process of market formation affect market behaviour in its stability or cyclicity. The reforming process is not a 'free market' mode. Instead it is largely politically driven and usually there are proactive plans and role-plays in the socio-economic transition process in a market system (Chow, 2002, Zhu, 1999). The state or

organisations have shaped the economic reform and market balance. It is important to understand the thoughts of key stakeholders and their perception, as well as the way they perceive changes in a socio-economic environment and their interpretation of the market and associated dynamics; this is often based on their hands-on experience and insights via their direct observation of market behaviour (Wu, 2004).

Nevertheless the theoretical ground remains fragile partly due to the lack of knowledge about human behaviour in the network of market institutions. Neoclassical economic theory has been criticised for its lacking insights in this regard. Consequently this suggests the need to improve the theory about economic change and dynamics. One basic theoretical argument is proposed here, namely a fundamental market force for the formation and evolution of markets i.e. property markets is human perception or the power of key stakeholders given real potential demand of the economy and society. This network of interactions are the consequential results of the economic transition and the market formation/stability, as well as the theory of market cycles given individual behaviours which is also affected by the political and economical powers (interplays) to various extents. The current property cycle theory contains little in this regard.

This paper examines the extent of this interaction arguing that perception of stakeholders matters in transitional economies because it drives human decisions and therefore market behaviour. Following on, studying stakeholders' perception and property cycles during an economic transition means that key market players (e.g. state and key players) are strongly associated with the way the market emerges, where they are also closely correlated with property cycles in that particular system. Therefore the research issue is approached via understanding people's perception and their interpretation of market behaviour.

Research Design

The development of the research design was undertaken in 2003-2004 where the primary data was collected from semi-structured interviews. In this process the interview questions were based on the following research question:
to what extent has structural change, caused by the state-led economic transition, affected the performance and the stability of the emerging office market as reflected by market-led cyclical fluctuations?

Five interview themes were developed based on the research question, covering issues such as historical and current market development and conditions, views about the market and the cyclical changes, and driving forces of the market change (table 1). The interview process was undertaken between 2004-2007 (Wu, 2007c).

Table 1. The five interview themes

1. Markets and cycles since the 1990s; what changes have occurred?
2. Information (data) availability and quality; how this was structured?
3. Factors affecting commercial property markets.
4. Government policy and office markets - the analysis: e.g. Market vs. State policy, which one is the main driver?
5. Future prospect and market maturity.

(Source: author)

The selection of interviewees involves contacting key stakeholders in each property market who has an insight about the emergence and the operation of the office market or its submarket. As the basic commercial property sub-market structure has emerged (Ball et al., 1998, Keogh, 1994), interviewees were selected with the intention to cover the core elements of the property submarket (table 2). Thus the sampling is not random because the information sought-after is not evenly distributed in the society. With regards to sampling, a total of 27, 19 and 26 semi-structured interviews were conducted in Guangzhou, Chongqing and Beijing respectively. Each interview lasted a minimum of 30 minutes.

As table 2 shows, the selection of stakeholders across the cities varied due to the challenges faced in the interview process, although most interviewees were in the 'inner circle' of the property market. Note that Guangzhou was treated as a pilot case to test the methodology. Beijing and Chongqing were included and covered different geographical locations, levels of market maturity, and local economic conditions and culture. The three cities were distinctive from each other although they also have common features that are central to this research enquiry. For example Guangzhou is a major commercial city with long history of trade and commerce; Beijing has been China's political, economical and cultural centre for several hundred years; Chongqing was one of the main heavy industry cities (based on a ranking of Chinese cities using historical, present and future characteristics) but now are the biggest cities in China since it obtained municipality status. All three cities have a substantial demand base for commercial space and markets. In addition all cities are undergoing fundamental restructuring both physically and institutionally as a result of China's economic transition.

