



2016 CHINA-US INBOUND INVESTMENT CAPITAL WATCH

A Cushman & Wakefield Publication

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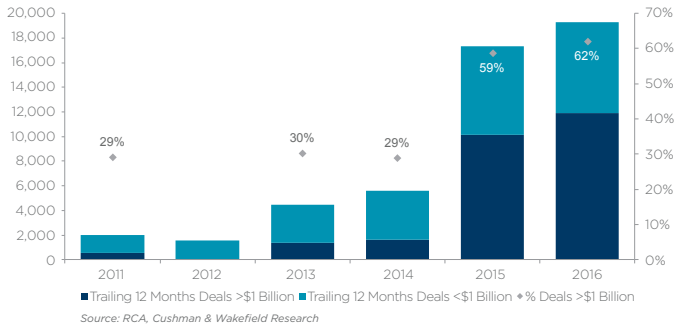


MARKET HIGHLIGHTS

Compared to other countries, China ranked No. 1 among foreign investors in commercial real estate within the U.S. in 2016. China inbound investment deal volumes have grown rapidly, reaching \$19.2 billion USD in 2016, a record high. Sixty-two percent of the

investments, which equated to \$11.9 billion USD, were deals over \$1 billion USD. The five largest Chinese investment transactions were among the top ten largest transactions in the U.S. in 2016.

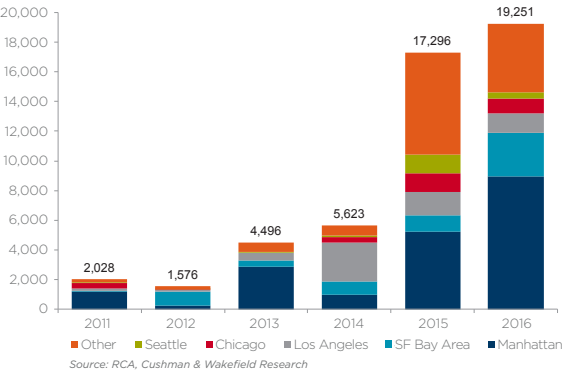
China / HK Investments in U.S. CRE: 2011 - Present
Volume (Dollars in millions), Percent (%)

