

# Industrial Shift

Chinese investors' pursuit of property has led from hotels to warehouses. **By DAINA BETH SOLOMON** Staff Reporter

**C**HINA Fisheries North America Inc. needed a place to store its imported seafood but wanted something more: an investment. The Pasadena-based subsidiary of a giant Chinese seafood company spent \$4 million in 2015 on a 50,000-square-foot warehouse in Montebello with freezer and cooler space, paying not only for room to stock tuna, shrimp, and cuttlefish but also for a chance to hook a growing investment trend.

"By studying the trends in the real estate market, we think, at that time last year, that the value of the property still had potential to go up," said company spokesman Basten Liu.

L.A.'s industrial sector might be on the cusp of the next wave of Chinese investment, following the billions of dollars its investors have pumped into glitzier property types, especially hotels and multifamily developments. Warehouses might be comparatively bland but investors are beginning to see them as gems of long-term hold investment strategies.

"It hasn't been until more recently that they've changed their focus to industrial," Barbara Emmons, vice chairman of CBRE Group Inc., said of Chinese investors. "It would be false to say there's tons of deals going on but there is tons of interest."

Emmons said she saw the depth of that interest at recent investor conferences in Hong Kong and Singapore, which were buzzing with talk about L.A.'s industrial real estate. Chinese investors were concerned that by focusing on hotels they were missing the boat on logistics properties.

Chinese companies spent more than \$2 billion on industrial property nationwide between 2010 and 2015, according to a study by the Rosen Consulting Group and the Asia Society, accounting for 10 percent of the total commercial transactions in that period. The activity was led by two major deals struck in 2015 by Chinese insurers, including one that gave China Life Insurance \$150.5 million worth of industrial property in Los Angeles, according to Real Capital Analytics.

The budding activity comes as space in L.A.'s industrial market dramatically tightens, ratcheting up rents and values.

Still uncertain is whether the pace of China-driven industrial acquisitions will quicken, especially as interest rates rise. Johnson Chien, director of industrial services in Newmark Grubb Knight Frank's City of Industry office, said investors might sit back a while to watch where prices land before getting back in the game.

"The first three months of (2017) will be somewhat quiet," he said. "I do believe that there will be some activity after the first quarter ... because people still need to deploy their money."

## 'Less headache'

Real estate in major U.S. cities began proving itself the darling of Chinese investors around 2010, when global economies were rebounding from the recession. As those investors looked for safe investments overseas, the U.S. real estate market began looking increasingly stable and able to deliver long-term profits, particularly multifamily and hotel properties. Investors also appreciated the chance to get on a fast-track for green cards

by investing heavily through the EB-5 Immigrant Investor Program.

Between 2010 and 2015, Chinese investors sunk at least \$17.1 billion into U.S. commercial acquisitions, according to the Asia Society study. That reflected an annual growth rate of 70 percent.

The investment boom has been particularly noticeable in Los Angeles, where Chinese companies are at work building massive towers and complexes. Greenland USA is spending \$770 million on Metropolis in downtown, for example, while Dalian

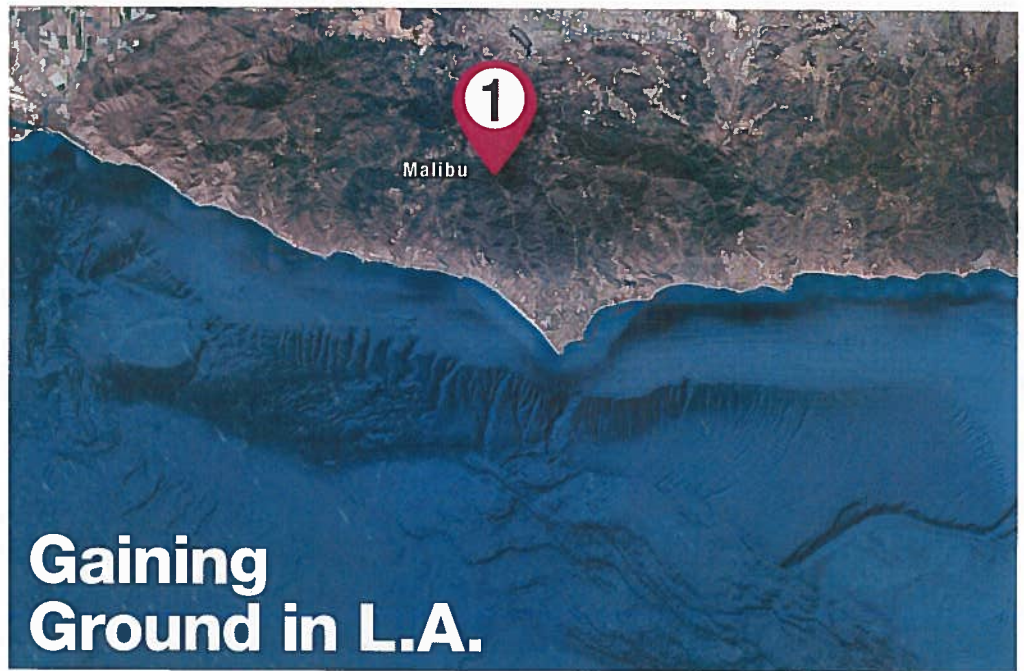
Wanda Group is pouring \$1.2 billion into One Beverly Hills. City Century, owned by Chinese firm ShengLong Group, announced plans last month to build Olympia, a three-tower project downtown, at an estimated cost of \$1 billion.

