



The “Hainan” Lesson in China’s Real Estate Industry- The Overheated Hainan Housing Market in the Early 1990s and its Influence

Rui Pan

Department of Leadership, Organisation and Behaviour

Henley Business School

The University of Reading

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Supervisor:

Professor Andrew Godley

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Declaration of Originality

I confirm that this is my own work and the use of all material from other sources has been properly and fully acknowledged.

Rui Pan

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Abstract

This dissertation examines the development of the Chinese real estate sector since the 1980s, with a particular focus on the role played by private developers. The existing literature on the development of the Chinese real estate sector over the past forty years is dominated by discussion about the role of government policy. The role played by entrepreneurs in the current academic literature is secondary to government policy and largely passive. This dissertation focuses on a case study of a group of real estate entrepreneurs who were widely recognised in China as leaders of the real estate industry during the 2000s. It suggests that their role in the development of the real estate sector was more than passive, and that they acted with genuine entrepreneurial creativity. The research also suggests that the entrepreneurs considered here were impacted by events in the early 1990s in the real estate sector on Hainan island, which saw a bubble in real estate prices, which then collapsed.

The development of the Hainan real estate market in the 1990s is an important phase for Chinese real estate industry. The real estate entrepreneurs completed the original capital accumulation in this process, and accumulated experience in the process of the real estate bubble. The bubble and its bursting had a profound impact on the entrepreneurs' future business operations. However, very few studies are found in the existing academic literature about the role the entrepreneurs, i.e., the private developers in the market who played a fundamental role throughout the whole process and the experience they gained from the Hainan bubble.

The study aims to develop research on the experience the real estate entrepreneurs gained from Hainan bubble and the impact on their future business. Three rounds of interviews were conducted with the entrepreneurs, scholars and government officers. Key findings suggest that the experience of the Hainan bubble deeply impacted the entrepreneurs. Imprinting theory has been used to explain the consequences of their future behaviour from having experienced such a deeply impactful experience.

The dissertation suggests that their experience in the Hainan bubble made these real estate entrepreneurs pay more attention to controlling business risks. This helped them to operate steadily from 1995 to 2008, and their businesses developed smoothly. However, after the 2008 financial crisis, the conservative management style also resulted in these entrepreneurs missing opportunities that then appeared in the development of the real estate market, and these entrepreneurs, who had been the market leaders during the early 2000s, were surpassed by later ones after 2008. The impact of the Hainan bubble on the entrepreneurs was so profound that its effects were still felt long after.

Keywords: Hainan bubble; Real estate; Entrepreneur; Imprinting theory; China

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1 Introduction

Property ownership has always been significant in Chinese culture. However, Chinese attitudes to property ownership have also been somewhat ambivalent. In the recent past, with the experience of house prices rising quickly in top tier cities, such as Beijing, Shanghai, Guangzhou and Shenzhen, that remains the case. In the most recent 19th National Congress of China, President Xi Jinping, addressed issues in the current real estate market, clarifying that “houses are meant for living in, not for speculation”.

While the central government is attempting to control housing prices, entrepreneurs and investors have a different view. In December 2016, Ren Zhiqiang, former president of the HuaYuan Group, one of the leading real estate developers in China, declared in a public speech that housing prices are certain to rise, and if they fall, government officials will be more concerned than the general public.

Similar ambivalent views towards the real estate market are held, not only by government officials, but also by the general public. Lower income citizens want to be able to afford to buy their own houses, and middle and higher-income groups, want, on the one hand for housing prices to fall into a range that they could afford to live more comfortably, however, they also hope that housing prices will rise even higher so that they can make a profit from houses they have already bought.

The development of the real estate market in China, which evolved from nothing to a giant sector was estimated to account for more than 15% of China's GDP in 2014 (Chivakul et

al., 2014), is a fascinating case to study, for its remarkable growth over the past 40 years. Before 1978, all the land in the People's Republic of China was owned by the state. From 1979 to 2010, the introduction of the "socialist market economy," along with a series of changes in housing policies beginning in the mid-1980s, had enabled and propelled a private housing segment that now dominates the real estate market (Wills et al., 1999; Zhou, 2013). Drawn by its uniqueness and complexity, many researchers have conducted detailed studies concerning the emergence and development process of the Chinese real estate market. Development within the real estate sector has been highly uneven. For the purposes of this present study, it is essential to review some of the most significant cyclic periodization and the detailed explanations for the peaks and troughs of the industry's development in China.

1.1 Hainan was established as a special economic zone

1988 was the tenth anniversary of China's reform and opening-up policy. Four special economic zones, such as Shenzhen, Zhuhai, Xiamen, and Shantou, developed well, but whether coastal city experience can be applied to the vast rural areas was still unknown. The central government urgently needed another city to deepen the open experimental field. This time, Hainan, the southernmost island of the mainland, was chosen.

At that time, Hainan was part of Guangdong Province. It was an authentic rural island, and the unique geographical conditions independent of the mainland made the island an ideal experimental place. In 1988, the People's Government of Hainan Province was officially listed. The central government's idea was to build a completely new special economic zone

in Hainan Province. The legendary story of Guangdong, Zhejiang and other places that have risen rapidly in the reform and opening-up has attracted a multitude of risk takers. Entrepreneurs, teachers, and university students headed to Hainan, eager to seize the opportunity of changing their lives in the historical transformation.

Today's real estate entrepreneurs Feng Lun, Pan Shiyi, and others, are among these people. Feng Lun was a member of the Central Political System Reform Research Group at that time. He came to Hainan to investigate its potential for development. Pan Shiyi, who worked in a state-owned enterprise before, went to Shenzhen, and later, to Hainan.

In 1991, the Vantone six gentlemen, the founders of Vantone Group, met for the first time. They were Feng Lun, Wang Gongquan, Pan Shiyi, Yi Xiaodi, Wang Qifu, Liu Jun. They set up the Hainan Agricultural High-Tech Joint Development and Investment Corporation in Haikou, penetrating the real estate industry. In consideration of the lack of funds for developers and the government's urgent need for money, the sector was finally liberalized. In 1991, the State Council issued the "Opinions on Comprehensively Promoting the Reform of Urban Housing Systems" to clarify the development direction of the real estate industry. In 1992, the real estate market in Hainan began to expand rapidly.

In 1989, Hainan's real estate investment was only 320 million Yuan. By 1992, the province's real estate investment reached 8.7 billion Yuan, accounting for half of the total fixed assets investment and 40% of the province's fiscal revenue. House prices also soared. In 1991, the average price of real estate in Hainan Province was 1,400 Yuan/ square metre.

In just one year, the price soared to 5,000 Yuan / square metre. At that time, the average price of real estate in the country was only 995 Yuan / square metre.

There were more than 20,000 real estate companies in Hainan province; most of which were not real companies but focus on speculation. Real estate speculators were mainly state-owned enterprises and private enterprises with government relations because only they could receive government approval. The large number of loans involved were headed by four major commercial banks. The capital of bank funds, state-owned enterprises, and private enterprises had been continuously flowing into Hainan through various channels, with a total of at least 100 billion Yuan. Almost all developers had become bank debtors. Furthermore, the ultimate risks were borne by the banks.

1.2 The Hainan real estate bubble

In the second half of 1993, the aggressive growth of the real estate bubble in Hainan aroused the central government's concern, leading to the introduction of China's first real estate regulation policy, and the history of China's real estate regulation began here.

On June 23, 1993, Zhu Rongji, then vice-premier of the State Council announced the termination of the listing of real estate companies and the full control of bank funds for the real estate industry. Regulation was an increased burden for the banks already in full austerity, and the Hainan real estate boom that had been unleashed was suddenly taken by surprise.

The legacy of this regulation was that Hainan Province, which accounts for 0.6% of the country's total population, accounted for 10% of the country's backlog of commercial construction. The province's "unfinished building" had more than 600 buildings, more than 16 million square metres, 18,834 hectares of idle land, a backlog of 80 billion Yuan, and 95% of 13,000 real estate companies in Haikou closed down. The bad debts of the four major state-owned commercial banks alone amounted to 30 billion Yuan. Many banks had a non-performing asset ratio of more than 60%.

When the Hainan real estate bubble burst it resulted in a hard landing for the entire national real estate market with prices plummeting, and the real estate market being frozen. Starting in 1999, Hainan Province spent seven years disposing of the backlog of real estate. As of October 2006, the province has disposed of 23,353.87 hectares of idle construction land, accounting for 98.17% of the total idle amount, and disposed of 4,448,200 square metres of commercial construction, accounting for 97.6% of the total backlog.

1.3 The impact of Hainan real estate bubble on entrepreneurs

The crisis arose in Hainan. At that time, in order to verify the approval of a project, Pan Shiyi was allowed to check the relevant internal information for the cost of 5lb of oranges and a pack of cigarettes. He unexpectedly found that the per capita housing area under construction in Haikou had reached more than 50 square metres, while the per capita housing area in Beijing during the same period was only 7 square metres. Intuitively, Pan Shiyi realized that “real estate in Hainan was going to have an accident,” and Vantone six

gentlemen hastily retreated to Beijing, thus correctly avoiding the bursting of the Hainan real estate bubble in the second half of 1993.

After the Hainan debacle, under the guidance of Feng Lun, Vantone proceeded to dominate in multiple sectors, and several partners each took up the mission and expanded nationwide. Pan Shiyi went to Beijing, Yi Xiaodi went to Guangxi, and Wang Qifu went to Shenzhen. By 1995, Vantone had blossomed everywhere, in real estate, finance, commerce, venture capital, communications, medicine, and the culture industry, and assets reached nearly 5 billion Yuan.

In 1995, Vantone six gentlemen officially broke up. The detachment was divided according to the business that each person had initially managed because several partners were both in the Vantone Group and the managers of each branch. Ten years later, the original group became smaller and smaller and finally broke into units of independent individuals. The final result of the breakup was more than 30 real estate chairman and general manager which had split from Vantone. Vantone is also known as the Whampoa Military Academy for real estate in China.

The development of Hainan real estate not only allowed the Vantone six gentlemen to become rich, but the bursting of the real estate bubble also profoundly affected their business operations. The impact of Hainan's experience on the Vantone six gentlemen was, on the one hand, the emphasis on the establishment of a modern enterprise system and a professional management system. On the other hand, it attached importance to risk control,

such as the preference for cash and equity financing, and does not blindly pursue land reserve.

1.4 Entrepreneurs class 1992

In 1992, China established a socialist market economy system, and the modern entrepreneurial group officially debuted. These people, well embedded in the system, skilfully used the planned economy to seize the beachhead of the market economy and rely on institutional advantages to quickly seize a historic opportunity and learn from the experience of developed countries. These individuals became pioneers and leaders of the industries, forming an essential group of private entrepreneurs in the process of China's reform and opening up - "entrepreneurs class 1992."

In the late 1980s and early 1990s, with the drastic changes in Eastern Europe and the disintegration of the Soviet Union, the entire socialist camp was in unprecedented turmoil. At that time, the political and economic blockade imposed on China by Western countries forced China into an unprecedented predicament. In the two or three years before the beginning of 1992, the whole of China, whether political or economic, was in a low state, shrouded in a dull, depressed, and doubtful atmosphere. Many people in the party sensed a crisis. Reflections on notions of "capitalism" and "socialism" began to pervade thought and public opinion.

This made Deng Xiaoping aware of the seriousness of the problem. In January 1992, Deng Xiaoping, 88 years old, quietly boarded a regular green-liveried train with the help of his

daughter Deng Nan. The trajectory of this train has changed the fate of many people and of the entire country. During the southern tour, Deng Xiaoping warned that for socialism to have a future, reform and opening up, developing the economy, and improving people's lives was necessary. Development was the last word. As long as the changes were conducive to the development of the productive forces of a socialist society, to the enhancement of the comprehensive national strength of the socialist countries, and the improvement of the people's living standards, it was necessary to carry out these reforms.

The "Southern Speech" promoted a new round of ideological emancipation. More importantly, it accelerated China's pace of opening up to the outside world and to the private economy. The enormous waves caused by Deng Xiaoping's talks in the South made many to feel the unprecedented political implications, and many realized there were substantial business opportunities. A large number of officials and scholars stepped out of the system and joined the commercial sector, thus setting off an unprecedented tide of the commercial expansion.

In 1992, it became a significant turning point in reform and opening up, and it became an opportunity for groups of people to change their life trajectory and realize their potential. According to the statistics of the China Business Times, at least 100,000 party and government cadres and intellectuals in the country went to Hainan to do business. Feng Lun was among them. In Hainan, he met several like-minded people - Wang Gongquan, Pan Shiyi, Yi Xiaodi, Wang Qifu, and Liu Jun. These people, followed Feng Lun, in

resigning from government departments. Later, they became known as the "Vantone six gentlemen," and they became one of the China's leading business communities.

Each of them was successful in different fields. This group of extremely talented entrepreneurs, starting from scratch, started an active youth group of business leaders, known as the "entrepreneurs 1992 class."

Deng Xiaoping's 1992 southern tour put China on the road to reform and opening up. Later, the State Commission for Reform and Reform promulgated the "Standard Opinions on Limited Liability Companies" and "Standard Opinions on Joint Stock Companies." No generation of entrepreneurs since the "entrepreneurs 1992 class", have had such a deep and unified group character and reputation.

This group of officials and intellectuals who were influenced by Deng Xiaoping's "Southern Tour" speech and took the initiative to start businesses have now been influencing the market for 27 years. Their life experiences, entrepreneurial stories, and ideas have brought profound inspiration to people who are concerned with China's economic reform and corporate growth.

The "entrepreneurs 1992 class" do have certain characteristics. They do not do small business, but they have the ambition to use significant capital investments to start and grow big businesses. In the choice of industry, they often do not choose traditional manufacturing, rural enterprises, for instance, but choose modern service industries, such

as financial services, auctions, credit evaluation, futures, insurance, real estate, and other industries. They are particularly adept at drawing on the mature experience of developed countries, introducing foreign advanced industries into the blank areas of the Chinese market, and soon becoming the pioneers or leaders of specific industries, and the "entrepreneurs 1992 class " has become a symbol of the development of China's private economy.

The reason why the "entrepreneurs class 1992 " has rapidly grown into a considerable force in the Chinese business community is not only that this generation of entrepreneurs fundamentally reversed traditional business ideas, but also because this group used modern strategic management methods. Through the establishment and innovation of modern enterprise management systems, and the modern business model, it has promoted the disintegration of the old system, and the establishment of a new system which recognises the strength and vitality of the individual and private economy and transformed the modern enterprise development and private economy in China. The " entrepreneurs class 1992" are undoubtedly the earliest group of entrepreneurs in China with clear shareholder consciousness.

Looking back at the history of the growth of Chinese companies, it is clear that before 1992, China did not have a modern enterprise system. Before this, only state-owned, collective, township, and foreign-funded enterprises were characterized, and equity was single and unclear. The emergence of the "entrepreneurs class 1992 " helped establish China's modern enterprise system. Enterprises have apparent property rights. At this point,

the Chinese private economy has officially entered the fast lane of development and growth. The establishment of a property rights system finally led these entrepreneurs to own their wealth. Today, the "entrepreneurs class 1992" are still active in the Chinese business arena. In the history of China's contemporary private economy, they have left their indelible footprint.

1.5 Summary and research questions

The development of the Hainan real estate market in the 1990s not only accumulated valuable experience for the Chinese real estate market but also cultivated the first batch of crucially important real estate entrepreneurs in China. These real estate entrepreneurs completed the original capital accumulation in this process, and accumulated experience in the process of the real estate bubble, which has had a profound impact on business operations. They are also examples of the well-known entrepreneurs class 1992.

The key research questions focus on: 1) to understand the impact of the bursting of the Hainan real estate bubble on the subsequent business practices of the Vantone six gentlemen and, 2) how these business practices by such prominent entrepreneurs influenced the subsequent development of the Chinese real estate industry overall. By studying the impact of the early Hainan real estate market and the real estate bubble on these entrepreneurs, the development process of China's real estate companies, the real estate industry, and China's economy can be better understood. Due to the lack of relevant historical data, this research will mainly study these issues through interviews. The

interviewees include entrepreneurs who experienced the Hainan bubble, government officials and scholars in related fields.

The findings show that the experience of the Hainan bubble has forced these real estate entrepreneurs to pay more attention to controlling business risks, which enabled them to operate steadily from 1995 to 2008, when companies developed smoothly. However, after the 2008 financial crisis, the conservative management style also resulted in these entrepreneurs missing developmental opportunities in the real estate market, and the scale of the company was surpassed by later entrepreneurs.

2 Literature review

After the 1978 reform, the Chinese political economy was still a semi-planned economy: all real estate developers had to be state-owned, and lands were untradeable (Ren, 2015). The rapid development of the Chinese real estate industry was influenced by two significant policy changes: first was the reform of the urban housing system; the second was the reform of state-owned land in urban areas system (Walker and Li, 1994; Ding, 2003; Zhang, 1997; Han, 1998; Liu et al., 2005; Fung et al., 2006). Through these two reforms, land usage and leasing markets emerged, which led to the commercial-residential building market and second-hand housing market. They also led to the establishment of the markets for house property mortgage, evaluation, broking, and management activities. Real estate properties became marketable commodities that were tradable and investable. The increasing size of the industry enabled it to have an impact on finance and social security, as well as the wellbeing of the Chinese economy. Therefore, the government not only needed to develop the industry but also to control and drive it to conform to its plan, because the real estate industry is one of its essential elements and a vehicle for the government to manage the economy. While several leading private sector entrepreneurs developed the Chinese real estate sector, the sector was wholly dependent on the government permission and approval to encourage its development. This dependent behaviour, unlike the public sector, was always complicated and inevitably subject to misunderstanding and miscommunication between the private market and entrepreneur. However, the sector emerged in several distinct stages. The development of the Chinese real estate market can be divided into the following phases: first the initial shaping phase;

second the overheating phase; third the adjustment phase; fourth the new growth phase; and then the regulating phase.

2.1 Initial shaping phase

Before 1978, there was no estate industry or market, but only a construction industry. By 1991, the housing system reform and land system reform had enabled both real estates and lands to be treated as tradable commodities and resources (Zhu, 1999; Lai, 1995), signalling the origin of China's real estate industry.

2.1.1 Housing system reform

Before the 1978 reform, urban housing was constructed by the government. It was not obtainable through market transactions but through state allocation. After allocation, the government only demanded rent in return (Zhang, 2000). According to Wang and Murie (1999), not only was the rental income insufficient to make a profitable return on investment, but the rents received were also not even enough to maintain the buildings. As a result, the development, maintenance, and management of housing became a significant problem for the government. The system also prevented citizens from investing in the housing they used and led to a shortage of urban housing (Lee, 1988).

In 1978, Deng raised the idea that the government should allow private housing development, or collaboration between the government and the people so that wealth in the

private sector could also engage in the development (Wu, 2001). As a result, the government started to reform the housing system into a real estate market in 1980.

Actual reform of the housing system started in 1979, and from that time, all newly constructed housing was put onto the market for sale. Between 1978 and 1991, the housing system reform passed through three phases: first, the state-owned housing became tradable on the market; second, the rent increased due to growing demand in the developing market; and third the government introduced housing subsidies in order to provide affordable housing to people with low incomes (Lee, 2000; Tony and Hays, 1996).

2.1.2 Land system reform

Before the 1978 reform, the land usage right was allocated by the government, according to public needs, to enterprises or individuals free of charge and without any limit on holding length (Deng, 2005); thus it was not treated as a property right. This system prevented a market developing in land, which limited the efficiency of land resource allocation during economic development. As a result, local governments could not benefit from infrastructure investment, thus discouraging them from improving urban infrastructures. (Tang, 1994)

Initially, the reform mainly focused on the long-term uncompensated use of land by taking land usage fees. The next step was to establish a land market, which separated land usage rights from land ownership, and allowing the transfer of land usage and ownership rights.

To achieve this target, various actions were taken, including charging a land usage fee, starting the land usage right transfer practice, drawing up the land usage right transfer regulation, implementing the constitution Amendment and new Land Management Act, and implementing new regulations across the country for land usage right transfer. (Tang, 1989; Ding, 2003)

2.1.3 Formation of real estate markets

In 1987, due to pressure from developing paid transfer of urban land use, the government had first raised the idea of establishing a real estate market, which prompted the development of the real estate industry (Wu, 2001). Along with the rapid development in the construction, sale, purchase, and rent of properties, a new real estate market involving all related activities was gradually established. The reform of the land system further supported the development of this newly emerging real estate market. During this period, the real estate market was still in its infancy and the management, system, and applicable regulations were still weak. Just two days after the initial announcement in September 1987, Shenzhen sold the land-use rights of a 5322 square metre area to a local residential property developer at a rate of 200 yuan (\$20) per square metre for fifty years through negotiation. By 1990, 28 cities and 19 counties in the coastal region had participated in the experiment of paid transfer of land-use rights (Wu et al., 2007).

2.2 Deng's southern tour speech

Often regarded as one of the decisive moments in the history of the Chinese real estate industry, Deng's Southern Tour Speech made a profound impact on the reform progress and the development of the industry, as well as the economy in general. Deng's unexpected return to the political fray in February 1992 was generally seen as an attempt to put China back on the reform trail once again "following the clamp down on the economy in 1988 and the subsequent clampdown on social unrest in 1989 which saw the revocation of many reform measures" (Wills et al., 1999; Marti, 2002; Hsing, 2010). Marti (2002) further argues that Deng was trying to force the people, the leadership and the bureaucracy to see the value in economic growth and to lure investments from the West, in the hope that once it had tied up large amounts of Western credit, China would be able to take off on an expansion similar to that in other Asian dragons----Singapore, Hong Kong, Taiwan, and South Korea. Therefore, it is quite clear that Deng was calling for the continuation of economic reforms. Moreover, his message was well received by the government, as Marti (2002) notes that finally convinced by Deng, the government issued Document No. 4 later in 1992, which was intended to be the Magna Carta of economic reform for the next century. Marti (2002) further argues that Deng's mission in his Southern Tour was to end the uncertainty between the two opposing factions of the Party.

The contributions of his Tour cannot be overstated, for without Deng's return, China would have gone a different path concerning its economic development. Before the introduction of the open-door policy and following economic reforms, as Wills et al. (1999) observe, the government entirely controlled the use-value of land through central economic planning, and the use and price of land were decided by "negotiation and

compromise" between the government officials and the various ranks of cadres. Later, after Deng's speech, which strongly advocated the implementation of the open-door policy, the value of the land-use right was recognized for the first time, and as a result, the market gradually moved towards a system of economic allocation of land. Hence, Wills et al. (1999) summarize the effects of the Speech thus:

China has extensively opened its economy, granting autonomy to state-owned enterprises, reduced the administrative powers and personnel of the government, and removed price controls. At the 14th Congress of the Chinese Communist Party, the concept of 'socialist market economy' was formally acknowledged as the nation's course. (Wills et al., 1999)

Furthermore, the renewal of economic reforms also led to the subsequent reforms in the financial and market systems. Focusing on the real estate industry, the positive impacts included first of all, the rapid development of the land market. According to Wu et al. (2007), during this period, as the state became increasingly aware of the market value of land, initial land experiments, done by the joint companies formed by the local state and developers in order to utilize land-use rights for land development, were legalized in the constitution and other national laws. As a result, the nationwide land reform began to proceed at full speed, in which “the local state increasingly used the land for generating revenue, and by other landed interests for seeking profit” (Wu et al., 2007). Wu et al. (2007) further note that, with regard to the housing market, the process of marketization had been very limited in its scope before the deepening of reform in 1992, as most of the

land was either allocated or leased through negotiation rather than open-bidding or auction. Then, the Speech in 1992 significantly accelerated the development of the housing market, because it began to enable the state-owned enterprises, who were not subject to tight budgets, to meet their unconstrained housing needs through a gradually emerging housing market mechanism. Such demand eventually became a major driving force behind the building boom of 1993 and 1994.

2.3 Overheating phase

Between 1992 and 1993, real estate hype was evident in many regions around China, the number of new real estate developments blossomed like weeds, the value of which increased from 16.1% of GNP in 1991 to 24.5% of GNP in 1993 (Wills et al., 1999), and investment in the industry increased dramatically as well, rising from 550.9 billion Yuan in 1991 to 1245.8 billion Yuan in 1993 (Wills et al., 1999), especially in the exchange of land and housing projects. Willis et al. (1999) show that the government, in trying to keep the market supply in balance for different market participants, separated the residential market into different sectors, each with different price controls or regulations. As a result, there was the private market commodity housing, which was controlled by an artificial price ceiling; the external market commodity housing, in which the foreigners, including the foreign Chinese, could make their purchases; and "welfare housing" for the lowest income group. Such market separation gave rise to substantial price differentiation, so that in Shenzhen alone, the residential price for the internal commodity housing market was about 1/5 to 1/9 of that of the external market. Besides, as more investment flowed into the higher-priced end of the residential market aiming at overseas investors, in regions such as

Hainan, and Beihai, the market appeared to be overheating, which caused severe housing bubbles (Pan, 2015; Ren, 2015; Wang et al., 2015), with prices soaring to levels that were way beyond the means of domestic purchasers.

