



February 2012

# GLOBAL PERSPECTIVES

to local, international & lifestyle real estate

## ▶ EAST MEETS WEST

### China looks to the U.S.

Chinese investors have discovered the U.S. real estate market in a big way—or maybe we've just discovered their interest in it. According to *the 2011 NAR Profile of International Home Buying Activity*, the Chinese were the second largest group of foreign purchasers of U.S. residential real estate in 2010, following Canadians, up from the fifth largest in 2007. They accounted for nine percent of total international sales of U.S. properties in 2010, or almost \$7.4 billion.



This issue of *Global Perspectives* looks at the surprising number of ways the Chinese are investing in U.S. residential, commercial and industrial real estate. Learn what this can mean for your business—signals that opportunities are present in your market, and how to reach out to Chinese buyers and alert them to good investments.

Inside, experts with experience in working with the Chinese give their advice on ways to maximize your exposure to investors and increase the productivity of a trip to China. You'll also find tips on adapting to the Chinese style of doing business, and Chinese expectations in the course of a transaction, as well as an update on Chinese communities already existing in the U.S.

Working with Chinese buyers will be a new experience for many agents. But if Chinese interest in the U.S. market continues to grow exponentially, it could be the biggest opportunity of this decade. **GP**



# CHINA BUYS AMERICAN

In the last 20 years China has become a powerhouse among world economies, growing even during the current global downturn. As China's wealth and power as a nation have increased, so have the wealth and power of its individuals. There is now a burgeoning class of millionaires, and a considerable number of billionaires, who are looking for investment opportunities outside of China.

Wealthy Chinese have been investing for years in Malaysia, Singapore, the U.K., Canada and Australia. More recently they have set their sights on the U.S., going from a blip on our real estate radar to a significant force in some markets. Many real estate professionals believe this is just the beginning of a huge wave.

"We're still in the early days of overseas investment," says George Betz, Partner and CEO of Fortune Real Estate Group in London, the first Western company to support international real estate professionals who want to break into China. "The Chinese are very keen on U.S. real estate and want to learn more about it.

## Why the U.S. now?

Private property ownership is highly valued because in China, real estate is leased to the individual by the government through 50-year leases, which can be renewed, sold or passed down, but are ultimately still government property. Also, as of fall 2011, in an effort to cool the market and prevent a bubble, the Chinese government has put restrictions on buying real estate in country, accelerating overseas investment. The U.S. is especially attractive because our government protects individual property rights, and our political and economic environment is relatively stable. Other factors have come together to make U.S. property more desirable at this time:

**Currency rates.** The value of the yuan has appreciated steeply against the U.S. dollar, gaining four percent in the last year, and over 20 percent in the past five years.

**Inflation.** The wealthy are keeping less cash on hand, and investing more overseas. Inflation has also pushed up prices for Chinese real estate.

**Bargain shopping.** Significant depreciation in U.S. properties translates into good values for Chinese investors. They expect the U.S. market to bounce back in the medium term, yielding high ROIs.

**College.** More and more wealthy Chinese are sending their children to universities in the U.S. They can buy property here to house their children and flip it later.

**Status.** Wealthy Chinese feel they are now "players" in the world economy. Owning luxury property in New York or Los Angeles is symbolic of this status.

Due to price appreciation in other high-end markets, including Canada, the Chinese see good value in the U.S., lower risk, and greater chance of higher returns.

## Many routes to investing here

Chinese money is flowing into U.S. real estate from many sources and in many ways. Individuals, Chinese companies, and even the Chinese government are plowing cash into our slumping market.

**Individual investors** are buying single- and multi-family residential property,

using offshore holding companies to buy commercial and industrial real estate, and are investing in EB-5 Regional Centers, which offer a visa for creating jobs in the U.S. (See the April 2011 issue of *Global Perspectives* to learn more about EB-5 visas.)

**Chinese corporations** are leasing prime office space in premium urban locations, like 1 World Trade Center; buying and developing vacant industrial sites in the now-empty locations of American companies like Lucent Technologies in Naperville, Illinois; and acquiring distressed office buildings, hotels and restaurants in secondary markets like Toledo and Milwaukee.

**Chinese banks** are pouring money into real estate loans in major metro areas, and investing in REITs (Real Estate Investment Trusts). Owned by the government, they are being urged to diversify investments beyond foreign exchange reserves. Chinese banks have made more than \$1 billion in real estate loans in New York City in the last year. The Bank of China lent \$800 million to refinance a building on Park Avenue which houses JPMorgan Chase, and will be lending \$250 million to an office tower at 3 Columbus Circle.

