

# GLOBAL PERSPECTIVES

TO LOCAL, INTERNATIONAL & LIFESTYLE REAL ESTATE



# CIPS

Certified International Property Specialist

## > UPDATE ON CHINA

### *What Global Agents Need to Know About*

# CHINA TODAY

China's importance on the global landscape is indisputable. Its purchasing power, amplified by several years of strong economic growth and the sheer size of its population is felt across the globe.

Chinese investors—including individuals, corporations, and institutions—have all displayed a strong appetite for real property beyond their borders. Will the trend continue in 2016? Probably, yes. Even though the country's roaring economic engine has cooled, there are many reasons to expect overseas property purchases to remain strong.

In fact, some segments of the market and destinations may witness even more robust interest. That's because, as a rule, Chinese buyers do their homework. If the numbers don't add up because prices are too high, they'll explore other locations. At the same time, Chinese buyers are also well represented in the global luxury market, where sky-high prices are seldom deal-breakers.

As a nation, China has been taking significant steps aimed at more fully joining the world's economic leaders. Even if you aren't directly affected by these developments, it's important to be informed about them, especially if you're working with Chinese clients. This issue will get you up to speed.

Inside, you'll also find an update on the latest overseas buying trends among Chinese investors—tips that can be extremely beneficial in marketing to and working with clients. 🌐



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## KEY ECONOMIC & FINANCIAL DEVELOPMENTS IN

# CHINA

Just over a year ago, China overtook the U.S. as the world's largest economy. Since then, China's importance on the global economic stage has only expanded. Some of the most significant developments, outlined here, could impact China's enthusiasm for global real estate.

### Unleashing the Yuan

Cautiously, but deliberately, Beijing has been taking significant steps aimed at deregulating China's capital markets and turning the renminbi into a global currency. Among the most important liberalization efforts:

#### **Qualified Domestic Individual Investor program:**

Commonly called QDII2 (a second iteration of an earlier program limited to institutions), the new rules will allow Chinese individuals direct access to overseas investments at much higher levels than the current official cap of US\$50,000.

Once launched, the pilot program will include six Chinese cities (Shanghai, Tianjin, Chongqing, Wuhan, Shenzhen and Wenzhou) and will be open to individuals with financial assets of at least 1 million yuan (US\$160,000), potentially unleashing billions of dollars in Chinese savings on global stock and bond markets. Eligible investment classes are expected to include:

- Equity shares, bonds, funds, insurance products, foreign exchange and derivative products
- Greenfield and joint venture projects
- Real estate

Once satisfied the program is not generating excessive capital flight or volatility, QDII2 could be expanded more broadly.

#### **Foreign-owned investment management firms:**

Traditionally, offshore fund managers had to partner with local managers via joint venture arrangements with 49 percent offshore ownership caps. Offshore fund managers are now being given direct access to Chinese HNW investors and are allowed 100 percent foreign ownership of private managed funds operating in China.

**No interest rate ceiling on bank deposits:** In October, 2015, the People's Bank of China (China's central bank), took a major step towards financial reform by lifting its long-held interest rate restrictions. This allows banks' rates to reflect market conditions and compete more directly with the shadow banking sector's wealth management products.

**Devaluation:** Last August, the People's Bank of China rocked the global markets with back-to-back devaluations of the renminbi. Its move triggered a major selloff in the stock market and left Chinese investors nervous about further erosion in their overseas buying power. Many have opted to move money offshore sooner rather than later, putting additional downward pressure on the renminbi.

