Chinese developers ramp up in NYC

No longer content to just buy property, Chinese firms are increasingly building in five boroughs

July 01, 2014
By Janna Herron

Chinese buyers purchasing condos have made headlines in New York for some time. But with China’s real estate market overheating, more Chinese developers are getting into the New York City residential game as well.

The move comes on the heels of funds and private equity syndicates investing here. Several large Chinese developers are making their presence known, either teaming up with local players or going it alone. And having a long line of interested buyers from the mainland is helping to fuel their involvement here, sources said.

These interested buyers, in many cases, have already bought from them in China. “They are coming and keep coming,” said Andy Gerringer, managing director at the Marketing Directors, which specializes in selling new development projects.

“I’m literally days away from signing an agreement with a Chinese developer with a huge site,” Gerringer said.

One Chinese firm making inroads in New York is Xinyuan Real Estate Co., which is building a residential complex in South Williamsburg.

The company — which raised $500 million when it listed on the New York Stock Exchange in 2006 — made news in 2012 when it purchased 429 Kent Avenue in Brooklyn (and the debt attached to it) for a reported $54 million in 2012, after a local developer defaulted on a loan. Xinyuan, which last month closed on $165 million in construction financing from New York–based Fortress Investment Group, plans to spend $250 million in total on the project, including $85 million of its own equity. When completed, the development will feature 216 upscale townhomes and condos.

Xinyuan tapped Dutch architect Piet Boon to design the property called the Oosten, Dutch for “east,” which pays homage to both New York’s first settlers and the architect’s homeland.

“It’s one thing to independently identify a site, but to also raise the financing? That’s a bigger milestone,” said Omer Ozden, executive director of acquisitions and finance for Xinyuan. “We’re the only ones doing this without a JV partner. We’re a pioneer.”

Ozden expects the property to attract local families priced out of prime Manhattan, who would otherwise consider moving to the suburbs. He’s also targeting national and international buyers, including those from China.

“They have over 500 potential parties in China already interested in the property,” said Stephen Kliegerman of Halstead, who is marketing the development in New York. “It’s great for us.” Sales started June 1.

In addition to Halstead, Xinyuan has also tapped a marketing group in China and another in San Francisco for the project. Kliegerman said he is working with both of those firms and ensuring that buyers have New York real estate attorneys, who know how to close deals here.

In other instances, the marketing of Chinese-developed properties must be tweaked if a developer is planning to reserve a certain number of properties for Chinese individuals, Gerringer said. “If you have a 50-unit project, but we’re only taking half, then I’m not marketing a 50-unit building. I’m marketing a 25-unit one,” he said. “It can change how fees are structured.”

More Chinese input

Xinyuan isn’t the only China-based company coming here.

China Vanke, the largest residential developer in China, made its first foray into New York City recently, teaming up with Aby Rosen’s RFR Holding and Hines to build a 61-story luxury condo, which broke ground in February, at 610 Lexington Avenue. That project came on the heels of Vanke’s entry in the U.S., when it partnered with Tishman Speyer Properties in February to develop two San Francisco luxury condo towers totaling 655 units, the largest condo project in that city.

In May, company president, Yu Liang, declared that the “golden era” where “everybody makes money out of property” in China was now over.
Perhaps the largest New York residential play by a Chinese firm is from Greenland Holding Group, which in December took a $200 million, 70 percent stake Forest City Ratner’s Atlantic Yards megaproject in Brooklyn.

The project includes 14 planned apartment buildings. The initial construction phase plans included the development of the Barclays Center arena and the first four towers. Work on a 363-unit modular residential building called B2 started in December, and six floors are in place, but Greenland is not part of that project.

Last month, the complex’s final environmental impact statement was approved by the Empire State Development Corp., clearing the way for the start of Phase II construction of 11 buildings and related infrastructure. Executives at the Shanghai-based company are reportedly pushing for the entire complex to be completed within eight years.

Joining Xinyuan and Greenland in the local market is China State Construction Engineering Corp., China’s largest construction company. In April, it acquired New York-based Plaza Construction, which specializes in both commercial and residential development nationwide. So far, the Chinese company has been hands-off, allowing Plaza Construction to set the agenda, said CEO Richard Wood, adding that the firm is lending expertise where needed and helping to source materials overseas to save money.

“A large percent of their work is in China, and to stay a vibrant company and maintain growing revenue, it was a natural move for them to come to the Americas,” Wood said.

Chinese developers have also gotten into the commercial property game in New York. In the most high-profile of those investments, for example, Soho China bought a 40-percent stake in the General Motors Building in May 2013 for $700 million, and the investment arm of China’s largest industrial group, Fosun International, paid $725 million for 1 Chase Manhattan Plaza in October.

**No backseat drivers**

Nancy Packes, owner of Nancy Packes Inc. Signature Marketing Services, a sales brokerage for new developments, said the influx of Chinese developers is only going to increase.

“A lot of the groups coming in are beginning as investors with a local developer to learn the market. In two to three years, they will become the developers and hire the local talent,” Packes said.

“This is not about staying in the back seat. This is not a pension fund that can’t become a developer. They will definitely be here in the next cycle,” she added.

One of the biggest motivators for Chinese developers to set up shop here has been the softening of the Chinese economy, which was going gangbusters until recently. In the first quarter, however, the value of residential sales there fell almost 8 percent year-over-year. In addition, construction activity on new homes declined by 25 percent, according to the country’s National Bureau of Statistics.

Chinese buyers have supplanted Russians as the top group of foreign residential buyers in Manhattan, according to a recent report in China Daily, an English-language Chinese newspaper. While that report didn’t cite statistics, the federal government’s EB-5 financing program provides some clue as to Chinese interest to establish residency stateside. Last year, more than 80 percent of the applicants to the program — which offers permanent visas in exchange for investments of $500,000 or more in high unemployment areas — came from China. The number of U.S. visas issued to Chinese investors through the program hit 6,895 in 2013, a more than 175 percent increase over just two years before.

“I was over in China for three weeks last summer, doing consulting for the EB-5 program, and I would go into packed convention halls with families lining up to invest,” said James Nelson, a partner at Massey Knakal Realty Services. “They want green cards. They want their kids to go to school here. They want to buy property here.”

The Marketing Directors’ Gerringer expects the trend to continue, as the U.S. continues to prove to be the best safe haven for capital. That’s especially true when compared to highly regulated Europe (which is still flirting with recession), riotous and expensive South America, and the behemoth itself, China, with its slowing growth, he said.

“No matter what happens in the world,” Gerringer said, “you’ll always have a piece of your pie here.”