居外 Juwai.com
Where Chinese find international property

JUWAI CHINA MARKET TREND REPORT 2019

居外2019中国市场趋势报告

INTRODUCTION

The Chinese New Year of the Earth Pig, which starts on 5 February 2019, is expected to be one of slow but steady growth.[1] Whilst 2018 saw some significant political and economic changes around the world, those who want to benefit from increasing business during the coming year will need to focus on new opportunities, as well as putting structures in place during the first six months of the year that will start to reap rewards during the second half.

Focusing on the real estate sector, we have curated some important trends that property professionals working with Chinese buyers, or those who are looking at the potential that China can offer for the first time, can make use of during the coming Year of the Earth Pig.

In this report you will discover:

- ... the facts about China's GDP growth.
- ... the popularity of real estate investments by affluent Chinese.
- ... home of the most-inquired country on Juwai.com during 2018.
- ... could 2019 see the end of Chinese capital controls?

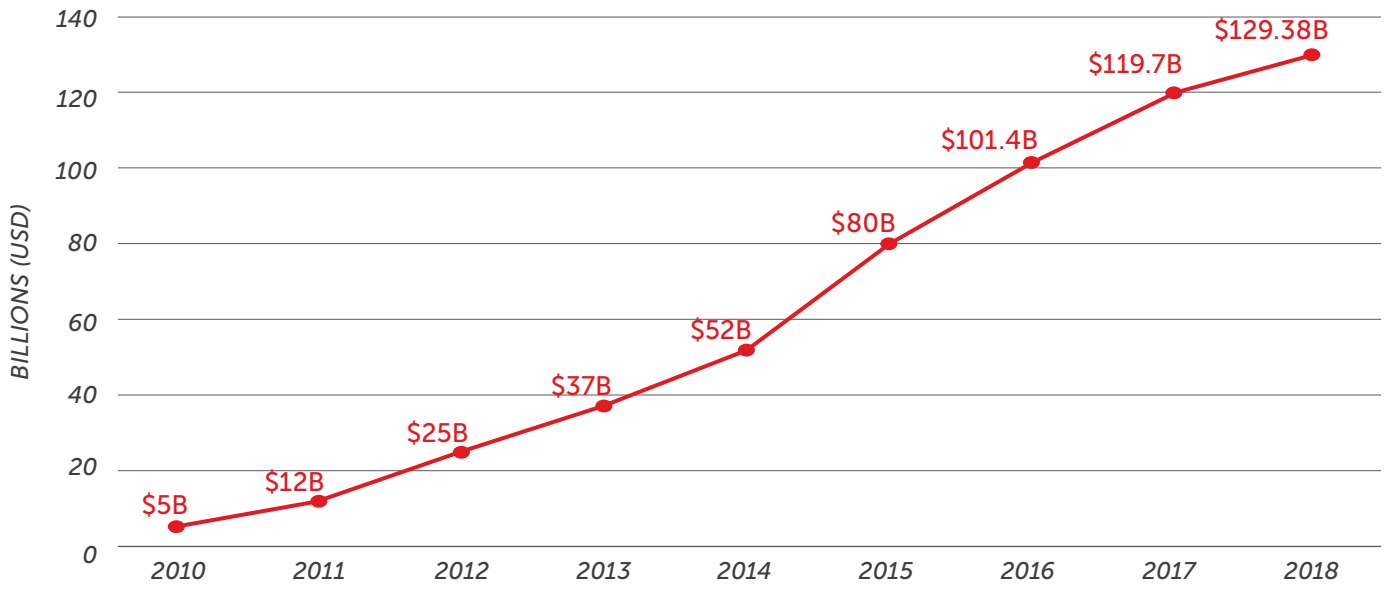
CHINESE PROPERTY INVESTMENTS DURING 2018

New high of US$129.38 billion

Mainland Chinese residential and commercial international property purchases during 2018 recorded a new high of US$129.38 billion, up from the US$119.7 billion seen in 2017 and substantially more than the US$101.4 billion we reported in 2016.