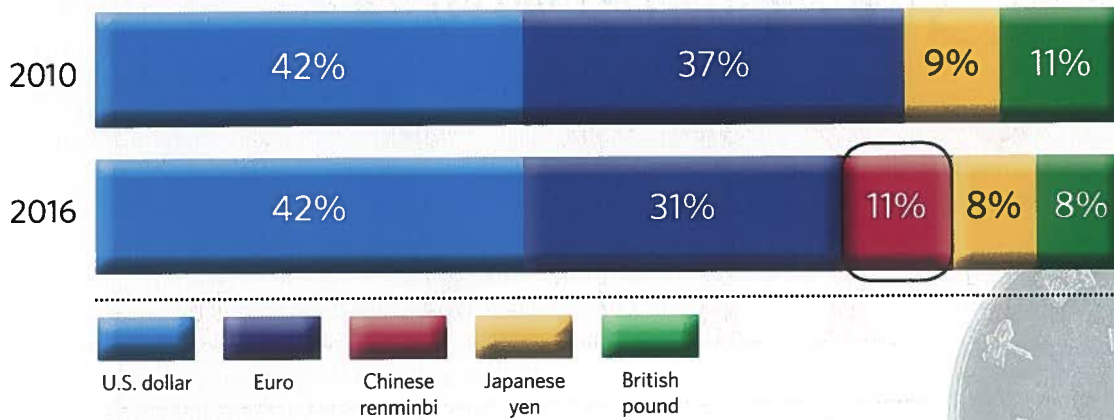
#### **IMF Weighs In**

Late in November, China achieved its long-term goal of inclusion in the International Monetary Fund's (IMF) official basket of currencies, frequently used as



## Distribution of IMF's Currency Basket

(special drawing rights)



\*International Monetary Fund

a benchmark in many central banks' reserve measurements. The decision, effective late-September 2016, is largely symbolic, but does give the renminbi new global status, placing it in the company of the dollar, the euro, the pound and the yen. (See chart.)

In all likelihood, Beijing will need to take additional steps to deepen its financial system and make its economy more transparent before central banks fully embrace the renminbi as a reserve currency. In spite of efforts to loosen its grip, China still maintains heavy regulatory control over its financial system and faces strong internal opposition to further reforms, which could grow more acute if China's economy continues to soften.

### Emergence of a New Global Bank

For the past two years, China has championed the creation of a new multinational, multibillion-dollar bank to rival organizations like the World Bank, the International Monetary Fund (IMF) and the Asian Development Bank. Named the Asian Infrastructure Investment Bank, its stated purpose is to finance roads, rails, power grids and similar projects across Asia to spur economic development, especially in poor areas, and to promote the region's position as a world wealth center.

In spite of concerns that China's true objective is to promote its own global status and economic agenda—while forgoing key Western priorities like environmental and human rights protections—57 nations have signed up, as of this writing, rationalizing that China can't be ignored and it's better to work *within* the framework of the new bank.

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### What's in a Name?

China's currency, which goes by many names, is a frequent point of confusion. If you're working with Chinese clients, you'll want to understand the different terms:

**Yuan** - The Chinese word for "dollar," historically a silver coin used for centuries of global trade. It is also called Chinese Yuan and abbreviated CNY.

**Renminbi (RMB)** - Translated as "the people's currency," this is the official name of China's currency, introduced by the Communist Party in 1949. Use this term when referring to the currency markets, but not as a unit of money. (It isn't correct, for example, to say something costs 10 renminbi.)

**Kuai** - Chinese nationals are most likely to use this term (instead of yuan or renminbi) which means "piece" (similar to a coin). Kuai is a colloquial word for money, much like "buck" in the U.S.

**Mao, Jiao and Fen** - These are also colloquial terms, referring to smaller units. Mao and jiao are used interchangeably, although mao is more common (and has no connection to Mao Zedong). One yuan equals 10 mao (or jiao), and one mao (or jiao) equals 10 fen.

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## Key Economic & Financial Developments in CHINA

The U.S. and Japan remain on the sidelines, while many key allies, including Britain, Germany, Australia and South Korea have joined. At \$100 billion, the bank's total capital commitment is already double the amount originally envisioned. Initial projects are expected to be selected shortly.