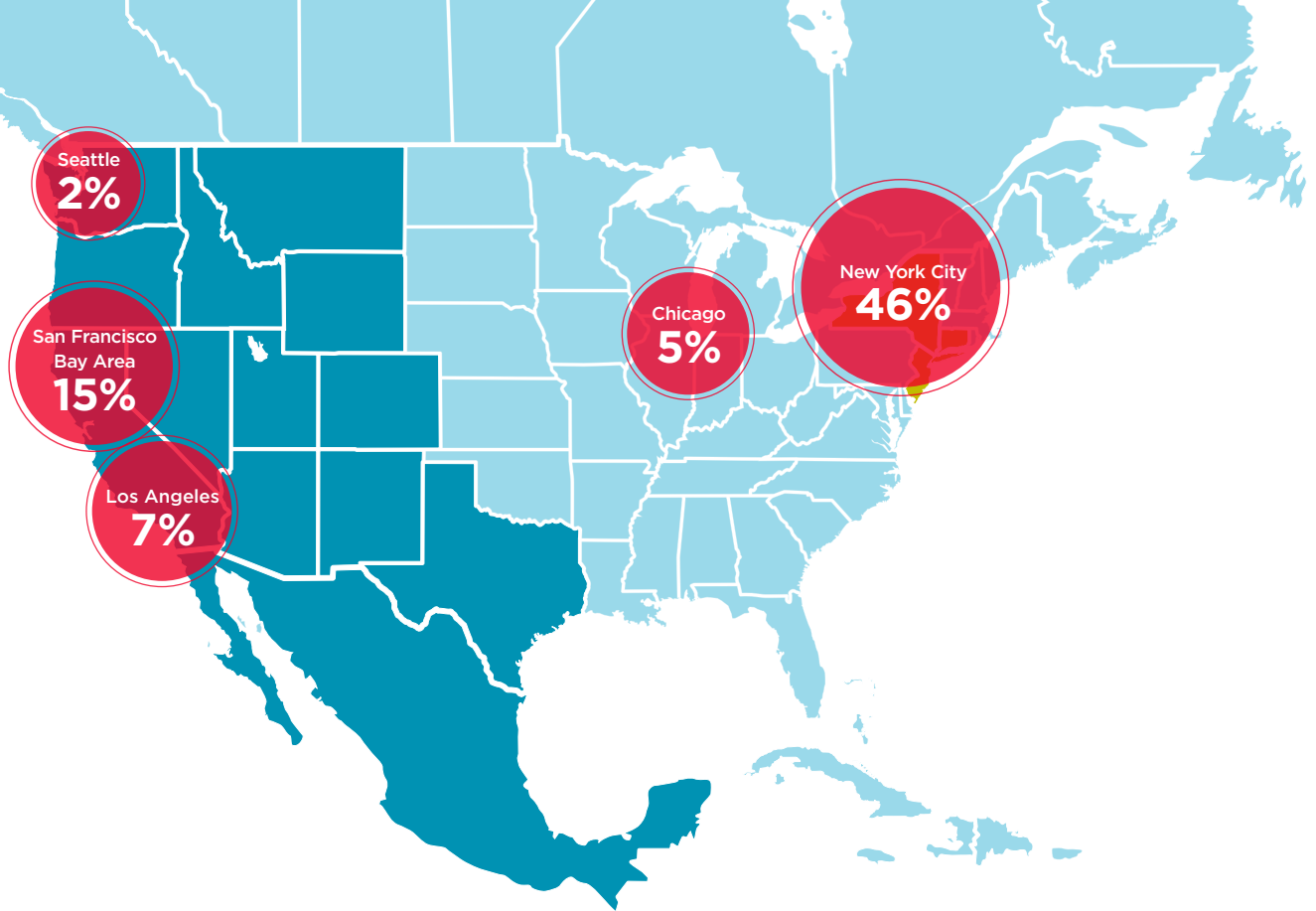


The U.S. East and West Coasts have historically been primary recipients of significant Chinese investment. These are also the most expensive markets in the U.S. The top 5 markets for Chinese investment are New York City (46%), San Francisco Bay Area (15%), Los Angeles (7%),

Chicago (5%) and Seattle (2%). Chicago experienced significant growth, from \$377 million USD in 2014 to over \$1 billion USD in 2016. The top 5 U.S. markets made up 76% of the total investment.

China / HK Investments in U.S. CRE by Location: 2011 - Present
Volume (Dollars in millions)

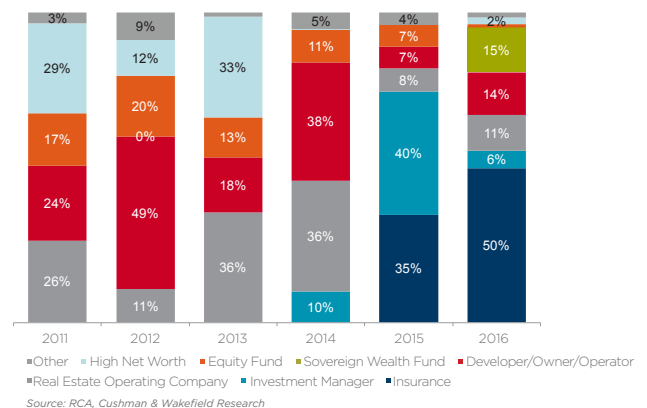




The investment sources have become more diverse. Since 2012, Chinese insurance companies have been allowed by the China Insurance Regulatory Commission (CIRC) to invest in overseas real estate markets.

China's insurance industry is valued at approximately \$1.83 trillion USD, according to figures from the CIRC. Only a fraction of funds are invested in U.S. real estate at this time. In 2015 and 2016, more than half of the investments came from Chinese life insurers.

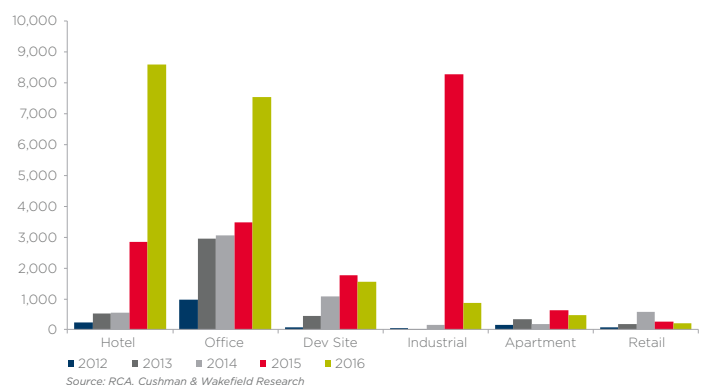
China / HK Investments in U.S. CRE by Investor Type: 2011 - Present
Percent of total (%)



Office and hotel investment remained the most popular investment assets, while industrial investment slowed significantly.