Since 2010, Chinese investors have acquired international property valued in aggregate at more than US$550 billion.

CHINESE OUTBOUND REAL ESTATE INVESTMENTS

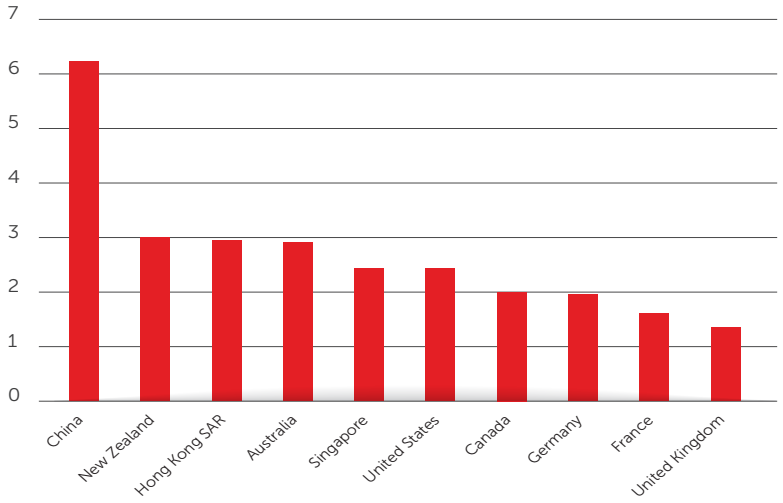


The facts about China's GDP

Here are two key facts about China's Gross Domestic Product (GDP) that we can expect during 2019. The first is that GDP will grow more slowly than the pace of recent years, and the second is that China is still one of the fastest growing big world economies.[2]

CHINA'S GDP% GROWTH DURING 2018 COMPARED WITH MAJOR GLOBAL ECONOMIES

Source: IMF latest date, 30 Janaury 2019



Chinese ethnicity investors: US$156.2 billion

When we compare China with the United States, China's economy grew at more than twice the rate of that of the United States, according to the IMF.[3] If these growth rates continue, China's economy is expected to pass that of the United States by 2030.

China has already surpassed the United States to become the world's largest manufacturer and biggest exporter. This year, it will become the world's largest retail market.[4]

CHINA TO BECOME WORLD'S LARGEST ECONOMY BY 2030

And with about four times the population, China has much more scope to grow.

Even patriotic American entrepreneurs like Elon Musk are betting big on China. The builder of space ships, electric cars, and solar power arrays is investing US$5 billion in a new plant in China. It will eventually make up to 500,000 cars per year.

NEW GIANT

The United States is expected to be only the second-largest economy by GDP in 2030.

KOREA	$2.2T
ITALY	2.4
BRAZIL	3.1
FRANCE	3.4
UNITED KINGDOM	3.5
GERMANY	4.9
JAPAN	5.6
INDIA	5.9
UNITED STATES	25.2
CHINA	26.0

SOURCE: HSBC

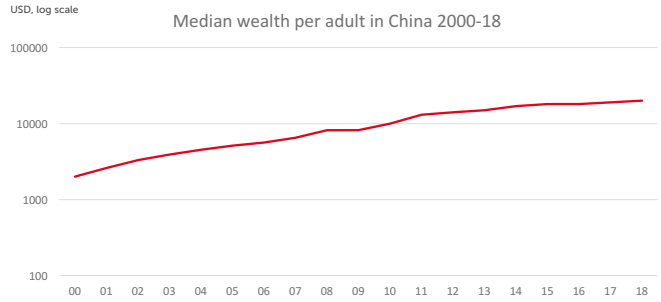
MORE MILLIONAIRES

Anyone selling global real estate to Chinese international property buyers is always very interested in the state of personal wealth in China. Is it growing? How quickly?

