

# DTZ China Insight

## Establishing the Capital Economic Region

### Slow at first, but on fast forward now



27 August 2014

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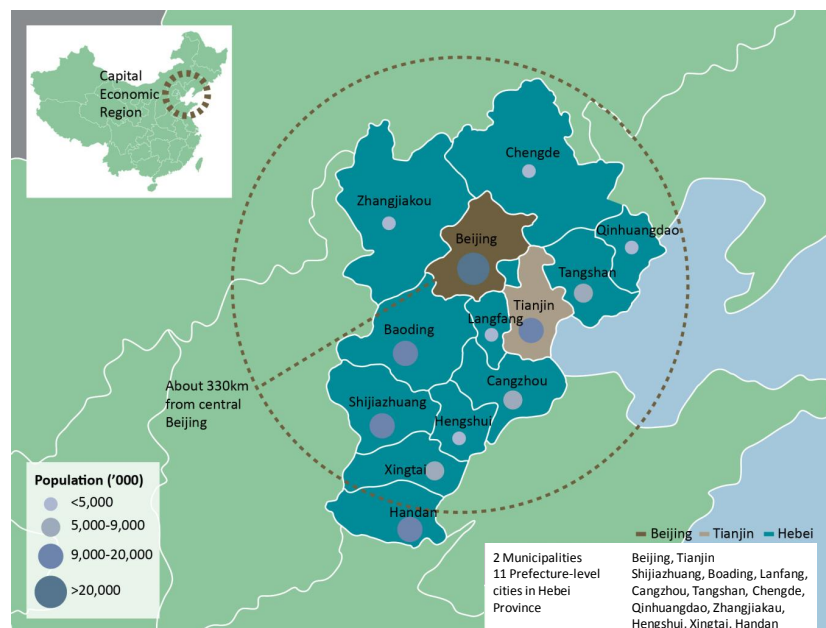
The concept of establishing the Capital Economic Region (“CER”) has been around since 2004. But, there has been a lot of behind the scenes wrangling on its priorities over the past decade. This was because the interests of its main stakeholders, Beijing, Tianjin and Hebei, were not fully aligned with respect to the re-distribution of industrial growth. Despite progress on this re-distribution, the less contentious development of regional expressways, high speed rail and suburban metro links has already moved ahead.

However, we expect that the CER plan will now progress much more quickly than before. This is based on President Xi Jinping instructions announced earlier this year that the process of implementing the CER plan must be sped up. He indicated clearly to the CER’s main stakeholders that they had better bury their differences in order to “fast forward” implementation of the plan. This has been mainly triggered by Beijing edging closer and closer to the tipping point of its longer term urban sustainability.

Amongst the major beneficiaries are those provincial cities in Hebei which are best positioned to take up the excess growth of Beijing’s expanding or non-core industries. This includes cities like Langfang and Baoding, which lie within Beijing’s immediate orbit, but also includes the provincial capital, Shijiazhuang and the seaport city of Qinhuangdao. Developers who had the prescience to land bank in these cities earlier are now positioned to benefit from substantial appreciation in commercial land values.

Map 1

#### Capital Economic Region Population Map



Source: DTZ Research

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## Approaching the limits of sustainable growth

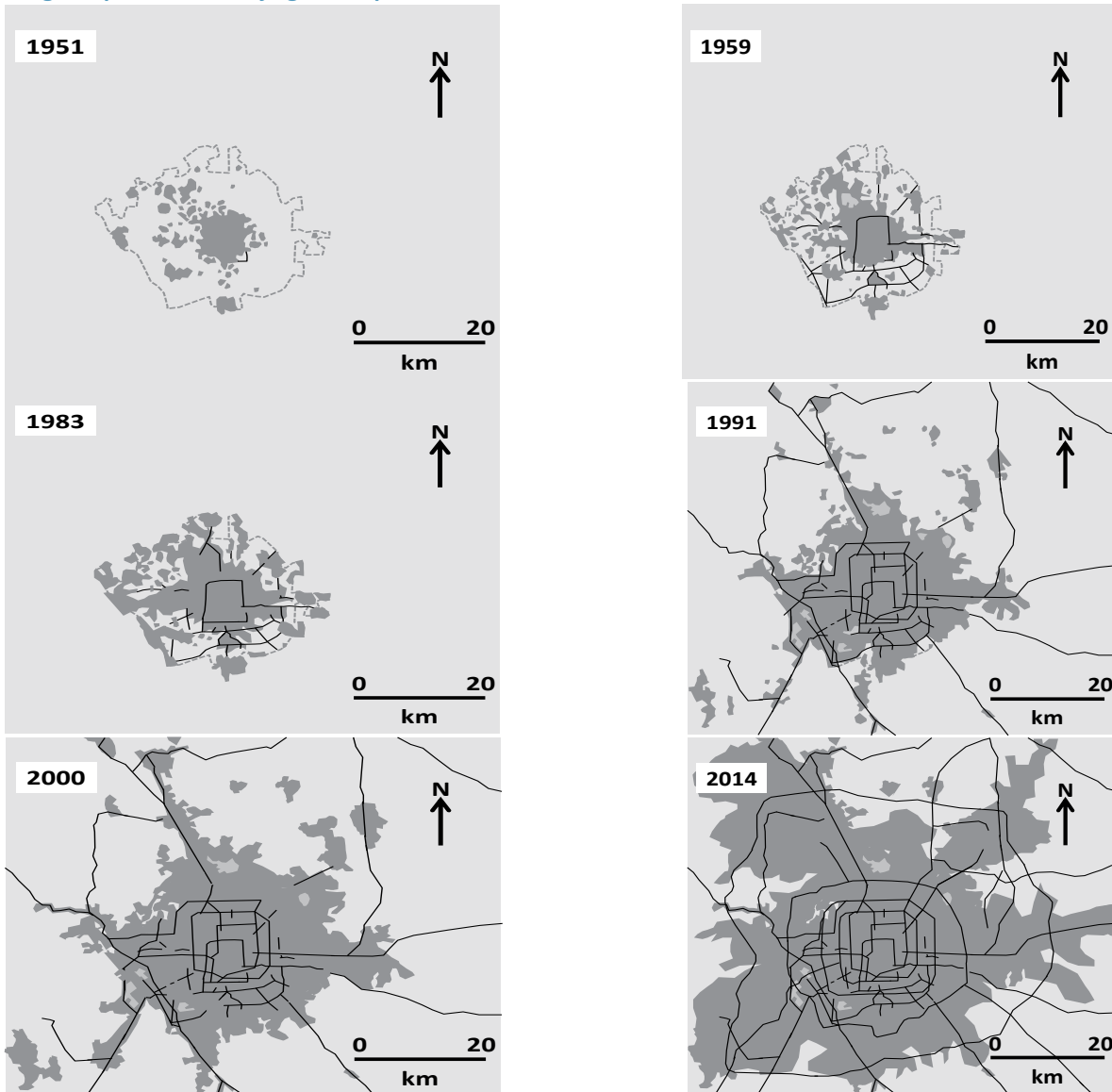
While China's growth has helped lifted half a billion people out of poverty and elevated it to the position of the world's second largest economy, strains are showing as inefficient land development has led to urban sprawl and ghost towns. Pollution threatens the health of urban and rural residents alike and farmland and water resources are coming under increasing pressure. Nowhere are the strains more evident than in China's national capital, Beijing having not only already reached the limits of its sustainable growth, but by some measurements having already surpassed it.

## Hyperfast growth in Beijing's urban population, urban footprint and automobile ownership

In 1949, Beijing had a population of 2.09 million and had an urban foot print covering 25 sq km. In the ensuing 65 years, Beijing's population has increased by 1,000% to where it now stands at 21.15 million, including a non-permanent population of around 8.03 million. At the same time, the core urban area has grown by 54 times, to where it now covers some 1,381 sq km and is still expanding (Figure 1).

