



## SWOT DIMENSIONAL ANALYSIS FOR STRATEGIC PLANNING – THE CASE OF OVERSEAS REAL ESTATE DEVELOPERS IN GUANGZHOU, CHINA

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**ABSTRACT.** China has been attracting overseas real estate developers (OREDs) with its expanding real estate market since the adoption of the Open Door Policy. This attractiveness has been enhanced by China's accession to the World Trade Organization and the *Closer Economic Partnership Arrangement* and is likely to remain for the foreseeable future. However, OREDs to conduct developments in China which adopts a socialist market-oriented approach is not without difficulties. The study has developed a SWOT dimensional analysis technique which is able to integrate the strengths and weaknesses of OREDs and also the opportunities and threats found in the market for formulating their (s)trategic plans and market positions. Apart from proposing a holistic model for OREDs' strategic planning, the findings also suggested that OREDs in Guangzhou are in general strong in management and financial capacity but weak in understanding the market conditions. Building up a localized management team which understands the market and has good connection with local officials and business people is of prime concerns.

**KEYWORDS:** SWOT dimensional analysis; Real estate developers; Guangzhou; China

### 1. INTRODUCTION

The housing system in Mainland China has shifted from welfare-based to market-oriented since the adoption of the Open Door Policy in the early 1980s through a series of market reforms to encourage the development of a pri-

vate housing market (Li and Huang, 2006). In real estate development, two critical resources are mandatory, first is land and then capital. To acquire land meeting the market-oriented approach, a series of land reforms were implemented. For example, land user fees were formally introduced in the amendment of the

Constitution in 1988 to provide a legal ground for the transfer of land-use rights which signaled the start of the market-oriented land use system. Regarding the recruitment of capital, a series of economic and social reforms were introduced to attract overseas investment. These reforms were also aimed at acquiring advanced technology, managerial knowledge and expertise from overseas. To get a better control on the reforms, the central government set up Special Economic Zones (SEZs) and Coastal Development Areas (CDAs) in 1980s in which foreign investors and overseas Chinese were allowed to conduct business in these areas (Figure 1). These areas were provided with a set of special economic policies which allowed the local governments to utilize an economic management system that did not exist in the rest of Mainland China in order to attract both local and overseas investors.

In addition, following the entry of the World Trade Organization (WTO) in 2002 which brought domestic laws and administrative regulations on the Mainland in line with the international standard (Lam and Chen, 2004), more opportunities have been created for overseas investors. The establishment of Closer Economic Partnership Arrangement (CEPA) with the territories outside the Mainland which include Hong Kong and Macau also opens further the huge market. These areas enjoy free tariff on the goods and services exported to the Mainland and mutual reciprocity of the professionals practicing in the construction industry. As such, foreign developers can use these territories as the “springboard” to set up their offices so as to leverage on the CEPA benefits.

However, not all investments from overseas earned a success on the Mainland.



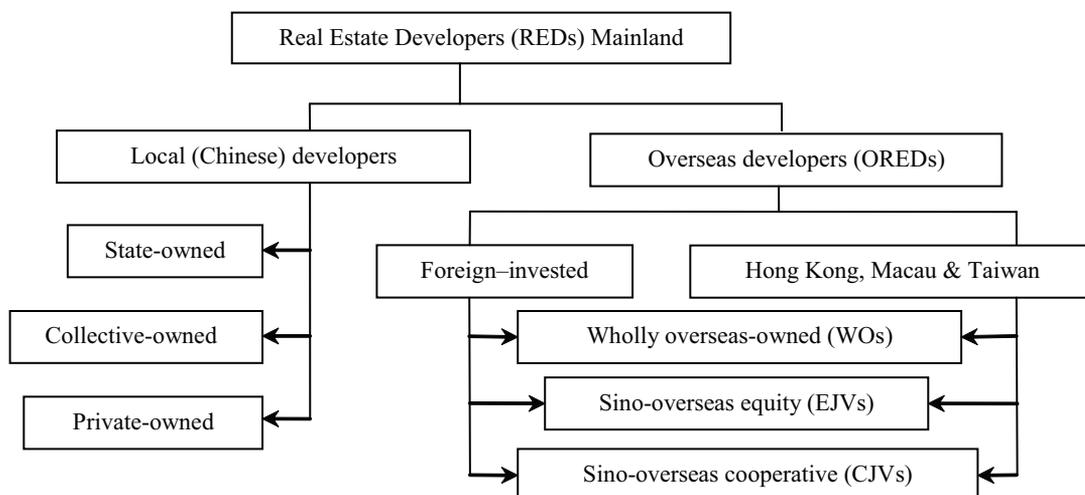
**Figure 1.** SEZs and CDAs of Mainland China

A large number of projects were found failed in the early years due to lack of understanding on the market (Shen et al., 2001, 2006). Very often, OREDs got their fingers burnt because of the lack of a systematic approach to understanding their competitive advantages and formulating their strategic position. Using Guangzhou as the case, the study has been conducted to investigate the competitiveness of overseas developers in the real estate market on the Mainland using SWOT dimensional analysis technique. The rest of the paper is organized as follows. Section two discusses the role of overseas developers in real estate development on the Mainland. Section three describes the use of a SWOT dimensional strategic planning which is able to link SWOT analysis and strategic planning together. Combining the information collected from the case study and interviews, Section four built up the SWOT(S) in which a strategic plan using the SWOT dimensional analysis is formulated for OREDs participating in Guangzhou's real estate development. Section five concludes the paper.

