Where Chinese find international property

CHINESE GLOBAL PROPERTY INVESTMENT REPORT

全球华人购房报告

2018

INTRODUCTION

Juwai.com, through its data service Juwai IQ, is the global leader in reporting on Chinese international residential and commercial property investment trends.

This year's Juwai.com Chinese Global Property Investment Report is more comprehensive than any we have ever produced. For this report, Juwai.com consulted hundreds of government, media, and industry sources. That's more than ever before.

Our report is a meta-analysis. It gathers, evaluates, and reports on d ata from credible sources on nearly every continent. We combine the results from these multiple sources and resolve clashes when they disagree. Then, we create a final result that is global in scope, yet detailed in its particulars.

More countries and regions than ever before

For the current report, Juwai.com tracked investments in more destinations than in any prior year. While Juwai.com lists property from Hong Kong SAR and 89 foreign countries, it is not possible to gather reliable data about actual Chinese property purchasing in all of those locations.

Nevertheless, this report captures more than $12 billion of Chinese investment during 2017 in countries that were not specifically included in our prior years' Global Property Investment Report.

There are other firsts. This report contains unique and otherwise unavailable careful estimated statistics for Chinese investment in New Zealand residential real estate, Australian residential and commercial real estate, UAE residential real estate, Canadian residential real estate, and Hong Kong residential real estate.

In the case of Australia, for example, the Foreign Investment Review Board releases its report on approved foreign investment, including Chinese. But no source until now was available that provided a firm estimate on actual Chinese investment in both Australian commercial and residential property.

We also have endeavoured to pull back the curtain and give you more details on the data than ever before. In this year's report, instead of just a single number for total Chinese international residential and commercial property investment, we give you breakdowns by category and location.

We hope you find this report useful. We encourage you to contact us if you have any questions or comments about it.

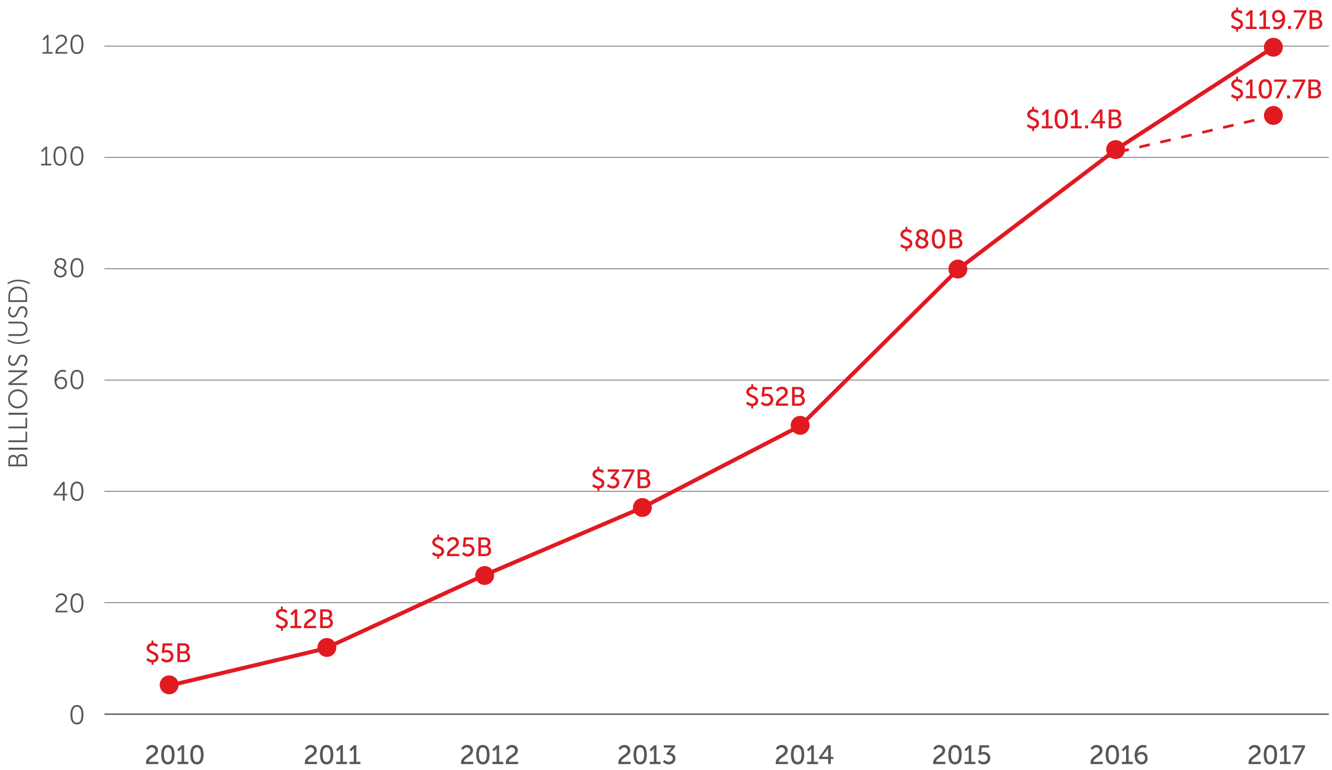
**All amounts are reported in US dollars unless otherwise specified.*