Personal wealth is growing quickly. This century, total wealth in China has risen from US$3.7 trillion to US$ 51.9 trillion. That means for every dollar in China during the year 2000, there were more than 14 dollars in 2018.

No other nation has grown nearly so quickly. In fact, Credit Suisse points out wealth in China has grown at triple the rate of wealth that has been seen in most other countries.

MEDIAN WEALTH PER ADULT IN CHINA GREW 7-FOLD BETWEEN 2000 AND 2018

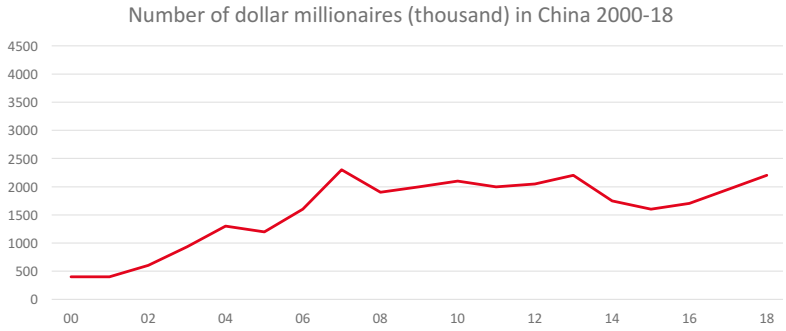


In China, median wealthy increased every year, rising by a factor of more than seven from US$2.17 trillion in 2000 to US$16.33 trillion in 2018.[5]

Source: James Davies, Rodrigo Lluberas and Anthony Shorrocks, Credit Suisse Global Wealth Databook 20018

NUMBER OF CHINESE US$ MILLIONAIRES SOARS OVER PAST DECADE

Credit Suisse also counts 3.5 million US dollar millionaires in mainland China. There are many more of what you might call "upper middle class" consumers.[6] While these people cannot generally afford to buy real estate in more expensive markets such as the United States and Australia, they can do so in Bangkok where prices can start as low as US$100,000.



Source: James Davies, Rodrigo Lluberas and Anthony Shorrocks, Credit Suisse Global Wealth Databook 20018

Taxes

To combat the slowdown in China's GDP growth, the Chinese government has suggested new tax measures. Tax cuts for the masses have been mooted, as well as for small businesses, but at the same time Bloomberg reported the plans had: "... the nation's super-rich running for cover on concern the government will make up the shortfall by going after the wealthy."[7]

Bloomberg also reported: "In a nation where personal wealth is estimated to have climbed to a record US$24 trillion in 2018 - $1 trillion of which is held abroad - that potentially offers rich pickings."

The report added that worries over how the new rules will be enforced have already triggered a flood of Chinese clients seeking to create overseas trusts.

The full impact of any new tax measures on global real estate investments is unknown. It's likely some buyers will have already moved some funds offshore, or already have money invested outside China to allow further overseas property investments.