### Latest Development Plan

Every five years, China's leaders issue a new development plan—a significant document that establishes key goals for the country's future social development and economic growth. The 13th Five-Year Plan, the first such plan under President Xi Jinping's leadership, will run from 2016 to 2020. While the latest plan won't be finalized until March, key elements are expected to include:

**Economic growth**—China has struggled to meet its previous GDP targets and appears to be aiming for a more modest 6.5 percent annual growth rate.

**Green development**—A stronger audit system will aim to improve environmental protections. Future economic growth will be achieved in tandem with a stabilization of energy consumption and greenhouse gas emissions.

**Innovation**—Technological upgrades in both the industrial and services industries will increase productivity, profitability, and promote higher wages from skill-intensive jobs.

**Financial reforms**—Further easing of restrictions and promoting market transparency are top priorities, reflected by steps already taken in this direction.

Other goals encompass health care, education, societal gains, agriculture, the military, and more. Many critics argue, however, that China's ultimate challenge involves pitting its GDP goals against other objectives. Still, anyone interested in understanding China's future should read the final 13th Five-Year Plan when it's released, as it provides as much insight as one can get into the priorities of China's leadership.

### What Happens Next?

Analysts view China's long-term economic picture as murky, with bearish opinions generally outnumbering the bulls. Doubts are further fueled by broad speculation that China is overstating its economic growth (officially 6.9 percent for Q3 2015) by at least two percentage points. China's economy may be facing headwinds, but financial reforms are likely to proceed, generally viewed as necessary for its long-term growth. In the near-term, analysts will continue to closely monitor the Chinese economy to see if sub-par economic growth translates into additional currency devaluations and financial market volatility at home and abroad. 🌐



## REAL ESTATE FORECAST: Where Is China Buying?

China's economy may be slowing, but it's too soon to predict an end to the country's strong appetite for overseas real estate. Even though declines in the stock market and the value of the renminbi have shaken up buyers, some have paused to reevaluate their situation, while others view the current economic conditions as a stronger motivation to move money outside China.

"For China's ultra wealthy, a one- to two-percent devaluation of the renminbi isn't going to have any significant impact," says Simon Henry, co-founder and co-CEO of Juwai.com. "They'll still invest in overseas property, although the destinations may change."

Even though Chinese individuals face a \$50,000/year cap on overseas investments, many get around the rule by sending money through family and friends, channeling funds through export-oriented businesses, or simply accruing large amounts through years of planning. Recently, the government has threatened to enforce its rules more strictly, a move widely viewed as having the opposite effect, intensifying capital flight out of China.

### Motivations

Like all international buyers, purchasing motivations can vary dramatically. However, Chinese buyers' objectives often include:

**Investment:** Looking for good returns in income, capital gains and/or portfolio diversification.

**Security:** Place money beyond the Chinese government's reach and into countries with strong property rights.

**Family:** Provide quality education for their children; may also prioritize safe communities, clean environment.

**Residency:** Some buyers may be drawn to special visa programs, like the U.S. EB-5 visa.

### Leading Destinations



#### United States

After a years-long buying binge, the U.S. remains a favorite destination. The Chinese currently hold the number-one position among international buyers of U.S. homes and rank among the top five international buyers in 46 of 50 U.S. states. Total U.S. property purchases by Chinese

buyers are estimated at \$28.6b for the year ending March, 2015.

Prices have been driven up in many of the most popular coastal markets, prompting buyers to take a closer look at other options, including central states. For example, the Stonewater community in a Detroit suburb is one of several destinations promoted in Windham Realty's Shanghai office.

Wherever they shop in the U.S., Chinese buyers are more likely (than other international buyers) to be interested in luxury properties. On average, they spent \$831,800 for their U.S. home during the one-year period ending last March, compared to buyers from the U.K. (\$455,600), India (\$460,200), Canada (\$380,300) and Mexico (\$274,800).