## 2. OVERSEAS REAL ESTATE DEVELOPERS IN MAINLAND CHINA

According to the National Bureau of Statistics of China (NBSC), there were 641 OREDs in China in 1995 with a total gross output of around US\$0.98 billion. By 2007, there were 847 OREDs and the output had increased by ten times to US\$10 billion (NBSC, 2008). The OREDs can be broadly categorized into two groups, i.e. domestic REDs and overseas REDs. Domestic REDs include state-owned, collective-owned and private local developers (Figure 2). Overseas developers (OREDs) include both foreign developers and those from territories outside the Mainland which include Hong Kong, Macau and Taiwan.

OREDs which are new and have limited knowledge about the market, they can form a joint venture by acquiring the equity interest of a local company engaging in real estate development in form of an Equity Joint Venture (EJV). Another option is to form a Cooperative Joint Venture (CJV) which is an agreement between an overseas company and a Chinese partner.



**Figure 2.** Real estate development enterprises in Mainland China

The agreement covers the rights and obligations of both parties, distribution of profits and share of management responsibilities. This option saves the trouble of setting up a legal business entity and is also known as Contractual Joint Venture. Overseas investors are also allowed to set up a wholly foreign-owned enterprise (WO) so that they can have full control of the company. OREs in China are mainly governed by The Three Laws: The Law of the PRC on Chinese-foreign Equity Joint Venture Enterprise (EJV), The Law of the PRC on Chinese-Foreign Cooperative Joint Venture Enterprise (CJV) and The Law of the PRC on Wholly Foreign-Owned Enterprise (WFOE). However, the provision on the acquisition of land use rights by OREs and the scope of practice specified in the Laws are brief and sketchy (Gao, 2007). Before the start of a real estate development, OREs are required to obtain the approval of the project proposal, urban planning and a long list of official documents which is a very costly and time-consuming process (Gao, 2007). To avoid the red tape and lengthy procedures, many overseas developers opted for entering into a secret contract or a joint venture with a local party to by-pass the lengthy procedures. It can also help avoid deed tax on the transfer of land or project.

### **Real estate policies in China**

Over the years, the central government has been actively promoting a socialist market-oriented economy to attract overseas capital and skills transfer in the real estate industry on the Mainland. According to the Real Estate Law promulgated by the State Council, OREs are entitled to certain tax advantages. In 1990, the Provisional Administrative Regulation on Foreign Investors' Development stipulated that OREs were allowed to engage in the development of a large tract of land for public undertaking or large-scale industrial workshops (Gao, 2007). The Provisions for Guiding Foreign Investment published in 1995 and Cata-

logue of Sector Guidelines for Foreign Investment published in 1997 stated clearly that one of the government's strategies for maintaining high growth of the economy was to invest more in infrastructure and housing development in the construction industry (CREL, 2009). In 2004, it was reiterated by the central government and the Ministry of Construction (it was renamed as The Ministry of Housing and Urban-Rural Development in 2007) that overseas investment in these projects was considered a means of providing the necessary finance and expertise.

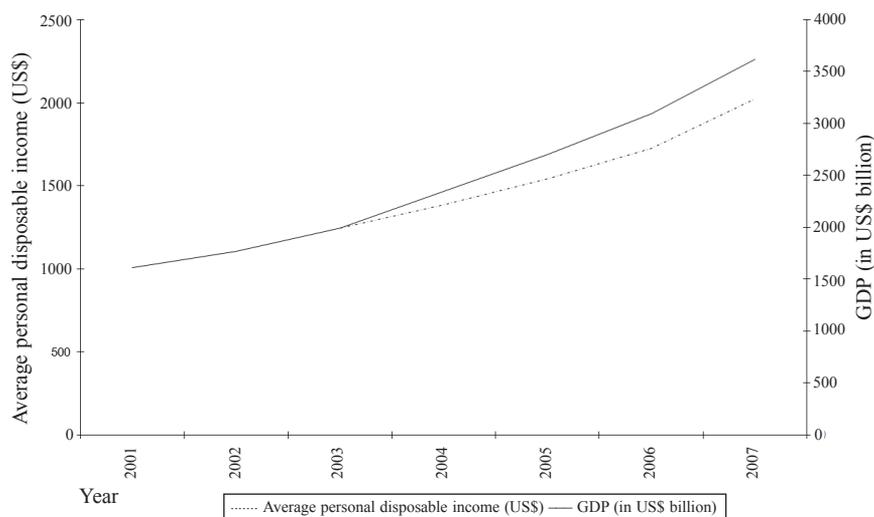
Regarding the land use rights for OREs, similar to domestic developers, they are granted by bidding, auction or quotation. Land grant premium is determined taking into consideration fees for land use purpose, infrastructure and land development, the location and the market force; and the process is complex and difficult for OREs to comprehend. Since the China's commercial law system including the land for commodity housing is still evolving, local authorities are often given the discretionary power to adapt the rules and regulations to suit their local circumstances. As a result, land use and urban development is often defined into a territorial pattern and local governments enact many regulations and policy advantages to compete against one another to attract overseas investment (Xu and Yeh, 2009). For example, the Shanghai municipal government enacts the Administrative Regulation of Shanghai on Land Use of Foreign Invested Enterprises in which preferential payment of the land use fees are offered to OREs (Guo, 2007). Although the discretionary power has enhanced the flexibility of local governments, it brought along negative effects such that preferential treatments are given through back-door, under-table arrangement and *guanxi*, i.e. delivering and exchanging business interests and preferential treatments through personal connection with government officials, business partners and market players (Wang and Chen, 2008).