2.3.1 Formation

After Deng made a public statement during his visit to Southern China in 1992, the 14th People's Congress established that the long-term objective for the country was to build a socialist market economy. (Sun and Michel, 2001) Soon after the Congress, the State Council published "Decisions on the Several Problems concerning the Development of the Real Estate Industry," which constructed the central framework of the real estate market system. In the system, the primary market was mainly concerned with the transfer of land usage rights, from the state to enterprises or individuals through public tender, auction, and listing. The secondary market, focusing on the development and management of the real estate built on the land transferred, consisted of "the direct sales from developers to the first batch of buyers of their properties" (Wills et al., 1999). The third market covers the transactions of built real estates, which include mortgage, letting, etc. (Zhang, 2005)

At that time, it was the beginning of the rapid growth period of the Chinese economy, with the lifting of the cap on housing prices, the simplified approval process, and the encouragement of real estate development bank loans. This led to the "real estate boom" of 1992. Within a few months, there were around 12, 000 real estate development companies within the country by the end of 1992, nearly three times that in 1991 (MacFarquhar, 2011).

The volume of total construction output increased dramatically, with the total investment increasing by 117%, the total area developed increased by 175%, and newly developed commercial housing increased by 78.1% (Guo and Guo, 2008). Sales increased too, along with prices. The entire commercial residential building sales increased by 40.4%, while the price per square metre increased by 30.93% (BBC, 1993). The total land transferred in this new market increased eleven fold (Ma, 2013).

In 1993, the real estate boom continued. The number of real estate development companies increased from 12, 000 to nearly 20, 000, while the total investment increased further by 143.5%, and the newly developed commercial residential building area increased by 136%. Newly developed residential buildings were sold even before they were built. It was the end of 1993 when the housing bubble started to deflate. (Cao, 2015)

2.3.2 Consequences

The overheating real estate market between 1992 and 1993 not only increased the consumption of the construction materials, such as steel, concrete and lumber, but also inflated the prices of the materials. (FBI, 1995) As the real estate market occupied a large number of funds from the financial system, some of the other national strategic construction projects were facing funding difficulties. The one-way flow of finance started to lead the economy into unbalanced development. (State Development Planning Commission, 1994)

Around the middle of 1993, the government decided to intervene in the market. (Beijing Economic Daily, 1996), The published policy focused on the regulation of real estate markets, and required banks to reduce or stop lending to enterprises which used inappropriate funds to participate in the real estate market; to start a full inspection of all real estate related companies; to speed up the establishment of real estate related tax and regulations; and to reclaim lands which had not been used after one year of purchase.

By the end of 1993, as various policies were in place, the growth rate of real estate development started to slow down. The total investment in real estate development increased by 124.9%. The average price of commercial residential buildings increased by 21.94%. (China Knowledge Press, 2004) As the housing bubble burst, those overheating regions went into recession.

Soon after that, the government implemented new legislation, “the Urban Real Estate Law,” which aimed to regulate and develop the real estate market. In particular, the law set forth the land usage right transfer system which specifies that land use rights may be granted through auction, bidding or agreement between the parties concerned (Yuan, 2004), as well as enhancing the management of the secondary land market. Besides, the policy used the new real estate tax to prevent the loss of national assets and abnormal profit acquirement in real estate transactions. What is more, it served to limit the overdevelopment of luxury housing, to speed up the urban housing system reform, and to stabilize land prices.

The overheating real estate market, on the one hand, had a certain level of negative impact on the economy: the unaffordable housing prices, excessive supply, and overconfident investment could eventually lead to a nationwide financial crisis. On the other hand, it also reflected the massive potential on the marketization of real estates, i.e., the demand for housing as an investment alternative and the requirement for capital liberalization, as well as the urgent need for pertinent regulation as guidance for the real estate market. More than 6000 newly formed real estate companies entered the market with the sole pursuit of abnormal profit from second-hand transactions without fulfilling social needs for housing (Zhou et al., 1996). Therefore, once the bubble burst, the funds were locked, debt could not be repaid, and lands were left unused. (Zhang and Sun, 2006; Chen, 1998; Chen, 1996)

2.4 Adjustment phase

In 1994, the government continued with market intervention in the real estate market until 1997. (Hui, 2009) Although growth in the economy had begun to slow down from 1996 (Lin et al., 1996), in 1997 when the Asian Financial Crisis occurred, China was able to “sustain a strong gross domestic product (GDP) growth performance of 8.8 percent in 1997 and 7.8 percent in 1998 and over 8.0 percent in 1999, continued success in attracting foreign direct investment (FDI), in running healthy current account surpluses (roughly 3 percent in 1998–99), and in maintaining the stability of its currency, the Yuan in the face of plummeting currency devaluations and precipitous asset price deflation elsewhere in the region and beyond”, because of a series of successful adjusting policies (Sharma, 2003).

2.4.1 Transformation

In early 1994, the State Council issued a new order to enhance the market intervention for fixed assets investment and sent out investigation teams around the country to ensure the implementation of this order. (Cao, 2015) These actions successfully reduced the rapid growth on the size of fixed assets investment in China, reducing the property investment growth rate to 30.4%, which was 31.4% lower compared to the previous year. (Ding et al., 2010) The investment structure was improved, along with the investment performance. In 1994, aggregate real estate development investment was 160.8 billion Yuan, which was an increase of 41.3% compared with 1993, but much lower than the growth rate of 124.9% in 1993. (The State Council, 1995)

In 1995, the State Council issued a further order to reduce the development of luxury real estate projects. As economic growth started to slow down, the real estate market followed suit. The price of both commercial and residential properties fell quickly. Furthermore, land transfer income and sales income for the real estate developers around the country fell quickly too, and the whole industry was in recession. (The State Council, 1995)

During the economic downturn, the investment injected into the industry also started to slow down. As a result, the growth rate of newly built housing began to slow down. In 1994, there was 0.357 billion m² of newly built housing, which was 164 million m² more compared with 1991. However, there was only 405 million m² of newly built housing in

1997, which was only 48 million m² more than in 1994. (Yang and Chen, 2014) Among the newly built housing, there were relatively less private sector residential buildings, the percentage of which had never exceeded 20% of total construction output between 1991 and 1997 (Liu and Huang, 2004), which meant that state constructed housing was still the primary supply of housing at that time.

In late 1994, the Standing Committee of the National People's Congress agreed on the "Urban Real Estate Management Act," which took effect from 1st January 1995. (Squires and Heurkens, 2014) The implementation of this Act was an important symbol to the development of the Chinese real estate industry (Cao, 2015), because it marked the shift of the housing segment from a welfare structure to a market system, establishing a multi-level provision including the introduction of affordable housing.

2.4.2 Further reform of the housing system

In order to implement the "Decision Made on a Few Issues Relating to the Establishment of a Socialist Market Economy" published by the government in 1992 during the Fourteenth National Congress of the CPC (Chinese Communist Party) as well as extending the housing system reform and the promotion of commercial residential properties construction, the State Council issued another paper known as "Decision on the Deepening of Housing System Reform" in July 1994 (Doling and Ronald, 2014). It confirmed that the objective of housing system reform was the marketization of housing and meeting the urban housing demand. (Cao, 2015) The policy emphasized the local government's

responsibilities on the progress of housing system reform. From the sale of state-owned housing perspective, it proposed a price discrimination system, which offered market prices for high-income households, and affordable prices for medium-low income households. From the development of a new housing perspective, it proposed speeding up the development of social housing and specified that there must be 20% social housing among the total development of real estate each year (Liu and Huang, 2004). As mentioned above, such market separation led to inter-market price differentiation and overheating in regions offering high-end housing.

Furthermore, the Housing System Reform team of the State Council proposed the State Settling Programme, which aimed at selling housing to medium-low income households at cost price, and allowing people who did not have housing or those in unstable housing to take priority. (Cao, 2015)

2.5 New growth phase

From 1998, owing to the system reform, the government successfully developed the real estate industry into the new growth engine for the economy. In the meantime, a large number of relevant policies were proposed and implemented in order to ensure the reform could be carried out. Along with these, the real estate industry entered into a new development period. (Wang et al., 2013) During this period, local government authorities stopped the housing allocation system one after the other. The market mechanism has, since then, become a vital force, if not the most important one, in housing production,

distribution, and management. Besides, with the liberalization of the supply, sale and purchase of houses, all related markets, such as the housing finance, renting market started to advance rapidly.

2.5.1 A new economic growth engine

In 1996, in order to cope with the economic recession, the government started to look for a new growth engine. In June, the former Premier Zhu of the State Council stated that housing development could be the new growth engine of the national economy as well as the new consumer hotspot during the State Council meeting. (Zhu, 2013) In late 1998, the State Council released the “Circular of the State Council on Extending Urban Housing System Reform and Accelerating Housing Development,” and presented the idea of using housing development as the new economic growth engine. (Laurence and Wu, 2004)

Subsequently, in April 1998, the People’s Bank of China released the “Circular on Increasing Housing Credit, Support Housing Development and Consumption.” This document showed the decision that the People’s Bank of China had made to support the government on the urban housing system reform. It was concerned with improving the understanding of raising housing credit loans, to increase in these and, to expand the housing credit-related business scope, to promote spending on housing, to support housing development, and to promote the sale of unoccupied commercial residential properties. (Cao, 2015) Furthermore it specified that, from 1998, the People’s Bank of China would operate a programme to promote credit loans on housing development and purchasing. As long as the borrower could meet the terms of credit, all commercial banks would be

allowed to issue housing loans. Such movement strongly enhanced the liquidity of the housing market; at the same time, it brought tremendous profitable business opportunities to commercial banks, creating massive growth potential for both markets (Yang et al., 2014).

The housing system reform reached its critical phase in 1998. In order to achieve the objective of establishing the real estate industry at the vanguard of the new economic growth, the State Council published a “Circular on Increasing Housing Credit, Support Housing Development and Consumption,” announcing the end of the housing allocation system and transforming it into a monetized system. (Cao, 2015) With the advent of this new policy, the housing industry entered a full marketization stage. The government thus formally abandoned the welfare housing system and “vigorously encouraged” the purchase of housing from the market (Yang et al., 2014)

2.5.2 Policies and steps

The housing system reform finally reached its critical stage in 1998. In order to develop housing development as the new economic growth engine, the State Council published the “Circular of the State Council on Deepening Urban Housing System Reform and Accelerating Housing Development,” and announced the end of the housing allocation system from June 1998, which monetized housing. (Cao, 2015) The critical points of this housing reform extension included first to steadily implement the commercialization of housing, in order to realize the new urban housing system in a socialist market economy; secondly to accelerate housing development, developing the real estate industry into the

new economic growth engine; and thirdly to fulfil the increasing housing needs of urban households. The objectives were to put a stop to housing allocation and fully commercialize the real estate market; to establish and to improve the multi-layer urban housing supply system around economically affordable housing; and to develop housing finance, to establish a regulated housing trading market. (Cao, 2015)

In order to assist the country-wide housing system reform, and develop the real estate market into the new economic growth engine, the Treasury and the State Administration of Taxation published the "Circular on the Adjustments of Several Taxations Relating to Real Estate Market", which stated that average residential property for private use which had been used for more than one year could be exempted from sales tax at the time of sale; purchasing of regular residential property for private use could be granted with half contract tax; For those privately-owned typical residential properties, land value increment tax would be exempted at the time of sale (SAT, 1996). In late 1999, the Treasury, the State Administration of Taxation and the Ministry of Construction published the "Circular on Issues Relating to Income Tax on the Sales of Private Owned Residential Property." It was designed to promote private transactions on housing, stating that any taxpayers who buy their new residential property within one year of the sale of their previous residential property could be partially or wholly exempt from income tax. (CCH, 2008) By implementing these tax policies and specific subsidy measures, the government aimed to stimulate the growth in the secondary and tertiary sectors, which would, in turn, benefit all related industries, in order to maintain economic development.

2.5.3 Development

After the implementation of the policies and steps mentioned in the last two sections, the housing development around the country developed rapidly. In 1997, the total urban housing constructed was 624.9019 million m². This increased by 48.85%, up to 930.1827 million m² in 2002. The ratio of commercial residential properties among urban housing increased from 25.32% in 1997 to 37.6% in 2002. (Cao, 2015)

Furthermore, according to Yan (2016), the president of SOHO China, when the Chinese banks launched the mortgage loan programmes in 1998, the real estate industry soared even higher in the following ten years Yan (2016) emphasizing the amplification effect brought about by the availability of mortgage loans. As potential house buyers no longer needed to pay the full amount at once, they could utilize their capital more efficiently, while other people with lower incomes could enter the market, which further increased the total capital investment in the real estate market, which led to price increases.

The early development had given rise to the emergence and growth of a significant number of private real estate companies. Many of them went to HK to be listed in order to obtain access to foreign capital. Among them were SOHO China, Sino-Ocean Land, and Fosun Property. After being listed, these companies could issue bonds and stocks to attract vast sums of capital to assist in the purchase of lands and housing development. According to Yan (2016), SOHO China issued over ¥1 billion (approx. \$165million) high yield bonds during 2010-2013. Its gearing ratio was rather low, only 20%, while other companies of the same size had gearing ratios of over 70%. They used this capital to acquire further land

resources, which led to an increase in the asset value of these companies, and they could issue more bonds and stocks to borrow more money. Such a magnified effect resulted in the increasing number of giant real estate companies, each with over 10 million m² of land on their balance sheets.

2.5.4 New participants—SOEs

Around this time (2008-2010), many SOEs began to realize how profitable the market was, and decided to seize their shares. For them, the advantages were distinct. They had abundant capital, and they had more convenient access to the land available, due to their close relationship with the government. Also, many second and third-tier cities wanted to cooperate with the SOEs, since they could take advantage of the beneficial policies associated with these companies. All these advantages contributed significantly to the SOEs' aggressive entrance on to the real estate market. As a result, even though private companies started earlier and had more access to foreign capital, the SOEs eventually become the most active market participants.

2.5.5 Social housing

Apart from the commercial residential properties, economically affordable housing, and low-rent housing also took the opportunity to develop rapidly. From June 1998, the government started three waves of social housing development programmes. The total area of construction was 210 million m²; the total investment being 170.3 billion Yuan. In 2000, the total constructed economically affordable housing already exceeded 110 million m², 20.1% among the total commercial residential properties built. (Pei-ching Chou Pao, 1998)

Along with the establishment and implementation of the housing finance system, private purchasing started to take over other housing demands. In 2000, commercial residential properties purchased by individuals had reached 0.132 billion m², taking up 87.51% of the total sales of commercial, residential properties. (Cao, 2015) This market trend also drove the development of housing credit. Until the end of 2001, the personal housing loan balance reached 639.8 billion Yuan, which was 33 times the value compared with the end of 1997, occupying 86% of the consumption loan balance. This indicated a significant change in the real estate related credit structure. (Cao, 2015)

The reform changed the housing structure of urban households, accelerated the commercialization of housing, released housing demands, and allowed the rapid development of the real estate market.

2.6 Regulating phase

From 2003, investment in the real estate industry proliferated. This led to several issues, including a significant shift in housing prices, an imbalanced supply and demand structure, and a chaotic market order (Chen et al., 2011; Weida, 2010; Jianglin, 2010; Wu, 2012). To tackle these issues, the government implemented several policies and measures to regulate the real estate market. In late 2003, the government started to control the land supply and financial sources in order to cool off overheating real estate investment by adjusting supply and demand and stabilizing housing prices. However, in late 2007, the target switched to enhance the social housing sector, to improve and standardize the system, and to further restrain the increasing trend of housing prices.

2.6.1 Regulation

Starting from 2003, a series of policies, including “A notification on Promoting the sustained and healthy development of the real estate market”, were put into practice, with the aim of dealing with the overheating economy, solving the problem by controlling investment on fixed assets in order to achieve sustainable growth in the real estate industry. In early 2003, when the real estate industry was still adapting to the new growth engine, the People’s Bank of China, published “The Circular about tightening the management of real estate credit loans,” which was also known as Article 121. This article aimed at tightening housing development loans, controlling land reserve loans, regulating cash flow of construction companies, and enhancing the management of personal housing loans. (IBP, 2015)

Article 121 had a significant influence on the real estate industry, including artificial control on funding for many real estate developers. (Beijing Review, 2003) It was the most influential and controversial article in 2003. Thus, the State Council published "The Circular about Encouraging the Continuous Development of Real Estate Market", which was also known as Article 18. (IBP, 2011) It emphasized the importance of the real estate market, proposed that real estate market had become the mainstay of the Chinese economy, and pointed out that maintaining the continuous development of real estate industry was an important step to maintain the rapid development of the economy itself. Therefore, it was necessary to keep increasing the credit support on a suitable housing development project and the developers. Article 18 was also concerned about the overheating housing prices and investment, proposing the idea of enhancing macroscopic regulating, to achieve a

balanced and structured real estate market with a stable price. (Hong and Zhao, 2012) Both Article 121 and Article 18 represented the government's steps to start a new round and the search on possible steps. (IBP, 2011)

2.6.2 Control over-heating investment

Between late 2003 and early 2004, there was overheated investment around the country, reflected in land prices, cost of construction materials, and usage of utilities. The rapid increasing investment in real estate development led to massive demands on material costs. In 2003, investment in real estate development had increased by 30.33% from 2002. Between January and April, investment in fixed assets increased by 43%. In order to prevent overheating, the government focused on controlling the increase in fixed assets investment, limiting the supply of lands, tightening credit loans, increasing barriers to investment, tightening the approval process and controlling the removal project size (Cao, 2015)

To establish a comprehensive land regulating system to execute the ideas stated in the Article 18, the Ministry of Land and Resources issued "The Circular about Enhancing Land Supply Management and Encouraging the Healthy Development of Real Estate Market", requesting that local governments take action to use land regulation to influence the real estate market, enhancing the supervision of land supply for real estate development in late 2003. In early 2004, the Ministry of Land and Resources and the Ministry of Supervision issued "The Circular about Supervision Works on Bidding and Auctions of

Commercial Land Use Right", requesting local governments to sort out all previous land usage right transfers that were not compatible with the new transfer system before the end of August 2004. In April, the State Council issued "The Urgent Circular on Consolidating Land Management and Land Market," requesting the local governments to protect farmlands. In 2006, the Ministry of Land and Resources issued "The Urgent Circular on Further Land Management" to limit land usage on development other than for agricultural use, especially on real estate development. In August, the State Council issued "The Circular about Enhancing Land Regulating Related Issues." In November, the Treasury, the Ministry of Land and Resources and the People's Bank of China issued "The Circular about adjustment on Land Usage Fees on New Construction Lands" to double land usage fees on new construction lands. (Wu, 2006)

In August 2008, China Banking Regulatory Commission issued "The Guidance on the Risk Management of Real Estate Related Loans for Commercial Banks", to specify the risk management requirements of land reserve, real estate development, personal housing, and commercial housing loans, and demanded that banks ensure that all housing developers had at least 35% of the capital invested in development projects. All the series of orders and policy changes were all implemented to control the market.

2.6.3 Current State of the industry

Xiaoguang Liu (2016), the chairman of Beijing Capital Group, points out that at present, the property market in China shows deep regional characteristics: tier 1 cities suffer from

sky-high housing prices, while tier 2 and tier 3 cities have inventory that is far more than the current demand. He further suggested that for cities like Beijing, Tianjin, Shanghai, Guangzhou, and Hangzhou, the system cannot be changed in the short term due to significant land rent differences and high prices. As for some cities with extensive inventories, thoughtful policy guidance should be given to the local governments, so that they will be able to put practical solutions into practice. (Liu, 2016)

According to Liu (2016), an expert in the Chinese real estate market at Tsinghua University, the issue of de-stocking was proposed by the end of 2015. China's economy had entered a new normal stage, and it needed to tackle the challenge of a decline in economic growth. A significant problem in the real estate market was how to reduce inventory. To achieve this target, China started to adjust the monetary policy by lowering the interest rate and the deposit-reserve ratio from September 2014. Also, the purchase limit policy in many places was cancelled, and some tax policies for regulation were back to their original level. Driven by these favourable policies, the property market rebounded quickly. As calculated, the policy of interest rate reduction can cause housing prices to surge by 25%. Although the de-stocking policy yielded some results in many third- and fourth-tier cities, the results were not that obvious, because in these places people may be reluctant to buy houses, and it is closely related to development opportunities and standards of living.

2.7 Imprinting theory

This research mainly studies the impact of early Hainan real estate bubble experience on real estate entrepreneurs through unstructured interviews. Imprinting theory is an appropriate theory. Imprinting theory emphasizes the importance of history and highlights the historical influence of past experiences, especially on the past experiences of sensitive periods.

2.7.1 The connotation of imprinting theory

In 1873, the British zoologist Douglas Spalding discovered that the newly hatched poultry had a congenital tendency to follow the movement of the first moving object they saw. The German biologist Lorenz (1937) defined this phenomenon as imprinting.

This phenomenon illustrates the early experience that determines subsequent social behaviour. In organizational research, the earliest imprinting concept was introduced by Stinchcombe (1965), who described how organizations use some of the elements of their founding environment and how they continue to survive the creation phase. He emphasized the importance of external environmental forces in shaping the initial structure of the business and the long-term sustainability of these models.

Marquis & Tilcsik (2013), based on a review of early bio literature and Stinchcombe's original papers, defined the imprint as a process in which a focus entity produces a prominent feature of the environment during a short period of sensitivity. These features persist in subsequent periods, although there are significant environmental changes.

(1) The features of imprinting

In the imprinting concept as defined by Marquis & Tilcsik (2013), the imprint has three essential characteristics, which are briefly described as the sensitive period, environmental conditions and the durability of the imprint. It is accurately described as the following three aspects:

- ① There is a time-limited sensitive period characterized by high susceptibility to environmental influences;
- ② The strong influence of the sensitive period environment, allowing the focus entity to reflect the environmental factors at the time;
- ③ The persistence of the characteristics developed during the sensitive period, even in the face of subsequent environmental changes.

Among them, the sensitive period is the first feature of the imprinting theory, which means that the imprinting is printed on the focus entity for a limited time, and the entity exhibits an acceptance of enhanced external influence during this period. That is to say, in the short sensitive period, the focus entity is more significantly affected by environmental conditions than during the standard period. The sensitive period of imprinting usually occurs in the “critical development phase” (Carroll, Hannan, 2004), during the organization's founding period, organizational transition, turbulence, and instability (Greenwood & Hinings, 1996; Tushman & Romanelli, 1985).

The second factor of imprinting emphasizes the central role of environmental conditions and their significant impact on the focus entity during sensitive periods. Such environmental conditions may include internal “organizational logic” that is dependent on the start-up of the business, as well as the external environment of the economy, technology, or system (Baron, Burton and Hannan, 1999). Organizational logic implies that entrepreneurs rely on newly established companies which have played an essential role in the founding period to select and adapt to historical unique environmental characteristics. However, with the inertia and institutionalization that follow, the organizational structure continues to show traces of its founding background and becomes part of its history.

The third element of imprinting is that even if there is a significant change in the environment, the imprint still exists. At the organizational level, Stinchcome (1965) suggests some reasons for the persistence of structures: (a) they may still be the most effective form of organization for a given purpose; (b) traditional forces, the attribution of interests, and the work of ideology may tend to maintain structure; and (c) organizations may not be in a competitive structure, and in order to survive, organizations must outperform other forms of organization. Marquis and Qiao (2018) examined how Chinese entrepreneurs’ communist ideological imprint affected their firms’ internationalization strategies. The communist ideological imprint consistently and negatively affected the internationalization of their ventures. However, the negative effects were mitigated by entrepreneurs’ direct interactions with the source of the imprint, as well as by involvement in government-created industry social networks and by observing governmental support of internationalization.

(2) Types of imprinter

There are three main types of imprints: environment, organization, individual/group.

Early research on imprinting focused on the origin of the environment as an imprinting process. This view stems from the scholars' discovery of the importance of the external environment in shaping the initial corporate structure and its persistence over time (Kimberly, 1979). The first structure of the company was primarily a reflection of its founding environment, especially the technical aspects that had a significant impact on the company's later development (Stinchcombe, 1965). Scholars have determined that the source of the imprint is the environment, and the environmental conditions at the time of its creation have a lasting impact on the survival and development of the company.

Research on organizational imprinting highlights the lasting impact of the previous history on organizational outcomes by showing how the organization (or individual) is responsible for environmental factors outside its founding phase. Many scholars have identified the sensitive phase as the main feature of organizational creation time, and believe that the imprinting process reflects how environmental elements are mapped to the organization. The immediate effects of the institutionalization and efficiency of policies, processes, knowledge, and culture that emerged at the time of the establishment of the company (Stinchcombe, 1965).

However, as the research progressed, scholars found that the imprinting of the individual became particularly evident during the organization's founding stage (Boeker, 1987). The most common finding is that their founder's imprint organizations. Mathias, Williams, and Smith (2015) examined how different sources of imprint (family and friends, technology and the environment associated with hobbies, prior work experience) have a lasting

influence not just on the initial venture founded by entrepreneurs, but also in the decisions entrepreneurs make about their ventures and their futures and the process by which they make such decisions. Imprinting can be an individual phenomenon.

(3) Imprinting entity

An essential and unique aspect of the imprinting concept is that the focus entity is affected over a limited time interval, with entities being more sensitive to environmental conditions. There are four different environmental sources, including economic and technical conditions, institutional factors and individuals. Marquis (2013), after integrating multiple levels of imprinting research, classified them into four entities of typical significance, from macro to micro-level, including (a) organizational group, (b) organization, (c) organizational module and (d) an individual.