EXECUTIVE SUMMARY

Total investment hit $119.7 billion

Mainland Chinese residential and commercial international property purchases in 2017 reached a new high of $119.7 billion, up 18.1% from the $101.4 billion we reported in 2016. Since 2010, Chinese investors have acquired international property valued in aggregate at more than $430 billion. Last year, China became the world's largest international commercial real estate investor, just as it did in the residential sector in 2015. As one market report reflected, Chinese international investment is, "Still Crazy (Strong) After All These Years."

CHINESE OUTBOUND REAL ESTATE INVESTMENTS



Rate of growth drops to 6.2%

When one removes from the 2017 total data for countries not tracked in last year's report, one arrives at a comparable total of $107.7 billion. That represents a growth rate of 6.2% over 2016's $101.4 billion. This is the lowest growth rate recorded since we began tracking it. The growth rate peaked in 2015 at 53.8%.

TOTAL INVESTMENT RATE OF GROWTH BY YEAR

	2011	2012	2013	2014	2015	2016	2017
Rate of Growth	140.0%	108.3%	48.0%	40.5%	53.8%	26.8%	18.1%
Comparable rate of growth	140.0%	108.3%	48.0%	40.5%	53.8%	26.8%	6.2%

Chinese ethnicity investors: $156.2 billion

Not all Chinese investment directly originates in mainland China. Other locales can serve as a platform for Chinese investment. And some locales also have large pools of investable assets under the control of Chinese-ethnicity populations. Their investment choices often parallel those of their mainland Chinese counterparts.

Hong Kong SAR and Singapore qualify in both respects. At least $8.1 billion of international property investment directly originated from Hong Kong SAR in 2017 alone.

Singapore-based investors acquired a record $28.4 billion of overseas real estate investments in 2017. That's an increase of 40% over the prior year, and $800 million higher than the former record-holder, 2015. Cushman & Wakefield reports Singapore, which has the world's tenth largest GDP, is the fifth-largest cross-border commercial real estate investor. In 2017, it was the single-largest Asian investor in U.S. commercial property, where the largest acquisition by a Singapore-based investor was of Texas-based Monogram Residential Trust.

In total, international property acquisitions directly originating in mainland China, Hong Kong, or Singapore totaled $156.2 billion in 2017.

Capital controls and cheaper markets constrained growth

The key factor constraining Chinese international property investment growth in 2017 was the regime of capital controls imposed by Beijing through both formal and informal channels. Another factor contributing to lower total investment was a shift by Chinese residential property investors towards lower average prices overall, and more specifically towards lower-priced markets.

