

E-House

# Tahoe Group: Bridging Culture and Real Estate Development



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Figure 1: Tahoe Chinese Yard (Single-family villa in Tongzhou District, Beijing, China)<sup>1</sup>

# Tahoe Group: Bridging Culture and Real Estate Development

*Despite an economic slowdown and tightened credit conditions, China's real estate sector continues to be a significant source of economic activity, with some sources suggesting that the real estate and construction sectors have comprised as much as 25% of GDP.<sup>2</sup> Government policies have fueled this growth for decades, with residential real estate demand largely unwavering. Over time, the market has grown ever more differentiated, targeting consumers in the low-, middle-, and high-income brackets, in cities of varying sizes as well as levels of economic development. But no matter the differences, they all share one thing in common: While the new homes were modern, they were not particularly distinguishable as Chinese.*

The Tahoe Group set out to do things differently. Its mission is to become a one-stop-shop for housing, finance, cultural activities, health care services and educational pursuits. Most recently, Tahoe developed a courtyard line for its real estate subsidiary, Tahoe Real Estate. Tahoe strives to create “Chinese-style

luxury living by bringing together traditional Chinese architectural design with modern amenities through an urban living and diversified development strategy known as 'Tahoe Plus (Tahoe+)'.<sup>3</sup> It is a daring attempt to create differentiation in China's unpredictable and increasingly homogenous housing market.

1 Tahoe Group. “Taihe Chinese Yard.” Accessed December 31, 2018. <http://www.tahoecn.com/proshow.aspx?id=71>

2 National Bureau of Statistics of China. Preliminary Accounting results of GDP for the fourth quarter and the Whole Year of 2018. January 22, 2019. Raw data. China, Beijing; [https://www.bbvarsearch.com/wp-content/uploads/2018/03/20180326\\_China-Housing-market\\_edi.pdf](https://www.bbvarsearch.com/wp-content/uploads/2018/03/20180326_China-Housing-market_edi.pdf); <https://seekingalpha.com/article/4232610-house-cards-chinese-real-estate> .

3 Tahoe. “公司概括e.” “ww团. Accessed May 14, 2019. [http://www.tahoecn.com/about\\_jtgc.aspx](http://www.tahoecn.com/about_jtgc.aspx).

## THE HISTORY OF HOUSING AND ARCHITECTURE IN URBAN CHINA

While the practice of Chinese geomancy, or *feng shui*, remains largely mysterious to Western audiences, some features of traditional Chinese architecture do make more sense. Chief among these is the emphasis on hierarchy. Higher-status individuals, who lived in large complexes but did not have much private space, endeavor to occupy a central position so others could be visually reminded of a higher authority, thus maintaining the hierarchy. This strict stratification was a key factor for the lasting strength and vitality of the 'Middle Kingdom.'<sup>4</sup>

Beijing was a prime example. The imperial family occupied the literal city center (the Forbidden City) while the bureaucrats occupied the outer courts. Commoners lived outside the palace walls in the commercial hub. They did not have access to the many private gardens, lakes and workspaces enjoyed by the imperial regime.<sup>5</sup> The literal stratification of society was a daily visual reminder of power and status radiating from the center, as the emperor was believed to have the mandate of heaven and thus needed to occupy the center of the known universe.

As the imperial family's hold on power waned in the late Qing dynasty era (c. 1880s), imperial China's social narrative began to break down. Decades of foreign intervention had demonstrated this dynasty's inability to defend itself, culminating in a crushing defeat to the Japanese. China's subsequent political transition was accompanied by a change in the built landscape. New buildings, including consulates, bureaus, banks, houses and restaurants, followed European styles, most notably seen to this day in the 'French quarter' of Shanghai and other landmark buildings along the famous Shanghai Bund.

