



China 2015
International Property Outlook

investorist.

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International Property Outlook

Chinese are buying property internationally in unprecedented numbers and despite media speculation that the economy of china is slowing there is no sign ahead of a slowdown in foreign property investment.

China is mysterious to many, the Investorist China 2015 International Property Outlook is the industry's only report conveying the sentiment of the leaders of over 100 international property agencies and their outlook on Chinese international property transactions across 2015.

Investorist surveyed our Chinese members via phone and the leaders of 105 of China's leading international property agencies responded.

This report is the summary of their sentiment towards 2015.

What is Investorist?

Investorist is the globe's leading business to business off plan property platform with over 2,700 member businesses globally.

The majority of Australian off plan property and a growing number of property developments from the UK are available for members to access on Investorist.com.

"Last year, our company with all offices across China sold more than 1,800 Australian properties, mainly apartments, I see no reason why we won't sell more this year."

Frank Weng, Ausin Shanghai office.

Demand

All 105 agencies believe they will increase the number of properties they will sell in 2015.

In total the businesses surveyed are likely to sell in excess of 10,000 international properties in 2015.

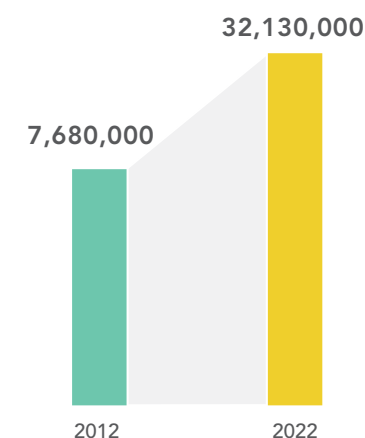
Participant businesses ranged in size from agencies who are likely to sell fewer than 50 properties per year to others who consistently sell over 1,000 properties annually.

All agencies cite increased demand from the Chinese public. This is consistent with commentary on the growth of the Chinese population's wealth.

Many pundits quote statistics around the Chinese middle class, however it is important to consider these statistics are less relevant for property companies as the 'middle class' in China in fact have insufficient household income to purchase international property.

Research from leading global management consulting firm McKinsey refines the population more accurately and predicts China's **affluent population** – a household with more than \$34,000 USD in disposable annual income, will grow from almost 8 million urban households in 2012 to over 32 million households in 2022.