Also, the China's law system is generally regarded as an instrument of the Communist Party to achieve immediate policy objectives (Lam and Chen, 2004). As such, the central government favors to maintain a set of rules which are flexible enough to deal with changes in the environment. Noticing property prices had been on the rise in recent years, the central government believed that foreign investors had played a significant role in inflating the prices. The Opinion on Regulating the Foreign Investment in Real Estate Industry and Administration was, therefore, enacted in 2006 to control foreign investment which states that foreign investors are deterred to establish a wholly-owned (WO) company to conduct real estate development unless they have a specific project in hand (Gao, 2007). In addition, the Catalogue for Guidance of Foreign Invested Industries was revised in 2006 and 2007 that a number of projects are not allowed to be conducted by WOs. They include the development of large tract land such as the construction of high standard hotels, villas, high standard office buildings and international exhibit centers, unless these projects are jointly developed by local enterprises in form of a joint venture. In addition, WOs are restricted from engaging in agency or

brokerage of real estate. No wonder Yan (2004) stated that "foreign companies seeking to win a piece of this growing market must adapt to *guo-qing*", which means "China's characteristics" or "the special (political) situation in China".

### Economic environment in mainland China

Real estate development in China has been thriving, due to its rapid economic growth, rising household incomes and massive rural-to-urban migration (Xu and Yeh, 2009). In 2007, its GDP figures had more than doubled that of 2001 (see Figure 3). Real estate capital investment was growing at an even faster pace, by more than 200% within the same period (see Figure 4). Personal disposable income had also increased from US\$1,245 in 2003 to US\$2,025 in 2007, at a yearly growth ranging from 7.7% to 12.2% (see Figure 3). The annual new completion of commodity housing in gross floor area (GFA) increased from 36.4 million sq. m. in 1991 to over 774 million sq. m. in 2007 (Li et al., 2010). The average commodity housing prices also kept on escalating from around US\$316/sq. m. in 2001 to over US\$536/sq. m. in 2007 (see Figure 4).

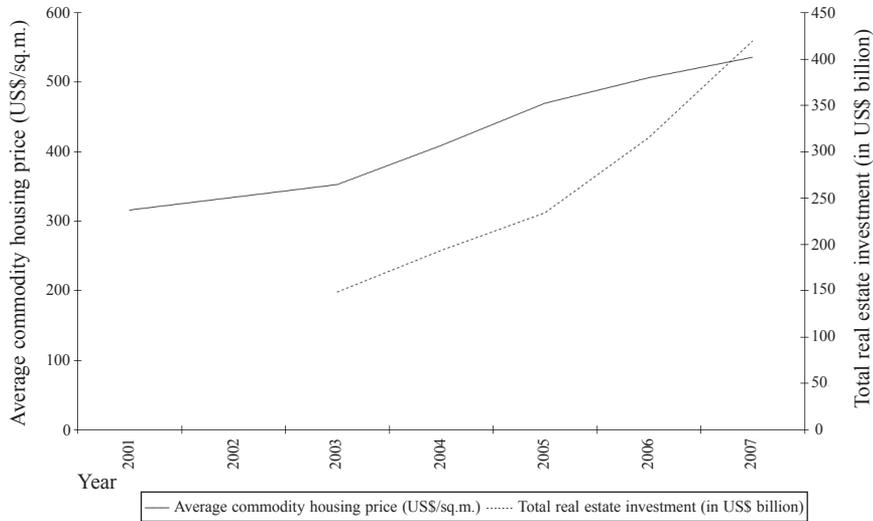


**Figure 3.** GDP and average personal disposable income in urban areas

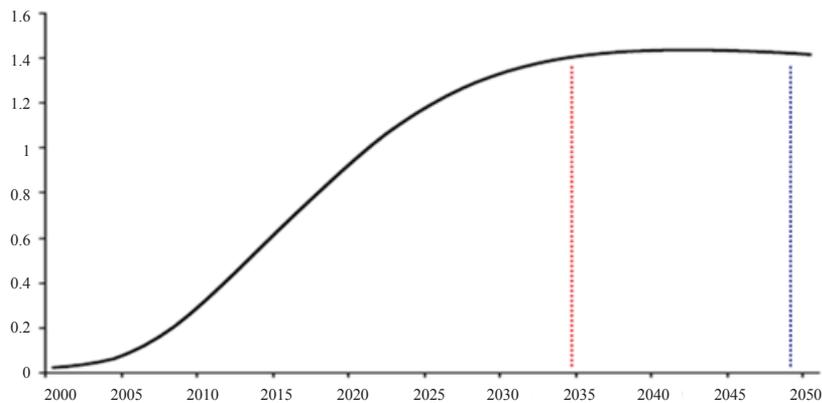
Source: NBSC (2008), <http://www.stats.gov.cn>

According to a survey conducted by CEIC in 2007, the consumption pattern in housing has changed from basic towards more value added in terms of comfort and services following the improvement of living and the rise of middle-income class. The results predicted that the high demand for commodity housing would carry on until it comes to stabilize in 2035

(see Figure 5). The estimation from the World Bank also stated that, by 2015, approximately half of world's new building construction will take place in China while the long-term economic prospects will continue to be positive and optimistic given its strong economic fundamentals and huge potential for growth (Li et al., 2010).



**Figure 4.** Real estate investment and average commodity housing prices in urban areas  
 Source: NBSC (2008), <http://www.stats.gov.cn>



**Figure 5.** The estimated growth of middle-class in China in the coming 45 years  
 Source: CEIC Data Company Ltd (2007)

On the other hand, real estate capital investment contributes to GDP. The high GDP growth in China has been sustained by the substantial growth in real estate investment. In an attempt to maintain a stable high growth of GDP, the central government has been keeping a tight control over the real estate market through the use of macro-economic policies. For example, just within 2007, the base rate was increased 6 times, and the capital adequacy ratio up 10 times to curb the inflationary pressure and to soothe the overheated real estate market. OREDs were, no doubt, constrained by these intervening policy measures and had to re-adjust their investment strategies in coping with the sudden change of the economic and political environment on the Mainland.

