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CHINESE GLOBAL PROPERTY INVESTMENT REPORT

全球华人购房报告

JULY 2017

SUMMARY

In calendar-year 2016, for the first time ever, mainland Chinese outbound property investments surpassed the $100 billion mark.

The U.S. maintained its position as the top recipient of Chinese property investment.

Juwai.com expects 2017 to be another near-record year for Chinese outbound property investment, although investment flows will likely be lower than in 2016.

China can be expected to make more than $1.5 trillion of additional overseas investment in real estate and other asset categories in the years to come.

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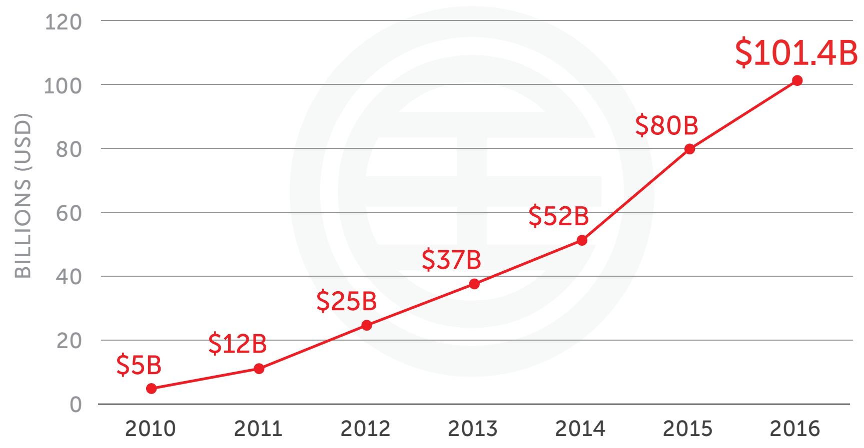
Introduction

In calendar-year 2016, for the first time ever, outbound property buying by investors in the People's Republic of China surpassed the $100 billion mark.[1]

Juwai.com's estimate for Chinese outbound commercial and residential property investment in 2016 is $101.4 billion worldwide. This represents a 25.4% increase over our 2015 estimate of $80 billion.

This estimate includes real estate purchases made by corporate investors and individual, or retail-level, investors. It is based on Juwai.com's own data and information gathered from both industry and governments.

CHINESE OUTBOUND REAL ESTATE INVESTMENTS



The Top Five Destinations for Chinese Investment

"The United States is a near-perfect market."

#1 United States

The United States has held its position as the top recipient of Chinese investment by aggregate value since Juwai.com began tracking the trends in 2013. The United States' positive market trends and openness to foreign investment combine with its status as the primary destination for education, tourism, and immigration to make it a near-perfect market. In the United States, Juwai.com estimates that retail-level buyers, or individuals buying on their own account, outspent corporate investors by nearly two to one.

#2 Australia

Australia received the second-largest level of Chinese real estate investment. With its proximity and deep commercial ties to China, appealing investment markets and a world-leading 26 years without a recession, Australia also appeals to Chinese investors, immigrants and students.

Chinese investment has been one of the most significant enablers of Australia's recent residential property-building boom. For each of the past three years, the country has approved more than 115,000 dwellings, compared to a long-term average of about 107,000 per year.[2] This new construction is credited with preventing housing prices from rising even further in the current low-interest-rate environment.

The long-term impact of new state and national taxes and restrictions on Chinese investment is still unclear.

#3 Hong Kong

Hong Kong is the location that received the third greatest combined property investment flow in 2016 from mainland China by dollar value. Despite local foreign-buyer taxes, both Chinese consumers and corporations appreciate Hong Kong as a close, easily understood property market where their access to capital gives them an advantage. The largest share of investment into Hong Kong in 2016 was made by developers buying building sites, rather than retail-level investors.

#4 Canada

Canada was 2016's fourth-biggest destination for Chinese property investment by dollar amount.

As in Australia, new Canadian foreign buyer taxes have been imposed in both Vancouver and Toronto, potentially contributing to lower — but still significant — investment flows this year.

#5 United Kingdom

The United Kingdom ranked fifth by value for inbound Chinese property investment in 2016. Like Australia, Canada and the United States, the U.K. is appealing as an open, advanced western democracy with a dynamic economy and appealing English-language educational system. While 2016 saw a significant reduction in corporate acquisitions of large assets due to Brexit-related uncertainty, retail investors have been undeterred and have found the accompanying currency fluctuations to be a buying opportunity.

