

An attempt to understand property management companies in China

What is property management in China?

It simply refers to providing property management services for residential and commercial properties. The mix differs across different companies.

For residential property management services, the scope can differ across different companies but it is usually 1) pre-sale management services 2) property management services 3) community value-added services, including (a) property agency services to property developers and property owners; (b) home-living services to property owners and residents; and (c) common area value-added services

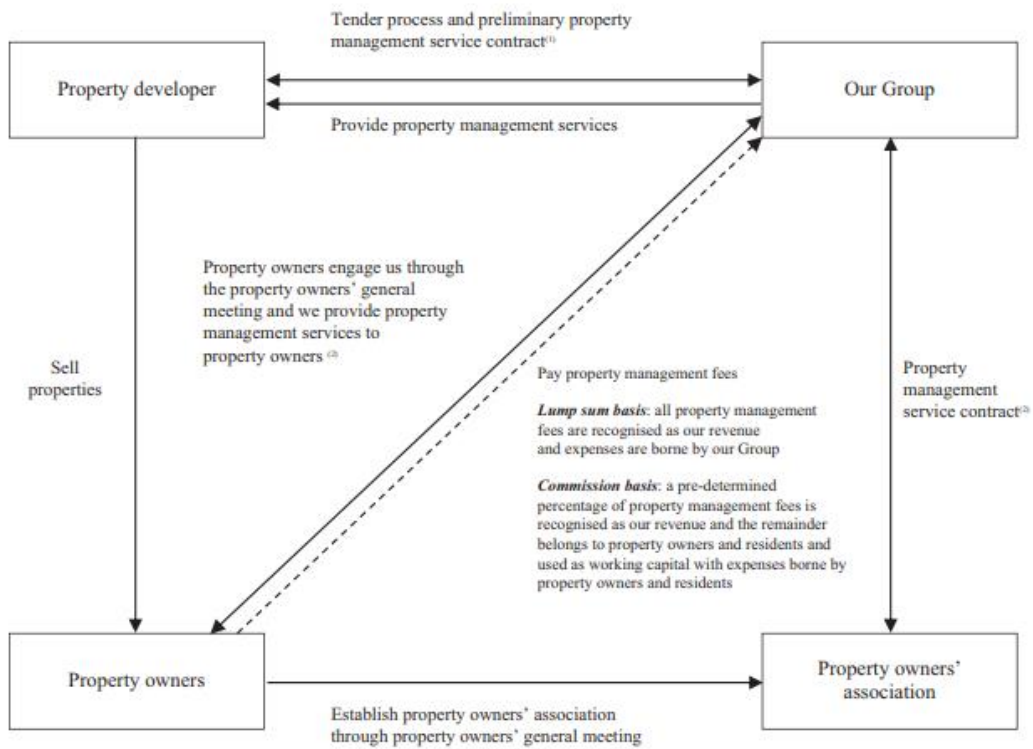
- 1) Pre-sale Management Services usually refers to cleaning, security and maintenance services for pre-sale display units and sales office to property developers during pre-sale activities
- 2) Property Management Services usually refers to cleaning, security, gardening and repair and maintenance services to property developers and property owners
- 3) Community Value-added Services usually refers to (A) property agency services to property developers and property owners. (B) As well as home-living services to property owners and residents. Such services include butler services, decoration and move in furnishing services, group purchase services, home maintenance, cleaning, improvement, renovation via subcontractors. (C) Common area value-added services

For commercial property management services, it is usually 1) pre-sale management services 2) commercial property management services 3) commercial operational services 4) other value-added services, primarily including common area value-added services.

- 1) Pre-sale management services usually refers to cleaning, security and maintenance services for pre-sale display units and sales offices to property developers during their pre-sale activities.
- 2) Property Management Services usually refers to file management, cleaning, security, gardening and repair and maintenance services to property owners or tenants.
- 3) Commercial Operational Services usually refers to preliminary planning and consultancy services, tenant sourcing services, tenant management services and marketing and promotion services to property owners and property developers.
- 4) Other value-added services refers to common area value-added services such as assisting property owners and property developers in leasing common spaces such as parking spaces, lift advertising spaces, basements and outer wall advertising spaces.