### 3. RESEARCH METHODOLOGY

SWOT analysis, originated from Harvard Business School in the 1950s, is a methodology allowing enterprises to use their strengths to exploit opportunities, to avoid their weaknesses and to defend against any known threats (Porter, 1979, 1980, 1985). Panagiotou (2003) has expanded the SWOT to formulate a “*Telescopic Observations*” strategic framework by using the strengths to take advantage of the opportunities and overcome the weakness and threats. Weihrich (2009) employed a similar approach to re-arrange the TOWS by linking the strengths and weaknesses with the opportunities and threats for strategic planning. Shen et al. (2006) has extended the use of SWOT to look for the key competitive indicators of foreign-invested construction enterprises participating in China’s construction market, whereas, Lu et al. (Lu et al., 2009; Lu, 2010) studied the use of SWOT Matrix to investigate the competitive edges of Chinese construction companies in the global market.

In a study conducted by Yan and Child (2002) in China, they found that gaining a strategic position and learning how to do busi-

ness are the two major objectives of overseas investors in building a strong business presence on the Mainland. However, Gale and Luo (2004) found that overseas developers participating in China’s construction market is often dominated by a rational drive to achieve organizational effectiveness without sufficient attention to cultural differences and political influences. Shen et al. (2004) developed a set of contractor competitiveness indicators for calculating a contractor’s total competitiveness value. The factors included social influence, technical ability, financing ability and accounting status, marketing ability, management skills, and organization structure and operations. The study revealed that the complexity of China’s regulatory framework has a strong governmental influence on the operation of the construction market. Foreign-invested construction enterprises in general suffered from limited channels for market information, lack of knowledge on regulations and *guanxi* in the industry (Shen et al., 2006).

Although these studies have provided important insights on the identification of competitive advantages of enterprises using SWOT, their frameworks are suffered from the lack of linking the four dimensions of a SWOT, namely strengths, weaknesses, opportunities and threats, into the overall strategic planning. In real life, apart from using strengths to rectify weaknesses, to overcome threats and to take the advantage of the opportunities as proposed by TOWS Matrix; if one can use the dimension of strengths to grab the dimension of opportunities, some of the threats may no longer be imminent. Furthermore, these four dimensions may not stand alone in strategic planning. A measure targeted at easing the weakness may also help capture certain opportunity and/or eliminating a threat. Therefore, a SWOT(S) dimensional analysis is developed in this study which is able to integrate the four dimensions of a SWOT, i.e. the strengths and weaknesses of the enterprise as well as

the opportunities and threats displayed in the market, in formulating the strategic plans (S) using a holistic approach (see Figure 6).



**Figure 6.** SWOT dimensional strategic planning

The research combined interviews and case study as the main methodologies to identify the dimensional factors in respect to the strengths and weaknesses of the developers and the opportunities and threats found in Guangzhou and to show how they can be crossed-examined to formulate the respective business strategies through the dimensional analysis as shown in Table 3. The research has been undertaken in five stages. First, extensive literature review in previous sections has provided a backdrop for this study. The review covers, namely, the role played by OREDs in the real estate industry on the Mainland, the relevant regulations and policies and the macro-economic environment. Second, a review of the real estate market in Guangzhou, as a case study, and the participation of OREDs in the market has been conducted. This aimed at exploring the external environment for depicting the opportunities as well as threat that OREDs faced in the area. Third, eleven in-depth interviews with senior real estate professionals were conducted between 2008 and 2009 to study the array of factors that affect the competitiveness of OREDs in the market. They included senior figures from two international OREDs, five from renowned local developers and the others were from real estate consultant firms specializing in sales and marketing. The purpose of the interviews was to explore the key concerns for overseas developers to enter into the Guangzhou property market in respect to

the unique characteristics of the area. Adapting the competitive indicators developed by Shen et al. (2006), an array of factors being categorized into two groups: namely the internal factors relating to the strengths (S) and weaknesses (W) of the company and the external factors relating to the opportunities (O) and threats (T) found in the market, had been constructed guiding the collection of information from the interviews. Factors affecting a construction enterprise's strengths and weaknesses (SW) include management ability, caliber of human resources, financial ability, information system and technology, marketing skills, possession of information and stock of land. Factors affecting a construction enterprise's opportunities and threats (OT) include social and political environment, economic environment, competition mechanism and market opportunities. Upon construction of the SWOT based on the above studies, competitive strategies for OREDs could be formulated through dimensional analysis taking into consideration of all the SWOT factors in turn.

#### 4. CASE STUDY: GUANGZHOU

With an urban population of over 7.7 million, Guangzhou is the provincial capital of Guangdong Province and is the economic and political centre of the Pearl River Delta region in southern China. It was selected as the case study because it was one of the earliest Chinese cities that enjoyed the benefit of the Open Door Policy and has been developed as a leading city in housing reforms and property services. Being a SEZ enjoying the preferential advantages, its GDP increased from US\$0.63 billion in 1978 to US\$104 billion in 2007, more than 165 times in 30 years (GZSB, 2009). Guangzhou's GDP accounted for nearly 3% of the total GDP of the country in 2007. Regarding real estate development, it grew at the same pace of its GDP. Apart from building commodity housing, developers also engage

in image projects such as extravagant exhibition centers and university towns promoted by the local government. The real estate capital investment in Guangzhou increased from US\$5.46 billion in 1999 to US\$17 in 2007, over 300% in eight years (see Table 1). Capital investment from OREDs had gone up by some 250%, from US\$1.92 billion in 1999 to US\$5 in billion in 2007. It is noted that despite the substantial increase, the growth of ORED's investment in real estate in the area was lagging behind local developers'. That is evidenced by the diminishing ratios of ORED to the total RED investment from 1999 to 2007.