**Chinese construction companies** have won bids on major public works projects in New York City and will employ local union workers. China Construction America is a subsidiary of the state-controlled construction company in China that built the Water Cube for the Beijing Olympics.

## How much U.S. real estate do the Chinese own?

There are so many ways in which the Chinese are investing in the U.S. market that it's difficult to gauge the volume of inflows. In general, Chinese prefer to keep their business deals under the radar. Because they tend not to publicize them, they are harder to track.

Also complicating the situation are restrictions that the Chinese government places on the outward flow of currency through individuals. Much of the yuan that ends up in our market flows through legal foreign direct investments in world tax havens like the Cayman Islands, or through Hong Kong and Singapore companies owned by the Chinese, and so does not actually pass directly from China into the United States.

China is now the fastest growing source of foreign purchasers here. The U.S. Bureau of Economic Analysis reports that Chinese foreign direct investment in the U.S. has grown at a compound annual rate of 34 percent over the last four years.

## Where the Chinese are investing

The East and West Coasts have been most attractive so far, but Chinese investment is

fanning out to other parts of the country. Chinese investors are particularly drawn to:

**Luxury properties** in Manhattan, Los Angeles, Chicago and other major cities, often purchased for self-use during U.S. visits.

**Single-family residences** in areas with large, established Asian populations and university towns, like Palo Alto, Boston and New York City.

**Multi-family apartment complexes** in markets where there has been substantial depreciation, like Phoenix and Miami, but where a turnaround is expected in three to five years.

**Commercial properties** like hotels, shopping centers and office buildings where previous owners are underwater, in primary markets and also secondary markets like Toledo and Milwaukee.

**Industrial sites** that have significantly depreciated, in areas that offer access to an educated, stable workforce, such as Rockford, Illinois.

**Prime commercial space** to lease in premium business locations.

Depending on the characteristics of your market, you may be able to take advantage of the influx of Chinese capital. If so, start looking for ways to access this opportunity. Many experts believe we are at the beginning of an investment inflow that will rival that of Japan's purchases of U.S. real estate in the late 1980s. **GP**

## MAJOR UPTICK IN WEALTHY CHINESE »

ACCORDING TO THE HURUN RESEARCH INSTITUTE, WHICH TRACKS WEALTH AND ITS SOURCES IN CHINA:

**960,000**

INDIVIDUALS

HAVE A NET WORTH OF MORE THAN

**10 MILLION YUAN**

(\$1.6 MILLION) IN 2011,

**UP ALMOST 10 PERCENT** FROM 2010.

## WEALTH MAY MOVE OFFSHORE »

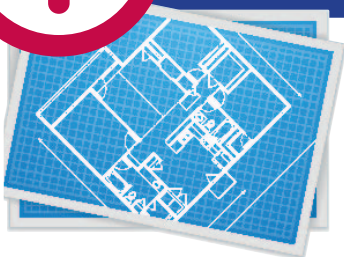
A SURVEY FROM THE HURUN RESEARCH INSTITUTE AND THE BANK OF CHINA, CONDUCTED IN **18 CITIES** WITH **980 PEOPLE**, FOUND THAT

**46%** OF CHINESE WITH ASSETS OVER **10 MILLION YUAN**

WERE CONSIDERING MOVING ABROAD



## DID YOU KNOW...



Luxury residences in Manhattan run about \$1,500 per square foot. Comparable properties in London are about \$3,600/sf, and in Hong Kong \$2,000/sf.

Source: Knight Frank/Citi Private Bank 2010 Wealth Report

# Riding the wave of CHINESE wealth

How can you take advantage of Chinese opportunities reaching our shores? The first step is conducting research in your own backyard to determine what properties might appeal to high-net-worth Chinese investors and what ties might already exist to connect with them.

## Locate opportunities in your market

No matter what your real estate focus, start by making local connections.

**See if your local REALTOR® association has a Global Business Council.** If so, ask if they are making efforts to develop business in China. If not, contact NAR Global to inquire about other initiatives in China or investigate NAR's global alliances at [realtor.org/global\\_alliances](http://realtor.org/global_alliances).