Belt and Road

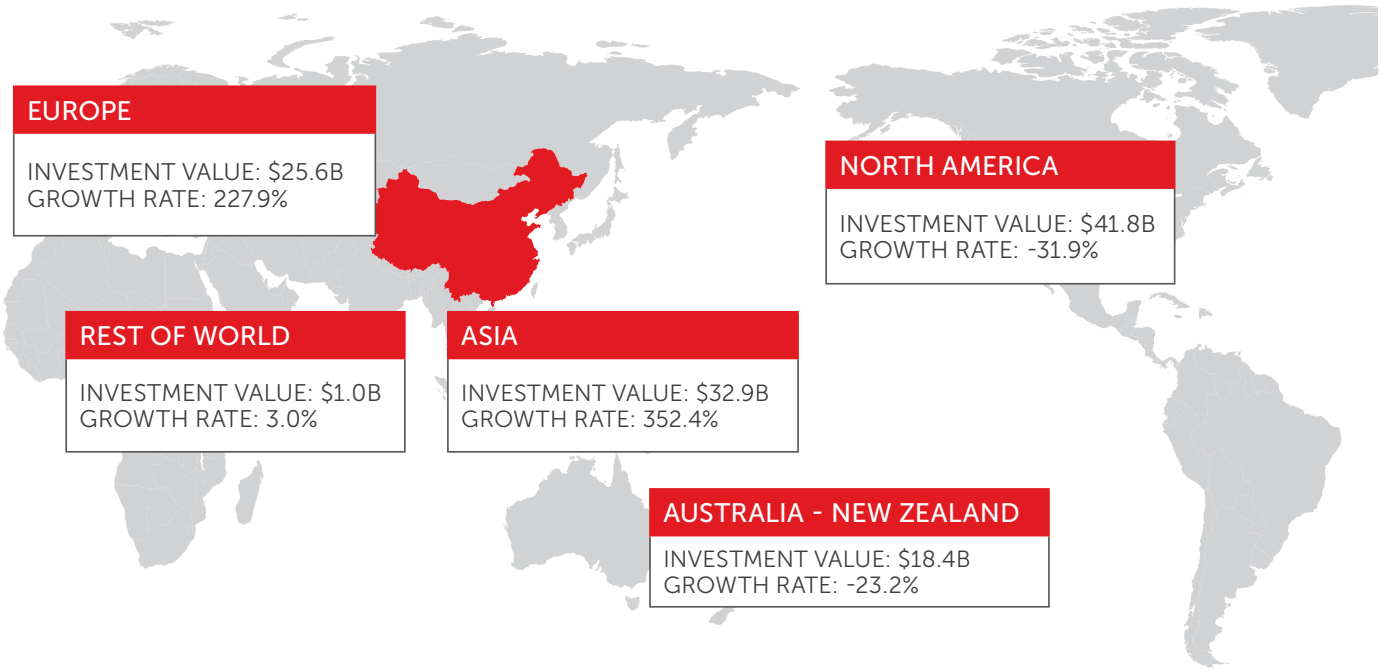
Property professionals around the world would be wise not to underestimate the importance of China's long-term Belt and Road infrastructure project in the minds of Chinese international property buyers.[8] Extending literally around the globe, Chinese property investors are following their government's investments with their own, perhaps with feelings of safety and security provided by their country's substantial investments.

Countries that have seeing significant interest from Chinese investors are, to a large extent, part of China's long-term Belt and Road infrastructure project. Property investors are also searching overseas for higher returns that the 2% of less that can be achieved in parts of some of China's Tier One cities.

China's Belt and Road covers 65% of the world's population, and includes 40% of its GDP. China already trades with Belt and Road countries to the tune of more than US$1 trillion per year. Currently January 2019 set to run through 67 countries, some US$900 million of investment has been planned, making it probably one of the largest investment drives ever undertaken by a single country.

All countries have been invited by the Chinese government to join its Belt and Road initiative.[9]

INVESTMENT BY REGION



China's Belt and Road initiative is underpinned by property investments alongside every major planned project. It is also driving property acquisitions by Chinese property buyers, whether for investment, employment, holidays, education, or retirement.

WHY CHINESE DON'T INVEST AT HOME

Most global property professionals who work with Juwai.com live in countries where there is a wide range of investment options. For Chinese consumers, the reality is very different.

Chinese consumers lack appealing investment opportunities at home.[10] Deposits in Chinese banks earn unnaturally low rates of return due to government regulations. Chinese Stock Exchanges are still immature, volatile, and subject to government controls. The result is that some were listed as the world's worst performing during 2018, which is shocking for such a huge, fast-growing economy.

The traditional standby for Chinese investors is real estate investment. It's where they have put 53% of their savings. But, it's no longer easy for Chinese to invest in real estate at home. The government is restricting real estate investments in a bid to squeeze investors out of the property market. They want to reserve homes strictly for owner-occupiers.[11]

For these reasons, Chinese find it hard to invest in their own country and that's why demand for overseas property keeps increasing.

