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GREETINGS…

Happy Holidays to our clients, friends and associates in the US and Greater China region. We hope everyone is enjoying the holiday spirit and season. Currently, we are working with Hong Kong and Chinese companies, investors, developers and high net-worth individuals helping them to enter the US real estate market. We hope you enjoy the latest edition of our company newsletter.

Sincerely,
Aaron Schechter and Frances Chou

HOT TOPICS…

Update on Chinese Investment in US Real Estate…

Since our last newsletter, the second half of 2013 has seen continued Chinese investment in US real estate. In the US, the six largest metropolitan areas have attracted $2.88 billion in commercial real estate investment by Chinese companies, including both completed and pending transactions, in 2013, up from $321 million for full year 2012, per Real Capital Analytics Inc. Manhattan and other New York City boroughs were the two largest areas for investment, with Los Angeles third.

The influx of Chinese investment has added to a wave of investment in top markets from sovereign wealth funds, REIT's, and private-equity firms this year. Per Moody's Investor Services and Real Capital Analytics, the six major US metro areas have seen commercial property prices reach a five-year high in August, and are up 6.2 percent this year.

In October, Shanghai conglomerate Fosun International Ltd. announced it is buying One Chase Manhattan Plaza, a landmark office tower in the Wall Street area, for $725 million. At a price of $330 per square foot, it might seem like a bargain to a Chinese company, since it is a third less than last year's average price per square foot for Shanghai office buildings, according to the China Office Research Center, a think tank.

Also in October, Chinese state-owned developer Greenland Holding Group signed a memorandum of understanding to buy a 70% stake in the Atlantic Yards project in Brooklyn, New York, a massive $5 billion urban-redevelopment project, consisting of

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HOT TOPICS (Continues)…

14 apartment buildings and one office property on a 22-acre site. Greeenland is providing funds for the project, which was originally approved in 2006, but delayed in part by the recession, while New York based Forest City Ratner Cos., the site's original developer, manages the day-to –day operations.

In addition to buying trophy properties in New York, and developing new projects in California, some Chinese investors are acquiring distressed assets in cities such as Detroit. In October, Dongdu International (DDI), paid $13.6 million for two of Detroit's better-known buildings, including the former home of the Detroit Free Press. DDI is planning on converting the empty Free Press building into apartments and keeping the David Stott building as an office building, which is currently less than 25% occupied. According to an expert, DDI is acquiring the properties at a steep discount to replacement cost, since the two Detroit buildings each would cost between $80 million and $100 million to replace. Investors such as these are showing they are willing to take on more risk than most seasoned investors, foreign real estate companies and many US investors, as such investments typically require local real-estate savvy and often additional investment.

In another distressed sale, the former Borland campus in Silicon Valley was taken over by special servicer LNR Partners LLC after a debt default and sold through Auction.com. The property, which was only about 13% occupied, was acquired by Hong Bo Li, a China-based investor in August for $12.7 million. The 370,000 square foot campus, on 24 acres, had been built in 1993 for Borland at a cost of $120,000,000.

Since 2009, China's government has loosened the rules governing local companies' direct investment overseas. At the same time, the Chinese government has added restrictions at home to cool the booming housing market in China. However, in October, new-home prices in China's four largest cities increased the most since January 2011, according to the National Bureau of Statistics. Prices were up 21 percent in the last year in Guangzhou, 20 percent in Shenzhen, 8 percent in Shanghai and 6 percent in Beijing. Some experts believe that by the end of the year, there could be even stricter standards from the Chinese government regarding how high builders may price residential units in China.

Chinese developers are attracted to the stable and mature market in the US relative to the Chinese market. The safety involved is enough that the companies are taking on the cultural differences and unfamiliar approval processes, and at times taking lower returns. For example, one Chinese developer, Chiway Holding Group Co., in exchange for the relative safety of US investment, is prepared to accept an internal rate of return of approximately 15 percent on US development projects, which is less than the 30 percent to 50 percent more common in China.

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