**“Check with your Chamber of Commerce** or local Economic Development Office to see if they have any Chinese visitors coming to your city,” suggests Adrian A. Arriaga, CCIM, CIPS, of AAA Real Estate & Investments of McAllen, Texas, and NAR President's Liaison to China. “It's standard for international investors to contact these groups for information about the area and demographics.” Also look into [SelectUSA.gov](http://SelectUSA.gov), formerly the Invest in America program, a Department of Commerce effort to encourage foreign direct investment in the U.S.

**Contact Chinese companies with facilities in your market** to offer your services to their executives and management, and discuss their plans for the future. Ask if they are aware of other Chinese companies that are considering expanding to the U.S. or establishing manufacturing here, especially if your market has unoccupied industrial or commercial property and a skilled workforce.

**Reach out to local colleges and universities** to learn if they have programs to attract Chinese students. Contact international recruitment officers to see how you can become involved in their programs to attract students from China.

**Find out if there is an EB-5 Regional Center in your area** that is looking for overseas investors. The U.S. Citizenship and Immigration Services (USCIS) publishes an updated list of all current Regional Centers; to access it, go to [uscis.gov](http://uscis.gov) and enter Immigrant Investor Regional Centers in the search box.

## » NAR Member Resources

**NAR Field Guides:** Visit [realtor.org/global](http://realtor.org/global) for field guides on China and feng shui

**NAR Cooperating Association:** the Chinese Association of Agents and Appraisers visit [realtor.org/global](http://realtor.org/global), follow the Global Alliances link

**NAR Affiliates:** Certified Commercial Investment Member (CCIM) [ccim.com/networking/country-liaisons](http://ccim.com/networking/country-liaisons); Institute of Real Estate Management (IREM) - [irem.org](http://irem.org), follow Find a Chapter link.



## TO YOUR PROSPECTS, TRAVELING TO CHINA SHOWS YOUR INTEREST IN AND COMMITMENT TO DOING BUSINESS WITH ITS PEOPLE.

**Look for properties in your market that would attract Chinese investors.** These would include high-end, luxury residences; apartment complexes with a history of good occupancy rates and steady income, but under distressed ownership; and hotels, office buildings or restaurants in need of financial partners.

### Establishing connections in China

After you have identified opportunities in your market, the next step is connecting with Chinese nationals with the funds to invest in them. To your prospects, traveling to China shows your interest in and commitment to doing business with its people.

Unlike many Westerners, the Chinese expect to get to know you in person before conducting business with you. When planning a trip to China, there are several routes for making business connections there:

**Attend a Chinese real estate expo.** Huge numbers of investors flock to expos looking for residential, industrial and commercial properties abroad. (See sidebar on the next page.) There you can mingle with real estate professionals from China and all over the world, along with investors and their representatives searching for global opportunities. Going to an expo is also a great educational experience. You may learn more at a four-day expo than through anything you can do at home.

**Meet with sponsors of home-buying trips to the U.S.** There are companies in China that put together groups of high-net-worth individuals for multi-city tours, usually of luxury and investment properties. Introduce yourself while in China and make them aware of the opportunities and attractions of your market.

**Join a trade mission to China.** Your initial research may uncover an upcoming REALTOR®-sponsored trade mission, or a trip organized through your state's Economic Development Office or Chamber of Commerce. If so, consider getting involved early, during the planning stages.

**Identify and meet with investment advisors with wealthy Chinese clients.** These include Chinese firms and American lawyers, financial advisors and real estate advisors who have offices in China.

**Meet with Chinese real estate agents** to network and promote your listings and provide more information about your area.

"It's a good idea to build your trip around a real estate expo and then plan as many additional meetings as you can, to maximize your results," says Arriaga. "Make sure that for all your dealings with Chinese nationals, you have someone accompanying you who understands the language and can translate for you." However, also be able to use common Chinese phrases and greetings; it indicates you are trying to meet them on their ground.

### Building relationships

Chances are good that you will return from China with a long list of contacts. Because the Chinese conduct business based on social relationships and trust, turning your leads into sales may take far longer than you are used to in the States or Canada. Some things to keep in mind:

**Don't expect immediate results.** Your Chinese contacts will want to get to know you personally. This may require more than one visit and lots of time socializing. "They'll want to see you again and again," reports George Betz, Partner and CEO of Fortune Real Estate Group in London, which focuses exclusively on facilitating transactions in Far East markets. "You have to be in it for the long haul."