By 1919, high rises with more than 10 floors began to appear in large cities because they were more space-efficient. The Communist victory in 1949 and the reforms that followed further accelerated the spatial and architectural transformation of urban China. Traditional architecture was deemed classist and incompatible with the utilitarian needs of a growing socialist state. Western construction, specifically the low-rise architectural styles first seen in the former Soviet Union were seen as more

appropriate.<sup>6</sup> Living space also sharply shrunk, with 60% to 75% of public housing allocating only 6 square meters to each person.

Figure 2: Map of pre-Republican Beijing<sup>7</sup>



By 1978, however, this view of housing changed again as China's new economic reforms allowed for greater diversity in the types of residences built. Citizens also became affluent enough to demand more personal space. As the private housing market took off in the 1990s, private developers responded with a ready supply of spacious, but largely homogenous apartments that adhered to Western ideas of the modern home.<sup>8</sup> *Feng shui*, hierarchical norms, and Marxist concerns about social inequality remained important, but they were often secondary considerations to the practice of mimicking Western architectural forms.<sup>9</sup>

Tahoe Group's strategy is to buck this trend with its 'Chinese Yard' housing concept. By attempting to meld tradition with modernity, Tahoe is fusing two contrasting architectural traditions that had proven notoriously incompatible. If successful, though, Tahoe

4 The literal translation of '中国'

5 Ren, Xuefei. 2011. "Chapter 3: Architecture, Media, and Real Estate Speculation." In *Building Globalization: Transnational Architecture Production in Urban China*. Chicago: University of Chicago Press. Accessed January 27, 2019. ProQuest Ebook Central.

6 Wu F, *Housing and the State in China*. In: Susan J. Smith, Marja Elsinga, Lorna Fox O'Mahony, Ong Seow Eng, Susan Wachter, Chris Hamnett, editors. *International Encyclopedia of Housing and Home*, Vol 3. Oxford: Elsevier; 2012. pp. 323-329.

7 "Historical Maps of China." *China Historical Maps - Perry-Castañeda Map Collection - UT Library Online*. Accessed May 14, 2019. [http://www.lib.utexas.edu/maps/historical/history\\_china.html](http://www.lib.utexas.edu/maps/historical/history_china.html).

8 Rapanos, Dino. 2002. "Modern Urban Housing in China." *Building Research & Information* 30 (3): 215-18. doi:10.1080/09613210110114046.

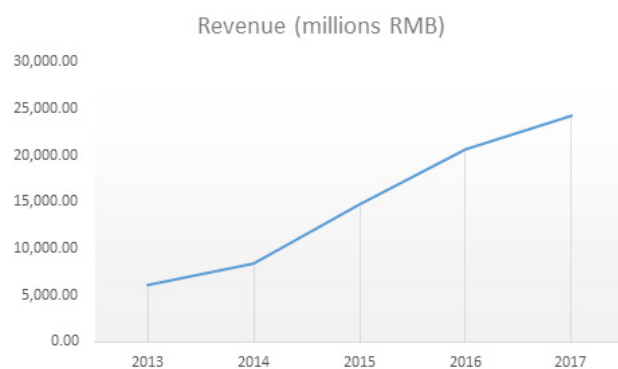
9 Shepard, Wade. "Why China Keeps Building So Many Western-style Copycat Towns." *Forbes*. January 20, 2016. Accessed May 14, 2019. <https://www.forbes.com/sites/wadeshepard/2016/01/19/why-china-keeps-building-so-many-western-style-copycat-towns/#5fb0f9e43ad>.

may not only differentiate itself in an increasingly homogenous housing market but also catalyze a neo-classical architectural revival in China. These modern yet distinctly Chinese-style homes tap into a burgeoning hunger within society to reconnect with the most illustrious elements of Chinese history – an appetite upon which Tahoe’s entire business model depends.