Figure 1

## Expanding footprint of the Beijing built-up core urban area



Source: DTZ Research, Beijing Institute of Urban Planning

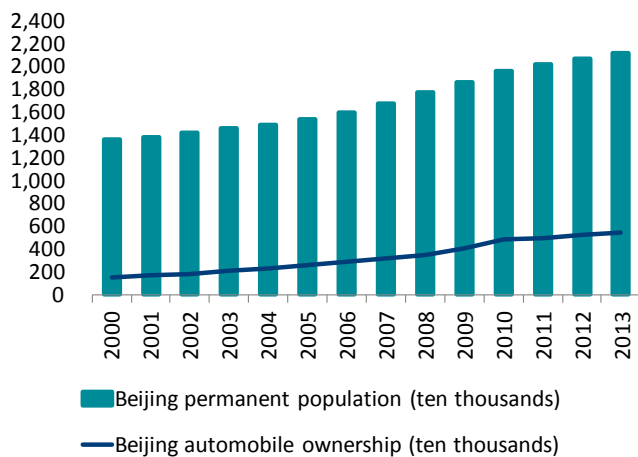
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Beijing's problem lies not so much in its urban growth per se, but rather the manner in which growth has been managed. Amongst the world's largest global cities, Beijing is frequently singled out as having particularly severe urban planning issues. Growth in city's ring road system has mirrored the rapidly ballooning size of its urban footprint. Over the past 30 years, the city has been transformed from initially having only one ring system, to where it is now encircled by six ring roads, with a seventh presently under construction.

Car ownership in Beijing sky rocketed from 1.50 million vehicles in 2000 to 5.4 million as of late 2013 growing on average by 9.5 % per annum over the past 14 years (Figure 2). As a direct consequence of this growth, worsening air pollution and the severe pressures placed on the city's road systems have now become major urban governance issues, and have emerged as a serious drag on the city's liveability and operational efficiency.

Figure 2

## Permanent population and automobile ownership in Beijing (ten thousands)



Source: DTZ Research, Beijing Statistical Bureau

## Emergence of Capital Economic Region Concept

While hyper-fast growth has indeed transformed China's national capital into a massive, sprawling urban conurbation, this is not the urban form which is favoured by national urban development policy. China has long been wary of encouraging the emergence of megalopolises of this type, which, if not carefully planned can both exacerbate social instability and accelerate environmental deterioration. Rather, since the millennium, as a matter of urban development policy, China has advocated the coordinated development of large, medium sized and smaller cities, grouped into urban constellations designed to function as economic hubs driving the growth of entire regional areas.

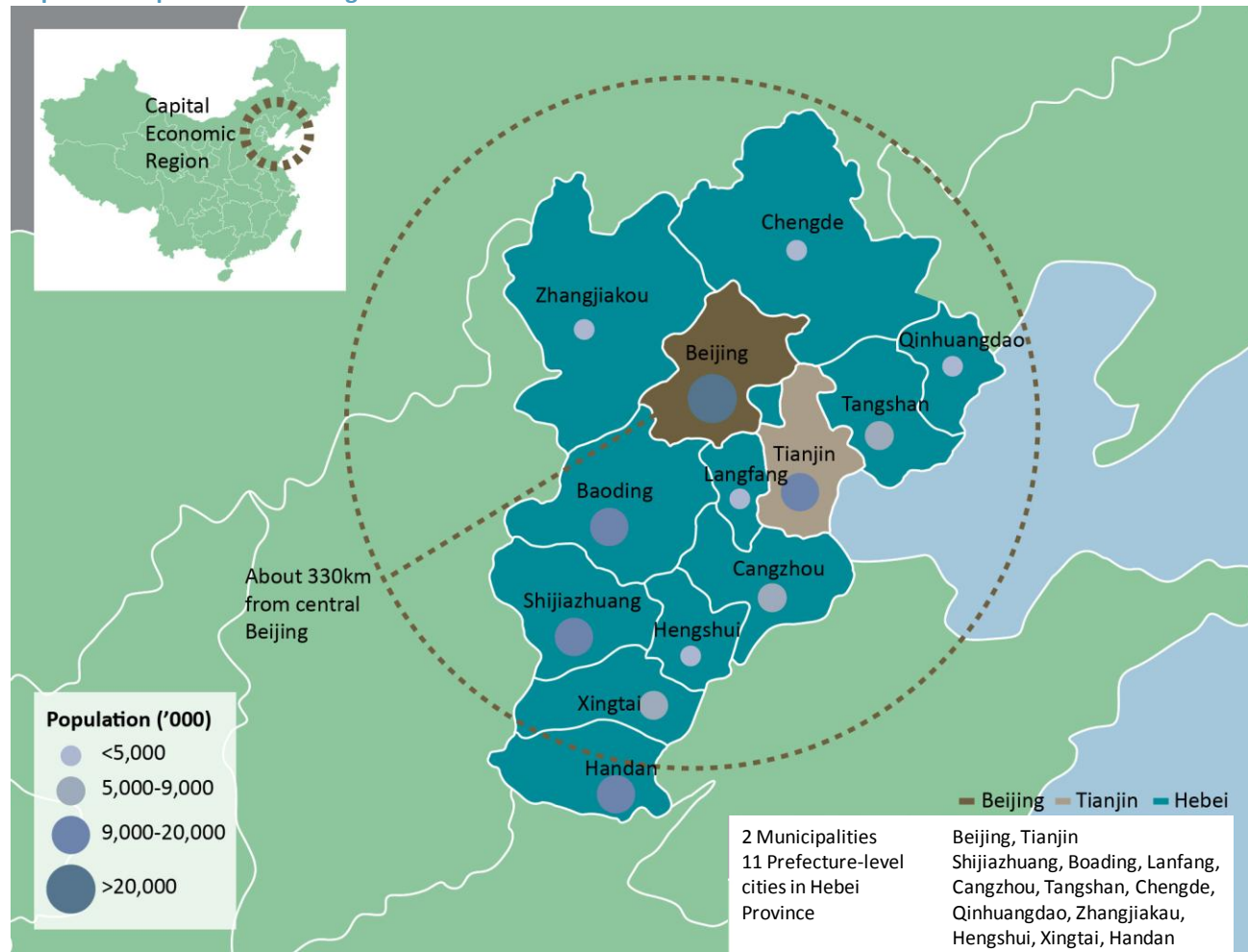
The concept of establishing a Capital Economic Region (CER) was put forward in 2004 by the Development Research Center under the State Council as one of the eight key national economic regions which were proposed at this time to be positioned as key drivers of national economic growth.

The CER takes Beijing as its main core, Tianjin as an ancillary core and comprises 11 other cities in Hebei, namely Shijiazhuang, Baoding, Langfang, Tangshan, Xingtai, Handan, Hengshui, Qinhuangdao, Cangzhou, Chengde and Zhangjiakou. Covering an area of 220,000 sq km, the CER had a population of approximately 111 million in 2013 (Map 2).

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Map 2

Map of the Capital Economic Region



Source: DTZ Research

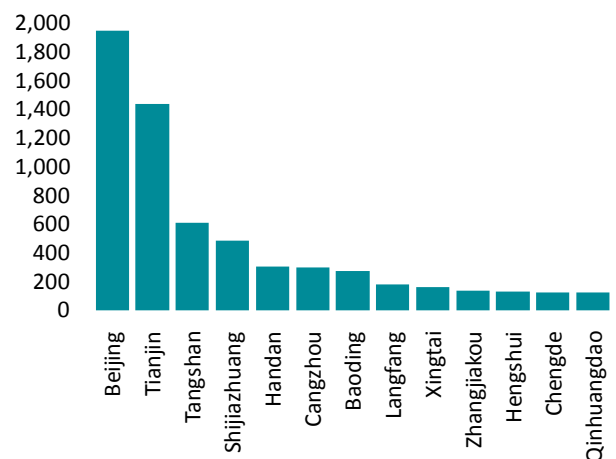
In 2013, the total combined GDP of the 13 cities which collectively comprise the Capital Economic Region amounted to RMB 6.2 trillion (Figure 3), or the equivalent of 10.93 % of the value of China’s national GDP. Of the total GDP value attributable to these 13 cities, Beijing and Tianjin accounted for just over 50 percent of the total. The dominant position of these two cities within the CER, is not surprising, since Beijing is not only the national capital but also its economic and cultural center. Tianjin is similarly a nationally top-ranked shipping, logistics center and hi-tech industry hub.