2017 TOTAL INTERNATIONAL REAL ESTATE INVESTMENT	Total value	Increase on 2016
All countries	$119.7 billion	18.1%
Countries included in last year's report only	$107.7 billion	6.2%

Asia and Europe saw highest growth

Asia and Europe were the regions with the highest investment growth in 2017. Chinese investment in residential and commercial Asian property increased by 352.4%. Meanwhile, driven by commercial property acquisitions, investment in Europe grew by 227.9%. Elsewhere, the US, Canada, New Zealand, and Australia all experienced significant drops in Chinese real estate investment.

Outlook

Looking forward through to 2018 year-end, we expect mainland Chinese commercial and residential property investment to increase within the range of 3% to 8% over 2017 levels. That would bring 2018 levels up to around $123.3 billion to $129.3 billion globally. We believe this growth range to be sustainable and rational.

> ***"2018 investment could pass $123.3 billion."***

CAPITAL CONTROLS

The capital controls clampdown, which began biting particularly hard from December 2016, has been an unquestionable success for Beijing. It has restored investor confidence in Beijing's ability to manage its currency and capital outflows. The crackdown has also enabled China to rebuild more than $3 billion of foreign reserves and reduced the rapid outflow of money.

One recent manifestation of this success is the market's calm reception of Beijing's more than 6% devaluation of the yuan against the US dollar in 2018. This is a very different situation than the near-panic that followed the yuan's 2015 devaluation.

Capital controls and real estate

When it comes to international property investors, the impact of capital controls may have been overstated. While capital controls have restricted Chinese international property investment from its too-rapid growth rates of 2015 and 2016, investment growth nonetheless continues, albeit at more rational levels.

Separate surveys by UBS Evidence Lab and Financial Times Confidential Research both show that capital controls are a relatively small factor for international property residential buyers.

Two-thirds of Chinese overseas buyers told the UBS Evidence Lab that capital controls "didn't affect me."

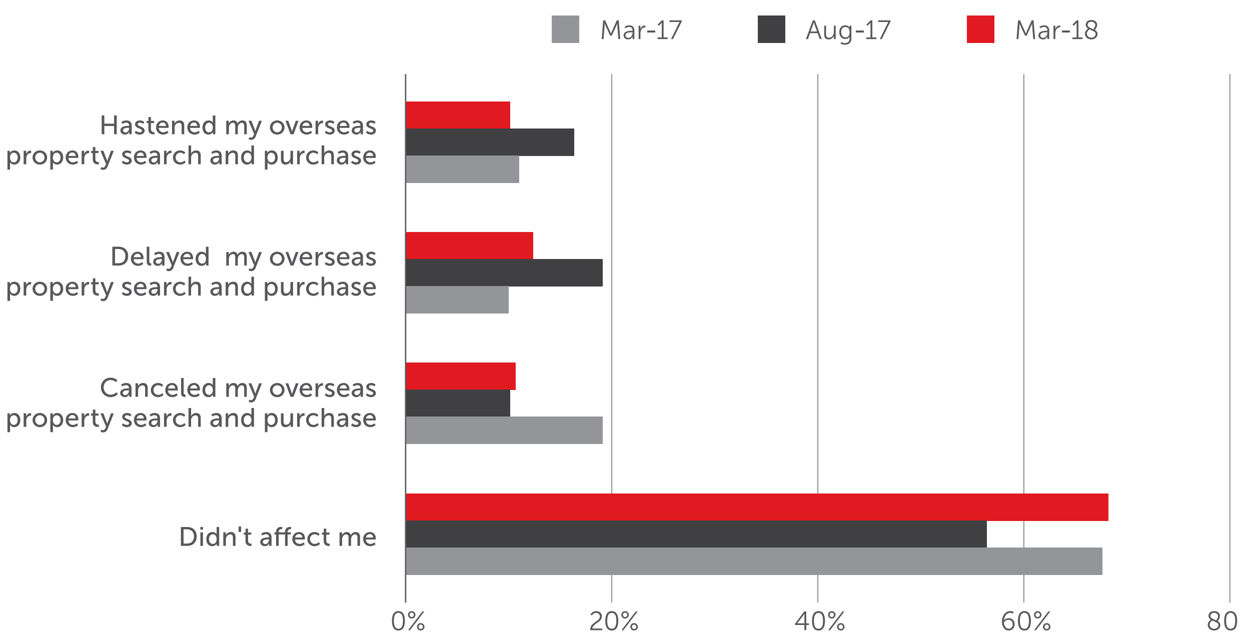
Financial Times Confidential Research's monthly consumer survey shows that household demand for foreign exchange has reached its highest level since early 2016.