In Guangzhou, the average price of first-hand commodity housing increased substantially from US\$492/sq. m. in 2002 to US\$1,062/sq. m. in 2007, by more than 200% within the five years. Likewise, the competition for land had been intense as a result of the real estate market boom. The average land price for

commodity housing increased from US\$315/sq. m. in 2002 to US\$620/sq. m. in 2007, nearly a double in six years. The bid land prices kept breaking the records which created so-called "premium land". The high land cost has certainly increased the cost of development for developers. For example, R&F Property was among the top five developers in Guangzhou which stocked up the most land in 2007 followed by Agile Property and Vanke (see Table 2). Cheung Kong, whose Chairman was ranked 9<sup>th</sup> among the top world's billionaires by Forbes in 2007 (Forbes, 2007), was the only ORED able to build a substantial land bank in Guangzhou. However, repossession of premium land is not uncommon during economic downturns. The government reposessed the "premium land" in Foshan previously sold to R&F Property in 2009 after it defaulted on the payment and a penalty was imposed on the developer (Next Magazine, 2009).

**Table 1.** Fixed capital investments in Guangzhou (in US\$ billion)

Year	Fixed asset capital investment	Real estate development (RED)	HK, Taiwan, Macau funded	Foreign funded	ORED investment	ORED to FCI ratio	ORED to RED ratio
1999	10.973	5.457	1.859	0.055	1.915	0.17	0.35
2000	13.045	6.583	2.068	0.136	2.204	0.17	0.33
2001	13.841	7.074	2.373	0.077	2.451	0.18	0.35
2002	13.768	7.867	2.602	0.138	2.740	0.20	0.35
2003	15.986	7.837	2.733	0.177	2.909	0.18	0.37
2004	18.245	8.690	2.161	1.021	3.182	0.17	0.37
2005	20.848	9.689	2.619	0.125	2.744	0.13	0.28
2006	23.110	12.729	3.530	0.241	3.771	0.16	0.30
2007	25.313	17.071	3.273	1.659	4.932	0.19	0.29

Source: Guangzhou Statistics Bureau, <http://www.gzstats.gov.cn/>

**Table 2.** Land bank of the listed developers in Guangzhou up to June 2007

Real estate developers	Type	Land bank (in million sq.m.)
China Overseas	State-owned	1,766
Vanke	State-owned	2,444
R&F Property	Private local company	3,113
Agile Property	Private local company	2,455
Hopson Development	Private local company	1,480
Cheung Kong	ORED	2,122

Source: Annual reports of the listed real estate development companies

The development opportunities in Guangzhou will continue to prosper following the announcement of the State Department made in January 2009 on the “Reform and Development Planning Guidelines for Pearl River Delta Region”. The Guidelines elevated Guangzhou from its original status of national core city and international metropolis to a national strategic city status. The Guidelines specifically required the city to “utilize its edge as the capitol city of Guangdong Province, strengthen agglomeration of high-tech industries, encourages technological innovations, cultural development and enhancement of comprehensive service industries. Guangzhou should further optimize its functional zoning and industry structure. It should also become the core city of a one-hour commuting zone in the Pearl River Delta”. Therefore, it is expected that Guangzhou will undergo accelerated urbanization and expand in its area and population in the years to come. Housing demand will become even more intense in Guangzhou.

### **SWOT(S) Matrix of OREDs in Guangzhou**

Eleven in-depth interviews with senior real estate professionals were conducted in Guangzhou to look into not only the problems that the developers in Guangzhou encountered but also the competitive advantages they possessed. Based on the information collected, the strengths and weaknesses, opportunities and threats of OREDs practicing in Guangzhou are discussed as follows.

#### **SW (Strengths and weaknesses)**

*Management ability* – The interviews revealed that OREDs possess more advanced management concept in the operation of business. For example, strategic management through the PEST and SWOT analyses to determine the objectives and the mission of the enterprise, human resource management

encourages the employees to perform through the use of management by objectives (MBO), financial management uses internationally (generally) accepted accounting (GAAP) method for controlling costs and expenses, and project management entails a smooth procurement for the development of the projects. Authority and responsibilities of different personnel are defined in structured organization chart. This has facilitated the communication between the management and frontline staff, and the efficiency and effectiveness of the operation can be enhanced, whereas the organization structure of Mainland developers were found relatively clumsy due to the influence of *guanxi* played in the management. Decision-making process is considerably slower since senior management puts more attention on building up *guanxi* with little direct-monitoring of the operation. According to the Guangzhou Statistics Bureau, the completion rate of projects handled by local companies was at 65.15% in 2007 whereas that of OREDs was at 102.61%. This shows that the development progress of OREDs is much closer to the targeted than that of Mainland developers.

*Calibre of human resources* – OREDs work in a diverse environment in which professionals in different trades from different areas are gathered, such as chartered surveyors, engineers, architects and project managers. Tailored-remuneration packages are offered by OREDs in order to get the right people and motivate their productivity. Equipped with high-calibre personnel, advanced product design with leading-edge living concept is produced, and thus creativity and buildability of the developments can be enhanced. The survey also showed that developments constructed by OREDs earned a reputation of high quality with unique living concept emphasizing comfort and enjoyment. According to NBSC (2008), the overall labor productivity in terms of gross output value of overseas construction enterprises including OREDs was around US\$31,954/person in

2007 compared to the locals of US\$21,661/person. Despite the above, OREs have difficulty in recruiting experienced local professionals who have good knowledge of the local market and have *guanxi* with local practitioners and government officials. Local professionals in general are reluctant to switch to OREs unless very attractive remuneration packages are offered. It is because once they left their local/state real estate affiliations, they will no longer be entitled to pensions and housing welfare that they currently have with the original units. According to NBSC (2008), the wages payable from principal business of overseas building enterprises including OREs was around US\$3,641/person per annum in 2007, compared to the local enterprises of US\$2,499/person per annum.