In fact, it is precisely this situation of the dramatic skewing in the allocation of talent, capital, intellectual resources in favor of these two super-core cities and away from surrounding Hebei Province which the establishment of the CER intends to rectify. Plan to fast-track the economic region’s establishment is one the most ambitious economic re-balancing programs China has ever undertaken, given the

enormity of its scale and the fact that it will affect approximately 8.2% of China’s total population .

Figure 3

2013 GDP of the Capital Economic Region (RMB billion)



Source: DTZ Research, Beijing Statistical Bureau

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## Beijing February meeting critical in speeding up finalization of CER master plan

After nearly eight years of internal discussion, a draft CER development plan was submitted to the National Development and Reform Commission (NDRC) in 2012. The NDRC then launched a process of expert review of the plan's viability which was conducted over a period of two years, via a series of research studies organized by the Beijing government.

However, despite this extensive period of internal study and discussion, progress with respect to finalizing a detailed plan in place to accelerate the region's integrated development has not been fast enough to satisfy China's new central leadership. In a work meeting on February 26th President Xi Jin Ping vented his frustration regarding the growing pressure which the swelling population, fast-track growth in built environment and ramp up in automobile ownership have placed on the national capital.

During the meeting President Xi stated emphatically that the city in a must relocate some of its non-core functions outwards to surrounding cities in Hebei and stop "expanding like a pancake." He pointed out the necessity of adopting a "top down design approach" in finalizing the planning for CER." Specifically, President Xi called for strengthening regional cooperation within the CER to give fuller play to comparative advantages of its three constituent parts.

Following the February work conference meeting, things have clearly began to move forward at a faster clip.

Firstly, in July the Beijing municipal government issued two catalogues, for the first time listing which urban industries and public entities are banned from being established or further expanding in Beijing as well as which industries are being prioritized for removal.

Within the same month, Beijing and Hebei Province entered into 7 strategic cooperation memoranda signalling commencement of broader cooperative planning with respect to Beijing's removal of traditional manufacturing enterprises and creation of branches of hi-tech enterprises as well as public services organizations in various cities of Hebei.

The month of July further witnessed the submission of three major planning initiatives, under the broader CER plan to the State Council for review and approval. The forward momentum indicated by this announcement was further underscored by an announcement in early August that a

second Beijing Tianjin HSR link would be launched for construction.

Finally, the national profile of the initiative to establish the CER was significantly raised in early August, with the naming of Zhang Gaoli, one of the seven members of the Standing Committee of the Politburo and former party head of Tianjin, as chairman of the CER Working Committee.

This intense flurry of activity in July and August provided evidence, then, that resolve displayed at the February 26<sup>th</sup> work meeting is having an effect, as the whole matter of speeding implementation of the CER master plan has clearly been given a higher priority within the central government's work agenda.

## Region unites in pursuit of a greener environment

Ever since the initial draft master plan for establishing the CER was formally tabled with the NDRC nearly a decade ago, it has been enthusiastically supported by the Hebei Provincial government. This is not surprising, in the sense that the push to move non-core resources outwards, which the draft plan repeatedly refers to as promoting a "radial development effect," is a movement which potentially serves to benefit many cities in Hebei.

However the relatively slow progress which had been achieved with respect to "decongesting Beijing", and the fact that the matter is still under discussion more than 10 years after the concept was first tabled is due to the fact that the interests of Beijing, Tianjin and Hebei Province are not naturally aligned with respect to the apportionment of potential benefits which will flow from implementing the re-distribution of functions within the urban region. This is certainly what President Xi was alluding to in the February work conference when he stated the necessity that all key stakeholders in the CER must overcome the mentality of "everyone just minding their own garden patch."

Amongst the wide range of functions which ultimately must be relocated from Beijing, many forms of high-end tertiary industry are attractive to surrounding localities where they might potentially be transplanted. Others clearly are not. A clear case in point is the Beijing Clean Air Project, announced by the Beijing municipal government in September 2013, which focuses on relocating 1,200 highly polluting or intensively energy consuming companies from the national capital. Initially, however neither Tianjin nor Hebei Province displayed interest in accommodating them.

Hence, what was striking about the seven agreements entered into between the Beijing and Hebei provincial

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governments in late July 2014 is that they signaled the possible emergence of “win win” solution, which will be inextricably linked to a larger plan for the “greening of Hebei Province” which President Xi alluded to his February 26<sup>th</sup> comments. The fact that China now wishes to accelerate the plan to clean up substantial parts of heavily industrialized Hebei Province clearly underscores the urgency of its shift away from traditional manufacturing towards a knowledge intensive/service industry based industrial paradigm.

Clearly while removing environmentally harmful industry from Beijing is an urgent necessity, at the same time decreasing Hebei Province’s major reliance on heavily polluting metallurgical and chemical industry is no less pressing. However, as environmentally unfriendly industries still comprise a substantial portion of the province’s employment and tax base, the only viable plan is to replace a portion of them by substituting technologically more advanced manufacturing industries – as President Xi called for in his February 26th comments - and replacing a portion with elements of Beijing’s own environmentally clean tertiary sector, which now accounts for 79% of the municipality’s GDP.

## Accelerating migration of non-core functions away from Beijing

Progress was achieved in July with respect to clarifying Beijing’s priorities in decongesting the city when Beijing Municipal Government published its guideline with respect to industries which are banned or prohibited from expanding in the capital. The goal in issuing this guideline was to strengthen the city’s urban governance by relieving the environmental pressures presently being brought to bear by the excessive concentration of population, industrial and business activity in the inner city.

Large scale labour intensive manufacturing industry is a key priority for expedited relocation. As of the present, Beijing Lingyun Construction Materials has already relocated its main manufacturing operations to Hebei Handan. Similarly, the Beijing Automotive Industry Group intends to move the Beijing No.1 Automotive Plant to Hebei Huamu. Also, the Beijing Hyundai No.4 Automotive Plant also intends to relocate to Hebei, and is just now in the midst of selecting the location.

Removing polluting and energy intensive industry is similarly a top priority. After Beijing was selected to host the 2008 Olympics in 2001, Shougang Iron & Steel Industry

steel plant was the first major industrial plant which was moved from the capital, in 2004. Now one decade later, now that Beijing is on the verge of launching a second wave of such removals, relocation of factories manufacturing paper, cement, construction materials, chemicals, furniture and house paint and also industries engaged in printing and dyeing are at the top of the list.

The recently promulgated catalogue also mandates the removal of lower end, highly space intensive industry. Large, open air wholesaling market such as the Beijing Zoo Clothing Wholesale Market and the Da Hong Men Clothing Wholesale market directly contribute to the pressure which is being brought to bear on the city’s environment and transportation infrastructure. Consequently, both of these wholesaling markets are in the midst of government-guided relocation to Hebei.

Relocating hospitals and other public services organizations is a somewhat lower priority, but they are also on the list. Organizations of this type will not necessarily be required to relocate in their entirety but no more approvals will be granted for establishing comprehensive care hospitals or expanding existing ones. Rather, they will be required to establish future branches outside of Beijing. By doing so they will help to relieve transportation pressure by diverting a portion of the constant stream of out- of- town people who regularly converge on the city, seeking medical treatment.

## Transportation infrastructure improvements making Hebei more accessible

However, regardless as to the kind of triangulated “tug-of- which may have occurred in the past between Beijing, Tianjin and Hebei Province with respect to the planning of which industries and organizations are ultimately going to be removed and to where, one of the ironies of the whole situation is that, quietly, and motivated only by self-interest, the process of Beijing enterprises expanding into Hebei has actually been going on for years.

