savills

Savills World Research
Shanghai

Spotlight

China Plc ventures overseas

Dec 2014

Spotlight
China Plc ventures overseas

Introduction

After Zheng He's voyages in the 15th century, China adopted an increasingly isolationist foreign policy. This remained largely intact in one form or another until the country embarked upon a series of economic reforms in the 1970s. This initially began by increasing trade volumes (primarily export trade) with the rest of the world, followed by encouraging foreign direct investment into China to establish manufacturing facilities. In turn this developed into investment in other components of the supply chain (including R&D, product development, sales and marketing) as well the entrance of yet more companies as the country's consumer market and intellectual resources improved. This was accompanied by an influx of western culture and business know-how in the form of media, brands and values, as well as expatriate workers and tourists.

China's market proved so large and underdeveloped that many opportunities presented themselves without the need to travel overseas. Companies were operating at a very rudimentary level and economic development had been set back by the Cultural Revolution (1966 to 1976). This meant that for the longest time, there was no need nor means for China to explore opportunities overseas.

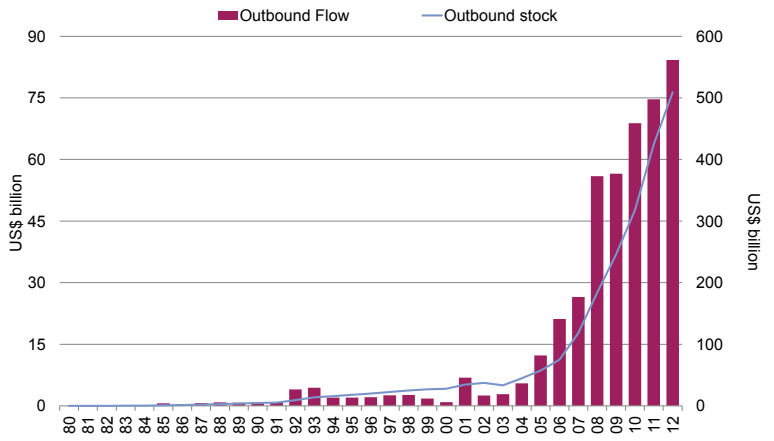
The last decade or so has seen the country develop in terms of its economy, competitiveness, culture and confidence. There has also been an increasing outflow of people moving overseas, for educational purposes or tourism, the result of rising demand for exposure to other countries and cultures. This, combined with increasing competition in the domestic property market and the weakness of overseas markets, has presented good opportunities for China to acquire land, resources, companies, brands and real estate.

Overseas investment

While still small compared with other countries, ODI flow by China since the global financial crisis has been significantly higher than during the ten years prior. Average ODI from 1998 to 2007 was US$7.9 billion compared with average ODI flow from 2008 to 2012 of US$68.0 billion.

GRAPH 1

China ODI outward flow and stock, 1980–2012



Source: United Nations Conference on Trade & Development; Savills Research

SUMMARY

- China's economy and property market have grown by leaps and bounds over the last two decades, with the economy growing from RMB1.86 trillion in 1990 to RMB56.9 trillion in 2013 (30 times greater than 1990 levels). The property market has shown even higher levels of growth, with real estate investment rising from RMB25.3 billion to RMB8.6 trillion over the same period (340 times greater than 1990 levels). As markets develop, competition increases and scope for further rapid growth become more limited. In order to maintain growth and dynamism, companies, developers and investors have increasingly turned overseas to find new opportunities.

- For large Chinese companies it is important to diversify to mitigate risks and smooth out cycles. This can take the form of exploring new business lines, revenue types or geographical diversification. Companies can also benefit from overseas exposure by learning how other markets work and bringing that knowledge back to their own markets, and by building their brand image overseas, which will make it easier for them to raise capital in international markets going forward. The once-in-a-generation revaluing of real estate assets in North America and Europe and the strength of the renminbi have also presented significant value propositions for Chinese developers and investors willing to bet on these still recovering economies.

- Chinese companies face an uphill struggle as they have remained cut off from the rest of world for such a long period of time, only exposed to limited international competition on their home turf, long restrained by rules, regulations and restrictions which favoured local incumbents. They are now entering a brand-new environment where rule of law and the strongest survive mentality count just as much as healthy relationships with the right people.

- Navigating the regulatory, tax and market complexities can be a struggle, however, even for the best companies. Out of the vast number of Chinese companies there will no doubt be some who will become global giants to rival the best firms from the US, UK, Europe, Japan or Korea, but it will take time and not all will necessarily succeed.

Mainland China was the eighth largest investor in overseas markets from 2008 to 2012. If combined with Hong Kong, through which a large proportion of mainland China investment passes, greater China would be the second largest source of investment in the world after the US, with annual investment of US$147 billion in 2012 vs the US at US$321 billion.

The top three destinations of Chinese ODI for the years 2010 to 2012 combined are unlikely to be the final destinations, being Hong Kong, the Virgin Islands and the Cayman Islands. After these intermediary countries we see a number of traditional Anglosphere countries such as the US (US$7.2 billion) and Australia (US$7.0 billion), then followed by Singapore (US$5.9 billion), Luxembourg (US$5.6 billion) and the UK (US$4.5 billion).

Chinese companies investing overseas

Why are Chinese companies going overseas?

Investments by Chinese firms in overseas companies and brands have been around for a number of years, starting with the acquisition of IBM's personal computer division "ThinkPad notebooks" by Lenovo in early 2005 for US$1.74 billion. Nevertheless it has only been recently – the last two years – that investors and developers have started acquiring commercial properties and development sites overseas.

In general the typical reasons for globalisation/internationalisation of a company are market seeking, strategic seeking, efficiency seeking and resource seeking activities.

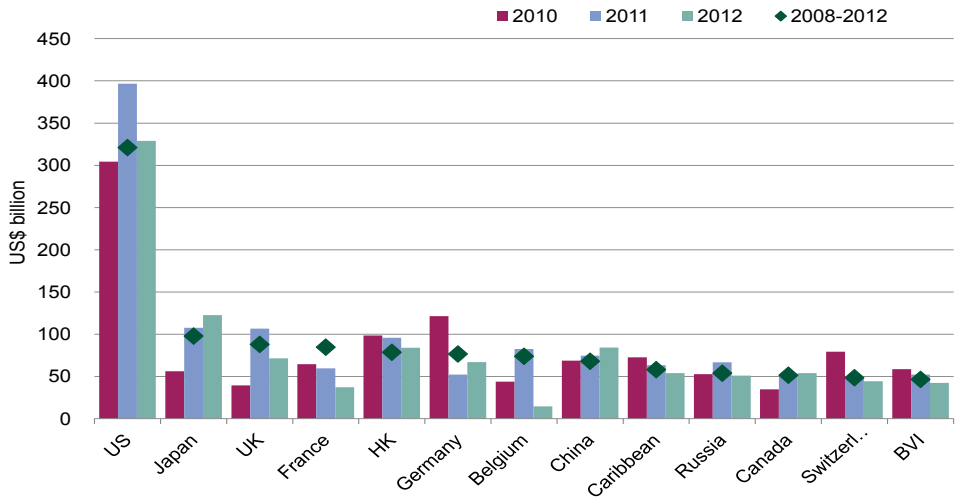
Chinese investments in the past have focused mostly on resource seeking activities, primarily in the energy and metal sectors – particularly in South and North America as well as Australia. In more recent years, investments have had more of a strategic focus whether it be branding or IP, and most recently with real estate developers, overseas investments have focused on market seeking activities as well.

