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GREETINGS…

Greeting to all of our clients, associates and friends in the US and Greater China region. We want to wish everyone a cool summer season. We continue to assist Asian investors, developers and individuals with investments in US real estate. We hope you enjoy our most recent company newsletter.

Sincerely,
Aaron Schechter and Frances Chou

HOT TOPICS…

Shrinking Yields in Asia Lead to Investors There Modifying Their Property Buying Strategies

A recent WSJ article noted that yields on commercial real estate have fallen to unusually low levels worldwide, with real estate yields in Asia the lowest in the world. Traditionally, yields in Asia are lower than in Europe and the US, because there are more buyers there chasing fewer properties, as real estate investment funds prefer fully leased well-located buildings, and there are fewer of these in Asia.

With lower yields, Asian investors who normally invest in their local markets are either paying top prices for the highest quality buildings, taking on more risk or considering investments outside of their region.

Per CBRE Group, for example, yields for centrally located office buildings are 2.2% in Taipei, 2.8% in Hong Kong and 3.5% in Tokyo and Singapore. In comparison, yields are 4.7% in New York and 3.8% in London's West End.

Pension funds, sovereign wealth funds and institutional investors have been willing to invest in such low returns because they look attractive in a low interest rate environment. Additionally, some experts believe that investors are willing to accept low yields because property incomes are poised to rise after years of stagnation; however, buyers are exposed to a loss in value if interest rates rise faster than inflation, and owners with floating rate debt could become vulnerable.

Part of the reason yields have been falling in many countries is because the annual incomes of properties aren't keeping up with the rising asset prices. Prime office rents in Beijing and Shanghai have stayed flat over the last 2 years, per CBRE, while rising only 2.3% and 1.1% in Hong Kong and Taipei, respectively. Cities such as Taipei and Beijing are experiencing yields that are at or near historical lows. In Hong Kong, yields are similar to levels at the last major property boom in 1997. Recently, retail space inside a tower in Taipei sold for \$131.5MM and a 3% yield, according to Real Capital Analytics, the same property had previously sold in June 2011 at a 4.5% yield.

Some investors have chosen to invest in development projects rather than buying existing buildings due to a more compelling risk/reward ratio. Other investors have been venturing abroad. Currently, yields are at 6% in Sydney Australia and Melbourne's main office districts.

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HOT TOPICS (Continues)…

A Singapore based real estate company, Hiap Hoe Group, bought an office building in Perth for $84.4MM at a yield of 8.3%.

Overseas Buyers and New Immigrants Achieve Record Levels of US Home Purchases

According to a new study by the National Assn. of Realtors, released this month, overseas buyers and immigrants accounted for $92B worth of home purchases in the US in the 12 months ended in March. That represents a 35% increase from the previous year, and the most ever.

The $92B in total purchases accounts for 7% of all the money spent on US homes during the 12 month period. Almost half of the sales were concentrated in a handful of cities, including Los Angeles.

Approximately one-fourth of the purchases came from Chinese buyers. Among US cities, Los Angeles was the top destination for real estate searches from China on the realtor.com website; San Francisco was second; followed by Irvine.

Some home builders in Irvine have started to incorporate Chinese design principles into their houses. Additionally, Chinese state-owned company Greenland is developing a major project in downtown Los Angeles, including a 38 story, 308 unit condominium tower aimed at international buyers.

Experts note that the Chinese buying homes in Southern California have been buying in areas that have long been popular with Chinese buyers, such as the San Gabriel Valley and Irvine, and that besides those areas, the effect of foreign buyers, even in Southern California, has been muted.

Downtown Los Angeles Condominium Shortage

A recent Los Angeles Times article noted that there is an acute shortage of new condominiums available for sale in downtown Los Angeles. Recently, there were only 10 new condominium units available for sale there. Almost all of the new residential construction downtown is aimed at the multifamily rental market; currently there are nearly 1,600 downtown apartment units schedule to open by the end of 2014, and another 1300+ apartment units scheduled to open in 2015. One reason developers are building apartments versus condos is that apartments are easier to finance, compared to condo projects. Another is the uncertainty that condominium developer's face should economic conditions change, and there are no buyers for their condos.

Still, with 500,000 jobs downtown, only 50,000 residents, and virtually no new condominiums, some developers have taken notice. Chinese state-owned developer Greenland, as noted above, is developing a major project in downtown Los Angeles, including a 38 story, 308 unit condominium tower aimed at international buyers, expected to be completed in July 2016. Another developer, San Francisco based Trumark Urban, just acquired a long stalled condominium development site in downtown Los Angeles, entitled for 151 condo units, near the Staples Center, and plans to begin construction by the end of the year and finish in 2016.

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