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PERE China: "Buy in China"

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Despite fears of an economic slump, many investors are still bullish, though more selective, on buying properties in China, heard delegates at the PERE Forum.

There are still some investment opportunities to be found in China, notwithstanding the economic slowdown and credit crises in the country, heard delegates at the PERE China Forum in Shanghai this week.

"Till six months back, one did not hear of a lot of people wanting to buy in China," Greg Lapham, managing director, BlackRock, said in the opening panel discussing the future of China's property market. "Now, people want to buy. I have seen interest in a couple of assets coming up for sale, especially in Shanghai."

The kick, in Lapham's words, has been the explosion in equity markets. The Hong Kong-Shanghai Stock Connect launched late last year, allowing investors in Hong Kong and Shanghai to trade in each other's markets, has led to some immediate wealth coming through to retail investors, according to Lapham.

"People are beginning to cash in on the equity market, and transferring that immediate wealth to real estate," he said.

Other factors such as land sales in Tier 2 and 3 cities, and the ongoing reduction in interest rates have also played a part in fuelling this demand, he added.

Richard Yue, chief executive officer and chief investment officer of Hong Kong-based Arch Capital Management, who is in the process of raising capital for a new real estate fund said that a crises situation means opportunities. In his view, opportunistic managers are focused on the housing market given the rapid urbanization across the country.

"The main drivers of the housing market are buyer restrictions and mortgage lending. Expect to see more relaxation on these fronts," he said.

He further added that since the banks have remained selective in lending, their access is limited to the larger developers. "The smaller guys are still shut out from the capital markets. That is good news for private equity firms like us."

He further added that investments in retail properties in core downtown locations remain a good bet despite the surge in e-commerce. For BlackRock's Lapham, while enough opportunities exist in logistics, office and retail, he was not equally positive about the hotels sector given the kind of returns that could be generated from the sector.

For distressed opportunities, however, the panel agreed that the investment window has narrowed over time.

"There are real estate owners who want to trade to raise capital, but there is no systemic distress in the near term," said George Agethen, senior executive director in the Alternative Investment Department at Ping An Trust.

According to Lapham, there were more opportunities prior to March this year before the equity markets rebounded, but now the large scale developers find it an opportune time to turn to the equity markets to raise capital.

While the speakers unanimously agreed that macro issues continue to exist in China, no one wanted to ring the alarm bells just yet.

"Everyone takes encouragement from China continuing to kick along. It is not going to fall off a cliff; it will not see explosive growth either. It will be a long landing," said Lapham.

Lapham's view was echoed by Collin Lau, the founder of BEI Capital, who was also the moderator of the panel.

"You have to be very selective. China remains to be a deep market running a $10 trillion economy. Rightly and wrongly, China is so big, you don't see it as one single market. It requires a savvy, smart investment manager," he said.


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