Diversification and spreading risk

The general principles of investing overseas are relatively standard,

GRAPH 2

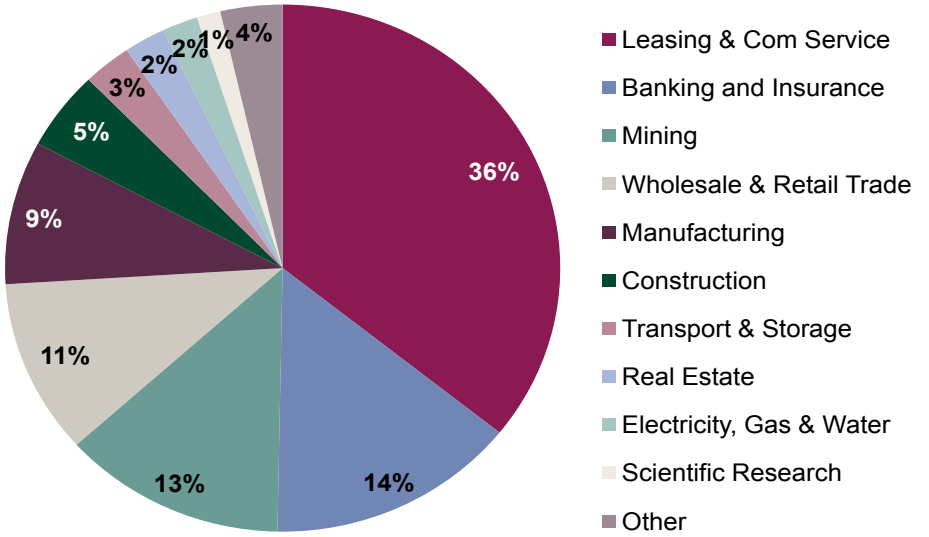
ODI by country, 2010–2012



Source: United Nations Conference on Trade & Development; Savills Research

GRAPH 3

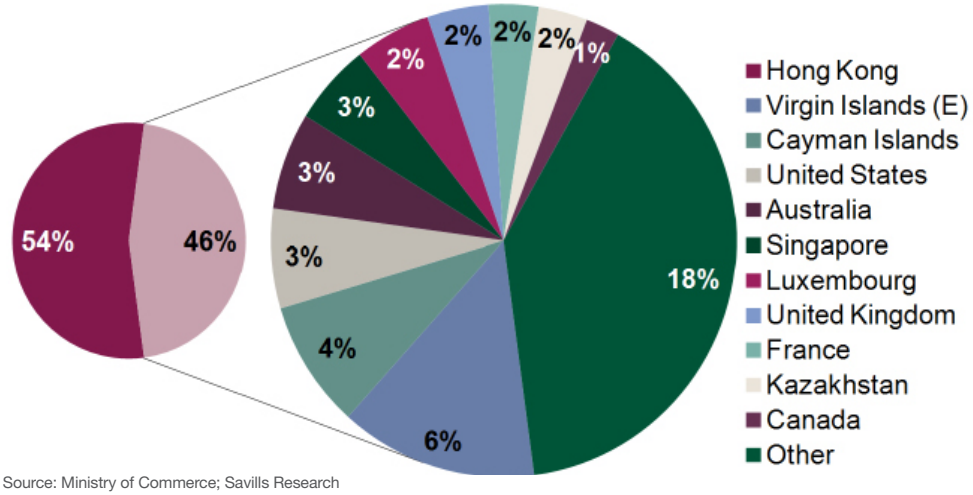
Chinese ODI by industry, 2010–2012



Source: Ministry of Commerce; Savills Research

GRAPH 4

Chinese ODI by destination, 2010–2012



Source: Ministry of Commerce; Savills Research

namely diversification of operations and asset portfolio, and therefore the spreading of risk. This can also be accomplished by developing or investing in different asset classes and also different sources of revenue – leasing revenue and sales revenue.

Diversification has been something that Chinese developers have lacked in the past, having focused primarily on residential developments on the sales market. Recently, more developers have been entering the commercial sector (less susceptible to government regulations) and many more developments are being released to the leasing market (less susceptible to weak sales markets) as they look to broaden business operations within China.

Brand image

Developers are looking at building their brand image at home and overseas by investing in key landmark developments which will carry their name. This is becoming increasingly important as developers, tired of having their credit lines controlled by the government through state-owned bank leading quotas, are looking to overseas financing avenues such as corporate bonds and stock listing.

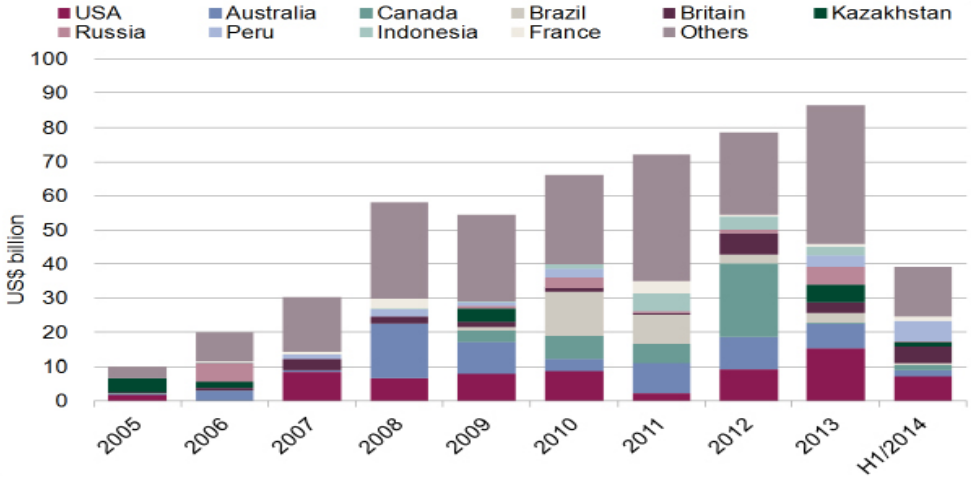
Value purchases

Weak western markets, falling values and investment, alongside the strong Chinese market, asset inflation at home and the strengthening of the renminbi, has meant that for Chinese investors overseas acquisitions are a much better value proposition than they have been for a long time.