### TAHOE GROUP: BUSINESS OVERVIEW

Founded in 1996, Tahoe Group is a Fujian-based holding company principally focused on residential and commercial real estate development and distribution. It has traditionally been considered a dark horse in the business. In 2010, however, Tahoe Group (000732.SZ) went public on the Shenzhen Stock Exchange and later experienced explosive growth.<sup>10</sup> In 2013, Tahoe sold 343,400 square meters of real estate. Four years later, sales nearly quadrupled. In turn, Tahoe’s 2013 revenue of RMB 6.12 billion (US \$873 million) jumped to RMB 24.3 billion (US \$3.47 billion) in 2017 (Figure 3)

Figure 3: Tahoe Group Revenue 2013-2017<sup>11</sup>



Source: Adapted from Tahoe Group Annual Reports 2013-2017

This growth stemmed primarily from its 'Tahoe+' diversification strategy under which 'Chinese Yard' projects were grouped along with cinemas, hospitals, urban centers and land reserves in several of China’s first-tier cities (Figure 4).

Figure 4: Tahoe+ Project Locations<sup>12</sup>

NAME	LOCATION
<b>Land reserve situation</b>	
Gushan Yard	Fuzhou
Xishan Yard (Shili Langzi Project)	Zhangzhou
Shimen Yard	Shijiazhuang
Fengxian Bay Yard	Shanghai
Nanjing Jiangning Yard	Nanjing
Taicang Yard	Taicang, Jiangsu
Castle Peak Yard	Hangzhou
Dacheng Xiaoyuan - Dole	Hangzhou
Guangzhou Zengcheng Yard	Zengcheng, Guangzhou
Shenzhen Yard	Shenzhen
Upper Street Yard	Zhengzhou
<b>Real estate development</b>	
Eastern District or Taihe Square, Fuzhou East, Fuzhou	
Guishan Yard	Fuzhou
Taihe • Xiamen Yard	Xiamen
Blue Mountain Yard	Zhangzhou
Tingxi Yard	Xiamen
Jinfu Courtyard	Beijing
Xifu Courtyard	Beijing
Lichun Lake Yard	Beijing
Shanghai Dacheng Xiaoyuan Phase I	Shanghai
Shanghai Dacheng Xiaoyuan Phase II	Shanghai
Nanjing Yard	Nanjing
Hangzhou Dacheng Small Courtyard	Hangzhou
Hangzhou Yard	Hangzhou
Shanghai Yard	Shanghai
Gusu Yard	Gusu
Hefei Yard	Hefei
Foshan Yard	Foshan
Nanchang Yard	Nanchang
Jinan Zhangqiu Yard	Jinan
<b>Real estate sales</b>	
Taihe • Xiamen Yard	Xiamen
Blue Mountain Yard	Zhangzhou
Taihe • Beijing Yard	Beijing
Chinese Yard	Beijing
Xifu Courtyard	Beijing

Source: Adapted from Fang.com  
<https://nc.news.fang.com/open/29525470.html>

10 "Tahoe." About Us. Accessed May 14, 2019. <http://www.tahoedu.com/en/about/company/>.

11 Tahoe Annual Reports 2013-2017

12 Tahoe Annual Report 2017, pp. 16-20

In 2018, Tahoe Group ranked 17th among the top Chinese real estate developers, according to data provided by China Real Estate Information Corp (CRIC) with sales of RMB 145.6 billion (US \$20.6 billion) (Figure 5).<sup>13</sup>

**Figure 5: Tahoe Group Average Growth Rates Ending 12/31/2018 (Fiscal Year)<sup>14</sup>**

Revenue <b>+57.37%</b>	Net Income <b>+45.19%</b>
Capital Spending <b>+99.41%</b>	Gross Margin <b>+22.5%</b>

**Four factors are responsible for its success in a crowded market:<sup>15</sup>**

**1. Strong strategic commitment**

Tahoe Group strongly adheres to its core mission of improving the Chinese standard of living. Tahoe+ is aligned with this mission since it provides a suite of services that comprehensively create consumer value. For instance, it has incorporated its Tahoe Yard design features in at least four hospitals in China’s first-tier cities, giving patients and visitors the opportunity to enjoy a vivid garden landscape during their stay.

