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## GREETINGS…

Greetings to our clients, associates and friends in the US, China and Asia. We hope that our US friends had a great Labor Day Weekend and wish our Chinese friends a very happy National Day holiday. We look forward to visiting Shanghai, Beijing, Shenzhen, Hong Kong and Taipei on our upcoming trip to Asia in October. Given the economic times we are in, and political dynamics in both the US and China, we have been receiving a high volume of inquiries regarding investment in US real estate. We will continue to focus on opportunities to help Asian companies and individuals navigate into the US real estate market.
Sincerely,
Aaron Schechter and Frances Chou

## HOT TOPICS…

### Chinese Buying Southern California Residential Real Estate…

The largest circulated Chinese language newspaper in the US, recently highlighted mainland Chinese buyers of residential properties in Southern California. Specifically, the article noted the arrival of both wealthy and middle class mainland Chinese buyers of US real estate, especially in the San Gabriel Valley area. Per the article, wealthy Chinese have been flocking to the areas of San Marino, Arcadia and Pasadena to acquire high end homes. For example, in 2010 San Marino had 15 transactions in excess of US$3 million dollars. Of the 15 sales, 11 were mainland Chinese buyers, often paying all cash. Wealthy Chinese buyers are attracted to homes in Arcadia in excess of US$1.7-1.8 million dollars and San Marino homes from US$2million – 3million dollars and up. Often, Mainland Chinese will have friends or family scout houses for them and then come over to buy them. The attraction to the US market at this time is that the US properties seem like good values, given that the comparable prices of homes in Shanghai and Beijing have seen large price increases in recent years. Chinese prefer newer homes, not more than 4-5 years old, with high ceilings, and 10,000+ square feet of land. Another group of Mainland buyers, from the Chinese middle class, prefer areas from South Pasadena, to Temple City, Rosemead, San Gabriel, Diamond Bar, Walnut, and all the way to Riverside. Buyers will spend upward of $500,000-800,000+ dollars for their own home; there are also investors in the $200,000-300,000 range who are buying homes and renting them out.

### Chinese Investor to Buy Elite Clubs in Newport Beach, California...

In early August, International Bay Clubs Inc., the firm that owns the Balboa Bay Club and Newport Beach Country Club, announced that an agreement has been reached to sell the businesses to a company owned by Winston Chung, the founder of Winston Battery, from Shenzhen, China. The Balboa Bay Club sits on 15 acres of waterfront property along Pacific Coast Highway's "Mariner's Mile." It features a private club, a marina, a conference and banquet center, a 160-room hotel and 145 apartments. A few miles away, next to Newport Center and Fashion Island, the Newport Beach Country Club is the site of the annual Toshiba Senior Classic golf tournament. The transaction is expected to close in September. The city of Newport Beach, which owns the land that the Balboa Bay Club is built on, must approve the transfer of the recently negotiated new lease to Chung's Seven-One Capital-Business Inc. The Balboa Bay Club, originally built in1948, had a $65 million expansion in 2003. The sales price has not been disclosed. International Bay Club Inc. was last put up for sale about 11 years ago for a reported $74 million in a deal that was never completed. Currently, the company could sell for twice that amount if not more, according to sources. Among Chung's other investments in Southern California is MVP RV Inc., a Riverside company that builds trailers and recreational vehicles in which he reportedly invested US $310 million. (For a previous discussion of Chinese investment in US real estate, please see our January 2011 Newsletter at http://www.splusc.com/Newsletter012411.pdf).

## REAL ESTATE BUZZ…

### The Big Picture…

In the past year "core" real estate holdings have been purchased at very high historical levels, just below the heights reached in 2007 (2007 was determined to be the historical high of the real estate bubble). Institutional real estate investors, such as real estate investment trusts, pension funds, investment banks and private equity have been willing to pay higher prices per square foot as a result increased competition in the market for core properties. For example, since 2008, investors in high quality, fully leased real estate have seen prices rising by up to 40%. This is reflected in every asset class, including office buildings, multifamily apartments, retail and hospitality (hotel and motels). Prices have increased significantly for core properties, even though rents and occupancies of most asset classes have not recovered from the recession completely.