While office and retail net yields in markets such as Shanghai and Beijing range between 4% and 5% (sometimes even lower), in markets such as London's City it was still possible to achieve net yields of 4.5% (London West End: 3.25%) in Q2/2014, and with lease terms typically more than 15 years with upward only revisions, rental income is relatively secure. At the same time, lending rates are much lower than in China, allowing a positive yield spread on the investment. While forecast internal rates of returns tend to be lower in the UK than in China, a higher proportion of this return is from rental revenue rather than capital appreciation, making the investment more secure. However, Chinese

GRAPH 5

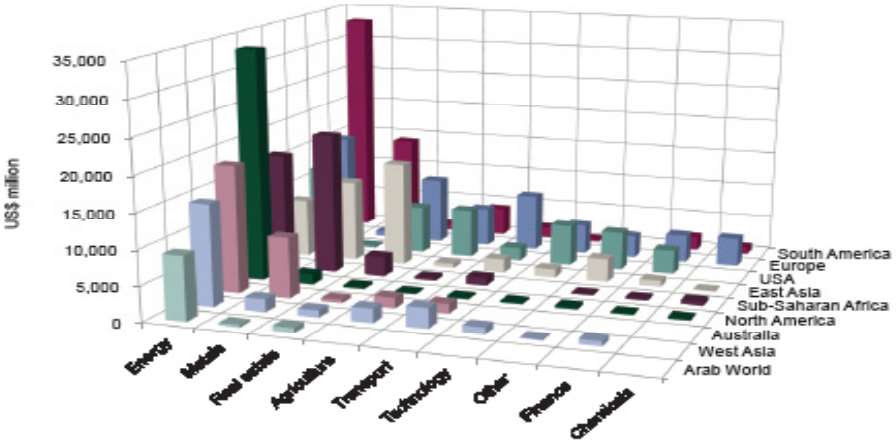
Overseas acquisitions by Chinese companies, 2005–1H/2014



Source: The Heritage Foundation & The American Enterprise Institute; Savills Research

GRAPH 6

Overseas acquisitions by Chinese companies, 2005–1H/2014



Source: The Heritage Foundation & The American Enterprise Institute; Savills Research

TABLE 1

Key overseas acquisitions by Chinese companies, 2012–1H/2014

Year	Investor	US$ million	Share	Partner/target	Sector	Country
2013	Shuanghui	7,100	100%	Smithfield Foods	Agriculture	US
2014	Lenovo	2,910	100%	Motorola Mobility	Technology	US
2012	Dalian Wanda	2,600	100%	AMC Entertainment	Other	US
2012	China General Nuclear and China Development Bank	2,380	100%	Extract Resources	Metals	Australia
2013	State Grid	2,350	60%	Singapore Power	Energy	Australia
2013	CNOOC	2,000	85%	Kingfisher	Energy	Uganda
2012	Bright Foods	1,940	60%	Weetabix	Agriculture	UK
2012	CNPC	1,510	50%	TransCanada	Energy	Canada
2014	Fosun	1,360	80%	Caixa Geral	Finance	Portugal
2012	China Nickel Resources	1,260	61%	PT Jhonlinto	Metals	Indonesia
2014	COFCO	1,210	51%	Nidera	Agriculture	Netherlands
2014	Sinopec	1,200	50%	Lukoil	Energy	Kazakhstan
2014	Landing International Development	1,100	50%	Genting Singapore	Real estate	South Korea
2013	Sinopec	1,020	50%	Chesapeake Energy	Energy	US

Source: The Heritage Foundation & The American Enterprise Institute; Savills Research

investments rely a lot more on value appreciation which, based on aggressive rental appreciation or yield compression, is more risky.

Learning process
Operating solely in China, many developers and investors have a very China-centric approach to real estate. As more overseas developers and investors enter the market, Chinese players further understand the value of their approaches to property and are eager to learn more. This can be achieved through joint ventures, with overseas operators also very eager to work with domestic companies to leverage their relationships, networks and scale.

The other approach is for domestic developers and investors to dip into overseas markets and gain more direct and in-depth knowledge about how to operate there.

Utilising sales networks in China
As individuals and non-real estate corporations start to move overseas in greater numbers, (whether it be Hong Kong, Singapore, Canada, Australia, the US or the UK), Chinese developers and investors have a distinct advantage over overseas players with their extensive sales networks in China. Products launched to Chinese buyers or occupiers are likely to be much more successful in China should they have the backing of a large domestic real estate player.

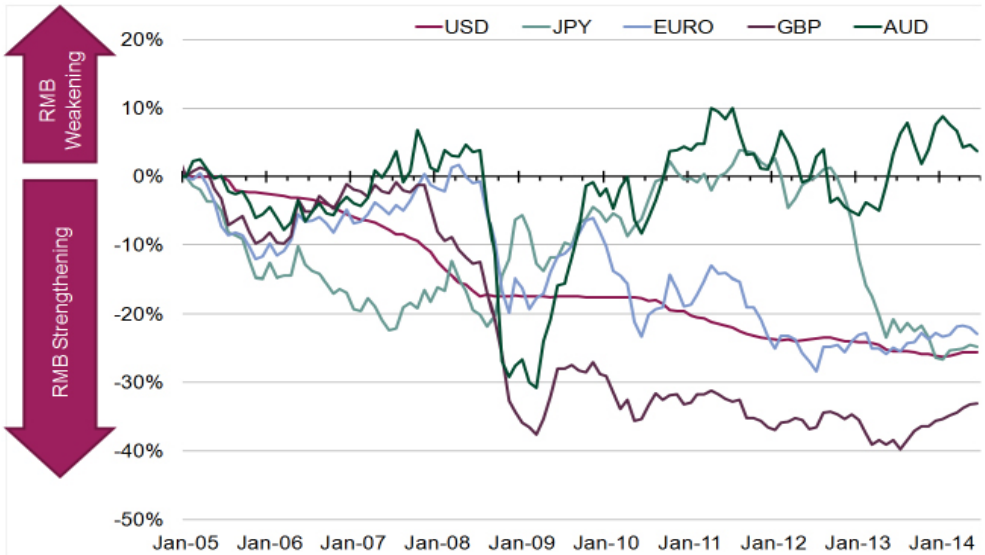
Where? Who? and What?
Chinese developers and corporate investors are following similar patterns in terms of countries in which they invest, looking at mature, prime and stable locations to make their first purchases. The largest receiver of Chinese money over 2012 and 2013 was the UK, with US$5.0 billion worth of investment in projects and development sites, followed by the US at US$2.8 billion.

Developers

Currently, it is primarily Chinese developers who are making the largest push overseas, but even this is just the tip of the iceberg, with their overseas schemes currently paling in comparison with their China operations.