A promotional video about what property management is but not limited to can be found at the link here (<https://www.nanfung.com/sc/our-business/property-management/>)

The business model of property management



It is worth noting that majority of the basis is **Lump Sum Basis**. For example in **Country Garden Services**, **99.68%** is in **Lump Sum**.

Below are some photos of property management staff

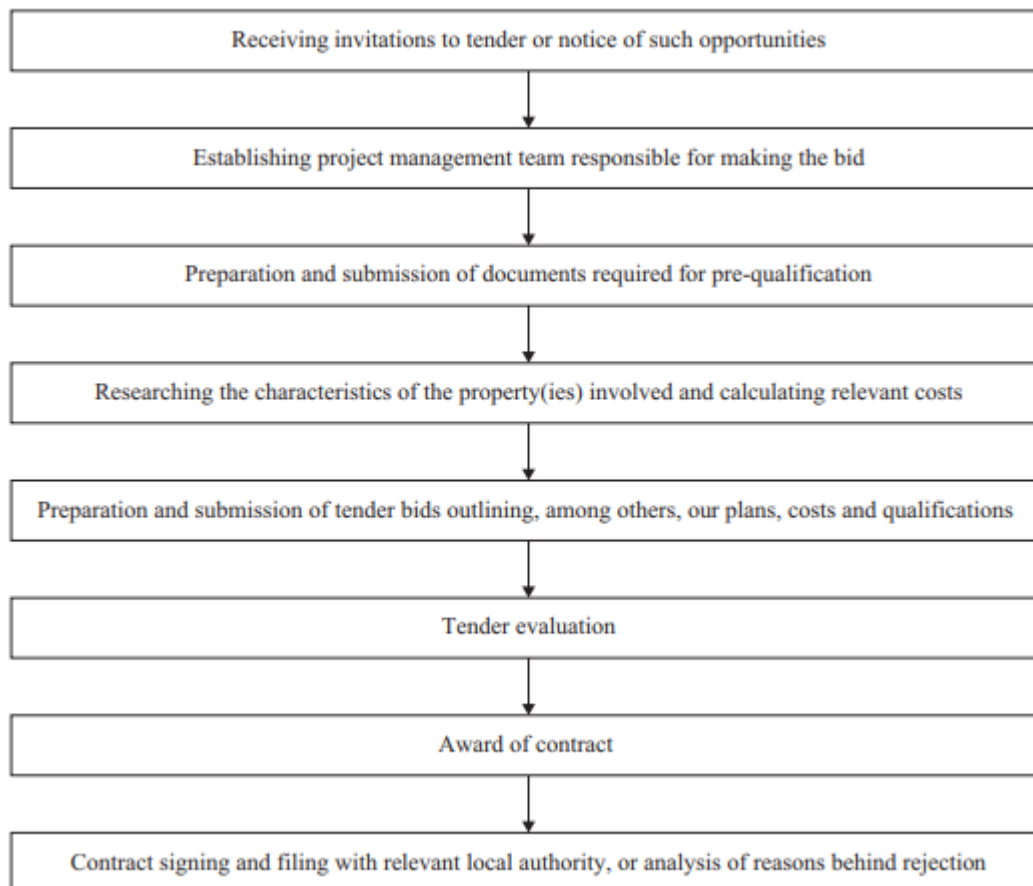




How do property management companies get contracts?

They generally tender for the contracts. Most companies get from their parent the contracts. In fact the win-rate from their parents are 100% for most companies. As for 3rd party contracts, they usually either do it via M&A or tender.

