Breaking Ground: Chinese Investment in U.S. Real Estate
Breaking or Broken
Once Upon a Time
Not so Long Ago
Breaking Ground:
Chinese Investment in U.S. Real Estate

KENNETH ROSEN, ARTHUR MARGON, RANDALL SAKAMOTO, & JOHN TAYLOR
Rosen Consulting Group founded in 1990 and one of the world’s leading independent real estate economics consultants.
AREAA is a strategic partner for this groundbreaking study.
In 2013, for the first time, Chinese direct investment in the United States exceeded United States direct investment into China.
Figure 1: Commercial Real Estate Acquisition Volume in the United States, 2015

- Canada: $24.6B
- Singapore: $14.6B
- China: $8.5B
- Norway: $8.5B
- UAE: $5.3B
- Qatar: $4.8B
- Germany: $4.3B
- South Korea: $3.3B
- Australia: $2.9B
- Other: $17.6B
- TOTAL: $94.3B

Source: Real Capital Analytics, Rosen Consulting Group
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Figure 7: Chinese Commercial Real Estate Acquisition Volume

Source: Rosen Consulting Group

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Figure 8: Chinese Commercial Real Estate Acquisition Volume By Property Type, 2010-2015

- Office: $5.74B
- Development Site: $3.95B
- Hotel: $3.7B
- Industrial: $2.06B
- Apartment: $1.4B
- Retail: $215M
- Total: $17.1B

Source: Rosen Consulting Group

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Figure 17: Residential Property Intended Use, Chinese Buyers, 2015

Source: National Association of Realtors

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Still Valid?
The Long View

Back Into History
4,000 Years of History
The Silk Road
The Silk Road
The Long View

Far into the Future
• 2013 – President Xi Jinping announces “One Belt One Road”
• Roads, Rail Lines, Transportation Hubs connecting Asian, Middle East, Europe
• Series of Ports connecting Northern Africa, Mediterranean and Southern Europe
• Covers 69 Countries with aggregate population of 4.4 billion people (63% of world)

• Combined GDP of USD21 trillion (29% of world)

• Average per capita GDP of BRI Countries in USD4.5K range. World avg GDP USD10K
• China established USD40B Silk Road Fund

• China set up Asian Infrastructure Investment Bank (AIIB) – currently 77 approved/prospective ember countries
Will this Really Happen?
• Too Ambitious – Some countries not ready for such scaled projects
  – Myanmar: $3B refinery terminated – financing
  – Nepal: $2.5B Hydro Electric Dam canceled - bid violation

• Chinese Imperialism
  – Thailand: $15B Karachi Rail & $260M Airport cancelled – Insufficient sub contracts to Thai companies

Some Say No
I Say Yes
• Nepal Airport: Financed by China Exim Bank

• Iran Abadan Oil Refinery – Sinopec Engineering Co.

• Pakistan: $850M upgrade Dera Ismail Khan-Zhob motorway

I say Yes
• The Belt Road Initiated added to constitution by amendment

• “Xi Jinping Thought” added to constitution by amendment

• Elimination of term limits for President of China

I say Yes
• China’s infrastructure investments in Africa

• Xian was the historical capital of China

• Xian is the home town of President Xi Jinping

I say Yes
Belt Road Economies
Today
“hide our capabilities and bide our time; never take the lead”

“Socialism with a Chinese Perspective

Deng Xiaoping
“Describe China as “Great Power” or a “Strong Power” 26 times in speech at Communist party Congress

China has entered a “new era” under his stewardship

Xi Jinping
Staying On Top

- Asia Society
- AREAA
- Rhodium Group
US-China FDI (foreign direct investment) Project

https://rhodiumgroup.gistapp.com/us_china_foreign_direct_investments
It is the most important question for one of the world’s most important economies: is China carrying out the economic reform program it laid out in 2013? The China Dashboard tracks 10 key categories, using objective data rather than conjecture, to illuminate the state of reforms for non-economists in policy, business, and other walks of life.

https://aspi.gistapp.com/china-dashboard/
Explore the Reforms

- Trade
- State-Owned Enterprise
- Competition
- Financial System
- Cross-Border Investment
- Fiscal Affairs
- Innovation
- Labor
- Environment
- Land
Primary Indicator | External Financial Liberalization: Greater Openness Increases Efficiency and Discipline

Gross sum of cross-border investment flows under China’s financial account (excluding reserves) as a share of GDP, year to date

by percentage

- Cross-border investment flows to GDP ratio

Ratio for other economies (2012-2016):
- Japan: 31%
- Germany: 28%
- Korea: 17%
- US: 14%