GRAPH 7

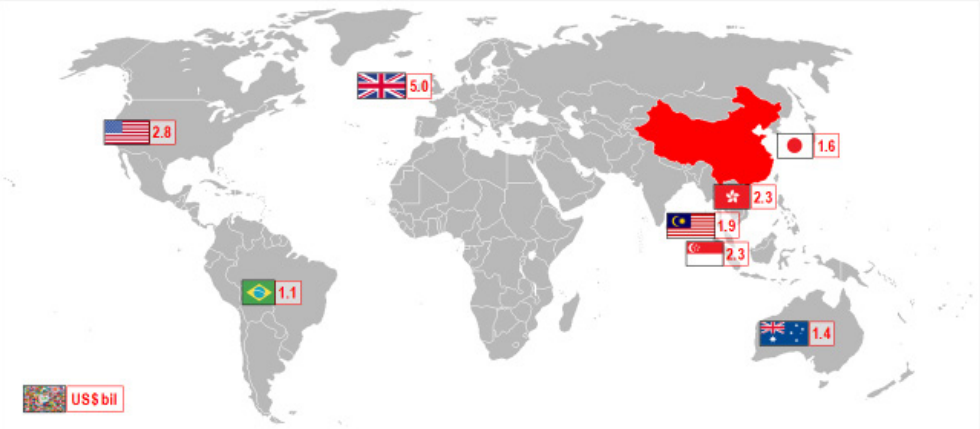
Renminbi appreciation, Jan 2005–Jun 2014



Source: State Administration of Foreign Exchange; Savills Research

IMAGE 1

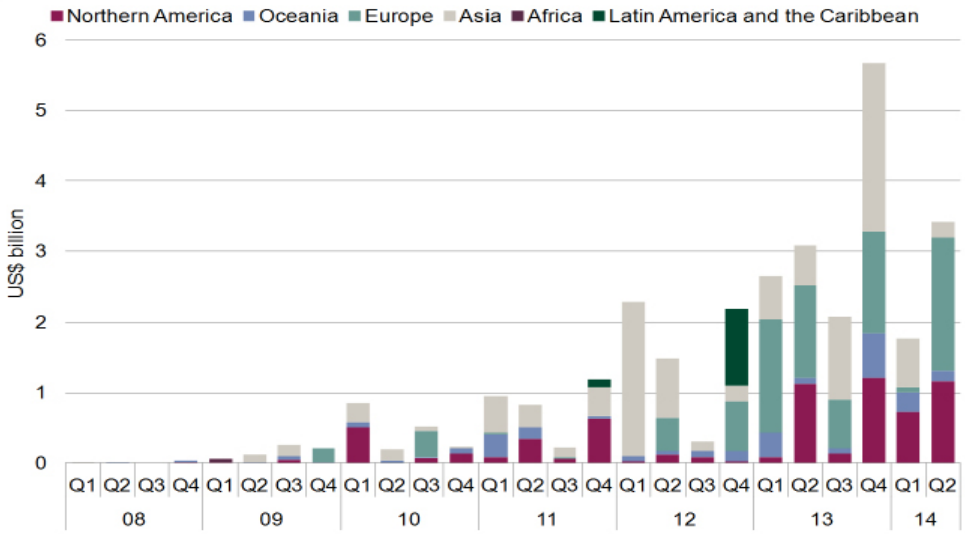
Investment volumes, 2012–2013



Source: Real Capital Analytics; Savills Research

GRAPH 8

Chinese outbound real estate investment, Q1/2008–Q2/2014



Source: Real Capital Analytics; Savills Research (Q1 and Q2/2014 figures remain provisional)

Size comparison

China's top developer, Vanke, has generated sales of RMB418 billion in the last two and a half years from the disposal of 36.2 million sq m of space at an average price of RMB11,253 per sq m. In comparison, the UK's largest developer is Barratt Developments which generated GBP2,606 million (RMB26.1 billion – GBP1:RMB10.0) in revenues in 2013. Vanke's revenues were more than six times that of Barratt Developments. By the end of July 2014, Barratt Developments, trading at a P/E of 27.1, had a market cap of approximately GBP3.58 billion (RMB37.59 billion – GBP1:RMB10.5) while Vanke, trading at a P/E of 7.13, is at RMB107.2 billion, close to three times the size. In terms of market cap Vanke is roughly the equivalent of Boston Properties US$19 billion (P/E 28.9).

Developer overseas investment activity

Recent deals by developers include Greenland's acquisitions of Atlantic Yards in Brooklyn, New York from Forest City Ratner, a development site in Los Angeles from CalSTRS, and Sydney Greenland Center in Australia from Brookfield Asset Management.

Wanda recently acquired a US$900 million waterfront project in Chicago while Vanke recently acquired an equity stake in a development in Singapore from Keppel Land. Oceanwide acquired a development site in Los Angeles from Moinian Group and Cabi Developers. R&F bought a large-scale development site from the Sultan of Japor in Johor Bahru. Aside from development sites, developers are also looking at buying stabilised assets such as Fosun's acquisition of One Chase Manhattan in New York from JP Morgan, and Dalian Wanda's acquisition of The Edificio España building on the Plaza de España in Madrid, Spain, and Genzon's acquisition of the former Standard Oil Building at 225 Bush Street in San Francisco.

Other earlier deals include the likes of Dalian Wanda (London and New York), Greenland Group (Sydney, Los Angeles and Spain), Xinyuan Real Estate (New York), China Overseas Land (London), ABP (London) and

TABLE 2

Top Chinese buyers of overseas properties, Jan 2007–Jul 2014

Buyer	Capital group	Capital type	Acquisitions (US$ mil)	No. of properties
China Investment Corp	User/other	SOE	6,600.0	106
SAFE	Institutional	SWF	3,650.7	22
Zhang Xin	Private	HNWI	1,949.2	2
Guangzhou R&F Prop Co	Public	REOC	1,396.1	1
Fosun International Ltd	Public	REOC	1,278.3	12
China Life Insurance	Institutional	Insurance	1,264.1	4
Bright Ruby Resources	Private	Developer/owner/operator	1,185.7	4
Greenland Group	User/other	SOE	1,111.6	8
Hao Yuan Investment	Private	Developer/owner/operator	1,022.2	4
Bank of China Limited	User/other	SOE	832.3	4
China Construction Bank	User/other	SOE	786.4	5
HNA Group	Private	Developer/owner/operator	705.7	4
China Metallurgical	User/other	SOE	672.2	6
Agricultural Bank of China	User/other	SOE	628.4	1
China Vanke	User/other	SOE	609.3	4
Dalian Wanda Group	User/other	SOE	510.4	3
China Poly Group	User/other	SOE	505.4	1
Standard Portfolios LLC	Private	HNWI	486.6	24
Reignwood Group	Private	Developer/owner/operator	475.2	2
Ping An Insurance	Institutional	Insurance	395.1	1