Table 2. Interviewee sentiments in Guangzhou, Beijing and Chongqing

	Guangzhou	Beijing	Chongqing
SoE incl. banks	2	1	1
Government incl. court	3	0	2
Planning authority	1	0	2
Academic	2	5	1
Investor	2	3	4
Development professional	5	8	5
Main officer user	8	3	0
Consultant	4	6	4
	27	26	19

(Source: author)

The exploratory characteristic of the research demands a high level of flexibility for data collection, yet not overlooking key issues which are common across markets. This approach helps to gain insights and also allows the identification of new factors and patterns which are not captured in existing knowledge, hence the research plan. It is argued this suits research into unfamiliar markets. Based on the research question, the interview themes (see table 1) and the analysis of interview contents, key findings include the descriptive features of cycle and correlated factors. Following a descriptive analysis of market changes or cycles, a spectrum of correlated factors linked to property cycle is identified. Also involved is a cross-sectional comparison of the three markets which identifies common or unique patterns showing general macro-movements or cyclicity of the commercial property markets. The reporting process for the findings retains a balance between interview themes and actual findings (i.e. factors and pattern).

Cycles or trend

There are numerous descriptive narratives of Chinese commercial property cycles in the interviews of the three markets. However they are often not sufficiently supported by historical data. Quality time-series data of commercial property is clearly lacking for typical property cycle analysis. Table 3 summarises the main opinions about data conditions in the property market. The majority of interviewees were satisfied with the quality of data provided by statistical bureau for guiding their decision-making in capturing the overall market trend.

Table 3. Property data type, availability and reliability in China

Data type	availability	reliability
Statistical Bureau data	high	ok
Internet secondary data	high	low
Own data or market survey	low	high
Government department data	low	ok

Stakeholder's perceptions suggest that private market players (e.g. developers, investors and consultants) are more familiar with property cycles so they are able to describe it relatively easily. Government bodies, on the other hand, tend to treat property cycle a phenomenon of major ups-and-downs of market prices or output; they tend to describe cycles from the lens of macro policy control. The result shows that the views about the historical market trend vary between the two groups. It has been debated there has been one complete cycle in the local commercial property market, although others believe it is trend and cannot be treated as cycle in 'real sense' (table 4). For example, the nation-wide property boom-bust cycle from 1993-1994 till 1996-1997 in China is common in all three cities (with short lags), but they are not regarded as cycle in each of the commercial property markets by most interviewees. Market maturity is linked to the distinction of cycles in real sense. Despite the initial boom-bust process due to market structure or the maturity problem, all three cities' property cycles have been driven strongly by the growth trend.

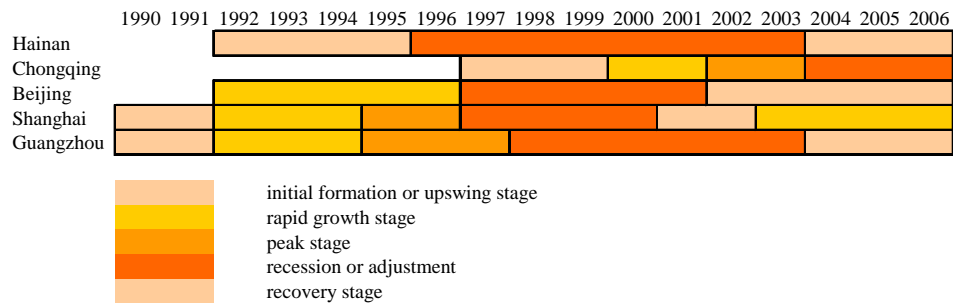
Table 4. Property cycle or upward market trend

	Guangzhou	Beijing	Chongqing
Cycle	majority	majority	majority
Trend	minority	minority	minority

Most interviews indicated that cyclical fluctuations in commercial property markets are market-driven because the market and its supporting governing framework are driven mainly by demand in a developing economy and a reforming state. State intervention seeks to encourage economic growth and market maturity, not to restrain the market. Interviews suggest the property market in Chongqing is trend-driven due to its short market history and completed its first cycle until early 2007. Most believe this cycle commenced around 1997-98 when the city obtained its municipality status that made the city directly response to the central government. Similar to Chongqing, both Beijing and Guangzhou have experienced similar stages however with accompanying leads and lags. The markets were unstable and less regulated, resulting in rapid growth and reaching peaks at various time points. The nation-wide macro-economic policy control substantially shortened the expansion phase of commercial property markets, which in turn caused supply by volume to exceed effective demand. Figure 1 highlights stages of the cycle in each of the markets based on interview

responses, however good quality time-series market data from each city is preferable. Policy intervention at the national level was intensive in 1994-95 and 2003-04 periods.

