

SCHECHTER + CHOU, INC.

嘉 质 策 略 · www.splusc.com



S+C NEWSLETTER Volume 1, Issue 26, July 31, 2013

GREETINGS...

Happy summer season to our clients, friends and associates in the US and Greater China region! We recently returned from a trip to South Korea, China and Taiwan. While in South Korea, we attended the USC Global Conference in Seoul, with over 500+ attendees. In Shanghai and Beijing, we met with Chinese real estate developers, companies, professionals, and high net worth individuals interested in US real estate. We were invited to present a real estate seminar to the members of EMBA alumni's Real Estate Association at the prestigious Zhejiang University in Hangzhou regarding real estate opportunities in the US market. The program attendees asked many good questions regarding the current US real estate market, tax and legal implications for foreigners, and the US economy. Currently, we are working with Chinese developers interested in developing projects in California, as well as investors and high net worth individuals interested in acquiring residential and commercial real estate. We wish all a very happy summer and second half of 2013.

Sincerely,
Aaron Schechter and Frances Chou

HOT TOPICS...

Update on Chinese Investment in US Real Estate...

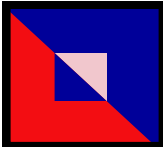
Since our last update in December, Chinese investors have continued their investment in both residential and commercial US real estate. In regards to commercial real estate, China has invested more than \$1.5 billion during the first half of 2013, compared to \$300 million in 2012, according to Real Capital Analytics. Last year, the China Insurance Regulatory Commission paved the way for more investment by relaxing the rules for some big insurers to invest in certain types of overseas properties.



Recent examples of Chinese commercial real estate investment, in New York, include Zhang Xin, Chinese business magnate and chief executive of the largest commercial real estate developer in Beijing, joined forces with the Safra family of Brazil to pay USD\$1.4 billion to acquire 40% ownership of the General Motors Building in Midtown. Also Dalian Wanda Group, a large Chinese developer, said it intended to build a luxury hotel in Manhattan.

The Chinese government is encouraging investments and also helping to finance them. State owned Bank of China has become the largest foreign lender in commercial US real estate deals, replacing the large European banks. With over \$1 trillion of US Treasury securities, generating little return given how low interest rates are, Beijing is eager to diversify its investments.

In the recent month, Chinese development firms have been lining up large US commercial real estate projects. On July 26, 2013, [Shanghai Greenland Group](#), a Chinese state-owned company, announced that it is making its first entrance into US real estate with a deal to invest \$1 billion in a downtown Los Angeles project. The company said it has signed a deal to



SCHECHTER + CHOU, INC.

嘉 质 策 略 · www.splusc.com



S+C NEWSLETTER Volume 1, Issue 26, July 31, 2013

HOT TOPICS (Continues)...

acquire a stake in the project called Metropolis, a 6.3 acre mixed use development site from Calstrs, the California teachers' pension plan. The project will feature residential towers, a hotel and an office building, and construction is expected to begin in the next six to nine months. Greenland's Chairman, Zhang Yuliang, commented that the company was "extending the China market abroad, and we prioritize our investment to countries where Chinese immigrants, students and tourists like the most".

In February, China Vanke Co., China's largest property developer in market value, teamed up with Tishman Speyer Properties to develop two high-rise condominium towers in San Francisco. Financial terms of the joint venture were not disclosed, but the deal to develop the 655 units will be Vanke's first project in North America. According to a China Vanke spokesman, China Vanke did the deal partly to understand business models in a mature market and accumulate management experience through project co-operation. Another Chinese developer has agreed to provide funding for a \$1.5 billion project that will develop 65 industrial acres in Oakland, Calif., into a waterfront neighborhood with 3,100 houses. Not all Chinese investors are focused on prime U.S. real estate. Dashing Pacific Group, an obscure Shenzhen-based vehicle, acquired 69 acres of waterfront land in Toledo, Ohio and has plans for a \$200 million multiuse project.

Foreign projects are still a fraction of the overall portfolio of Chinese developers, who notched up \$226 billion in residential and commercial sales in China during the first quarter of 2013, up 61% on a yearly basis. But those Chinese development companies that do venture overseas could prove more resilient if there is a domestic downturn in China. By having offshore activities, particularly for larger companies, they can find some countercyclical business that helps offset their Chinese business. The Chinese government has been grappling with stubborn housing inflation, and has sought to deter speculation in China by recently raising the capital gains taxes, and limiting second-home purchases and capping mortgages, but prices have still climbed in most cities. For Chinese developers, overseas projects offer a hedge for both developers and their wealthy customers, who typically own multiple properties at home and see offshore real estate as a track to a foreign residency.

In 2012, there was a rise in capital outflows from China. The country recorded a capital account deficit in 2012 of \$117bn, its first deficit since 1998. Much of this came from rich Chinese shifting their assets abroad. Much of the money makes its way to places such as Hong Kong and Singapore, but also to the US, where the glut of Chinese money is driving up property prices in New York, Los Angeles and San Francisco.

Data from the National Association of Realtors shows buyers from mainland China and Hong Kong are now the second-largest group of foreign investors in US residential real estate after Canadians, spending \$9billion in the period from March 2011 to March 2012. Not surprisingly, California's large Chinese and Chinese-American communities, top-flight higher education, and attractive lifestyles make the state the number one destination. Chinese home buyers have varying reasons for purchasing US property. Some are buying because they want to emigrate, or they have children who will go to school in the US, or they would like to expand their business to the US.