Major improvements in transportation infrastructure over the past decade have made cities in Hebei more accessible to enterprises in China’s capital, allowing them to more readily leverage on the province’s lower real estate and labor costs. In fact, over the past 14 years an estimated 1,000 companies have already taken the initiative to relocate from Beijing to Hebei, most of which were in the manufacturing sector (Table1).

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Table 1

## Organization targeted for early removal/prohibited from expanding in Beijing

Categories of removing companies or organizations	Companies or organizations that have moved or started to move	New town planning/urban governance controls
<b>Large labor-intensive traditional manufacturing companies</b>	Beijing Lingyun Construction Materials BAIC's automobile manufacturing factory	Labor intensive traditional industry encouraged to be removed from Beijing
<b>Educational institutions</b>	Beijing No.8 Middle School, Gu'an Branch Campus	No more approval of expansion of existing educational institutions, or establishing new ones
<b>Polluting or energy-intensive industries</b>	Shougang Group's (aka Capital Iron & Steel Co.) iron and steel industry	Industries including paper-making, cement, foundry, building material, chemical, furniture manufacturing & paint printing etc. have been prioritized for removal
<b>Public service institutions e.g. hospitals and medical care facilities</b>	PLA General Hospital's recuperate function & tumor therapy Peking University medical & health industry base Beijing Chaoyang Hospital	No more approvals for establishing new comprehensive medical care in the central city. No approvals for expanding existing facilities.
<b>Open air wholesaling markets in urban areas</b>	Beijing Zoo clothing wholesale market Dahongmen clothing wholesale market	No more approval of establishing new wholesaling markets or expansion of existing markets

Source: DTZ Research, Beijing Municipal Government

After the completion of the Beijing-Tianjin High Speed Rail (HSR) in 2008 which was followed by the commencement of operation of the Beijing-Shijiazhuang HSR line in 2012, HSR development over the past seven years has greatly increased the accessibility between Beijing and the larger cities in southern Hebei province. Besides this, the planned 2015 completion of the 7<sup>th</sup> Ring Road will further enhance

the Beijing - Hebei urban transportation grid. Running 940 kilometers, of which 80 pct traverses Hebei rather than Beijing, this outermost ring road directly intersects with the cities of Langfang, Chengde and Zhangjiakou, effectively rendering many major cities in the province more accessible to the capital (Table 2, Map 3).

Table 2

## Major improvements in linkage by rail, air and surface transportation

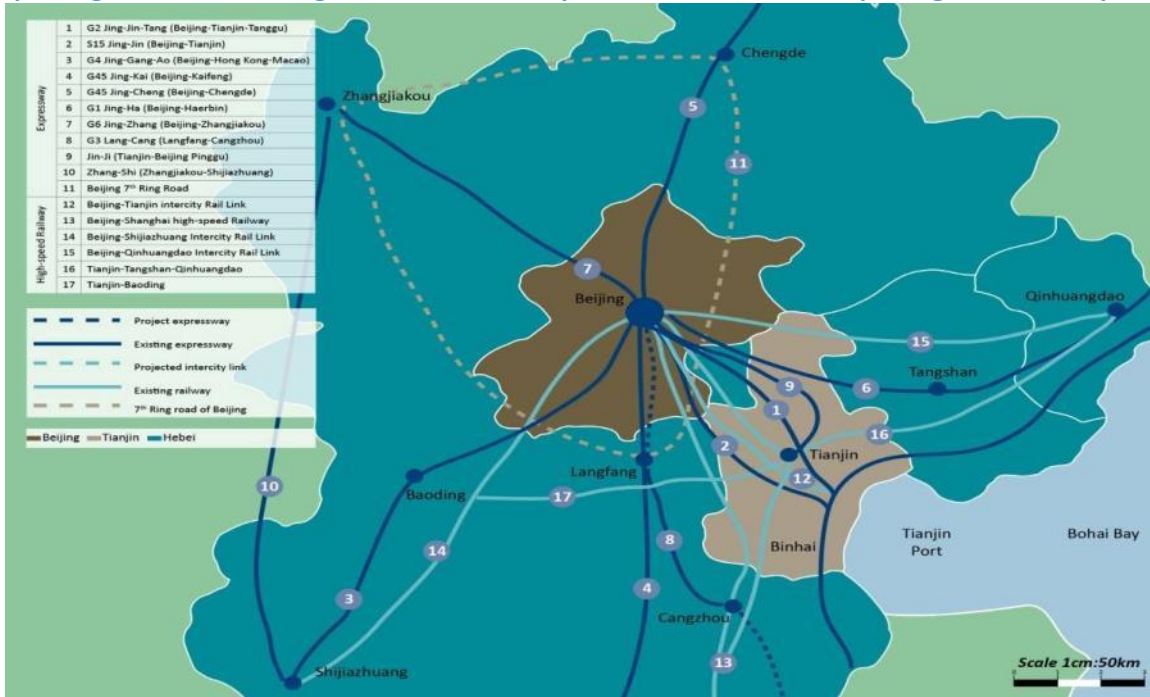
	Project	Brief description	Date completed/present status
<b>High speed rail</b>	Beijing Tianjin HSR	The Beijing-Tianjin HSR runs 120km and commenced operation in 2008. Travel time from Beijing to Tianjin had been reduced from 70 to 30 minutes.	Commenced operation in August, 2008
	Beijing Shijiazhuang HSR	The Beijing-Shijiazhuang HSR runs 281km and went into operation in 2012. Travel time from Beijing to Shijiazhuang had been reduced to 1 hour.	Commenced operation in December, 2012
<b>Beijing No.2 Int'l Airport</b>	Beijing 2nd International Airport	Beijing 2nd International Airport commenced partial construction in 2013 in Beijing's Daxing District. Covering an area of 40sq km. Two thirds of the project is situated in Beijing Daxing, while remaining one third is in Langfang Hebei.	Plan to be basically completed by 2018; Plan to commence operation of Phase I in 2020
<b>Beijing Ring Road System</b>	Beijing 7th Ring Road	Beijing 7th Ring Road runs 940km and is planned to put into use in 2015. It includes 90km in Beijing and 850 km in Hebei	Planned to be operational within 2015.
<b>Beijing-Hebei radial highway network</b>	Beijing Hebei radial highway network	After the construction of Beijing 7th Ring Road, 11 highways, radiating out from this outermost ring road, will connect Beijing and every major city Hebei.	Planned to be operational within 2015.

Source: DTZ Research

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Map 3

Speeding CER economic integration has been led by massive investment in improving internal transportation connectivity



Source: DTZ Research

However, while Beijing may plan to move a substantial number of “non core industries” and public service organizations to nearby cities in Southern Hebei, this plan can only be implemented if at least a portion of these places can be made into commuter destinations for Beijing residents who will be needed to staff their operations.

Hence, it was clearly with this understanding in mind that in 2008 the Beijing government completed a “Beijing metropolitan rail transportation resource integration planning study”, which divided the area surrounding Beijing into three spheres, based on commuting time and travelling distance. Within the first sphere – comprising locations situated within a 35 kilometer radius of the central city, and including Tongzhou, Yizhuang, Fangshan and Changping, the plan called for augmenting connectivity to the municipal metro services grid. Of Beijing’s 17 existing metro lines, 6 already provide connections to these urban fringe places. In addition, an additional 13 metro lines are under preparation and upon completion will provide all of the first sphere nodes enhanced access to the city (Map 4).