#	Country	Rental	Own Use	Investment	Holiday	Retirement	Education	Emigration
1	Thailand	1.1%	49.3%	70.1%	17.5%	7.3%	2.1%	0.0%
2	Australia	4.4%	72.9%	47.0%	2.7%	0.5%	24.6%	1.5%
3	United States	9.1%	70.7%	47.7%	3.1%	0.8%	19.3%	1.4%
4	Canada	3.3%	78.2%	44.3%	0.7%	1.0%	20.6%	0.5%
5	United Kingdom	10.8%	57.6%	55.5%	0.6%	0.3%	21.2%	0.7%
6	Malaysia	1.9%	67.5%	59.2%	3.7%	4.0%	10.9%	4.8%
7	Japan	1.2%	43.6%	76.6%	4.8%	1.5%	3.7%	0.4%
8	New Zealand	2.5%	71.2%	44.5%	4.9%	1.5%	21.7%	2.2%
9	Greece	0.0%	47.1%	71.3%	2.1%	0.6%	9.8%	68.0%
10	Vietnam	4.1%	19.3%	89.9%	2.9%	0.0%	0.4%	0.0%
11	Germany	5.9%	65.2%	52.9%	2.4%	0.9%	6.4%	1.7%
12	Philippines	13.4%	23.5%	79%	2.3%	04%	2.6%	1.7%
13	United Arab Emirates	1.3%	43.1%	84.9%	3.5%	0.0%	1.3%	2.6%
14	Singapore	10.1%	71.1%	48.9%	3.0%	0.0%	24.9%	2.6%
15	France	4.7%	63.5%	49.2%	3.4%	0.0%	3.9%	4.4%
16	Spain	3.4%	67%	60.3%	6.6%	1.3%	13.1%	38.4%
17	Hong Kong (SAR)	3.5%	71.3%	54.2%	1.9%	0.0%	2.2%	2.8%
18	Cambodia	3.8%	18%	88.7%	3.8%	07%	1.0%	0.0%
19	Indonesia	19.0%	32.1%	69.2%	10.1%	0.0%	0.0%	0.0%
20	Italy	7.2%	71.7%	38.2%	5.3%	0.0%	4.0%	3.9%

Source: Juwai IQ data, 2017 Juwai.com consumer views & enquiries (consumer motivations are based on enquries and may be driven by more than one motivation.)

Source: Juwai IQ data, 2018 Juwai.com consumer enquiries
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Top Enquired Countries

1.	Thailand	11.	Germany
2.	Australia	12.	Philippines
3.	United States	13.	United Arab Emirates
4.	Canada	14.	Singapore
5.	United Kingdom	15.	France
6.	Malaysia	16.	Spain
7.	Japan	17.	Hong Kong (SAR)
8.	New Zealand	18.	Cambodia
9.	Greece	19.	Indonesia
10.	Vietnam	20.	Italy

Chinese residential real estate buying didn't grow everywhere during 2018, but from the strength of fourth quarter data you might think it had.

In North American, Chinese buying soared during the fourth quarter on a year-on-year basis. In Canada, it jumped by 46%, while the United States saw a more restrained growth rate of 8%.

In Australia, buying enquiries were up 58% versus the fourth quarter in the prior year, and this was in a year in which demand was down 20% overall for Australian property.

Thailand topped the list as the most-inquired country on Juwai.com during 2018. Bangkok lead the way, with the kingdom seeing an almost 700% year-on-year increase in property inquiries.

Greece was another country to see a similar year-on-year increase in inquiries on Juwai.com. Chinese buyers have seen the opportunities to buy stunning Mediterranean homes at a time when the Greek real estate market has probably bottomed out.

CHINESE BUYER ENQUIRY TRENDS - SELECTED COUNTRIES

	YR-on-YR Growth(Q4)	Peak 2018 Month	Weakest 2018 Month
Australia	58.1%	October	May
Canada	46.0%	August	December
Germany	149.1%	August	February
Greece	658.9%	August	January
Ireland	33.3%	August	May
Spain	136.4%	September	January
Thailand	687.4%	October	January
USA	8.2%	August	October

POSSIBLE EFFECTS OF A TRADE WAR

It would not be prudent to fail to mention the ramifications of a United States – China Trade War in a report such as this.

