The vision thing

Vincent Lo and his Shui On Group have forged success in China. By *Dan Slater*

It's typical of Vincent Lo's charm and generosity that when this correspondent was unavoidably held up ahead of the meeting, he showed not the slightest irritation, despite his packed schedule.

Dressed simply in perfectly cut clothes, Lo is imperturbable about the incident. He admits his serenity comes partly from doing martial arts and yoga, which also no doubt contribute to his vigorous look.

We meet in the luxury club house reserved for Shui On directors in the heart of Xintiandi – New Heaven and Earth, the hub of what is an extraordinary project.

It's tempting to anybody who has experienced this lively downtown area just south of Shanghai's liveliest street, Huai Hai Lu, to cast sneering looks at Pudong – the colossal development across the river, which has been hyped as the new business and financial heart of Shanghai.

But who would want to live amongst those cold, wide boulevards and anonymous skyscrapers after the hustle and bustle of this part of Puxi, of which Xintiandi is the jewel in the crown?

Xintiandi has already established itself as the leading entertainment district in Shanghai, if not China. Lo has city officials from far flung cities coming up to him and asking for perfect reproductions in their own cities – an indication of the lack of sensitive city planning that Lo, in contrast, has in spades.

But Xintiandi is only the tip of an extraordinary project. Indeed, the scale of Lo's ambitions rank him as a visionary, rather than just an entrepreneur.

Entrepreneurs in China, it's often been said, are more interested in money than in creating world beating companies. Yet Lo's experience seems to suggest that becoming interested in building a company, as opposed to making a fast buck, is something that comes with maturity. Bill Gates, for example, is at least as passionate about Microsoft's success as a company as he is about personal wealth. Like Lo, Gates came from a comfortable background.

In fact, Lo's background played a key role in his entry into business. The sixth of nine children, he wasn't going to inherit the business, yet his parents forbade him to work for anybody else.

"Becoming an entrepreneur was the only way to go," he says, helped by a small loan from his father.

His big break was to come in dramatic circumstances.

Around seven years ago, at the height of Asian financial crisis, Lo proposed to officials of the Lu Wan district that they entrust him with developing 129 acres of prime cityscape.

Like many great ideas, with hindsight it's a move that couldn't fail. But at the time the first area to be cleared (present day Xintiandi) was a densely inhabited workers' accommodation consisting of picturesque and historically valuable shikumen or stone entrance houses. These were built by the French and sold to wealthy local Chinese. However, by the 1990s many of them were on their last legs and all were devoid of plumbing, running water and other basic infrastructure facilities.

The other huge problem involved relocation: around 35,000 households lived in the development area. This is a hazard many developers face, but in China it is complicated by allegations that the city officials who are responsible for compensation keep aside a good portion for themselves. Although the situation has greatly improved in Shanghai, during the first relocation, issues of compensation and sometimes the reluctance to move despite compensation, made the early days of the project extremely difficult ones.

Still, the project has now gained sufficient momentum that Lo has decided to concentrate his China assets into one listing vehicle, Shui On Land (SOL). Investors Citigroup, Standard Chartered and others have committed $350 million to SOL, which will receive China-related assets, in Hangzhou and Chongqing as well as Shanghai, from Lo's privately held company Shui On Properties and Hong Kong-listed Shui On Construction and Materials.

The heart of SOL's assets will be the 129 acre Taipingqiao development, which is currently owned by Shui On Properties (SOP), and of which Xintiandi, a luxury set of villas, a park and two art deco office buildings are the first steps. In the all-share deal, SOCAM will exchange its assets and $50 million in cash for 20% of SOL, while Lo's privately-held company will hold 40% and new investors 40%.

In the next few years, SOL is likely to see a listing in Hong Kong, resulting in a company with a market cap of $3 billion. The proceeds will be used to pay for the massive investment cost of developing its assets in Shanghai, Chongqing and Hangzhou.

Lo is completely frank about the fact that the whole project rests on a simple

four page contract drawn up in 1997.

"One of the things that strategic investors were most concerned about was the nature of the contract. It's pretty short, and quite different to what you'd see in the West," he says.

Yet Lo believes that what will make the deal secure is simple: the success of Xintiandi. Building this pleasantly low-rise, pedestrian-only dining and entertainment district was not easy. The lack of tall buildings eats into profit margins and many of the successful restaurants and bars now operating there, initially had to be lured by low rentals and other concessions.

But the development is possibly one of the finest in China, not least because Lo seems to view the city with an appreciation and affection for its character that more blasé local residents have long lost.

That is perhaps why the whole development manages to be modern, like Pudong, while also respecting the historical legacy of the unique local housing style. It is precisely that retro, humanistic touch that Pudong lacks.

Lo is probably right that the success of Xintiandi is more important to keep the city on his side than a contract.

Shanghai city officials have repeatedly shown they are extremely proud of their city, and reward efforts to keep it as the most sophisticated in China. And few developers have lavished more time, attention and investment in Shanghai than Vincent Lo.

He spends at least half his time in Shanghai and recently moved into the only detached villa in the Taipingqiao project.

Indeed, his success in China contrasts sharply with the experience of Hong Kong's 'Superman', Li Ka-shing, who ran into a storm of flak over the building of Beijing's Oriental Plaza. At one point, the plans had to be redrawn because officials were not happy that project would be towering over Tiananmen Square. Another low point was when the vice mayor of Beijing committed suicide over corruption issues.

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But while Beijing is difficult because of the multiplicity of officials with the power to trip an unwary developer up, Shanghai has a more hierarchical structure. If Lo runs into a serious problem, he can at least make a phone call to current mayor Han Zheng – who by a happy stroke of fortune was the person he first suggested the deal to in 1997 when he was an up and coming Luwan official. Indeed, Han Zheng was the first chairman of the City Hotel, Shui On's first joint-venture project in Shanghai with the Communist Youth League in the 1980s.

That is certainly useful, since the Shanghai property market – which has seen almost 14% CAGR in the past seven years – has some unusual features. The price developers pay for the land consists of land use rights and compensation to current residents. It is the latter which is the biggest part of the fee, between 70% and 90%. Land cannot be acquired freehold and is subject to leases of different lengths depending whether the whether the property is commercial (50 years), or residential (70 years).

Costs are not all upfront. Lo does not currently own the full 129 acres. Instead, monies are paid over as and when new areas are designated for development. At that point, Lo hands over funds for the land use rights to the city government, which oversees 40 certified government agencies that value the residents' housing and provide them either with cash compensation.

That was on average around Rmb170-250,000 for the original Taipingqiao project but is likely to rise substantially in the future as residents get more savvy about the values of their property.

It is not easy operating in China, but Shanghai has been good to Lo. It has enabled him to spread his wings in a way impossible in overcrowded Hong Kong – where crucially he lacked a land bank.

Despite his achievements, Lo is merely at the start of a great adventure. He will certainly be followed closely by all those interested in that mixture of realism and idealism which entrepreneurs represent at their best. **FA**