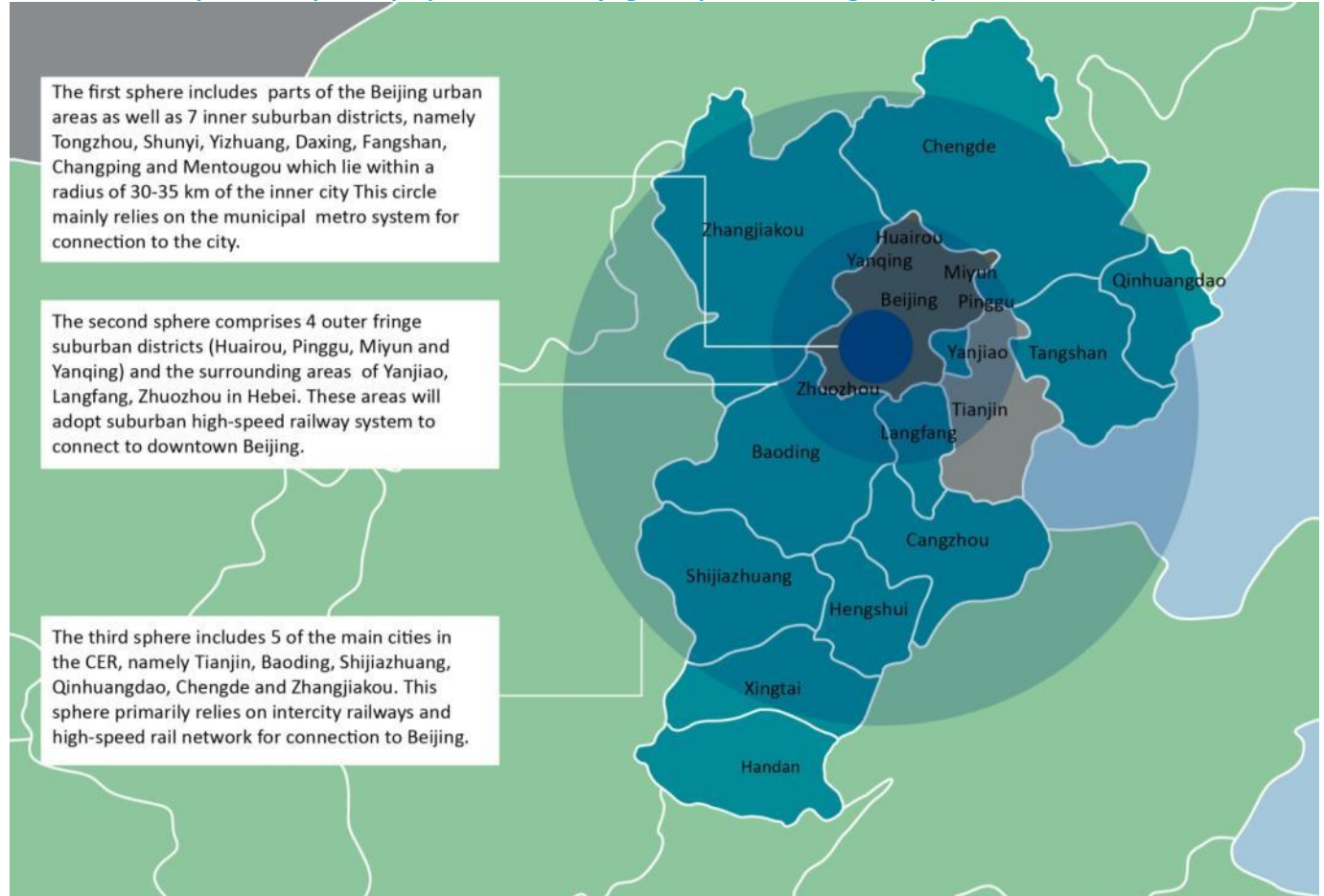
The second sphere is the outermost area within which localities can be expected to be transformed into commuter destinations. It comprises Huairou, Pinggu, Miyun and Yanqing in Beijing’s outermost suburbs as well as the cities of Yanjiao, Langfang and Zhuozhou in Hebei. The plan is to connect these places to the Beijing inner city via six dedicated, high-speed commuter rail networks, of which one is already operational. This rail service will further be supplemented by a number special, planned subway lines.

The third and outermost sphere comprises the city of Tianjin as well as major cities in Hebei, including Shijiazhuang, Baoding, Zhangjiakou and Qinhuangdao. Because of their greater distance from Beijing, the connection of these cities to Beijing via high speed rail and also inter-connecting intra-city rail networks has been treated as a high priority. Consequently, subsequent to the inauguration of the Beijing-Tianjin HSR service in 2008, HSR links between Beijing and each the remaining five cities have all been put into operation, substantially reducing travelling times and shrinking perceived distances.

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Map 4

## Three urban transportation spheres proposed under Beijing transportation integration plan



Source: DTZ Research

### Hebei and Tianjin leverage on growing attractiveness to variety of different industries

Apart from Beijing’s move to alleviate the huge overconcentration of commercial activity which is now impairing the central city area’s functionality, Tianjin and more closely proximate cities in Hebei are also pro-actively seizing upon this opportunity to integrate their economic development more closely with that of Beijing. They are doing this by actively leveraging on their greater availability of land/lower land and labor costs to attract higher value add, knowledge intensive and logistics industry away from the national capital.

Wuqing, as the only district in Tianjin which borders directly on the Beijing, to which it offers extremely convenient transportation access, has proven to be a highly viable area for establishing logistics bases. This has been borne out by its having attracted Alibaba, Dangdang.com and Amazon to establish storage, distribution and e-fulfillment logistics centers. In addition, Dangdang.com chose a Tianjin business

campus for establishing its corporate headquarters for North China and Galaxy I storage center (Map 5).

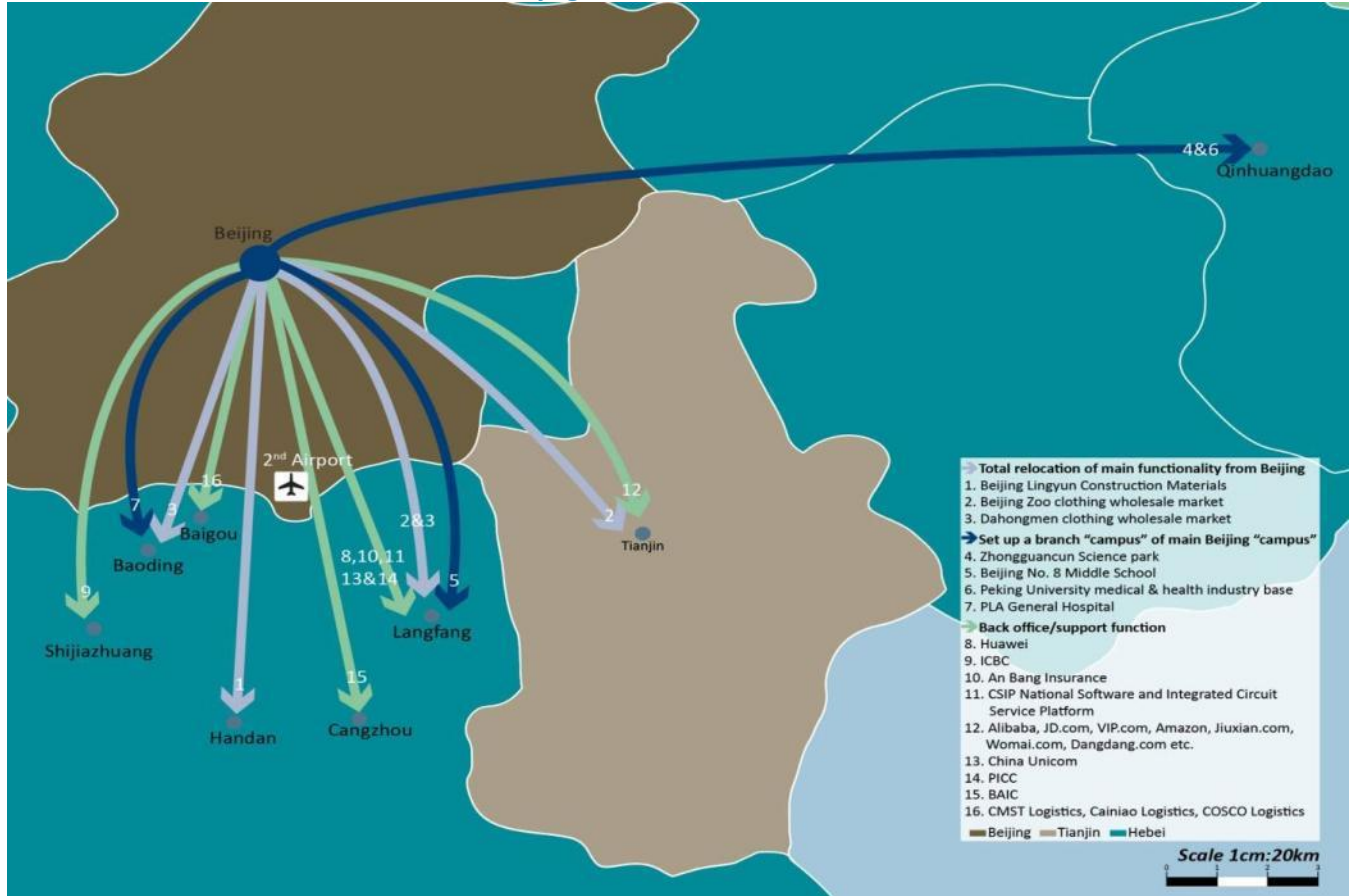
Baigou township in the city of Boading is also an emerging new area for staging logistics operations to service the CER, with CMST Logistics, Cainiao Logistics and COSCO all now reportedly actively studying participating in establishing a major new logistics park in Baigou. A traditional center of commodities trading which has seen three major logistics parks established since 1997.