One important aspect to mention is that the cities in the United States are still seeing interest from Chinese international property buyers, with Atlanta and Washington leading the way in terms of year-on-year inquiry growth rates.

7 Fast Cities

Chinese buying Enquiries 2018 Growth Rate

Irvine	275%
Washington	425%
San Diego	167%
Atlanta	700%
New York	84%
Orlando	82%
Philadelphia	75%

That said, and as with any possible disturbances anywhere in the world, international property investors will take a second look at any possible investments. That's certainly something we've seen at Juwai.com, with the United States losing its first-place ranking as the most-inquired country during 2018.

It's fair to say that any prolonged period of instability or uncertainly will scare investors, students and employees who are seeking to emigrate to the United States. January's government shutdown has also made it harder and a much slower process for people around the world who need to apply for American visas.

For Chinese international property investors who are able to choose alternative property investment destinations, Australia and Japan appear to be the preferred choice for investors seeking quality.

For investors wanting high-growth, Vietnam and Thailand have been their destination of choice, while those wanting stable and safe locations closer to home have opted to look at Malaysia and Hong Kong.

WECHAT

FOUR TIPS TO CLOSE DEALS VIA WECHAT

1. Forget automated translators.

Don't worry, you don't need to speak Chinese to use WeChat. The app's default language in the US is English and WeChat's built-in translation feature will make it easier to overcome the language gap.

2. Make friends.

When you are nurturing potential buyers from China, ask them to add you to as a friend on WeChat. If they agree, that opens the door for you to stay in touch with them until a transaction. If they say no, they might not be serious, or perhaps you did an insufficient job in your initial contact with the consumer.

3. Stay in touch.

Use WeChat, not just to get in touch, but also to stay in touch. Keep a Chinese holiday calendar on your desk and send best wishes at appropriate times.

4. Embrace the QR code.

In China, QR codes are both popular and useful. When you meet potential clients from China, offer to let them scan your WeChat QR code. That will give them your WeChat profile, and it also generates a friend request. This is especially useful when you meet many people on a single occasion. Put the code on your business cards, materials, and website.

There are as many as 902 million active daily users, according to media reports, while as many as 38 billion messages are sent every day.

WeChat, which is owned by Chinese giant Tencent, can only grow in the years ahead.

WILL 2019 SEE THE END OF CAPITAL CONTROLS?

When it comes to international property investors, the impact of capital controls may have been overstated.

While capital controls have restricted Chinese international property investment from the rapid growth rates that we witnessed during 2015 and 2016, investment growth has continued, albeit at more sustainable levels.

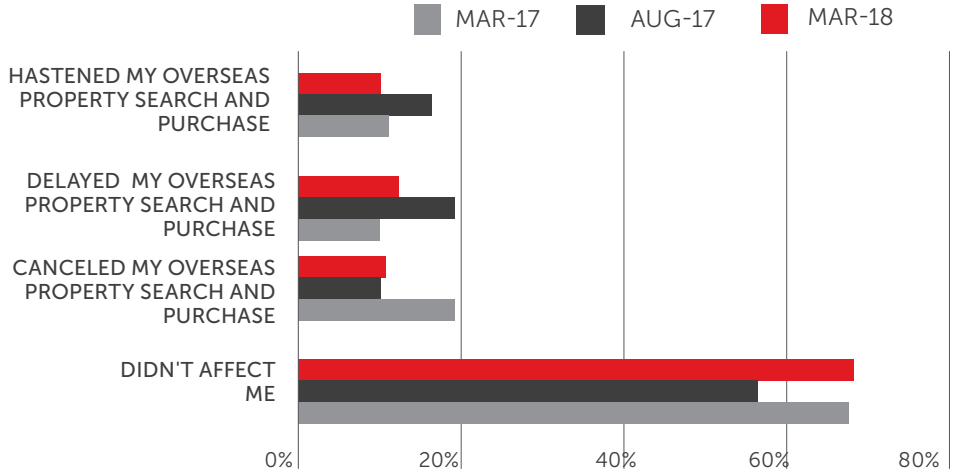
Separate surveys by UBS Evidence Lab and Financial Times Confidential Research showed that capital controls are a relatively small factor for international property residential buyers. [13]

