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To buy or not to buy in the Beijing 'bubble'

By Daniel Allen

BEIJING - Emerging from her spotless kitchen with a steaming *cafetiere* and plate of home-made cookies, Victoria Lenton is clearly content with life in the luxury of her Beijing apartment. Spacious, tastefully decorated and beautifully furnished, the property that Victoria and her husband Cliff rent for 27,000 yuan (nearly US\$3,400) a month is located in Chaoyang Park, one of Beijing's hottest areas for leasing. "When we decided to move to Beijing, we agreed that we should live as well as we do in the

US," she explains.

Choosing between property rental and purchase in Beijing can be a tough decision. For many foreigners (and Chinese), it is purely a case of economics: mortgage repayments are usually lower than rental costs, and investing money in the capital's rapidly appreciating property "bubble" is more productive than throwing it away on rent.

Others are buying properties as investments, gambling that homes in desirable locations will always attract tenants and that their values will inevitably rise. Still, considerable risks remain: there is always a fear the bubble may suddenly burst, construction quality is highly variable, regulations aren't always clear or enforced, and buying a home is expensive, time-consuming and potentially nerve-racking.

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Victoria Lenton is typical of the many foreigners wary of committing themselves to a Beijing property purchase. "We finally decided against buying here - there are too many disreputable developers and too many of our friends have had problems after they have bought homes," she says. "Renting is far more convenient."

Notwithstanding the numerous challenges that those buying a property face, there is little doubt that Beijing's residential sales market is booming. The city was home to the fastest growth in house prices across the whole of China last year, with a rise of 10.4%. According to a report recently released by Sina.com and New Real Estate Magazine, residential real estate prices in Beijing have increased by 42% over the past three years, despite attempts by the Chinese government to cool the market.

In 2004, new homes sold at an average price of 6,178 yuan per square meter - by late 2006 this figure had soared to 8,792 yuan. Market analysis by Jones Lang LaSalle, the international property consultant and investor, shows that strong demand for new housing and office space in Beijing is expected to increase real estate prices by a further 11% this year alone.

Clouding the water recently has been a raft of new property laws introduced by the government. These are aimed at restricting foreigners who want to buy homes in the capital, and who have purportedly "driven property prices to exorbitant levels ordinary Chinese people cannot afford". An announcement jointly issued by six government ministries last July stated that foreigners must have studied or worked in China for a year before they are allowed to buy a home, and that newly bought homes cannot be used for letting or commercial purposes.

The hazy nature of these regulations meant that new property sales for foreigners and foreign organizations came to a temporary halt at the end of 2006, boosting second-hand sales considerably. Recent clarification of the laws has led to a revival of the first-hand market, although now it appears as though foreigners will be further limited to buying a single Beijing home.

Jolyon Darker, a senior manager at Savills Beijing, comments: "Buyers need to be well aware of the nebulous legal framework in China, where laws continue to change for foreign investors. Buyers should also question the length of time they intend to



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invest for, what is their exit strategy and will they require financing? Mortgage rates have been increasing quarter on quarter as the government attempts to slow the market."

Elly Zhen, a Chinese journalist, is unaffected by the recent restrictions on foreign home ownership and recently took the plunge to become a first-time Beijing homeowner. She purchased a 100 square meter apartment in Zhujiang Luoma Jiayuan, an "international-style" complex between the fourth and fifth ring roads in Beijing's Chaoyang District. By dealing directly with the complex's sales center, Elly was delighted to negotiate a price of 7,000 yuan per square meter.

Although she describes her purchase as an "impulse buy", Elly clearly did her homework before putting pen to paper. "Of course I spoke to other tenants in this building in this complex before I made a decision. I wanted to know how much they had paid and what the building management was like. One reason I chose this place was that I could move straight in. Buying property that hasn't been constructed might be cheaper, but it's certainly a lot more risky."

Elly's investment seems to have brought immediate return, with her new apartment already valued at over 9,000 yuan per square meter. However, there were a few nasty surprises in store when she moved in. "I pulled back the curtain in the master bedroom to find a massive concrete beam blocking my view beyond the window. It's quite common in Chinese apartments to find such examples of poor design. I'm in discussion with the sales center about it at the moment."

It's not only apartments in modern apartment blocks that are being snapped up by Beijing's resident *laowai* (foreigner). As the Chinese government presses on with pre-Olympic beautification and zealous developers get busy with their bulldozers, Beijing courtyards (*siheyuan*) have become increasingly rare and desirable residences. Available at similar prices to high-end apartments, after renovation these traditional-style dwellings can make comfortable, stylish and essentially unique homes.

However, buying a courtyard is an even more complex process than buying a regular second-hand apartment or villa. Some courtyard areas are protected, while others await a fate far less certain. Jolyon Darker comments: "In addition to the worry of

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possible demolition, it is also quite common for a courtyard to have seven or 10 owners. This often makes the negotiation process a bit of a nightmare."

The old adage of location, location, location is more relevant than ever in Beijing. The additional 300 kilometers of subway line currently under construction means some areas of the city will become increasingly popular and accessible. Such projects as Silver Maple Garden, close to Dashanzi, are already starting to have their value significantly enhanced by the nearby line. Construction of shops, restaurants and other amenities can also have an impact on property value, so it certainly pays to consider long-term development of the area when selecting possible investment options.

In sharp contrast to the sales market, Beijing's leasing market was steady in 2006, with a healthy supply of new property keeping rental prices competitive. The Chaoyang Park-Lufthansa Center-Kempinski Hotel triangle continues to be an expat favorite, with its easy access to embassies, businesses, shops, restaurants and nightlife. Suburban villa projects, especially those in the Shunyi area, are also popular with expatriate families with children at nearby international schools.

On the whole, Victoria Lenton was pleasantly surprised after she moved into her Chaoyang Park apartment. She explains: "My husband loves the fact that our utilities are all pre-paid - no nasty bills at the end of the month. The concierge services here are also great - we're pampered far more than we are back home. The only thing I regret is bringing so much furniture from the US - if I'd known how much I could have got here I wouldn't have brought half as much!"

Whether renting or buying in Beijing, it is a common misconception that "new" equates to "hassle-free". Foreigners should be aware that brand-new property is far more likely to suffer teething trouble than older, more established property.

Elly Zhen comments: "It really is worth checking into the developer's background. You wouldn't dream of buying a car without all the necessary paperwork and guarantees. A lot of construction in China is more about speed than quality, and this is reflected in problems buyers have after they move in."

As 2007 looks set to be another bullish year for the Beijing property market, the increasingly alarmed Chinese government seems intent on redoubling its efforts to burst (or at least control) Beijing's property bubble. Further legal and economic measures to this effect cannot be ruled out, although it does seem that market forces will remain the ultimate arbiter of the price of new and second-hand housing.

***Daniel Allen** is a freelance writer and photographer from London who has lived in China for the past three years.*

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