Q2 2023

From East to Southeast:

Southeast Asia Emerges as China's Commercial Real Estate Destination

Chinese outbound commercial real estate investment has declined significantly in 2023, and investment has markedly shifted towards Southeast Asia. Indonesia, Malaysia and Thailand benefit most from this shift, while the U.S. loses, as does Australia, to a lesser degree.

Juwai IQI

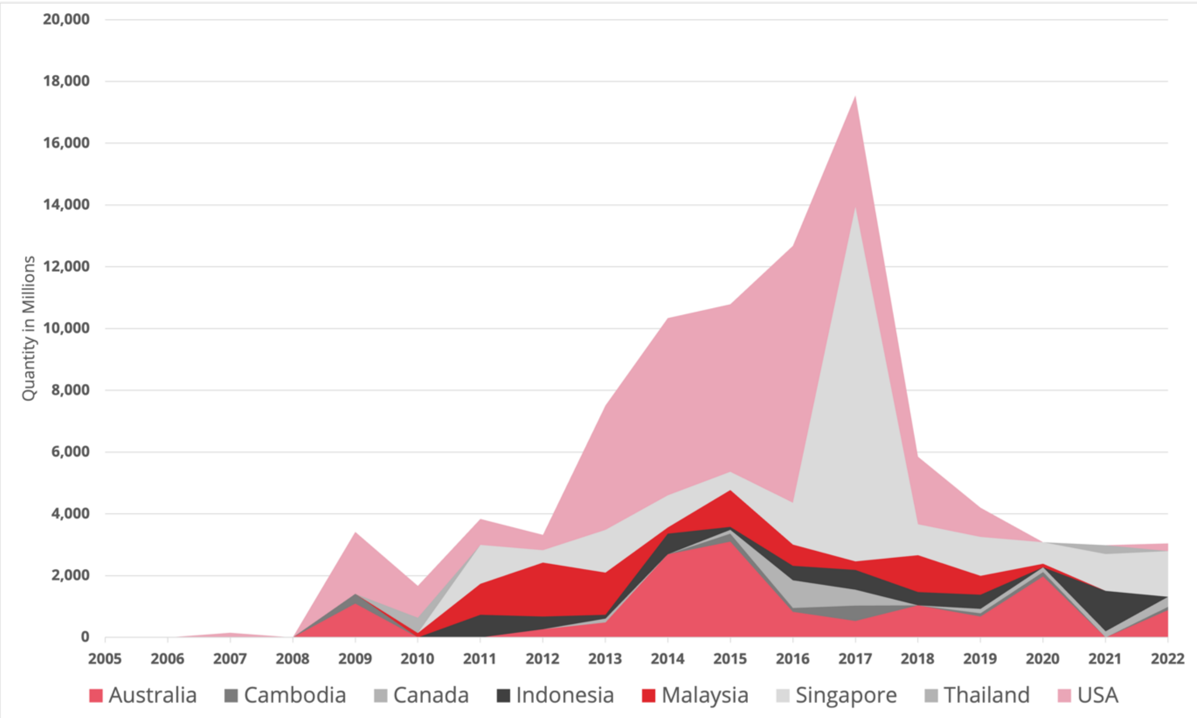
Overview

Total Asian commercial property investment deals fell in Q1 2023 to US$27.2 billion, just half the same period a year ago. A reduction in Chinese cross-border investment is one reason for this decline.

This report is based on commercial real estate buyer enquiry data made through Juwai IQI's portal platforms or agent network, mostly on small and medium-sized assets. The conclusions partially mirror the American Enterprise Institute's dataset of large investments in commercial real estate, meaning deals worth US$95 million or more.

AEI's Large Transaction Data Shows Decline of Chinese

Commercial Property Investment and Shift Away from USA



Annual Chinese large investments in commercial property by county.
Source: Juwai IQI, American Enterprise Institute

The direction of outbound commercial investment has also shifted significantly. Southeast Asia accounts for an increasing share of investment, while the United States has seen its share drop dramatically. Southeast Asia should benefit from China's recovery, even if more slowly than expected earlier in the year, with strong growth in travel, tourism, agricultural goods and production offshoring.