An example of a tender process



An example of a 100% bid rate from its parent. Extracted from KWG Living IPO Prospectus

For both residential properties developed by KWG Group and its joint ventures, associates or other related parties and residential properties developed by third-party property developers, we go through a standard tender process before being awarded property management service contracts to the extent required by PRC laws and regulations. In 2017, 2018, 2019 and the four months ended April 30, 2020, our bid win rates for properties developed by KWG Group and its joint ventures, associates or other related parties were 100% (submitted 15 bids), 100% (submitted 21 bids), 100% (submitted 16 bids) and 100% (submitted one bid), respectively. Our high bid win rates for properties developed by KWG Group and its joint ventures, associates or other related parties was primarily because of our long-term cooperation with KWG Group, our ability to provide quality property management services and the fact that we share the similar philosophy in providing products and services to customers with KWG Group so that we are able to better understand and fulfill their needs and requirements. For the same periods, our bid win rates for properties developed by third-party property developers were n/a (no bid was submitted), n/a (no bid was submitted) and 75% (submitted four bids), respectively, as we started to provide residential property management services to third-party property developers in 2019. We did not submit any bid with respect to residential properties developed by third-party property developers for the four months ended April 30, 2020.

What is the risk of residents self-managing the properties instead of the property management company doing it?

Possible but low. The residents/ property owners will have to first establish an association to appoint a new property management company. The association will have to be formed via voting in a general meeting and at least 50% of the owners must agree on it. Furthermore, stringent requirements are listed as stated below.

aggregate, own over the majority of the delivered GFA in the residential community. As confirmed by CIA, one of our Company's industry consultants, it is uncommon to establish a property owners' association in Henan and only less than 10% of the residential areas in Henan Province have established a property owners' association as of December 31, 2018. This is primarily because of the stringent requirements for establishing a property owners' association, as well as there being insufficient property owners that are willing to participate in such associations, and operational cost issues. These requirements include the establishment of a property owners' assembly which requires (a) over 50% of the building area be sold and delivered; (b) occupancy rate of the households is over

30%; or (c) the preliminary property management agreement is either terminated by the property management company i) in accordance with the terms set out in the agreement, or ii) 90 days before the expiration of the preliminary property management agreement. After the establishment of the property owners' assembly, a property owners' association can be established if its members can meet the following conditions: (a) compliance with relevant laws and regulations or management statutes, rules and provisions stipulated by the property owners' assembly, actively fulfilling the obligations as a property owner, and timely payment of property service fees, (b) having full capacity for civil conduct, (c) be enthusiastic about public welfare and having a strong sense of responsibility and self-discipline, and (d) having adequate organizational skills and sufficient time for performing their duties. For fixed term contracts, once our preliminary management contracts have expired, we typically negotiate with the property owners' associations, property owners or property developers for the terms of renewal of our property management service contracts. Property owners are legally obligated to pay us property management fees, since we continue rendering services to those property management projects during the negotiation period. In cases where we have signed preliminary management contracts without fixed terms and no property owners' association is formed after delivery of the properties, property owners and residents are also legally obligated to pay property management fees directly to us for the services we continue to render.

Why are we only discussing about property management companies now?

It has been a thing since 2018 however before that the companies have not achieved scale and as such has not been as profitable as well.

Price Controls for residential property management are also in place by local government to ensure that property companies are not charging ridiculous amounts.

A bright spot is that in 2014 a circular has been issued on relaxing price controls by the government. Although it remains to be seen when each local government and their province implements it.

However, the scale of property management companies is an idea that is hard to achieve in Singapore.

For example, KWG Living manages 3.3 million sq.m in 2019, that is about 15 Pinnacle @ Duxton which shows that there is more scope for increased scale. Which is possible in China but in Singapore its probably difficult.

A close example will be managing many blocks of HDB, integrating agency services such as Propnex meanwhile adding condo services and being the condo management themselves. Yet at the same time managing some shopping centres whereby the owners are individuals (different from a reit).