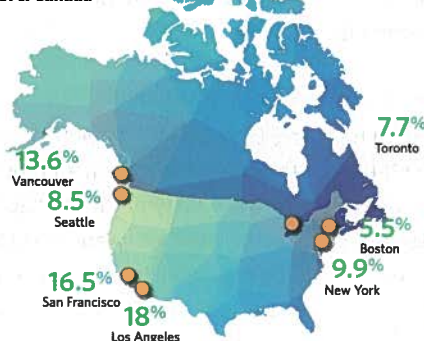
#### Australia

Chinese demand for Australian properties remains strong, although buyers are less focused upon Sydney. According to Juwai.com, interest in Victoria and Melbourne grew by 74 and 92 percent, respectively. Juwai.com attributes the surge in large part to a substantial growth in new

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**Most preferred destination to purchase offshore real estate among Chinese HNWI's**  
(% of sample)

U.S. & Canada



UK

1.8%

Australia

1.8%  
Melbourne

New Zealand

1.8%

2.2%  
Sydney

Source: Hunan Report and Visa Consulting, 2014, published in "The Expanding Role of Chinese Capital in Global Real Estate Markets," by CBRE Research

## REAL ESTATE FORECAST: Where Is China Buying?

(continued from page 5.)

residential developments. According to Credit Suisse, sales of Australian homes to Chinese buyers are expected to total \$60 billion between 2015 and 2020, double the amount spent in the prior six years.



### Canada

China's wealthiest buyers of Canadian properties appear to be shifting their attention away from Vancouver and towards Toronto. In October, 2015, the average search price on Juwai.com for Toronto properties was nearly \$2m, compared to \$1.27m in Vancouver. A year earlier, however, the average search price for Toronto was \$1.58m and \$1.84m in Vancouver.

Luxury shoppers are still actively interested in both cities, but the same can be said of Chinese buyers at lower price points. Many families, for example, remain interested in \$300,000 condo units intended for a son or daughter's future use as a student at the University of Toronto. Plenty of new construction and lower-than-Vancouver prices are big draws, not to mention large Chinese immigrant communities in both cities.



### United Kingdom

While President Xi Jinping's visit to London in October 2015 spurred positive relations between the two countries, property prices have reached a point where Chinese investors are beginning to question further buying, at least in the heart of London.

The U.K. is also highly regarded among the Chinese for educational opportunities, ranked second only to the United States. According to Britain's Higher Education Statistics Agency, 87,895 Chinese students studied in Britain in 2013-2014, including 58,810 newcomers.



### Japan

Closer to home, Japan's strong and safe economy, the weakness of the yen relative to the renminbi, and the upcoming 2020 Tokyo Olympics are all welcoming signs of steady investment returns for Chinese property buyers. The country is also a top vacation destination for Chinese visitors.

### NAR's Field Guide to China Real Estate

For more excellent resources, be sure to check out [realtor.org/field-guides/field-guide-to-china-real-estate](http://realtor.org/field-guides/field-guide-to-china-real-estate), which includes:

- Chinese real estate websites
- Articles about real estate in China
- Chinese buyers in the U.S.
- Key real estate industry contacts
- Websites, ebooks and other resources

### REPORT CARD: Chinese Outbound Students

In China, college enrollment is soaring, but space is limited in the top schools, spurring many families' search for overseas property. There are over 300,000 Chinese students in the U.S. alone, representing more than 31 percent of all international students in the country. While the top universities on both coasts are still highly desired, substantial interest is also apparent in the heart of the country, including giant institutions like the University of Illinois, Ohio State University and Michigan State University.

Does the study abroad trend impact housing markets? You bet. Quoted in *The New York Times*, Juwai.com's Simon Henry claims that "if you look at the student populations of any major or nonmajor university, you'll get a really good indication of what property prices are going to do." The growth trend is also extending to younger students. About 23,500 Chinese citizens were enrolled in American high schools in 2013, the most recent year for which figures were available. Increasingly, Chinese families think it's important to expose their children

to Western education at earlier ages and many private institutions, eager for capital infusions, actively market to Chinese students.