- Indonesia has become the top destination for investment, after ranking fourth in both 2021 and 2022. This represents a significant change because, in earlier years, the country seldom made it into the top five at all.
- Canada and Australia, meanwhile, also remain in the top five destinations, although Australia has fallen from second to fourth rank with commercial property investors.
- Investors consider Southeast Asia an appealing destination because commercial ties between China and these countries are growing, while they are shrinking with

the U.S. Their rapidly growing economies provide opportunities in developable land, tourism facilities, industrial parks and industrial and logistics facilities.

- Chinese capital controls still provide a partial brake on outbound investment, giving further advantage to Southeast Asian countries because investors find obtaining approval for projects in these destinations easier.

Chinese investors are drawn to real estate investment as a category easily understood across multiple markets and may provide stable long-term income uncorrelated with the Chinese economic cycle. In this era of higher interest rates, Chinese investors with access to ready capital have an advantage over local investors.

Across the board, Chinese office investment is declining due to concerns about the sector related to our supply and remote work. The most attractive assets are developable land for residential and mixed-use projects, hotels and other facilities related to tourism, industrial buildings, distribution and warehouse hubs and datacentres.

Commercial Property: Top Chinese Investor Destinations by Year

	2023 YTD	2022	2021	2020	2019	2018	2017
1	**Indonesia**	**United States**	**Australia**	**Australia**	**Australia**	**Australia**	**Australia**
2	**Canada**	**Australia**	**United States**	**United States**	**United States**	**United States**	**United States**
3	**Malaysia**	**Canada**	**Canada**	**Canada**	**Indonesia**	**Canada**	**New Zealand**
4	**Australia**	**Indonesia**	**Indonesia**	**Vanuatu**	**Thailand**	**Thailand**	**Indonesia**
5	**Thailand**	**Malaysia**	**New Zealand**	**Thailand**	**United Kingdom**	**New Zealand**	**Canada**

Countries ranked by share of Chinese commercial property investor enquiries.
Source: Juwai IQI

Australia

Australia has dropped out of the top two for Chinese commercial property investors for the first time since 2017, according to Juwai IQI data. Still, small and medium Chinese investors now far prefer this Western country to the United States.

The data show that Victoria, Queensland and New South Wales are the top Australian destinations for Chinese commercial property investors. This investment has not dried up, leading to transactions such as the AU$30 million (US$19.8 million) April acquisition of a mid-sized Melbourne office building at about AU$7000 (US$4,600) per square metre.

The Foreign Investment Review Board reports that commercial real estate receives more foreign investment than any other Australian economic sector. China is the second largest investor in Australia, with $6.7 billion of investments approved in the December quarter of 2022.

The American Enterprise Institute's data on large transactions (each worth US$95 million or more) tracks US$880 million (AU$1.3 billion) of Chinese investment in Australian commercial property in 2022. That's significant, although still 29% lower than the $1.2 billion pre-Covid (2015-2019) annual average.

Our outlook for Chinese investment in Australian commercial real estate is good given the improving relations between the two countries, significant China-Australia social ties and Australia's complementary economy that offers Chinese many investment opportunities.

Australia's population is set to grow by 14% by 2030, making its commercial real estate market attractive to investors. Such strong population growth will probably increase demand for all sorts of commercial property, whether retail, logistics, office or hospitality.

Social ties between citizens of the two nations create an environment conducive to investment. Significantly, more than 100,000 Chinese students study at Australia's eight top-ranked universities, a greater number than from any other country. The number of Chinese-born people living in Australia more than doubled to 595,630 in the ten years to June 2021, making Chinese the third largest migrant community in Australia.

Cambodia

While Cambodia is not a top-five destination, the number of commercial investors who have expressed an interest to Juwai IQI in Cambodia is up more than tenfold compared to a year ago.

This is partly because Cambodia's citizenship by investment program enables foreign participants to own land in the country in their own names, which is rare in Southeast Asia. At least 300 Chinese have taken advantage of Cambodia citizenship by investment program, according to estimates made by IQI Cambodia, which often works with such investors.

Phnom Penh is the top destination for commercial property investors from China. Land near infrastructure projects such as the Sihanoukville entertainment district, new highways, train links and airports is also attractive to Chinese investors. All these projects have attracted investor attention because new infrastructure profoundly impacts the value and uses of nearby land.

Many Chinese investors consider Cambodia to offer similar opportunities to those available 30 years ago in China, a country that had its own massive infrastructure spree. They see the potential for high growth.