*Financing ability* – Compared with local enterprises, OREs have more stable and diversified channels to raise capital. In general, local developers are usually financed by taking loans from local banks or issuing bonds. Over 80 per cent of funding for land purchases and property development comes from direct and indirect bank lending (Liu, 2004). However, the capital available is very much affected by the government policy in manipulating the interest rates and capital adequacy to control the supply of fund in the market, as discussed in previous section (see Table 1). On the other hand, capital raised by OREs is relatively immune from Chinese credit curbs. They are usually financed by various means, for example, by their parent companies, foreign loans and bonds, export credit, and/or derivatives such as asset-backed securities, and the supply of capital during the development process can be maintained relatively stable. According to the Guangzhou Statistics Bureau, the average debt/asset ratio in domestic building enterprises was about 69.6% in 2007 whereas the average debt/asset ratio in OREs is 75.28%. Furthermore, OREs in general are equipped with a better cost control system which can

generate a higher return. It can be seen from NBSC (2008) that in 2007, overseas construction enterprises including OREs had a profit to gross output value ratio around 5% whereas that of the locals was at only 3.1%.

*Information system and technology* – OREs have the advantage of being better equipped with advanced information management facilities. From the interviews, all the surveyed OREs are equipped with internet and management information systems, including business administration systems and project management systems. These communication systems enable more efficient information exchange within the organization to enhance productivity. Furthermore, project management workshop are also held to address issues such as project risk management, cost control, the critical success factors and the set up of a team responsibility matrix. Other technical packages were also widely applied such as computer aided design (CAD) and building information modeling (BIM) systems, Primavera Project Planner and Microsoft project. Many OREs also possess affiliated construction teams which possess with large and complicated specialist machines. According to the China Statistics Bureau, the value of machines per labor of overseas construction enterprises including OREs was around US\$1,531/person, compared to the locals of US\$1,352/person in 2007.

*Marketing skills* – OREs are experienced in large-scale promotion events such as set up of spectacular promotion exhibitions combining entertainment and sales together with the use of commercials, advertisements, billboards and others in the public areas. In the promotion programmes, they utilize their competitive advantage of their brandname to promote the sales of their product. They tend to emphasize the quality of building that they offer. They are also equipped with advanced computerized sales system to conduct the on-the-spot sales so that information can be updated instantly

for the use of the sales team. However, compared with local enterprises, OREDs are weak in obtaining the updated information about the market sentiment and the needs of consumers. Nor do they have sufficient understanding of the local practices, not least because of the cultural differences and linguistic barriers between places. For example, SMS was considered one of the very effective sales promotion tools on the Mainland, in addition to the successful use of public media. As a result, the survey shows that OREDs are consuming more resources on promoting their brandname in the sales and promotion exercise than the actual sales of their properties.

*Possession of information* – Apart from having insufficient market information, the lack of understanding of the policies imposed in the real estate industry also hinders the development of OREDs. Since the Mainland is still undergoing the transformation to a socialist market-oriented economy, frequent change of regulations on investment from overseas is imposed to serve the objectives of the central government which has been discussed in previous sections. As such, OREDs always have difficulties in acquiring the latest information on various regulations and policies as well as local practices. In addition, confusion may also arise in the interpretation of new regulations. Furthermore, the lack of guanxi with local project clients/partners and government officials also make OREDs difficult in finding business opportunities compared to their local counterparts. As such, it is relatively hard for OREDs to identify its market position and to give a timely response if there is a change in business sentiment. The survey further shows that, in order to overcome the difficulties, OREDs are willing to pay a premium for the best consultancy services, in particular, for collecting the information before land acquisition. However, because of the lack of guanxi and guoqing, OREDs are sometimes very skepti-

cal about the recommendations made by their local consulting firms and raise a lot of doubts and concerns.

*Stock of land* – Real estate developments cannot work without land. However, OREDs have a hard time in acquiring land. First, the central government is very sensitive to the idea of overseas developers speculating on land. Therefore, the provision of state-owned land to OREDs is restricted to limited types of developments (CREL, 2009). OREDs are not allowed to acquire land for, for example, large tract development project except if it is jointly developed with a local partner. Second, although it is stipulated that land for commodity housing must be sold through open auction, very often, under-table arrangement has been made before the auction is conducted. OREDs can participate in the arrangement only if they possess guanxi with the local market players and the local government (Xu and Yeh, 2009). Third, regional protectionism still thrives, in particular, in the suburbs which may present another entry barrier. By contrast, local developers can certainly possess a competitive edge over land acquisition in those areas.

### **OT (Opportunities and Threats)**

*Social and political environment* – It has been the objective of the central government using favorable policies to attract overseas capital and technology transfer in order to promote the real estate industry in Mainland China, and the success have been proved in the SEZs. Premier Minster Wen stated in the 11<sup>th</sup> National People's Congress in 2008 that the central government would continue to implement the policies of attracting foreign businesses, such as those treating both foreigners and locals equally, and further improve the businesses environment for foreign investment such as CEPA and the accession to the WTO. On the other hand, there has been a rise in

private local developers following the relaxation of bank lending. Local banks are now the major financiers of local developers. Over 80 per cent of funding for land purchases and property development for these local developers come from direct bank lending (Liu, 2004). These local developers enjoy not only the same preferential treatments as that of OREDs in the SEZs but are also equipped with better *guanxi* and get a good understanding on *guoqing*, the competition would become only fiercer in the real estate market in Guangzhou.