Source: Real Capital Analytics; Savills Research

TABLE 3

Chinese developers by sales value, 1H/2014

Ranking	Developer name	Type	Sales value (RMB billion)	Sales volume (million sq m)	Average price (RMB per sq m)
1	Vanke 万科地产	Public	101.8	8.08	12,594
2	Greenland 绿地集团	Public	83.0	8.36	9,928
3	Evergrande 恒大地产	Public	71.4	9.97	7,161
4	Poly 保利地产	SOE	62.7	4.93	12,727
5	Country Garden 碧桂园	Public	58.8	9.04	6,507
6	China Overseas Land 中海地产	SOE	57.5	4.18	13,763
7	Wanda 万达集团	Private	50.7	3.92	12,937
8	Shimao 世茂房地产	Public	32.0	2.64	12,140
9	Sunac 融创中国	Private	25.8	1.82	14,199
9	R&F properties 富力地产	Private	25.8	1.14	22,691
11	China Resources华润置地	SOE	24.9	2.21	11,262
12	Longfor龙湖地产	Public	20.2	1.79	11,266
13	CFLD华夏幸福	Private	20.0	1.61	12,453
14	Greentown 绿城中国	Private	19.8	0.89	22,381
15	Agile 雅居乐	Private	19.8	1.87	10,550
16	China Merchants 招商地产	Private	17.2	1.21	14,171
17	Gemdale 金地集团	Public	16.5	1.25	13,242
18	Poly Real Estate保利置业	SOE	12.2	1.20	10,167
19	Kaisa 佳兆业	Public	11.2	0.97	11,523
20	Jinke Group 金科集团	Public	11.1	1.31	8,508

Source: China Real Estate Information Corp; Savills Research

SOHO's Zhang Xin (New York). There have also been a number of less high-profile deals recorded within the Asia Pacific region involving Greenland Group (Thailand), Country Garden (Malaysia), Vanke (Singapore and Hong Kong), Shanghai Wanfeng Group (Laos) and Zhuoda Real Estate Group (Malaysia's Iskandar).

Moreover, many developers have invested in South Korea's Jeju Island, a new development area drawn up almost a decade ago to become an international tourist hub. According to a report by the Korea Times at the start of 2013, Jeju Free International City Development Center has attracted a total of 12 investment projects worth KRW5.6 trillion (US$5.2 billion) since 2006, of which ten projects were financed and undertaken by Chinese developers.

China's real estate development industry is very fragmented, with the top 20 property developers having only roughly a 20% market share. As the market continues to mature, this is changing and the leading developers are evolving their business models. Many of the largest developers are controlled by the central government, and as such may meet with some resistance when investing overseas, especially in more politically sensitive areas, where investment is seen to be directed by Beijing rather than being driven by purely commercial considerations.

The top ten developers accounted for 18.6% of the total market in the first half of 2014 transacting 54 million sq m for RMB569 billion at an average price of RMB10,534 per sq m. This is up from the same period last year when they sold 46 million sq m for RMB470 million at RMB10,213 per sq m.

TABLE 4

Market share of leading domestic developers

	1H 2012	FY 2012	1H 2013	FY 2013	1H 2014
Top 10	15.6%	12.8%	14.6%	13.7%	18.6%
Top 20	20.6%	17.6%	20.3%	18.9%	24.3%
Top 50	27.7%	24.6%	28.4%	26.2%	33.2%

Source: China Real Estate Information Corp; Savills Research

TABLE 5

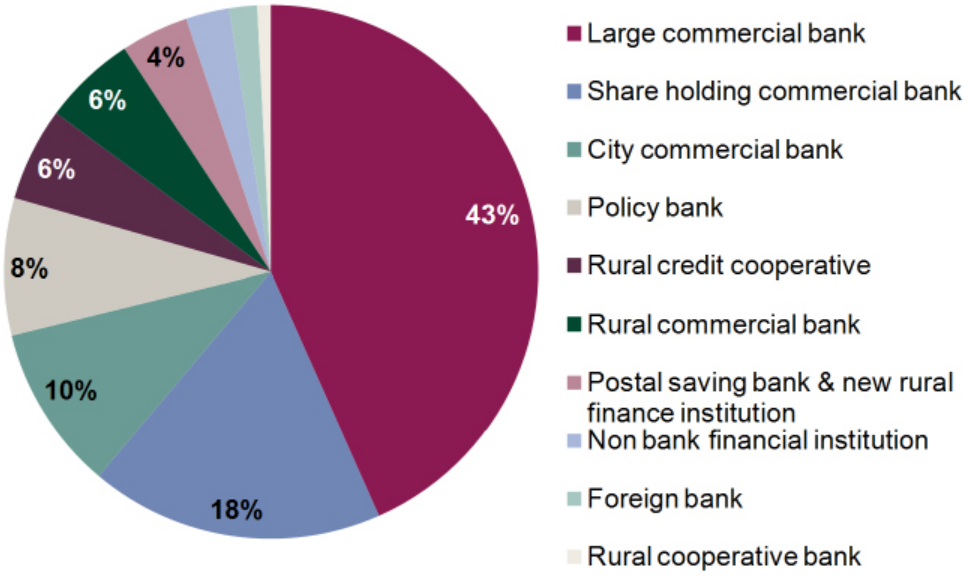
Chinese banks' market capitalisation, 30 Apr 2014

Rank	Company	Country	Market cap
3	Industrial and Commercial Bank of China	China	197.12
5	China Construction Bank	China	171.97
8	Agricultural Bank of China	China	126.56
10	Bank of China	China	118.08
40	Bank of Communications	China	45.03
45	China Merchants Bank	China	41.25
49	China Minsheng Banking Corp	China	34.22
50	China CITIC Bank	China	33.38

Source: Banks Daily; Savills Research

GRAPH 9

Chinese outbound real estate investment, Q1/2008–Q2/2014



Source: China Banking Regulatory Commission; Savills Research

Banks

Merchants banks

According to a report by the China Banking Regulatory Committee, by the end of 2013 there were 3,949 banking institutions in China, employing 3.5 million people with RMB151 trillion in assets.

China also has four of the ten largest banks by market capitalisation in the world: Industrial and Commercial Bank of China, China Construction Bank, Bank of China and Agricultural Bank of China.

The mainland entities of Chinese banks, as stated at the Standing Committee of the Eighth National People's Congress in 1995, are currently unable to acquire real estate for investment purposes; however, they are able to buy commercial assets for self use. Indeed, they have become a significant contributor to commercial sales in many cities throughout China.

Recent deals include the acquisition of the 80,000-sq m Oriental Financial Centre by Bank of Communications for RMB7 billion in late 2013 – of which a sizeable portion is expected to be leased back to the market. Bank of Communications also bought 57,000 sq m of space in Shenzhen's Century Place for RMB4 billion in

early 2013. In June 2013, China Merchants Bank acquired a 57,000-sq m development in Beijing's Financial Street for RMB3.9 billion, one of the biggest deals at that time. In Shanghai in 2009, China Construction Bank and Agricultural Bank of China agreed to buy the then under-construction first phase of CITIC Pacific's Shipyard project, two office towers totalling 180,000 sq m and costing roughly RMB46,000 per sq m.

Aside from larger banks owned by the central government, there are many provincial- or city-level banks (145 entities by the end of 2013 with RMB15 trillion in assets) which are also actively buying headquarter space in the key markets of Shanghai and Beijing, although on a smaller scale, typically 10,000-sq m to 20,000-sq m developments.