The emergence of Langfang, a city roughly equidistant from central Beijing and downtown Tianjin, as a new university town was one of the first manifestations of the formation of a Beijing Tianjin “economic corridor.” Langfang Oriental University City, established in 1999 as an area for establishing branches of national academic institutions is now home to branch campuses of nine national colleges, with a total present enrollment of 35,000 students.

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Map 5

## Recent relocation of business functions from Beijing



Source: DTZ Research

Hence, it was no coincidence that in 2008 the year in which the Beijing-Tianjin HSR commenced operation, that Huawei Technologies Co. Ltd. moved its Beijing, R&D, manufacturing and after sales service operations to its self-developed corporate campus in Langfang. In 2009, the China Banking Regulatory Commission (CBRC) established a training center in Langfang, and in 2010 An Bang Insurance similarly moved its Beijing back offices to Langfang. More recently, in 2013 The People's Insurance Company of China (PICC) decided to establish its North China information center in Langfang, work on which is still in progress. Langfang has also attracted China Unicom, CSIP National Software and Integrated Circuit Public Service Platform to remove elements of their IT services platform operations from Beijing, with CSIP establishing its cloud storage service operations there in 2012 followed by Unicom establishing its integrated information service base in the city in 2013. The existing close inter-linkage between Beijing and Langfang will further be strengthened by the planned completion of construction of the Daxing No.2 International Airport in 2018, its extensive 40 sq km site area lying two

thirds within Beijing's Daxing District and with remainder in Langfang.

This second airport, which is scheduled to commence operation in 2020, will dramatically improve connectivity between Beijing and southern Hebei. Increased economic linkage will be further cemented by the establishment of a proposed 300 sq km Airport Economic Zone, which has one foot in Beijing's Daxing District while also simultaneously straddling the cities of Langfang and Baoding (Map 6).

At the same time, as Tianjin and the cities of Hebei are proactively leveraging on the opportunity presented by their lower cost base and improved transportation accessibility to integrate their economic development more closely with that of Beijing by hosting the establishment of branches of the capital's hospital and medical care facilities. To cite one example, People's Liberation Army (PLA) General Hospital (301 Hospital) is presently at the early stages of establishing a major hospital, rehabilitation center and cancer treatment center in Zhuozhou, Baoding (Table 3).

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Map 6

Location of Daxing International Airport and proposed New Airport City Development Zone



Source: DTZ Research

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Table 3

## Organizations which have already moved/planning to move from Beijing

Status quo	Company name	Industrial category	Function to be removed/newly set up	New location	Date
<b>Already moved</b>	Huawei	IT, Networking equipment	R&D, manufacturing, maintenance	Langfang, Hebei Province	As 2008
	ICBC	Bank	E-bank back office (Shijiazhuang center)	Shijiazhuang, Hebei Province	As July 2010
	An Bang Insurance	Insurance	Back office center	Langfang, Hebei Province	As August 2010
	CSIP National Software and Integrated Circuit Public Service Platform	State-owned public service	Cloud storage services platform	Langfang, Hebei Province	As 2012
	Alibaba, JD.com, VIP.com, Amazon, Jiuxian.com, Womai.com, etc.	E-commerce	Storage and logistics department	Wuqing District, Tianjin	As 2013
	China Unicom	Telecommunication	China Unicom's North China integrated information service base	Langfang, Hebei Province	As September 2013
	Zhongguancun Science park	Science park	New branch park of Zhongguancun IT Industry Park	Qinhuangdao, Hebei Province	As May 2014
	Dangdang.com	E-commerce	"Galaxy I" storage centre, North China headquarters	Tianjin	As July 2014
<b>In the midst of moving</b>	Beijing No. 8 Middle School	Education	Beijing No. 8 Middle School Gu'an branch campus	Gu'an, Hebei Province	As July 2014
	PICC	Insurance	North China Information Center	Langfang, Hebei Province	As March 2013, still in progress
	Peking University medical & health industry base	Health & Medical	New hospital, Health research centre and service facilities	Qinhuangdao, Hebei Province	As August 2013, still in progress
	BAIC	Automobile manufacturing	The whole manufacturing factory	Cangzhou, Hebei Province	As December 2013, still in progress
	PLA General Hospital	Health & Medical	Medicine R&D, recuperate function, new hospital specializing in tumor therapy	Zhuozhou, Hebei Province	As May 2014, still in progress
<b>Planning to move</b>	Beijing Lingyun Construction Materials	Chemical material manufacturing	The whole enterprise	Handan, Hebei Province	As May 2014, still in progress
	CMST Logistics, Cainiao Logistics, COSCO Logistics	Logistics	Logistics departments & warehouses	Baigou, Hebei Province	As February 2014, still in progress
	Beijing Zoo clothing wholesale market	Clothing wholesaling	Most of the tenants	Langfang, Hebei Province; Tianjin	As 2014, still in progress
	Dahongmen clothing wholesale market	Clothing wholesaling	Most of the tenants	Gu'an, Yongqing & Baoding, Hebei Province	As 2014, still in progress

Source: DTZ Research, XXX

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## Establishing CER impacts on regional land markets

### Some companies have been faster off the market to benefit from change in the urban region

Along with the initial release of the plan to establish a more economically integrated CER more than a decade ago, a number of forward looking China real estate development companies began land banking and initiating development projects as early as 2002 in a number of localities which were clearly positioned to benefit from substantial upgrading which would result from the eventual implementation of the plan.

Domestic development companies such as Greenland, Guangzhou R&F Properties, Beijing Vantone Real Estate, Hongkun Real Estate Group, China Fortune Land Development Co. Ltd were all quite early in taking major positions within the CER. Perhaps the most aggressive of these companies, China Fortune Land Development Co. Ltd. entered the Gu'an Industrial Zone as early as 2002, and acquired, at very low cost, the development rights to 1,500 sq km of land in the urban fringe areas of Beijing. On the strength of having acquired this sizeable initial land bank, China Fortune Land Development Co. Ltd., went on to develop a total of 12 industrial new towns, of which four are situated in county seat towns or subordinate cities in the greater Langfang municipality, namely Gu'an, Xianghe Yongqing, Bazhou, as well as in eight other county seat towns in Hebei. In 2013, China Fortune Land Development Co. Ltd further moved to accumulate additional new land bank, and through competitive bidding process acquired more sites in Tianjin, and also more land in the Langfang subordinate city and county seat towns of Gu'an, Dachang and Xianghe as well as in the Zhangjiakou county seat town of Huailai and elsewhere in Hebei.

