BRITISH COUNCIL

Linking Real Estate Market to Education

<u>The China50: Fifty Real Estate Markets that Matter</u> report, recently released by Jones Lang LaSalle, looks at 50 second and third tier cities across mainland China that have significant potential growth in commercial and residential property. The conclusion is supported by an analysis of economic, political and social drivers for the growth of the 50 cities on the basis of 280 Chinese cities.[1]

Though focused on the real estate market, the report is useful in terms of understanding China's education market from two perspectives. First, the real estate market is supported by a burgeoning local economy and consumers with substantial wealth are also willing to invest in the education of their children and themselves. Second, the real estate industry covers a wide range of sectors including retail, logistics, hospitality, hotels, and business parks, all of which will shed light on the features and subject focus of the 50 cities. Therefore, we will look to match the British Council's market development strategy *(Education UK marketing)* in China to this report in terms of key market identification, market demand development, trends in industry strategic focus, market penetration and the diversification of real estate related subjects.

1.   An overview of the report

The China50, measured against four Tier 1 cities, **Beijing**, **Shanghai**, **Guangzhou** and **Shenzhen**, have a combined economic value of US $2.9 trillion, which made up 26% of China's economy in 2011. It is estimated that the China50 will have an economic value of US $6.7 trillion by 2020, outpacing the rest of China's economy.   Break this down, and it is predicted that the China50 will account for 32% of China's economy and 12% of global economic growth.   Additionally, the China50 have a population of 630 million in its wider urban area, of which 66 million households have an annual income exceeding US $5,000.   [2]

It is an ideal time for institutions looking for international education market opportunities to think about switching some of their attention from the T1 cities to some of these 50 cities for new business growth. Jones Lang LaSalle have developed a city hierarchy of the China50 as shown below:[3]

T1 Core cities	Beijing, Shanghai, Guangzhou and Shenzhen
T1.5 Transitional cities	Chengdu, Chongqing, Shenyang, Hangzhou, Tianjin, Dalian, Wuhan*, Suzhou, Nanjing*

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[1] *China50: Fifty Real Estate Markets that matter, Jones Lang Lasalle*
[2] *Ibid., page 11*
[3] *Ibid., page 7*

T2 Growth cities	Qingdao, Xiamen, Xi'an*, Ningbo, Changsha, Hefei, Zhengzhou, Wuxi, Dongguan, Jinan
T3 Emerging cities	Fuzhou, Kunming, Changchun, Harbin, Foshan, Shijiazhuang, Nanning, Changzhou, Nanchang, Hohhot, Wenzhou, Yantai, Nantong
T3 Early adopter cities	Zhuhai, Guiyang, Taiyuan, Urumqi, Shaoxing, Zhongshan, Jiaxing, Weifang, Tangshan, Xuzhou, Jinhua, Quanzhou, Luoyang, Lanzhou, Haikou, Jilin, Xiangyang, Shantou

* Cities with a markedly high level of education development in terms of tertiary education institutions and higher education enrolment.

- The T1 and emerging Tier 1.5 cities lead the China50 in economic and real estate maturity. Among them **Chengdu,** a city which has become a preferred location for MNCs, is positioned as a prime market for real estate. Likewise, **Chongqing**, also located in western China, has enjoyed significant investment, particularly in infrastructure, in addition to strong government support which has seen its growth skyrocket, frequently ranking as the world's fastest growing city in GDP terms. Both **Tianjin** and **Chongqing** are directly-controlled municipalities which have established special 'new areas' that are set to be major business hubs. Furthermore, **Shenyang's** growth is important to the regeneration of northeast China. **Chengdu**, **Hangzhou**, **Dalian** and **Shenyang** all boast strong growth in the luxury retail sector, which also reflects their large populations with high incomes and strong spending dispositions. These people are the key group of target customers for overseas education, especially school and undergraduate courses.[4]

- The Tier 2 cities also enjoy high levels of per capita income as well as good international transport links.