There is reason to believe investment will stay at high levels, given the number of rich power players trying to divert money from China's volatile economy. The country's currency has been slipping for almost two years, with its value now pegged at nearly 7 yuan to a dollar. There is worry that the value could

drop further by the end of next year, hitting 8 yuan to a dollar.

"Investors, if they have the means, will definitely try to invest in the states," Newmark Grubb's Chien said. "They want their money to be in a safe haven."

Industrial real estate is looking more than safe lately. L.A.'s industrial vacancy rate shrunk to 0.9 percent last year from 3.3 percent in 2010, according to Newmark Grubb. As a result of that demand, average industrial prices jumped 58 percent in the last five years, with rents climbing nearly 33 percent.



**1** FROM the beaches of Santa Monica to the streets of downtown, Chinese companies in recent years have made a mark on the L.A. landscape by spending millions to buy or build. Hotels and condominiums in particular have garnered Chinese backing, with a cluster in downtown where planning codes allow for high-rise construction. According to Rosen Consulting Group, Chinese companies pumped \$1.68 billion into L.A. commercial real estate acquisitions between 2010 and 2015. Here are some of the most notable new projects.

**1 MALIBU GOLF CLUB**  
Location: 901 Encinal Canyon Road, Malibu  
Type: Golf course  
Buyer: Shinhan Golden Faith International Development Ltd.  
Cost: \$30.5 million  
Acquisition date: August 2016

Details: Property bought from court-appointed receiver could be renovated or developed into homes.

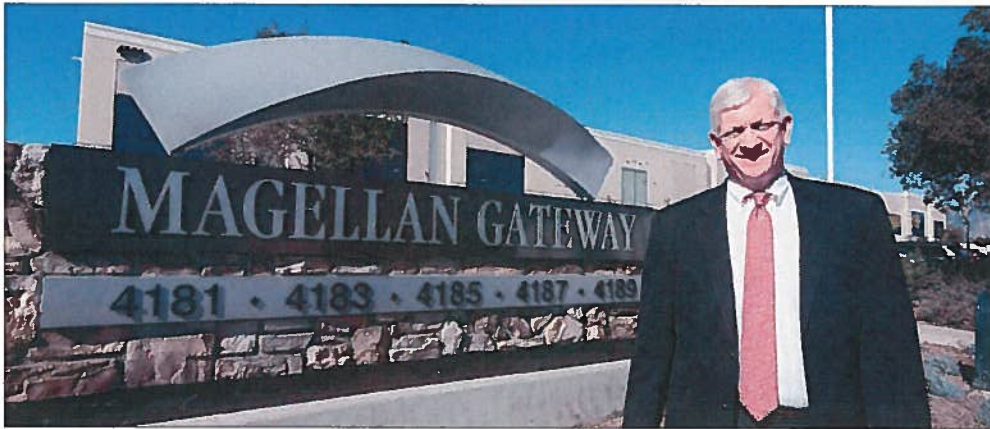
**2 LOEWS SANTA MONICA BEACH HOTEL**  
Location: 1700 Ocean Ave., Santa Monica  
Type: Hotel  
Buyer: Anbang Insurance Group Co.  
Cost: \$485.4 million  
Acquisition date: September 2016  
Details: Blackstone Group sold property as part of 15-hotel portfolio.