2 terms key to property management companies will be 1) GFA Under Management and 2) Contracted GFA. GFA refers to Gross Floor Area.

- 1) GFA Under Management refers to GFA of properties that have been delivered, or are ready to be delivered by property developers, to property owners, for which we are already collecting property management fees in relation to contractual obligations to provide our services
- 2) Contracted GFA refers to GFA managed or to be managed by our Group for which we have entered relevant residential property and commercial property management service contracts.

Who are the biggest players in the industry? Are they listed?

第三部分 2020 中国物业服务百强企业名单

排名	企业名称	排名	企业名称
1	碧桂园服务控股有限公司	19	正荣物业服务服务有限公司
2	绿城物业服务集团有限公司	20	阳光城物业服务服务有限公司
3	保利物业发展股份有限公司	20	融信物业服务集团
4	雅居乐雅生活服务股份有限公司	20	中化金茂物业管理（北京）有限公司
5	恒大金碧物业（金碧物业有限公司）	21	广州敏捷新生活物业管理有限公司
6	彩生活服务集团	22	广州方圆现代生活服务股份有限公司
7	龙湖物业服务集团有限公司	23	成都蜀信物业服务服务有限公司
8	深圳市金地物业管理服务有限公司	23	东原物业集团
9	招商局积余产业运营服务股份有限公司	24	云南俊发物业服务服务有限公司
10	金科物业服务集团有限公司	24	路劲物业服务集团有限公司
11	华润物业科技服务有限公司	24	中天城投集团物业管理有限公司
11	四川蓝光嘉宝服务集团股份有限公司	24	南京银城物业服务服务有限公司
11	幸福基业物业服务服务有限公司	25	江苏中南物业服务服务有限公司
11	新城悦服务集团有限公司	25	广州海伦堡物业管理有限公司
11	佳兆业美好集团有限公司	25	弘阳服务集团有限公司
12	北京首开鸿城实业有限公司	25	华宇优家智慧生活服务集团有限公司
12	河南建业新生活服务有限公司	26	杭州滨江物业管理有限公司
12	世茂天成物业服务集团有限公司	26	珠海华发物业管理服务有限公司
12	上海永升物业管理有限公司	26	厦门合嘉源生活服务集团有限责任公司
12	时代邻里控股有限公司	27	盛全物业服务股份有限公司
13	远洋亿家物业服务股份有限公司	27	汇得行（中国）集团有限公司
13	富力物业服务集团	27	深圳市国贸物业管理有限公司
14	深圳市卓越物业管理有限责任公司	28	北京亿展资产管理有限公司
14	山东省诚信行物业管理有限公司	28	朗诗绿色生活
14	合生活科技集团有限公司	29	福建伯思物业集团有限公司
15	鲁能物业服务服务有限公司	29	楷林物业管理有限公司
15	南部物业服务集团股份有限公司	29	中铁建物业管理有限公司
15	广东中奥物业管理有限公司	30	重庆新鸥鹏物业管理（集团）有限公司
15	山东明德物业管理集团有限公司	30	广州和融物业管理有限公司
15	广东龙光集团物业管理有限公司	30	贵州宏立城物业服务服务有限公司
15	广州奥园物业服务服务有限公司	30	青岛海尔地产服务有限公司
16	金融街物业股份有限公司	31	第一物业服务（北京）有限公司
16	上海高地物业管理有限公司	31	重庆海泰管理服务有限公司
16	财信智慧生活服务集团有限公司	32	河北隆泰物业服务有限责任公司
17	广州越秀物业发展有限公司	32	福建世邦泰和物业管理有限公司
17	合景泰富物业	33	北京首欣物业管理有限责任公司
18	亿达服务集团有限公司	34	重庆新隆信物业管理有限公司
18	江苏银河物业管理有限公司	35	北京中铁第一太平物业服务服务有限公司
18	重庆天骄爱生活服务股份有限公司	35	新力物业集团有限公司
19	荣万家生活服务股份有限公司	35	浙江佳源物业服务集团有限公司