Figure 1. Cycle stages in Chinese commercial property markets



Generally speaking, the Guangzhou, Beijing and Chongqing commercial property markets have experienced four stages:

- the conception stage which was started in various years of the 1990s;
- the rapid but often problematic expansion of supply and speculative demand for land, buildings and infrastructure. Beijing and Guangzhou experienced this stage much earlier than Chongqing;
- the growth of building stock that is subject to policy constraint and the expansion of cities via increasing land supply; and
- the start of dealing with specific issues in the market such as service quality, space management or classification of commercial property stock to match user groups with the existing stock.

Key factors

The semi-structured interview approach allows its structured element to match factors correlated with commercial property cycles while its open-ended elements explored unexpected factors. Notes regarding the analysis of interview contents include the following:

- The ranking is not weighted;
- Different stakeholders especially those with government background and those typical market players may observe or comprehend the subject matter from differing angle; and
- Stakeholders have different levels of knowledge about the market.

Key concerns include similarity, reliability and characteristics of patterns. When identifying, comparing and examining data, the process firstly checks identified factors against the interview criteria. For expected factors (i.e. key factors in mature markets) it discusses the extent, although for unexpected factors it discusses the impact and the unique roles. In total 18 factors were identified as significantly relevant, with perceptions about the market and the government's role in commercial property markets were also identified (see table 5).

Table 5. Factors affecting commercial property markets

Chong Qing

No	Interviewee	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12	F13	F14	F15	F16	F17	F18	F0	A01	A02	A03		
1	SoE bank		1	1	1	1			1	1	1			1				1						0	
2	Consultant	1	1		1			1	1	1				1		1									0
3	Academic	1	1	1	1	1	1	1	1	1	1	1	1	1	1										0
4	Government		1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1							0
5	Investor	1	1	1			1	1	1	1			1	1				1	1	1	1				1
6	Consultant	1	1		1	1		1	1	1	1	1	1	1		1		1							0
7	Developer		1	1		1	1	1	1	1	1	1	1	1	1	1		1	1	1	1				2
8	Consultant	1	1	1		1	1	1	1	1	1	1	1	1	1		1	1							0
9	Investor		1	1		1	1	1	1	1			1	1	1	1	1	1							0
10	Investor	1	1	1	1		1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	0	1	1	
11	Planner	1	1	1	1	1	1	1	1	1	1	1	1	1		1		1							0
12	Government		1	1	1	1	1	1	1	1	1	1	1	1											0
13	Developer	1	1	1	1		1	1	1	1	1	1	1	1	1		1	1							0
14	Architect	1	1	1		1	1	1	1	1	1	1	1	1			1					0	1	1	
15	Developer	1	1	1	1	1	1	1	1	1	1	1	1	1	1			1							0
16	Consultant	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1		1							1
17	Consultant	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	0	1	1	1
18	Developer	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1				1
19	Investor	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	2	1		
Subtotal		14	19	7	18	8	16	14	18	12	14	16	15	13	10	8	14	5	4	4	4	3	1		

- F1** Developer knowledge about the market (experience)
F2 Government intervention (policy control and adjustment)
F3 Investor confidence level and behavior link to policy
F4 Stage of market and economy development ("non-performing projects")
F5 Incentive such as tax and finance support
F6 Office demand i.e. new municipality create new demand, business, user demand, consumption level
F7 Product positioning and developer skill/capacity(success and failure)
F8 Land supply policy and space supply
F9 Finance chain e.g. source of fund or lending option and risk
F10 Government policy stability and its enforcement (risk)
F11 City planning, supporting infrastructure investment and city conservation & regeneration
F12 Financial market development and finance policy
F13 Role of the city e.g. development pace among major Chinese cities
F14 Culture, knowledge and creativity
F15 Geographical characteristics e.g. location
F16 Change of government management role (e.g. leadership & vision and operational skill)
F17 Property management service and building quality
F18 Apartment for office use and occupancy costs
F0 Main driving force (0: market-led cycle; 1: state policy-led cycle; 2: both)

- A01** Guanxi and hidden rules
A02 Multiple-roles the government plays and multiple-games play; (linked to F16)
A03 Development strategy: sell or lease (investment options)

Table 5 lists the top-ranked factors which were most frequently recorded in the interviews. Most interviewees believed there are three main factors affecting the level of risk in commercial property markets, namely (a): availability of capital, (b) the capacity of developers and (c) the impact of government policy. But in terms of the actual structural aspects that affect these three factors it is the financial institutions, the formation of urban land market and the formation of urban planning (and land management) which play central roles in guiding the way the market evolves (Wu, 2007a). Other aspects representing key structural change include the legal sector and government administrative structure change such as the founding of the Chongqing municipality in 1997. According to the interviews, the State intends to and is continuously searching for suitable 'rule of the game' for all parties involved in the property market. This is the essence of the state-led transition.