Several big projects are already planned or underway. One is a US$16 billion coastal entertainment hub in Sihanoukville. Then there is the $4 billion high-speed rail link between Phnom Penh and the Thai border, plus additional high-speed rail routes linking Sihanoukville to Phnom Penh onto the Vietnamese border.

There is also a US$1.4 billion expressway and three airports. The largest airport is a US$1.5 billion new facility in the capital. Two additional airports at Siem Reap and Koh Rong will account for another US$1.2 billion of investment.

Even during the pandemic, Chinese investment in the country climbed by 67% to US$2.32 billion in 2021. For Chinese residential developers, Cambodia and especially the capital area offer good returns and relatively high growth rates compared to China. Domestic demand for real estate is strong, with a homebuyer expo recently selling more than US$30 million of property in just two days.

Canada

Canada, like Australia, is going through an unprecedented immigration boom that will significantly boost demand in all commercial real estate sectors. Canada is the fastest-growing country in the Group of Seven (G7) and will double its population in about 26 years at its current growth rate. Its net external migration is about eight times the U.K.'s and four times more than in the United States.

The top Canadian markets for Chinese commercial property investors, according to Juwai IQI data, are identical to the top markets for residential property buyers: British Columbia, Ontario and Quebec. British Columbia accounts for double the interest from Chinese investors as Ontario. Quebec is a distant third.

Canada's smaller cities are the fastest growing, but most foreign investors are still mesmerized by what Chinese investors might call Canada's "Tier 1" cities.

Unlike in Southeast Asia, Chinese commercial property investors in Canada are not focused on hospitality but pursue opportunities across the other commercial real estate sectors.

Immigration-driven population growth will create greater demand for retail, logistics, industrial and office space. A total of 431,645 new permanent residents arrived in the country in 2022, with another 465,000 set to arrive in 2023. The totals go even higher from there, with 485,000 new permanent residents projected in 2024 and another 500,000 in 2025.

2023 we expect industrial real estate to outperform, while office demand will remain weak as tenants reduce their occupancy needs and firms shed staff. In Canada, even more so than in the United States, weakness in the office market is cyclical rather than structural. Unlike many United States cities, Vancouver and Toronto have strong office markets with little obsolete office space.

Indonesia

With Southeast Asia's largest economy and the world's fourth-largest population, Indonesia is a growing middle-income country whose GDP has grown more than 12-fold over the past two decades, from just US$95.5 billion in 1998 to US$1.2 trillion in 2021.

Indonesia's development policies and focus on cutting red tape are attracting significant investment. FDI surged 44% in 2022 to a new record of US$45.6 billion. Chinese are the second largest investor group, accounting for US$8.2 billion that year. In 2021, Indonesia received nearly twice as much foreign direct investment as Malaysia.

Juwai IQI data reveals that Chinese small and medium commercial property investment is concentrated in Jakarta and West Nusa Tenggara. Before the pandemic, China had become the second largest foreign investor in Indonesia's tourism sector, especially in related development projects, land, hotels and restaurants. The latest data indicates this preference persists and suggests investors remain focused on land for development and on the tourism industry. In these sectors, the scale of investment required is relatively small and the opportunity to leverage Chinese domestic market for sales is high.

In one example, Chinese investors are financing the new US$140 million resort and cable car at UNESCO-listed Mount Rinjani, on the island of Lombok.

Malaysia

In Malaysia, the top destinations for Chinese commercial property investors are Johor, Kuala Lumpur and Selangor.

Johor is attractive because if its relatively developed economy and proximity to Singapore. We expect increasing investment in Johor as the rail link to Singapore approaches its 2026 completion. Juwai IQI forecasts 50,000 additional residents could be living cross-border lifestyles by 2030, which would provide a significant uplift to demand for commercial real estate.

Johor's Singapore links are already the basis for much Chinese investment in the state. This investment will increase. As Johor increasingly integrates with Singapore, it will attract additional investment from Singaporeans seeking a more affordable lifestyle and Chinese investors seeking higher returns.

Kuala Lumpur and Selangor, Malaysia's largest urban and business hub, are the next most popular destinations for Chinese commercial property investors.

Malaysia has only been a top-five destination for Chinese commercial property investors since 2022. In no other year since 2017 did Malaysia make it into the top five as it did in 2022. It's rank at third is unprecedented.

