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REAL ESTATE

# China Moves to U.S. Projects

Investors Taking on Distressed Properties in Cities Such as Detroit

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Oct. 28, 2013 4:49 p.m ET



Chinese property investors are flocking abroad for better yields. The WSJ's Wei Gu speaks with Michael Klibaner, greater China head of research for Jones Lang LaSalle, about how high real-estate prices at home are pushing Chinese to diversify overseas.



Dongdu International bought the David Stott building in Detroit. *Detroit Free Press/Associated Press*

An unlikely participant increasingly is showing up in the bidding for distressed office buildings, hotels and other overleveraged commercial properties left over from the boom years: Chinese investors.

While China has made headlines recently for landing trophy properties in Manhattan and for developing new projects in California, Chinese investors also have been pursuing properties that are in default on loans, suffering high vacancy rates or facing other turnaround challenges.

The deals are a sign that some Chinese investors are willing to take more risk than most seasoned foreign real-estate companies and even many U.S. investors. Experts say this reflects their willingness to hold real estate for years until values rebound.

In the most recent deal, Dongdu International, known as DDI, earlier this month paid a total of \$13.6 million for two of Detroit's better-known buildings, including the former home of the Detroit Free Press. DDI is planning to convert the empty Free Press building into apartments and keep the David Stott building, which is less than 25% occupied, as an office building.

Chinese investors also have purchased New York's Cassa Hotel, whose owners

were seeking bankruptcy protection for the property, and a largely vacant office park in Silicon Valley that once was the headquarters of Borland Software Corp. Four of the 15 largest U.S. property investments by the Chinese in the past two years "resolved a troubled situation," according to Real Capital Analytics Inc., a data and research firm.

The discounted prices on distressed U.S. real estate offers "a once in a lifetime opportunity," says Zhang Mingeng, chairman of Grand China Fund, which manages yuan-denominated funds investing \$4 billion in Chinese real estate and a \$60 million dollar-denominated fund investing in the U.S.

Overall Chinese investment in U.S. property has risen sharply this year as Beijing has


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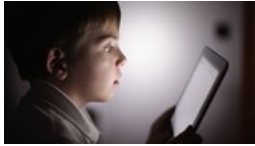
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encouraged companies to diversify and spend foreign capital reserves. Chinese property deals in the U.S. already have reached \$1.7 billion in 2013, up from \$1.1 billion in 2011, according to Real Capital.

Like most foreign investors, some Chinese buyers are targeting trophy properties such as One Chase Manhattan Plaza, which is being purchased for \$725 million by [Fosun International](#) Ltd. [\[0656.HK +0.27%\]](#) Earlier this year, billionaire Zhang Xin bought a stake in the General Motors building overlooking Central Park, in a deal that valued the tower at \$3.4 billion.

What is unusual is that Chinese investors also are going after distressed properties that typically require local real-estate savvy and often additional investment. Foreign investors often steer clear of these deals because of the costs and complications involved with renovations, brokers, local politics and complying with U.S. laws.

Chinese investors are showing up more in sales by Auction.com LLC, which this year will conduct about 6,500 auctions of property, much of it distressed, according to executive vice president Rick Sharga. In just the past few months, they have made 23 bids and that doesn't include those making offers through U.S. representatives, he says.

Some Chinese investors are willing to take on such challenges because the properties are selling at steep discounts. The two Detroit buildings, for example, each would cost between \$80 million and \$100 million to replace, according to Ryan Snoek, a consultant for Luke Investments, the seller of the properties.

"People from China look at the price in which you can buy these buildings and think that's the cost of one apartment in Shanghai," says Goodwin Gaw, founder of the Hong Kong-based Gaw Capital Partners. The real-estate investment firm is in the early stages of raising a \$300 million to \$500 million fund for investing in U.S. real estate.

Some Chinese investors pride themselves in seeing value in troubled properties. DDI's chairman, Hailin Li, likes preserving architecturally significant buildings, said Peter Wood, general manager of the company's enterprise center in Shanghai.

"There is a deep understanding and respect as to what [role] these type of iconic buildings can play in the life of the local community," Mr. Wood says.

Detroit's central business district has seen more deals this year. Much of the buying is by Dan Gilbert, the billionaire founder of Quicken Loans Inc., which moved its headquarters there. Still, many real-estate investors have steered clear of the city, which filed for bankruptcy protection earlier this year.

Chinese investors also have been willing to take on more risk than other foreign investors that arrived recently. State-owned property developer Greenland Holdings Group has cut a tentative deal to buy a 70% stake in a sprawling development project next to the new Barclays Center arena in Brooklyn.

For investors looking for distressed properties, there are plenty on the market. About \$44 billion in delinquent loans that were converted into commercial mortgage-backed securities still are outstanding, according to real-estate data tracker Trepp LLC. That is down from \$63 billion in 2011 but still way above the \$2 billion in early 2007, Trepp says.

The pace of sales of these assets has been increasing by special servicers or auction houses. For example, the former Borland campus in Silicon Valley was taken over by special servicer LNR Partners LLC after a debt default and sold through Auction.com. The property, which was only about 13% occupied, was purchased by Hong Bo Li, a China-based investor.

Beijing's HNA Property Holdings, a subsidiary of a Chinese airline, bought New York's Cassa Hotel in 2011 for \$130 million. The owner, an affiliate of Assa Properties, was seeking bankruptcy protection for the project at the time. The Chinese company partially renovated the Times Square property, which now is charging rates starting at around \$340 for a Saturday night room.

—Esther Fung contributed to this article.

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**Corrections & Amplifications**



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