Hotel investment was \$8.6 billion USD in 2016, compared to \$2.8 billion USD in 2015. The largest transaction in 2016 was a hotel deal from Anbang Insurance Group.

China/HK Inbound Investments in the U.S. by Asset Class: 2012 - Present
Dollars in millions





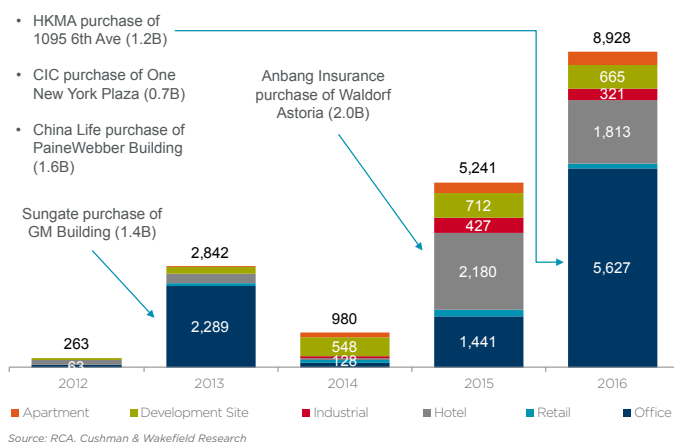
INVESTMENT BY GEOGRAPHY



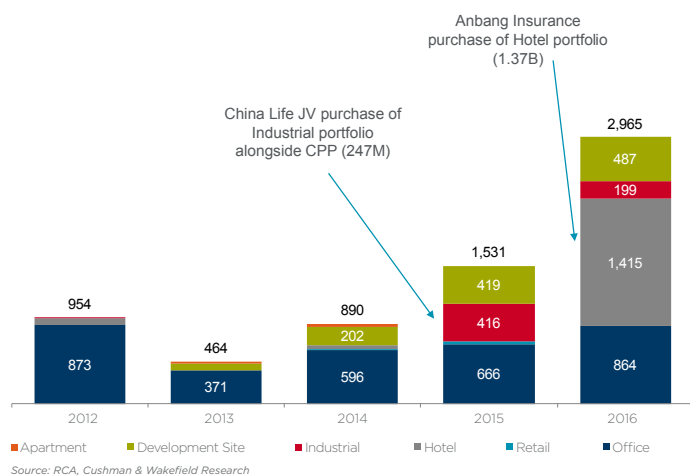
New York City Metro Investment Volumes Keep Rising

New York is the largest recipient of Chinese investment in U.S. commercial real estate and represented 46% of total transaction volume. Half of the top ten largest transactions in 2016 were based in Manhattan. These mega deals clearly showcase the stability of real estate in New York. The investment asset classes are spread across the entire spectrum, with office investment comprising 63% of the total investment volume.

China/HK Investment in NYC Metro CRE by Asset Class: 2012 - Present
Dollars in millions



China/HK Investment in SF Metro CRE by Asset Class: 2012 - Present
Dollars in millions



San Francisco City Metro Investment Volumes Have Grown Dramatically

San Francisco investment volumes have grown dramatically, from \$464 million USD in 2013 to \$2.9 billion USD in 2016. San Francisco accounted for 15% of all U.S. investment transaction volume. Development and office sites are traditionally favored for higher yields and predictable cash flow. With the high prices in the Bay Area, more development deals and more joint venture partnerships with larger institutions on portfolio acquisitions will take place in order to obtain greater yields.



Chicago and Seattle

Chicago experienced significant growth in 2015 and 2016. The investment volume jumped from \$377 million USD in 2014 to \$1 billion USD in both 2015 and 2016. Chicago had the fourth-highest volume of Chinese investment in 2016.

Compared to the low cap rate in Manhattan and San Francisco, Chicago is very attractive for investors. In return for higher yields (compared to Manhattan and San Francisco), investors are willing to take on the higher risk of owning property in Chicago.

