



nerej

Round-the-clock construction in China

April 24, 2014 - Spotlights

Having just returned from a week in China, it is hard to know where to begin. The trip was sponsored by the Concord, NH Chamber of Commerce. About 40 folks went, along with 20± from Laconia and some more from Connecticut. The trip was to Beijing and Shanghai, starting with a 14 hour direct flight "over the Pole". East China Air knows how to pack them in, with over 590 on the flight over and 604 of us on the flight back!

The most incredible site was the Great Wall - over 1,100 miles long and a true man-made wonder. It had to take 500,000 coolies 300 - 400 years to build! The one small section we visited northwest of Beijing rose over 400 feet in less than 1/2 mile. It was all steps and very impressive with a granite foundation and blue stone & brick top. The height, breadth and length were hard to grasp, not to mention how it wound up the mountain ridges. We were there in daytime, but the same section is lit at night. Nearby are the Ming Dynasty Tombs. We only went to one, but it was impressive with 100+ acres and 12 buildings. These sites are what are referred to as the "Old China". A few days later we were at a 1,600 year-old temple that has been in continuous use (again, the "Old China") and 24 hours later we were riding the Mag Lev train at over 300 mph - definitely the "New China".

You have undoubtedly heard that the national bird of China is the Crane - as in construction crane! They are everywhere. Our 10 days were spent in the 600 miles between Beijing and Shanghai. Beijing is 80 miles wide and 120 miles long with 20± million population. Shanghai is smaller but has a 23 million population. We stayed in the Suzhou, a town of 7 million population and Hangzhou, another "town" of 6.5 million population! In the evening, driving to the next hotel we could see round-the-clock construction which was mind-boggling because clearly there was high vacancy in both apartments and condos, as well as office space.

Our tour guides were very good, smart and candid. I also had the opportunity to chat with Australian, New Zealand, and British execs, who shared with me that construction equals about 21% of China's GDP. There may be as many as 20 - 25 million construction workers that should be laid off, but that might throw the economy into a recession. So, the central government keeps the construction going, both public and private. The infrastructure projects are numerous and massive - highways, bridges, tunnels, airports, transmission lines, hydro dams, you name it.

Bill Norton is president of Norton Asset Management, Inc. Manchester, NH.

But the private sector was humming along full tilt as well. We were told that residential condos are selling for about \$150/SF (US) - but that is "shell" with electrical and plumbing stubs and the new owner has to complete the unit. This "typically" takes 6 to 18 months! I am not sure I believe this, at least for the tens of thousands of empty units we saw and units going up daily. That raises the whole question of transparency and how much the government (Communist) overlaps with the economy (ostensibly Capitalist). Keep in mind, we were in a small corner of China, so we saw the capital,

Beijing, and the financial capital, Shanghai, and areas nearby but there is a whole lot of China we didn't see. We heard stories of "empty" cities built by government directive and funding but only 10 to 20% occupied because of poor location, people waiting to go to existing hotspots with jobs or simply overbuilding on steroids. The situation is quite volatile due to the amount of leverage, both public and private debt is very large...

So, China is without question one of the 900 pound gorillas in the global economy. If it stumbles, we will feel it here. To what degree, we do not know but it is something to keep an eye on (more thoughts on China and its impact on our economy in future issues).

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540