Number of households with more than \$34,000 USD per annum in disposable income



Data from McKinsey Quarterly June 2013

The agencies surveyed will sell over 10,000 international properties in 2015

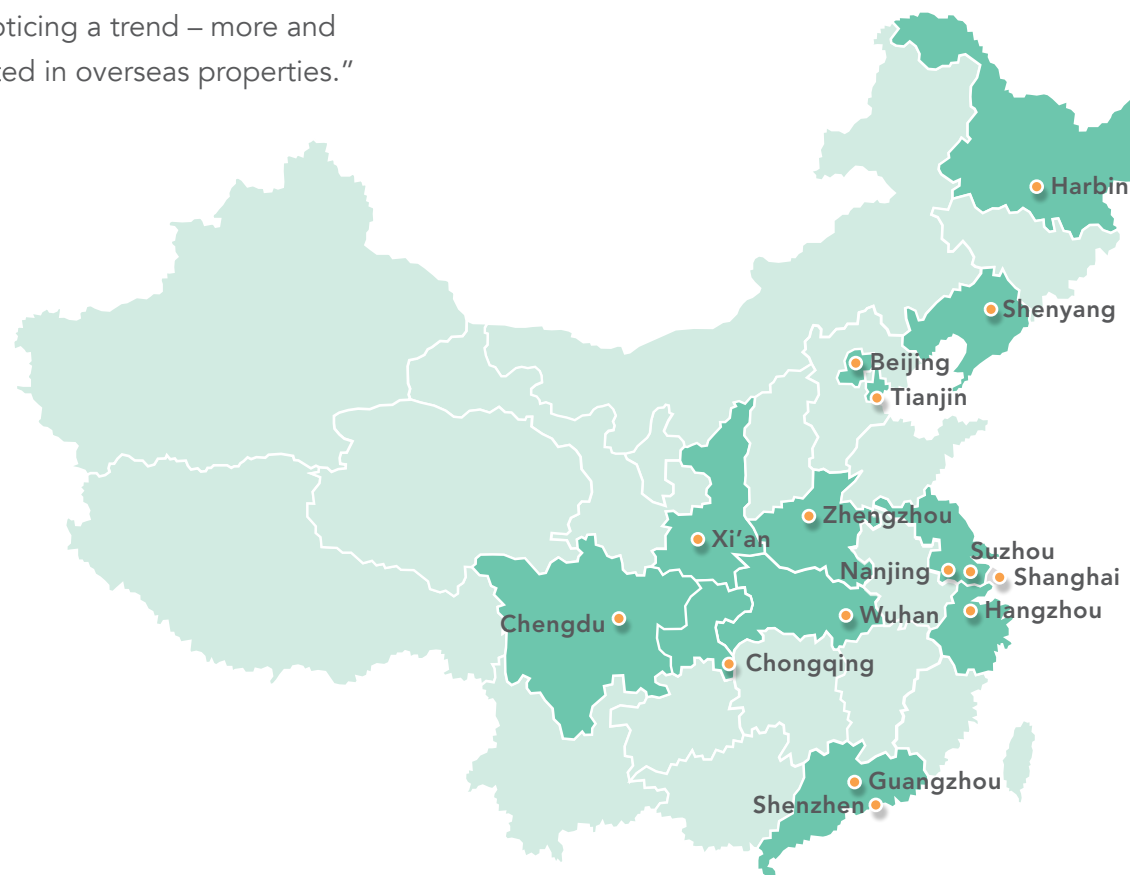
Where is the demand coming from?

"Shanghai, Beijing, Guangzhou and Shenzhen are absolutely the top four cities where most agents will focus on. Apart from that, we're noticing a trend – more and more buyers from inner China cities are becoming interested in overseas properties."

Calvin Shen,
Director – PBG

Unsurprisingly the most populous and wealthy cities of Beijing, Shanghai, Guangzhou and Shenzhen recorded highest responses. The question asked respondents to list the top 5 places they see demand coming from.

It is important to note that answers to this question are heavily bias towards the location of the companies' offices.



Beijing (103)
Shanghai (103)
Guangzhou (102)
Shenzhen (102)

Xi'an (36)
Chengdu (32)
Chongqing (19)
Nanjing (8)

Hangzhou (6)
Shenyang (2)
Harbin (1)
Zhengzhou (1)

Wuhan (1)
Tianjin (1)
Suzhou (1)