**Become acquainted with Chinese social practices.** NAR's Field Guide to Business Etiquette When Working with Other Cultures can help, and can be found at [realtor.org/library/library/fg225](http://realtor.org/library/library/fg225). "It's up to us to learn their ways, not tell them how things are done," says Betz.

**Be formally polite in your business dealings.** "Chinese business etiquette is polite on steroids," reports Arriaga. It's best not to use colloquialisms, slang, or make jokes that may be misinterpreted.

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## Riding the wave of Chinese wealth

**You'll become a "client/friend."** In China, business associates get to know one another well socially. They know each other's families, visit one another's homes, and know their associates' circle of friends. "The Chinese have a saying, 'know where you live,' meaning knowing you well personally," says Arriaga. "They have to find out if they can trust you, who you are connected with, and what kind of person you are."

**Expect awkward questions.** Your contacts may ask questions that, in our culture, might be considered overly personal, like, "Are you a millionaire?" "How many properties do you own?" or "What is your net worth?" These questions are meant to gauge your business status. Handle them comfortably and politely, indicating that your status is appropriately high enough to be dealing with them.

**Offer respect.** The Chinese are very proud of their culture and accomplishments. Be properly deferential and respectful when visiting and touring in China. Our history is very brief when compared to China's 7,000 years.

**Hosting expectations.** When your clients come to the U.S., be prepared to commit all your time to them. They will expect to see your offices, as well as your home, and be well-entertained.

### Transacting business

Real estate practices vary a great deal from country to country, and the Chinese, like most other foreign nationals, are not necessarily familiar with how business is done here. You may want to keep these things in mind when conducting business:

**Many Chinese purchases are done in cash.**

Though there are limits on individual transfers of funds out of China, most funding will come from offshore sources, like companies set up in other countries.

**Determine your client's motivations.** "If they're interested in your market, they probably know someone with a connection to it," says Arriaga. "There is no impulse buying." Understanding and exploring that connection will strengthen your position in closing the deal and building a referral network.

**Explain all aspects of the purchase process thoroughly.** In China, property is acquired through a lease from the government, which can be bought and sold. Make your client aware of steps in the American purchase process, and the roles of every party in the transaction. Due to corruption in some parts of China, your buyer may ask if you have the right to sell the property. Your client also may not trust lawyers. You may want to explain that in the U.S., an attorney's role is to protect clients' interests.

**Support financial projections with historical returns.** In Chinese business deals, due diligence is expected. Your clients may want to review the data supporting your calculation of expected returns on the purchase, even on residential property for self-use. When estimating investment returns, remember that most Chinese clients will pay with cash, eliminating the

mortgage interest deduction for any clients subject to U.S. income tax.

**Learn a little about the concepts behind feng shui.** Many Chinese take them into consideration in selecting properties. Consult NAR's *Field Guide to Feng Shui and Vastu* to get started, available at [realtor.org/global](http://realtor.org/global).

**Be open, honest and true to yourself.**

Because social contacts and context are so important in Chinese business dealings, work with people and groups who reflect your character and the ethics of your organization.

Adrian A. Arriaga expects nothing but growth in the near term for Chinese buyers. "Getting a foothold in Chinese investment in U.S. real estate will be challenging, but there is a tremendous upside. If I were 20 years younger, it's where I would set up shop." **GP**



### Attend China's largest real estate expo

The Beijing Overseas Property and Investment (BOPI) Expo is the premier exposition of its kind in China. Held every Spring, Summer, Autumn and Winter, it is a showcase for overseas investment opportunities for wealthy Chinese. In September 2011, the Expo had 100,000 visitors over four days, including over 5,000 high-net-worth citizens. Visit [chinapropertyexpo.com](http://chinapropertyexpo.com) for more details and 2012 dates.

# DON'T OVERLOOK CHINESE RESIDENTS IN THE U.S.

The Chinese elite may be making big money investments in U.S. real estate markets, but many other Chinese immigrants and temporary workers already reside in the U.S., representing a significant pool of residential property buyers.

## A large, stable community investing in the American Dream

The Chinese (including Taiwanese) are the largest community of Asian origin in the U.S. population, numbering 3.8 million in 2009, up 31 percent from 2005. They comprise almost one fourth of all people of Asian descent in the United States. They are also highly invested in residential real estate. Chinese-American households have the top homeownership rates, 64 percent, of any minority group in the U.S. Asian-Americans in total had the highest median property value in 2009, \$351,600 versus \$185,200 for the country as a whole.