*Economic environment* – Following the growth of GDP and the improved quality of living, the development of the real estate market in Guangzhou has been surging. The demand has been further scaled up by the relaxation of mortgage finance and bank lending that a buyer can get a mortgage as much as 90 per cent of the property value from banks. The financing cost has also been favorable to homebuyers in recent years as the mortgage interest rate remains at a historic low of around 3 per cent. The demand for luxury properties is particularly strong as a result of the abundant liquidity in the capital market. With the strong economic fundamentals, Guangzhou was able to achieve a speedy recovery from the global financial tsunami, triggered by the subprime loan crisis in the U.S. in 2008. It must be noted, however, that the central government is still very cautious. It has been employing an intervention policy using interest rate and capital adequacy. Such control over the supply of fund available may hinder the performance of the real estate market in Guangzhou.

*Competition mechanism* – It has been the objective of the central government to enhance the real estate development in the country. Apart from giving incentives to OREDs, the government encourages local enterprises, including state-owned and private local developers, to engage in real estate development. It

gives them the same preferential treatment of that of OREDs in regard to taxation, financing and land use. On the other hand, OREDs will also gain further competitive advantage while the real estate market becomes more open after joining the WTO and the CEPA. The growing influence of local enterprises and the presence of OREDs in Guangzhou will certainly bring about more intense competition in the real estate market.

*Market opportunities* – The PRC State Department released the “Reform and Development Planning Guidelines for Pearl River Delta Region” in January 2009 which stipulated that Guangzhou has been identified as one of the national strategic cities. The Guidelines put heavy emphasis on Guangzhou and specifically required the city to “utilize its edge as the capitol city of Guangdong Province, strengthen agglomeration of high-tech industries, encourages technological innovations, cultural development and enhancement of comprehensive service industries ... It should also become the core city of a one-hour commuting zone in the Pearl River Delta”. Therefore, it is expected that in the coming five years Guangzhou would undergo accelerated urbanization and housing demand would become even more intense. Apart from commodity housing, the local government has decided to increase the supply of subsidized housing in meeting the surging demand. It would create an opportunity for OREDs to join the development of these projects in form of public– private partnership (Xu and Yeh, 2005).

### **Recommendations on the development strategies of OREDs**

Based on the SWOT analysis, the strategic plans for OREDs in Guangzhou has been formulated in respect to each of the characteristics found in the four dimensions: the strengths, weaknesses, opportunities and

threats, which is contained in Table 3 known as the SWOT(S).

*Establish localized management team* – OREDs could employ local consultancies upon entry into the Guangzhou market. Once sufficient experience has been accumulated, OREDs should start to establish their own localized management team. This not only helps build up better *guanxi* with local practitioners to enhance the competitiveness, but also lowers the operation costs in the long-run. OREDs can attract high-caliber local human resources by offering better remuneration packages, well established and structured training programs and better career development opportunities.

*Concentrate on own strengths* – OREDs have a competitive edge in management, brand reputation and financing capacity. Domestic developers, on the other hand, are more adapted to local market conditions and policy issues. OREDs should also seek opportunities to build up business networks and forge strategic alliances with local partners through vertical/horizontal integration. The two can join together to build up synergy effect, in particular, in bidding for local government's building projects.

*Build up quality land bank* – OREDs are lagging far behind their local counterparts in terms of land reserve capacity. Land acquisition would become even more difficult with the rise of private local developers. OREDs should acquire more land in light of the current financial crisis which has lowered the land price. It is not advisable to compete for "prime land" when the market is overheated-- to avoid repossession. They should also be careful in site selection. In general, prime location closed to railway lines and highways will carry a higher economic value and warrant a higher success rate.

*Suit market needs* – Due to limited understanding of the market, OREDs previously had mainly constructed luxury projects, many of

which however are somewhat unaffordable to the general public. As a result, it took a much longer time for them to sell their units and a lot of unsold apartments were accumulated in the market. Furthermore, the survey also shows that different market segments have different expectations of the commodity housing. For example, a large club-house is less preferable for development projects providing small-sized units. Hence, in the planning stage, feasibility studies are important and OREDs need to seek help from local consultancy or property agents to understand the consumers' needs and the market dynamics.

*Adapt to government policies and regulations* – As the Mainland adopts a socialist market-oriented approach using regulations and policies to achieve the objectives of the central government, OREDs must build a team of experts which can closely monitor the policy changes and know how to interpret the intention behind. It can enhance the adaptability of OREDs to the new changes and to comply with the new regulations. The team must also be able to build *guanxi* with the local government to facilitate business negotiation in land acquisition and in securing government projects such as the construction of subsidized housing.

*Use of competitive development strategy* – The survey shows that development surrounding the city centre of Guangzhou is highly saturated and the competition among domestic developers is very intense. As such, OREDs should look for development opportunities in the sub-urban areas which are close to transportation network and where land is abundant. Furthermore, OREDs should compete on quality, project image and brand reputation of which they possess a competitive edge over domestic developers. They should also take advantage of the CEPA by setting up an office in Hong Kong and Macau so that they can enjoy free tariff when conducting business on the Mainland.