Despite global economic uncertainty, we expect Malaysia to achieve GDP growth of 4.7% in 2023. China is Malaysia's second largest export market after Singapore, with a total of RM16.7 billion in March 2023, or about 13% of all exports. China is also Malaysia's largest import market, accounting for 20.5% of exports, worth RM21.2 billion in the same month.

Malaysia will increasingly attract more investment as it reduces red tape and its economy continues to rebound.

Thailand

Thailand's top destinations for Chinese commercial property investors are Bangkok, Phetchaburi, Chon Buri and Phuket. This list of destinations reveals the strong preference for investing in the tourism sector and land suitable for either residential or hospitality development.

The return of increasing numbers of Chinese tourists throughout the remainder of 2023 and 2024 will help the Thai economy rebound, with a rate of 3.2% expected this year. They also see many opportunities to profit from the return of Chinese visitors to the Land of the Smiles, whether through residential development or the hospitality industry.

Chinese investors in 2023 have become commonplace in Thai tourist hotspots. They often form consortiums of about a half-dozen investors, with the equivalent of from US$1 million to US$10 million to purchase restaurants, massage parlours, sports facilities such as driving ranges, and hotels.

Chinese investors with slightly more capital have been purchasing or partnering with hotels, restaurants, pool villas and tourist attractions to create a complete offering for Chinese tourists. Government predictions are that Chinese tourist arrivals will hit their pre-pandemic level of 1 million per month in October.

China is Thailand's second largest export market and accounts for 14% exports, compared to 16% for the United States and 9% for third-ranked Japan. Agricultural products make up approximately 17%, which is the greatest share of exports, followed by industrial goods and chemicals.

United States

Chinese commercial real estate investors are turning away from the United States for several reasons. The American commercial market is struggling with higher interest rates and fears that property values may take a more significant hit in the months ahead. Yields have compressed, occupiers continue to reduce their space needs, and political tensions between the U.S. and China remain higher than in past years.

Every year since 2017, the United States has been the top-ranked or second-ranked destination for Chinese international commercial property investors. But in 2023, the U.S. lost this rank and altogether fell out of the top five, landing at sixth.

Chinese investors have sold a net of US$23.6 billion in U.S.-based commercial assets since 2019, according to MSCI Real Assets. That equates to nearly half the US$52 billion of such assets that Chinese investors purchased between 2013 and 2018. MSCI's data excludes transactions worth less than US$10 million.

While we see short term challenges for the U.S. office market, we believe investors who can strike a bargain in this high-interest rate environment will be rewarded by an eventual return of market confidence. Some in the U.S. are talking about the "end of office buildings" but we see only a cyclical downturn. Recovery will eventually be facilitated by government policies that reduce stock by facilitating residential conversion, an end to the interest rates cycle and the resolution of the banking crisis.

Texas, Florida and California are the top three U.S. destinations for Chinese commercial property investors, as measured by investor inquiries through Juwai IQI. Notably, California was the number-one destination between 2017 and 2021, while it is now only the third.

PLEASE NOTE

As this report is published only for general information, it is not to be relied upon in any way. We have used high standards in the preparation of the contents of this report, but no responsibility or liability whatsoever can be accepted by Juwai IQI, Juwai Limited or IQI for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Juwai IQI in relation to particular properties or projects.

ABOUT JUWAI IQI

It is our belief that business, values and results are inseparable. Values inspire trust; trust builds relationships, and relationships drive growth.

Juwai IQI is Asia's global real estate technology group that powers property transactions and ownership locally and globally. Juwai IQI transacted nearly 50,000 properties in 2022 and advertises US$4 trillion of property from 111 countries. We generate 10.2 million monthly consumer engagements.

The company offers real estate marketers an end-to-end marketing and sales solution that integrates its super-app, its IQI global network of more than 30,000 real estate agents, and its online property marketplaces, Juwai.com (global property portal available in Chinese) and Juwai.asia (Asia wide portal for global real estate). Follow Juwai IQI on Twitter, LinkedIn and Facebook and visit https://www.juwaiiqi.com/.

MEDIA CONTACTS

Dave Platter
Global Director of Public Relations and Communications
+61 432 814 888 | dave@juwaiiqi.com

Debbie Pereira
Malaysia Public Relations Director
+60 16-233 4386 | debbie.pereira@juwaiiqi.com

Guangming Xu
China Public Relations Director
+86 139 1862 2682 | guangming@juwaiiqi.com