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Market Update Report: China
Month: May 2006

I. Market Trends:

?? New housing policy issued by the Chinese government on May 29, 2006

According to a statement issued by the State Council on May 29, as of June 1 the following new policy will become effective:

- 1) minimum down payment for a new apartment larger than 90 square metres will be raised from 20 per cent to 30 per cent. The ratio for an apartment smaller than 90 square metres will remain unchanged at 20 per cent
- 2) a transaction tax will be imposed on people attempting to resell their properties within five years of purchase. The current period is two years. The tax rate will stay unchanged at 5.5 per cent of the sale value.
- 3) developers of land slated for development be charged a high "idle land fee" if it remains unused for one year, while rights will be revoked if it remains unused for 2 years.
- 4) local governments are required to make 70 per cent of its annual land supply available for the development of low-cost housing.

The new policy is aimed to curb speculative and investment-oriented housing demand, and to cater to the needs of middle- and low-income groups. The statement also called for strengthened supervision on land used for housing developments.

However, each local government has the right to draft policy details. According to Shenzhen Daily, although the Central Government has started to levy 5.5 percent business tax on apartments sold after June 1 within five years of purchase, Shenzhen has postponed the deadline to June 6 to avoid a rush at the property transaction center.

II. Recent Headlines of Importance to the Housing Industry/Building Materials Market:

☞ China pushes for more energy-efficient buildings (XinhuaNet, May 24, 2006)

China has launched ambitious plans to make its residential and office buildings more energy-efficient.

In the first five months of the year, industrial standard makers announced three sets of new national standards: namely, regulations on energy saving for civil buildings, standards for residential buildings and standards for technical evaluations of residential buildings.

Another new guideline regarding the assessment of green buildings will take effect on June 1. Though not a compulsory standard, it asks for even higher standards in energy consumption and other environment-related indices.

According to Wang Guangtao, the Minister of Construction, these standards have formed a basic framework of industrial standards regarding energy-efficiency of buildings.

Chinese legislators are also actively involved in the process. Both the Law on Energy Saving and the Law on Architecture are being revised to accommodate the new standards.

Architectural energy consumption is accounting for 30 percent of the country's total energy consumption. The figure will rise to 40 percent if energy consumption for manufacture and transportation of construction materials is considered. Reducing the architectural energy consumption has been given top priority by the central government to turn China into a resource-saving and environment-friendly society.

Comments: China is now the world's fourth largest economy and the second largest energy consumer. Over 30 percent of the world's coal, steel and cement are now consumed in China. Energy efficiency has been already among the priorities in both China's 11th Five-Year-Plan period (2006-2010) and its medium and long-term plan for science and technology development. The application of new materials and new energy is a major part of the government strategy to reduce architectural energy consumption.

According to the industry publication, the government is also working on new policies that will provide tax rebates and other financial incentives for the construction and purchase of energy-efficient buildings.

☞ **Only Shanghai's homes cheaper** (Shanghai Daily, May 26, 2006)

Housing prices in 70 large and medium Chinese cities rose 5.6 percent last month from a year earlier, while Shanghai was the only city whose housing prices dropped.

According to the National Development and Reform Commission, the prices grew a little faster than March by 0.2 percentage point.

Hohhot, the capital city in Inner Mongolia, recorded a 14.9 percent growth, followed by Shenzhen's 13.6 percent, Dalian's 11.1 percent and Fuzhou's 9.9 percent. Shanghai's housing prices dropped by 6.2 percent in the period.

Prices of new residential apartments grew 6.4 percent, up 0.5 percentage point from the growth rate of March, among which the price of luxurious apartments grew the fastest of 8 percent.

Second-hand housing prices rose 5.8 percent last month. Dalian ranked first with a growth rate of 22.9 percent, while Wenzhou and Beihai's rate dropping.

☞ **China to enforce property gains tax** (Shanghai Daily, May 30, 2006)

The government will start to enforce a capital gains tax on property profits in order to help cool the booming market and avert a real estate bubble.

China would apply the previously unenforced 20 percent tax on capital gains from property transactions on new houses sold within two years of purchase. Previously the law, which came into force in 1994, applied to sales within five years.

The law would also apply a tax of between 2 percent and 5 percent on the full transaction value if the capital gain could not be established.

Comments: Another round of policy to curb the real estate market and crackdown on speculators. The law will be enforced in about 10 major cities in China, but no details are available so far.

III. PROJECTS: This section consist of housing developments and other projects that could mean opportunities for US exporters, sites that people may want to visit for research, and content for the Chinese newspaper and US newsletter.

?? **Shanghai Dongjiao Villas project**

Shanghai Dongjiao villa project includes 50 WFHs in its phase 1 development. The project is invested by the government and is located in Pudong area. It invited four builders with three from Canada and one from the US to build the 50 WFHs. The builder from US is named MFG International. They visited this office to understand organization and function of AF&PA and USCB Program, and assistance they could receive from this office. They are looking for information on US building material suppliers including Southern Yellow Pine, windows and doors, insulation materials, anything relating to WFH.

IV. TRADE LEADS: See attached China Inquiry Summary Sheet.

V. ACTIVITIES:

1. China Business Development Mission from May 15-19 in Shanghai.
2. US pavilion at International Building and Construction Trade Fair 2006, from May 23-26
In Shanghai
3. Layout and printing and mail-out of issue 9 USCB newspaper
4. Database Update

Progress Update

1. China Business Development Mission from May 15-19 in Shanghai.

Representatives from five US companies and trade association, plus representatives from CINTRAFOR/University of Washington visited Shanghai from May 15-19. Products represented by the group vary from wood products, construction adhesive to lighting products. Aim of the mission is to understand the China real estate market, as well building material distribution system. This office arranged the week-long visit program including a briefing session meeting representatives from AF&PA/US FCS Shanghai office/local trade association, two panel discussions with Chinese developers and building materials distributors, site visits to wood frame house project/concrete villa house/high rise condo/wood

treating plants/glulam bridge site, meeting with home centre rep. plus a site visit to B&Q, and a tour to local traditional building material market and energy efficiency government sample house. A meeting with US law firm was also arranged to give legal advice on various issues such as forming foreign distribution company and IP etc..

A mission book was prepared for each mission participant. Logistic support including hotel reservation and van transportation were organized beforehand for the group visit. Interpretation service was also arranged to facilitate the meetings and discussion.

2. US pavilion at International Building and Construction Trade Fair 2006, from May 23-26 in Shanghai

USCB program organized an US pavilion during the trade show. Four US companies joined the US pavilion and exhibited at the trade show. The trade show is the largest of its kind in China, and USCB program has been organizing US pavilion at the same show for the past three years.

3. Layout and printing and mail-out of issue 9 USCB newspaper

Finished layout and printing of 15000 copies of issue 9 newspapers in mid May. Majority copies were mailed to our target database contacts, rest copies are/will be distributed during the Building and Construction Trade Fair in later May and SIR Summit show in early June in Shanghai.

4. Database Update

On-going database updating work.