



Outbound investment from Asia

Overseas capital accounted for 41.2% of 2014's global hotel investments through October, compared to 34.7% in 2013, 29.9% in 2012 and only 25.9% in 2011.²² Asian investors (primarily dominated by China, Hong Kong, Japan and Singapore) represented 43.2% of the cross-border hotel transactions during the 12 months ending October 2014, followed by North American and Middle Eastern investors,²³ and the flow of money from Asia into the mature markets of North America, Europe and Australia is anticipated to keep rising. Currently, the top three global hotel markets for Asian investment are Manhattan, Hawaii and London, representing 48.5% of total Asian hotel investment globally during the 12 months ending October 2014.²⁴

A number of "push" and "pull" factors drove the year-over-year increase in cross-border activity. While these Western countries "pull" international buyers to transparent markets for capital preservation and more stable property yields, many of these international buyers are also encouraged to invest abroad due to the geopolitics in their home countries. Most notably, buyers from Asia are "pushed" toward outbound investments due to their individual government's cooling interventions for domestic real estate and the easing of government regulations regarding overseas investments.

Over the prior 12 months, China has been one of most active hotel buyers, investing 27.4% of the total outbound capital from Asia, followed by Japan (21.6%), Singapore (17.5%), Hong Kong (12.5%) and Malaysia (9.9%).²⁵ Representing the largest increase in investment dollars, China's cross-border hotel investment volume has increased from just US\$107.4 million in 2011 to US\$2.7 billion during the 12 months ending October 2014.²⁶ In 2014, Japan's acquisition activity was predominately related to a Japanese company's US\$1.4 billion entity-level buyout of a luxury hotel portfolio, with six properties located throughout Hawaii and San Francisco.²⁷

During the past year, some of the most active investors from Asia have been state-owned enterprises (SOEs) and large-scale developers, who are intent on investing overseas as a way to diversify their portfolio and build their international brand. For these investors, Downtown Los Angeles has been a target for ground-up hotel mixed-use development, largely due to the abundance of large parking lots that are primed for development and the shortage of hotel rooms within walking distance from the Los Angeles Convention Center.

Over the prior 12 months, Asian organizations invested approximately US\$844 million in development sites in Los Angeles, which is 198.2% greater than sites in Manhattan and 645.3% greater than sites in San Francisco. One such company is a Shanghai-based state-owned Global Fortune 500 company, which began construction on its more than US\$1 billion hotel mixed-use development project in Downtown Los Angeles last summer and it acquired additional mixed-use development sites in New York, Toronto and London last year.²⁸

Additionally, in 2014, Australia was a target market for overseas Asian buyers, with hotel transactions increasing 8.5% and development site transactions increasing 180.5% during the 12 months ending October 2014, versus the year-ago period.²⁹

22. "Trends & Trades: Third Quarter 2014," Real Capital Analytics, 3 November 2014.

23. Ibid.

24. Ibid.

25. "Cross-Border Capital Tracker: October 2014," Real Capital Analytics, 3 November 2014.

26. "Trends & Trades: October 2014," Real Capital Analytics, 29 October 2014.

27. "Cross-Border Capital Tracker: October 2014," Real Capital Analytics, 3 November 2014.

28. Ibid.

29. Ibid.



Australia is likely to continue to be a target market due to its growing Chinese population and visitation levels; favorable tax regime; weakening currency versus the Chinese renminbi over the past five years, which is expected to persist; and higher yields compared to other gateway cities in the US and Europe.

While SOEs and developers will continue to acquire and develop significant assets in major gateway cities, a second wave of investors from Asia is beginning to emerge: insurance companies. For instance, in September, a Chinese insurance company acquired the Waldorf Astoria, a luxury hotel with more than 1,400 keys in New York City, for almost US\$2 billion, representing the highest price paid for a single hotel property in the US and the largest acquisition of a US property by a Chinese company.³⁰ It is predicted that Asian insurers will become one of the largest investor groups in the coming years, with an estimated US\$75 billion to invest in global real estate by 2018, as regulatory restrictions continue to ease.³¹

The China Insurance Regulatory Commission first allowed insurance companies to invest abroad in 2012 and increased the maximum allocation in real estate (both domestic and foreign) from 20% to 30% of total assets in February 2014.³² Real estate investment restrictions have also been lowered in South Korea and Taiwan over the past couple of years, increasing the maximum real estate allocations permitted as well as streamlining the procedures for investing in property abroad.³³ Furthermore, a number of other companies, in industries such as air travel and construction, are investing and developing hotel properties in order to diversify their income stream.

30. "Chinese Insurer Buys Waldorf Astoria for a Record \$1.95B," *Forbes*, www.forbes.com/sites/michaelcole/2014/10/06/chinese-insurer-buys-waldorf-astoria-for-a-record-1-95b, accessed 30 October 2014.

31. "Asian Insurers Target Global Real Estate As Regulatory Restrictions Ease," CBRE, www.cbre.com/EN/aboutus/MediaCentre/2014/Pages/Asian-Insurers-Target-Global-Real-Estate.aspx, accessed 27 October 2014.

32. *Ibid.*

33. *Ibid.*

In addition to acquiring stand-alone properties, overseas investments are also expanding upon existing platforms. Besides investing in US-based hotel management companies, this cycle is also witnessing an expansion of Asian-based hotel management companies. For example, Wanda Group, one of the largest commercial developers in China, is developing billion-dollar mixed-use projects in London, Chicago and Australia's Gold Coast in order to build luxury hotels utilizing the company's five-star hotel brand. The developer's ambitious goal is to build at least 15 luxury hotels in 15 international cities by 2020 and expand its China-based hotel brand. Another example is a Hong Kong-based company, which is acquiring four- and five-star hotels to reflag under its luxury hotel brand and three-star hotels to convert to its newly formed lifestyle hotel brand.³⁴

Considering the current geopolitical environment in Asia, limited investment opportunities in their home countries and the perceived stability in Western countries, Asian investors will continue to be major players in global capital markets in 2015 and beyond. In addition, increasing outbound China tourism is expected to fuel additional Chinese investment in the global hotel market.

While London and New York have been prominent outbound markets for the past five years, other key cities are beginning to garner international attention, such as Sydney, which is entering its third year in the cycle. Moreover, as gateway markets become more expensive and investors mature, it is anticipated that outbound activities will expand beyond the most common type of investment – individual asset acquisitions – to include a greater number of joint venture and platform-level investments. The forecast for the global hospitality market is strong, and cross-border transaction levels are expected to continue to rise, with Asian investors at the forefront of the activity.

34. "Wanda Acquires 'Jewel Project' in Australia's Gold Coast," PR NewsWire, www.prnewswire.com/news-releases/wanda-acquires-jewel-project-in-australias-gold-coast-271068181.html, accessed 30 October 2014.