Chinese international property buyers are motivated by a desire to diversify their assets, hedge their risks, fund an overseas lifestyle or education, or seek higher returns. Very few today, though, are driven by the fear that helped drive investment growth in 2015 and 2016. What we see today is better called international investment than capital flight.

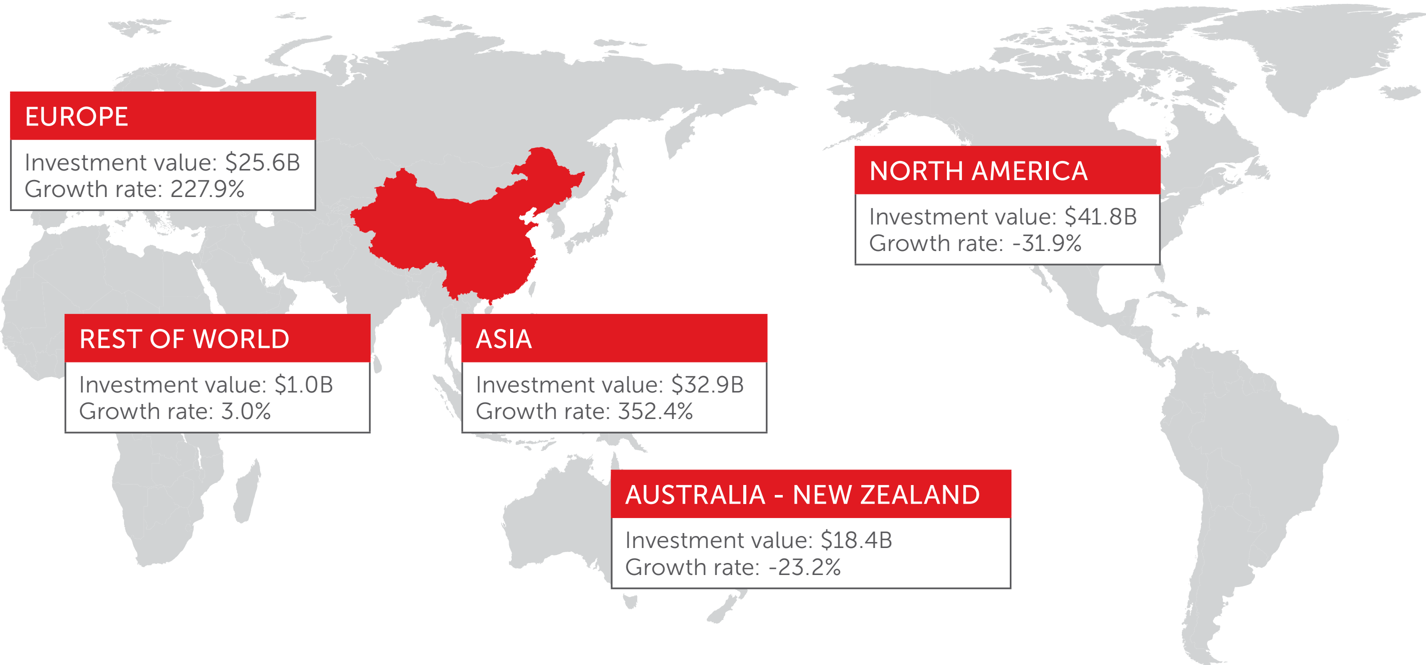
To serve these buyers, a number of actors have emerged to provide financing for international property acquisition with tacit approval (or at least not opposition) from Beijing.

Some Chinese and Hong Kong institutions provide cash or financing for overseas property acquisition in exchange for assets held in China. Both bank and non-bank lenders — including property developers— in target countries are also seizing the opportunity to finance acquisitions by mainland Chinese.

