

E-House

Greentown Service Group: Gaining Ground in 'Smart' Services





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China's real estate sector has seen exponential growth in the past decades, serving as a pillar of strength for the world's second-largest economy. However, as population growth slows and the urbanization trend matures, the sector is shifting from the 'incremental era,' characterized by high growth rates in sales and gross floor area covered, to the 'inventory era,' evidenced by an increasingly higher proportion of secondhand property transactions and significantly more secondhand property turnover in tier 1 and 2 cities.¹

Against this backdrop, property management services is becoming an important link in the real estate value chain. Meanwhile, an upgrade in consumption tastes is also forcing property managers to provide more personalized and comprehensive value-added services beyond the standard fare. As such, the ability to incorporate technologies to provide smart property services and cost control becomes a key competitive edge. New technologies — from Internet+ and O2O (online-to-offline) to the Internet of Things (IoT), cloud computing and big data — are now reshaping the industry.

Among the leading real estate services providers in China is Greentown Service Group Co., which provides property management, community living, consulting and related services. As of June 30, 2018, Greentown Service managed a gross floor area (GFA) of 150.8 million square meters from 1,095 management projects, covering more than 130 cities in 24 provinces. Parent company Greentown China Holdings, one of the largest real estate developers and integrated living service providers in the country, is its biggest customer and contributed 4.4% of total revenue in 2017.

¹ Gong, Moheng. "Huaan Securities In-depth Research in Property Management Industry." January 23, 2017. Accessed February 28, 2019. http://file.fdc.fang.com/datafile/datafile3.qyb.soufun.com/DocumentFile/Document493/493018/2017-12-28_35992220-afa3-48a5-9ed4-8d36963b86f6.pdf?wsSecret=E04C5EAB62AE94AB89A623717529161C&wsTime=1551383267

PROPERTY MANAGEMENT: INDUSTRY GROWTH AND OUTLOOK

Early days of growth

China's property management industry was born in 1981 with the establishment of the Shenzhen Property Management Company. Back then, industry growth was muted and only basic management services were provided, up until 2003 when the State Council approved 'Property Management Regulations.' In 2004, the government liberalized the pricing of property management services, allowing property managers to start providing value-added services. Thanks to the boom of Chinese property developers in the 2000s, property management companies also saw steady growth. At this stage, property managers relied heavily on their parent developers and acted only as a supporting business unit, and industry growth was mainly driven by new construction and acquisitions.

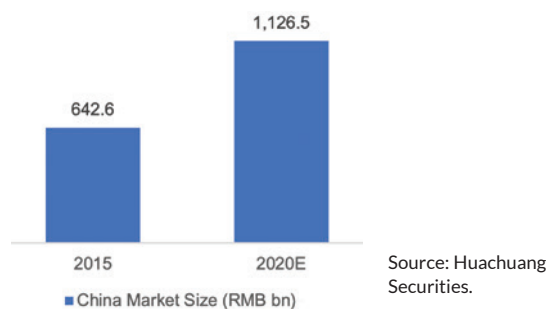
With the expansion of mobile internet access, property managers since 2012 have begun to embrace new technologies, leading the industry into the fast-growth stage. At the end 2016, industry-managed GFA was 18.5 billion square meters, with a 5-year CAGR of 6.7%. By 2020, industry managed GFA is expected to grow to 24 billion square meters with a total market size exceeding 1 trillion RMB.²

Figure 1: Growth of Industry Managed GFA in China



Source: Huachuang Securities, China Property Management Association.

Figure 2: Total Addressable Market of Property Management Industry in China



Source: Huachuang Securities.

Consumption upgrade drives demand for services, propelled by new technologies

As households attain higher disposable incomes, customers are requesting more elite property management services – no longer content with bare-bones standard services such as security, cleaning, gardening, and repair and maintenance. Various communities also have differing needs, ranging from laundry services and retail shopping to elder care and early education. Meanwhile, the government has launched a pilot program to build smart communities, develop smart cities and bolster urbanization. Hence, the core thesis of property management has shifted from 'property' to 'people,' from 'management' to 'service.'