2.7.2 The dynamic process of imprinting

Zeki et al. (2015) constructed and expanded the concept of imprinting after reviewing the relevant literature in organizational research, and proposed a dynamic and continuous research framework of imprinting, including (a) genesis, imprint, and imprinted physical features, and finally formed imprinting interactions; (b) changes, imprinting persistence, amplification, decay and transformation of the dynamic evolution process; and (c) performance, the impact of imprinting on physical characteristics and the direct and indirect effects of imprints on physical survival and performance. The concept and field of imprinting defined by Zeki et al. clarify the dynamic process of imprinting, including the imprinter, the imprinted entity, and the imprinting process. The three stages of

differentiation are interdependent, and the study of imprinting theory is more systematically presented.

At the stage of the imprinting, during the period when the imprinting entity is engraved with the imprinting information, the imprinter has the strength and characteristics of the original existence (Hsu & Kenney, 2005; Powell & Sandholtz, 2012), the imprinted focus entity is open learning, more sensitive to being imprinted, during the occurrence of a trigger event or entry sensitivity, the focus entity is imprinted by the previous power, as well as the history of the environment and the same era, (Kriauciunas & Kale, 2006). Marquis and Qiao (2018) found that the imprinting of Chinese entrepreneurs' communist ideology harmed the internationalization of their companies, while information that contradicted communism weakened the imprinting's impact.

During the deformation process of the imprint, it is affected by changes, evolution, and transformation. While some imprints may last for years or even decades, their impact and surface characteristics may change over time. Other possible dynamics are the possibility of interaction between different generations of imprinted layers (Marquis & Tilcsik, 2013). The imprinting dynamics indicate that a focus entity can be analyzed based on the scale, depth, and imprinted intersection.

The influence of imprinting refers to the impression of imprinting on physical behaviour and outcomes, such as performance, survival, and adaptation (Baron, Burton, 1999; Eisenhardt & Schoonhoven, 1990; Geroski, 2010). The imprinting can have a near-end and a far-end effect path. Initially, imprints may have a positive or negative impact on a company's ability to acquire resources, pursue opportunities, and gain environmental

stakeholder support. Longer-term impacts may include business survival, growth, and performance.

2.7.3 Founder imprinting

Since Marquis & Tilcsik (2013) systematically defined and summarized the imprinting theory. This concept has been used in the study of various situations and different levels of analysis. The unified theme in these studies is that an entity (individual, group, organization) can develop and deliver prominent features (such as knowledge, values, skills) to another entity (individual, group, organization), where these prominent features continue to be present.

Personal imprinters are usually the founder or founding teams (Beckman & Burton, 2008).

There are two ways in which an individual can become an imprinter:

Firstly, individuals themselves are a collection of environments in which they live, so they can represent a powerful channel for information dissemination to deliver unique events in time and location to the company. For example, Hannan, Burton, and Baron (1996) point out that founders passed on the elements of the entrepreneurial environment and their mental models to the company. The founders chose to incorporate some aspects into the company's differences, leading to long-term heterogeneity between organizations. The founder's ideas are imprinted in the new organization as a side force that influences the industry-wide corporate environment to create long-term organizational impact.

Secondly, individual characteristics can be imprinted directly or differentially on the company's structure, strategy, and subsequent performance. Harris and Ogbonna (1999)

examine how founders develop different strategic visions to generate strategic dividends (the founder's initial vision is flexible and facilitates adaptation) or strategic legacy (the founder's vision constrains the company's ability to respond to environmental change), depending on their imprinting perspective and current environmental requirements.

However, the role of the individual's imprinting is not limited to the organization or the founding period, but may also exist in the transition period of the handover. The most prominent example is the relationship between the predecessor and the incumbent in the same position, especially the current position as the holder of the initial position or the cross-border role in the team (Burton & Beckman, 2007). The imprint of the predecessor is a process that passes the critical features of the triumphant character to the successor of the future, so that he is influenced by colleagues, mentors, and leaders, and has powerful tips to tell them how to operate. In this way, when imprinting exists in the family business, the imprint of the founder as a predecessor to the future second-generation successor becomes clear. The entrepreneurial founding team will develop an interactive autobiographical memory system. By partially managing the design and imprinting of these memory systems, founders may improve the long-term adaptability of their businesses (Bryant, 2014). Leung, Der Foo, and Chaturvedi (2013) suggested that the organizational experience shared by the founding team members had a significant positive impact on the internal consistency and uniqueness of the dominant HR values, while functional diversity had a significant positive impact on the uniqueness of these values. When the shared organizational experience is low, the team can improve performance through a higher level of functional diversity.

In a study dedicated to the founder's imprinting, Giovanni & Anna (2016) studied the entire mechanism and process of this phenomenon. He defines the founder's imprinting mechanism as to how the entrepreneur (or founder's team) passes his/her cognitive model to the organization in a short period of sensitivity through an imprinting mechanism. This pattern continues to persist, regardless of significant environmental changes in subsequent periods. This model refers to the entire framework of entrepreneurs creating a new venture (involving its strategy, offering, structure, etc.), which is very relevant to the imprinting process.

Three imprinting mechanisms proposed by Giovanni & Anna (2016) include structure, diffusion, and transfer. Structure refers to the reorganization and reconfiguration of existing tangible and intangible resources. These resources include strategy, products, practices, processes, structures, and markets. Three specific methodological choices are used to identify specific frameworks: self-assessment of entrepreneurs, including subjective aspects, horizontal comparisons with other similar companies, and post-historical longitudinal analysis of corporate underlying organizational characteristics. The second mechanism, diffusion, requires legalization, mobilization, and alliance building. The third mechanism is transference, and the process of imprinting can produce four possible outcomes: success (the spread or persistence of the original entrepreneurial model); failure (the original entrepreneur's imprint is abandoned, the new imprint is engraved) Transformation (the combination of the original entrepreneur and other models); unresolved controversy. Giovanni & Anna (2016)'s research is based on the imprinting process to explore the founder's imprinting mechanism, the imprint established by the entrepreneurs in the early stage as a process of building frameworks and patterns, through

some essential elements. In turn, this model produces the effects of diffusion and transfer to other entities, and the results are divided by the extent to which the imprint is transferred to the entity. Simsek, Fox, and Heavey (2015) provided a systematic review of imprinting studies and suggested that imprinting continues to provide a robust prism for explaining and predicting behavior and outcomes at multiple levels of analysis.

2.8 Research gaps and hypotheses

Based on information from these existing literature, it seems that entrepreneurs, i.e., the private developers in the market have played a passive role throughout the whole process. These studies focus mainly on the role of government and the influences of policy changes, while private developers can only follow the trend. However, this cannot be the case. Many of the private developers I know have actively participated in the market, making significant contributions to the advancement of the industry in various ways. Furthermore, most successful entrepreneurs, who have managed to climb to the top of the pyramid, also survived the “Hainan” event in the early 1990s, an event they regard as having a significant influence throughout the development of the Chinese real estate industry. Therefore, this research will first focus on the establishment and development of Chinese real estate industry since 1978, identifying significant market events that have led to current market situations, drawing on both economic and political frameworks and theories; secondly, to focus on roles played by leading entrepreneurs, investigating their bilateral relationship with the market from a political perspective; thirdly, to identify and review the causes of the “Hainan Bubble” of 1992 to 1993, as a critical case study of the interplay of economic

and political factors in the early Chinese real estate sector, as well as its consequences on the subsequent development of the entrepreneurs in the market; and finally, to critically assess the interactions among different market participants, including the entrepreneurial developers, the governments, the financial sector, and the homebuyers and citizens, by using empirical information gathered through interviews, and secondary data analysis in terms of the economic frameworks. The research hypotheses include 1) the Hainan bubble experience has a significant impact on the real estate entrepreneurs regarding their business operation; 2) the influence has led to different results in different periods for these entrepreneurs.

3 Research methodology and data collection

3.1 Methodology

Due to the exploratory nature of my research, the study design will be mainly descriptive, using critical case studies for each objective of unforeseen exploratory relationships that exist and have an impact on market development. As briefly mentioned above, the two main research methods that will be used in my research are empirical research and phenomenological analysis, supported by comparative research and case studies.

In this study, the empirical research will consist of the collection and analysis of time-series market data from 1978 to the present day, to reveal any patterns and correlations between each statistical variable. Furthermore, data regarding the performance of key market participants during the critical stages of the development of the real estate industry in China will also be collected and analysed, in order to provide evidence that could support relevant qualitative analysis. In the selections of data, to enhance validity and avoid bias, both the data published by the Chinese government and those published by international organisations, such as the World Bank and the WTO, will be included in the analysis. To have more comprehensive understandings concerning the market situations, the design also involves phenomenological analysis, mainly through interviews, to document and analyse an individual's experience and opinion with regards to essential market events in the industry. As the focus is based on individual stories, specific criteria will be applied in the selection of interviewees. They should be individuals who have been key players in the real estate market, with a national presence, and have participated

directly in at least one of the critical developmental phases of the Chinese real estate market, for example, the “Hainan Bubble” in 1993. For each critical phase, at least two independent interviews will be conducted, to enhance the validity of information obtained.

Using interviews as sources of information could have a potential negative impact on the quality of the study results. One reason is that the interviewees may not be authoritative enough so their opinions will have relatively low academic value, or their opinions might not be sincere especially with regards to certain sensitive topics. Another reason is that the information obtained through interviews may be biased, as different interviewees have different standpoints and personal experiences, which may have significantly influenced their judgment on specific issues. Apart from that, as the interview topics cover a rather long time, about half a century, some of the information regarding events that happened earlier might not be the same as the facts, due to the long-time passage between the event and the interview. Last but not least, when providing information, the interviewees might rely on other sources of information other than their own first-hand experiences, and such dependence on external sources could also lower the quality of the interview because these sources may have flaws or bias. Therefore, caution and reasonable scepticism should be borne in mind when collecting and analysing information.

The case study research will be instrumental in my research. For instance, in assessing the “Hainan Bubble”, the application of this method will be the study of the selected interviewees’ personal experiences and opinions with regards to the event, assisted with relevant data analysis, as well as the study of different housing bubble incidents that took

place in China and in the markets in the West, in order to understand the nature of housing bubbles and to find potential solutions that could be applied in general situations. For this research, comparisons and contrasts shall be made with regards to different critical phases of the Chinese real estate market development. To be more specific, the research will include analysis of respective market situations at the time of each event, the possible causes of these events, the political and economic interventions that had taken place, and the outcomes.

As well as the above considerations, because of the complexity of the Chinese real estate market, the research attempts to analyse the industry and the market through the different perspectives of market participants, in order to better understand and apply the information obtained through the interviews, academic resources, and relevant data banks. Also, many interviewees have also provided their opinions on ideal conditions concerning different market segments. The current situations will be obtained through literature reviews and data analysis, with emphasis on the advantages and the problems ranging from the ones that need immediate attention to the ones that might have negative consequences in the future. The results of each category will be assembled in an attempt to understand the interactive impacts among each of the market participants, and the resultant trends in the industry, in order to come to general conclusions. Then, further analysis will be made on the sustainability of such market development, and provide possible suggestions or solutions to the potential problems.

By using different research methods in both the quantitative approach and qualitative approach, the information gathered in the process could be validated by triangulation through two or more methods. For example, the information obtained through interviews could be tested against empirical findings, and the conclusion resulted from comparative studies could be compared with the descriptions in the interviews of key market players. Therefore, the data and findings resulting from such research design could be potentially free of bias or misleading information.

In the research process, secondary data will be obtained mainly through library and online research of academic resources.

3.2 Data Collection

Data collection is separated into two parts: the collection of primary data through interviews, and the collection of secondary data through library and online research. In the primary data collection process, each interviewee will be interviewed two or more times, according to their schedule and the need for this research as it develops. There will be a standard set of questions, that is following the analysis purpose, such as “to what extent do you agree or disagree that the reform measures in 1992 are the direct causes for the Hainan Housing Bubble?” They will also have the opportunity to give their perspectives and insights with regard to the specific factors, including, but not limited to, the elements or incidents that have contributed to their surviving the burst of the bubble and subsequent market fluctuations, and their forecasts for the industry.

These primary data will then be used to compare and contrast with the secondary data, to detect discrepancies, if any, and then grouped into several subsections for further analysis. The data analysis will involve the strategies of explanation building and program logic. By applying the hypotheses to the primary data and secondary data, revising and updating the hypotheses when appropriate, the strategy of explanation building can enable a precise conclusion that can be used to testify in other similar situations. At the same time, program logic can reveal the cause and effect relationships between a series of events, offering an in-depth understanding of the development of the market, and could shed light on future development as well.

3.2.1 Interview arrangement and structure

Three rounds of interviews were conducted with real estate entrepreneurs who had experienced the Hainan real estate bubble, as well as other real estate entrepreneurs, scholars and officials in related fields. Some of them were interviewed twice.

	Interviewees	Time
First round	Ren Zhiqiang, Feng Lun, Mao Daqing, Pan Shiyi, Wang Gongquan, Yi Xiaodi, Zhang Mingeng	June 2015
Second round	Qiu Baoxing, Liu Xiaoguang, Liu Hongyu, Zhang Baoquan, Mo	September 2016

	Tianquan, Yan Yan	
Third round	Ren Zhiqiang, Feng Lun, Liu Jun, Yi Xiaodi, Pan Shiyi, Wang Gongquan, Wang Qifu	September 2017

The interview structure is as follows:

- a. Interviewees: focus on entrepreneurs, also some scholars and officials
- b. Questions
 - i. The Hainan real estate market

In the early 1990s

1. Specific cases/experience of collaboration with the local government;
2. The roles of banks and foreign investors;
3. The influences of new policies and regulations issued by the government;
4. The interaction/relation between entrepreneurs;
5. The interaction/relation between local people and the newcomers.

After 1995

6. Changes in entrepreneurs' perception of the market mechanism;
7. Changes in their relationship with local government/banks/central government.

- ii. The general real estate market after 1995
 - 8. The important events of the real estate market;
 - 9. The impact of the four trillion Yuan policy on real estate industry in 2008;
 - 10. The future of Chinese real estate industry.

3.2.2 The interviewees

Ren Zhiqiang

Ren Zhiqiang was the former chairman and general manager of Beijing Huayuan Real Estate. He was involved in the real estate industry from 1984 and retired in 2015. He was an influential entrepreneur in China's real estate industry and has a deep understanding of it. Huayuan Real Estate Co., Ltd. (referred to as Huayuan Real Estate for short) is one of the earliest established brands in the Chinese real estate industry, and has more than 30 years of brand development history. The company's business has expanded to Beijing, Tianjin, Hebei, West, Central China and Southern China.

On April 24, 2020, Huayuan Real Estate disclosed its 2019 annual report. It showed that in 2019, Huayuan Real Estate achieved operating income of 7.421 billion yuan, an increase of 8.64% year-on-year; and realised net profit attributable to shareholders of listed companies

of 757 million yuan, an increase of 0.96% year-on-year. The weighted average return on net assets was 9.38%, a year-on-year decrease of 0.67 percentage points. Huayuan Real Estate has been deeply involved in residential products for 36 years. It has six product lines including residential, apartment, office, hotel, commercial, and small town.

The Vantone six gentlemen

The first batch of "partners" in the Chinese business community were the Vantone six gentlemen. They are: Wang Gongquan, Feng Lun, Liu Jun, Wang Qifu, Yi Xiaodi, Pan Shiyi. In 1991, the Vantone six gentlemen founded Vantone Hainan. From 1995 to 2003, the Vantone six gentlemen gradually separated. After the separation, they achieved their own individual success. Feng Lun, Pan Shiyi and Yi Xiaodi became famous entrepreneurs in the real estate industry, Wang Gongquan became a well-known investor, and Wang Qifu and Liu Jun also started a career in other fields.

After leaving Vantone, Yi Xiaodi founded Sunshine 100 in 1999, engaged in real estate development, and was listed on the main board of the Hong Kong Stock Exchange in 2014. Wang Qifu founded Fudinghe Equity Investment Fund, which specialises in real estate investment and is the first batch of real estate investment fund companies in China. Pan Shiyi and his wife Zhang Xin co-founded SOHO China, mainly engaged in office property development, and successfully listed on the main board of the Hong Kong Stock Exchange in 2007. Wang Gongquan joined CDH Investment and became a senior partner of CDH Investment.

Mao Daqing

Mao Daqing is the founder of Ucommune which is a well-known shared office company in China. Before starting the Ucommune project, he was a senior executive at Vanke.

Ucommune was established in April 2015. Its investors include Sequoia Capital China Fund, Zhenge Fund, Gefei Assets, Yirun Investment, CIC Hanfu, and Sinovation Ventures.

Ucommune takes space as a platform and aims at building a shared office space, providing full industry chain services for innovative enterprises, and building a commercial social platform and resource allocation platform based on a joint community. It covers 44 cities including the first-tier and new-tier cities in mainland China, Singapore and New York, with more than 200 office spaces.

Zhang Min'geng

Zhang Min'geng is a well-known real estate investor in China and the founder of Shengshi Shenzhou Fund. Shengshi Shenzhou Fund has created many firsts in the domestic real estate fund industry: the first and currently the only private real estate fund successfully filed with the National Development and Reform Commission; cooperating with Harvest Fund to create the business of cooperation between China's public funds and real estate private equity funds; the first real estate fund to trade in China's secondary equity market. Zhang Min'geng joined Vantone Group in 1993 as deputy general manager for three years.

Qiu Baoxing

Qiu Baoxing is the former Deputy Minister of Housing and Urban-Rural Development of China. Before this, Qiu Baoxing also served as mayor of Hangzhou. He has worked in the real estate and urban planning system for thirteen years. He has experienced the most prosperous ten years of the Chinese real estate market and has participated in every macro-control of the Chinese real estate market in these ten years. He has profound thinking about the development of China's real estate market and is an academic officer in the field of real estate and urban planning.

Liu Xiaoguang

Liu Xiaoguang is the former chairman of Beijing Capital Group. He is highly respected in China's real estate industry and was named one of China's top ten real estate figures in 2003.

Beijing Capital Group is a large state-owned group company affiliated to the Beijing SASAC (State-owned Assets Supervision and Administration Commission). Since its reorganization in 1995, Beijing Capital Group has built three core businesses: water infrastructure as the core infrastructure industry, urban housing development as the core real estate industry, and investment bank mergers and acquisitions as the core financial services industry. As of the end of 2018, with total assets of 327.3 billion Yuan, it has been ranked among China's top 500 enterprises for many consecutive years.

Liu Hongyu

Liu Hongyu is a professor at Tsinghua University and director of the Real Estate Institute. His research areas include real estate economics, real estate finance, real estate development, housing policy and land management. His academic appointments include executive director of the China Real Estate Association, director of the Asian Real Estate Society (former president), member of the American Real Estate Association, etc. He has obtained productive research achievements in the real estate field and regularly provides policy recommendations to government departments.

Zhang Baoquan

Zhang Baoquan is the chairman of Antaeus Group. He founded the Antaeus Group in 1992, investing and operating in real estate, tourism, film and contemporary art industries. After 20 years of operation, he led the Antaeus Group to successfully realize the transformation from the traditional real estate industry to the culture industry. It has become China's most forward-looking and the earliest industrialized cultural industry group, creating outstanding achievements in the fields of leisure and vacation, contemporary art and digital cinema. Antaeus Group operates some of the largest hotel complexes in the world including the Sanya Bay Mangrove Resort, the world's 2nd largest non-Casino hotels with more than 5,000 hotel rooms and the partially opened Qingdao Mangrove Resort.

Mo Tianquan

Mo Tianquan is the chairman of SouFun Holdings. SouFun Holding was established in 1999 and was successfully listed on the New York Stock Exchange in September 2010. SouFun is the world's largest real estate network platform and data service provider. Besides, Mo Tianquan served as the general manager of Asia Teleres from 1994 to 1996; and the executive vice president of the Asian Development Investment Corporation (ADF) from 1996 to 1998. He has made significant achievements in the field of real estate data services.

Yan Yan

Yan Yan is the former CEO of SOHO China and is currently the Managing Director of Asia Real Estate of Blackstone Group. Yan Yan joined SOHO China in 1996. In the 22 years after joining SOHO China, she served as chief operating manager, financial manager and CEO, responsible for project development, cost budget control and overall management. In March 2018, Yan Yan left SOHO China, and then became the Managing Director of Asia Real Estate of Blackstone Group. Blackstone Group is the world's largest alternative asset management company. Yan Yan has a comprehensive understanding of the history of SOHO China and Chinese real estate industry.

3.3 A brief summary of the interview

In the 80s, China was still favouring a semi-planned economy policy. All the real estate development companies had to be state-owned. The land was non-transferrable (Appendix 4, P2-3). When Vantone six gentlemen started their business in Hainan in 1991, there was

even no company law. It was until 1993 that the company law was released and the land was considered as a commodity (Appendix 1, P2 & P6). In 1993, many joint ventures began to enter the real estate market (Appendix 4, P5).

In 1992, when Pan Shiyi went to the Planning Bureau of Haikou, he found the construction area per capita in Haikou was 50 m². However, it was only 7.4 m² in Beijing at the same time. Therefore, he thought that the real estate market in Haikou was in a bubble situation (Appendix 3, P4-6). A significant problem in Hainan was that the national economic policy was not sustained. To be specific, the Special Economic Zone policy was not sustained. The real estate market in Hainan was developed quickly and brought many bubbles (Appendix 5, P4-5). The housing demands were deliberately created, or in other words, they were the result of the bubble (Appendix 5, P5-7). The real estate was set up, but there was no fundamental basis, so it eventually went bankrupt (Appendix 5, P14-15). The bubble was caused mostly by two factors, avarice and expectation (Appendix 13, P55)

Thinking as an idealist is essential. Vantone six gentlemen have not made a significant mistake until today. Although they have a different career after separation, they have things in common. It is their values that differentiate them from others (Appendix 13, P48). Hainan experience has a similar influence on them. They are more concerned about the quality of their products rather than scale. It is easy to develop a large company, but it is more challenging to develop a sound company (Appendix 13, P58). Compared with the past, they have become more cautious. In general, they have their business under control, which is related to their memory of the Hainan experience (Appendix 13, P62). In the early

times in Hainan, the business model could not possibly succeed. Many people received their first business lessons in Hainan (Appendix 14, P24-25). Many entrepreneurs were trained. It played a historical role, and the most significant contribution of Hainan is a kind of awareness (Appendix 14, P27-29). Those who have been to Hainan and returned to the mainland have a higher probability of success. It is a typical phenomenon (Appendix 14, P31-32).

The housing reform policy in 1998 determined the complete marketization of China's real estate market (Appendix 4, P15). Generally, it was after 1999 that the real estate became a marketable product (Appendix 2, P6-7). The degree of concentration of real estate companies is increasingly higher (Appendix 1, P34). The real estate industry has its unique characteristics. The essential productive factor is land. However, it is not privately owned in China, which is bound to have rent-seeking probability (Appendix 14, P74).

3.4 Chapter summary

This study conducted in-depth interviews with Hainan real estate bubble participants and other entrepreneurs, scholars and officials in the real estate sector. Although the Hainan real estate bubble happened more than 25 years ago, the experience of those entrepreneurs is still relevant. These witnesses escaped from the bubble and witnessed the collapse of countless real estate companies. These experiences profoundly affected their subsequent business operations.

4 Hainan story of the Chinese real estate market

The widely agreed start of the Hainan trend began in late 1988 when it became another exclusive economic zone. Many people started to join the market there, and as the number increased so did the scale of real estate development and the volume of funds that were put into the market. Deng Xiaoping's speech in early 1992 marked the acme of the Hainan real estate market, portending the downturn of the market which came with the government's determination to rectify the chaotic financial markets all over China.

In this research, the most crucial questions are firstly, why did Hainan, and not the other four SEZs, which were clearly in a more advanced stage of development, attract so much interest; secondly, what role did the entrepreneurs play during the market formation, development and fall, and how did they interact with the other participants in the market, such as the local government, banks, and other investors; thirdly, what was the significance of the Hainan Bubble to Chinese entrepreneurs, to the real estate market development in general, and the overall socialist market economy.

4.1 The popularity of the Hainan market from 1989 to 1990

Government officials started to notice the south of China because of the exodus of the elite classes to Hong Kong Island as a consequence of the Cultural Revolution. Zhongxun Xi mentioned that "since Hong Kong was much more advanced than we were at the time,

maybe we could learn something from them.” Moreover, soon after that, Deng Xiaoping brought forward the idea of Special Economic Zone (SEZ). In the early days of the reform and opening-up process, China needed to “cross the river by feeling the stones.” The same holds for the establishment of SEZs. It is believed that the SEZs were designed to be “windows” of the country to attract overseas capital and technology. The first development zones, hand-selected along the country’s southern coast in Shenzhen, Zhuhai, Shantou, and Xiamen, acted as doorways for the government to attract direct foreign investment and test whether the formerly centrally-planned economy could transition to a more liberal and capitalist model. These zones focused on aiding manufacture for export to bolster the local economy without posing a significant threat to the state-owned enterprises. The establishment of the SEZs sent an invigorating signal to the young people all over China, who had long been tired of the hidebound social and political environment.