Chinese banks with overseas branches have also been active in acquiring space for self use in these other markets.

Overseas deals recently concluded by mainland banks include:

China Construction Bank's acquisition of an 11,420-sq m office building in London at 111 Old Broad Street for roughly US$185 million in June 2014.

Investment banks arms
In addition to buying space for self use, many of the larger Chinese banks have Hong Kong investment banking functions and these entities are not prohibited from investing in real estate. Some of the key banks include:
- China Construction Bank International

- Bank of Communications International

- Bank of China International

- Industrial and Commercial Bank of China International

- Agricultural Bank of China International

Bank of China International has been the most active, having recently invested in Shanghai's Daning the Life Hub in 2009 for RMB800 million, and in Beijing's Diamond Building (Shangdi) and Silicon Valley T4 (Zhongguancun) in Q2/2013 for RMB660 million. Investments tend to be focused on China deals, with few having been transacted in other territories until more recently.

Bad loan managers
China also has four state-owned national bad loan managers set up in 1999 to take over non-performing loans from major banks:
- Cinda

- Huarong

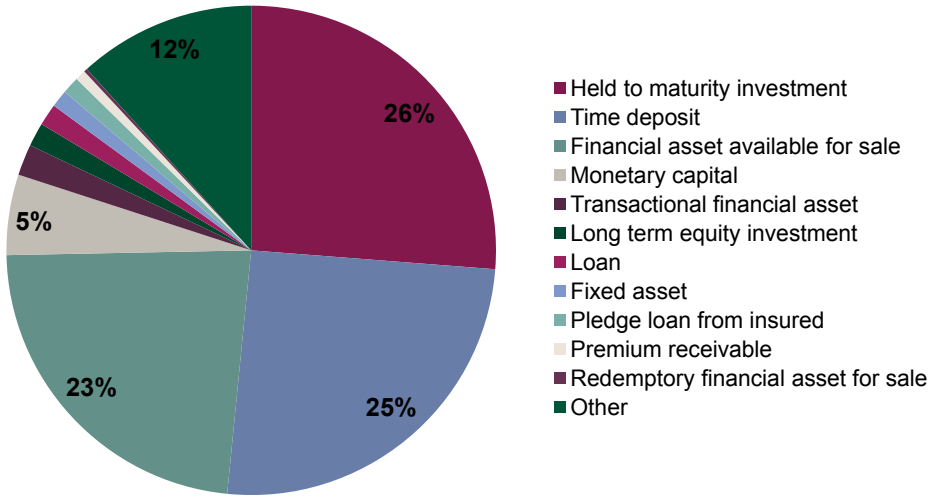
- Great Wall

- Orient Asset Management

Cinda Asset Management acquired a 70% equity stake in the 130,000-sq m 311 South Wacker in Chicago for US$304 million in March 2014.

GRAPH 10

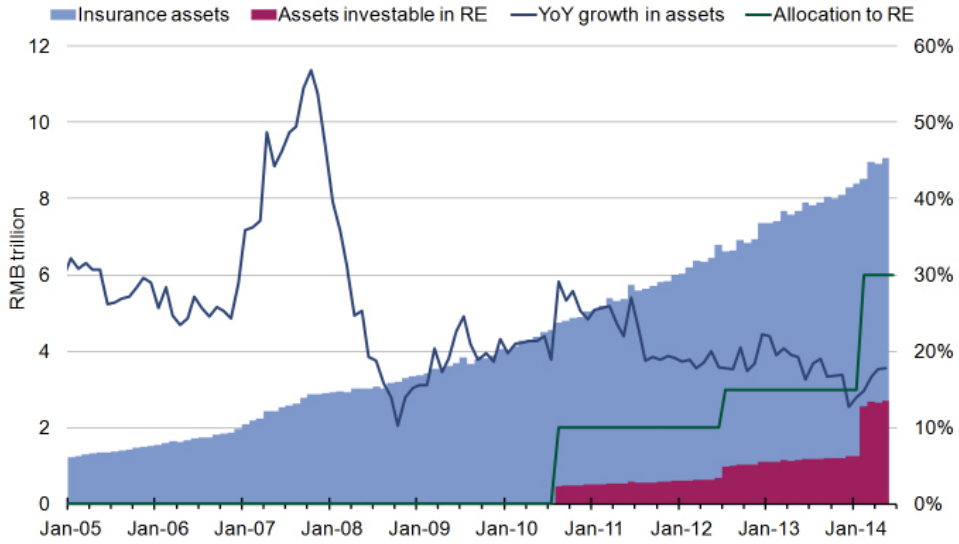
Insurance company asset breakdown, 2012



Source: China Insurance Regulatory Commission; Savills Research

GRAPH 11

Chinese insurance firms assets under management, Jan 2005–Jun 2014



Source: China Insurance Regulatory Commission; Savills Research

Insurance firms

There are an estimated 138 insurance firms (2012) with 530,214 employees (2012) and RMB9.04 trillion in assets (May 2014) in China, generating RMB1.7 trillion in premiums (2013).

The big five include:
- China Taiping Insurance Holdings

- China Life Insurance Company

- China Pacific Insurance

- People's Insurance Company of China

- Ping'an Insurance

Regulatory stages
The China Insurance Regulatory Commission (CIRC) permitted insurance companies to diversify investments into real estate with the release of the Interim Measures for the Administration of Utilisation of Insurance Funds, effective 31 August 2010. The real estate regulations provide that an insurance company, subject to meeting certain qualification requirements, can invest up to 10% of total assets in real estate; and up to 3% of total assets in real estate related financial products, eg, a real estate fund (the aggregate of all such investments cannot exceed 10% of total assets).

In July 2012, the upper limit for investment in real estate and infrastructure was increased to 20%, (real estate alone could not exceed 15% of investment) up from 10% previously.

Late in October 2012, CIRC promulgated rules allowing Chinese insurance companies to make overseas investments, which allowed insurance companies to invest in real estate and REITs in 45 designated countries and regions which are deemed "developed markets". Investments are limited to commercial and office buildings with stable returns and that are located in prime locations within main cities. Total offshore investments (property and non-property) by mainland insurance institutions should not exceed 15% of their total assets by the end of the previous year.

In February 2014, limits on real estate and infrastructure investment were raised to 30% of insurers' total assets up from 20%.