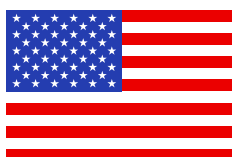
City	Population	GDP (A\$)	Main Industries	City Overview
Beijing (103)	21.5 million	426.6 billion	Service industry, cultural, IT and R&D, logistics, finance	Capital city, political centre, R&D centre, and base for China's super large State Owned Enterprises (SOEs) headquarters.
Shanghai (103)	24 million	471.2 billion	Financial, IT, commerce and service industry, automotive, real estate	Financial centre for mainland China, next to Hong Kong. Also a business centre and base for foreign and domestic enterprises.
Guangzhou (102)	13 million	320 billion	Automotive, electronics, petroleum	Used to be the financial and manufacture base for Southern China, but is now being overtaken by its 40mins away neighbour-city Shenzhen
Shenzhen (102)	18 million	320 billion	IT and hi-tech, logistics, financial, cultural	It is overtaking Guangzhou becoming the financial centre and R&D centre for southern China.
Xi'an (36)	8.62 million	109.5 billion	Automotive, tourism, software, textiles	It is one of the oldest cities in north-west China and is now a historic tourism spot and a manufacture base for some traditional industries.
Chengdu (32)	14 million	201 billion	New material and electronics, IT, mechanical manufacturing	The business and culture activity centre of south-western China.
Chongqing (19)	29.9 million	285.3 billion	New material and electronics, petroleum and energy, mechanics, manufacturing, automotive	The financial and business centre of south-western China.
Nanjing (8)	8.18 million	180 billion	Energy, steel, chemical engineering, automotive	Capital city of the largest manufacturing province, Jiangsu, which is also one of the wealthiest provinces in China.
Hangzhou (6)	8.8 million	180 billion	Tourism, light manufacturing	Capital city of Zhejiang province, the province with the most dynamic private business sector in China. A huge group of wealthy private business owners are based here.
Shenyang (2)	4.9 million	150 billion	Heavy-weight equipment manufacturing, energy and steel, construction	The traditional manufacturing base in northern China, location of many mining business owners.
Har'erin (1)	9.9 million	102.8 billion	Food manufacturing, automotive, life science, IT	Another traditional manufacturing base in northern China, close to Shenyang.
Zhengzhou (1)	7.35 million	136 billion	Food manufacturing , energy and mining, mechanic, manufacturing	Capital city of the most populous and largest province, Henan.
Wuhan (1)	6.6 million	200 billion	Automotive, chemical engineering, steel manufacturing	The business and culture activity centre of mid-southern China.
Tianjin (1)	15 million	314 billion	Aerospace and manufacturing, chemical engineering, heavy-weight equipment manufacturing, electronics	Even though Tianjin is a substantial city it's actually a sub-city of Beijing due to its proximity to Beijing (30mins by train).
Suzhou (1)	6.5 million	275.2 billion	Tourism, autoparts manufacturing, light-weight manufacturing	Suzhou is the service and manufacturing sub-centre to Shanghai city, distance between the two only takes 40mins drive.

Where are buyers looking?

Responses



1 Australia



2 United States



3 Canada



4 United Kingdom



5 Greater Europe

The agencies surveyed rank Australia as the clear number one location for Chinese investors. However it is important to note this is biased by the participants being members of Investorist. The USA is actually the number one destination for Chinese migration and investment.

The popularity of Canada will likely be overtaken by the UK due to the suspension and then substantial restructuring of Canada's Immigrant Investor Program and also because of increased availability of UK stock globally fueled by Investorist opening in the UK.

In late 2014 Canada suspended their Immigrant Investor Program which according to the South China Morning Post had a waiting list of 45,000 Chinese applicants at the time it was cancelled. Canada has subsequently relaunched their program with a new price tag between \$800,000USD & \$2,000,000 USD and stricter criteria.

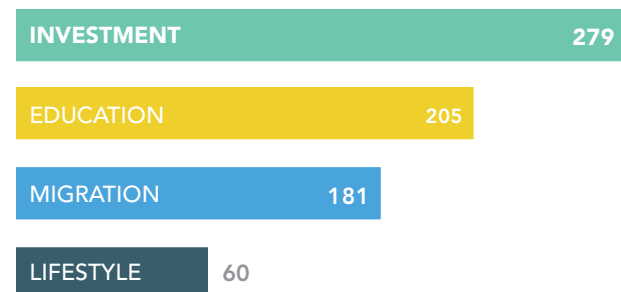
"US is by all means the No. 1 hot spot for immigration and study because of it's lower threshold investment requirement of \$500,000 USD. The UK is also highly attractive for Chinese students. Other European countries with cheaper property prices and easier immigration requirements are also becoming more and more attractive to Chinese clients, such as Spain and Portugal."

Hector Jiang,
Manager - immi-visa.com

What is motivating Chinese to invest in overseas property?

To understand these motivations it is important to understand what is happening in China. Chinese people are on the whole nationalistic, however from an investment perspective Chinese property is less favorable than many international markets.

Main motivators



"China's domestic real estate market is going down, while the buying power of RMB is going up, definitely more and more people will want to relocate some of their wealth in a different market."

Song Han,
Director – 5zfang.com

In China, there is an expression that one should have one foot in China and one out. Rationally there are several reasons Chinese are looking to invest abroad:

Loan to Value Ratio's: Chinese can borrow to purchase property, however the maximum loan to home value ratio is 70% for the first home buyers and 40% for second home buyers. In Australia investors even foreign can typically borrow 80% of the purchase price of a property.

Yields for apartments in the major central cities of China are typically lower than those in major Australian, UK or US cities.

