Moving outward

Case study: ICBC's path to Hong Kong

■ Prior to 2005, Industrial and Commercial Bank of China was fully financed by the state through the Ministry of Finance. To improve corporate governance in the finance sector the state had to relinquish part of the ownership to non-state investors in exchange for more efficient monitoring.

■ In 2005, ICBC was restructured to a joint-stock limited company, with the Ministry of Finance and Huijin each holding 50%. In 2006, ICBC brought in Goldman Sachs, Allianz and American Express as strategic investors, and in 2007, ICBC further diversified its ownership through simultaneous IPOs in Shanghai and Hong Kong. As a result, state ownership was diversified and corporate governance improved.

■ By introducing new investors ICBC strengthened its objective of maximising and changing its service culture. By listing on the Hong Kong stock Exchange and Shanghai Stock Exchange separately, the bank was required to operate by international standards, which brought in international auditors and added compliance rules.

■ The public monitoring and outside control by international investors reduced risk, improved Capital Adequacy Ratio, brand value and market value and disclosure. With more disclosure and transparency, ICBC opened the door for international expansion and cooperation.

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real estate for investment purposes, and insurance companies were only granted limited permissions to diversify investments into real estate in 2010.

Despite this, China Taiping, China Merchants Bank, Ping An, Taikang Life, Bank of China and Bank of Communications have been amongst the biggest buyers of office units across Shanghai and Beijing in recent years, and Agricultural Bank of China and China Construction Bank have been the top buyers in Hong Kong - meaning buying-for-occupation has become a means of investment.

The nature of the property markets in these Far-Eastern financial centres also contributes to the preference for purchasing. Rents in Beijing and Hong Kong are amongst the highest in the world, lease lengths are short, and the market can change very quickly. When taken in conjunction with the expectation that they will be in China forever – and the ample coffers available to them - it is clear that purchasing for occupation has been a prudent option for Chinese financial institutions.

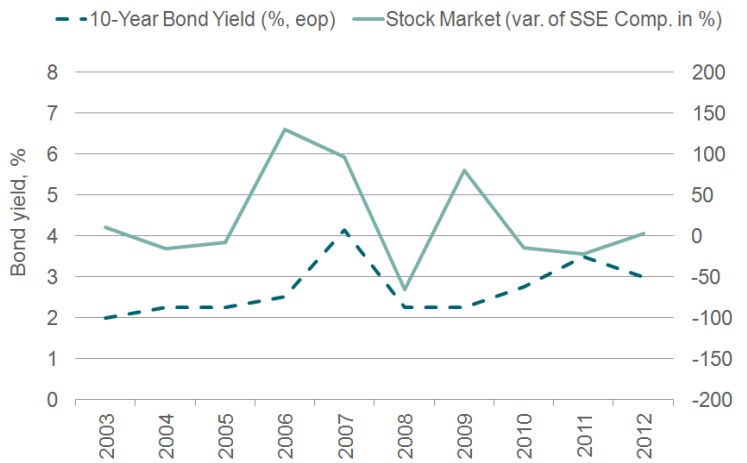
Offices taken by the biggest institutions tend to be large, new and centrally located. In June 2013 China Merchants Bank acquired a site with a buildable area of 614,000 sq ft on Beijing's Financial Street for RMB 3.9 billion (£400 million) and in 2009, Agricultural Bank of China took 916,000 sq ft at the then under-construction first phase of CITIC Pacific's Shipyard project in Pudong for RMB 3.8 billion (£390 million). It follows that Chinese financial institutions are willing to pay a premium and, on the Mainland, there have been instances where they have paid 30-50% over market rates to secure suitable premises.

Due to limited supply in the centre of China's financial districts, some banks and insurers have acquired large buildings in fringe areas - primarily because it enables them to consolidate staff and factor in future growth. However, these buildings are usually taken in conjunction with the ownership of existing buildings, or the acquisition of smaller units, in the heart of the financial district.

It is therefore clear, whether in Finance Street, Pudong, or Hong Kong Central, by means of leasing, buying, or in conjunction with a fringe office, being

GRAPH 5

China's volatile bond and equity markets



Graph source: Focus Economics