They considered the movement as proof of the State’s determination in developing China’s economy, and they were eager to make their contributions. Hundreds of thousands of young people left their jobs to become “xiaohai” (jargon for becoming an entrepreneur), and move to these newly established SEZs.

Observing Shenzhen's success, Deng Xiaoping decided to make a more significant move. He chose Hainan Island as his experiment location and appointed the mayor of Shenzhen, Liang Xiang, as the head of government in the new province of Hainan. Before 1988, Hainan was merely a barren island, with a few shabby houses scattered here and there. In 1988, when Hainan became a province, it was the only one without traffic lights. However,

this soon changed completely. After being selected as one of the five Special Economic Zones for pioneering economic development in China and being the only one with administrative power at a provincial level, Hainan attracted over 150,000 entrepreneurs from all over China, and they all came for one tiny place called Haikou, the capital of Hainan province, with an area of fewer than 30 km² and whose original population was less than 230,000.

Entrepreneurs had seen success in other SEZs. Therefore, although the other four SEZs were clearly better developed at the time, both economically and culturally---- Shenzhen had issued the country's first stock and launched the country's first auction of land; Xiamen became the first to introduce foreign investment to build a local airport and establish a local airline as well as taking the lead in founding joint venture banks; Zhuhai was the first to allow technology appraised as capital stock and build cross-border industrial parks; Shantou took the lead in deploying officials via an engagement system instead of an appointment, they all believed that they could achieve even more in Hainan, as it was the largest of the five SEZs.

Of particular note is that, at that time in China, the political landscape of Hainan was different from the other four SEZs. The following charts give an idea of the differences and similarities of policies available in all five SEZs.

Among all five SEZs, Hainan was the only one with both legislative power at the provincial level and the authority to adopt various good International practices in economic

cooperation. Its advantage is evident as it was the third SEZ to promulgate a system of assignable land use rights, even when it was not strictly a legal practice.

Compared with the other four, Hainan could offer the most extended lease duration of land usage rights, 70 years, where others could only be 50 years maximum. In addition to similar tax exemption conditions offered by Shenzhen, Zhuhai, Shantou, and Xiamen, Hainan could provide tax exemption from land use tax for projects involving advanced technology for up to 10 years.

SEZ	Open Date	Area (SQ KM)	Population in millions	GDP (millions Yuan)	GDP per capita (Yuan)
Shenzhen	1980.08.26	2,050	1,201.40	8,698,070	7,240
Zhuhai	1980.08.26	1,724	561.862	2,382,610	4,241
Xiamen	1980.10.07	1,699	590.133	2,880,910	4,882
Shantou	1981.10.16	2,248	3,528.47	5,713,940	1,619
Hainan	1988.04.13	33,920	6,274.90	7,248,000	1,155

Figure 1 Data source: Shenzhen Statistical Yearbook 2010, Zhuhai Statistical Yearbook 2010, Xiamen Statistical Yearbook 1990, Shantou Statistical Yearbook 2001, Hainan Statistical Yearbook 2016

The table shows that Hainan had the most extensive area size in all of the five SEZs. Since Hainan was a province and not a city, its area size was more than 15 times that of other

SEZs. Furthermore, Hainan had 6.2749 million people, which was far more than populations of other SEZs. When it comes to GDP, Hainan had 7.248 million Yuan, which took second place in the five SEZs. Therefore, although Hainan's GDP and GDP per capita were less than Shenzhen, it was predicted to rapidly exceed Shenzhen once developed.

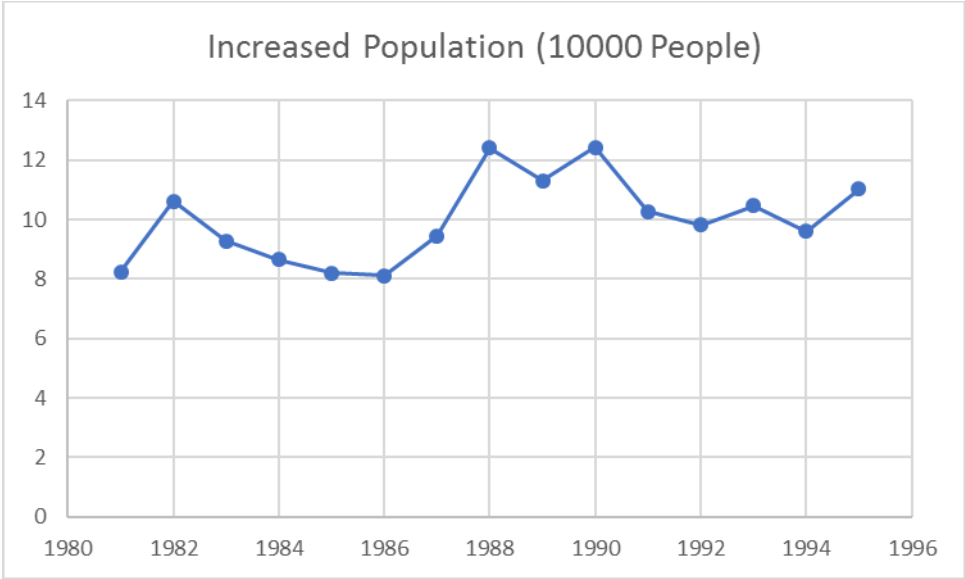


Figure 2 Increased population in Hainan Province

Data source: Hainan Statistical Yearbook 2010

Figure 2 shows a population increase in Hainan Province of over 120,000 in 1988 and population influx remained generally high between 1990 and 1996. Although in 1989 the new population decreased a little, there were still about 113,000 people flooding into the province. The people flooded into Hainan mainly for two reasons.

The Chinese government has always placed stringent restrictions on foreigners entering China. Although one of the purposes of establishing SEZs was to attract foreign direct investment, most of the SEZ governments could not offer visas to their foreign investors. They have to apply for visas as early as six months before entering China. Hainan, on the other hand, could provide an entry visa to foreigners on arrival, which made it the most convenient choice for foreign investors.

In terms of trade policies, Hainan appears to be the only province with real autonomy in dealing with foreign trade. As a province, it could account for its profit and loss in foreign trade, retaining all foreign earnings; it could approve the imports of products for use in Hainan; it could keep the foreign exchange in its current account, and organizations and individuals could exchange foreign currencies in Hainan's local banks; foreign business could remit their profits out of Hainan without having to pay income tax on the remittance; foreign enterprises with 25% or more owned by foreign investors could have the right to engage in import or export.

These policies may seem ordinary to a westerner, but they were quite unusual in China even in today's perspective, which is why these policies further attracted a flood of foreign investment in Hainan in the early 1990s. All of these policies were implemented by the end of 1988 to accelerate the development of Hainan in the fastest possible way.

In calling for the introduction of a "socialist market system," the Thirteenth CPC National Congress pointed the way to a more fundamental solution to the problems of the Chinese

land system. Implementing such a system would require not only that the duration of land use rights was defined and that they were paid for, but also that they be assignable. The new "payment for assignable land use rights system" was thus introduced. "It was a breakthrough that could lead to the establishment of a real estate market in urban China."

Owing to urgent need, this system was introduced in the Shenzhen SEZ as early as autumn 1987, before the enabling legislation was adopted in 1988 and before the Central Government regulations were in place two years later. Shenzhen thus sold assignable land use rights for land that was to be used for housing developments. Other cities also invited tenders for land development.

In January 1988, Shenzhen and Shanghai, within a few days of each other, promulgated China's first regulations creating a system of assignable land use rights. In February, Hainan Province and the capital city, Haikou, both promulgated similar regulations. These four jurisdictions were soon followed by Guangzhou, Fuzhou, Shandong, Xiamen, Tianjin, and several others. As of June of 1989, thirteen localities had adopted the new land-use rights system.

Strictly speaking, every one of these local regulations was initially illegal. Until recently, when they were amended, both the 1986 Land Administration Law and the 1982 Constitution forbade the sale and transfer of interests in land. The Constitution was appropriately amended only in April 1988. The revised version states: "No organization or individual may appropriate, buy, sell or unlawfully transfer land in other ways. The right to

use land may be assigned following the provisions of the law." The National People's Congress similarly amended the Land Administration Law in December 1988 to accommodate local development.

In this case, it can be seen that the Hainan government was one of the pioneers of the newly formed real estate market, and it went beyond the boundaries of legal means to assist the development of the market.

These developments culminated in the State Council's proclamation of two administrative decrees. On May 19, 1990, the State Council adopted the Provisional Regulations of the PRC. Governing the Grant and Transfer of Use Rights in State-Owned Urban Land, and the Provisional Measures for the Control of Large Scale Land Development and Management by Foreign Investors, which officially institutionalized the land use rights system. These developments reflect the ordinary Chinese practice of experimental law making : once the central authorities are satisfied with the local experience, the central laws are amended or enacted accordingly.

China's securities markets developed in fits and starts during the 1980s. Shanghai started first, but drew back, uncertain if stocks and markets were politically acceptable. Shenzhen then picked up the baton and drove market developments forward at a rapid pace. Just like the real estate market, the equity market in China started in small and local scales, not unlike black markets, as they were not established by the market, nor did they follow the policies and regulations of the government, which were, in fact, unavailable at the time.

After assuming the position of Mayor and the Party secretary of Shanghai, Rongji Zhu soon started a conference on financial reform in Beijing. After the meeting, black markets were shut down everywhere. Nevertheless, the establishment of official stock and bond exchanges was awaiting approval by the central government, which was undergoing a series of debates over capitalism and socialism, as well as reformation and conservation. Therefore, investors from these black markets had to search elsewhere for profitable opportunities, and the real estate market in Hainan at the time must have seemed to be an acceptable and legal substitute.

The Tiananmen Square event not only resulted in thousands of students and civilians being killed by the military action initiated by the central government, but also resulted in tens of thousands of party members and government officials and employees being expelled from "the system" due to their explicit or implicit support of the Student Hunger Strike, most of whom were young, ambitious, and had received a high-quality education in China or abroad. They had to make a living. Moreover, even though they were laid off by the central government, they still wanted to make contributions to the country's development, only this time they had to choose a subtler measure. When they joined the market, in Hainan and other SEZs alike, they became the most prominent entrepreneurs, who indeed have significantly contributed to the rapid growth of China.

4.2 The process from 1990 to 1993

During this time, not only did the real estate market begin to thrive, but so did all markets in China, after a rather long period of suppression and substantial control, and began to enjoy, little by little, a certain degree of freedom, as the central government itself was not sure what would happen with regards to a market economy within a socialist country. The banks and trust companies certainly had enjoyed this period of experimentation, and they, under explicit and implicit encouragement from local authorities, started to lend money to business and entrepreneurs. Among the borrowers, those in the real estate industry seemed to have an advantage, because their collaterals were solid, owned by the government, and the income from their projects would flow eventually to the local government.

It was called a loan feast. Massive amounts of money and resources were injected into the real estate industry all around China, and most notably in Hainan, since it was the only “legal” market for land usage rights transfer. All participants, including the local government, were debtors to the banks. Loans were taken out in tens of millions without review. According to the statistics of the Hainan Housing Team, in 1989, investment in real estate in Hainan was only 320 million Yuan, but the number grew by 143%, 123%, 225% and 62% for each year from 1990 to 1993. The catastrophic result was that behind these ever-growing numbers were poor lands and small holes waiting to become skyscrapers.

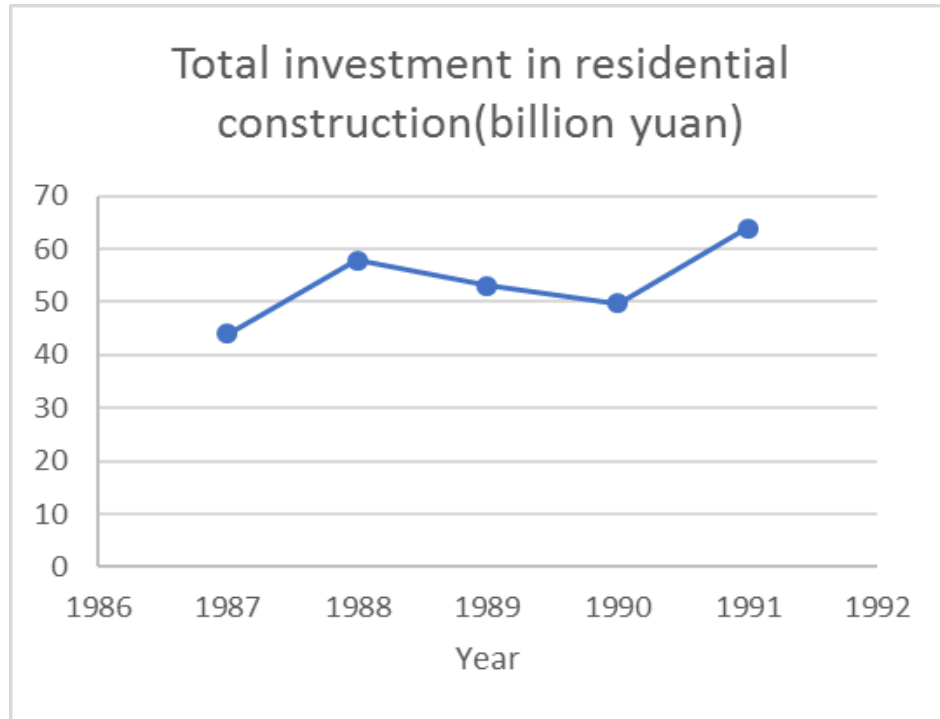


Figure 3: Total investment in residential construction in Shenzhen

Data source: Book: housing system marketization reform

This chart illustrates the investment in residential construction in Shenzhen which increased sharply from 1987 when the real estate was allowed to be traded privately. Although the figure decreased a little in 1989 and 1990, it soared to 64 billion Yuan again in 1991. The enthusiasm for real estate investment can be seen in this graph.

Apart from injecting finance, local governments mostly, also contributed significantly to the rapid development of the real estate market in many other ways. One of them was cooperation with developers and entrepreneurs in order to help “the right ones” get land usage rights by taking advantage of loopholes in the experimental procedures, which included negotiation with government officials in charge of land administration.

As local government had the authority to assign the land within their jurisdiction to developers according to the government's plan, which, of course, could easily be amended or altered by the same government according to their needs at different times, the negotiation process between the developers and the relevant government officials simply meant that whoever had the most robust relationship with the officer could get the land usage rights at the "negotiated price". Although the procedures were not designed to satisfy the greed of local governments, they certainly made the most out of the experiment.

The local government of Hainan, before the establishment of Hainan as a province and the experimental ground for land usage right transfer, was never the first choice of any civil servant. Hainan, for over 3000 years until the late 1960s, was the destination for criminals who were sentenced to exile. Therefore, it was quite understandable that the local government in Hainan would want to take great advantage of this rare opportunity. Moreover, their efforts encountered no constraint.

In practice, a large portion of the negotiated price went directly as the profit of land usage right transfer to the local government, and the revenue from the development of real estate on that land would become tax revenues to the local government also. To compensate for such a significant cut in profit, developers had to raise prices, and they later learned that there was no need to actually build anything, but they could sell the right once they finished the procedure, and then realize a riskless profit within weeks. Therefore, in 1991, the average housing price was 1400 Yuan per m². Just one year later, that price reached

5000 Yuan per m² and continued rising to 7500 Yuan per m² in 1993. When the focus of these companies moved to land, the price rose rapidly from less than 1 million Yuan per unit to more than 6 million Yuan in 2 years.

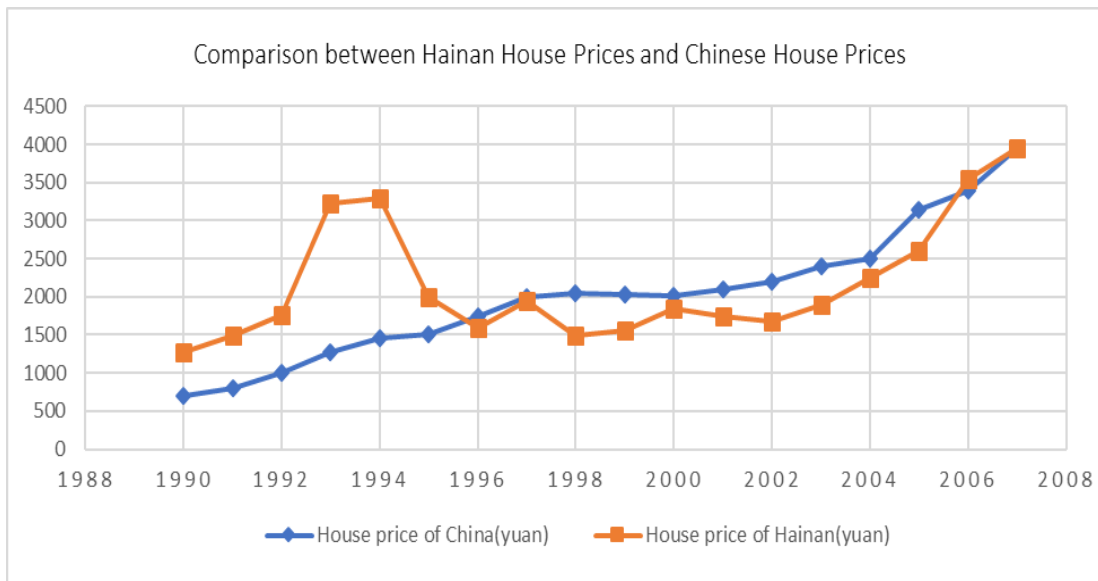


Figure 4: Comparison between Hainan House Price and Mainland Chinese House Prices

Data Source: China Real Estate Market Yearbook

Figure 4 shows that house prices in Hainan soared after the opening of SEZ in 1988, especially in 1993 and 1994, the figures of which were much higher than the house prices of China in the same period. Nevertheless, house prices in Hainan dropped to below the national average in 1996 and kept this gap until 2006, when house prices in Hainan reached the national average again.

All of these policies were implemented by the end of 1988 to accelerate the development of Hainan in the fastest way possible. However, before they started to take effect, with

political turmoil in Tiananmen, Beijing, hastily put a stop to everything related to the reform.

By the end of 1989, Liang Xiang was arrested for allegedly assisting in the escape of people involved in the Tiananmen event, and by the end of 1991, 99% of the real estate prospectors left Hainan through lack of faith. The whole country seemed about to go back to its initial stage before the reform. Had it not been for Deng's Southern Tour speech, the reform would never have recovered from that downturn.

As one of the significant political events, the Southern Tour Speech given by Deng Xiaoping in 1992 had a profound impact on the development of the Chinese economy, both political and economic. As one of the pillar industries, the real estate witnessed several changes that resulted from the Speech.

It is generally accepted that China's gradual reform of the real estate industry has been one of the most successful models for economic reform. By introducing the "socialist market economy" in 1992, China has been rising at unprecedented speed to become a major, if not dominant player in the world economy, and it is now the second-largest economic entity in the world, with over \$10 trillion GDP in 2014. Many have been trying to understand how China achieved such progress, and they more or less agree that one of the most critical points in the reform process happened in February 1992, when Deng Xiaoping made several speeches regarding the determination and the direction of continuing the reform process during a tour to Shenzhen and Shanghai, which was later referred to as "the Southern Tour".

Therefore, it is essential to know why it was so important to China's reform, especially for the real estate industry. Some key questions include: What was the situation in China before his tour; the reason why he took this Southern Tour; what was the message that he tried to convey and how did the government and the public receive it; what were the contributions to the establishment and development of the real estate industry, direct or indirect, of his speeches; what are the potential problems within the industry that have been caused by his reform model. This review attempts to summarize answers, provided by previous studies, to some of the aforementioned questions, and identify research gaps that need to be filled by further study.

As there is no official record of Deng's speeches during the Southern Tour, we can only rely on second-hand interpretations and policy changes that resulted from his speeches to try to grasp the key message. Deng's unexpected return to the political fray in February 1992 was generally seen as an attempt to put China back on the reform trail once again "following the clamp down on the economy in 1988 and the subsequent clampdown on social unrest in 1989 which saw the revocation of many reform measures". Marti (2002) further argues that Deng was trying to force the people, the leadership and the bureaucracy to see the value in economic growth and to lure investments from the West, in the hope that once it had tied up large amounts of Western credit, China would be able to take off on an expansion similar to that in the other Asian dragons---Singapore, Hong Kong, Taiwan, and South Korea. Therefore, it is quite clear that Deng was calling for the continuation of economic reforms. Moreover, his message was well received by the government, as Marti

(2002) notes that finally convinced by Deng, the government issued Document No. 4 later in 1992, which was intended to be the Magna Carta of economic reform for the following century. Marti (2002) further argues that Deng's mission in his Southern Tour was to end the uncertainty between the two opposing factions of the party.

The contributions of his Tour cannot be overstated, for without Deng's return, China would have gone on a different path for its economic development. Before the introduction of the open-door policy and following economic reforms, as Chen et al. (1999) observe, the use-value of land was entirely controlled by the government through central economic planning, and the use and price of land were decided by "negotiation and compromise" between government officials and the various ranks of cadres. Later, after Deng's speech, which strongly advocated the implementation of the open-door policy, the value of land-use right was recognized for the first time, and as a result, the market gradually moved towards a system of economic allocation of land. Hence, Chen et al. (1999) summarizes the effects of the Speech as:

China has extensively opened its economy, granting autonomy to state-owned enterprises, reducing administrative powers and personnel of the government, and removed price controls. At the 14th Congress of the Chinese Communist Party, the concept of a 'socialist market economy' was formally acknowledged as the nation's course.

Furthermore, the renewal of economic reforms also led to the subsequent reforms in the financial system and market system. Focusing on the real estate industry, the positive

impacts include firstly, the rapid development of the land market. During this period, as the state became increasingly aware of the market value of land, initial land experiments, done by the joint companies formed by the local state and developers in order to utilize land-use rights for land development, were legalized in the constitution and other national laws. As a result, nationwide land reform began to proceed at full speed, in which "land was increasingly used by the local state for generating revenue, and by other landed interests for seeking profit". Wu et al. (2007) further note that, with regards to the housing market, the process of marketization had been very limited in its scope before the extension of reform in 1992, as most of the land was either allocated or leased through negotiation rather than open-bidding or at auction. Then, the Speech in 1992 significantly accelerated the development of the housing market, because it began to enable the state-owned enterprises, who were not subject to tight budgets, to meet their unconstrained housing needs through a gradually forming housing market mechanism. Such demand eventually became a major driving force behind the building boom of 1993 and 1994.

The central government was busy dealing with the reform of the banking system and the development of the stock market, ignoring the apparent formation of the bubble until 1993, when the banking system was about to fail due to an excessive amount of bad debt and a 20% level of inflation throughout China.

In 1993, premier Rongji Zhu decided to carry out a courageous plan of financial market reform, which involved a series of small reforms of the national banks and trust companies, due to a discovery of an inflation rate as high as 20% all over the country and over 70% of

the assets owned by the big four banks were destined to be bad debt. Around that time, the Hainan real estate market was already in desperate need for regulation and guidance. However, the central government had a more critical thing to consider, that they wanted to list SOEs overseas to obtain and use foreign funds, and they also wanted to lower the inflation rate immediately, so that no one mentioned Hainan.

In 1993, the central government formally acknowledged the Chinese socialist market economy and amended the laws to allow the transfer of land usage rights. Low information efficiency and a lack of understanding of the government's thoughts on the Hainan market led to most developers being convinced that the central government would not allow the market to fail, so they continued with their usual procedures.

When Feng Lun and Pan Shiyi were in Beijing in late 1992, they heard rumours that central government was about to carry out a reform regarding the market, and they took it seriously, and it was later proved to be true. On the other hand, many other entrepreneurs, like Wang Gongquan, one of the partners of Feng Lun and Pan Shiyi, never believed that the government was going to do anything to stop the market from growing, probably because most of them did not have the experience of working "within the system", and they therefore had to face the truth in a hard way. Those who believed the rumours made provisions in advance, just in time to get themselves out of Hainan, while others who refused to listen had to leave Hainan with significant losses and some never made it back.

4.3 Origin and growth of Vantone six gentlemen in Hainan from 1988 to 1993

The Vantone six gentlemen were, to a certain extent, all young people with aspirations, and were ready to contribute to the country. They were all engaged in reforms in China in the early years. Qifu Wang formerly worked in the aerospace field and wanted to be a scientist. Later he went to Hainan because he wanted to do business in SEZ. After arriving in Hainan, he had two choices. One was the development and construction company, and the other was the Hainan Reform Institute. The wage gap between the two was huge. However, for the sake of ideals, he chose the Hainan Reform Institute with a low salary. While there, he met other aspiring youth, including the Vantone six gentlemen. As for the Hainan incident, Qifu Wang believes that their ideals also helped them to avoid risks.

At that time, they did not want to just focus on Hainan but wanted to develop their careers throughout the whole country. Therefore, this spirit of taking the initiative to develop indirectly helped them avoid the burst of the Hainan bubble.

4.4 Bursting of the Hainan bubble and relocation to Beijing from 1993 to 1995

When the Hainan bubble burst, Shiyi Pan chose to act swiftly, avoiding staying in Hainan all the time, which helped him avoid enormous losses. The reason why the Vantone six gentlemen could win in the Hainan incident was that they did not adhere to the rules and were bold in innovation. At that time, if a real estate developer was over-cautiously conservative in Hainan, he would surely have incurred big losses.