Cross-border investment flows to GDP ratio: 7%

2Q2018
Globalization of China's Currency: The Role of Chinese Yuan in International Payments

Percentage of RMB usage in global transactions by percentage

- RMB as share of international payments

Most Commonly Used Currencies, June 2018:

- USD, 39.4%
- EUR, 34.0%
- GBP, 7.4%
- JPY, 3.6%

RMB as share of international payments: 1.78%
Urban Land Prices: More Developed, Higher Prices

Land price by function in 105 cities

by RMB per square meter

- Tier 1: Commercial
- Tier 1: Residential
- Tier 1: Industrial
- Tier 2: Commercial
- Tier 2: Residential
- Tier 2: Industrial

1Q2014

Tier 1: Commercial: 20768
Tier 1: Residential: 15997
Tier 1: Industrial: 1226
Tier 2: Commercial: 9613
Tier 2: Residential: 5088
Tier 2: Industrial: 673
Urban Land Prices: More Developed, Higher Prices

Land price by function in 105 cities

by RMB per square meter

- Tier 1: Commercial
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- Tier 2: Industrial

Quarterly Summary | Explore Reforms | Archive
Growth in Credit: Is Money Tight or Loose?

Year-on-year growth of annualized aggregate financing (total social financing) and bank loan by percentage

- Aggregate financing growth
- Bank loan growth

2Q2013

- Aggregate financing growth: 21.19%
- Bank loan growth: 14.53%
Figure 1: Completed Chinese FDI Transactions in the US*, 2006-2018

Number of deals, USD million

- Investment Value (Right Axis)
- Number of Transactions (Left Axis)

Source: Rhodium Group. *Includes completed M&A transactions with over 10% resulting stake and greenfield projects that have broken ground; ** January to May 2018
Figure 2: Chinese FDI Transactions in the US by Industry

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>$46 bn</td>
</tr>
<tr>
<td>2017</td>
<td>$29 bn</td>
</tr>
<tr>
<td>Jan-May 2018</td>
<td>$1.8 bn</td>
</tr>
</tbody>
</table>

Source: Rhodium Group.
The Latest Nuance
Trade War
# 21<sup>st</sup> Century Trade War

<table>
<thead>
<tr>
<th>Day</th>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>Day 1</td>
<td>Jul 6, 2018</td>
<td>US implements first tariffs that are China specific</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 818 products @ 25% - $34 Billion (List 1)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 284 products @ 25% - $16 Billion (List 2)</td>
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<tr>
<td></td>
<td></td>
<td>China retaliates</td>
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<td></td>
<td></td>
<td>545 products @ 25% - $34N</td>
</tr>
<tr>
<td>Day 5</td>
<td>Jul 10, 2018</td>
<td>US releases second tariff list</td>
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<tr>
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<td></td>
<td>• 6000 products @ 10% - $200 billion (List 3)</td>
</tr>
<tr>
<td>Day 28</td>
<td>Aug 2, 2018</td>
<td>US increases List 3 tariffs from 10% to 25%</td>
</tr>
<tr>
<td>Day 29</td>
<td>Aug 3, 2018</td>
<td>China announces additional tariffs on its (List 3)</td>
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<tr>
<td></td>
<td></td>
<td>• 2493 products @ 25%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 1078 products @ 20%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 974 products @ 10%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 686 products @ 5%</td>
</tr>
</tbody>
</table>
| Day 33 | Aug 7, 2018 | US releases revised tariffs on List 2  
|        |            | • Some products on List 2 have 25% tariffs instead of 10%  
|        |            | • 5 of the 284 products on list removed |
| Day 40 | Aug 14, 2018 | China retaliates  
|        |            | • 25% additional tariffs on $16 Billion |
| Day 49 | Aug 23, 2018 | US implements additional tariffs  
|        |            | • 279 products @ 25% $16 billion |
|        |            | China retaliates  
|        |            | • 333 products @25% $16 billion |
Asian Real Estate Association of America (AREAA)

China Real Estate Association (CREA)
China Real Estate Association

- Only real estate association in China authorized to be national in scope

- Leadership are current or former officials in the Ministry of Housing and Urban Rural Development

- Regulate all construction and development in all of China

- AREAA and CREA host Best Real Estate Practices Summits every other year alternating countries.
China US Real Estate Summit

Under the Global Economic Fluctuation, The Challenges and Cooperation
Your Moment in Time

Make the Most of It.
Thank You

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