### The single largest beneficiary of recent land value appreciation has been Beijing's Daxing District

After the speeding pace of economic integration within the CER was elevated by the Central Government to being a matter of national strategic importance in February 2014, amongst the clearest beneficiaries of these policy moves have been Beijing's Daxing District, Tianjin's Wuqing District and five cities and counties in Hebei which are positioned to enjoy extensive initial benefits from this change in Central Government policy settings, namely the Langfang municipality as well Gu'an, Baoding, Shijiazhuang, Qinghuangdao.

However, in fact, the largest beneficiary, with respect to the Central Government's move to speed up the economic integration of urban areas within the CER has been Beijing's own southernmost Daxing District. It should be pointed out that the dramatic rise in commercial land values in Daxing,

which commenced in 2011 was not solely attributable to its strategic location within the framework of the CER master plan, but was also partially due to the substantial appreciation recorded by Beijing's commercial land market within the past four years. Hence, at the time in February 2014, when the Central Government made plain its intention to move into fast forward with respect to finalizing and implementing the plan, Daxing was already the focal point of substantial investment interest. To cite just one example, Daxing District has five different economic and technical development zones, led by Yizhuang Economic & Technical Development Zone, all of which have been major focal points for both commercial and industrial land acquisition during the past 4 years. Developers who have acquired substantial land bank in Daxing include Vanke, Poly Real Estate, Sunac China, Beijing Capital Development Holding Group, Beijing Urban Construction Group and the Thai Hot Group. On the back of this persistent investment activity, commercial land values in Daxing District have risen by 470 % in the three and a half year period between 2011 and mid 2014.

### Tianjin's Wuqing District has also successfully leveraged off of its strategic location to attract substantial interest

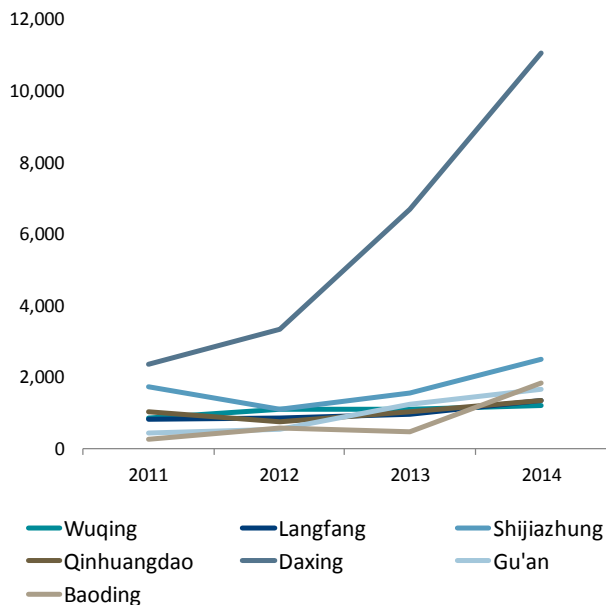
Apart from Beijing's southernmost Daxing District, Tianjin's Wuqing District, situated in the municipality's northwest edge, has seen its attractiveness to industrialists, developers and investors enhanced by its strategic location, directly at the point of intersection between Tianjin, Beijing and Hebei Province. Consequently, apart from attracting the interest of major e-commerce firms such as Alibaba, Amazon and Dangdang.com to establish logistic bases, and commencing in 2011 it has also attracted development interest from Poly Real Estate, Evergrande Group, CITIC Real Estate, Sino-Ocean Real Estate and the Thai Hot Group, these latter developers having mainly invested in low-density residential property and high-rise and multi-storey apartment projects while investment activity in hi-tech parks was more dominated by local government backed development companies and other local developers.

In addition, Wuqing has attracted some very large, mixed use developments, such as the International Merchandise Exchange and Exhibition Center, which was launched for phased construction in 2011. Completion and commencement of operation of this major new downtown landmark will underscore Wuqing's status emerging commercial hub in its own right. As a consequence of this intense investment activity, commercial land values in Wuqing have risen by 138% in the three and half year period between 2011 to mid-2014.

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Figure 4

Land value across the CER between 2011-2014 (RMB/sq m)



	2011	2012	2013	2014
Wuqing	870	1091	1092	1199
Langfang	822	854	956	1344
Shijiazhuang	1742	1098	1566	2510
Qinhuangdao	1019	742	1021	1340
Daxing	2357	3352	6713	11061
Gu'an	438	527	1247	1650
Baoding	278	564	457	1849

Source: CREIS, DTZ Research

Regardless as to whether they have chosen to enter into strategic partnerships with local government authorities to undertake primary development or acquired land through auction, tender or public listing process, this recent central government mandate to accelerate economic integration within the CER has proposed itself to many developers and investors as a special window of opportunity.

## Within Hebei, Langfang has emerged as a clear winner from the move to accelerate regional economic integration

Within Hebei itself, Langfang and a number of its counties have benefited from both the original plan to establish the CER and the more recent move to accelerate the pace of regional economic integration. The coming completion of the Daxing International Airport, which is already actively under construction, will create an estimated 50,000 new jobs in the Daxing/Langfang area. Furthermore, the rail transportation systems which are under planning or already launched for construction in the area surrounding the

airport will, upon completion, place industrial parks like those in Langfang Gu'an and Yongqing within one hour's commuting distance of Beijing. The market's clear perception of this fact has already positively impacted on their land values.

In fact, within the Langfang municipality, Gu'an is one of the counties which is situated most directly proximate to Beijing and therefore has been most favourably positioned with respect to the rapid appreciation in commercial land values which has occurred across the border in Daxing District. At the same time, the coming completion of the Daxing International Airport will inevitably spark further appreciation of commercial land values in an around both the airport and the proposed New Airport City development zone which will surround it. Given that a substantial portion of Gu'an's surface area lies within the new airport development zone, it is inevitable that Gu'an land values will benefit.

Over the past year, the accelerated pace of economic integration of Langfang, with its giant immediate neighbour has aroused the interest of some of China's largest national level developers. In 2014, the Langfang Territory Land Development Construction and Investment Co. Ltd. entered into a strategic cooperation framework agreement with Beijing Vanke Company Ltd to develop logistics parks as well as new industrial zones within the city.

While China Vanke has in the past been a primarily a residential developer, the company has nevertheless been strongly attracted to undertaking projects which the region's economic integration immediately requires. Within the region, Vanke has taken stakes in two major projects, namely a Langfang New Industry Model Development Zone Logistics Park project and the Wanzhuang New Eco-city project as its two initial "signature" projects.

National developers such as China Fortune Land Development Co.Ltd and municipal level developers like Langfang Xin'ao Real Estate Co. Ltd. and Gu'an Fumin Real-Estate Development Co., Ltd. have already snapped up numerous prime land parcels. As a consequence, recent land values have risen by 276 percent in the 3.5 year period between 2011 and H1 2014.

Places like Shijiazhuang and Baoding have also seen considerable recent rise in commercial land values, all of which are either directly or indirectly the result of the stimulating effect of the plan to speed up the economic integration between Beijing and the cities in its immediate hinterland. Shijiazhuang, while not so closely proximate to Beijing as Langfang, is nevertheless destined to benefit as the capital of the province whose main urban centres Beijing is now drawing more tightly into its embrace.

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Shijiazhuang has benefited in recent years not merely the launching of HSR and connectivity to Beijing in late 2012 but also from the launching of major environmental clean-up and a related major urban regeneration program. Shijiazhuang, which up until fairly recently suffered from severe pollution emanating from heavy industrial plants located in its city center, has seen these plants shut down and the launching of a project to completely re-develop 3.8 sq km of its downtown area, creating what will effectively be a new city center for Shijiazhuang. With both major national level developers like China Resources as well as local municipal developers such as Hebei Binjiang Real Estate Development Co directly involved, the synergy achieved between local and national players in this urban redevelopment process has driven commercial land values in Shijiazhuang to rise by 44% in the 3.5 period from 2001 to H1 2014.