When the market is no longer favourable, if a company only cuts its prices by 5%, it will eventually encounter difficulties. Nevertheless, if other companies cut prices by 5%, while your company cuts down 30%, you will be able to escape. The reason is that this is the customer's general psychology: when the price cut is small, no one deals with you because the customer knows that you have to cut your prices, they go on a game of mind set with you and want to wait for another 5% drop or another two 5% drops. In these circumstances, it is very likely that the offer will remain on the market and be hit by the economic crisis.

However, if you cut prices directly by 30%, customers will be all willing to deal with you. This is the experience Lun Feng gained from the Hainan incident. From the psychological point of view of customers, they should cut their prices fast in an economic crisis.

When the bubble happened in Hainan, many private enterprises escaped to other provinces. However, the owners of these private-owned enterprises did not receive any policy information or pay attention to learning relevant policies. Therefore, their migration

directions were haphazard. For example, some businesses moved to Qinghai, where business would not be profitable. The success rate of entrepreneurs who moved to Beijing and Shanghai was relatively high, because of the broad market in Beijing and Shanghai. People who migrated to second-tier and third-tier cities did not succeed because of the lack of a broad market. Making the right judgment on where to go needed in-depth research into a large number of relevant policies.

Shiyi Pan's business sense was also compassionate. When they fled Hainan, these entrepreneurs had differences on which city to go to. At that time, other real estate developers who fled from Hainan went to Shenzhen or Guangxi. Shiyi Pan first went to Lanzhou to investigate prospects. It took more than ten days. He discovered that Lanzhou, a western city, was relatively backward. When doing business, he needed to go to an economically developed area, and he therefore decided not to set up in Lanzhou. At that time, Gongquan Wang had gone to Beijing and learned that there was a place named Huairou, which could be developed in Beijing. Shiyi Pan finally decided to join Gongquan Wang in Beijing. Today, Shiyi Pan is very successful in Beijing. This is inseparable from his choice at that time. In the long-term vision, Shiyi Pan has been successful because of his ability to compare and a keen sense of business.

According to Shiyi Pan, the six partner developers rapidly assessed the situation. Shiyi Pan explained the conclusions drawn from the data and policies, and realizing the considerable risks immediately fled Hainan. Therefore, it can be seen that a successful team must be united in their thinking. If one person had held different opinions at that time and had

insisted on staying in Hainan, the consequences would have been unthinkable. It is crucial to have partners. This is what Shiyi Pan learned in the Hainan incident.

Escaping from the Hainan incident was a haphazard process. At that time, some money was still being earned in Hainan. However, Lun Feng realized that Hainan was too small to do business, and it was not a long-term solution to stay there, and he also perceived potential risks. Therefore, he sent a working group to seek out projects all over China. They went as far as the northeast. There were also some short trips to Guangxi, Guizhou, and Sichuan.

Lun Feng's risk awareness was excellent. Moreover, he first thought of the idea of dividing a whole house into small units to sell. Also, when Gongquan Wang and Lun Feng made such judgments, others immediately agreed and acted. Therefore, Vantone were not greatly affected by the Hainan bubble.

4.5 Chapter summary

Hainan was clearly in a more advanced stage of development when it was declared to be a SEZ in 1988 and attracted many people. Then, numerous entrepreneurs came to Hainan and played an essential role in the development of blossoming and failure of the real estate market in Hainan. When they went to Hainan to do the business, the house price in Hainan sharply increased. House prices there soared after the opening of SEZ in 1988, especially in 1993 and 1994, the figures were much higher than the house prices of China in the same period. Nevertheless, house prices in Hainan dropped to below the national average in 1996 and kept this gap until 2006, when house prices in Hainan reached the national average again.

The entrepreneurs also influenced other participants in the market, such as local government, the banks, and other investors. The local government released much land to let developers build houses. Hainan banks lent a large amount of money to people in Hainan to buy houses. Other developers followed the first group of developers to Hainan and also wanted to make money from the prosperous real estate market. Many participants learned a lesson from the Hainan real estate bubble. Furthermore, the Hainan Bubble greatly influenced Chinese entrepreneurs. After the Hainan Bubble, entrepreneurs gained from the experience and have become very successful today. Also, Hainan real estate market has new opportunities today, and have become more cautious and this may lead again to a flourishing Hainan real estate market.

5 Post-Hainan story of the Chinese real estate

5.1 The Chinese real estate market before 2008

5.1.1 The first decade of real estate leaps (from 1988 to 1997)

In 1988, the housing reform was officially fully piloted, and the land transfer ban was finally fully lifted. In February, the state approved the issuance of the “Reform Implementation Group”, “Implementation Plan for the Implementation of the Housing System Reform in different phases in towns and cities across the country”, and proposed that the housing system reform should aim at commercializing housing, and gradually changing the physical distribution to monetary one, which would turn housing into a commodity, on the consumer market.

The promulgation of the "Implementation Plan" indicated that China's housing system reform had entered a comprehensive pilot stage, and it also set off the first round of housing reform in China, and the comprehensive development of the city ushering in a historic opportunity.

Feng Lun, Pan Shiyi, Yi Xiaodi, Zhang Yuliang, Hu Yusen, Huang Nubo, all gave up the “serious jobs” in the system and embarked on the road of entrepreneurship. They were responsible for the setting up of real estate companies such as Vantone, Greenland, and Jianye.

In 1992, it opened the prelude to China's new round of reforms and completely changed the course of this big country. It had far-reaching implications for everyone in China and China's real estate. In 1993, the state successively promulgated and implemented the housing provident fund system and issued housing bonds. In the context of the overheated macroeconomic environment, the first round of real estate investment bubbles was directly promoted over 2 years. This round of bubble was characterized by the supply of the local market (Hainan, Beihai, Guangzhou, Shenzhen) with distinctive characteristics of the time, excessive consumer supply, the lack of financial systems, and the fragility of land speculation. State intervention, forcibly cutting bank loans and clearing land, pierced the bubbles in local markets such as Hainan, Beihai, Guangzhou, and Shenzhen.

Hainan's real estate bubble in the 1990s is a significant page in the history of China's real estate. Haikou's land price plunged from the highest of 6.8 million yuan per mu (=0.0667 hectares) in 1993 and fell to about 1 million yuan per mu in early 1996, a drop of 85%, falling back to 1991 levels. Hainan's massive amount of real estate inventory was not completed until 1999. Housing prices in Haikou City eventually returned to the high point, equal to that of the first half of 1993, around 2010.

From 1988 to 1997, China had produced the first batch of real estate development enterprises represented by Vanke, with employees around 20,000. However, due to a lack of privately-owned funds and the restriction of financial policies on private capital, the real estate market during this period was mainly dominated by state-owned enterprises — for example, Beijing Huayuan group and Shanghai Urban Construction group.

5.1.2 The welfare housing is fully terminated, and housing monetization begins (from 1998 to 2003)

July 3, 1998, is a watershed in the reform of China's housing system. Many developers could not keep going in the first half of 1998 and sold off the land. In order to curb the danger of further market decline, the country was determined to cultivate new economic growth points. A series of policies to stimulate the development of real estate were introduced. The most representative one was the “Notice on Further Deepening the Reform of Urban Housing System and Accelerating Housing Construction” on July 3. From this moment on, the original welfare housing system was abolished, marking the beginning of the marketization of real estate.

In June 2003, the central bank issued the “No. 121 Document” to strictly control the bank’s real estate development loans, land reserve loans, and personal housing loans. Moreover, for the first time, it launched a second phase in order to increase down payments—the floating interest rate concept. The effect of Circular 121 was remarkable. National housing prices fell, the upward momentum was curbed, and the national real estate industry halted.

However, the outbreak of SARS caused a severe economic impact. In order to maintain growth, the Ministry of Housing and Urban-Rural Development issued the “No. 18 Document”, which led to encouraging real estate development to be an essential channel for expanding domestic demand, stimulating investment, and maintaining sustained

economic growth. As a result, national house prices stopped falling, rebounded and continued to rise.

5.1.3 The stage before the economic crisis (from 2004 to 2008)

In 2004, the “8.31” limit began. The state and relevant ministries and commissions issued more than 70 crucial macro-control policies, mainly focusing on finance, taxation, land, and administration.

However, due to the fundamental driving force for the development of the real estate, the previous adjustments failed. In 2008, the US financial crisis broke out and, consequently, global economic recession. China launched a more accommodative monetary policy to stimulate economic development, which directly promoted the rise of real estate prices, resulting in explosive growth and higher prices on the real estate market.

5.2 The Hainan real estate market from 1994 to 2008

In August 1995, the Hainan Provincial Government decided to set up the Hainan Development Bank to deal with the financial difficulties that many trust companies in the province had incurred due to significant investments in real estate. However, this measure did not work. Only two years and ten months later the Hainan Development Bank ran into serious difficulties. On June 21, 1998, the central bank had to announce the closure of the Hainan Development Bank, which was also the first provincial commercial bank in new China to be closed due to the loan crisis.

The burst of the real estate bubble hit Hainan's economy hard. After the bubble burst, Hainan, which accounts for about 0.6% of the country's total population, had a backlog of 10% of the country's commercial housing. After 1999, Hainan Province spent a full seven years to resolve the backlog of real estate. As of October 2006, the province disposed of 23,353.87 hectares of idle construction land, accounting for 98.17% of the total idle land, and disposed of 4,444,200 square metres of backlogged commercial housing, accounting for 97.6% of the total backlog. From the second half of 2006, Hainan's real estate suffered heavy losses and then began to show a slow recovery. However, the total transaction volume is still limited.

After careful research, Chongwu Ruan decided to implement adjustments to the industrial development strategy of Hainan Province. At the Second Party Congress in Hainan Province in July 1993, Chongwu Ruan made it clear that: The basic policies of Hainan's industrial development were firstly, to develop the tourist industry the leading factor, and

to propel the development of the third industry, and secondly, to make the industry the leading factor and to accelerate the development of the secondary industry, using agriculture as the basis to improve and stabilise the primary industry. The added value of the three industries was the domestic market. The proportion of the total value was gradually adjusted from '123' to '321', which enabled the coordinated development of the three industries.

The tourism industry on Hainan Island thus entered the fast lane of development. Both the number of receptions and operating income rapidly increased. Among them, the number of visitors received increased from 2,793,100 in 1993 to 20,191,500 in 2008, and tourism revenues increased from 2.397 billion Yuan to 18.528 billion Yuan.

The 2008 international financial crisis presented a challenge and an opportunity. In this context, the country proposed the goal of economic restructuring. The driving force for economic growth also shifted from the previous foreign exchange creation to the expansion of domestic demand.

5.3 The story of Vantone, SOHO China and Sunshine 100 before 2008

5.3.1 The story of Vantone before 2008

5.3.1.1 Vantone's early stage (from 1991 to 1993)

In 1991, Feng Lun, Wang Gongquan, Liu Jun, Wang Qifu, Yi Xiaodi, and Pan Shiyi jointly established Hainan Vantone, and later they were called the Vantone six gentlemen. In China's real estate industry, the Vantone six gentlemen are legendary. When defining the interests of partners for the first time, the profits were evenly distributed, although they had different positions.

In 1992, Hainan Vantone earned their first big profit through the operation of the Jiudu Villa project in Haikou, Hainan. Subsequently, Vantone invested in projects such as "LianYiLu" and speculated in Haikou and Sanya of Hainan. On January 18, 1993, Hainan Vantone increased its capital and shares and restructured into a corporate group in the form of a limited liability company, namely the Vantone Group. The significant shareholders were Feng Lun, Wang Gongquan, Liu Jun, Wang Qifu, Yi Xiaodi, Pan Shiyi, and corporate shareholders such as China Huacheng Finance Company and Hainan Provincial Securities Company. Feng Lun was the chairman and legal representative of the Vantone Group.

(The Jiudu Villa and "LianYiLu" were early projects of Hainan Vantone. Haikou and Sanya are two major cities of Hainan province)

In June 1993, Vantone Group invested and initiated the establishment of Beijing Vantone with a targeted fundraising method. The company received a paid-up capital of 800 million Yuan, becoming the first large-scale joint-stock enterprise with private capital as the main body established in Beijing. In the same year, the first real estate project developed by Beijing Vantone, the New World Plaza project, was successfully sold at the highest price of the Beijing office market of US\$4,000 per square metre, becoming a milestone for Beijing Real Estate. Vantone's real estate development began to create its brand from then on.

(Located in the core area of Beijing, Vantone New World Plaza covers an area of 60,000 square metres. It is a smart building with a Grade A office building, a multi-functional business centre, and a shopping mall. It uses the AT&T advanced computer management system.)

5.3.1.2 The rapid development stage of Vantone (from 1994 to 2003)

(1) Transformation from commercial property to a high-end residential property

Vantone successively developed large-scale commercial properties such as the Air China Building, Tongrun Business Club, and Vantone Mall in Beijing. Since 1996, Vantone's real estate business turned to the development of high-end residential communities, and its business is also focused on high-end properties and services. Making such a change came from Vantone's essential judgment on two trends: firstly, the long-term trend that China would enter the information society, large office buildings, shopping malls, and factories

would become saturated, demand would drop sharply; secondly, the development trend of the real estate market in the next few years would result in real estate enterprises inevitably facing market segmentation and product simplification, and reliance on a single product to improve their competitiveness.

Based on those judgments, Vantone chose the high-end residential market. In 1999, Wanquan XinxinJiayuan Project posted the best sales in the housing market in Beijing. This greatly encouraged Vantone's confidence to enter the high-end residential market. Since 1999, Vantone's real estate development has maintained a leading position in real estate specialization and scale investment in China.

(Wanquan XinxinJiayuan is one of Vantone's most important high-end residential projects and is close to the Summer Palace and Zhongguancun, an excellent location.)

At the same time, Vantone has long been committed to promoting the progress and healthy development of China's real estate industry. As early as 1999, it initiated the establishment of China Urban Real Estate Developer Strategy Alliance with another two influential real estate companies Vanke and Jianye. Feng Lun was elected as the rotating chairman of the 2002 Alliance.

(The China Urban Real Estate Developer Strategy Alliance, established in 1999, is an industry strategic alliance composed of several influential companies in the real estate industry and brand developers in major cities of China on the principle of equality and mutual benefit.)

(2) Equity investment

In 1995, Wang Gongquan went to Dallas, Texas, USA, and met several PhD candidates studying in the United States. These young people expressed their wish to return to China for network development. Vantone's investment help to create the AsiaInfo Group, which is thriving today in China's IT industry.

(AsiaInfo was founded in 1993, which was the first Chinese high-tech enterprise successfully listed on NASDAQ in the United States. It has successively built six national mainstay network projects in China, including China Telecom ChinaNet, China Unicom CUNet, China Mobile CMNet, and China Netcom CNCNet.)

Vantone gave much help to AsiaInfo for its return to China. They invested \$250,000 in AsiaInfo and earned \$250,000 a year later. Profits were high at the time, but from the results of AsiaInfo's listing on the Nasdaq later, selling the shares of AsiaInfo proved not worthwhile. With the success of AsiaInfo, Vantone began to have a keen interest in investment and invested in more than 20 Internet companies including eBay, Netfront, China Learning Network, 3721, Century Internet and Wanwang.

Furthermore, in the process of exploring the capital market, Vantone chose investment banking as the leading industry and participated in the formation of China Minsheng Bank, the first non-state-owned commercial bank in China, and became one of the largest

shareholders. Vantone also invested in Tianan Insurance Co., Ltd.; it invested in China Huacheng Finance Company, Tianjin, Lanzhou City Cooperative Bank, and Huatai Property Insurance Company. Vantone became pioneers in China, promoting corporate mergers and acquisitions and capital operations following the concept of investment banking.

(3) The separation of Vantone six gentlemen

In June 1993, before the state's macroeconomic regulation and control, Vantone withdrew from Hainan, and shortly afterwards, Hainan's real estate bubble collapsed completely, leaving long-lasting unfinished building projects with a large backlog of funds. After their initial success in Hainan, several partners took the mission and expanded their philosophy nationwide. Pan Shiyi went to Beijing. Yi Xiaodi went to Guangxi. Wang Qifu went to Shenzhen. By 1995, Vantone had blossomed into many industries. Real estate, finance, commerce, venture capital, communications, medicine, culture, these industries were all involved, and total assets once reached nearly 5 billion Yuan.

Feng Lun collectively referred to their combination as *"Liangshan Model," "seat order", but profit with no difference," and the equity profit was wholly divided, which is a modern replica of Liangshan. However, business relationships had to return to the nature of business operations. Until the eve of the first separation, the six partners had conflicts of opinions on business philosophy, decision-making, and resource allocation, and friendship

became the most challenging obstacle to overcome. In 1994, Vantone six gentlemen met in Xishan, Guangxi province, and this was known as the "split conference." During the meeting, they were unable to reach a consensus on each other's projects.

(The Liangshan heroes are the characters in the classical Chinese novel , "The Water Margin." They have different status, but there is no difference in the distribution of profit.)*

The splitting problems that private business partners generally face also appeared in Vantone without exception. In 1995, Wang Qifu, Pan Shiyi, and Yi Xiaodi chose to leave. Liu Jun followed in 1998 and Wang Gongquan in 2003. "Joining in the way of men and withdrawing in the way of merchants" is the best way according Feng Lun to sum up the "dismissal" of the brothers.

After separation, the founders of Vantone continued to be active in their careers and remain the most influential entrepreneurs of this era. Pan Shiyi founded SOHO China and successfully listed in Hong Kong; Yi Xiaodi also founded Sunshine 100 and listed in Hong Kong; Wang Gongquan became a well-known venture investor in China; Liu Jun and Wang Qifu are also active in their fields. Each has had excellent achievements.

5.3.1.3 Strategic advancement stage (from 2004 to 2007)

(1) Introducing the strategic investment of the TEDA Group

Tianjin TEDA Group is a large state-owned enterprise that operates the Tianjin Economic Development Zone, one of China's most significant economic development zones, and Vantone was one of the earliest real estate developers to operate in Beijing. On April 10, 2004, the TEDA Group announced that it had invested 308 million Yuan to subscribe to the new share capital of Vantone, owning 27.8% of the shares to become the largest shareholder of the latter. After seeing too many privatization transactions of state-owned enterprises, the TEDA Group's practice of entering private enterprises has been beneficial to many.

The highlight of the strategic cooperation between TEDA Group and Vantone is mixed ownership. State-owned enterprises such as TEDA Group are resourceful but short of effective mechanism, while private enterprises such as Vantone are full of power but short on resources. Feng Lun stated, "TEDA is mainly engaged in low-end residential projects, while Vantone is mainly engaged in high-end residential projects. Vantone has advanced management experience and team work, and can also bring strategic resources to TEDA. The TEDA Group will also eliminate obstacles to Vantone entering Tianjin."

According to the agreement between the two parties, after joining Vantone, the TEDA Group does not participate in the daily management of the company. Vantone's total share capital of has since increased from the original 800 million shares to 1.108 billion shares. TEDA Group holds 27.8% of the shares and is the largest shareholder of Vantone. Vantone Industrial Group holds 26.8% itself with 3.2% of the related share, and together is more than the 27.8% stake in the TEDA Group.

(2) Change from Hong Kong model to US model

The macro-control policy that began in 2004 continued in 2005. One of its key points was to control fixed assets, and real estate is still under control. Traditional real estate developers, the all-around real estate developers, were the most affected. This is because banks began to take prudent measures for those companies.

One fact that needs to be mentioned is that most Chinese real estate developers had been imitating the Hong Kong model. Especially after the cancellation of welfare housing in 1989, when commercial housing began to flood into the market, many developers used the Hong Kong model to lay the foundation for business. The so-called Hong Kong model is the whole process of real estate development. It is completed by a developer from the land purchase, construction, sale, and management. After the house is built, the real estate company does not hold the property and sells it directly. A prominent feature of the Hong Kong model is that real estate developers rely more on banks to provide funding.

"In terms of funding sources, only 15% of US real estate funds are bank funds, 70% are public funds, of which 35 percent are pension funds, 35% are real estate funds, and real estate is a private investment. 80% of real estate investment funds in China are provided by banks, such as consumer mortgage loans and construction loans. China's real estate was too dependent on banks, and real estate companies' debt was too high, which was the crisis facing real estate. The consequences of over-reliance on banks were severe. Feng Lun

believed that the development model of domestic real estate companies should be transferred from the Hong Kong model to the US model as soon as possible."

Before the introduction of the macro-control policy, Vantone had already made a transition from the Hong Kong model to the US model. At the time, this move also caused substantial repercussions in the industry. In retrospect, Feng Lun's advance action was in line with market forces. According to the current situation analysis, the development of the US model will make Vantone enter a new era of development. The US model emphasizes that different professional companies should deal with the different aspects of real estate development. Among these, real estate customization and service are core to the US model.

"We have come to a judgment that a versatile developer can quickly move towards a robber baron model without becoming a growth model. Furthermore, the all-round development of the corporate governance structure is a challenge to sustain, and financial risks are very high. This is why we have to make this transformation. We hope to become a housing supplier and service provider." Feng Lun explained when explaining the change in business model.

Feng Lun believed that the business model should be simplified, and the all-round development model was not suitable for Western capitals and investors, so Feng Lun decided to transform with a new strategic direction. The main ideas were 1) turning unlimited land reserves into limited reserves, 2) clearing capital backlogs, 3) focusing on high-end residential construction, standardization and customized property services.

Vantone's transformation was neither because of lack of funds or other bottlenecks, nor because of macroeconomic regulation and control, but due to the transformation of long-term interests and growth-oriented enterprises. In the short term, the effect of Vantone's transformation may not be evident. However, after a certain period, the US model would bring more benefits to Vantone.

(3) Overseas real estate investment - Manhattan China business centre

In 2005, when global real estate investment institutions flocked to the Chinese property market, Vantone took the opportunity to enter the US Manhattan and cooperated with relevant agencies to plan the “China Business Center” project in Manhattan, USA. Vantone wanted to test the overseas market and then achieved the strategic goal of international private equity.

In September 2005, US media first reported that Vantone intended to find a one million square feet office centre in downtown Manhattan and then sublease it to Chinese companies that want to open offices and branches in the eastern United States. Crain's New York Business Weekly stated that in addition to preparing to supply an office building, Vantone also intended to provide other office services such as conference facilities and translation for companies that settle in.

For this overseas expansion, Vantone stated that the operation of the China Business Center project in the United States was an integral part of Vantone's commercial property

business and is in line with Vantone's established corporate strategy. However, it was not difficult to see that commercial property was an essential part of the US model advocated by Feng Lun. Vantone intended to prepare for international private placement through that move.

Bank loans have always been the primary source of funding for non-listed companies in China. Although Vantone is a publicly-traded company, Vantone Pioneer Co., Ltd. (600246.SH), the company's primary business is now mainly focused on the development of low-density high-end residential development, according to regulations. However, the subsidiary is a listed company, and the parent company is not able to use the funds it has accumulated in the stock market. Therefore, like most companies, Vantone faced enormous repayment pressure throughout the development cycle.

In order to broaden the financing channels, Vantone began to seek private funds actively. Analysts stated that Vantone's entry into the US market was an excellent way to approach private equity investment institutions and obtain private equity funds. After all, private equity funds had not obtained legal status in the Mainland of China. Therefore, Vantone set its sights on the international market.

As one of the earliest companies to participate in real estate investment in Hainan, Vantone is considered to be one of the pioneers of China's real estate industry and is known as the Whampoa Military Academy in China's real estate industry. It has nurtured more than 30

real estate chairman and general managers from Vantone. It has witnessed the development history of China's real estate industry from scratch, from chaos to maturity.

5.3.2 The story of SOHO China before 2008

5.3.2.1 The main projects of SOHO China

Beijing Redstone Industries Co. Ltd, SOHO China's predecessor, was founded in 1995. When SOHO China was first established, the first big project was SOHO New Town. Pan Shiyi's sales team came up with the concept of SOHO. At that time, the colourful facade, the layout of the large living room, the small bedroom, and the open block design in the community, all of them were unique in design. Since then, various SOHO New Town clones have sprung up, and simple residential projects have become more and more challenging to develop. SOHO China then concentrated on commercial real estate.

(SOHO New Town was the first project of SOHO China. Located to the east of the China World Trade Centre in Beijing's Central Business District (CBD), with a gross floor area of 480,000 square meters, SOHO New Town has 48 shops, 283 offices and 1897 apartments.)

SOHO New Town achieved the first career peak of Pan Shiyi and Zhang Xin in Beijing. This includes success at the architectural level, which belongs to Zhang Xin and also includes the business operation, which was Pan Shiyi's masterpiece. As one of the busiest builders in Beijing, SOHO was the most sought-after developer of attraction and creativity. What made it different from many developers is that SOHO China reminds people not of the land market, nor the capital market, but a time-honoured product like SOHO New Town.

If SOHO New Town is SOHO China's masterpiece in product functionalization practice, then Jianwai SOHO would further extend the concept of office and residential development.

In Pan Shiyi's view, a city always has a place that can adequately represent the city's trend and charm. He calls it the landmark of the city. In accordance with this idea, his new project, Jianwai SOHO, was built.