It is found that development proposals that are too advanced given the current market condition are likely to cause project failures. Supply should follow real market demand and its associated structure. Similarities can be drawn with government urban

planning such as the New Pearl River City, the new CBD of Guangzhou, and the new Embassy District in Chongqing. In other words urban planning is an influential factor where all respondents suggested there are inadequacies in planning commercial district or commercial building development guidelines and/or management. It is noted that planning lags behind the actual development of the market. The enforcement of planning rules is also challenging for city managers which highlights the positive role of the State in emerging markets and the need for enhanced managerial skills of government agencies in the aggregate economy. The process of regulating the urban land market is one of the most important factors which have gone through a process based on central and local land supply policies. The Land Transaction Centres in Guangzhou, Beijing and Chongqing were formed in 2000, 2002 and 2003 respectively.

Each city has identified key successes and failures in developers or developments. For example, Chongqing has Beichen Tian Jie commercial district (by Longhu Ptd) and Guangzhou has Civic Plaza (by a Japanese investor) as success stories. Guangzhou and Chongqing both faced the structural imbalance problem causing low effective demand therefore high vacancy conditions. The correct supply level was a major problem in Guangzhou since the mid-1990s, which has also become a visible issue in Chongqing after 2000 especially since 2004.

Patterns and interpretation

The most substantial pattern change is the structural change and state intervention, although among the three cities there were leads-and-lags. Dividing the interviews into two groups, namely governmental (& SoE) and market players (e.g. non-SoE), certain opinions regarding state-market perception about property markets, similar patterns in the three cities and their market maturity are discussed. Government policy is highly-regarded as a key factor but the majority of respondents agreed that the commercial property market is market-driven. Only a few participants suggested that it is state-driven although all accepted that government policy control is made based on market signal.

Do government officials (& SoE) understand the property market (not necessarily cycles) in the same way market players (non-SoE) do? Interview participants from the industry often believe the system is market-driven, although there were fewer comments about government officials and their understanding of property markets. *Do both believe the government is responsible for the ups-and-downs of the office prices in the 3 cities?* The majority of interviewees believed that government policy has a strong impact on major changes previously in the markets in these three cities. *Do both believe the government should play a strong role in the property market?* The majority of interviewees, both government and market players, believed the government should play its role in the property market. Some suggested that there existed a lack of experience of the government in governing the market, although no one suggested the government should play a minor role in the current market. The uniformity of state intervention in property markets, such as land supply policy, planning and credit controls; appear to be unaware of the varying emergence of property markets in cities.

Feedback from market players in Chongqing show that the emergences of the property markets in Chinese cities occur at a varying pace. For example Guangzhou

and Shanghai are regarded as early starters although the state macro-economic control policy from central government was applied in a uniformed approach to all “over-heated” property markets since 2003. Arguably this approach of intervention has shortened the expansion phase of the first property cycle in newly commenced markets such as Chongqing. In China the “first-tier property markets” started their property market emergence 4-6 years earlier than the “second-tier markets”. It is suggested that when making macro policy, the central government should treat different cities with different policies. “Thus the local (city) government’s attitude is that while implementing policy from the central government, trying to reduce the effect of the policy” (interviewee, 2006)

It was also found that the structural change within submarkets does not occur evenly. The economic transition has led to uneven structural changes of commercial property sub-markets which in turn led to price distortion. The level of structural change also varies among different Chinese cities. The urban land tenure system reform was started early but progressed more slowly than other sectors; in contrast, the housing sector reform was started relatively late (mid-1990s) but progressed much more rapidly. Local economic conditions and reform models adopted by the central and local governments are the key underlying reasons for the differences in transition models. The direct effect is that it drives the price system through impacts on capital, credit and information flows. The level of government intervention and enforcement is the main factor affecting commercial property cycles in China. Conventional property cycle theory explains market pricing, while in China, an understanding of structural aspect of property markets is essential.