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## REAL ESTATE BUZZ (Continues)…

The institutionalization of real estate has allowed public real estate companies to have greater access to inexpensive capital from Wall Street. Their purchases of core, prime real estate has forced private investors to look toward more challenged real estate. Banks, with large portfolios of distressed assets, have so far kept the majority of the assets on their balance sheet, hoping that the economy will assist them in solving their problem of non-performing loans. Bank regulators have been compliant, allowing these banks to continue to hold them. This is quite different from the mid 1990's when bank regulators forced banks to clean up their balance sheets on a timely basis. During that time, banks sold many non-performing notes in large note sales to value-added investors. Recently, banks have slowly started to work through their balance sheet, and sell their non-performing assets, and there have been more auctions of non-performing notes and foreclosed commercial real estate. Private equity and Wall Street investment banks have been active in purchasing mortgages from banks.

Below is an analysis of the current market for various types of commercial real estate.

### Hotels

In 2011, the sales volume in hotels has been extremely high. Of the four busiest hotel sales market in the US in the first half of the year, three of the four were in California: San Diego ($1.5 billion), Los Angeles ($606 million) and San Francisco ( $404 million). New York rounded out the group with the highest sales volume at $1.7 billion. Hotels are the only commercial real estate asset class that registered an increase in sales volume in the first half of 2011 over the second half of 2010, as money flooded back into hotel investments. Particularly, real estate investment trusts were very active, having access to cheap capital and being able to outbid private buyers. However, this feeding frenzy ended abruptly as the economic uncertainty increased. Most recently, one of the largest acquisitions this year, valued at US$1.125 billion was scuttled by Chatam and Cerebus to purchase the Inkeepers USA Trust portfolio out of bankruptcy.

### Multifamily Apartments

In the multifamily apartments sector, due to the uncertainty in the housing sales market, and the capital restraints for new loans for purchases of homes, rental markets have strengthened significantly. In every core market, as the economy has recovered, multifamily has been highly sought after by investors. Rental rates and occupancy are dependent on job growth, home affordability and supply. In Los Angeles, for example, the number of new jobs has increased slightly and has elevated demand. One expert recently predicted that Los Angeles rents will rise about 4% each year in 2011 and 2012. Given the tough financing market for any new development and supply constraints due to a lack of new apartments being built during the recent lean years, in almost every metropolitan market the multifamily rental rates and occupancy have strengthened. Moreover, the apartment sector is currently benefitting from the trend of a falling home ownership rate and favorable demographics. Despite the uncertain job future, multifamily is considered a relatively stable sector in relation to the other sectors, office, retail, industrial and hospitality.

### Office

There has been a flight to quality in the office market. Class A office space in A locations have low vacancy rates and are high performing. However, Class B properties in B locations have substantial vacancy and large blocks of difficult to lease space; lease rates are at historical lows, yet the demand has been tepid, at best. The average vacancy rate for all of the US is 17.7%, according to Grubb & Ellis, a commercial real estate brokerage company. Some of the worst office markets include Dallas, Texas with a 26% vacancy rate and Phoenix, Arizona with a 23% vacancy rate. In better markets, despite recent gains, office rents in Manhattan are still nearly 28% below their peak prices in 2008. In Los Angeles and San Francisco, rents are around 15% below their 2008 peaks.

### Retail

The retail sector has been one of the hardest hit by the recession. Consumers, hit by real estate foreclosures, job losses and a continued economic slump have changed their buying habits dramatically. Many businesses, including dry cleaners or clothes retailers have had 30-40% decrease in sales. In this environment, many retail businesses have gone out of business. In addition, retail sales have shifted toward the discount retailers and budget oriented restaurants. However, at the end of 2010 many retail businesses started to recover, and vacancy stopped increasing. In fact, Los Angeles County remains one of the most healthy in the nation, with only 5% vacancy.

### Industrial

The industrial sector is one of the relatively stable sectors. The national vacancy rate, which spiked in 2009 to early 2010 to over 10.9%, has drifted below 10%. However, the industrial sector is one of the strongest and stable, with less than 2.8% vacancy in Los Angeles. This is due to continued growth in international trade. Rental rates have stabilized, and overall the industrial sector looks healthy for 2011.



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