(Jianwai SOHO is located in the core of Beijing CBD. It is a slender, glass building, including 14 SOHO apartments, 4 SOHO offices, 4 SOHO villas, two office buildings, and 1,300-metres of street-facing retail stores, with a total construction area of over 700,000 square metres.)

Behind the success of the SOHO series was the embodiment and enhancement of land value. Pan Shiyi believed that the CBD's real estate had entered the end of construction, and that there would be large-scale delivery in 2005. The supply of houses in the CBD might peak in 2005, but there would be a long gap after 2005. As planning of the real CBD core area was not approved, there would be no more free land in the CBD. Before this plan could be approved, it was entirely unknown when it would be approved, maybe three or five years, maybe longer. In the CBD, with the success of SOHO New Town and Jianwai SOHO, SOHO China accumulated a group of old customers.

The land value was significant. The CBD had the last few pieces left, so the it was bought for Shangdu SOHO from Ren Zhiqiang, at a high price. Pan Shiyi wanted to create value, not only by buying the most expensive plot of the CBD but also re-planned the product with great effort and high prices.

Shangdu SOHO was transferred from Huayuan in March 2004. If it had not been modified, it could have been sold immediately. However, remodelling was delayed for 6 months, in order that the product be redesigned. SOHO China spent 6 months to complete the redesign, and the most crucial task was to make the project right.

The key to maximizing the value of land was to choose the appropriate kind of development for the land. Similar land plots with different planning designs will inevitably lead to different product forms and qualities, which will eventually lead to different value realization. Pan Shiyi described the role of the designer with a simple and understandable metaphor: "If a designer cuts the same fabric, it comes out of brand-name clothing. If it is my mother's cut, it is the farmer's clothes. Therefore, we have invited an internationally famous designer Pitt Davis to design".

In order to give designers the full space to exercise their creativity, SOHO China did not give the designer a limit on usage metrics like most developers in the planning and design process. Pan Shiyi was convinced that as long as it was the right product, the customer would be able to accept it. Nowadays, consumer principles are very different from five years ago. Shangdu SOHO is a product that was unprecedented in China. Apart from the

post-modern style of the building itself, the most important thing was that the developer should make a mature and high-return investment product from the beginning of planning and design. From SOHO New Town to Jianwai SOHO, in the past few years, the number of customers who followed Pan Shiyi in Beijing has reached five or six thousand. This is also an essential factor for Pan Shiyi's investment in the field.

Investors were paying particular attention to the progress of Shangdu SOHO. For Pan Shiyi, the first and second values, namely land issues, planning, and design issues, were completed, and the next step was to build it. "The first thing was to have a good construction plan. The second was to control the construction period. It had to be carefully structured. Even if it was delayed for one or two months in the construction period, it would not matter, but the construction must be good." Pan Shiyi seemed to have been very generous for the construction period, but the sales requirements were not as generous: 120 sales team, half a year to complete 2.5 billion yuan sales.

Shangdu SOHO might have been the last opportunity for the CBD. Pan Shiyi could not afford to miss the opportunity. SOHO China had already planned to reserve one-fifth of the area in Shangdu SOHO. The discovery of the land value itself and the unique ability of the added value of the land has always been the secret of success for Pan Shiyi. The so-called master of speculation and the master of real estate entertainment were just appearances and disguise. The key to success was to find their core values.

Before the macro-control of the real estate market, SOHO New Town and Jianwai SOHO put more emphasis on residential property, while Shangdu SOHO showed the functionality of commercial real estate. Shangdu SOHO is the third project of SOHO China in Beijing CBD. It is a new generation upgrade product launched after SOHO New Town and Jianwai SOHO.

In the case of high inflation and negative interest rates, a good option is real estate. Of course, the precondition is that this project has to be of investment type. Products in good locations are scarce, and the price during the low tide period will not be too high. In 2007, on the one hand, Pan Shiyi was making final preparations for SOHO China's Hong Kong listing. On the other, he was also worried about the land reserve.

The two aspects of land reserve and listing are also involved. In 2002, SOHO China also tried to list in Hong Kong, but in the end, it failed. In the final analysis, Hong Kong investors could not understand SOHO China's light asset model: every property in the company was selling well, but there was not much land reserve in hand, and the projects were all concentrated in Beijing CBD (Central Business District).

In 2007, SOHO China was preparing for re-listing. It was confronted with the same old problem: SOHO New Town, Jianwai SOHO, Chaowai SOHO and Shangdu SOHO, the old projects, were nearly sold out, and there were only Sanlitun SOHO, and Qianmen SOHO left.

During this period, SOHO China formulated a national expansion strategy, initially delineating seven cities: Beijing, Shanghai, Shenzhen, Tianjin, Changsha, Dalian, and Chongqing, as the focus of future development. Pan Shiyi, like most developers at that time, was busily scrutinizing the country. After searching around the whole country, Pan Shiyi was not satisfied with other cities than Beijing and Shanghai. He was very careful about the choices regarding the city and location. When he left Vantone to stand on his own, he used to drive around the city in the evening. He found that there was almost no light in the west and the area in the east, especially in the CBD, was brightly lit, so he decided to settle in the CBD. Today, SOHO China's development accounts for almost 40% of the total development of Beijing CBD; of course, the CBD also brings much money to SOHO China.

By the end of 2007, the real estate market was almost in crisis. In 2006, based on over-optimism about the future, developers had mortgaged their future and thought they could continue to get rich overnight. The sudden arrival of macro-control had made it impossible for developers to obtain funds from outside quickly, and consumers were still waiting for the property to sell.

At that time, Pan Shiyi, who had 15 billion Yuan in cash, suddenly found himself the biggest beneficiary of this adjustment. When the winter comes, people wearing warm clothes are most likely to weather the storm.

SOHO China changed its expansion strategy made before the listing and decided to narrow the line to Beijing and Shanghai. In these two cities, projects continued to be chosen in the most prosperous areas of the city.

In November 2007, SOHO China acquired two new projects for 2.44 billion Yuan in just one month after its listing and changed their names to Guanghai SOHO 2 and Beijing SOHO Residences respectively. These two projects were purchased from Ren Zhiqiang's Huayuan Group.

At the end of May 2008, SOHO China announced that it would acquire all the rights and interests for 3.3 billion yuan of the indebted Beijing Kaiheng Real Estate Co., Ltd. The project Kaiheng Center was renamed Chaoyangmen SOHO. Pan Shiyi was very satisfied with the price of the acquisition. He recently revealed that the price was nearly 1 billion yuan- lower than the expected price.

Moreover, although the outside world has always claimed that Gome Real Estate and Macau gambling king Stanley Ho were interested in this project, only SOHO China bid and participated in the negotiation process. This could be because of the tight market situation in the real estate industry, other buyers were too hesitant and this finally made it cheaper for SOHO China. After the acquisition of Kaiheng, SOHO China still had more than 10 billion Yuan in cash. Even if it took more than 5 billion Yuan to purchase Qianmen Avenue, there would be at least 5 billion Yuan in cash, and Sanlitun SOHO would generate billions of sales income after the opening.

Unlike other real estate developers who like to take the land, Pan Shiyi preferred to acquire projects that were already under development. Among the three significant acquisitions after the listing, Guanghai SOHO 2 belonged to direct land acquisition. The other two projects were developed over a long time. Among them, the Beijing SOHO Residences was completed.

Pan Shiyi suffered from the lack of land, which was mainly due to his insistence its value. Different from others' impressions, Pan Shiyi had knowledge of the land. First, Pan Shiyi would see whether or the city was worth investing in, depending on its four GDPs: GDP growth rate, GDP total, GDP per capita or GDP per square km, and the tertiary industry's share of GDP. He believed that only the cities with these four indicators were those worthy of investment by SOHO China. The comprehensive indicators of Beijing and Shanghai were certainly far ahead of other cities. For example, the proportion of the tertiary industry in Beijing and Shanghai had reached 70%, while the highest in other cities was less than 50%. "The GDP of many cities such as Changsha and Wuxi were not low, but they were developing cities, and their tertiary industries accounted for only 30%. They had little demand for finance, trade, commerce, services, and catering. "They are not suitable for us." As the head of a purely private enterprise, Pan Shiyi knew that SOHO China was not good at dealing directly with the land, especially when it came to demolition, which the developer of the state-owned enterprise was better at. The advantages of SOHO China were not there, but in its unique products, prices, channels, and promotion.

The development of the Beijing CBD was nearing completion. Pan Shiyi, the builder of the CBD, wanted to maintain his title, and the only way to do this was to develop outside Beijing. After previous year's national expansion plan, because the market is not right, Pan Shiyi was waiting for the best time. At the same time, SOHO China was already in quiet transition. Sanlitun SOHO was the first project Pan Shiyi planned to get out of the CBD, although it is still in the vicinity of the CBD. More importantly, in this project, SOHO China would retain some excellent properties, not to sell but to own and rent. In the next Chaoyangmen SOHO and even Qianmen Avenue, SOHO China would also carry out a large-scale operation of the holding property. To this end, SOHO China also established a property management company. Thus far, the proportion of holding properties in SOHO China's total revenue was still tiny – in SOHO China's 2007 revenue of 6.95 billion Yuan, revenue from leasing and hotels was less than 100 million Yuan.

5.3.2.2 Successful projects and experience of SOHO China

(1) The 'last one out' system

SOHO China implemented the 'last-one-out' system. Each sales team had a quarterly sales task set by the company. The assessment was made every three months and on the last day of the third month. On that day, the company pulled out the complete list, including the director, deputy director and sales staff from the marketing department. According to the list placings, SOHO China would give outstanding employees a salary increase, promotion, opportunities to travel abroad, and other awards, but also ruthlessly eliminated the last

position. The last ten salespersons might be out of the game, and the last two sales directors would be re-tested.

(2) The positioning of SOHO China

"It is to seize the commanding heights in the market, instead of blindly rushing into the 'staking place.'" Pan Shiyi believed that the "commanding heights" of the Chinese real estate market included three aspects: the first was the location, the second was Brand, the third was to focus on high-end products.

In the location, different real estate developers have different views. In Pan Shiyi's view, "the commanding heights of China's real estate market today are Beijing and Shanghai." Pan Shiyi believed that housing prices of Shanghai, as one of the significant international metropolises, was only one-tenth of that of Tokyo, Paris, and New York in 2007. "The development space in Shanghai was still huge, but we are not very familiar with Shanghai. Besides, the land in Shanghai is tiny. The projects we can talk about are only 30,000 square metres." In Beijing, SOHO China's projects were basically between 400,000 and 600,000 square metres. Therefore, the current development focus of SOHO China was still Beijing.

In addition to the CBD area in Beijing, SOHO China was developing new projects around Sanlitun and Tiananmen Square. "When we occupy the commanding heights of the lot, in the future competitive landscape, we have the advantage of looking at the overall situation

and building high buildings." Pan Shiyi declared. In addition to the location, another commanding height of SOHO China was the focus on high-end products. From the original SOHO New Town, Jianwai SOHO to Chaowai SOHO and Shangdu SOHO, SOHO China has been committed to the development of high-end commercial housing.

(3) Publicizing the experience of SOHO China

Pan Shiyi first proposed the SOHO concept in the real estate industry in Beijing, which confused both consumers and peers. In order to promote his new concept, Pan Shiyi and SOHO China issued insurance policies, from no reason to refund to a later 10% annual interest-free refund.

The real estate industry has a book called *Complaint Pan Shiyi, Criticizing SOHO New Town*. The book collects all the criticisms regarding Pan Shiyi and his SOHO New Town at the time and was published on the opening day of SOHO New Town. A glance at the title of the book, one would think that the writer could have been anyone else in the world, but Pan Shiyi. In fact, it was indeed Pan Shiyi. Before the book was published, Pan Shiyi and his SOHO New Town were questioned and criticized. After the book was published, SOHO New Town had turned the market upside down. By that time, everyone knew that there was a Pan Shiyi in the real estate industry. After a series of "Crisis Public Relations" reverse strategy such as "Complaint Pan Shiyi, Criticizing Modern City," SOHO China's series of projects also became a sensation and a success.

Most commercial real estate projects are aimed at big customers, the world's top 500 companies. SOHO China's commercial real estate projects have never tried to attract the top 500. Instead, their target is local SMEs. All SOHO projects in China are developed for SMEs.

5.3.3 The story of Sunshine 100 before 2008

Founded in 1999, Sunshine 100 was one of the first real estate companies to emerge with the development of China's real estate industry. After the development of the Sunshine 100 International Apartment project in Beijing CBD, Sunshine 100 successfully developed more than 20 projects in Tianjin, Chongqing, Changsha, Jinan, Nanning, Wuhan, Shenyang, Chengdu, Luoyang, Wuxi, Yantai, Dongying, Liuzhou, and Guilin.

As a previous domestic first-line real estate brand enterprise, Sunshine 100 established a leading brand of China's emerging fashion community with consistent product style, international master's design art, standardized quality platform, and excellent after-sales service.

5.3.3.1 Avoidance of frenetic growth

Speaking of Sunshine 100, its founder, Yi Xiaodi, has to be mentioned. Compared with Feng Lun and Pan Shiyi, Yi Xiaodi, one of the Vantone six gentlemen, had an unusually low-key profile. Everyone who knew him agreed that Yi Xiaodi was a low-key and humble

person. He was more like a Buddhist philosopher. In Sunshine 100, he was always pursuing a real and straightforward way of doing business. He graduated from Renmin University of China in 1989 with an MA in economics.

In 1991, he participated in the establishment of the predecessor of Vantone. In 1992, Yi Xiaodi was appointed to establish Guangxi Vantone, which became his base camp after the separation of Vantone six gentlemen and also the predecessor of Sunshine 100. After the separation, Yi Xiaodi successfully developed projects such as Vantone Sky Garden, New Vantone Shopping Plaza, and New Vantone Hotel in Nanning Guangxi province. Until 2000, he operated the Sunshine 100 project, which helped him enter the ranks of real estate entrepreneurs. In 2001, Yi Xiaodi was the chairman and general manager of Beijing Sunshine 100 Real Estate Group. At the same time, Sunshine 100 began to enter the second and third-tier cities, becoming the first famous developer to expand to second and third-tier cities in China.

After going through the painful course of Hainan's real estate bubble in 1992 and the diversification strategy of Vantone, Yi Xiaodi became very cautious about real estate development. Affected by the stable personality of Yi Xiaodi, the advancement of Sunshine 100 was conservative. After the bidding and auction policy in 2003, Sunshine 100 did not join other developers in the pursuit of a large land reserve. They focused instead on expanding the brand.

As a result of experiencing the catastrophic real estate bubble in Hainan, Yi Xiaodi concluded that money does not determine the company's growth. However, the development model and profit model can determine the future of a company. Therefore, in the course of business, he never lamented lost opportunities. He only cared that he had not make mistakes. Yi Xiaodi, who was cautious, let his Sunshine 100 brand quickly realize large-scale reproduction. He was the first famous developer to enter the second and third-tier cities in China. Since 2000, the Sunshine 100 series has spread over dozens of cities across the country. The reason for adopting such a business model is that he thought that instead of opening different projects in the same place, it would be better to open similar projects in different places and repeat successful experiences. After all, the idea of not taking risks nor making mistakes supported his business philosophy. In his view, only when the direction is clear, and the intrinsic values are mature can we genuinely find and seize opportunities.

"If you get land, you suddenly become a success. If this logic continues, how can the real estate industry be rational?" Yi Xiaodi claimed. The operating logic of the market showed that it did not pay attention to Yi Xiaodi's feelings. Over a period of ten years, the irrational and frantic real estate market Sunshine 100 lost its opportunity of rapid growth. "The major shareholder Yankuang Group Co., Ltd., was increasingly dissatisfied with the company's scale and wanted to take the land. The disagreement between the major shareholder and the second shareholder was growing, but it takes money to get the land. This money is either funded by shareholders or requires the company to raise funds. However, because Sunshine 100 subsidiary had tremendous power, and each subsidiary had its major

shareholder, negotiations between them were not easy. These subsidiaries were not like companies such as Evergrande Real Estate and Longhu Real Estate. Their headquarters could issue the policy immediately after the order was issued. Each subsidiary of Sunshine 100 had to consider its shareholders."

Because of its weak financial situation, Sunshine 100 failed to compete with the various enterprises with a strong background in resource competition, but the innovation breakthrough in soft power helped the rapid rise of Sunshine 100 into the first-line real estate enterprises. "Do not copy others, and never repeat yourself." With such a development concept, Yi Xiaodi gained a firm foothold relying on the brand concept and modular operation of Sunshine 100 after a few years of effort and competition in the market.

5.3.3.2 The foundation of the Sunshine 100

Sunshine 100 adhered to a consistent brand and market strategy of developing new white-collar homes in emerging urban areas. According to Fan Xiaochong, executive vice president of Sunshine 100, Sunshine 100 began to try the block complex model in 2004. Its positioning is a commonplace for experiential business and white-collar workers in the city centre. Sunshine 100 Yaohu Town developed in Liuzhou and the Sunshine 100 West Street Plaza developed in Yangshuo, and were representative of such projects. The property was mostly sold, and a small part was self-sufficient.

According to Fan Xiaochong, when the current mainstream developers launched large-scale shopping mall projects and caused intense competition and severe homogenization problems, the block complex led by Sunshine 100 filled the new demand of the market segment. Fan Xiaochong claimed that such products were not expensive, but the profits were substantial. According to the accounting of the projects involved, the gross profit margin of such projects could reach 40%, while the gross profit margin of the shopping mall was generally only 18%-20%.

As early as the beginning of 2006, Sunshine 100 set up a marketing centre. It was responsible for the marketing strategy planning and supervision and implementation of the projects, thus quickly shifting the company's work focus to customer orientation and sales. At this time, the experience of the low tide and dilemma of the industry was particularly important. Yi Xiaodi experienced the pain of the collapse of land projects in Hainan and Beihai city. He long recognized the danger of his putting eggs in the same basket. The nationally differentiated and complementary layout that started earlier finally played a protective role in the cold winter.

Only when faced with low tides and difficulties, would the history and experience of the company be re-examined. The reason why Sunshine 100 did not make mistakes in the real estate bubble after 2006 is that Yi Xiaodi had experienced the pain of the land bubble burst in Hainan and Beihai city in 1993, and also realized the danger of putting all his eggs in one basket.

In 2008, when the market was in a downturn, and some real estate companies were faced with staff layoffs, Sunshine 100 went the other way. It announced that it would recruit 2,000 marketers nationwide and the final result of sales performance would be the final indicator. Fan Xiaochong claimed that the most prominent feature after the reform would be to transform the passive type into the active type. Previously, most real estate companies relied mainly on the traditional way of advertising and promotion. Sales personnel only passively waited for customers to come. Now, they needed salespeople to seek customers and persuade them to understand the project actively.

The policy that motivated employees was that all employees are linked to sales performance. Fan Xiaochong said that in the past, only salespeople were related to performance. Now all employees, including senior executives, were related to sales performance. Every evaluation would now use sales performance as a significant indicator.

5.3.3.3 Original clock theory

At the beginning of 2008, Sunshine 100 began to promote the Sunshine 100 non-controlling brand franchise chain model publicly which included cooperating with companies all over the country, occupying 20%-40% of the shares of the cooperative company, and exporting the brands and management standards such as Sunshine 100 International New City and Sunshine 100 City Plaza, with 4% management fee. Through the non-holding direct chain model, Sunshine 100 expanded rapidly, which also became the land acquisition strategy when the capital was at a disadvantage. When Sunshine 100

resumed its success in 2007, pressure on land was growing, and it affected project development.

As early as 2001, Sunshine 100 had been trying to promote the non-holding direct chain model, but it was unsuccessful. Among the projects owned by Sunshine 100, the main non-holding direct chain projects included Chongqing Sunshine 100 City Plaza, Guilin Yangshuo Sunshine 100 West Street Plaza, Shenyang Sunshine 100 Golf Park Project and Changsha Sunshine Wuguang International. However, Sunshine 100 insiders believed that the non-holding direct chain projects in the past were an extraordinary model in an extraordinary period. Now that the real estate market had begun to return to rationality, the decline in land prices was much higher than house prices, and the holding development project became the central theme.

As early as the beginning of this century, Sunshine 100 launched a national layout and was the first brand developer to enter the second and third-tier cities. Nowadays, these cities have become the main battlefields of China's new wave of urbanization. The urban emerging area of the Sunshine 100 layout has evolved into a new urban centre with the expansion of the city's territory, and the value of the site has undergone major changes.

In making city choices, Sunshine 100 created a clock theory. Fan Xiaochong claimed that the Sunshine 100 clock theory divided the city into an hour hand, a time zone and an alarm clock. According to different companies, there were different judgment standards for different cities. "Imagine the city as a clock, set its size, development level, per capita GDP,

per capita disposable income, including foreign population, set the city's clock, and then quickly make judgments.

Before Sunshine decided to enter a new city to take the land, using the clock theory to select the city becomes a compulsory homework, and the ideal state is to find the alarm clock. Fan Xiaochong takes Tianjin as an example: In August 2006, the State Council positioned Tianjin as an international port city, a northern economic centre, and an eco-city. "The cities that have a major turning point in the urbanization process are the "alarms" we are looking for."

5.3.3.4 The two-edged sword of precise positioning

The primary reason for Sunshine 100's success was its precise market positioning. The market positioning of Sunshine 100 could be seen from its slogan For Young China, for China's Young. Sunshine 100 targeted the emerging white-collar apartment and the emerging middle class and strived to lead the second-tier cities with first-line quality. This precise positioning provided a proper direction for its development strategy and product design. From 1999, Sunshine 100's top management focused on the development of emerging white-collar apartments in the city and insisted not on them being tailor made, but to be designer apartments, and gradually formed the standard of Sunshine 100 products: not only architecture but also art; not only a living space but also a way of life; not only respecting the local culture but also to have a modern international vision beyond local culture.

However, the primary feature for its success also became the reason for its limitations or its lack of recognition in the capital market. A two-edged sword characterizes the international style of young fashion: on the one hand, it easily recognizable and iconic, attracting more loyal customers and the attention of the younger generation; on the other hand, these techniques were simplistic, the most profound experience was still the admiration of its architectural style, but did not highlight the brand appeal concept and intrinsic value of a more profound connotation.

At the same time, this product style was also very imitative and quickly out-dated. Many developers today have developed a simple and fashionable apartment, which is very close to the product style of Sunshine 100. Besides, this positioning would also limit the reshaping of the Sunshine 100 brand image and the subsequent extension to a certain extent. It is easy to limit the brand of Sunshine 100 to the mid-end residential for the growing customer base, and influence the expansion to high and low-end brands. Both would be affected and leave some hidden concerns for future expansion.

5.4 Chapter summary

The impact of Hainan's experience on Vantone six gentlemen is, on the one hand, the emphasis on the establishment of a modern enterprise system and a professional management system. On the other hand, it adds importance to risk control, such as the preference for cash and equity financing, and does not blindly pursue land reserve.

Vantone established the company's modern enterprise system in the early days, and clearly defined the business principles of capital socialization, company specialization, managerial function, and localization. This enabled the Vantone Group to promptly solve problems such as insufficient funds, low levels of specialization, and poor management during the rapid expansion of the group's scale in the short term. In the operation of real estate and investment banking as the main pillars of the industry, Vantone became more specialized and more sophisticated. For example, in financial investment business, the Group was falling in line with business of commercial and merchant banks. On the one hand, Vantone seized the huge market provided by China's industrial upgrading, enterprise transformation, and resource restructuring, and actively sought cooperation. On the other hand, it pursued norms in business forms and gradually established a set of investment banking business models that suited China's national conditions.

SOHO China's projects are concentrated in the core areas of Beijing and Shanghai, without the excessive pursuit of land reserves. In the process of development, SOHO China always attaches importance to the importance of cash flow and maintains low leverage and low debt operations. Unlike other real estate developers who like to take the land, Pan Shiyi

prefers to acquire projects that are already under development. This is due to the scarcity of land in the core area and the fact that SOHO China hopes to acquire land at the most appropriate time. Although there are not many projects in SOHO China, almost every project has become a landmark project.

Sunshine 100 is a relatively conservative company, which is also related to the personality of founder Yi Xiaodi. Sunshine 100 focuses on urban white-collar apartments and block complexes. The main projects are located in second and third-tier cities, and Sunshine 100 was the first famous developer to enter the second and third-tier cities in China.

6 Post-2008 story of the Chinese real estate market

6.1 The Chinese real estate market after 2008

6.1.1 From 2008 to 2009: stimulating housing consumption

After the 2008 global financial crisis, in order to stabilize economic growth and avoid the crisis of the real estate market, the Chinese government started to stimulate housing consumption, by launching a credit relief policy, increasing the supply of affordable housing and a launching tax relief policy. As a result of these policy reforms, house prices in China rose.

The US financial crisis led to a decline in the US economy, insufficient consumer confidence, and a significant reduction in demand for imports. The US subprime mortgage crisis and the subsequent European debt crisis quickly spread to the whole world, escalating into a global financial crisis, and the Chinese economy was also profoundly affected. Furthermore, the global financial crisis also weakened investors' confidence, and foreign capital in China was evacuated. The total amount of foreign capital in China fell by 3.6% in 2009.