Market fluctuation in China spook many investors who are watching international media who regularly speculate about a cooling local economy and Chinese property bubble.

Despite Chinese property ownership rights being protected under Article 39 of The Property Law of the People's Republic of China, property in China is effectively leasehold which is not viewed as favorably as freehold property.

What are the primary considerations for Chinese buyers?

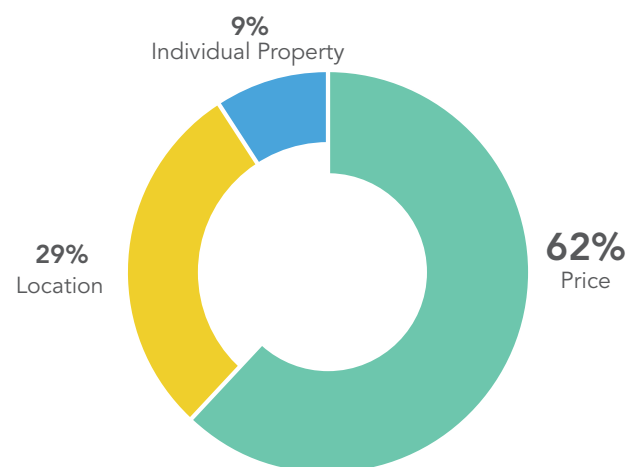
Overwhelmingly price and value for money are the key considerations when considering purchasing international property. See main motivators on page 12.

These results are not surprising given the predominant reason for purchasing international property is Investment.

"Most of my clients have shrewd business minds, all they care about is the investment return. So properties with good capital gain potential, higher rent returns are always the most important criteria."

Joseph Zhou,
Director – Central Estate

Primary Consideration

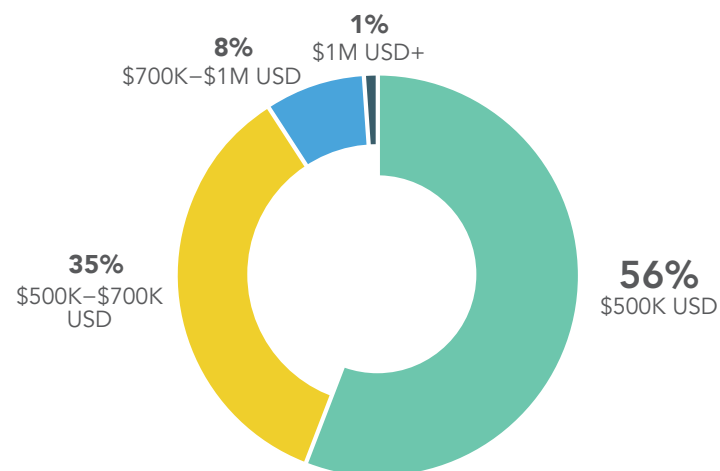


How much are they looking to spend?

When looking at the UK market specifically, it showed that the lower end of the market fell in line with global trends.

However the higher average prices of UK property are still not out of reach of many Chinese investors with more than 10% of respondents having clients with more than \$1m USD to invest in UK property, a contrast to less than 1% with clients looking to invest similar amounts in the US or Australia.

Average budget spent on an international property in one transaction



Average budget, UK only



Average budget, comparing UK to the rest of the world (USD)



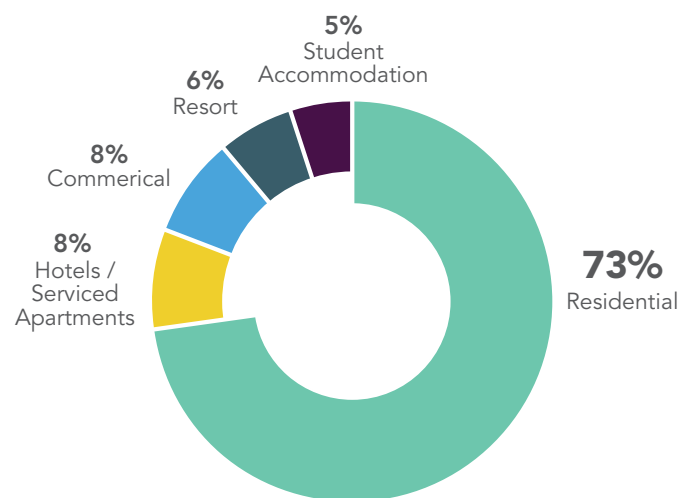
What are the most popular types of property?