## Where Chinese immigrants settle

San Francisco, Los Angeles, Vancouver and New York have been the traditional gateways for Chinese immigrants to North America, but there are large communities of Chinese-born in many other cities. (See map.) Though the East and West Coasts tend to be the greatest magnets, job opportunities have pulled Chinese immigrants to locations all over the U.S.. In some areas, immigration has helped support the housing market. For instance, the Bay Area has seen consistent sales to incoming Chinese attracted by technology jobs throughout the economic downturn.

## How to tap this market

Even if you're not in a gateway city, there are a number of ways to connect with Chinese immigrants entering your region:

**Get to know your local Chinese-American community.** Many metropolitan areas have a fairly substantial Chinese population. If your market does, make connections with business and social leaders in the

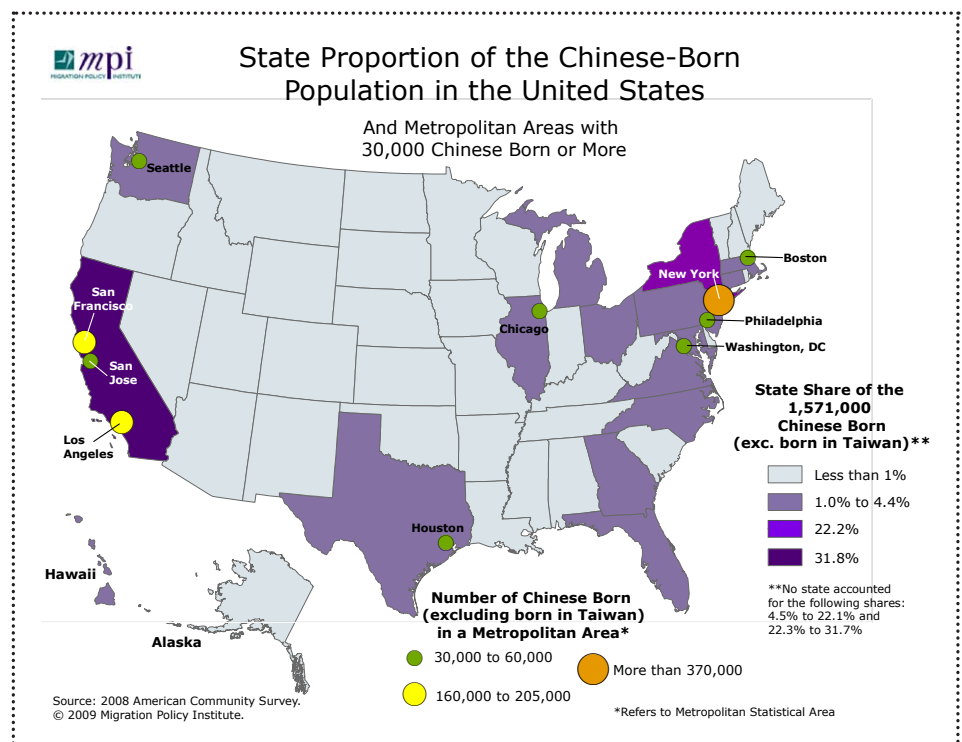
community. Look to see if there is a local Asian-American Chamber of Commerce or Chinese-American Chamber of Commerce, and participate in its activities. Find Chinese or Asian cultural associations in your market, and attend events and celebrations, like Dragon Boat festivals and Chinese New Year parades.

**Contact local colleges, universities and research hospitals.** They are among the largest employers of highly-skilled foreign workers under H1-B and H2-B visas. Hiring companies are required to cover workers' travel costs and assist them in finding housing upon arrival, so offer your services to them.

**Look for other companies hiring Chinese workers on visas.** [MyVisaJobs.com](http://MyVisaJobs.com) is a visa job information portal and online immigration community you can use to locate companies and organizations in your area that are currently hiring foreign workers.

**Contact Chinese-owned firms.** They may be bringing in more Chinese nationals for management. Offer your services for executive relocation.

Chinese immigrants tend to do business with people they know well, or who are known well by those they trust. The more you reach out within this community, the more rewards you'll find. **GP**



Originally published on the Migration Information Source, the online journal of the Migration Policy Institute, [migrationinformation.org](http://migrationinformation.org).

Looking for ways to enhance your business in 2012? Take a look at what NAR Global offers:

## 2012 To-Do List



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