**2. High quality product offerings**

All Tahoe+ developments are known for their high quality executions that meet or even exceed customer requirements. The first Tahoe Cinema featured high audio-visual fidelity with controlled temperatures, humidity, and oxygen levels to remove haze.<sup>16</sup>

**3. Strong socio-political awareness**

At the dawn of the Party’s ‘New Era,’ Tahoe saw an opportunity to participate in cultural building.<sup>17</sup> By revitalizing Chinese culture throughout its developments, Tahoe had identified a social need (and thereby market niche) in which established incumbents dared not compete. It focused on government-directed, high-growth corridors where consumer aspirations and affluence were rising, such as the ‘Belt and Road,’ Beijing/Tianjin/Hubei, and Hong Kong/Macau/Taiwan areas (Figure 6).

**4. Building synergies across its holdings**

Tahoe Group has been able to deliver on its other competitive advantages by exploiting the advantages of its vast holdings. In the entertainment industry, for instance, Tahoe entered into film distribution, performance management, film advertising, and motion picture production in addition to operating cinemas. The company’s size and reputation also enables it to expand overseas. In 2018, Tahoe partnered with the Pittsburgh health system UPMC to plan and operate a cancer center, offering its design and equipment input during the first phase of the project.<sup>18</sup>

Tahoe’s growth prospects remain promising. Chairman Huang Qisen believes that Tahoe Group revenues would double to more than RMB 200 billion (US \$28.58 billion).<sup>19</sup> The company surpassed this target, reaching RMB 210 billion (USD \$29.28 billion).<sup>20</sup>

**DEVELOPING A MODERN ‘CHINESE VILLA’**

Chairman Huang Qisen was instrumental in the development of the Tahoe+ strategy and the company’s four factors of differentiation. Huang attended college at 15 and after graduation, accepted a bank job. At 31, he quit his job at China Construction Bank and embarked on a career in real estate. At Tahoe, Huang’s philosophy was to “focus on scientific decision-making, focus on human-oriented management, focus on brand forging, focus on cultural cultivation, and focus on social dedication. We are exploring and returning to a more practical origin as a human being. We are pursuing and surpassing a realm that is higher than the value of the enterprise itself.”<sup>21</sup>

Huang saw an opportunity to develop luxury homes with a stylistic flair that differed from the bland, homogenous designs adopted by many of his competitors. Initially, Huang built villas in the Mediterranean style in hopes of avoiding the historical complexities associated with imperial architecture. However, he eventually revisited his previous idea and built a Chinese courtyard that would become the progenitor of the ‘Tahoe Yard’ – later resulting in a broader Tahoe+ diversification effort. For his pilot project, Huang was careful to craft designs that

13 Kwan, Shawna. “Developer Tahoe Group Sets Up \$3.1B Real Estate M&A Fund.” Mingtiandi. May 08, 2018. Accessed May 14, 2019. <https://www.mingtandi.com/real-estate/finance-real-estate/developer-tahoe-group-sets-up-3-1b-real-estate-ma-fund/>.  
 14 The Wall Street Journal. “Tahoe Group Co. Ltd. A.” Accessed December 31, 2018. <https://quotes.wsj.com/CN/XSHE/000732/company-people>  
 15 E-House Report, unpublished.  
 16 “Investment.” Tahoe Investment Group. 2016. Accessed May 14, 2019. [http://www.tahoeinvest.com/thtzen/business\\_tz.aspx](http://www.tahoeinvest.com/thtzen/business_tz.aspx).  
 17 Han, Qingxiang. “New Thought for the New Era.” China Daily. October 19, 2017. Accessed May 14, 2019. [http://www.chinadaily.com.cn/opinion/2017-10/19/content\\_33434851.htm](http://www.chinadaily.com.cn/opinion/2017-10/19/content_33434851.htm).  
 18 Mamula, Kris B. “UPMC Joins Chinese Partner to Plan, Operate Cancer Treatment Center in Beijing.” Pittsburgh Post-Gazette. June 26, 2018. Accessed May 14, 2019. <https://www.post-gazette.com/business/healthcare-business/2018/06/27/UPMC-joins-Chinese-partner-to-plan-operate-cancer-treatment-center-in-Beijing/stories/201806270057>.  
 19 朱楠tp://w团圈定明年目标销售额再翻一番致2000亿元.” 0年证券网. December 25, 2017. Accessed May 14, 2019. [http://company.cnstock.com/company/scp\\_gsxw/201712/4167929.htm](http://company.cnstock.com/company/scp_gsxw/201712/4167929.htm).  
 20 Wall Street Journal. Tahoe Group Financial. <https://quotes.wsj.com/CN/XSHE/000732/financials>. Accessed October 30, 2019.  
 21 Tahoe. “董事长致辞.” 泰禾集团. Accessed May 14, 2019. <http://www.tahoe.cn/about.aspx>.