IMPACT OF TIGHTENED CAPITAL CONTROLS ON OVERSEAS PURCHASE



INVESTMENT BY REGION



Countries / Regions	Residential	Commercial	Total	Growth Rate
North America	**$31.3B**	**$10.5B**	**$41.8B**	**-31.9%**
Canada	$0.9B	$1.2B	$2.1B	
USA	$30.4B	$9.3B	$39.7B	
Australia - New Zealand	**$15.1B**	**$3.3B**	**$18.4B**	**-23.2%**
Australia	$14.1B	$3.3B	$17.4B	
New Zealand	$1.0B		$1.0B	
Asia	**$18.2B**	**$14.7B**	**$32.9B**	**352.4%**
Hong Kong (SAR), China	$16.2B	$6.9B	$23.1B	
Indonesia		$0.4B	$0.4B	
India		$0.2B	$0.2B	
Japan		$4.9B	$4.9B	
Malaysia	$2.0B	$0.3B	$2.3B	
Singapore		$2.1B	$2.1B	
Europe	**$0.6B**	**$24.8B**	**$25.6B**	**227.9%**
France		$0.2B	$0.2B	
Germany		$2.1B	$2.1B	
Greece	$0.3B		$0.3B	
Italy		$0.6B	$0.6B	
Portugal	$0.4B		$0.4B	
UK		$22.0B	$22.0B	
Rest of World	**$0.7B**	**$0.3B**	**$1.0B**	**3.0%**
Kenya		$0.3B	$0.3B	
United Arab Emirates	$0.7B		$0.7B	
Total	**$65.9B**	**$53.8B**	**$119.7B**	**18.1%**
Comparable Total			**$107.7B**	**6.2%**

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North America

Chinese property investment in North America totalled $41.8 billion in 2017, a decrease of 31.9% from 2016's $61.4 billion.

In the U.S., total residential and commercial acquisitions reached $39.7 billion, down 29.5% from 2016's $56.3 billion.

U.S. commercial property

U.S. commercial property investment dropped the most, by 51.8%. Domestic investors also pulled back from the commercial markets, according to Colliers, but by a much smaller 7%.

Despite rising rates and trade tensions, U.S. commercial real estate continues to appeal to Chinese buyers. We believe the three main causes of the drop in investment are capital controls, a reversion to historic growth rates, and a pullback by 2016's biggest investors (such as Anbang Insurance and Wanda Group).

Some observers believe not that 2017 represents a collapse in Chinese investment in U.S. commercial property, but simply a reversion to the mean. The true aberration, they believe, was 2016.

Joy Dantong Ma from Macro Polo, at the Paulson Institute at the University of Chicago, writes that from 2009 to 2015, 8.3% of Chinese overseas investment went to the U.S. In 2016, that proportion more than tripled to nearly 29%. In 2017, it merely returned back to 10%, still above its historic level.

U.S. residential property

In the residential market, Chinese acquisitions declined by 17.9%. While not perfectly overlapping with the calendar year, research from the National Association of Realtors shows that China remains the largest source of foreign investment in U.S. residential property.

Chinese buyers accounted for 15% of U.S. residential foreign-buyer transactions, compared to 10% for second ranked Canada, 8% for Mexico and 5% for India.

Canada

In Canada, Chinese property investment totalled $2.1 billion, down 58% from $5.1 billion in 2016. Accurate and comprehensive reporting is not available in Canada. Even so, our estimates are based on industry and government data and show that Chinese commercial property investment dropped from $3.1 billion in 2016 to $1.2 billion in 2017. Residential purchases dropped from $2 billion to $900 million.

Asia

In Asia, Chinese property acquisitions hit $32.9 billion in 2017, up 352.4% from $7.28 billion in 2016.

Investment in Hong Kong SAR increased in our accounting by 250%, from $6.6 billion in 2016 to $23.1 billion in 2017. In the residential market, while industry estimates suggest mainland Chinese account for as much as 30% of transactions, we believe that 23% (US$16.2 billion) is more correct.