Against this backdrop, property management companies are compelled to enhance their services to meet customers' needs, especially since they have the most contact with them. With the highly labor-intensive needs of property managers, companies are incorporating new technologies such as online services and cloud computing to improve efficiency and achieve economies of scale without adding to headcount. They also employ big data to better understand customer behavior and expand the breadth of services via O2O and IoT.

Evaluating the market value of property managers

The property management market is highly fragmented, with 118,000 firms of various sizes vying for business as of 2018³. Over the past few years, the industry has consolidated, with market leaders prevailing since they have more resources to invest in technology as well as provide better quality service – all while leveraging their brand premium to achieve economies of scale. Thanks to the huge market potential, steady long-term growth and countercyclical characteristics, property managers are gaining more attention from investors.

Property management services have grown to be an important contributor of revenue to their developer parents, a far cry from being a supplementary business unit in years past. In 2014, Colour Life Services Group spun off from parent Fantasia Holdings and went public on the Hong Kong Stock Exchange as the first listed property manager in China. As of the end 2018, there were 11 Hong Kong-listed property managers including industry leaders Greentown Service and Country Garden Property Services. Recognizing their potential, the

² Sang, Zi. "Huachuang Securities Trillion-RMB Blue Ocean Market in Chinese Property Management." January 12, 2018. Accessed February 28, 2019. <https://img3.gelonghui.com/pdf201801/pdf20180114232124966.pdf>.

³ "2018 China Property Management Industry Development Report." October 20, 2018. Accessed February 28, 2019. <https://mp.weixin.qq.com/s/EJVPWO6GKZGhg52JUGQA>

market has valued property managers at a premium.⁴

'SMART' COMMUNITY AND THE GREENTOWN MODEL

As an industry leader, Greentown Service has been the pioneer in exploring smart community services and building an integrated platform to provide comprehensive services. Since its establishment, Greentown Service has gone through four stages of development.

- **Era 1.0 — Basic Services**

In line with industry trends, Greentown Service started by providing only basic property management services including security and repair and maintenance, which focused solely on management of its 'property.'

- **Era 2.0 — Community Living Services System**

In 2007, Greentown Service first developed and launched the Community Living Services System, which consists of three key components – health care, cultural and educational, and household services. The integrated system is designed to meet the demands of people from different age groups and life stages with the goal of improving their quality of life. With this system, Greentown Service has turned its focus from the management of 'property' to the service of 'people.'

Figure 3: Greentown Service's Community Living Services System

Medical and Health care Services	Aims to enhance owners' lifestyles and health
Cultural and Educational Services	Aims to enrich the cultural atmosphere in the community and nurture the owners' spiritual life
Household and Life Services	Aims to fulfill owners' daily needs and improve their living standards

Source: Greentown China website. <http://www.chinagreentown.com/lifestyle/lifservice>

- **Era 3.0 — Smart Community Service System**

After more than 20 years of development, the property management industry saw a divergence in prevailing business models in 2014. Some property managers continued to focus on basic services while others started to explore in-community O2O services. Using its Community Living Services System, Greentown Service embraced advanced technologies and launched the Smart Community Service System in 2014. Through a big data platform, smart devices

and IOT, mobile internet and mobile apps, the Era 3.0 system provided owners with more convenient access to various property services. It was during this stage that the core of property management services evolved to focus on interactions between people.

The Smart Community Service System comprises three building blocks that are integrated as a one-stop-shop solution to address the owners' needs.

- **Technology system (cloud platform):** The online platform has a front-end portal for users, as well as a back-end portal for management, and connects owners with service providers and smart devices.
- **Service system (life service center):** The platform integrates resources from basic property management, community life, public, and social network services.
- **Social network system (for a harmonious neighborhood and society):** The social network is led by owners and supported by property managers to enable more effective communication and assistance.