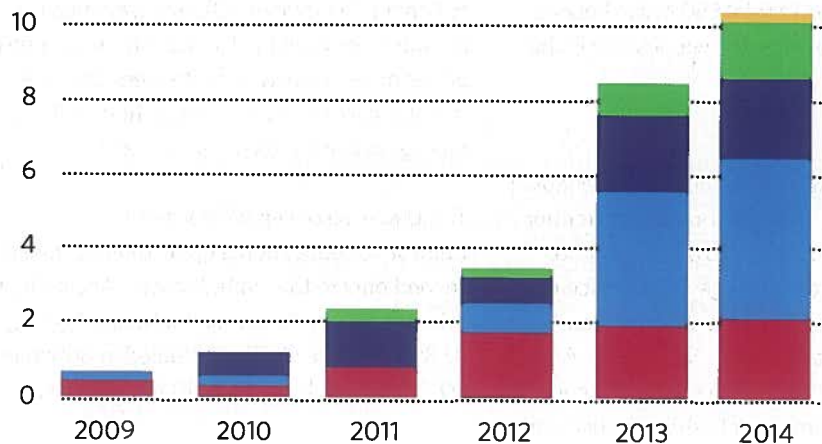
The United Kingdom is another favorite destination for Chinese families seeking top educational opportunities for their children, also beginning several years before their university studies. In fact, Chinese interest has extended into ownership of private schools. Chase Grammar School in Staffordshire is one such example, purchased in October 2015 by a Chinese-owned company.

## Chinese Outbound Commercial Real Estate Investment by Destination Region



US \$ Billion

\*Mena = Middle East and North Africa



Source: CBRE Research, Q2 2015, RCA



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## Study Abroad Number of Chinese Students Hosted

United States	303,789
United Kingdom	92,915
Australia	91,089
Canada	87,329
Japan	77,792
Germany	30,511
New Zealand	15,526
Netherlands	6,642
Ireland	2,711
Norway	1,042

Source: Institute of International Education; Project Atlas

### Other Countries

Based on Juwai.com's data, several Mediterranean countries can expect growing interest among Chinese buyers, including Spain, Portugal, Italy, Cypress and Greece.

### Commercial Properties

Chinese demand for offshore commercial property is already strong, but expected to heat up even more, especially given more relaxed investment rules on Chinese corporations and institutional investors. By the end of 2014, for example, Chinese insurers only had 1.44 percent of their assets overseas, but are now allowed to invest up to 15 percent.

To be sure, Chinese companies have been snatching up or developing trophy properties across the globe. (See sidebar.) However, commercial property buyers aren't limited to mega-deals by big Chinese companies. Increasingly, Chinese buyers are investing in small office buildings, chain hotels, strip malls and other nondescript properties in or near major U.S. cities. While yields are certainly important, buyers are also motivated by diversification and parking capital outside China's borders.

## 5 Noteworthy Commercial Purchases

### AUSTRALIA

1

China Investment Corporation, a state-owned sovereign wealth fund, bought nine office towers for \$2.45b, Australia's largest-ever real estate deal.

### UNITED STATES

2

China's Anbang Insurance Group Co. offered \$1.95b for New York's Waldorf Astoria hotel.

3

Oceanwide Holdings, a Shenzhen-listed real estate company, plans to build twin towers in San Francisco, including the city's second-tallest building, on a site acquired for \$296m.

### UNITED KINGDOM

4

Chinese developer Dalian Wanda Group plans to build Nine Elms, twin luxury towers on London's Thames River, including the tallest residential building in western Europe. Flats will start at £1.3m.

### FRANCE

5

The 192-room Marriott Champs-Elysées in Paris was sold to Hong Kong investment company Kai Yuan Holdings for €344.5m.