In the second half of 2008, affected by the financial crisis, China's exports fell sharply. At the beginning of the year, China's exports had double-digit growth but by the end of the year, the figure fell to below zero. In the first quarter of 2009, exports worsened with double-digit negative growth rate, and industrial production decreased sharply. A large number of small and medium-sized export companies closed, and there was mass unemployment in the coastal areas. In November 2008, the State Council Standing

Committee of the People's Republic of China proposed a series of fiscal and monetary policies to stabilize the economy. The total scale was about four trillion Yuan, or approximately \$586 billion.

Focus on	Funding calculations
Low-rent housing, squatter settlements, and other affordable housing	around 400 billion Yuan
Rural water, circuit, air, houses, and other people's livelihood projects and infrastructure	around 370 billion Yuan
Major infrastructure projects such as railways, highways, airports, and water conservancy, and urban power grid reconstruction	around 1.5 billion Yuan
Health care, education, culture, and other social undertakings	around 150 billion Yuan
Energy Saving, Emission Reduction, and Ecological Engineering	around 210 billion Yuan
Independent innovation and structural adjustment	around 370 billion Yuan

Post-disaster recovery and reconstruction	around 1,000 billion Yuan
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Figure 5: The four trillion-Yuan policy

Data Source: Development and Reform Commission website

There were two main parts of the 4 trillion investment plan that affected the real estate market. One was “Increase financial support for economic growth, eliminating credit restrictions on commercial banks and rational expansion of credit scale.” The other one was “Accelerate the construction of affordable housing projects, increase support for low-rent housing construction, and speed up the renovation of shantytowns.” In March 2009, the Chinese two sessions (the National People's Congress and the Chinese Political Consultative Conference) adjusted the scale of affordable housing by 2008. Planned investment was increased from 280 billion Yuan to 400 billion Yuan.

House prices skyrocketed. In 2008 and 2009, the GDP growth rate in China was 9.6% and 9.2%, respectively. The policy was effective in maintaining economic growth. However, a large amount of capital flowed to the real estate market, and it bottomed out. In 2009, house prices rose sharply. The national average house price growth rate was 23.3%, and Shanghai even reached 56.7%, significantly exceeding the growth rate of per capita disposable income of urban residents.

6.1.2 From 2010 to 2013: curbing housing prices

In April 2010, the most stringent regulation in history began after two sessions of the National People's Congress and the Chinese Political Consultative Conference. On the other hand, the call for secondary housing reform was growing, and it was necessary to increase the construction of affordable housing. Based on land supply restriction, taxation and credit control, comprehensive measures were imposed, and the overheated real estate market was temporarily restricted.

In 2009, China's economy took the lead in the recovery from the global financial crisis. A four trillion Yuan policy led to an extravagant increase in house prices in 2009. On December 14, 2009, the State Council required the combination of land, finance, taxation, and other means to curb the excessive rise in housing prices in some cities. Consequently, real estate regulation and control policies shifted from stimulus to containment.

The momentum of excessive housing price increases was temporarily suppressed, but regional differentiation was distinct. House prices were still rising, but growth rate had slowed, and there was a trend of further slowdown. The sales growth rate of Beijing, which was the first city to implement the purchase restriction, dropped from 76.9% in 2009 to -30.6% in 2010. Fluctuation in the real estate market was prominent.

However, loose monetary policy in 2012 caused house prices in some regions to enter a small rising cycle from the second half of 2012. From the end of 2011 to 2012, the central bank twice cut the reserve rate twice and also cut interest rates. The reserve requirement

ratio was lowered from 21.5% at the end of 2011 to 20% in 2012, and the benchmark interest rate was lowered from 3.5% to 3%. Sales and investment in the real estate market rebounded. In the second half of 2012, housing prices of first-tier cities rebounded significantly, at a rate of more than 20 percent.

6.1.3 From 2014 to 2016: stimulating economic growth and destocking

The Chinese economy entered a new normal stage. Under the policy requirements of stable growth and destocking (cutting excess urban real estate inventory), four rounds of stimulus policies were introduced, mainly to relax restrictions on purchases and loans, and to strengthen credit support and tax reductions. In 2015-2016, the house prices of first- and second-tier cities soared, the third- and fourth-tier cities remained stable. The regional differentiation was apparent.

In 2014, China's economy was once again facing downward pressure, and steady growth demands were highlighted. The economy was entering the new normal stage. This stage not only meant that the speed of economic growth had changed, but also the economic development model, structure, and system were also continually changing. The real estate market entered a second stage of development—total slowdown and regional differentiation. The high housing prices of first- and second-tier cities and high stocks of the third- and fourth-tier cities coexisted. In response to the new condition in the domestic economy and the real estate market, the housing policy also changed accordingly, and the focus was on destocking (cutting excess urban real estate inventory) and classification management (different cities with different real estate management policies).

After the “930” new policy (“930” represented the issue date of the policy and also the name for short) and the “1121” interest rate cuts in 2014, the housing market began to bottom out. In 2015, after the “330” new policy, continuous interest rate cuts and the June stock market crash, housing prices and sales in first- and second-tier cities began to accelerate. After the tax reduction policy in February 2016, the housing prices in first- and second-tier cities started to surge, and prices in some areas almost doubled. It is worth noticing that in 2015-2016, the real estate market showed a clear differentiation. Housing prices in first- and second-tier cities skyrocketed, while housing prices in third- and fourth-tier cities were stable and continued to destock, reflecting the new development of total slowdown and regional differentiation in Chinese real estate market.

6.1.4 From 2016 to present: long term and short-term policy combination to promote healthy development

In 2016, the real estate market showed a regional differentiation phenomenon of high house prices in first- and second-tier cities and high-rise stocks in third and fourth-tier cities. In 2015-2016, the surge in housing prices of the first- and second-tier cities had led to a new round of regulation and control — the combination of short-term and long-term policies seeking to establish a long-term mechanism. In 2016, as inflation expectations rose, and housing prices in first- and second-tier cities skyrocketed, the staged task of stimulating real estate growth was completed, but the destocking effect of the third and fourth-tier cities was substantial and financial risks were highlighted. Real estate policies

began to shift from stimulus to tightening. Due to the re-tightening of the restriction-restricted loan policy, after the National Day in 2016, housing prices and sales volume of the first- and second-tier cities cooled rapidly. The long-term mechanism for real estate regulation was still to be solved.

In February 2017, Xi Jinping first proposed an in-depth study of long-term mechanisms and necessary institutional arrangements for short and long-term integration at the fifteenth meeting of the Central Financial and Economic Leading Group. It was the starting point for the transition from short-term regulation to the long-term mechanism. On October 17, 2017, the 19th National Congress gave specific considerations to the housing system and proposed the establishment of a housing system with multiple channels of supply. The long-term mechanism and housing system would be the new direction of reform.

6.2 The Hainan real estate market after 2008

Hainan Real Estate had an essential historical position in the 1980s and 1990s. However, with the bursting of the real estate bubble and the repositioning of Hainan Province, Hainan Real Estate mainly met the holiday needs and the needs of the second residences.

The 2008 global financial crisis was a challenge and an opportunity. The country proposed the goal of restructuring the economic structure. The driving force for economic growth also shifted from the previous foreign exchange creation to the expansion of domestic demand.

In 2010, Hainan International Tourism Island was launched, and Hainan became the focus of national attention. The real estate industry, not wanting to miss out in Hainan, once again took the lead. In 2009, when applying for planning an international tourist island, it already had an advantage.

From 2010 to 2013, Hainan began to build an international tourist island. The development and investment rate of real estate has been one of the most important driving forces for the rapid growth of fixed asset investment in Hainan. According to Hainan Statistics Bureau, real estate development investment in 2010 was 46.787 billion Yuan, up 62.5% year-on-year; in 2011, it was 66.305 billion Yuan, up 41.7% year-on-year; in 2012, it was 33.7% year-on-year to 88.664 billion Yuan, and by 2013 it had reached 1,196.76 billion Yuan, an increase of 35%. The real estate development investment maintained rapid growth.

In October 2018, the Chinese State Council approved the establishment of the China (Hainan) Free Trade Pilot Zone. Hainan was given greater autonomy to reform. Due to the unique geographical location of Hainan, the strategic positioning of Hainan Pilot Free Trade Zone not only included the construction of comprehensive reform and opening-up of a pilot zone, but also includes the National Ecological Civilization Experimental Zone, the International Tourism Consumption Center, and the National Major Strategic Service Guarantee Zone. It is believed by some that Hainan's construction of a free trade zone (port) is like opening up, but some think that the construction of Hainan's global free trade zone is not a one-off process but may have an underlying economic motive.

6.3 The story of Vantone, Sunshine 100 and SOHO China after 2008

6.3.1 The story of Vantone after 2008

In 1991, Feng Lun and Pan Shiyi, Wang Gongquan, Liu Jun, Wang Qifu, Yi Xiaodi, known as the Vantone six gentleman, founded Hainan Vantone. In 1995, Vantone they separated, and Feng Lun became the chairman of Vantone. After more than a decade of development, in September 2007, Vantone completed the back-door listing by acquisition. Feng Lun was known as the thinker of the Chinese real estate industry for many years. However, Vantone achieved unsatisfactory results with Feng Lun's management philosophy.

In the first decade of the 21st century, Feng Lun had been promoting his American model of real estate development, namely customized production. However, Vantone was not able to follow the path of the American model. Customized homes did not make substantial progress. Apart from a few projects in Tianjin and Hangzhou, Vantone Centre was not able to replicate its business model. Today, the Chinese real estate market is still dominated by the Hong Kong model.

In 2011-2015, the concept of Feng Lun's promotion was called the Great City. Vantone took a few plots in Xi'an and Wenzhou with the advanced concept of the Great City, but the products developed were no different from other traditional real estate projects. The Wenzhou plot was later transferred to New Hope Group.

In August 2014, the board of Vantone was reorganized, and Jiahua Holdings took it over. Only one board member on behalf of Feng Lun was left. On July 3, 2015, Jiahua Holdings was promoted to the largest shareholder of Vantone, and Wang Yihui became the actual controller. Vantone officially bid farewell to the Feng Lun era.

Vantone was now struggling in the real estate industry. Two developments are of note. One was that on December 16, 2018, Vantone announced that the company decided to terminate the acquisition of 78% equity of Xingheng Power. On July 30, 2018, Vantone announced that it had acquired the shares of Xingheng Power from the company Nachuan and other related shareholders for 3.17 billion Yuan. In 2016 and 2017, Xingheng Energy achieved revenues of 1.018 billion and 1.436 billion Yuan, with a net profit of 104 million Yuan and 202 million Yuan respectively. It was an excellent acquisition target. As one of the most famous real estate companies in China, Vantone had no choice but to look for opportunities in other industries.

The second development was that on October 31, 2018, Vantone announced that it had signed a cooperation framework agreement with ProLogis Investment (Shanghai) to transfer its target share/target equity in the Z3 project which located in the core area of Beijing CBD. Vantone completely withdrew from the Z3 project. In December 2010, Vantone and CICC (China International Capital Corporation) and other companies had formed a consortium to win the Z3 plot at a price of more than 2.5 billion Yuan. The Z5 plot adjacent to it had already realised China Zun, the tallest building in Beijing, during the previous eight years, the Z3 plot had not yet started. Even though Vantone had made

considerable money by selling the Z3 plot, it would have been better to develop it for a real estate company if they could have done, rather than to sell.

In the early years, Vantone, famous for projects of Xinxin JiaYuan and Vantone New Town, was once a symbol of the Chinese real estate industry. Speaking of that period, the old Vantone staff were proud of their developments. Regrettably, over the past ten years, Vantone has never been able to occupy the top position of the Chinese real estate company. In other words, Vantone has remained a small or medium-sized housing company. Over the years, Vantone's annual sales have not reached 10 billion Yuan, often between 3 billion and 5 billion Yuan. Worse still, Vantone is struggling to survive by transiting to other industries and selling land.

Vantone did not figure in the top 100 list of real estate companies in 2015. The sales of the 100th in 2015 was 10.3 billion Yuan. In 2016, Vantone was not even in the top 200 list. The sales of the 200th were 5.1 billion Yuan. In 2015, Vantone even experienced a net profit loss of 612 million Yuan.

The revenues of Vantone in 2016 and 2017 were 2.336 billion and 3.295 billion Yuan respectively – the revenue in 2017 was only enough to cover the cost of the acquisition of Xingheng Power. Vantone's report for 2018 showed that its revenue was 3.64 billion Yuan. In 2018, the sales of the 200th place were 5.1 billion Yuan.

The contemporary housing companies, such as Vanke, have already entered the 500 billion Yuan camp. Even latecomers are also on a scale of 100 billion Yuan. Vantone, rather than trying to transform, has been abandoned by the real estate industry.

There may be different opinions about whether Feng Lun was an influencer in the real estate industry or not. However, Vantone has long been in the capital market. It was not been absent from all market opportunities during the Golden Age. In the early days, a group of great professional managers gathered together, but why was it not doing well? The concept is too advanced, such as testing the American model, copying the Vantone Center, promoting the Great City, which could be considered as a strategic uncertainty — giving up the scale and the high turnover, which can be regarded as a strategic mistake.

6.3.2 The story of SOHO China after 2008

The Vantone six gentlemen were a legend in the real estate industry in the few years when the industry had just started. However, in terms of company size, it has always been a small and medium enterprise.

For several years Pan Shiyi focused on promoting his SOHO 3Q model. According to SOHO China's 2017 annual report, there were 26,000 desks in SOHO 3Q at the end of 2017. Pan Shiyi's statement at the performance conference on March 20, 2018, announced plans to increase to 50,000 desks in 2018, nearly doubling. SOHO 3Q was financially and legally independent, with the aim of spin-off listing. By the SOHO 3Q city development

meeting in June 2018, Pan Shiyi declared that SOHO 3Q planned to be listed in 2019. According to the official statement, the occupancy rate of SOHO 3Q was 87%.

SOHO New Town, Jianwai SOHO, SOHO Shangdu, Chaowai SOHO, Wangjing SOHO and other series of SOHOs in Beijing and Shanghai are all products of the golden age. SOHO China is the largest developer of the Beijing CBD. How could SOHO China go further with China's real estate trend?

First is the strategic issue. SOHO China has long pre-emptively established commercial properties as its primary development direction. However, housing is the main product in the golden age of the property market. Although SOHO China's properties are mainly based on sales rather than holding, the market capacity of such products is limited. If SOHO China insists on holding, it does not have such high financial strength, and it is impossible to obtain a high return on property sales.

Secondly, there is the issue of strategy. Apart from one or two individual projects, SOHO China did not obtain land on the open market. It was also a turning point for SOHO China. From then on, the direction of the project was acquisition rather than the open market. The way of acquisition is clear and reasonable. However, from the perspective of the development of real estate enterprises, no real estate company has grown from acquisitions.

Thirdly, the founder Pan Shiyi is over cautious and not a risk taker. Many years ago, he was afraid of high land prices, which was not apparent when he participated in the auction of No. 15 Guangqu Road. For a while, he repeatedly published many unsuccessful remarks

about the high land price. His conservative and pessimistic views directly affected SOHO China's acquisition of land from the open market. SOHO China has lost the opportunity become large scale.

6.3.3 The story of Sunshine 100 after 2008

When the Vantone six gentlemen separated in 1995, Yi Xiaodi was assigned to its projects in Guangxi, and the Sunshine 100 project in Beijing. Similarly, it is inaccurate to say that Sunshine 100 missed the golden age of the real estate market. When Sunshine 100 was listed in Hong Kong, it was nearly four years earlier than another company, Zhengrong Real Estate. At the time, the former was a well-known enterprise in the country, and the latter was virtually unknown.

However, Zhengrong Real Estate had annual sales of 130.3 billion Yuan in 2018, and annual sales of Sunshine 100 were 12.096 billion Yuan. Zhengrong Real Estate had increased its sales by more than 43% from sales of 91 billion Yuan in 2017 to 130.3 billion Yuan in 2018. Sunshine 100 increased sales from 10.6 billion Yuan in 2017 to 12.1 billion Yuan in 2018.

In the first half of 2018, Zhengrong real estate revenue was 12.31 billion Yuan, and net profit was 960 million Yuan; Sunshine 100 revenue was 3.704 billion Yuan, and net profit was 311 million Yuan. The difference is 3 to 4 times. It is said that Sunshine 100 originally

planned to have a sales target of 17.5 billion in 2018. However, it failed to achieve the goal and was far behind.

The most worrying problem is that Sunshine 100's debt ratio has long been at a high level. According to the mid-year report, as of June 30, 2018, Sunshine 100's long-term loans amounted to 13.93 billion Yuan, short-term loans reached 4.528 billion Yuan, while Sunshine 100's cash and cash equivalents were only 3.366 billion Yuan. In the first half of 2018, Sunshine 100's net debt ratio was as high as 234.1%. It may also be an essential reason for the collapse of Sunshine 100's stock price on January 17, 2019.

From the perspective of scale, influence, and financial performance, it is true that Sunshine 100 missed the golden age. Yi Xiaodi had been working hard on the front line of real estate. However, what is the reason for the Sunshine 100, which has started very early, being in the position of the pursuer?

Sunshine 100 did not harvest the large-scale dividends of urban housing, nor form a high turnover. In terms of product strategy, whether focusing mainly on white-collar residential or white-collar residential and block business, Sunshine 100 always swings. Had the positioning of white-collar residential buildings in the early years persisted, and the part that did not match this strategy had been resolutely abandoned, there is no doubt that the size of the company would have doubled.

It is sometimes thought that the regional layout of Sunshine 100 is mainly based on second- and third-tier cities, and the scale is difficult to grow. This, of course, is untrue. Evergrande Country Garden has been developing in the third- and fourth-tier cities for many years, and it still accounts for a large proportion.

For a long time, Sunshine 100 did not put scale at the core. As mentioned earlier, it had maintained a high debt ratio for many years, and the net gearing ratio was even higher. Sunshine 100 did not take residential (urban white-collar residential) as its strategic focus, so it did not abandon a large proportion of the commercial real estate. For example, the Sunshine 100 Weifang project in a weak third-tier city, with such a large proportion of business, whether it is for sales or later operations, brought enormous challenges beyond company's capabilities.

When it was listed in 2014, the company was positioned as a developer of the block complex, but the disadvantages of the great majority of block business were neither recognized nor dealt with in time. It was later proved that the success of the Nanning project could not be repeated. Sunshine 100 was present in less than 20 cities. Objectively speaking, the management radius was wide, and management was not difficult. Management is not intrinsically related to the strategic shift of the group. Along with this, the city company's execution was not reliable, and efficiency was not high.

While other housing companies have priority of scale, Sunshine 100's supply did not keep up; when other housing companies had high turnover as the core strategy, the sales of

Sunshine 100 and the rate of return were always slow. The whole company lacked enthusiasm from top to bottom.

Chinese real estate industry does not lack outstanding professional managers. However, the middle and high-level professional managers of Sunshine 100 were not very mobile, and the company rarely kept people with high salaries. In August 2016, Lin Shaozhou, the general manager of Vanke Beijing, was hired as the CEO. However, he left in May 2018.

Yi Xiaodi maintains a loose relationship with the city administration and even deliberately distances himself from it. He is too conservative, too hesitant therefore many opportunities are missed. It is not that the company must pursue high speed or scale. Sunshine 100 has its characteristics, but its mission statement is not clear. Sunshine 100 cannot say that it has found a business model and development path that suits best. Survival in a short term is not a problem, but the concentration of housing enterprises is continually increasing. Rationally speaking, there is indeed a problem that the market share of living space is increasingly being squeezed out. Sunshine 100 needs to be more aggressive and determined.

6.4 Chapter summary

Vantone, Sunshine 100, and SOHO China did not anticipate the Chinese government's four trillion rescue plan. They continued to maintain low turnover and low debt management, which was a result of their Hainan. By reducing the risk of business operation, they missed development opportunities.

After 2008, Vantone, Sunshine 100, and SOHO China were no longer mainstream companies in the real estate industry. Vantone tried to transform through the acquisition of new energy companies but was not successful. The main business was getting smaller and smaller, and some core plots and assets were sold. Sunshine 100 could not choose between urban white-collar apartments and block complexes. SOHO China changed from being real estate developers to property management by holding and renewing core property. The four trillion rescue plan in 2008 changed the direction of the Chinese real estate industry and companies.

7 Final results

7.1 The essential imprinting feature of Hainan bubble experience

The individual's experience in the sensitive period would have a continuous impact on his behaviour. Even if the subsequent environment changes, this impact would still exist (Marquis & Tilcsik, 2013). Entrepreneurs, as the most influential decision-makers of an enterprise, may have experience at the sensitive stage of their growth and development, which may have an essential and sustained impact on their psychological characteristics. As one of the origins of the imprinting process, the environment will have a continuous impact on the subsequent development of the enterprise (Kimberly, 1979; Giovanni & Anna, 2016).

The application of imprinting theory mainly emphasizes the importance of experience and whether the period of occurrence is in a sensitive period (Stinchcombe, 1965). Events that meet the conditions will have a continuous impact on the specific characteristics of entrepreneurs even though the environment has changed significantly since then (Marquis & Tilcsik, 2013;).

Sensitive period

In the sensitive period, the environmental impact felt by the individual is greater than in the normal period. The sensitive period may be a specific physiological stage of individual development or a period when the surrounding environment of the individual has

undergone significant changes. During this period, individuals face more considerable uncertainty and have a meaningful sense of anxiety. To reduce the stress caused to individuals by environmental changes, individuals will take actions to adapt to the environment as soon as possible, so they are more likely to be affected by the environment.

The sensitive period usually occurs in the critical development phase (Carroll & Hannan, 2004), during the organization's founding period, organizational transition, turbulence, and instability stage (Greenwood & Hinings, 1996; Tushman & Romanelli, 1985). Vantone six gentlemen experienced the Hainan bubble in their youth and survived the bubble. Youth is the most sensitive period for individuals to form preferences. Major social events in youth, such as economic system reform and political system reform, will have a lasting impact on the hidden psychological characteristics of the experiencers.

stamp of environment

The second factor is the core role of environmental conditions, which has a significant impact on individuals during the sensitive period. Such environmental conditions may include internal organizational logic that is dependent on the start-up of the business, as well as the external environment of the economy, technology, or system (Baron, Burton and Hannan, 1999).

As the decision-maker of an enterprise, the characteristics of the entrepreneur will be reflected in the strategic decision-making behaviour. The characteristics of the entrepreneur can be inferred from the observed strategic decisions of the enterprise. The entrepreneur's experience refers to the events that the entrepreneur has personally seen,

done or encountered, but not all things in the past will have a lasting impact on the entrepreneur.

Experience which meets the following three criteria can have a significant impact on entrepreneurs: (1) must be a significant event; (2) the event has a wide range and significant degree of impact; (3) the event has a specific duration in time. It is worth noting that the three criteria that define the experience only provide a reference, and it is not necessary for the three conditions to be met at the same time. There are some factors, such as marital experience and financial distress experience. Although the scope of its influence is limited, it has a direct impact. It also has an absolute continuity in time, and this experience will have an essential continuous impact. The experience of the Hainan bubble satisfies the above three criteria, which has a profound impact on the participating real estate entrepreneurs and has a significant effect on their subsequent business operations.

Persistence of imprints

The entrepreneur's experience will have a lasting impact (Stinchcome, 1965) . The effect of expertise on entrepreneurs is divided into three categories, namely, the impact on the cognitive structure, experience skills and knowledge systems. The Hainan bubble had a significant influence on the surviving entrepreneurs causing them to pay more attention to risk management. Furthermore, it also enabled entrepreneurs to establish a modern enterprise system and professional management system in China's real estate industry.

7.2 Research findings of the Hainan bubble

This research has shown the significance of the Hainan SEZ experiment and how it became so popular in 1989-1990. This was partly because: 1) the political event of “6.4” resulted in tens of thousands of government officials and employees being laid off, so they had to look for work “outside the system” and many of them went to Hainan to become entrepreneurs; 2) Shenzhen’s success carried a significant demonstration effect, and so triggered a herd effect for ambitious young people; 3) Hainan was the largest SEZ at the time, with the highest level of jurisdictional autonomy compared with the other SEZs and the most favourable policies toward businesses; 4) Hainan was the testing ground for “land usage right”; 5) the finance market, including the stock and bond exchanges in other parts of China, was halted, and further plans were uncertain. Investors were wanting to discover alternative areas for investment, and the Hainan real estate sector appeared to be an attractive investment opportunity.

This inflow of entrepreneurs and investment funds led to the Hainan bubble during 1990 to 1993 with an enormous flow of loans from banks and private trust companies that were made to the developers; 2) the local government encouraged the rapid development of the market and left the illegal practices unregulated; 3) the central government was busy dealing with the reform of the banking system and the development of the stock market, resulting in government officials ignoring the apparent formation of the bubble in Hainan until 1993, when the local banking system was about to fail due to excessive amount of bad debt; 4) in 1993, the central government formally acknowledged the Chinese socialist market economy, and amended the laws to allow the transfer of land usage rights ; 5) low

information efficiency and a lack of understanding of the government's thoughts on the Hainan market led most developers to believe strongly that the central government would not allow the market to fail, so they continued speculating.

