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Will China Emerge as a Global Landlord?

Industry Sees Signs Of a Wave of Capital Into Property Abroad

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European and U.S. investors have recently been channeling money into Chinese real estate. Now, property-market executives are increasingly expecting China to return the favor.

Currently, Chinese investors are prohibited from investing in real estate abroad, unless the project has the backing of the Chinese government. But many property-market executives say they are seeing increasing interest from Chinese investors.

Also fueling expectations: Beijing's efforts to diversify investment of its massive foreign-exchange reserves -- \$1.2 trillion as of the end of March and climbing rapidly. To help invest that money, Beijing is expected to set up an international-investment arm. While it isn't clear how the money will be invested, analysts note that a reasonable model for such an agency would be the Singapore government's investment arm, the Government of Singapore Investment Corp. Pte. Ltd., or GIC, which has invested heavily in real-estate world-wide.


"Given the need to diversify risk and maximize return, the scenario of Chinese capital being invested internationally is just a matter of time, and the pool of capital is such that Beijing could easily preside over one of the largest global investment agencies in the world," says David Watt, chairman for north Asia of U.K. real-estate advisory firm **DTZ Holdings PLC**, which published a report today focusing on how Chinese capital is expected to become increasingly active in global real-estate markets.

Mr. Watt believes that once Beijing has set up the new agency -- which could happen this year -- it may ease restrictions on private investment in foreign real estate. Should the restrictions be eased, Mr. Watt expects many Chinese investors to head first for mature markets in the U.S. and Europe because they are relatively stable.

Some investors have already gained the backing of the government to embark on projects in Europe. One ambitious project is "The Baltic Pearl," a mixed-use 180-hectare property being developed by a consortium of Chinese investors near St. Petersburg, Russia.

The investors are Shanghai Industrial Investment Holdings Co., a holding of the Shanghai government; retailer Brilliance Group Co.; tourism group **Jin Jiang International Holdings Co.**; real-estate group Shanghai Greenland Group; and Shanghai Euro-Asian Industrial Development Center, which promotes international trade and economic cooperation between Russia and Eastern Europe.

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The development, which will cost around \$1.5 billion, is also likely to include up to 1.2 million square meters of residential space, as well as a retail-and-leisure park, says Heike Martin, an associate director in strategic consulting for real-estate advisory firm Jones Lang LaSalle based in Moscow, who is advising on the project.

And this is only the beginning, says Choy-Soon Chua, managing director of real-estate investment at SEB Asset Management, based in Frankfurt, the real-estate and securities investment house of Sweden's SEB Group.

"I think Chinese investors will be a force to be reckoned with in a few years' time," Mr. Chua says. Noting the amount of money a Chinese government investment agency would have to deploy, he says he expects its portfolio would include sizable real-estate investments. He adds that if China permits companies to invest in real estate abroad, "I think a lot of investors will be very keen to broaden their exposure to other real-estate markets."

Chinese institutional investors are already interested in investing in European real estate, says Robert Lie, chief executive of ING Real Estate Investment Management Asia. "We have had contact with Chinese investors wanting to invest in Europe," he says, declining to give further details.

Chinese real-estate investors are also looking at the U.S. One such developer is Beijing Vantone Real Estate Co. The company intends to set up a China Center office building in New York, with the aim of attracting Chinese companies, including those that have listed or intend to list on the New York Stock Exchange or the Nasdaq exchange, says Xue Ya, executive director of the China Center project in New York.

Beijing Vantone Real Estate had initially hoped to occupy a large space at the top of the new 7 World Trade Center office building in New York, but the deal fell through last summer, she says. Now, it is considering acquiring or developing a new office complex of between 200,000 square meters and 300,000 square meters in downtown Manhattan as a base for its China Center.

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