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Cover Story

## China builds its Hawaii portfolio

**Nearly \$1B in real estate already acquired as a wave of Chinese investment reaches our shores**

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Investors from China are spending close to \$1 billion acquiring thousands of acres of high-profile Hawaii commercial real estate, from an office building in Honolulu to several development sites at Ko Olina Resort to more than 500 acres that connect Ko Olina with Kapolei. But it's unknown whether this first wave of Chinese investment will resemble the tsunami of Japanese investment in the late 1980s and early 1990s that was more commonly known as the Japanese bubble.

Similar to the Japanese investors of 25 years ago, the Chinese investors entering the Hawaii market are targeting hotels, golf courses and, now, development sites that may include residential subdivisions.

"If history plays out like with the Japanese, the Chinese will visit as tourists, get accustomed to what Hawaii is like, [and] start to purchase homes, which I believe has started, fueling even more demand for real estate," [Mike Hamasu](#), research and consulting director for Colliers International Hawaii, told Pacific Business News.

Chinese demand for Hawaii real estate has certainly intensified over the past year.



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China builds its Hawaii portfolio

China Oceanwide Holdings, a company headed by one of that country's richest individuals, recently entered into a contract with the James Campbell Co. to buy Kapolei West, its planned 516-acre master-planned golf course resort community in West Oahu that would connect the City of Kapolei with the 642-acre Ko Olina Resort.

Hong Kong-based Qinghua International Holdings Ltd., which purchased several properties near Ala Moana Center in Honolulu about a year ago for a total of about \$21 million, recently acquired a 10-story downtown office building, the Tissue Genesis Tower, for \$12 million from Pacific Office Properties Trust.

Qinghua International is also looking into possibly building a residential project that would be part of transit-oriented development in Honolulu.

Late last year, China Oceanwide also purchased two oceanfront lots at the Ko Olina Resort for nearly \$200 million where it plans to build two towers — one a hotel and the other a condominium. The project is expected to top \$1 billion.

And two years ago, China-based Reignwood International partnered with The Resort Group, the master developer of Ko Olina Resort, to buy 1,103 acres of Princeville at Hanalei on Kauai's North Shore for \$343 million.

The potential business opportunities these investments can bring abound.

"There's a huge opportunity for Hawaii to partner with China," Manny Menendez, who specializes in international business development, trade and investment, and has worked with China and the Asia-Pacific region for more than 35 years, recently told PBN from his office in Beijing. "There are lots of positives from these purchases, including bringing lots of opportunities for the local business community."

### **Why buy in Hawaii?**

There are three main reasons why Hawaii should expect to see more real estate investments by the Chinese, including the loosening of visa restrictions, increased airlift and the emergence of the middle and upper classes in China.

"You can get a 10-year tourist visa with no problem, and you can get a five-year student visa," Menendez said. "You have airlift now. There are three airlines that

offer nonstop flights from Hawaii to China — China Airlines, China Eastern Airlines and Hawaiian Airlines. Then there's that robust middle-class society, and those people are traveling to Hawaii and the rest of the United States. These are three big game-changers."

The Hawaii Tourism Authority forecasts steady growth in arrivals from China and said scheduled seats from China in April alone grew 19 percent

The middle class accounts for about 20 percent of the population in China, or about 300 million people, roughly the total population of the United States.

Hawaii's proximity to China also makes it an appealing market.

"Geographically, Hawaii is very close," Amelia Lim, a hotel investment expert with CBRE Hawaii, told PBN. She also said the state's tropical climate appeals to investors and that the Islands are known as a world-class destination.

Then there's the U.S. dollar, which is viewed as a safe harbor to Chinese investors.

"When you look at their currency, it has been devalued," Lim said. "They are looking for a yield. There are more investment opportunities here. Investments in China are a crowded landscape."

The overall real estate investment market remains flush with capital seeking placement. Because of volatility in the stock, bond and commodities markets, real estate continues to be viewed as a safe haven and a good place to park cash — especially for international investors that are faced with uncertainty in their home markets, according to Hamasu.

"Chinese are no different. With their economy slowing and prime industry sectors facing a glut of supply and dwindling demand, we are likely to see increased interest by Chinese to invest and develop in the U.S. and in Hawaii," he told PBN. "The Chinese government is attempting to slow the outflow of capital to the foreign markets, limiting cash outlays of \$50,000 per person, but astute multinational investors will continue to seek ways to invest abroad."

The EB-5 immigrant investor program has resulted in \$8.7 billion worth of foreign investment in U.S. businesses over the past three years and created more than 35,000 jobs, according to U.S. Citizenship and Immigration Services. It is

considered another reason for the influx of Chinese investments. China accounts for 85 percent of the EB-5 visas issued.

### **What they buy in Hawaii**

Chinese investors will generally look for properties that are near the waterfront, in close proximity to a major airport and close to strong commercial districts or universities, according to [Byron Burley](#), vice president of development and strategic sales for [Juwai.com](#), an international real estate website for Chinese buyers.

“They’ll often invest in the land, and when they do a joint venture with a local developer, they will put up the investment for land costs and let the developer handle the marketing and sales of the project,” he told PBN.

An example is The Resort Group’s partnership with Reignwood International in Princeville.

[Juwai.com](#)’s traffic has been up nearly 70 percent for Hawaii commercial properties in the first quarter of 2016, when compared with the fourth quarter of 2015.

The Chinese also like to invest in projects with such international brands as the Ritz-Carlton, Waldorf Astoria and Four Seasons Hotels & Resorts. In 2014, Hilton Worldwide sold the iconic Waldorf Astoria in New York to a Chinese company for nearly \$2 billion.