After the bubble burst, most real estate developers went bankrupt. The results and the lessons learned by those few entrepreneurs who survived gave a very powerful message to those entrepreneurs. These lessons included: 1) developing a new understanding of business risks in China; 2) carefully following the trend in government policies and regulations and anticipating likely policy changes and how they might impact their businesses; 3) they began to understand the pattern of government decisions, that the market practices before formal regulations were the "stones". The government then, upon observation of these practices and their results, made policy decisions based on which practices seemed to be particularly beneficial to their aims.

There are very few studies in the existing academic literature about the role played by the entrepreneurs, the private developers, in the development of the Chinese real estate market. Furthermore, there are no studies that show that the developers' behaviour in the late 1990s and 2000s was so influenced by the experience they had gained during the Hainan bubble.

Indeed, the development of the Hainan real estate market in the 1990s not only provided valuable experience for the Chinese real estate market but also cultivated the first batch of crucially important real estate entrepreneurs in China. These real estate entrepreneurs went on to transform the real estate industry in China. Their experience of the Hainan bubble

forced them to pay much more attention to controlling business risks, which had a significant influence on their business long after.

7.3 Research findings of Post-Hainan market

In 1994, the central bank, People's Bank of China, was established, making it the first step in the long path of financial sector reform, and continued tightening of government regulations over both the financial market and the real estate market.

As a result of the Hainan bubble and the rapid development of the equity market, investors and entrepreneurs started to focus more on stocks and bonds, with only a few entrepreneurs remaining in the real estate market; Chinese companies, especially SOEs, started to go public on the overseas stock markets.

The impact of Hainan's experience on the Vantone six gentlemen is, on one hand, the emphasis on the establishment of a modern enterprise system and a professional management system. On the other hand, it added importance to risk control, such as the preference for cash and equity financing. The Vantone six did not blindly pursue land reserve accumulation, unlike many real estate developers who had not experienced the trauma of the Hainan bubble. The experience of the Hainan bubble forced these real estate entrepreneurs to pay more attention to controlling business risks, which enabled them to operate steadily from 1995 to 2008, and their companies developed smoothly.

Furthermore, the real estate entrepreneurs who survived from Hainan bubble made significant contributions to the advancement of the industry in various ways. They were the first group to establish a modern enterprise and professional management system in China's real estate industry. These practices were then disseminated across the industry as

senior managers in Vantone and related companies then left Vantone and went on to become chairmen and senior managers of more than 30 other real estate companies. Vantone was so important in training up the cadres of senior management in the Chinese real estate sector that it was nicknamed the Whampoa Military Academy of the real estate industry.

Vantone established the company's modern enterprise system, and clearly defined the business principles of company specialization, managerial function, and localization. These enabled Vantone to promptly solve problems such as insufficient funds, low levels of specialization, and poor management during the rapid expansion of the group in the short term. SOHO China attached importance to the importance of cash flow and maintained low leverage operations. Although there are not many projects in SOHO China, almost every project has become a landmark. Sunshine 100 is a relatively conservative company, which is also related to the personality of founder Yi Xiaodi. Sunshine 100 focuses on urban white-collar apartments and block complexes. The main projects are located in second and third-tier cities, and Sunshine 100 was the first famous developer to enter the second and third-tier cities in China.

7.4 Research findings of the market in 2008-now

The 2008 financial crisis presented a sizeable threat to the Chinese economy. Financial indicators around the world predicted that the world economy was entering a period of recession, with associated price declines. However, in China, the central government reacted to the financial crisis by injecting 4 trillion Yuan into the economy, largely through the financial system. This in turn led to a large increase in credit for housing and, with effect of the “Loan feast,” housing prices have been reaching new high levels year after year.

Vantone, Sunshine 100, and SOHO China did not anticipate the Chinese government's four trillion rescue plan. They continued to maintain low turnover and low debt management. This was a continuation of their management practices that they had adopted as a result of their experience in Hainan. On the one hand, they reduced the risk of business operations; but on the other, they missed the opportunity of development and growth. After the 2008 financial crisis, the conservative management style also caused these entrepreneurs to miss the opportunity of the developing the real estate market, and the scale of the company was surpassed by later entrepreneurs. Any participant familiar with markets would have been cautious after the financial crisis of 2008. However, the central government's four trillion rescue plan in 2008 changed the direction of the Chinese real estate industry. The companies that were then successful and grew quickly were led by developers who were less influenced by their understanding of how market fundamentals would play out, and the consequences of a potential crisis, and more influenced by what they understood to be government commitments.

8 Conclusion and discussion

The research hypotheses are confirmed: 1) the Hainan bubble experience has had a significant impact on the real estate entrepreneurs regarding their business operation; 2) the influence has led to different results in different periods for these entrepreneurs. The Hainan bubble had a big influence on the surviving entrepreneurs forcing them to pay more attention to risk management, which enabled them to operate steadily from 1995 to 2008. But this same emphasis on risk management that was so important in their growth in the late 1990s and early 2000s then meant that they missed the opportunities of developing the real estate market after 2008. Organizational experience shared by the founding team members have a significant positive impact on the internal consistency and uniqueness of the dominant HR values (Leung, Der Foo, and Chaturvedi, 2013). Hainan experience also enabled entrepreneurs to establish a modern enterprise system and professional management system in China's real estate industry. Vantone was so important in training up the cadres of senior management in the Chinese real estate sector that it was nicknamed the Whampoa Military Academy of the real estate industry.

Theoretical implications

The development of the Hainan real estate market in the 1990s not only accumulated valuable experience for the Chinese real estate market but also cultivated the first batch of crucially important real estate entrepreneurs in China. These real estate entrepreneurs completed the original capital accumulation in this process, and accumulated experience in

the process of the real estate bubble, which has had a profound impact on business operations. This study analyzes the impact of the early Hainan real estate bubble experience on entrepreneurs for the first time in related research. The main theoretical contributions are as follows.

Firstly, the research scope of the imprinting event was expanded, and the Hainan real estate bubble was selected as the imprinting event to examine the impact of macroeconomic events such as economic crises on entrepreneurs 'decision-making behaviours', which provided a reference for the impact of similar macroeconomic events on individual characteristics.

Secondly, it explains the possible sources of entrepreneurial risk aversion. The existing literature focuses on the possible impact of entrepreneurial risk aversion on corporate decision-making and lacks analysis of the sources of risk aversion. Entrepreneurial risk aversion may be innate, or it may be the result of a combination of decisions in the acquired work practice. This study explores the possible formation mechanism of entrepreneurial risk aversion from a historical perspective. The results of the study indicate that risk aversion may stem from an essential experience of individuals in sensitive periods.

Practical implications

This research has important practical significance. First of all, entrepreneurs need to recognize the existence of the imprinting effect, understand its influence mechanism on decision-making, and then use their advantages in imprinting. The existence of imprinting

can play both positive and negative role in certain situations, and entrepreneurs should make the most of the positive effects.

Secondly, for entrepreneurs, in order to reduce the possible adverse effects of the imprinting mechanism, it is essential to develop the ability of reflexivity. On the one hand, entrepreneurs should develop sobre self-awareness, recognize the limitations of self, understand that their behavioural decisions are subject to the influence of experience, and be alert to such influences in the decision-making process. On the other hand, entrepreneurs should introspect and reflect on strategic decisions and problems encountered during implementation, and make timely corrections and adjustments based on changes in internal and external environments.

Thirdly, it is necessary for entrepreneurs to select some partners with different experiences from themselves. People with different experiences bring different knowledge; the latter helps entrepreneurs put aside their own experience and form a relatively balanced strategic decision.

Limitations and future research

The research is based on the imprinting theory and provides a unique perspective for future research. The sensitive environmental period mainly refers to the period when the state of the individual changes (transition from one stage to another stage), so the individual will experience multiple environmental sensitive periods in the development process. The imprinting of the individual is the result of multiple sensitive periods. The new imprinting

will be continuously superimposed on the old imprinting, and then it will show a dynamically changing state. During the deformation process of the imprint, it is affected by changes, evolution, and transformation. While some imprints may last for years or even decades, their impact and surface characteristics may change over time. Other possible dynamics are the possibility of interaction between different generations of imprinted layers (Marquis & Tilcsik, 2013).

This study has only considered the impact of the Hainan bubble as a single event. These entrepreneurs have experience working within the system, their political ideology will also affect their decision making (Marquis and Qiao, 2018). In future research, we can add the influence of multiple events, as well as the influence of continuous events, such as the impact of entrepreneurs' business decisions after the Hainan bubble and the 2008 financial crisis.

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Appendices

Appendix 1 Interview of FENG Lun, First round, June 2015

Appendix 2 Interview of MAO Daqing, First round, June 2015

Appendix 3 Interview of PAN Shiyi, First round, June 2015

Appendix 4 Interview of REN Zhiqiang, First round, June 2015

Appendix 5 Interview of WANG Gongquan, YI Xiaodi, ZHANG Mingren, First round, June 2015

Appendix 6 Interview of QIU Baoxing, Second round, September 2016

Appendix 7 Interview of LIU Xiaoguang, Second round, September 2016

Appendix 8 Interview of LIU Hongyu, Second round, September 2016

Appendix 9 Interview of ZHANG Baoquan, Second round, September 2016

Appendix 10 Interview of MO Tianquan, Second round, September 2016

Appendix 11 Interview of YAN Yan, Second round, September 2016

Appendix 12 Interview of REN Zhiqiang, Third round, September 2017

Appendix 13 Interview of FENG Lun, Third round, September 2017

Appendix 14 Interview of LIU Jun, Third round, September 2017

Appendix 15 Interview of YI Xiaodi, Third round, September 2017

Appendix 16 Interview of PAN Shiyi, Third round, September 2017

Appendix 17 Interview of WANG Gongquan, Third round, September 2017

Appendix 18 Interview of WANG Qifu, Third round, September 2017

The contents of the interview are attached in the DVDs.

Appendix 19 some key quotations from the interview

Hainan story part

(1) "When we first started the business in 1991, there was no such thing as Company Law in 1991, nor Contract or Guarantee Law. Many laws familiar to us today, were non-existent at that time." (Appendix 1, P2)

(2) "Take land as an example, before 1993 land as an element was considered as a non-commodity. Then after that, in 1993, the Company Law was released. And then the State Council released several other Policies and plans so that land could be gradually circulating in the market" (Appendix 1, P6)

(3) "I remembered the situations in 1992 or 1993. Why did we pull out of Hainan? Looking back now, people take it as a classic case. They said those people pulled out early were so brilliant! What conditions enabled them do that? How could they pull out? According to our judgment then, Thanks to common sense! I would like to tell you a story. I can remember it when I came over to the Planning Bureau of Haikou. You know, the total construction area for the whole city. The construction area divided by the per capita housing area in Haikou was 50 m². And what was the per capita housing area in Beijing then? I remembered it was 7.4 m². Sure such a provincial capital city was not as rich as Beijing. Under these conditions, the area in Haikou was several times that of Beijing. When I saw the number, I just wanted to try it. I foresaw that the real estate market in Haikou was doomed to failure! We had to pull out, and the earlier, the better!" (Appendix 3, P4-6)

(4) "Indeed, China in the 80s, was still favouring a semi-planned economy policy. All real estate development enterprises had to be state-owned; there was nothing that was not under

state ownership. The land at the time was non transferrable. China just amended the Constitution in the 80s to allow state-owned land to be used for leasing and transferring. The government controlled the state-owned enterprises, and required them to conduct some municipal infrastructure construction as compensation for the gains obtained from the use of the land." (Appendix 4, P2-3)

(5) "In 1993, a large number of joint ventures began to enter the market, and before that, there was no joint venture in the market." (Appendix 4, P5)

(6) "For example, the laws on three kinds of foreign-funded enterprises including a law on Sino-foreign joint ventures and law on Sino-foreign cooperative enterprises, as well as law on individual proprietorship enterprises were introduced in 1979, these laws allowed foreign-invested enterprises to use the land, but our Constitution did not change, such practice violated the Constitution. so in 1982, we had to revise the Constitution."(Appendix 4, P28)

(7) "It was said that cities would be built in Hainan. Then came the theory; there would be a big picture of city construction. So people rushed in. so did real estate." (Appendix 5, P3-4)

(8) "A major problem was that the national policy on Hainan was not sustained. That is the reason. It was about politics. That is the case. The policy for Hainan did not last. To be specific, the Special Economic Zone policy did not last. The second is that the whole country came to a halt quickly for rectification. So, the whole real estate market in Hainan, where a Special Economic Zone was set up in its specific concept, would be developed quickly, bringing many demands." (Appendix 5, P4-5)

(9) "There was a local issue that of Hainan being planned to be upgraded to the provincial level. Such a policy orientation brought with its expectations of development and demands. When such expectations failed suddenly, the big market became bankrupt. There was no real demand. So I think this is the crux of the problem. In all these years, especially after that time, in my mind, there is always a strong feeling that if the demands are deliberately created or such demands are the result of bubbles Such bubbles of demands will burst very quickly."(Appendix 5, P5-7)

(10) " Also, the infrastructure was in a poor state. I set up a brick factory at that time. Once there was a failure in a machine part, if there was a failure, the factory could not complete any task, even the simplest one. We could not find heat treatment technology anywhere in Haikou. If you wanted to do something, you had to go to Zhanjiang by boat. So, when there was no essential industry serving as a support and no necessary trade or logistical support. " (Appendix 5, P13-14)

(11) "The real estate industry was set up, but there was no firm basis, so it eventually became bankrupt."(Appendix 5, P14-15)

(12) "At that time, the only way we raised money was with bank loans, and we did not even know whether we could receive that money, or how much was the interest rate was. We did not use the money to make money. There were no other sources of funds. At that time, there were few services in the capital market, especially in Sanya. The mortgage service a new mode of payment we invented was a new, innovative method." (Appendix 5, P31-32)

(13) "At first, these friends were basically from two groups. One group was the colleagues of the former company, and the other was from the company where Wang Gongquan

worked. Therefore, the most important thing at that time was lack of money. We borrowed money every day."(Appendix 13, P43)

(14) "If you say you have the mindset of an entrepreneur and not that of a pedler. You speculate here, you speculate there. Thinking as an entrepreneur and an idealist are truly very important. Idealism differentiates you from others. So we six have not made any major mistake until today. Although we did not work in the same company, and each has his career. We often get together. We have things in common whereas some other people encountered difficulties. Moreover, our values are different from those of others, for example, during the first anniversary of the founding of our company, we established a reflection system. We reflect on our actions every year."(Appendix 13, P48)

(15) "The causes are as follows. Hainan has a relatively small population which currently totals between 5 million and 6 million. However, it has only 30,000 square kilometres of land I remember in 1991 and 1992 Haikou had a population of 400,000-500,000. There was no real estate industry like the one we have today, so the causes for the bubble are straightforward. The bubble is caused mostly by two factors. The first is avarice. The second is the expectation. All have a high expectation driven by avarice. The greedy made money in the previous round. Then the effect was amplified where there was only expectation but no avarice. The bubble would not have emerged with avarice. Furthermore, with expectation, more and more people engaged in this gambling game."(Appendix 13, P55)

(16) "I think the mark is left on us as a group. Six of us have quit because of fear and lack of courage. We owe relatively less debt, but we once owed much debt, especially in 1995 and 1996, when we owed the greatest amount of debt which we had purchased from

diverse financial institutions. At the time we also bought money from Hainan. But in recent years, I have found that the entrepreneurs are more actively pursuing quality rather than scale. That is, they are concerned about the quality of their enterprise. China's other enterprises that show a craze for real estate development. We have no longer any enthusiasm for such development. For example, we do not develop new SOHOs. We only do leasing. And as for market value, unlike others, we try to maintain our market value. It even goes down. These are our characteristics. These characteristics reflect what you said—the impact that Hainan had on us. The impact on us is simple. It is easy to establish a large enterprise. However, it is more difficult to develop a good enterprise. You should not strive for things that you are not capable of doing."(Appendix 13, P58)

(17) "So compared with the past. We have become more cautious today. And we survive. We do not have a turnover up to the amount of tens of billions or hundreds of billions. We are not as eye-catching as others. But in general, we are safe. We have our business under control. This is related to our memory of Hainan's experience. We know for a fact, that Vantone has survived Hainan's real estate bubble."(Appendix 13, P62)

(18) "It was my intuition at that time. Firstly, Hainan was promoted to the provincial level and became a new province in 1987. Before that China's Shenzhen Special Economic Zone was established. And then China had set the tone of reform and opened up so people at that time started to flow to coastal areas. We were part of the earlier wave. It depended mainly on the social climate." (Appendix 14, P7-8)

(19) "Then the so-called a restless heart that everyone had. Because they came from the system. I was assigned to a state-owned company when I graduated. A state-owned factory. That kind of environment harmed people like us. We could not stand it for too long. And

there is an opportunity. A window was opened, so we seized the opportunity without hesitation." (Appendix 14, P8-9)

(20) "In my opinion, there was more freedom in Hainan than in Shenzhen. The reform and opening up in Hainan was more thorough. So Hainan was our best choice. Anyway, I went to Hainan afterwards. I did not go to Shenzhen. I did not mean that the situation in Shenzhen was worse than Hainan. It was also caused by unforeseen factors." (Appendix 14, P17-18)

(21) "According to the concept of modern economics, the reform and opening up in Hainan was a mess. This was because there was no market economy at that time, at that time in Hainan if a housing project could bring a profit of 50 to 100 yuan per square metre, you would have thought that a project was economically feasible. At that time, there was no consumer credit service, or mortgages. The reform in a place like Haikou showed others how the first batch of entrepreneurs were trained in market awareness. At that time, the government encouraged everyone to start a business." (Appendix 14, P22-23)

(22) "So in the early times in Hainan from the perspective of venture capital, the business model couldn't possibly succeed, but there was a batch of trained entrepreneurs. Many people received their first business lessons in Hainan." (Appendix 14, P24-25)

(23) "There are many things that I can't forget. We got there, and we felt that this was a place that was different from any place on the mainland. The overall quality of the cadres in Hainan was relatively low, and they were not good at Mandarin and their educational level was low. It was just a tool of the Hainan government. The projects did not run well. But many entrepreneurs were trained. It played a historical role. The most significant contribution of Hainan is that a kind of awareness was awakened. "(Appendix 14, P27-29)

(24) " I still think that those who have been to Hainan and returned to the mainland have a greater probability of success. There is a kind of group phenomenon with those entrepreneurs who came back from Hainan. It's a typical phenomenon. There were indeed many pioneers who did their apprenticeship there." (Appendix 14, P31-32)

(25) "The cause of the real estate bubble in Hainan was that people had to do something when they went to Hainan. Speculation was already rife in Shenzhen on properties under construction a concept imported from Hong Kong. The market in Hainan was not big enough to support the speculation of properties under construction, it wasn't prepared for this, in spite of the influx of real estate people. As the market economy wasn't developed at that time, the bursting of the bubble was inevitable. ” (Appendix 14, P48-52)

(26) "Anyway, it has had some influence on me. At least, I learned many lessons at the beginning. Once I knew these things, I would avoid those risks."(Appendix 14, P54)

(27) "At that time, we had made some money through real estate speculation. Then we realized that Hainan was a small place. We couldn't just stay there for good. In short, we didn't want to stay in Hainan forever. This kind of business sense is important."(Appendix 14, P57-59)

Post-Hainan story part

(1) “Generally, we say it was after 1999 that real estate became a marketable product and it was later completely so. Land was transferred in the market, yet there was a period from 1995 to 2001and 2002 when much land was transferred under agreement. But later after 2001, and particularly after 2002 there was no land transfer under agreements.”
(Appendix 2, P6-7)

(2) "The housing reform policy of 1998 came from document 23, which determined the complete marketization of China's real estate market, in other words, the marketization of land. That is to say, the land has to be bid, auctioned and listed, of course, parts of land were retained for allocation." (Appendix 4, P15)

(3) "If we say that there are laws in the economy that can reach the same goal in different ways. Among the essential attributes of the real estate industry is the attribution of finance. Until I went to the United States, I find that the attribute of finance has a profound influence on the entire processes in the real estate industry." (Appendix 5, P17)

(4) "If you decide to liquidate you must do it quickly. If you lower the price gradually no one will reach a deal with you. They know you are going to lower price. They are expecting you to do so. The buyer would further press you. When you cut the price by 5%, the buyer would wait and see. You will cut the price again since you cut price in the first place. I will continue to wait and see. However, when you cut the price by 30%, the buyer would feel that they have a good bargain."(Appendix 13, P70)

(5) "We did everything we promised. We are trustworthy. Another strange and exciting thing about us is that we are China's first private enterprise which employs lawyers. I was unhappy when I first saw your father and his lawyer. I was not accustomed to it."
“(Appendix 13, P50)

(6) "Later, we became skilful at using lawyers. When Gongquan decided to leave, I said to him. Let us find one lawyer. We don't have to find two. Both of us have to pay them if we find our respective lawyer. We have experience. We just employ one, one both you and I trust in."(Appendix 13, P52)

(7) “But there are two constraints in China that make the three-dimensional city hard to realize. One constraint is the urban planning system. As for this kind of high density, there is still a sense of fear. Besides, they think this density is not necessary. The second is the market. A three-dimensional city may provide 7 million square metres or 5 million square metres’ supply. If the population is not large enough, the demand will be insufficient.”(Appendix 13, P11-12)

(8) “Do not change your career or main business casually if you have been engaged in it for a long time. As for me, I did not engage in real estate, when the conditions for financial business were not mature. In Vantone, I was mainly responsible for its financial business. I was not in charge of real estate. I did not continue with the real estate business.”(Appendix 14, P35-36)

(9) "Sometimes, I went back to school. I talked with the students there. I said to them, one should choose a career that one is specialized in. In most cases, any individual case cannot be repeated. Generally speaking, one should do what he/she is familiar with. ”(Appendix 14, P38-39)

(10) “The most important thing is not to leave the industry that you are familiar with. If you succeed in a certain industry, focus on it and stick to it.” (Appendix 14, P41-42)

Post-2008 story part

(1) "Now, the current situation is quite different. Over the last ten years, I should say it has become a relatively mature development model, concerning residences in this development period" (Appendix 1, P5)

(2) "GDP per capita reached USD\$8,000, in the old days, we just focused on solving the housing problem. And the residences developed well and rapidly. So far, the housing problem has been solved, the GDP per capita also exceeds USD\$8,000, and the urbanization rate has reached 55%."(Appendix 1, P27-28)

(3) "Residences are basic needs. Moreover, needs are met. Several large corporations are still building residences. However, the degree of concentration of these corporations is increasingly higher."(Appendix 1, P34)

(4) "The house price would go down in 2008, but the government was worried about it. They were afraid of falling house prices, so made greater efforts to support real estate developers that year. The whole situation began to change suddenly." (Appendix 2, P32-33)

(5) "Basically, given the subprime loan, we invested more money, it could produce better results. Everyone had the money, and everything was loosened with the relaxation of credit. All incentives were available for better sales of real properties."(Appendix 2, P38-39)

(6) "China is now faced with an ageing problem which is unprecedented in the world, so I would like to say, by 2030, or it will start from 2026. We can see one out of three people aged above 60." (Appendix 2, P74)

(7) "So we find it rather difficult to estimate the social regularity in China according to the usual human regularity. As everything in China is policy-oriented, given the housing problem, it is rather serious." (Appendix 2, P80)

(8) "In 2008, a new problem occurred, that is, the global financial crisis. After the crisis, China adopted a 4-trillion economic stimulus policy and lifted all these restrictions, the peak period between 2009 and 2010 resulted from our 4-trillion stimulus policy, previous restrictions were all lifted."(Appendix 4, P23-24)

(9) “We invested almost all resources into Vantone in the first place. After the reduction, we increased some non-Vantone businesses. We are focusing on the post-development era in the next decade. We think that the era before 2016 can be called the development era.”(Appendix 13, P2)

(10) “As for the post-development era. Firstly, from the point of GDP. The post-development era will not start until the GDP reaches \$ 10,000. Concerning product form, it should diversify and be comprehensive, not just a residential development. It should contain commercial healthcare, health industry, warehousing.”(Appendix 13, P3)

(11) "The third competitive focus should not be on speed, scale, or cost but operations and assets management. That means that you should have operations and assets management capabilities which finally drive development.”(Appendix 13, P4)

(12) "But I think the biggest market in the future on the client-side, is medical and comprehensive health. The market will reach about 20 trillion in the next five years, so what I do now centres on the medical and health market.”(Appendix 13, P6)

(13) “When the number of centres reaches to ten or twenty. You can pack them together. The rent is very stable. And then we can securitize and sell them. However, asset securitization in China, such as ABS, REITs, has just started. The market will be massive in the future.” (Appendix 13, P8-9)

(14) "I think there is a correlation between politics and business. In the real estate sector, it is a mentally taxing issue. Because business and government oversight have a high degree of overlaps and convergences, under such circumstances, there was much room for rent-seeking. As for the 4 trillion Yuan stimulus package, I think one visible impact was that

the number of **corrupt** officials was skyrocketing. That is a fact. This package was distributed among state-owned enterprises and governments. As long as it involves a state-owned enterprise and government opportunities for corruption and mistakes will be high."

(Appendix 13, P81-82)

(15) "The Chinese economy has its unique characteristics, especially in the real estate industry. The essential productive factor of real estate is the land, however, in China, it is not privately owned. The government provides its supply. It is bound to have rent-seeking objective."(Appendix 14, P74)