The core of the Smart Community Service System is the integrated service application platform, which uses mobile apps to connect owners with property managers, merchants and smart home devices to manage such things as security, parking, home lighting, and others. Key user portals include the following:

- 'Happy Greentown' app for owners
- 'Smart Butler' for property managers
- 'Merchant Assistance' app for third-party merchants and service providers

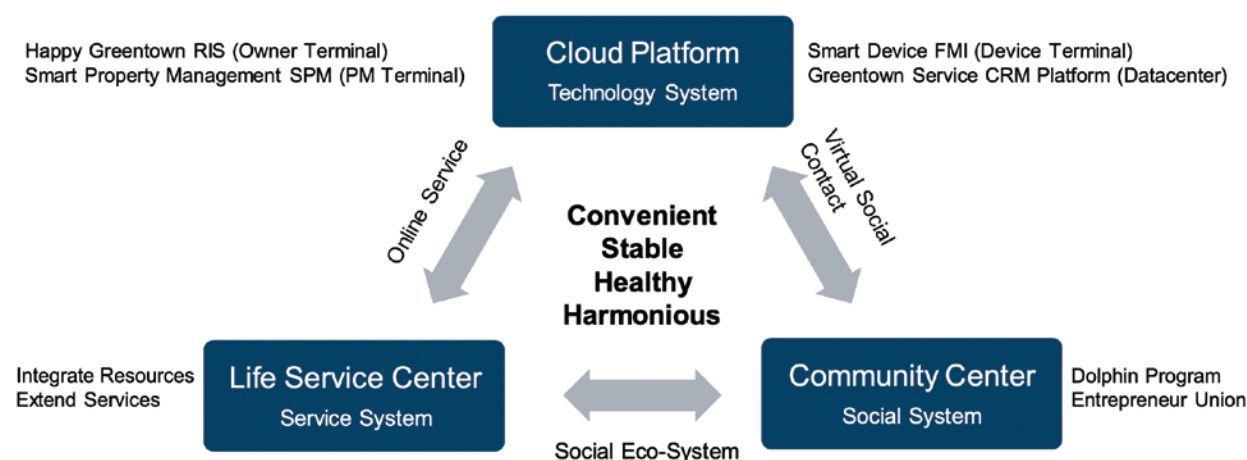
Through the platform, owners have easy access to both property managers and third-party merchants to enjoy higher-quality services and goods. On the flip side, property managers can analyze owner behaviors based on the data collected through these apps to provide more customized, value-added services.

The most important link in the Smart Community Service System is the 'Happy Greentown' mobile app for owners. The app covers a broad range of services from basic property management and community life services to nearby merchant services and neighborhood social network services. Greentown Service uses the system to boost operating efficiency and increase revenue growth by providing more comprehensive services.

It also has expanded into a wide range of value-added services that include community, new retail, early education and asset management. As such, value-added service has become the fastest-growing business

4 "Property Managers Listed in Hong Kong in Batches, New High May Be Seen in 2019." March 6, 2019. Accessed March 10, 2019. <http://www.ecpmi.org.cn/NewsInfo.aspx?NewsID=7426>

Figure 4: Greentown Smart Community Service System



Source: Greentown Service website. <http://www.lvchengfuwu.com/index.php/work/system>

segment of the company, comprising 17.5% of total revenue with 86% year-over-year growth in 2017.

Figure 5: Examples of Greentown Community Value-added Services

Category	Service
Life Service	Mainly promotes rice-based "Happiness Granary" program to provide the owner with quality agricultural products, and to meet the needs of traditional Chinese festivals (Dragon Boat Festival, Mid-autumn Festival, etc.).
Neighborhood New Retail	Set up unmanned convenience stores in the neighborhood
Culture and Education	Focus on high-end early-stage education, including early education / day care, after-class tutoring
Asset Management	Provide leasing services to owners with vacant rooms / apartments

OTHER MODELS IN PROPERTY MANAGEMENT

With the popularity of 'Internet+' in China — the State Council unveiled an initiative in 2015 to integrate the internet's capabilities into traditional industries to fuel economic growth — property managers have explored different ways to provide better services to customers. Among the industry leaders, Greentown Service offers its Smart Community Service System, while Vanke developed an asset management-focused 'SMART Service' scheme and Colour Life provides community O2O value-added services.