**Table 3.** SWOT(S) of OREDS in Guangzhou real estate market

SWOT(S) dimensional planning of OREDS in Guangzhou		S (Strengths)	W (Weaknesses)
		<p>S<sub>1</sub> – advanced management concept with clear objectives and organizational structure</p> <p>S<sub>2</sub> – high-caliber human resources to produce advanced product design</p> <p>S<sub>3</sub> – more stable and diverse channels for fund-raising</p> <p>S<sub>4</sub> – more advanced information system</p> <p>S<sub>5</sub> – experienced in organizing large-scale promotion with unique brand image</p>	<p>W<sub>1</sub> – difficult to recruit experienced local professionals</p> <p>W<sub>2</sub> – less guanxi with local practitioners and officials</p> <p>W<sub>3</sub> – insufficient understanding of consumers' need, market practices, regulations and policies</p> <p>W<sub>4</sub> – limited land bank due to government sensitive to ORED land speculation and protectionism of local people</p>
SWOT(S) dimensional planning of OREDS			
O (Opportunities)		<p>S<sub>1</sub>W<sub>3</sub>O<sub>1</sub>T<sub>1</sub> – build up a team of experts which can closely monitor the policy change and know the guoqing to help the developer to adapt to new changes</p> <p>S<sub>2</sub>O<sub>2</sub> – concentrate on one's own strength to build leading-edge development with unique living concept in commercial housing</p> <p>S<sub>2</sub>O<sub>3</sub> – participate in local government projects such as subsidized housing construction in form of Public-Private Partnership (PPP)</p> <p>S<sub>3</sub>W<sub>1</sub>W<sub>2</sub>O<sub>3</sub> – establish localized management team which help lower the operation costs and build up guanxi for business development through the use of attractive remuneration package</p> <p>S<sub>3</sub>W<sub>2</sub>T<sub>3</sub> – acquire quality land in light of the recent financial crisis with lowered land price</p> <p>S<sub>3</sub>W<sub>4</sub>T<sub>2</sub> – build up market power through horizontal and vertical integration in form of joint venture, merger and/or acquisition</p> <p>S<sub>4</sub>W<sub>3</sub>O<sub>2</sub> – acquire knowledge of market conditions and understand consumers' need through research conducted by local consultancy and estate agencies</p> <p>S<sub>5</sub>O<sub>2</sub>T<sub>2</sub> – enhance the competitive advantage through word-of-mouth and market penetration</p> <p>W<sub>3</sub>O<sub>2</sub>O<sub>3</sub> – conduct thorough feasibility study as different market segments have different expectation and affordability for residential housing</p> <p>W<sub>2</sub>W<sub>4</sub>O<sub>3</sub>O<sub>4</sub> – establish partnership with local developers/market players in large-scale/spectacular development using complementary strengths, not necessarily competitors in some occasions</p>	
O <sub>1</sub> – Guangzhou is one of the most open cities with least entry barrier			
O <sub>2</sub> – ample opportunities for large-scale infrastructure projects and property development at Guangzhou being the national strategic city			
O <sub>3</sub> – promotion of home-ownership and subsidized housing			
T (Threats)			
T <sub>1</sub> – government intervention policies with tight development control			
T <sub>2</sub> – fierce competition with domestic developers of high market power			
T <sub>3</sub> – impact of the global financial tsunami has not been totally eliminated			

## 5. CONCLUSIONS

Mainland China has been attracting OREDs with its expanding real estate market since the adoption of Open Door Policy in the early 80s. This attractiveness has been further enhanced with the accession to the WTO and the CEPA and is likely to remain for the foreseeable future. However, not all investments from overseas earned a success on the Mainland. A large number of projects were found failed in the early years due to lack of understanding and business connection in the market. In this regard, the study has been conducted to develop a holistic model based on SWOT which is able to integrate the strengths and weakness of overseas real estate developers and the opportunities and threats found in the market for formulating their strategic plans using SWOT dimensional analysis.

Through the information collected from the extensive literature review, case study and in-depth interviews with the real estate professionals, it has been found that OREDs in Mainland China are in general strong in management ability, better-equipped information system, financial capacity, quality work and brand reputation. However, they are particularly weak in understanding the local culture, market conditions and the legal system, and lack business relationship with the local government and business people. Although there are vast opportunities available in the coming years, market competition is expected to be more intense with the rise of both private local and state-owned developers. With reference to the SWOT(S) drawn, the strategic planning of OREDs should be directed to setting up its own localized management team which understand the market conditions, build up the land bank and work closely with the local government and business people with the aim to generate synergy effect. The findings offer not only a holistic approach

using SWOT dimensional analysis for strategic planning, they also offer valuable implications for the strategic planning of OREDs which intend to develop a strategic position in real estate development in Mainland China. Yet the SWOT(S) model has been applied only in Guangzhou, more research is warranted in other areas for enhancing the efficiency of the model.

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**SANTRAUKA****STRATEGINIO PLANAVIMO LYGINAMOJI SSGG ANALIZĖ – UŽSIENIO NEKILNOJAMOJO TURTO PLĖTOTOJŲ GUANGŽOU (KINIJA) ATVEJIS****Barbara Y. P. LEUNG, Eddie C. M. HUI, Jian-hui TAN, Lin CHEN, Wei-bin XU**

Patvirtinus atvirų durų politiką (angl. *Open Door Policy*), besiplečianti Kinijos nekilnojamojo turto rinka pritraukia vis daugiau užsienio nekilnojamojo turto plėtotojų (angl. *OREDs*). Toks jos patrauklumas išaugo Kinijai įstojus į PPO ir įgijus glaudesnės ekonominės partnerystės statusą (angl. *Closer Economic Partnership Arrangement*), be to, numatoma, kad artimiausiu metu jis niekur neišnyks. Tačiau užsienio nekilnojamojo turto plėtotojai, vykdamys plėtrą Kinijoje, kurioje taikomas socialistinis, į rinką orientuotas požiūris, susiduria su sunkumais. Tyrimo metu buvo sukurtas lyginamosios SSGG analizės metodas, leidžiantis integruoti užsienio nekilnojamojo turto plėtros specialistų stiprybes ir silpnybes bei aptiktas rinkoje galimybes ir grėsmes, kurios padės suformuluoti strateginius jų planus ir rinkos pozicijas. Be pasiūlyto holistinio modelio užsienio nekilnojamojo turto plėtotojų strateginiam planavimui, rezultatai rodo, kad užsienio nekilnojamojo turto plėtotojai Guangžou užima stiprią poziciją finansų ir valdymo srityje, tačiau silpnai orientuojasi rinkos sąlygomis. Būtina laikytis esminės koncepcijos – sukurti lokalią valdymo komandą, gerai besiorientuojančią rinkoje ir palaikančią gerus santykius su vietos valdžia ir verslininkais.