Residential is by far the most popular property investment class amongst Chinese households.

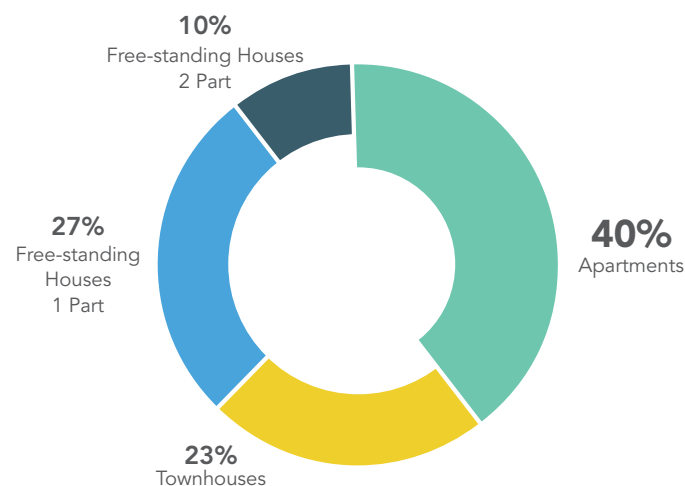
Of residential property there is a reasonably even split between apartments and free-standing houses as the most popular investment type. Houses with two part contracts, where the land is purchased in one contract and the build is contracted separately, are less favored by Chinese purchasers.

It is unknown exactly why two part contracts are considered less favorable as they often come with a price benefit, however Investorist speculates that this is due largely to education and prevalence in the market with apartment and build out home developers being further advanced in their international marketing efforts.

Class of property



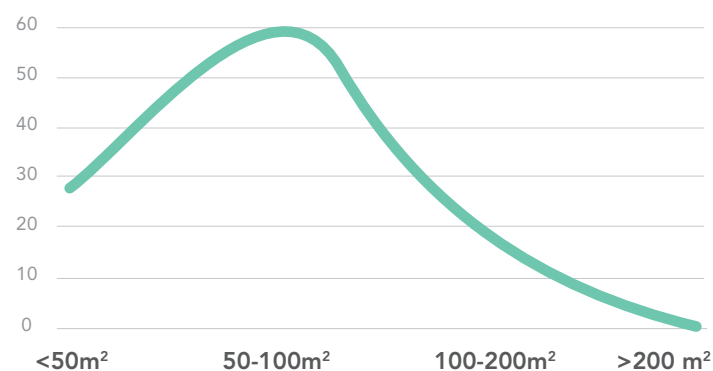
Residential breakdown



What size property should you build to suit Chinese buyers?

Unsurprisingly investors are following the size ranges of product typically delivered by developers with smaller one bed and studio properties favored by 30% of the market.

Popular property sizes



It is important to consider that some of the responses will relate to free-standing houses thus increasing the perception of demand in 100m²+ product.

What do Chinese agents look for in property before they recommend it to their clients?

The facts are that agents in China are looking for properties to recommend to their clients that they believe are in the best interests of their clients.

It is just that simple.

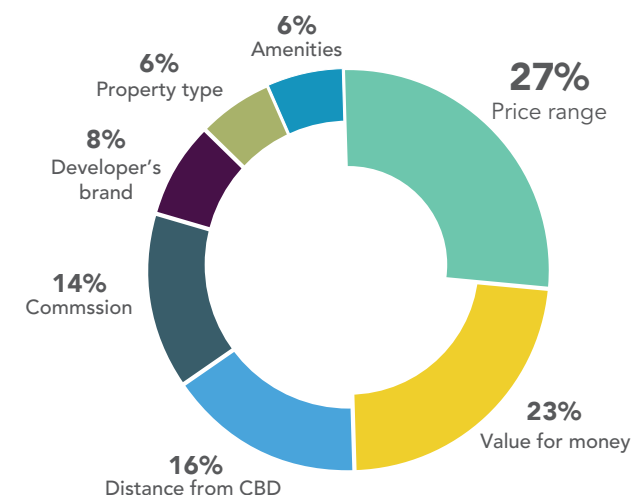
China is dense and highly urbanized so high rise inner city projects tend to be favored, however more than anything value for money needs to be demonstrated.