Interviewees suggested state intervention was mainly linked to the housing sector and impacted on the commercial property sector to a much less extent. This is consistent with a typical government policy intervention for a more mature property market. There is a lag of State policy behind actual market development and behaviour; in other words, state policy in property market is usually passive. How to govern the market properly demands time to learn especially in the process of market emergence. The administrative structure of a government is complex, especially in a nation with and extremely large population base and an expansive geographical territory. Interview feedbacks highlighted a number of key factors and noted the fact that some are associated with national policies applied in all major cities in China, at the same time for example as some land supply and finance control policies. Some more detailed interpretation and enforcement policies are localised which can differ in certain aspects. Another point of differentiation is locally made and enforced policies. As market players frequently mentioned during the interviews, the market evolution or emergence stages among major cities vary which cause leads and lags. This is important because the two forces (i.e. national and local forces) occur by interacting and also shape market cycle. Policy is not flexible and market maturity has high variation. “Beyond state-led or market-led” is the right way to facilitate markets. The lack of experience and knowledge and the lack of planning are all observed in the case study. Overall it is the lack of State intervention, being good quality intervention. As North (1981) argued, State is the causal reason of economic prosperity and decline.

Chongqing (i.e. stakeholders in the market) is aware that its ‘lag-behind’ compared to more mature markets such as Guangzhou and Beijing. Frequently mentioned words are “gap”, “distance” or “immaturity” due to a list of reasons such as short history of

market emergence. But it seems to have realised and identified quite similar patterns, not too far behind its first tier counterparts. Although Chinese cities' development stage can vary substantially due to socio-economic and cultural, historical and geographical reasons, the source of reform (especially the sentiments of the property market which includes human decisions) has a much stronger capacity to be transferred across cities and regions. This is one of the key reasons for emerging markets to catch up to developed ones at a relatively quick speed. This is referred to by several interviewees as "the ability to learn" and "creativity". Both government officials and private stakeholders showed insightful knowledge and views about the 'state-market interplay' (i.e. game theory) in the context of China's property markets.

The interview findings suggested the knowledge and experience about property market emergence is inadequate both theoretically and empirically, especially regarding government intervention of property submarkets. The volatilities at the early stage of property market formation have been a main contributor to shape the early cycles. Interviewees addressed the government's function of being actively involved in planning and also engaging in commercial district formation, especially CBDs, which needs to be emphasised. Consequently a lack of government and good planning has resulted in continuous change of commercial centres as well as damaging competitions and repetitive building appearance within the same urban district. However feedbacks from government (planning) interviewees suggested that the inexperience of government intervention is apparent, hence increasing its role might not be able to achieve expected improvements. Interviews with senior government officials suggested that the challenge is how to identify and define a suitable level and scope of State intervention.

The interviews identified the enforcement problems in areas such as CBD formation, inner-city regeneration and transportation network planning/development, which in turn all affect the proper functioning of the commercial property markets. "Rent-seeking" behaviour is clearly observable at local government level including planning and land management departments. Another insight from experienced developers in these cities highlighted the need for the State to guide the market, predominantly developers and investors, in order to supply the right types of space to meet market demand. The high vacancy problem in the property markets should be dealt with not only by persuading the market to absorb previously built commercial buildings, but also by collaboratively working towards more effective ways to supply the right types of building product to meet the diverse space demand. When the market is not yet fully capable to convey supply-demand information, the vision and management experience of the state gets particularly important. Although acknowledging the need for strong state intervention, both government and the development industry recognise that it is hard to tell or predict the most proper degree of intervention.

An analysis of the interview transcripts showed that most practitioners agreed on the particular patterns in the recent office cycles. They suggested space demand in the office sector, especially the top-end, is driven mainly by non-domestic business activity and investment. In the transitional process, the domestic office demand is not the main determinant and 'shocks' in the international market have a significant impact on take-up rate and rental level. The low domestic office demand is closely associated with the structural change in the economy as well as in the physical urban built form that is shaped by the evolving economical and social structure. Overall, the

two cycles are closely related to the state-led macro-policy adjustment processes, aiming at the over-heated economy, especially the structurally imbalanced property investment sector. There has been a consistent link between the macro economy and property cycles. In turn this has become a main feature of the commercial property market.