**3 ONE BEVERLY HILLS**  
Location: 9900 Wilshire Blvd., Beverly Hills  
Type: Mixed use  
Developer: Dalian Wanda Group  
Project cost: \$1.2 billion  
Completion date: Estimated 2020  
Details: Entitlements secured for 134-room

hotel, 193 condominiums, and restaurants.

**4 HOLIDAY INN LAX**  
Location: 9901 S La Cienega Blvd., Westchester  
Type: Hotel  
Buyer: US OCG (subsidiary of OCG China)  
Cost: \$52.5 million  
Acquisition date: July 2016  
Details: 405-room hotel near Los Angeles International Airport is buyer's first U.S. hotel acquisition.

**5 YAMASHIRO RESTAURANT AND HOLLYWOOD HILLS HOTEL & APARTMENTS**  
Location: 1999 N. Sycamore Ave., Hollywood  
Type: Mixed-use  
Buyer: JE Group  
Cost: \$38.5 million  
Acquisition date: March 2016  
Details: Site on seven-acre hilltop property



Culture Conscious: Kevin Staley at Magellan Gateway warehouses in El Monte.

RINGO H.W. CHIU/LA8

Investors can collect that cash flow with relatively little effort. "They started to notice that this type of property is less headache, decent return," Chien said. "They had the money, they wanted to buy. It's just one of the ways to diversify their portfolios."

**'Up the ladder'**

China Life in November 2015 bought a reported 30 percent stake in Singapore-based Global Logistics Properties Ltd.'s holdings across the United States – a \$4.55 billion collection of industrial properties spanning 57.9 million square feet across 20 major markets. China Life's investment reportedly amounted to more than \$1 billion. Five of those properties, valued at \$150 million, are in Torrance, Bell Gardens, Compton, and Santa Fe Springs.

Ping An Insurance Co. announced in October 2015 that it would buy \$600 million worth of logistics assets nationwide in a venture with Blumberg Investment Partners, a fund connected to Denver-based Black Creek Group, although without plans to enter the L.A. market. The companies said they plan to eventually invest an additional \$400 million.

Import and export companies such as China Fisheries are also biting into L.A.'s industrial stock as they aim to streamline operations.

Stephen Cheung, president of World Trade Center Los Angeles, said such a move can help companies cut back on costs as they grow.

"A lot of them are looking to make their supply chain much more efficient," Cheung said. "Instead of needing a third party to store their products, they get to control the timing."

Many of these import-export companies have clustered in the San Gabriel Valley, close to the neighborhoods that are home to Chinese and Chinese-American families but not too far from the ports. Rick Sheckter, an executive managing director at Newmark Grubb, estimated that about 80 percent of the industrial stock in the submarket was owned by Chinese and Chinese-Americans.

"They've moved up the ladder in terms of taking up more significant space," he said.

Increased interest from Chinese companies is pushing local developers to cater to them as potential buyers. Century City developer Magellan Group even hired a feng shui consultant when designing five Class A warehouses at its Magellan Gateway in El Monte.

"If you're respectful to the culture, I think that's probably appreciated," said Kevin Staley, a Magellan co-founder. "We knew that in the market there were a number of Chinese investors interested in buying. The economy in China has grown tremendously in recent years and Southern California has been very attractive."