To achieve results in China developers and master agents need to understand the commercial reality that attracting clients in China is expensive and as such commissions paid must be competitive however the research shows that this is not a key driver for the majority of Chinese agents.

"I would say my clients are experienced investors, so I will only recommend projects to them within a reasonable price range and good value for money."

Adam Wu,
General Manager – Bfang Overseas Investment

Main motivators



When selling international property who do Chinese agents want most to deal with?

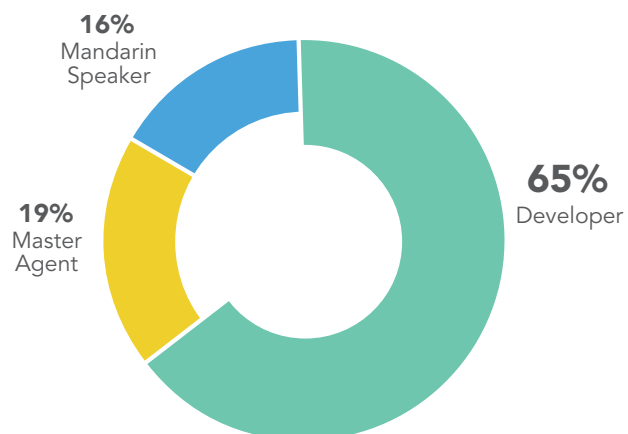
Most international agents speak English very well. The priority is to have confidence that they are dealing with someone they can trust and most importantly deliver the right product for their clients.

The key take out for master agents should be to ensure you deliver value in the relationship, not just access to stock.

“The most important thing in our business is trust. Because our clients are making one of their most valuable decisions for something far away beyond their physical visit and check, a face to face event is a must for us to answer questions, and build relations with our clients. Once a client is happy with his/her investment purchased through us, they will likely become our best sales tool by referring more and more potential buyers to us.”

Jingqi Niu,
Sales of Premier International Investment Co. Ltd.

When selling overseas properties, who do agents want to deal with the most?



How to market to the Chinese?

In a country of nearly 1.4 billion people how do you find 8 million who can afford to by a property overseas?

It's hard and expensive work. Relationships drive the majority of business in China. Referrals are huge and face to face business is a must.

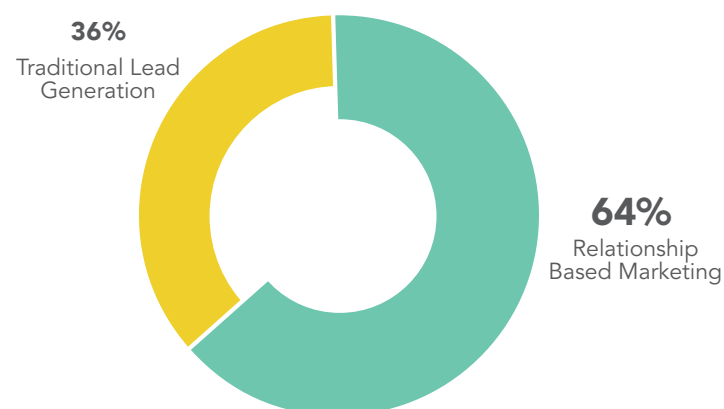
Like the rest of the world the Internet is dominating lead generation with social media exerting the same power as property portals.

Almost 2/3rds of all effective marketing in China is relationship based. If foreign developers or master agents wish to enter China the facts are they need the right local partner.

Popular ways to find purchasers



Relationship marketing versus traditional lead generation methods



The Chinese social media landscape

All companies interviewed use Sina Weibo for company branding and marketing, with their sales teams using WeChat and QQ as daily communication and marketing tools.