were evocative yet contemporary such as the drum stone and main entrance – striking a delicate balance that appealed the Chinese consumer.<sup>22</sup> Today, 'Tahoe Courtyard' and 'Tahoe Yard' projects can be found in 22 cities across China.<sup>23</sup> They include 44 luxury homes, six large-scale urban complexes, health care projects, cultural centers, and education facilities.

It took Tahoe time to develop its designs. The first version of the courtyard lacked identity; it was neither modern nor traditional Chinese but a muddling middle. It did not have a doorway or a yard, for instance, only a building with a small courtyard. Then Tahoe studied Chinese-style courtyard buildings in depth, and hired internationally renowned architect Zhang Yonghe to craft its designs. The result was Tahoe Yard, which placed a courtyard in the center of the home. This appealed to many wealthy Chinese families' desire for space while keeping a sense of unity, not segregation, within a living space.

The central courtyard was then subdivided into north and south gardens. The northern courtyard would have a gray roof slope with enclosed gray brick walls, for example, while ensuring that the structure allowed for as much garden space as possible. The southern courtyard

**Figure 6: Stylized Map of Tahoe Yard projects along the Belt and Road corridor<sup>24</sup>**



would boast of refreshing gardens along with white walls, gray tiles and cornices. These designs emphasize the order of life, which is a traditional Confucian ethic, and embodies the 'spirit of a home' in modern trappings that was attractive to buyers of any age.

Future Tahoe Yard projects will continue to focus on cultivating the architecture, landscape, and public spaces of the projects, in ways that are consistent with cultural sensitivities.<sup>25</sup>

- *Architecture*: Ensuring the importance of status as represented in the use of royal paradigms and details such as screen walls, drum stones, a sunken courtyard, as well as high walls to ensure the dignity and privacy of the residents
- *Landscape*: The courtyard encompasses the Confucian ideology of a sanctuary set in nature amidst a towering building. Carefully selected flowers, trees, rocks, and water offer a relaxing atmosphere.
- *Public Spaces*: The courtyard is an enclosed piece of culture specific to the residents. The space between the resident walls and the surrounding neighborhood is considered a public space. Looking at the villa as a whole, pathways are planned using different methods to build the width and shape depending on their purpose.

22 乐居财经《地产K线》。“对话黄其森：1000亿，泰禾才刚刚开场！” 搜狐。December 23, 2017. Accessed May 14, 2019. [https://www.sohu.com/a/212337283\\_206807](https://www.sohu.com/a/212337283_206807).

23 Tahoe. “公司概况.”

24 小轩. “22城44院名动中国 新中式超级IP到底有多牛.” 房天下。September 6, 2018. Accessed May 14, 2019. <https://nc.news.fang.com/open/29525470.html>.

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In addition to these general areas, Tahoe Yard includes distinct elements that are customizable based on buyer interest, which makes each Tahoe villa and courtyard distinctive (Figure 7).<sup>26</sup> Each element also has its own meaning and purpose.

