

Reflections

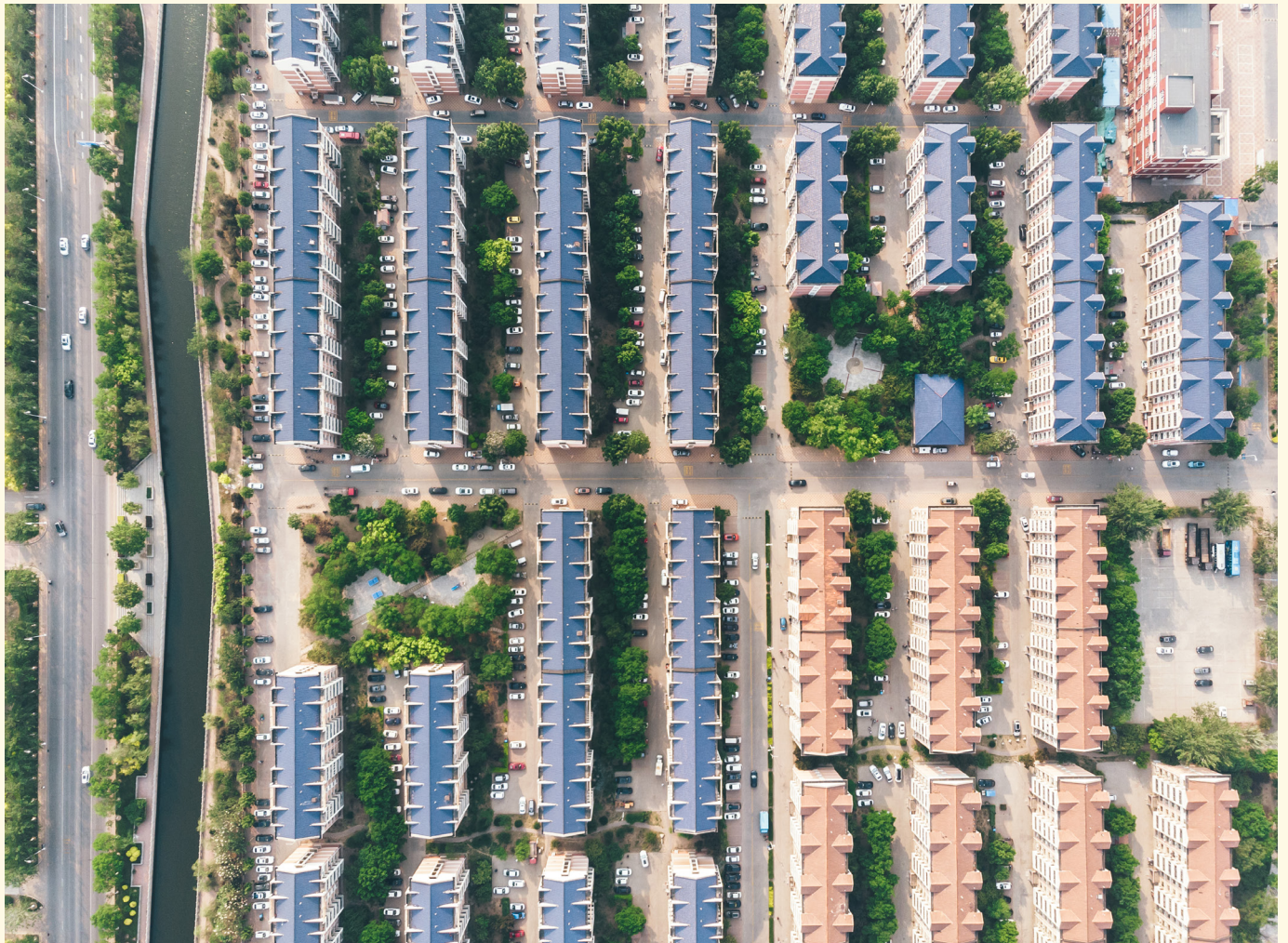
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For many, the decision to purchase a property is one of the most expensive, and important, in a lifetime. This is especially apparent in China, where more than 90 per cent of households are owner occupied – a striking percentage that stands in stark contrast to the US, Europe, and other developed countries where home ownership is declining.

So, what is driving this growth in China?

Buying a home is of extreme cultural significance in China, symbolising wealth, reputation and hierarchy. For some, home ownership is even a pre-requisite for marriage. Generational investments are also of great importance; property is viewed as a safe and lasting asset to pass down to future generations, with many households having more than 50 per cent of their wealth in the real estate market. This strong cultural backdrop, combined with the continuation of rapid urbanisation in China, presents an exciting opportunity for the LTGG portfolio.

KE Holdings is a real estate service provider which in 2018 launched Beike, the largest integrated online housing platform in China. This all-in-one platform covers existing home sales, rentals, new homes, financial solutions and home renovation services. It is an open platform, which means that it can be used by other real estate agents across China, offering combined services to help buyers, sellers and developers. In an industry that has historically been plagued by a lack of standards, pushy agents and poor customer experiences, this differentiated model is helping to generate choice and trust for individuals, foster co-operation between agents and, ultimately, make buying a home a much safer, less complicated and more pleasant experience.



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The market opportunity is vast. By gross transaction value (GTV), Beike has become the second largest platform in China – after Alibaba, and its share of the real estate market is three times larger than the second player, meaning it has a clear advantage in scale. Beike's edge is its technology; it is building the digital infrastructure for the industry, digitalising every step during the process and creating a comprehensive database which stores the inventory of more than 220 million homes. More than 60 per cent of this number has been modelled by virtual reality (VR). The VR model has created an immersive experience with real-time agent interaction, allowing customers to visit properties remotely and visualise their future homes with personalised furniture preferences. This has significantly enhanced the decision-making process and has also reduced the costs of physical home tours – a function that has worked incredibly well during the pandemic.

When an agent joins the Beike platform it becomes part of the Agent Cooperation Network (ACN), which is a standardised operating system used to govern the growing network. It has clear rules to define the roles of every agent, encouraging the sharing of data, the splitting of commission and a goal of selling the property together in the most efficient way. This ensures the agent's interests are aligned to drive shared success and help to rebuild trust in the industry.

Beike has also transformed the buyer experience through its rich data collection, building a consumer profile which includes credit scores, buyer preferences, viewing history, interaction with agents and transaction history. The platform, which is powered by artificial intelligence (AI), can then provide top picks to buyers, help them create a floor plan, visualise renovations and link them directly to mortgage providers. The platform can also be accessed via WeChat – putting Beike in front of more than a billion pairs of eyes.

The enormous scale of the market means the monetisation opportunity for Beike is huge, earning its place in our clients' LTGG portfolio. The GTV of the residential retail market is expected to reach over RMB 46trn (\$7bn) by the mid-2020s. The blue-sky case would see the penetration of brokerage services reaching 45 per cent, from its current 30 per cent and a 50 per cent 'winner takes most' market share for Beike. This would imply RMB 10trn (\$1.6bn) on the Beike platform, which equates to a quadrupling from the current level. Combined with a modest rise in take rate, five times upside seems very plausible to us.



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Beike's app is transforming the Chinese property market.

The sustainability of the real estate market is important to Chinese society. Over the next decade, Beike's technology centric focus and patient long-term culture, will be integral in shaping this market and we believe should help cement their market-leading position. This long-term culture was fostered by the co-founder, Zuo Hui who recently passed away, but it will continue to be nurtured by his co-founder, Peng Yongdong who is current CEO and chair.

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