2014 China Social Media Usage Landscape

INSTANT MESSAGING 89.3%

SOCIAL MEDIA WEBSITE 61.7%

WEIBO (BLOG) 43.6%

Note: People use multiple communication tools

China social media indicators: January 2014,



42%

Percentage of Chinese population using social media



51%

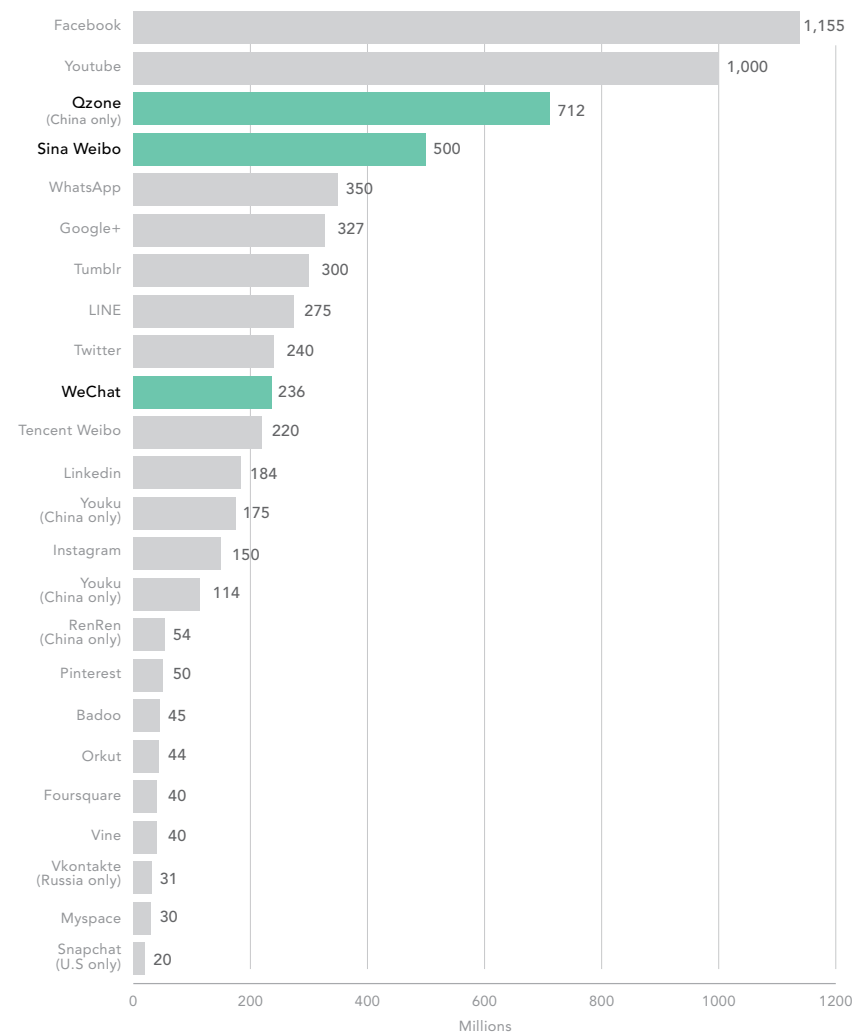
Percentage of users visiting social media via mobile devices.



1 Hour & 30 Minutes

Average time spent on social media per account per day.

Largest Social Networks In The World — Monthly Active Users



Source: Company Filings, News And Company Announcements, Global Web Index

Conclusion

2015 should be an extremely exciting year for developers and master agents who wish to sell properties to Chinese buyers.

To maximize your chances for success in China, you should understand what the market wants. Whilst golden marketing material and promises of exclusive features will attract attention, Chinese purchasers are highly educated and value oriented. Chinese buyers are looking for good value properties in inner city or education locations.

It is only the top 3% of wealthy urban Chinese who can afford to purchase international property. These buyers are attracted by relationship based marketing and take time to select the right adviser to assist them with their journey. Chinese property professionals understand the power of their relationships and are primarily motivated by their clients' interests.

With well priced, well located, quality product the only ingredient for success in international property marketing is the right partner.

Jon Ellis
Founder – Investorist

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