As seen in the picture above

- 1) Country Garden Services (HKEX: 6098)
- 2) Greentown Services Group (HKEX: 2869)
- 3) Poly Property Management (HKEX: 6049)
- 4) A-Living Services (HKEX: 3319)
- 5) Evergrande Services (To be Listed Soon)
- 6) Color Life Services (HKEX: 1778)

Other Notable Names to me include 11) Languang Justbon (HKEX: 2606), 11) Shimao Services (To be Listed Soon), 12) Times Neighborhood (HKEX: 9928), 12) CC New Life Services (HKEX: 9983), 17) KWG Living Group (To be Listed Soon), 25) Redsun Services Group (HKEX: 1971)

For illustration purpose, 319.5 million GFA was managed by Country Garden Services, that is about 97 times of KWG Living Group and roughly 1450 Pinnacle @ Duxton. I am not sure if Singapore can even have that amount of it and still function as a city.

In fact, most property development companies mentioned above have spined-off their property management arm and listed them separately on HKEX.

Valuation

	Stock Code	Trailing PE	Gross Margin	Net Margin	GFA Under Management	Contracted GFA	Revenue (6 Months)	ROE (6 Months x2)
Country Garden Services	6098 HKEX	50.24	37.2%	21.3%	319.5 million sqm	684.7 million sqm	6271300000	39.3%
Greentown Services Group	2869 HKEX	38.24	20.6%	8.2%	225.9 million sqm	478.3 million sqm	4400129000	10.6%
Poly Property Management	6049 HKEX	40.06	20.4%	11.4%	316.8 million sqm	493.4 million sqm	3600900000	13.7%
A-Living Services	3319 HKEX	30.88	31.9%	21.8%	353.4 million sqm	491.3 million sqm	4001600000	22.92%
Color Life Services	1778 HKEX	10.72	32.6%	13.8%	363.7 million sqm	563.7 million sqm	1778874000	11.7%
Languang Justbon	2606 HKEX	14.52	35%	21%	89.9 million sqm	116.9 million sqm	1166197000	20.9%
CC New Life Services	9983 HKEX	26.96	34.6%	17.8%	70.1 million sqm	144.4 million sqm	1061186000	14.22%
Times Neighborhood	9928 HKEX	46.86	28.3%	12%	79 million sqm	105.9 million sqm	701952000	17.5%
Redsun Services Group	1971 HKEX	33.22	26.2%	7.2%	18.7 million sqm	31 million sqm	323208000	19.44%

Possible reasons for differing valuations

- Despite a higher GFA under management, some companies do not seem to bring in a larger revenue. E.g Color Life Services vs A-Living
- Usage of App, Property Management Companies has an app for their users to use. Such app integrates different parts of business. For example, one can indicate what service he needs as well as browse for goods and promotions via the app. With more usage of such app, the economics of scale can be reaped and generate higher margin as the management fees are largely regulated.
- Property Agency services as part of the revenue and gross profit margin, such services classified under community value-added service have higher margins. For example, KWG Living managed a gross margin of 47.2% for value-added services. Whereas in property management, a gross margin of 30.9% is achieved. Pre-sale Management Services achieved 33%. As such, a company that has higher volume at its agency would be able to achieve a higher sales and profit.
- Scale of companies. Just as big caps are more famous and well known, they are likely to trade at a premium to smaller caps.
- Contracted GFA not high enough relative to GFA under management. As such, growth is limited. Which means that to achieve growth there needs to be M&A activities.