“The places where tourists can go are the types of things they’re looking at,” Menendez said, noting that this may even include such businesses as luau companies. “They’re looking to integrate their investments, including having a project that includes golf courses, hotels and retail. You will see this integration to try to have this total capture/experience of their customers. They’ll send people over on their airlines over to the Islands and then have them travel in a car from their rental car company to their spas and shopping centers.”

### **Where they like to buy**

It’s certainly no secret that Chinese investors like the island of Oahu, where buyers have invested hundreds of millions of dollars in properties from Honolulu to Ko Olina.

Lim said Oahu is where they will continue to look for commercial real estate investments.

“Oahu still remains the focus,” she said. “Oahu is where our state capital is located.”

But that doesn’t mean the Neighbor Islands will be overlooked, given the recent investment in Princeville, which is on Kauai’s North Shore.

Resort locations on the Neighbor Islands will be prime spots for Chinese investments, Lim said.

“I believe we will anticipate more investment here — especially for large prime development sites and premier commercial real estate holdings,” Hamasu said. “Investment brokerages are quickly targeting these Chinese investment entities for additional investment opportunities.”

### **The outlook for the future**

The future is so bright for Chinese real estate investments in Hawaii that Menendez is about to start a fund to invest in real estate holdings in Hawaii and the rest of the U.S.

Thus far, the fund, which has commitments for about \$300 million, will collect residential and commercial real estate assets as an investment. Menendez, who is a co-manager of the fund, expects it to be unveiled in the fourth quarter of this year.

“There’s institutional and private individuals,” he said. “The main goal is to diversify their asset portfolio outside of China. An example is to look at a Kakaako residential tower, and instead of buying a unit, we might buy two floors or partner with a developer for a new project.”

Mark Bratton, a senior vice president with the investment team of Colliers International Hawaii, told PBN that experts at a conference in Hong Kong 18 months ago predicted that the flow of money from Asia to the U.S. would increase every year through 2020. Last year alone, Chinese investors spent at least \$5 billion on real estate in the U.S.

“It should be a pretty strong wave and increasing ever more,” Bratton said.

## **Big Purchases**

\$343M: Amount Reignwood International paid for 1,103 acres of Princeville at Hanalei on Kauai

\$200M: Amount China Oceanwide Holdings paid for two oceanfront lots at Ko Olina Resort

## **Interested Eyes**

69.3%: Increase in views of Hawaii commercial properties on Juwai.com in the first quarter when compared with the fourth quarter. Views have increased and decreased over the past year, showing no clear trend and likely reflecting the inventory of properties for sale, according to Juwai.com.

## **National Rank**

15th: Honolulu's rank among the most popular U.S. cities for Chinese investors.

## **Homebuying by State**

While Chinese investment in Hawaii is growing, several Mainland states are seeing more home purchases.

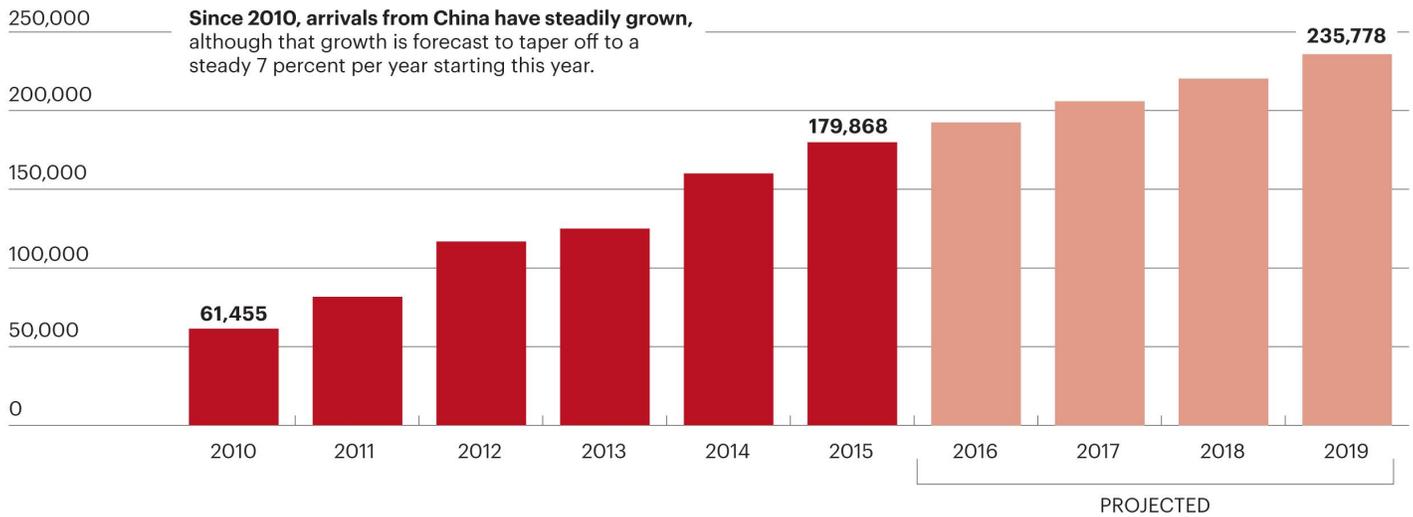
35%: California

8%: Washington

7%: New York

Hawaii, Massachusetts, Illinois, Texas and Florida are also prime locations, reflecting the availability of direct flights from China.

*Source: Asia Society*



SOURCE: HAWAII TOURISM AUTHORITY

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