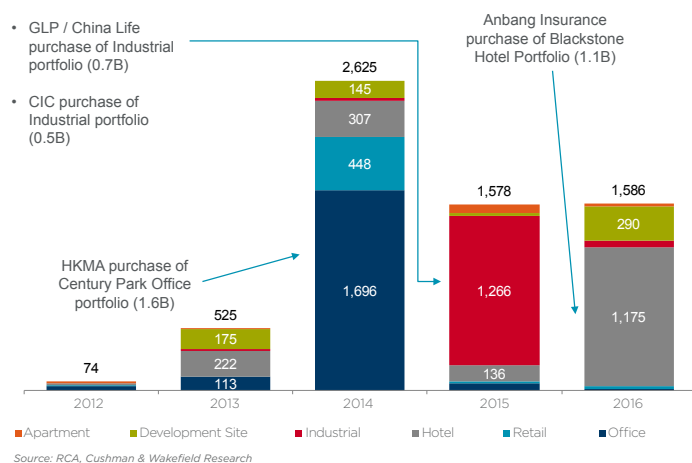
Historically considered a second-tier city to foreign interests, Seattle/Bellevue is now being scrutinized much more closely by overseas developers and commercial real-estate investors. In June 2015, Hong Kong-based Gaw

Capital Partners spent \$711 million USD to buy Columbia Center, Seattle's tallest building, in what was one of the largest deals in the region's history. Tenants like Amazon, Microsoft, and now Facebook's growth in the area has spurred the belief that more technology giants will migrate to this region. As a result, Seattle/Bellevue has surpassed Los Angeles as the third most sought after city in the U.S.

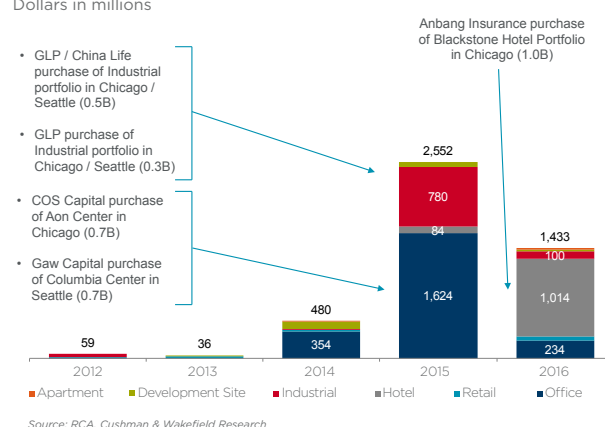
Los Angeles Metro Investment Continues, While Volume Has Declined In Recent Years

The Los Angeles market continues to be a primary recipient of significant Chinese investment. A number of mega deals came to fruition in LA in the last three years. These mega deals, if isolated, indicate steadiness in Chinese investment volume in LA, despite the development spike in 2014. Considerable Chinese development projects such as Greenland Metropolis, Oceanwide Plaza and Hazens LA Center are transforming LA's skyline, revitalizing neighborhoods and inspiring additional investment.

China/HK Investment in LA Metro CRE by Asset Class: 2012 - Present
Dollars in millions



China/HK Investment in Chicago/Seattle Metro CRE by Asset Class: 2012 - Present
Dollars in millions



REGULATORY ENVIRONMENT

With pressure from a slowing Chinese economy, the attraction of overseas investment and the strength of Chinese enterprises, Chinese inbound investment deal volumes reached a record high in 2016. However, in late 2016, China tightened its monetary policy and capital outflow restrictions. According to media news sources,

“Until September of 2017, Beijing would ban all deals involving investment of more than \$10 billion USD.”

Also affected by the ban are mergers and acquisitions valued at more than \$1 billion USD outside of a Chinese investor's core business, and foreign real estate deals by state-owned enterprises involving more than \$1 billion USD. The Chinese government is cracking down on extra-large deals. Submitting paperwork to Beijing for special clearance before proceeding is not new to Chinese enterprises doing massive investment overseas. Since 2013, the overseas investment approval limit has been at \$1 billion USD. In 2016, 62% of the investments were over \$1 billion. The approval process will take longer in 2017.