Vanke launched 'SMART Service' in 2007 as a one-stop-shop solution to property management services. It has four key parts — standard training system, professional

property manager team, partner management scheme and smart data management platform. With its 'Live Here' homeowner app and 'Help Here' property manager app, 'SMART Service' provides better communication between owners and managers. The system also relies on comprehensive data analysis to continually improve property services. As for Colour Life, its Smart Community Ecosystem was launched in 2016 to focus on community services, especially looking at value-added services and community O2O. As a result, it has achieved a higher level of commercialization than its competitors.

GREENTOWN SERVICE SETS THE INDUSTRY STANDARD

While many industry leaders are actively developing smart service systems, Greentown Service pioneered the standardization of management systems and processes. In 2015, it partnered with the Ministry of Housing and Urban-Rural Development, and the China Society for Urban Studies to establish the National Smart City Joint Lab. After years of research and practice, the Joint Lab published the industry standards 'Guidance on Smart Community Construction' and 'Research on Standards of Smart Community in China.'

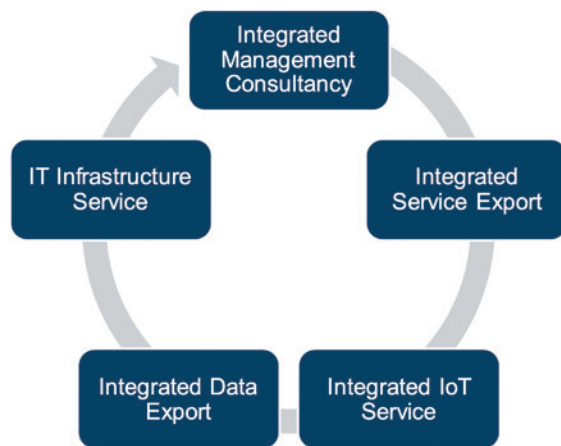
Greentown Service is now working with more than 1,000 property developers and government bodies to provide property management services. Meanwhile, many smaller players in the property management industry lack the resources to develop their own smart service systems. Greentown Service exported its standardized system and processes to the whole industry, marking the company's next era as the Green Alliance Service.

Through this program, Greentown Service provided a comprehensive services package for alliance member

companies and shares with them property management models and experiences. The company uses the management and technology platforms for exporting resources such as consultancy, hardware upgrades, IoT, and others. By sharing, Greentown Service itself accumulates experiences to further enhance its own smart service system.

For their part, smaller property managers benefit from the standardized management system and are empowered to better serve their customers. Such industry standardization improves efficiency and creates synergies. It also boosted Greentown Service – consulting services accounted for 13.2% of 2017 total revenue with a year-over-year increase of 10.1%.

Figure 6: Greentown Smart Service Standardized Export Model



- **Integrated Management Consultancy** – Provides integrated consultancy on operations planning, project management and optimization to build a comprehensive and integrated IT system in an efficient way.
- **Integrated Service Export** – Provides customized service packages on smart platform development, operation and maintenance, as well as continued support on management systems.
- **Integrated IoT Service** – Provides planning, operations and maintenance services on smart home devices, and enable experiential living for homeowners.
- **Integrated Data Export** – Provides services on data mining, analysis, exchange and report to build an effective user database to drive business development.
- **IT Infrastructure Service** – Provides services on cloud computing, server custody, enterprise email system and Container-as-a-Service (CAAS) to help smaller property managers build a stable, secure and efficient IT infrastructure and lower their operating costs.