Two-thirds of Chinese overseas buyers told the UBS Evidence Lab that capital controls "didn't affect me," while the Financial Times Confidential Research's monthly consumer survey showed that household demand for foreign exchange has reached its highest levels since early 2016.

Chinese international property buyers are motivated by a desire to diversify their assets, hedge their risks, fund an overseas lifestyle or education, or seek higher returns.

Very few are driven by the fear that helped to drive investment growth during 2015 and 2016. What we see today is better called international investment than capital flight.

IMPACT OF TIGHTENED CAPITAL CONTROLS ON OVERSEAS PURCHASE



SOURCE: ALL RESPONDENTS. UBS EVIDENCE LAB

To serve these buyers, a number of companies have emerged to provide financing for international property acquisition with tacit approval (or at least not opposition) from Beijing.

Some Chinese and Hong Kong financial institutions provide financing for overseas property acquisitions in exchange for assets in China. Bank and non-bank lenders - including property developers - in target countries are also seizing the opportunity to finance acquisitions by mainland Chinese.

It's a fact that more affordable markets have seen the benefits, with Southeast Asia being the biggest winner. But, even higher-priced international property destinations, such as Australia, have seen a reduction in the average price being search by Chinese international buyers.

When controls were introduced the initial belief was that they would be in force for two or three years but the big question now appears to be when, and if, they will end?

Initial estimates were that 2019 would see an end to Chinese capital controls, but our view is that it's more likely they will be removed.

With the threat of a prolonged trade war and a slowing of economic growth, the Chinese government will want to keep as much capital within its borders to help drive growth.

In summary, tighter capital controls have not had an impact for the majority of Chinese international property buyers.

INVESTMENT BY REGION

COUNTRIES / REGIONS	RESIDENTIAL	COMMERCIAL	TOTAL	GROWTH RATE
NORTH AMERICA	$31.3B	$10.5B	$41.8B	-31.9%
CANADA	$0.9B	$1.2B	$2.1B	
USA	$30.4B	$9.3B	$39.7B	
AUSTRALIA - NEW ZEALAND	$15.1B	$3.3B	$18.4B	-23.2%
AUSTRALIA	$14.1B	$3.3B	$17.4B	
NEW ZEALAND	$1.0B		$1.0B	
ASIA	$18.2B	$14.7B	$32.9B	352.4%
HONG KONG (SAR), CHINA	$16.2B	$6.9B	$23.1B	
INDONESIA		$0.4B	$0.4B	
INDIA		$0.2B	$0.2B	
JAPAN		$4.9B	$4.9B	
MALAYSIA	$2.0B	$0.3B	$2.3B	
SINGAPORE		$2.1B	$2.1B	
EUROPE	$0.6B	$24.8B	$25.6B	227.9%
FRANCE		$0.2B	$0.2B	
GERMANY		$2.1B	$2.1B	
GREECE	$0.3B		$0.3B	
ITALY		$0.6B	$0.6B	
PORTUGAL	$0.4B		$0.4B	
UK		$22.0B	$22.0B	
REST OF WORLD	$0.7B	$0.3B	$1.0B	3.0%
KENYA		$0.3B	$0.3B	
UNITED ARAB EMIRATES	$0.7B		$0.7B	
TOTAL	$65.9B	$53.8B	$119.7B	18.1%
COMPARABLE TOTAL			$107.7B	6.2%

Sources:

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