- Though the T3 cities lag behind the T1-2 cities in economic and real estate market development, the most dynamic ones among them are targeted by international retailers and hotel operators, notably the northeast cities of **Harbin** and **Changchun**, and the southeast cities of **Kunming**, **Nanning** and **Guiyang.**[5]

- It is worth noting that, in the context of China further investing in critical sectors (e.g. industrial-upgrading projects; infrastructure projects in transportation and water conservancy; large projects in agriculture and civil services concerning social security; poverty eradication and basic education) in western, central and northeast regions, these regions have outperformed the coastal regions in both economic growth and investment growth, with strong market forces after the financial crisis. A regional economic layout (the 'Western Triangle'), located in the Chengdu-Chongqing, Guanzhong-Tianshui and Beibu Gulf economic zones has

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[4] *Ibid., page 8*
[5] *Ibid., page 9*

become apparent. This trend is marked by the exceptional performance of **Chengdu**, **Chongqing, Wuhan and Shenyang** in T1.5 cities and **Changsha**, **Zhengzhou** and **Hefei** in T2 cities.[6]

All of the China50 cities have their specific appeal to real estate investment, which opens subject opportunities for overseas institutions to train and recruit talents in those industries.

- In the <u>retail</u> sector, the prime markets are in **Hangzhou, Chengdu** and **Shenyang**, followed by **Tianjin**, **Nanjing**, **Wuhan** and **Chongqing**. In future, **Xi'an** and **Changsha** will have significant growth potential.[7]

- The <u>logistics</u> sector is underdeveloped across all of the China50 cities, and features low-quality facilities and a dominance of local developers. **Tianjin** is positioned as the 'Primary Logistics Hub', while **Suzhou**, **Nanjing**, **Dalian**, **Qingdao** and **Ningbo** have developed into key secondary hubs.[8]

- The identified emerging 'Primary Hubs' are **Chengdu**, **Chongqing**, **Wuhan** and **Shenyang**. The <u>business parks</u> mirror the growth of strategic growth industries such as new IT, biotechnology and clean energy. The current market leaders are **Chengdu**, **Dalian**, **Suzhou** and **Hangzhou**, while the next tier of business park locations will possibly be **Chongqing**, **Xi'an**, **Wuhan**, **Shenyang, Zhengzhou** and **Wuxi**.[9]

- The growth of the <u>office</u> sector reflects the prosperity of financial and business services in one city. Currently, **Chengdu**, **Hangzhou**, **Dalian**, **Nanjing** and **Tianjin** are the market leaders, among which **Tianjin** leads as the centre for foreign banking. The future office market winners are estimated to be **Chongqing** and **Tianjin** for their special 'New Areas' with policy support, and **Wuhan** and **Xi'an** as major regional hubs.[10]

- The top 5 markets for internationally-branded <u>hotels</u> are located in **Hangzhou**, **Tianjin**, **Chengdu**, **Nanjing** and **Wuhan,** which are suitable target markets for sophisticated international hotel management courses.[11]

- Finally, China has grown into a major <u>commercial real estate investment</u> market with most of the transactions taking place in T1 cities. Suppliers in key sectors directly related to this growth, such as healthcare, retail, redevelopment and property management are likely to experience continued prosperity.[12]

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[6] *Ibid., page 9*
[7] *Ibid., page 12*
[8] *Ibid., page 18*
[9] *Ibid., page 21*
[10] *Ibid., page 22*
[11] *Ibid., page 26*
[12] *Ibid., page 28*

2. How we develop these cities – our current market coverage and strategy

The above findings to some extent reflect the British Council's current city coverage and marketing strategy in managing and developing the China market for UK education. They will also help us to make more informed decisions when reviewing the city choice and strategies for the following years to make proper and timely adjustments. From the below form, that lists all of the 45 cities we've been covering in China, with a tailored strategy applied to different tiers of markets, we notice that:

Active Market (15)	North & Central	Beijing, Wuhan, Shenyang, Dalian, Qingdao, Jinan, Xi'an, Zhengzhou
	East	Shanghai, Hangzhou, Nanjing
	South west	Chongqing, Chengdu
	South	Guangzhou, Shenzhen
Developing Market (6)	North & Central	*Harbin, Shijiazhuang, Tianjin*
	East	Ningbo, *Suzhou*
	South	Changsha
Light Touch /Reactive Markets (24)	North & Central	Taiyuan, Anshan, Yantai, Weihai, Luoyang, Baoding, Huhehot, Lanzhou
	East China	Jinhua, Wenzhou, *Wuxi, Hefei*
	South west	Kunming, Guiyang
	South China	Nanchang, Zhuhai, Foshan, *Xiamen,* Nanning, Zhongshan, Shantou, *Dongguan*, Zhuhai, Fuzhou

- **All the Jones Lang LaSalle T1-1.5 core and transitional cities and some of their T2 growth cities are listed as active or developing markets by us.**

  For the B2C business in these cities, the market demand for overseas education has already been extremely high with very strong economic and international connectivity as back up. Target audiences with specific needs and objectives are expecting very in-depth and tailored information which could help them to make informed decisions when selecting country and courses.

  For B2B business, the local partners are also very experienced in international collaborations and have existing partnerships with many overseas partners. As such, they are looking for high quality programmes (especially new programmes) with top partners in subject areas that address the strategic focuses of local economic development.

  Therefore, we've been focusing our efforts on providing tailored and specific information to carefully segmented target groups, raising the profile of the UK and UK education as a whole, as well as highlighting the strength of UK institutions in

different subject areas (rather than overall rankings). Strengthening marketing partnerships with local education partners such as authorities, institutions, agents and business partners, leveraging partners' resources to promote UK education and supporting the existing China-UK partnership programs are also important for us to position UK as a partner of choice for education partnerships.

- **All of the Jones Lang LaSalle T2 growth cities are listed as 'active' or 'developing' cities by us except for *Wuxi, Hefei, Xiamen and Dongguan*, which we listed as 'light touch/reactive cities'.**

  Market demand for both student recruitment and partnership programs has been increasing very quickly in the 6 developing markets we are currently working in, but some target students still lack in-depth knowledge of UK education, especially school education, and many local institutions still haven't established formal, joint programs with UK institutions.

  Therefore, we've been focusing on developing active local partner networks to gain their buy-in and facilitate their partnerships with UK counterparts, building our partners' capacity and knowledge of UK education promotion, and improving the profile and in-depth understanding of UK education among target students and parents in these markets.

- **For Jones Lang LaSalle T3 emerging cities, we covered all of them as our 'reactive' or 'light touch cities' except for Changzhou and Nantong.**

  We also covered some T3 'early adopter' cities including Taiyuan, Jinhua, Guiyang, Zhongshan, Zhuhai, Lanzhou, Shantou and Luoyang as our 'light touch cities', where we focus on reactive cities by remotely supporting and working with local partners to promote UK education and raise the awareness and profile of UK education among target audiences and partners.

3. **Opportunities for UK institutions**

- **Opportunities in subject areas and levels of study**

  For T1-1.5 cities, where the market demand for overseas education has already been extremely high, with very strong economy and international connectivity as a back up, market needs for school and undergraduate study, which used to be perceived as luxury products for Chinese families, has been increasing very quickly, especially in Chengdu, Shenyang, Hangzhou, Suzhou and Dalian.

  In addition, the rapidly developing real estate industry also requires talents in more highly segmented fields such as retail, office sectors, and logistics, with a city-specific focus as stated above, rather than traditionally popular subjects like

business and management. Meanwhile, students, especially those in T1-1.5 cities, are looking more at "*what I would be interested in studying*" rather than simply following others to study "*what is hot in the market*" given stronger financial capability and wider exposure to diversified information and choices.

- **Opportunities in new cities**

  It is worth noting that Wuxi, Hefei, Xiamen and Dongguan, which used to be our 'light touch markets' have been defined by Jones Lang LaSalle as Tier 2 growth cities with strong economic growth as well international connectivity. Changzhou and Nantong, which we didn't cover, are also defined as 'emerging cities'. Further review on these cities based on visa figures, feedback from partners and student survey results will be conducted and we will put some focus on the four Tier 2 growth cities to develop local partner networks and raise the profile and in-depth understanding of UK education among target audiences. Finally, we will also put Changzhou and Nantong on our 'reactive' radar to gauge their market potential.