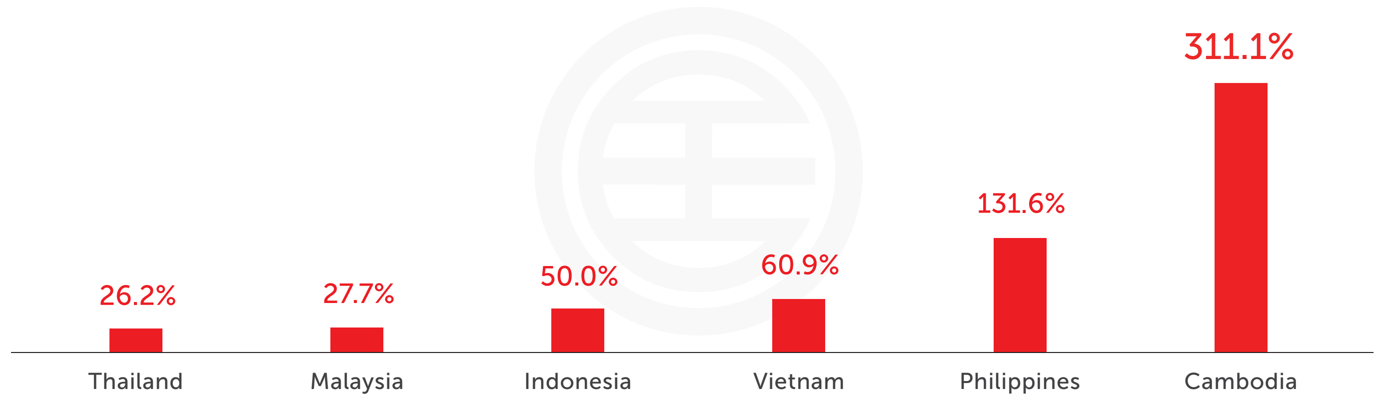
2017 Chinese Outbound Real Estate Investment Forecast

The 2017 investing environment differs in important ways from that of 2016, a year in which Chinese corporate and retail-level buyers purchased a record level of overseas property.

In 2017, Chinese restrictions on the transfer of capital overseas, foreign buyer restrictions and taxes in some key markets, and the possibility of a slower Chinese economy are the three main factors that could reduce investment levels from last year.

Despite this, 2017 may well rank among the top three years ever recorded for Chinese outbound property investment. This is borne out by current trends in Juwai.com's own Chinese buyer inquiry data.
In the first quarter, Chinese outbound property buyers made fewer buyer inquiries than in Q1 2016. However, they made almost an identical number of inquiries as in Q1 2015 – a year which set a peak only surpassed by last year.

SOUTHEAST ASIA: CHINESE REAL ESTATE BUYER INQUIRIES (Q1 2017 YEAR-ON-YEAR)



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Southeast Asia

We expect South East Asia to be among 2017's strongest performers at improving the share of Chinese real estate investment it attracts.
In part, this is due to China's One Belt One Road ("OBOR") program.
At seven-times larger than the Cold War-era Marshall Plan, even if only half implemented OBOR would be bigger than any historical parallel.

OBOR will be freighted with property investments, as real estate underpins nearly every major project planned, whatever the nominal sector — energy or transportation, for example.

Southeast Asian nations are well placed to receive this investment. Their economies are more stable and integrated into the global supply chain than those of Central Asia. They rim the strategically important South China Sea and line the path of the "Maritime Silk Road Initiative" — a major element of OBOR. And they have ancient cultural and commercial ties with China.

In addition to corporate investment, Southeast Asia also appeals to growing numbers of retail-level Chinese buyers. In each of Thailand, Malaysia, the Philippines, Vietnam, Indonesia and Cambodia, Chinese real estate buying inquiries via Juwai.com in the first quarter of 2017 were up by at least 26%, compared to the same period in 2016.

> ***"Juwai.com expects 2017 to be another near-record year for Chinese outbound property investment, although investment flows will likely be lower than in 2016."***

China Still Playing Ownership "Catchup"

Chinese purchasing is driven by pent-up consumer demand for property overseas and global lifestyles, as well as strong corporate demand for international assets and opportunities.

One fact is often lost in the anxiety sometimes present in destination countries, especially those that receive more residential property investment. Despite its torrid pace of overseas acquisitions in the last near-decade, China has been buying for such a short period of time that its investors have only accumulated a relatively small stock of overseas property and other foreign assets.

Chinese investors are still underinvested globally. Almost as a rule —and certainly in Australia, the USA, the UK and Canada— investors from other nations hold a much greater share of local property and other assets than do those from mainland China. Their push to catch up is a secular trend backed by the government's pursuit of a new growth model."[3]

China has a long way to go to catch up with the international asset ownership levels that are appropriate for its economic size. The Organization for Economic Cooperation and Development ranks countries by aggregate foreign direct investment stock (including but not limited to real estate) as a share of GDP. China ranks 18th at just 12%.[4]

China owns fewer foreign assets as a share of GDP than Slovenia and slightly more than New Zealand. It is well below the OECD average of 42%. Besides New Zealand, the only countries ranked lower by the OECD than China in overseas asset ownership are the Czech Republic, India, Poland, Latvia and the Slovak Republic.

> ***"China can be expected to make more than $1.5 trillion of additional overseas investment in real estate and other asset categories in the years to come."***

A conservative estimate is that, in the years to come, China's FDI stock could grow to be equivalent to at least 25 percent of its annual GDP. That would put it on par with Italy today, and just above South Korea's current 22%. It will take many years of rapid acquisitions, totaling more than $1.5 trillion US dollars, to fulfill this conservative estimate.

Real estate is one of the largest target sectors for Chinese corporate foreign investment and a primary sector for investment by individual or retail-level investors. By this analysis, we can expect Chinese investment in offset property to remain robust or increase significantly in the foreseeable future.

Notes: 1. All currencies are displayed in US dollars unless otherwise noted; 2. Australian Bureau of Statistics; 3. Baker McKenzie, Rising Influence: Assessing China's Record FDI Surge in North America and Europe, 2017; 4. The outward FDI stock reported here is the value of Chinese investors' equity in and net loans to enterprises in foreign economies. See: https://data.oecd.org/fdi/fdi-stocks.htm