Conclusive remarks

Concluding remark 1

There are different opinions and understanding, among key stake-holders, about cycles in China's emerging commercial property sector. This also relates to how it links to the behaviour associated with the economic transition e.g. the market force and the ability to change. Market principles are at work here, but there are additional features defined in the transitional economy which helps define an emergent market and typical measures of market maturity. Interviews in three Chinese cities suggest different factors that can substantially affect the stability of China's emerging property markets. They link to factors that affected the property cycle in China which concern the (reform) transition, institutional change and stakeholder behaviours. The study of emerging markets (e.g. those without stable socio-economic structure) needs to understand key stakeholder including user, investor's thoughts or perceptions because they "shape" the market 'partially'. The final outcome of the market is shaped by these dynamic interactions where as the structure stabilises, the impact becomes weaker. In mature markets, stakeholder perceptions also associated with market outcomes, however they don't alter the rule as much as in emerging markets so that economists consider mature markets are closer to an efficient market.

Concluding remark 2

A cross-section comparison of three commercial cities has shown similarity in pattern regarding commercial property cycle, despite the dispersion in geography, culture and market maturity. The main pattern observed is structural change and State intervention. The similarities in these patterns identified in the three cities suggested that it is popular despite the different characteristics of the cities. All are linked to the economic transition, being the change of the institutional settings in China within a relatively short period of time. The three cities all show similar process of market fluctuations: similar description of market changes in the past, similar impact by government policy, as well as similar socio-economic changes. However, they differ in the actual timing i.e. the pattern starts to emerge in Guangzhou earlier than Chongqing and Beijing. In addition there are some specific characteristics that are unique in each of the markets. Also there are a clear time difference in the pattern's emergence and essential is the describing the pattern.

Concluding remark 3

The varying views about market drivers and cyclical mechanisms representing different stages of market maturity (or immaturity) may become a measure or indicator of commercial property market maturity in emerging markets. They clearly affect and drive the market emergence. These brief insights provide an opportunity to develop a useful way of measuring commercial property market conditions in emerging or immature property markets. Underpinning of market instability or cycles in emerging markets is unique compared to conventional mature markets. Structural change is one of the additional drivers adds to property cycle theory – it is one of the additional drivers added to property cycle theory and neo-classical theory. The

transition (note China was chosen as one of the most conservative cases among those transitional economies) gives the State and the market the freedom (i.e. strong power to change the system) to affect the balance of supply and demand, as well as the power to change the rule without much prior experience.

Further discussion

The conclusion demonstrated that China is a large geographical country and its cities progress in different paces. The commercial property markets are actually referred to as many unique ones. The current global economic downturn makes it clear again that one only realises a particular cycle stage until they are actually in it where human perception keeps impacting on it, being a response consequential to the cycle or sometimes based on forward-looking behaviour. China's property market emergence highlights an example that the economy evolves as a market is developing without a full understanding of it. It is contended that if we draw a timeline of the evolution path of a modern economic (market) system, property cycle theory was developed in the 20th century to describe the mature market system of that time period whereas the study here is to address the emerging stage of economies that are undergoing continuous substantial structural change i.e. economic transition which has a lot to do with the reform, the institutional change, the ideological change and more fundamentally human perception.

This study provides an alternative and unique approach to looking at market stakeholder perception based on the notion that market can be partially driven based on perception i.e. the market is not 100% efficient. The study explored market emergence. Key institutions drive the market formation process. This study provided insights into cyclicity in emerging markets. It is not a new theory, rather it assisted a fuller picture of the market process and behaviour that is treated by mainstream approach. The neo-classical model with typical economic analysis of property cycle theory failed to include the human side of the market, therefore a literature review on behavioural approach is needed. However the theory ground (a perception approach) is fragile. For example, a study of a bubble-bust economy is often used in typical market system. *Should we consider tracking the market bubbles using the perception approach? On the other hand should we use historical data analysis and forecasting?* This approach also looks at those who actually influence the market based on their perceptions and examine perceptions in different stages of the cycles. An understanding of risk is a key factor when interpreting immature markets. These findings add to the conventional wisdom of property cycle theory and market theory.

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