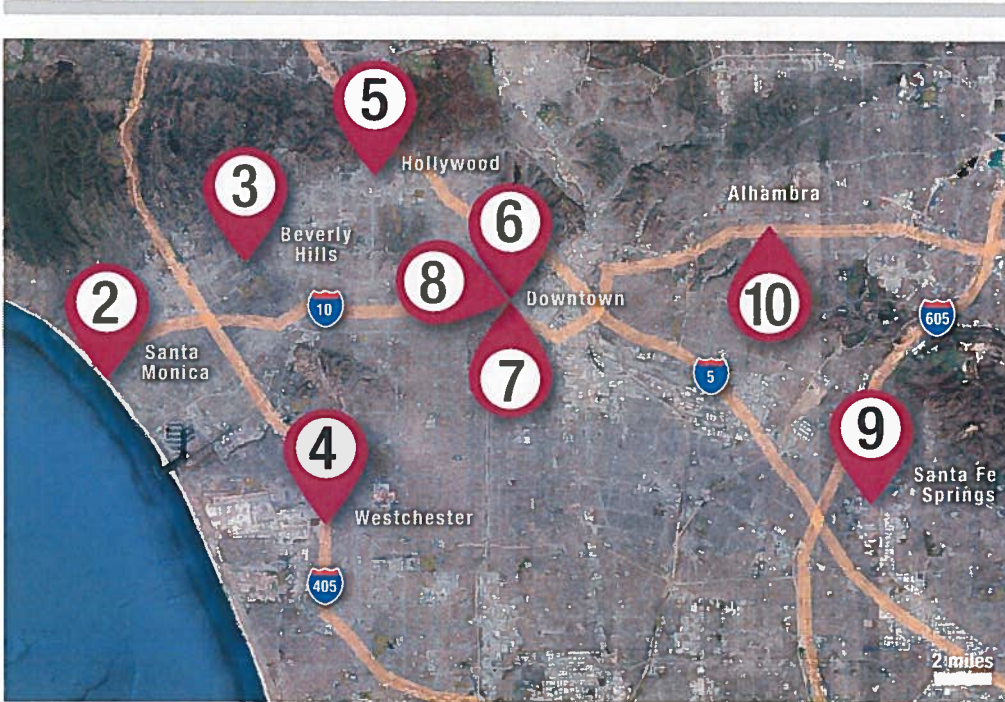
**Tough competition**

But even if Chinese companies are flush with cash, they might still struggle to pull that money out of China. The government has clamped down on allowing capital out of the country as more and more investors take resources abroad. It's unclear how draconian its next regulations could be.

"Depending on how nervous they are, and if they are going to go through another economic hiccup, they could act immediately or use it as a threat to slow things down," said Cheung.

One thing that's certain is that the competition for industrial property is not likely to ease up, said Chris Tolles, a director at Cushman & Wakefield, who is marketing Magellan's El Monte project. The competition stems not just from Chinese companies, but from large U.S. investors, too.

"There's rising demand across the board from Fortune 500 companies to small Chinese mom-and-pops," he said. "Everyone wants to own industrial in the L.A. area."



is undergoing renovations; BNG Group and Sugar Factory brought in to run restaurants.

**6 OLYMPIA**  
 Location: 1001 W. Olympic Blvd., downtown  
 Type: Mixed use  
 Developer: City Century (subsidiary of Shenglong Group)  
 Construction cost: \$1 billion  
 Completion date: Estimated 2021  
 Details: Three towers planned near L.A. Live with up to 1,367 residential units and 40,000 square feet of retail and restaurant space. Project announced in December still needs City Council approval.

**7 OCEANWIDE PLAZA**  
 Location: Figueroa and 11th streets, downtown  
 Type: Mixed-use  
 Developer: Oceanwide Holdings Co. Ltd.  
 Construction cost: \$814 million

Completion date: December 2018  
 Details: Under construction on 4.6 acres across from Staples Center includes 184-room Park Hyatt hotel, 504 condominiums, retail space, and restaurants.

**8 METROPOLIS**  
 Location: 899 S. Francisco St., downtown  
 Type: Mixed-use  
 Developer: Greenland USA/Greenland Holding Group  
 Construction cost: \$770 million  
 Completion date: July 2018  
 Details: Project under construction on 6.3 acres includes 350-room Hotel Indigo, 822 condominiums, retail space, and restaurants.

**9 INDUSTRIAL PORTFOLIO**  
 Location: 9306 Sorensen Ave. in Santa Fe Springs (map location), as well as sites in Torrance, Bell Gardens, and Compton

Type: Industrial  
 Buyer: China Life Insurance and Global Logistic Properties  
 Price: \$150.5 million  
 Acquisition date: November 2015  
 Details: China Life took a 30 percent stake in a portfolio of 57.9 million square feet of industrial properties nationwide valued at \$4.55 billion.

**10 SHERATON SAN GABRIEL HOTEL**  
 Location: 303 E. Valley Blvd., Alhambra  
 Type: Hotel  
 Developer: Shenzhen Hazens Real Estate Group  
 Cost: \$92 million  
 Completion date: 2017  
 Details: Five-story project adds 288 hotel rooms in area with substantial Chinese population.

— Daina Beth Solomon