TABLE 7
Designated jurisdictions for investment

Developed markets				
Australia	Singapore	Italy	Finland	US
Hong Kong SAR	Belgium	Sweden	Netherlands	Germany
Portugal	Israel	Denmark	UK	New Zealand
Austria	Spain	Japan	France	Greece
Ireland	Canada	Switzerland	Luxembourg	Norway
Emerging markets				
Brazil	Korea	South Africa	Egypt	Peru
Indonesia	Russia	Czech Republic	Morocco	Turkey
Poland	Colombia	Mexico	Thailand	India
Chile	Malaysia	Taiwan	Hungary	Philippines

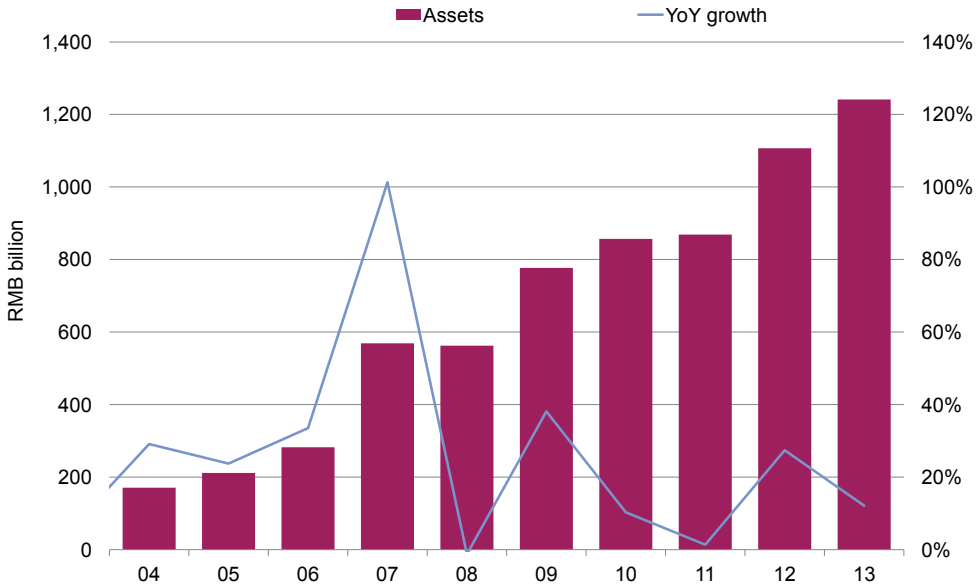
Source: China Insurance Regulatory Commission; Savills Research

TABLE 8
China's SWFs, Mar 2013

Fund	Assets (US$ billion)	Inception	Origin
CIC	575.2	2007	Non-commodity
SAFE	567.9	1997	Non-commodity
NSSF	210.3	2000	Non-commodity
China-Africa Development Fund	5.0	2007	Non-commodity

Source: Sovereign Wealth Fund Institute; Savills Research

GRAPH 12
SSF assets under management, 2004–2013



Source: National Council for Social Security Fund; Savills Research

Actions
As insurance companies move overseas, several things have happened: they are building a presence in Shanghai – a mainland gateway to the rest of the world – and Hong Kong, another more removed gateway to the rest of the world. After these two locations they start to look at the other key gateway cities of London and New York.

The most active domestic insurance company of late has been Ping'an

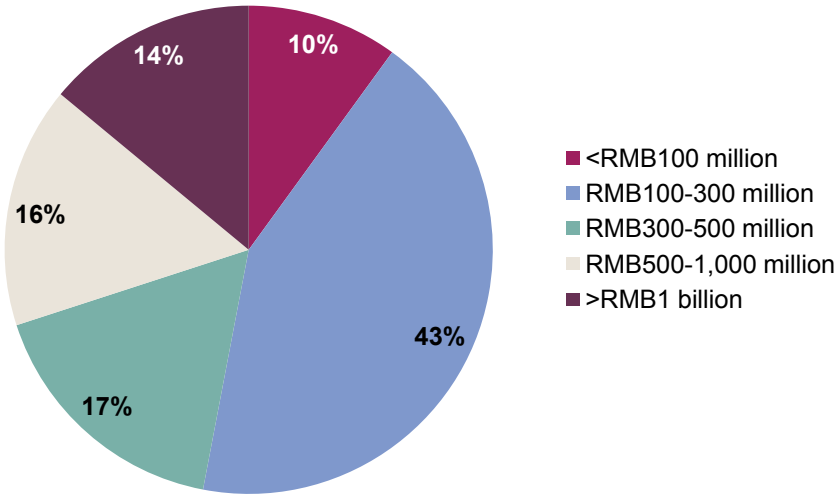
Insurance, which acquired a number of properties in China, including in 2011 and 2012, a development site in Shenyang from SOCAM, an office development in Beijing and Wuhan, and a development site in Hangzhou through public auction.

Ping'an Insurance was also the first Chinese insurance company to invest overseas with the acquisition of Lloyds Building in London for GBP260 million (RMB2.4 billion). This was followed in June 2014 by China Life when they acquired Canary Wharf Tower for GBP795 million, taking a 70% stake while Qatar Holding took 20% and Canary Wharf Group retained 10%.

Given the current AUM of RMB9.0 trillion and the fact that up to 30% of this can be invested in the property market, the potential scope of investment activity both at home and overseas is quite substantial, although the pace at which the investment will materialise is still uncertain and red tape initial investment targets are likely to be core stabilised commercial assets in gateway cities.

GRAPH 13

Fund sizes, 2013



Source: Promise Advisors; Savills Research

SWFs

China had two of the five largest SWFs in the world at the end of June 2013, namely China Investment Corporation (CIC) with US$575.2 billion (fourth largest) and SAFE Investment Company with US$568 billion (fifth largest). China has the most assets in SWFs at US$1,350 billion vs the United Arab Emirates at US$1,075 billion.

SWFs have been active in alternative real estate investment classes, and in some cases are believed to be supporting the central government's broader international investment strategy, eg, logistics, warehousing and student housing. At the same time, stabilised secure investments in key gateway cities seem to be on the rise. Most deals tend to be in a consortium and through a portfolio purchase.

CIC

CIC was established in 2007 with approximately US$200 billion AUM, with the intent of utilising these reserves for the benefit of the state. CIC has two wholly-owned subsidiaries, namely CIC International, established in 2011 with a mandate to invest and manage overseas assets; and Central Huijin Investment, established in 2003 and acquired by CIC in 2007. Central Huijin was set up to recapitalise domestic financial institutions and has stakes in many financial enterprises including five large commercial banks, two securities firms, one financial holding company, one investment company and one reinsurance company.

CIC has been active in the warehouse and logistics fields primarily in three key portfolio deals:

- The first was a joint venture with Goodman, Canada Pension Plan Investment Board (CPPIB) and All Pensions Group, of which CIC owned 12.4%, to invest in an industrial portfolio focused on Australia but also including assets in Germany and Spain for US$2.5 billion in Q1/2011.

- The second was a partnership with Global Logistic Properties (GLP) in a 50:50 joint venture to acquire 15 storage facilities mostly located in Tokyo and Osaka from LaSalle for US$1.6 billion in Q1/2012.

- The third was a joint venture with GLP, CPPIB and Government of Singapore Investment Corporation to acquire a portfolio of 34 stabilised assets and one development project primarily located in São Paulo and Rio de Janeiro for US$1.45 billion in Q2/2012. CIC owns a 34.2% stake in the joint venture.