CHALLENGES

With the boom of smart services in China, challenges and limitations also emerged. The first one is data privacy under big data. Smart services are largely built upon data mining and analysis to understand customer behavior. With the dissemination of mobile internet and apps, property managers are gathering more detailed information about homeowners. Balancing data privacy with service customization has become a big paradox. In the longer term, regulation can be a practical solution.

Since the property management industry is highly fragmented, there is a distinct divergence of service quality between the big industry leaders and smaller property managers. Even though industry leaders are quite experienced with smart service systems, many smaller players are still struggling with providing basic services. Lack of solid infrastructure can attenuate the effectiveness of smart service systems exported.

CONCLUSION

After more than 30 years of development, the property management industry in China has seen significant growth in recent years with the ‘smart community’ boom and industry consolidation. Market leaders including Vanke, Greentown and Colour Life have launched smart service systems to provide more personalized, comprehensive and smarter property management services to homeowners. The ability to embrace and incorporate advanced technologies is a key competitive advantage of property managers. While standardization and export of smart services can empower smaller property managers to drive overall industry development, data privacy and infrastructure needs remain the key challenges for the scalable rollout of standardized smart property management models and processes.

MILESTONES IN THE DEVELOPMENT OF CHINA'S PROPERTY MANAGEMENT INDUSTRY

STAGE	DATE	KEY EVENTS AND REGULATIONS
Emerging	March 1981	Shenzhen Property Management Company was formally established as the first property management company that provided commercial housing catering to foreigners in Shenzhen. It marked the birth of the property management industry in China.
	June 1993	Shenzhen Property Management Industry Association was established
	1994	<p>The Shenzhen government issues the 'Regulations on the Management of Residential Properties in Shenzhen Special Economic Zone.'</p> <p>In April, the Ministry of Construction issues the 'Measures for the Administration of Urban New Residential Quarters,' stipulating that the management of residential communities should gradually become specialized, and allowed property management companies to manage them professionally. This provided a legal basis for the establishment of China's property management system.</p>
Growth	February 1996	The 'Decision on Deepening the Reform of Housing System' was issued, proposing to "reform the current urban residential property management system and develop property management in various forms of ownership."
	July 1998	The State Council issued the 'Notice on Further Deepening the Reform of Urban Housing System and Accelerating Residential Property Construction' in 1998. There were more than 12,000 property management companies nationwide, with nearly 2 million employees.
Industry gets more established, prospers	2001	'The Outline of the 10th Five-Year Plan for National Economic and Social Development of the People's Republic of China' put forward the critical thesis for regulating the development of the property management industry, pointed to the development direction of the property management industry, and clarified the reform path of property management towards commercialization and specialization.
	2003	The State Council meeting passed the 'Property Management Regulations,' which became the guide for the property management industry in the new era and marked its legalization.
	2004	Under the 'Procedures for the Administration of Property Management Services Fees,' property service fees would no longer be approved and filed by the price control department. Instead, the industry will follow the 'Property Management Service Contract.'
	2007	The National Development and Reform Commission and the Ministry of Construction issued the 'Measures for the Supervision and Examination of the Pricing of Property Services.' The 'Property Law of the People's Republic of China' was implemented.
	2012	The State Council issued the '12th Five-Year Plan for the Development of Service Industry.' The plan was directed towards "the establishment and improvement of the long-term mechanism for implementing property management in old residential areas."
	2014	By eliminating earlier restrictions against its operations in certain sectors, the 2014 National Development and Reform Commission's 'Notice on the Release of Some Service Price Opinions' further opened up the market for property management services.
	2016	The Ministry of Housing's 'Urban-Rural Development Plan for the 13th Five-Year Plan for Housing and Urban-Rural Construction' sought to "promote the new urbanization strategy and further expand the coverage of property management. ... Improve the market mechanism of property management services, the price mechanism and taxation policies. ... Change the way of property management services development, establish new business models, and make property management services smarter and more connected to internet [and] ... allow the use of the personal housing provident fund to pay property fees for self-occupied housing."

Source: Baidu Wenku, China Property Management Association, Sealand Securities.