GHN On My Mind: Ed Fuller

Ed Fuller
President
Laguna Strategic Advisors LLC

From Hotels to Office Parks, China's Taste for Foreign Properties Is Setting a Global Pace that Won't Ebb Anytime Soon

Led by its voracious appetite for overseas real estate, Chinese investments in residential, commercial and industrial properties around the world accelerated last year as market participants spent $33 billion, up 53 percent over 2015. Nearly a third of these investments ($9.4 billion) went into North American, European and other global lodging markets and propelled China into becoming the world's largest source of outbound hotel investment.

Here is a brief review of significant hotel deals orchestrated by Chinese investors last year in their quest to build scale and brand recognition:

- Anbang Insurance Group bought Strategic Hotels & Resorts for $5.5 billion from private equity group Blackstone, including virtually all of Strategic's luxury U.S. hotels. It was the biggest deal of the year.
- China Life Insurance forged a joint venture with a sovereign-wealth fund to buy a $2 billion portfolio of limited service hotels from Starwood Capital Group.
- Cindant Capital Management concluded a $571 million joint venture with Hersha Hospitality Trust for seven hotels in New York City.
- HNA Group (HNA) announced plans to purchase about 25 percent of Hilton Worldwide Holdings—in addition to its earlier acquisition of Carlson Hotels Inc.

Individual investor is also playing a role

While the big commercial investments attracted all the headlines, individual investors have become a major force in the global residential market from New York to Sydney. According to the National Association of Realtors, here in the U.S., Chinese buyers accounted for 27 percent of all U.S. home purchases by foreigners in the 12 months between April 2015 and March 2016. In all, they invested $27 billion in the U.S. home real estate market. A survey by Hurun Report, a Chinese monthly publication best known for its "China's Rich List," explains that prices in major Chinese cities have risen so fast that an overseas house offers good value, especially for those whose net worth is $1.5 million or more. Of this group, 60 percent report they plan to invest in real estate over the next three years, implying 800,000 prospective buyers, despite the recently imposed limitations on foreign exchange conversions by individuals.

Industrial parks and logistics centers are another sector in which Chinese investors are showing a growing interest. As China has emerged as the Number One trading partner for Sub-Saharan Africa and South America, the second largest for the U.S. and European Union and third for Latin America and Mexico, foreign industrial park investment looms large in China's "One Belt, One Road" plan to establish infrastructure links with countries especially in Africa, central Asia and the Middle East. They are intended to house the operations of Chinese companies operating abroad.

No end in sight for China's buying spree

China's passion for foreign real estate doesn't look to cool anytime soon, despite the recently enacted currency outflow controls.

The location of these investments explains a lot about why so much commercial money has flowed out of China in recent years. The investments mainly went into mature markets in the U.S. and Europe, into safe sectors like established hotel brands and into resource-rich emerging regions of the world. This suggests that Chinese companies are interested in protecting themselves against domestic market risks, including the devaluation of the yuan that has fallen 10.5 percent against the dollar. Individual investors, on the other hand, invested abroad to diversify their assets, for emigration and education, lifestyle and prestige.

Another contributing factor is the continued vibrancy of the outbound Chinese travel market on which the Chinese hotel companies want to capitalize. Last year, more than 100 million Chinese tourists visited global gateway cities from London to Los Angeles to

Tokyo thanks in part to cheaper airfares and more frequent flight schedules. This volume is expected to grow at an annual rate of 8.5 percent through 2021.

Earlier this year, hospitality development consultant, JLL Hotels & Hospitality Group issued a report predicting that Chinese capital will be on the lookout for opportunities in the U.S. and Europe in 2017 even as fewer deals are expected to be finalized especially on transactions above $5 million.

The Group's SVP Lauro Ferroni was quoted in news reports as saying, "Hotel brands will always look to bolster their supply pipeline and the surest way to grow is by acquiring operators with management and franchise contracts." He added that portfolios with a full range of offerings from service levels to geography are most attractive to investors. "We expect to see more consolidation among operators and real estate owners alike due to key players' need to remain competitive….and Chinese investors will always be seeking trophy assets."

In March, China's HNA Group announced it had agreed to acquire a 24.9 percent stake in U.S. investor OM Asset Management for $446 million. OM Asset Management is an arm of UK insurer Old Mutual PLC. The acquisition came on the heels of HNA's earlier announcement that it was buying 245 Park Avenue, a 1.8 million-square-foot trophy skyscraper in Manhattan, for $2.21 billion.

Looks like China will remain the pacesetter for years to come.

Laguna Strategic Advisors is a long-standing member of GlobalHotelNetwork.com and Fuller is a member of GHN's Investment Committee.