Some of Hong Kong's reported investment growth in 2017 is due to the unprecedented domination by mainland developers of Hong Kong land acquisitions last year. The largest share is due to Juwai.com's better data tracking for 2017, which allowed us to include Hong Kong in this report for the first time.

Similarly in Singapore, while our data shows investment increased to $2.1 billion in 2017, this is also a case where we added new tracking capability to this report. Much the same is true regarding the data for Indonesia ($400 million in 2017), India ($200 million), and Japan ($4.9 billion).

In Malaysia, our improved data shows an increase from $700 million in 2016 to $2.3 billion in 2017. At some development projects, such as Forest City in the state of Johor, prices start at US$250,000 and are out of the reach of most local buyers. As much as 70% of sales go to mainland Chinese.

Australia - New Zealand

In Australia and New Zealand, total Chinese property investment into 2017 dropped by 23.2% from $23.9 billion to $18.4 billion. Being the biggest investment destination, Australia also accounted for the largest share of the decline, although Chinese investment in the country remains substantial and larger than that of any other nation. Investment fell by 26.8% from $24 billion to $17.4 billion.

Recorded investment in New Zealand, increased from $130 million to $970 million in 2017, mostly due to not having a reliable estimate for 2016 residential acquisitions.

Europe

In Europe (including the UK), Chinese real estate acquisitions increased by 227.9% from $7.8 billion in 2016 to $25.5 billion in 2017.

However, just one single transaction accounted for three quarters of the year's total investment in Europe.

China Investment Corporation spent $14.4 billion to purchase Logicor, the largest owner of European warehouses, logistics, and distribution properties. We've attributed this transaction to the UK, where Logicor is headquartered, although its facilities are located across the continent.

Without Logicor, investment in Europe would have risen 139%, rather than the actual 939%.

European countries for which we include specific data for the first time in this report this year include Italy ($600 million), Greece ($300 million), France ($200 million), and Germany ($2.1 billion).

Rest of World

In the rest of the world, Chinese real estate investment remained flat. We report $1 billion of investment, divided between the United Arab Emirates and Kenya.

INVESTMENT BY SECTOR

INVESTMENT BY SECTOR	2016	2017
Commercial	$35.4B	$53.8B
Residential	$41.2B	$65.9B
Total (includes unclassified investments)	$101.4B	$119.7B