Intense interest was aroused in the Baoding land market when, approximately one month after the Beijing conference in late February, Baoding Mayor Ma Yufeng made national headlines on March 31<sup>st</sup>, informing the press that both Baoding and Langfang are slated to be developed into direct satellite cities of China's capital, intimating that, in the fullness of time that they might actually function as kind of "ancillary capital cities locations." Mayor Ma further supported his assertion by mentioning that some 115,000 hectares of development land have already been set aside by Baoding's town planning authorities, with the intention of setting up three major new zones, each clustered around the one existing and two future three high speed rail stations which already link or will link Baoding to Beijing.

The Baoding municipal government announced that these zones which will be focused on attracting major hi tech firms or the branch campuses of universities and other public services entities. Following this comment, which were the most explicit that had been made to date concerning the removal of certain of Beijing's present functions to cities in Hebei, speculative interest in Baoding

real estate turned hot, and the subject went viral on China's social media. However, even prior to this speculative run on Baoding real estate, Beijing Hongkun Weiye Real Estate Group, LONGJITAIHE Group and Hebei Xiulan Real Estate Group all increased their holdings in Baoding in the period from 2012 to early 2014 As a consequence of this intense surge in land banking and related investment activity, commercial land values in Baoding rose by 565% within the 3.5 year period.

**While more remote than the inner satellite cities, Qinhuangdao has emerged as another major beneficiary of the economic integration process**

The remaining Hebei market which put in an unusually strong performance, with respect appreciation in commercial land values between 2011-2014 has been Qinhuangdao. Although situated approximately 290 km from Beijing, Qinhuangdao has successfully leveraged on its on its port based logistics economy and its valuable tourist resources, in the form of its attractive beaches in its Beidaihe suburbs, to emerge a major beneficiary of the movement to speed up the economic integration within the CER, and therefore has emerged as a strong focal point of market interest. This, in turn, has stimulated the influx of a substantial amount of both industrial and commercial development investment in the city. Not only did Beijing Zhongguancun Hi-Tech Zone select Qinhuangdao as the location of its first branch hi-tech park in China but a number of major China real estate developers have recently launched projects in the city, including Beijing Vanke Real Estate Company Beijing Guohua Real Estate Co. Ltd., Hebei Yibang Real Estate Co. Ltd., Beijing Vanke Real Estate Company, LONGJITAIHE Group etc. As a consequence of this intense investment activity, commercial land values in Qinhuangdao have risen from by 31% from 2011 to mid-2014. However, on the strength of recent corporate relocation to Qinhuangdao, strata title office prices in Qinhuangdao have risen even more briskly, appreciating by 70% within this 3.5 year period.

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## Conclusion

While the recent flurry of news concerning acceleration of establishment of the Capital Economic Zone may have excited a wave of speculative acquisition in places like Langfang and Baoding in 2014, the true impact of the acceleration of the establishment of the CER will be felt over a much broader geographic area. In addition, despite the aggressive land banking moves made by a number of local developers with close ties to the region, the impact of the progressive implementation of the master plan will not be instantaneous, but will rather have positive but differing impact on individual markets, over the medium to longer term, progressively.

However, while the character of traditional heavy industrial manufacturing base of some cities in Hebei such as Tangshan Caofengdian, Cangzhou and Handan will inevitably be strengthened, the real winners, in the industrial restructuring which will result from the region's closer economic integration will be those cities which will see their industrial structure substantially upgraded. These

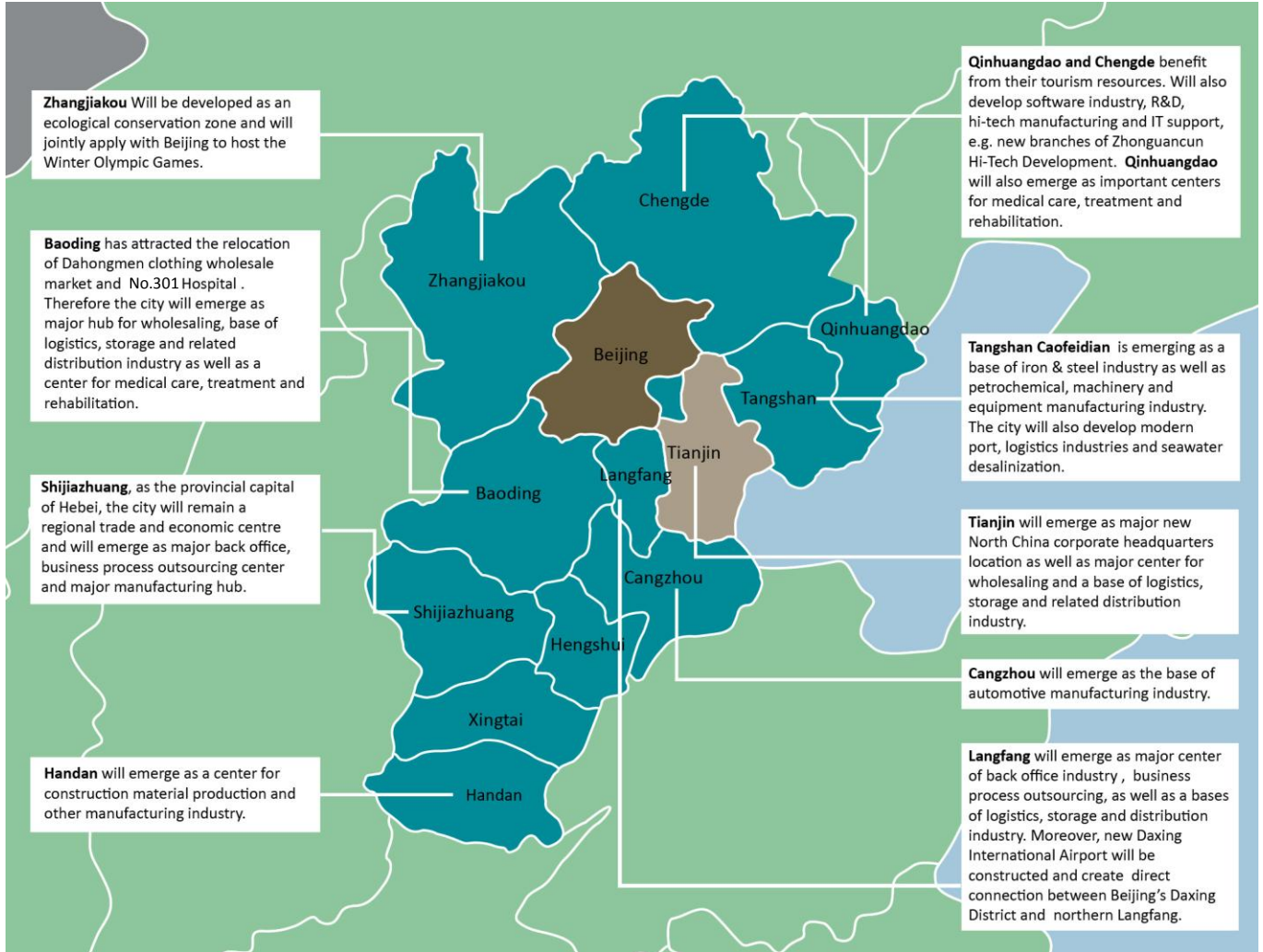
include Wuqing and Baigou, which will emerge as major bases of logistics, storage and distribution as well as Langfang Gu'an and Shijiazhuang, which will emerge as major hubs for wholesaling and related distribution. Langfang, Baoding, Shijiazhuang and Qinhuangdao will also benefit, from their being positioned to emerge as major industrial hubs for R&D and software development, hi-tech manufacturing, IT support and back office industry. At the same time, Zhuozhou, Qinhuangdao and Yanjiao will benefit from being re-positioned as important center for medical care, treatment and rehabilitation (Map 7).

Based on the above, it is clearly the case that the major beneficiaries of the plan to de-congest Beijing are precisely those cities in Hebei, which formerly comprised Beijing's heavily industrialized hinterland, which will shortly be capturing its run off of expanding or non-core high-tech, knowledge intensive and public service industry function.

# Establishing the Capital Economic Region

Map 7

## Planned upgraded functionality of ten cities in Hebi under regional integration plan



Source: DTZ Research

# Establishing the Capital Economic Region

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