The drum stone, for example, is a key element of courtyard doors, highlighting the luxury of the big, noble family. It is carved from fine white marble and the shape is taken from former residences of historical celebrities, including Gongwang Palace. Each courtyard has different drum stones.

In addition, each Tahoe Yard has a custom threshold, which can be based on the owner's last name, hobbies, or identity. The plaques highlight the style of the owner especially as it reflects different personalities and households.

To form a unique garden theme in each Tahoe Yard, the selection of matching flowers and trees adheres to the four principles of beauty, color, taste and meaning. This is very important.<sup>27</sup>

Tahoe Yard projects strive to evoke a quiet atmosphere filled with greenery. They also epitomizes the architecture of imperial gardens and residences. The greenery reflects the belief that Chinese people are in harmony with heaven and the earth, a spiritual idea that carries great cultural weight and appeals to inner sentiments. Tahoe has built many such 'Yards,' all of which

embrace the essence of the Chinese-style courtyard, but also crafted to be in harmony with local conditions and cultures. For example, the Shanghai Courtyard carries features of Shanghai culture, and the Hangzhou Courtyard embeds some Jiangnan landscape elements.<sup>29</sup>

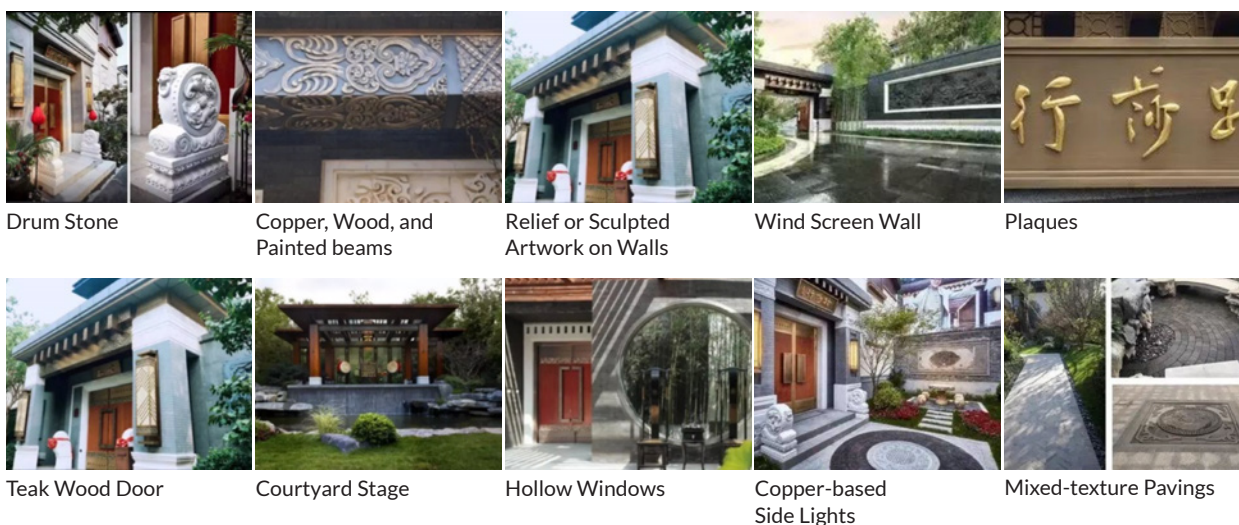
### A SUCCESSFUL PRODUCT IN THE FACE OF CHALLENGES: TAHOE YARD TO TAHOE+

The Tahoe Yard product line launched its first project in 2013. Within nine months, Tahoe generated RMB 80 billion (US \$11.3 billion) in revenue.<sup>30</sup> Tahoe Yard has topped the rankings of the villa market list in China for two years in a row, with Tahoe Lichun Lake reaching a turnover of 1.01 billion in 2017.<sup>31</sup>

The transition to Tahoe+ was a natural consequence of Tahoe Group's marketing mix. Land in first and second tier cities such as Beijing are highly desirable and expensive. Thus, to align themselves with their four differentiating factors while minimizing margin impact, the Tahoe Group introduced diverse mixed-use properties ranging from stacked homes to hospitals. This let the company position its villas in the best area that would yield sales. At the same time, the company has increasingly appreciated the need to understand customer preferences.