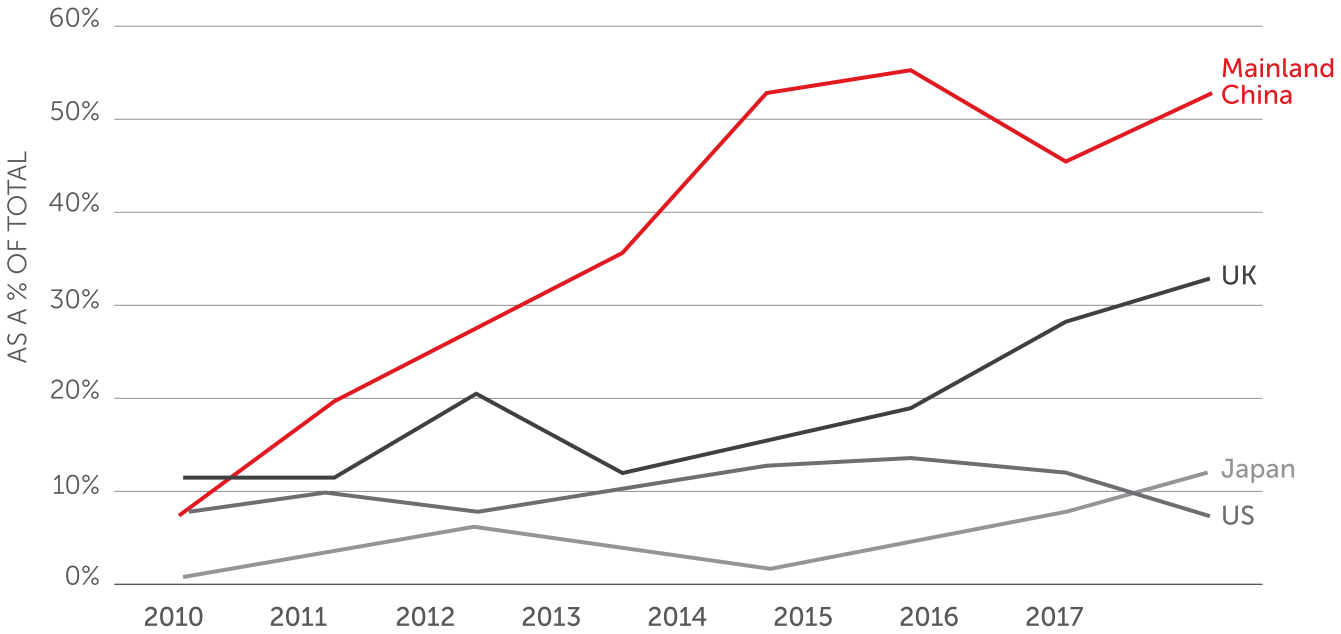
Commercial Property

Total mainland Chinese international commercial real estate investment in 2017 was $53.8 billion, making China the world's largest international commercial property buyer.

The top destinations for commercial property investment were the U.S., Hong Kong SAR, Japan, and Australia.

JLL reports that more than half of mainland Chinese commercial real estate investments (54%) were invested overseas. This compares to about 30% for the UK, and about 10% for each Japand and the US.

OUTBOUND REAL ESTATE INVESTMENT AS A % OF TOTAL INVESTMENT



Residential Property

Total Chinese international residential property investment increased to $65.9 billion. The U.S., Australia, Hong Kong SAR, and Malaysia received the most Chinese residential investment.

This investment is made possible by the continued growth of personal wealth in China. According to Citibank, the total size of China's individually possessed investable assets reached $30 trillion in 2017, second only to the U.S. That's a fivefold increase in over just five years, and future growth is likely to be even greater. China's total middle-class population is expected to reach 803 million by 2025.

Upper-middle-class buyers

While international property investment was once limited to high net worth Chinese, 2017 saw upper-middle-class buyers emerge in force.

These families are anxious to protect and build wealth, enhance their prestige, and provide opportunities for their children.

China's upper-middle-class buyers are a key driver behind the rapid growth in Southeast Asian investment in 2017. These markets are more physically and price-accessible to buyers with fewer assets, especially when compared with higher priced markets like Australia, Canada, or the urban and coastal markets of the US.

As a result, Thailand surged three places from being the sixth-most popular country for Chinese buyers (by number of buying enquiries) to rank third in 2017. At the same time, Malaysia surged six places from 15th most popular country to rank ninth.

TOP DESTINATIONS FOR MAINLAND CHINESE RESIDENTIAL PROPERTY BUYING INQUIRIES (2017)

By Number of Buyer Enquiries	Rank	By Aggregate Enquiry Value
United States	1	United States
Australia	2	Australia
Thailand	3	Canada
Canada	4	Thailand
United Kingdom	5	United Kingdom
New Zealand	6	France
Germany	7	New Zealand
Japan	8	Hong Kong (SAR), China
Vietnam	9	Singapore
Malaysia	10	South Korea
Spain	11	Germany
Singapore	12	Spain
Philippines	13	Russia
Indonesia	14	Switzerland
United Arab Emirates	15	United Arab Emirates

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High net worth buyers

China has more billionaires than the U.S. According to Knight Frank, mainland China plus Hong Kong SAR is home to nearly 14,000 individuals worth more than $50 million.

High net worth mainland Chinese real estate investors now control an estimated $5.8 trillion of personal wealth, according to CapGemini. Much of it is easily investible, and almost half is already offshore.

For these buyers, real estate overseas in 2017 was an appealing investment in an uncertain global environment. As with those of lesser means, it also served as an essential underpinning to the creation of an international lifestyle for buyers and their children, whether that lifestyle manifests as a second home, overseas education, or cross border investment portfolio.

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