# Why Chinese Investors Love U.S. Real Estate



Sharon Kahn |

Speakers at the recent China Business Conference pinpoint 6 reasons for the boom

2015 was a stunner of a year when it came to Chinese purchases of US real estate (and that of other foreign destinations as well): Buyers increased inbound real estate investments almost fourfold. Although deal flow announced in the first quarter appears strong, real estate brokers and investment firms at the recent Ninth China Business Conference held at Columbia in early April predicted a hiatus as Chinese firms digest high-profile investments such as last year's purchases of the Waldorf Astoria and Chase Manhattan Plaza. "We expect a 6- to 24-month slowdown," said Arthur Margon, a partner in Rosen Consulting Group, at the conference.

To be sure, the climate remains decidedly friendly. Interest rates are still low, Beijing has continued to support a strong currency, and the Obama Administration has put out some welcoming signals (more on this later).

What's daunting is the lack of For Sale signs. "Deal flow today is driven more by availability of product rather than availability of capital," said Jeffrey Dvorett, head of development for Kuafu Properties,a real estate development and investment firm that advises Chinese investors in the United States. "Many of the 'quality' deals have already been taken."

### Five Trends

Here are some takeaways from the China conference:

- Targets are shrinking. Panelists agreed that deal flow is shifting to somewhat smaller projects across a broad spectrum of projects (office, retail, warehouses and housing). That means that the $17 billion Chinese investment in total American real estate in the past three years is underreported, since some smaller deals inevitably slip through the cracks. "I'd argue that number is closer to $30 billion," said Margon. He predicted that, once Chinese investors catch their breath, look for them to buy US real estate worth $20 billion a year by 2025.
- Big investors are getting in on the ground floor. Given the scarcity and increasingly hefty price tags of marquee purchases, some Chinese investors are turning to development. The New York City–centric panel reeled off a few recent deals. China Oceanwide Holdings spent $390 million to purchase 1 million square feet

in air rights at 80 South Street (near the historic South Street Seaport), where a 113-story, multi-use building is planned. Chinese investors funded most of Hudson Yards, which has been called the largest privately funded development project in U.S. history. Private investment funds are also fueling development through REITs and mortgage-backed securities.

- The Chinese are expanding their reach. Property buyers are increasingly shopping outside the traditional hot spots of New York and California. Chinese purchases of commercial real estate was reported in 33 states last year.
- Individuals are looking for a home. A huge amount is trickling in one homeowner purchase at a time. In addition to the Chinese investment funds and insurance companies that buy condos and high-rise rentals, high-net-worth individuals are buying $1 million+ residences from Florida to Texas to California and in between. The Chinese already make up the largest group of foreign buyers of single-family homes and condominiums in the United States, representing 16 percent of all foreign investors of such properties last year. Although most are meant to provide rental income, a big chunk is to supply a domicile for Chinese students wishing to get into American schools, as well as a fall-back safe haven should families ever need to leave China.
- Partners are proliferating. Negotiations are simultaneously getting more sophisticated and running more smoothly as Chinese investors learn to trust American real estate, legal, and accounting advisors. They also are partnering with other US, Chinese, and foreign investors. “Megadeals increasingly involve platforms for two or more investors,” observed Darcy Stacom, vice chairman of CBRE, a real estate advisory firm.

## Why the Spree Will Continue

Of course Chinese investors are snapping up properties throughout Asia, Australia, and Europe, as well as the United States. But a big attraction of American deals is the path to a visa and green card that the so-called EB-5 program offers to projects that agree to invest $500,000 and employ a minimum of 10 people. By one count, Chinese investors make up nearly nine out of every 10 EB-5 visas that have been issued.

Recent US politics has also favored cross-border purchasers. The Real Estate Investment and Jobs Act of 2015 lowered taxes on foreign gains and on the sale of REIT stocks. Although US Republicans, in particular, have publicly disapproved of foreign purchasers, the panel didn’t expect much change in policy, noting that the renminbi is making up for the lagging oil dollars that had previously dominated American real estate development.

Low interest rates don’t hurt, either, although sellers cite the cash nature of many Chinese deals as a major, major attraction, especially as opposed to the wave of Japanese real estate investments in the 1980s that was backed by high leverage. According to a 2015 National Association of Realtors survey, more than two-thirds of home purchases are entirely cash.

The panel discussed whether the competitive marketplace is pushing up the price of deals. They agreed that a project’s worth depends on what the buyers expect to gain, and the Chinese are largely strategic buyers who see value beyond that recognized by strictly investment buyers. They did note that Chinese demand is causing price tags to ratchet skyward. Dvorett recalled a proposal that Kuafu put together on a buyer’s behalf. “We considered that we were putting together a very aggressive deal,” he said. “We finished in 15th place.”

The panel ticked off reasons that the Chinese foreign property spending spree will remain strong, and likely will support rising prices for the near future. Many individuals in the country's rising middle class and wealth management industry are looking for alternatives as growth slows at home and the stock market is ever more volatile. Real estate, a traditional investment, is overbuilt in many parts of China. And Beijing is relaxing its hold on money flows out of the country. "We think the appetite for Chinese real estate purchases will continue at least through 2018," said Dvorett.