Pros of Property Management Companies

- 1) High return of equity due to being asset light. The management model does not require ownership of properties which means that the company does not need to have high gearing nor high asset value. In fact, most companies do have cash level that is higher than its liabilities.
- 2) Revenue Stability can be seen. This is from its contracted GFA and the relative difficulty of homeowners trying to switch to another property management company. Furthermore, if the parent company of the property management company records good increase in property sales and volume, it can be estimated that the property agency services will do well as well.
- 3) Home-Living Services and Common area value-added services serve as a potential growth avenue. As more users are added into the ecosystem as GFA under management increases
- 4) Use of technology. Apps and Cloud Management are avenues that can be further explored and developed to reduce need for manual labor. For example, using technology to improve surveillance and allow for gates to be automated instead of manual entry control.
- 5) Commercial Property Management Avenue. This aspect is not bounded by any price controls and as such would generate a higher margin than residential property management. An example can be seen in KWG Group Living Prospectus where by residential property management segment profit margin is 18% while commercial is 35%.

Cons of Property Management Companies

- 1) Loss Making projects- These arise from early stages of a residential property management project. As such would take time to turn around
- 2) Acquisitions growth limited. With companies going for listing and having the cash to go shopping for acquisitions, 3rd party projects might start to get expensive. For example, in 1 instance, Languang Justbon paid \$123.20 million RMB for 5.02 million square meter in 2020. In another instance, it paid \$213 million RMB for 90% ownership of 8.46 million square meter, with the company making only \$16.2 million RMB in 2019. This translates to \$14.5 million for 90% stake, a return of equity of 6.84%. Furthermore, integrating 3rd part projects into the company's ecosystem would take time as well and it remains to be seen if Languang Justbon can execute it well. Although Languang Justbon has accelerated GFA under management thru acquisitions, its ROE (2019 roughly 19.5%) is expected to fall with such acquisitions.
- 3) Over reliant on parent. This is in the form of its agency services as well as contracted GFA, if the parent is not growing well and selling its properties well, the effect will be transferred to the property management company in terms of growth aspects.
- 4) Labor Intensive. After all it is not a tech company. If more properties are built and managed, naturally more people are needed to take care of it such as security, butler services, grass cutting etc. It is estimated from 2014 to 2019, labor cost of a worker in a year has increased from 55,568 per year to 80,157. A CAGR of 7.6%. With labor cost having to increase year on year and the increase of property management fees currently limited. A lot of weight holds in the value-added component of the company.
- 5) Different province and areas have different local government with different rules.

For instance, nine of the loss-making residential property management projects in 2019 are located in Kunshan, Hangzhou and Guangzhou, which, as advised by our PRC Legal Advisor, are still subject to local government guidance price. For the one project that located in Kunshan, it may increase the preliminary property management service fees by 61.9% before reaching the upper limit of the local government guidance price. The four projects located in Hangzhou cannot increase their preliminary property management fees, as their current fees already reached the upper limit of the local government guidance price. For the four projects located in Guangzhou, it may increase their respective preliminary property management service fees by 87.9% on average before reaching the upper limit of the local government guidance price. On the other hand, for the residential properties where property owners' associations have been formed and formal property management service contracts have been entered into between the relevant property owners' associations and us, the price control on the property management fee is generally relaxed and we will be able to negotiate the increase in property management fee with the relevant property owners' associations.

As seen in the prospectus of one of the property management companies, Kunshan, Guangzhou and Hangzhou all have different rulings and different upper limit and scales. As such for the 4 projects in Hangzhou that are loss making and are unable to increase property management fees, cutting cost thru technology would have to be one of the means.

How I would evaluate which property management company to pick

- 1) Execution of Acquisitions and Growth Prospects in terms of contracted GFA
- 2) Value-added Service Growth, whether the company has been putting efforts into it as well.
- 3) Parent Company's operating results. Is the parent growing in sales and in terms of ranking?
- 4) Users onboard its applications (Not all companies have such data unfortunately)
- 5) Commercial Property Management Growth and Presence. The margins are higher in commercial and such any growth out of there would be more value added.
- 6) Reading research reports introducing the different features of a property management company in more detail. To understand how the company has introduced applications and operate better.