The first Tahoe Yard project included the top 10 elements unique to the product line. The placement of doors and windows, for example, are arranged to allow for ventilation by way of the surrounding natural systems – air, wind, and water (Figure 8).<sup>32</sup> Subsequent villas

Figure 7: Top 10 elements in the Tahoe Yard product line<sup>28</sup>



26 E-House Internal Report, Tahoe Group Appendix: Page 30-33

27 邹毅. "中国住宅改善爆品项目, 泰禾院子是怎么做成的?"

28 E-House Internal Report, Tahoe Group Appendix

29 邹毅. "中国住宅改善爆品项目, 泰禾院子是怎么做成的?"

30 Tahoe Annual Report 2013

31 "丽春湖院子成交破10亿, 2017年1月中国别墅市场销冠!" Baijiahao. February 5, 2017. Accessed May 14, 2019. <https://baijiahao.baidu.com/s?id=1558466121781854&wfr=spider&for=pc>.

32 E-House Internal Report, Tahoe Group Appendix: Page 40-44

adjusted to China's increasingly affluent clientele, with their distinct tastes and desire for self-expression.

**Figure 8: China Yard, the first Tahoe Yard Project (located in Beijing, China) built in 2013 – Chinese name: 中国院子<sup>33</sup>**



## THE FUTURE OF TAHOE: NAVIGATING CHALLENGES IN A COMPLEX MARKET

The Chinese real estate market is highly competitive, complicated further by recently implemented price caps and other market-cooling measures. Pre-sale permits for high-end projects also continue to be an issue. Tahoe is not the only player in the villa market either. In 2018, Tahoe Group and three other developers won pre-sale permits from Shanghai authorities: Shui On Land, Poly Real Estate Group, China Sunac Holdings. Moreover, Tahoe also needs approval from the local government to sell its properties. This means that the government can effectively veto proposed sales prices. According to the *South China Morning Post*, Tahoe has been waiting more than two years for permission to sell Shanghai Courtyard at its desired price.<sup>34</sup>

Leverage is also an issue. As part of the launch of Tahoe+, the Tahoe Group acquired a prime Beijing land plot from Overseas Chinese Town (OTC) in 2018, transforming the company into Beijing's second-largest developer by virtue of the deal. In no time, industry experts raised concerns that Tahoe's rising debt ratio may be a source of challenge for the company as its debt ratio

climbed to 85.5% compared to 65% on average for other developers.<sup>35</sup> Its stock price took a hard hit in 2018, leaving some to wonder if on-shore credit tightening combined with its existing debt load was becoming too much. The loss of several senior executives also may have shaken the markets.

What remains solid and steady is market interest in architectural forms that celebrate the distinct elements of Chinese culture. In this regard, Tahoe Yard is well-positioned, aiming for the top of the market. Like its competitors, the company must navigate current conditions. However, Tahoe Group should look to the future with confidence in its philosophy of 'Culture Building in China.'

<sup>33</sup> *Ibid.*

<sup>34</sup> Zheng, Yangpeng. "Shanghai Developers Receive Pre-sale Permits, but There's a Catch." *South China Morning Post*. July 20, 2018. Accessed January 20, 2019. <https://www.scmp.com/property/hong-kong-china/article/2141241/shanghai-developers-receive-pre-sale-permits-begin-luxury>.

<sup>35</sup> Zheng, Yangpeng. "Little-known Fujian developer Thaihot snapping up prime tracts of Beijing land." *South China Morning Post*. January 4, 2018. Accessed January 20, 2019. <https://www.scmp.com/business/companies/article/2126869/little-known-fujian-developer-thaihot-snapping-prime-tracts>.