CIC also acquired Chiswick Park from Blackstone in Q4/2013 for US$1.3 billion. Invesco acquired Centennial Plaza on behalf of CIC in Q4/2013 for US$290 million. Winchester House was acquired for US$378 million via Invesco from KanAm Grund in Q4/2012. CIC also acquired Nex in Singapore from Pramerica in Q3/2010 and an equity stake in 650 Madison Avenue from Carlyle in Q2/2010. CIC also became one of the largest shareholders (19%) in Songbird Estates, the majority owner of Canary Wharf in 2009.

SAFE

SAFE, The State Administration of Foreign Exchange, is responsible for managing China's sizeable foreign exchange reserves. SAFE has a subsidiary in Hong Kong, namely Safe Investment Company which was opened in 1997 with US$20 billion in capital. Gingko Tree Investments is SAFE's UK registered vehicle which invests in European real estate and infrastructure.

One of Gingko's earliest investments was Drapers Garden in London through RREEF UK in Q2/2012 for GBP285 million. The second deal was Barclays' 40% stake in University Partnerships Programme (the UK's largest developer of student housing) for GBP550 million (roughly RMB5.5 billion) in early 2013.

Gingko has stepped up its investment in UK and German property, buying through funds helping them to place the investment or in joint ventures. Other via fund deals include One Angel Square (Manchester via RREEF for GBP142 million in Q1/2013) and the Adlerwerke site on Kleyerstrasse (Frankfurt via Pramerica in Q4/2013).

Aside from these deals, they have partnered with AXA Real Estate, Hannover Leasing, M&G real estate and Hanwha Group to acquire Ropemaker Place (GBP742 million; Q2/2013), Tesco Retail (GBP237 million; Q2/2013) and BelAir development scheme in Brussels (EUR310 million).

Gingko Tree Investments has also been linked with the purchase of a GBP270 million half share in Land Securities' Cabot Circus shopping centre in Bristol. It has also been reported that Gingko joined forces with Tishman Speyer to purchase Sainsbury's London Headquarters at 33 Holburn for GBP310 million

Social security funds/ pension funds

China's pension system is made up of a centralised public sector, comprising PPFs and the National Council for Social Security Fund (NSSF) – China's third largest SWF, and a privatised sector composed of life insurance policies and EAs.

By the end of 2013 the NSSF had total AUM of RMB1.24 trillion while EAs had AUM of RMB603 billion and PPFs had AUM of RMB2.8 trillion.

The scope of investment for the PPFs, NSSF and EAs is rather limited. However, the belief is that the scope will be enlarged in coming years into more riskier non-core and offshore investment options in the search for higher yielding investment targets, which may include private equity real estate in the same way that the investment scope for insurers has expanded in recent years. China has a rapidly ageing population and with traditional sources of retirement income fading, PPFs are expected to have to grow rapidly to meet the needs of this elderly population. Estimates from Z-Ben Advisors put AUM of PPFs at RMB11 trillion by 2020. As AUMs grow rapidly, so will demand for third-party asset managers.

Real estate funds

Chinese real estate funds are still at a very nascent stage, with most continuing to focus on property investment in China, primarily real estate development. According to the report Promise Advisors, in 2013 China had approximately 206 fund management companies managing 437 real estate funds with roughly RMB400 billion in assets. Real estate funds are still too small and fragmented to build an international presence at the moment. Only 14% of funds at the end of 2013 were larger than RMB1 billion and there were only 12 fund managers that managed more than ten funds.

While still small, the fact that the regulatory frameworks are changing and that China is going through a period of financial liberalisation, as well as the growing appetite for investment overseas from HNWIs and the search for higher returns, should mean that we will start to see more activity going forwards. Initially, this will most likely be in the form of joint ventures and minority equity stakes partnering with a larger Chinese entity or local partner. However, in subsequent cycles, more real estate funds will feel comfortable branching out by themselves. As a result of their smaller bite-size, overseas markets may be more accommodating to smaller funds than the China market. This can be attributed to the fact that in China's market, partly as a consequence of its large size, new developments are sometimes too big to go it alone with real estate funds having to do equity or financing, or alternatively, invest in lower tier cities where base values are lower.

Challenges

Challenges will be numerous. Navigating different market characteristics, tax and legal regulations, while competing with strong incumbents will initially prove very challenging for Chinese domestic companies. Nevertheless, this is a process which all companies have to go through in order to improve and expand their horizons, and become truly global heavyweights.

Outlook

While many things remain uncertain with regard to the future of Chinese companies in the international markets, there are a number of things that are certain:

- There are a number of companies waiting to go overseas but have not yet made their first investments, either because they are not big enough yet, they do not have the right resources/ capabilities thus far, they have not yet found a suitable opportunity or have not yet received regulatory approval.

- Those investors which have made it overseas already are only at the initial stage of their global expansion plans, with many companies still under-allocated to international real estate markets when compared with their international peers.

- New waves of investment from China are likely to occur within the next decade as we see market-orientated reforms opening up new opportunities to Chinese companies to explore opportunities overseas.

- Chinese institutions invested close to US$13.5 billion in 2013, more than double the previous year. While this dollar value is unlikely to continue to grow at the same pace over the next decade, it is safe to assume that Chinese investment in overseas markets could continue to grow at an average pace of 20% per year. This would bring the figure close to US$50 billion per year by 2020, comparable, if not a little more than what the US has invested in overseas markets over the last couple of years.

Glossary

ODI: Overseas direct investment

SOE: State-owned enterprise

SWF: Sovereign wealth fund

HNWI: High net worth individual

REOC: Real estate operating company

REITs: Real estate investment trusts

EA: Enterprise annuities

PPF: Public pension fund

AUM: Assets under management

Definitions

China policy banks
- Agricultural Development Bank of China

- China Development Bank

- Export-Import Bank of China

Large commercial banks
In 199, the Chinese government introduced the Commercial Bank Law to commercialise the operations of the four state-owned banks, namely:
- Bank of China

- China Construction Bank

- Agricultural Bank of China

- Industrial and Commercial Bank of China

Bank of Communications is often also included in the category of large commercial banks.

Share-holding commercial banks
Share-holding commercial banks are smaller commercial banks. The largest ones in this group include:
- Bank of Communications

- China CITIC Bank

- China Everbright Bank

- Hua Xia Bank

- China Minsheng Bank

- Guangdong Development Bank

- Shenzhen Development Bank

- China Merchants Bank

-Shanghai Pudong Development Bank

- Industrial Bank

Please contact us for further information

Savills Research

James Macdonald
Director, China
+8621 6391 6688
james.macdonald@savills.com.cn

Simon Smith
Senior Director, Asia Pacific
+852 2842 4573
ssmith@savills.com.hk

Savills China

Albert Lau
Head & Managing Director
+8621 6391 6688
albert.lau@savills.com.cn

Savills Real Estate Capital Markets

Frank Marriott
Senior Director, Asia Pacific
+852 2842 4475
frank.marriott@savills.com.hk

Savills plc
Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 600 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.