Top 10 U.S. Commercial Real Estate Transactions of 2016

| Property Name | Region | Investor | Type | Price (US\$million) | Size (SF/Units) | Date |
|-----------------------|-----------|--------------------------------|--------|---------------------|-----------------|--------|
| Various | Various | Anbang Insurance Group | Hotel | 5,500 | | Sep-16 |
| 11 Madison Avenue | NYC Metro | PGIM Real Estate | Office | 2,600 | 2,285,043 | Aug-16 |
| Fashion Show Mall | Las Vegas | TIAA-CREF | Retail | 2,500 | 836,006 | Jul-16 |
| 1095 Sixth Avenue | NYC Metro | HKMA | Office | 2,353 | 1,116,129 | Jul-16 |
| fmr McGraw-Hill HQ | NYC Metro | Invesco RE, CIC | Office | 2,290 | 2,625,640 | Dec-16 |
| Various | Various | GIC (Govt of Singapore) | Other | 2,150 | 44,600 | Aug-16 |
| 10 Hudson Yards | NYC Metro | Allianz RE of America | Office | 2,150 | 1,813,465 | Aug-16 |
| Starwood SS US Hotels | Various | China Life Insurance | Hotel | 2,000 | | Oct-16 |
| 787 Seventh Avenue | NYC Metro | CommonWealth Partners, CalPERS | Office | 1,941 | 1,706,007 | Jan-16 |
| Citigroup HQ | NYC Metro | CommonWealth Partners, CalPERS | Office | 1,884 | 2,634,670 | Jun-16 |

Source: RCA, Cushman & Wakefield Research

*Transactions involving a cross-border investor from China or Hong Kong highlighted

Top Ten China/Hong Kong Inbound Transactions of 2016

| Property Name | Region | Inbound Investor | Type | Price (US\$million) | Size (SF/Units) | Date |
|-------------------------------|-----------|------------------------|------------|---------------------|-----------------|--------|
| Various | Various | Anbang Insurance Group | Hotel | 5,500 | | Sep-16 |
| PaineWebber Building | Various | RXR Realty | Office | 1,650 | 1,749,000 | May-16 |
| Starwood SS US Hotels | Various | China Life Insurance | Hotel | 1,500 | | Oct-16 |
| 1095 Sixth Avenue | NYC Metro | HKMA | Office | 1,153 | 1,116,129 | Jul-16 |
| fmr McGraw-Hill HQ | NYC Metro | China Investment Corp | Office | 1,031 | 2,625,640 | Dec-16 |
| One New York Plaza | NYC Metro | China Investment Corp | Office | 700 | 2,545,000 | May-16 |
| 850 Third Avenue | NYC Metro | HNA Group | Office | 463 | 613,664 | Mar-16 |
| Lipstick Building (Land Only) | NYC Metro | Shanghai Municipal | Office | 453 | 592,000 | Feb-16 |
| Medical Office | Kansas | Taikang Life Insurance | Office | 399 | | Nov-16 |
| Various | Various | Ping An Insurance | Industrial | 390 | | Nov-16 |

Source: RCA, Cushman & Wakefield Research

Note: Price reflect partial interest volume of the China/HK investor

2017 OUTLOOK

Chinese real estate purchases in the U.S. are likely to continue in the face of declining economic and financial conditions in China. Growth will experience a slowing phase until September 2017 due to Chinese government capital outflow restrictions. The Chinese government has been taking longer to approve investments abroad in recent months, signaling an effort to staunch the flow of funds overseas. The new policy is aimed to regulate the international investment for the next nine months.

Chinese development will focus more on strategic asset allocation, with an increase in office buildings, while hotel and residential developments reach new peaks. They will need locally based partners to assist in this expansion and this is

where enormous opportunity lies for the U.S. commercial real estate community, if harnessed correctly.

More Chinese insurers will issue offshore debt to mitigate some of its currency risk. The low liquidity, value-added potential and stable cash flow of prime office and retail assets offer a perfect match for these investors.

Aside from the traditional East and West Coast gateway cities, Chinese investors will become more widely distributed across the U.S.

About Cushman & Wakefield

Cushman & Wakefield is a global leader in commercial real estate services, helping clients transform the way people work, shop, and live. The firm's 43,000 employees in more than 60 countries provide deep local and global insights that create significant value for occupiers and investors around the world. Cushman & Wakefield is among the largest commercial real estate services firms in the world with revenues of \$5 billion across core services of agency leasing, asset services, capital markets, facilities services (branded C&W Services), global occupier services, investment management (branded DTZ Investors), tenant representation and valuations & advisory. To learn more, visit www.cushmanwakefield.com or follow @Cushwake on Twitter.



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