Xinyuan, pioneering Chinese developer in NYC, dismantles local team

Shang Dai's Kuafu tapped to manage firm's condo projects

By E.B. Solomont and Hiten Samtani | December 13, 2017 01:35PM

Shang Dai, John Liang, the RKO Theater in Flushing (top) and the Oosten in Williamsburg

UPDATED, 6:45 p.m., Dec. 18: When Xinyuan Real Estate paid $54 million for a Williamsburg development site in 2012 with plans to build a luxury condominium, the project was heralded as the first go-it-alone venture by a mainland Chinese firm. Two more deals — including last summer's $66 million acquisition of the RKO Keith's Theater in Flushing — gave the publicly-traded firm nearly 1 million square feet of New York condo product in its pipeline.

But in recent weeks, the company has dismantled the team running its U.S. development arm, known as XIN Development, several sources told *The Real Deal*. And following the departure – some were let go, others moved on – of several key executives, XIN has turned over the management of three New York City projects to Kuafu Properties, a four-year-old development firm backed by Chinese private equity.

Precise terms of the deal with Kuafu weren't disclosed, but Xinyuan said it would retain ownership of the projects.

"Xinyuan is constantly making efforts to enhance our existing development and project management capabilities in international markets," a spokesperson for the firm said in an email. "While Xinyuan will still maintain as the owner of overall project development, including investment, construction, marketing and delivery, Kuafu will provide professional services on construction management and marketing with its experienced local team."

Shang Dai, CEO and co-founder of Kuafu, confirmed the news, saying the projects would be managed through an entity known as Xin Fu Development. A representative for Xinyuan said the company holds a majority stake in the joint venture.

"We are honored to be joining forces with Xinyuan, which has brought its vast international experience and capital power to the New York City market," Dai said. "We at Kuafu have built a team of local market experts in investment, development and real estate services."

Among the executives who've left Xinyuan over the past few months include John Liang, the company's managing director of U.S. operations; Ryan Black, its director of development; and Can Tavsanoglu, its director of acquisitions. A representative for the company said the "overwhelming majority of Xinyuan's New York staff remain in place," and noted that its local office remained open.

Xinyuan's foray into New York development was seen as a litmus test for Chinese firms looking to do projects here. Its retreat from the market – sources familiar with the company said that it had completely stopped looking for deals in recent months – adds to speculation that China-based companies, grappling with stricter capital controls and greater scrutiny on overseas real estate investments, may further pull back from the U.S. market.

Sources familiar with XIN's dealings said over the past few months, Xinyuan had conducted a comprehensive internal audit in New York that coincided with a leadership change in Beijing. Last summer, Xinyuan named Lizhou Zhang as its CEO, succeeding Xinqi Wang.

In particular, sources said, the audit looked at cost overruns at the Oosten, Xinyuan's 216-unit condominium in Williamsburg, where the developer had been hit with several lawsuits, at least one of which involved a buyer whose townhouse allegedly wasn't completed as promised, court documents show.

"There were some pretty unhappy buyers in the beginning," one source said. "That probably raised awareness in China, 'Hey, how come we're being sued? How come things aren't being delivered as described in the offering plan?'"

At least part of the problem Xinyuan faced at the Oosten seems to be related to rocky relationships with its vendors. In May 2015, the developer filed a $10 million claim against the project's designer, Wank Adams Slavin Associates. Then this past January, Xinyuan was slapped with a $20 million lawsuit from its former general contractor, Wonder Works Construction, which alleged it was improperly terminated from the job. Wonder Works also filed a $20 million mechanic's lien against the developer.

During a Nov. 10 earnings call, Xinyuan executives did not address the reorganization or legal spats at the Oosten, where 167 out of 216 units were sold as of Sept. 30, generating revenues of $244 million and setting a record for the priciest condo deal in Williamsburg . But in its quarterly financial documents, Xinyuan cautioned that "days on market," the industry's term for measuring how long it takes to sell a listed property, had increased, translating to slower sales. "The remaining larger units may take more time than smaller units that have been sold and delivered," it said in a filing. The project has a total expected sellout of $380.7 million, filings with the New York state Attorney General's office show.

Sources said that headwinds in the condo market could impact the developer's other projects — specifically an ambitious plan to redevelop the long-shuttered RKO Keith's Theater. "The project is stalled and there are landmark issues," said a broker who has worked with Xinyuan.

After paying $175 per foot for the site in August 2016, plans called for tearing down most of the theater and building a 16-story condominium with 269 luxury units, priced between $1,150 and $1,300 per foot.

But just a few months after announcing the deal, Liang said he saw "danger" in the U.S. real estate market. "With its seven- to eight-year cycle, you get a sense now that it's peaking," he told the Wall Street Journal.

Xinyuan also paid $57.5 million for a site at 615 10th Avenue in November 2015, and scored a $108 million construction loan from Bank of the Ozarks to build condos. Construction at the site, where Xin bagged Target as a retail tenant last year, appears to be on schedule.

Chinese capital controls have made it harder for investors and developers to do deals overseas. Sources said China's crackdown on foreign investment hasn't yet directly impacted Xinyuan, which was the first Chinese real estate developer to list on the New York Stock Exchange in 2007. But it has touched potential buyers at the developer's New York projects.

Some industry sources familiar with Xinyuan expressed surprise that it would partner with Kuafu, a young firm with a mixed record and its share of controversy. The firm, led by Shang Dai, has spent $750 million on its own New York acquisitions, including a block of apartments at 1 MiMa tower that it converted to condos, as well as a development site at 151 East 86th Street, which it's developing with Ceruzzi Properties.

But Kuafu faced major challenges at Hudson Rise, a planned condo-hotel project on the Far West Side. Court battles with its partners on the project, including Sean Ludwick, caused repeated delays, and the project now appears to be in limbo. Late last year, Kuafu's co-founder Denis Shan left to start Sumi Properties, now Arris Properties Group. As part of the split, Shan took control of Kuafu's biggest acquisition, the $300 million Subway Inn development site on the Upper East Side. And Jeff Dvorett, formerly Kuafu's head of development, jumped to Midwood Investment & Development.

With the clock ticking on Xinyuan's projects, sources speculated it needed to lean on existing relationships in New York to move its plans forward.

"[Kuafu has] only done MiMa, but there are other amazing projects in the pipeline," one brokerage source said. "Maybe Xinyuan felt like, 'We're friends. We trust each other. Why not leverage their team for now while we reorganize?'"

This story was updated to include further comments from Xinyuan.

Tags: Chinese Developers, Commercial Real Estate, Kuafu Properties, Xinyuan Real Estate