Insight

Greater China Outbound Europe
The Dragon Breathes Fire

Europe 2015

02/03/2016

- Greater China investment into Europe reached a record EUR8.5bn in 2015, a 22% increase on 2014.
- There was increased diversity in the investor base, with private companies and corporates joining institutional and sovereign funds as the main active investors in 2015.
- The geographic focus changed. In the UK there was more investment in the regions outside London and there was greater investment activity in Continental Europe. We see this trend continuing, with Germany coming more into focus.
- Investment is shifting to a broader range of asset types. Retail increased its share, with continued investment in offices and alternative assets like hotels and residential. We see a continuation of this trend, with logistics set to join the mix.
- We expect further investment to come as investors continue to diversify away from home markets. Europe is set to gain from EUR70bn of global spending power from Chinese institutions.
- Whilst some money will remain on core long income assets, those investors with an existing footprint may consider more value-added opportunities.

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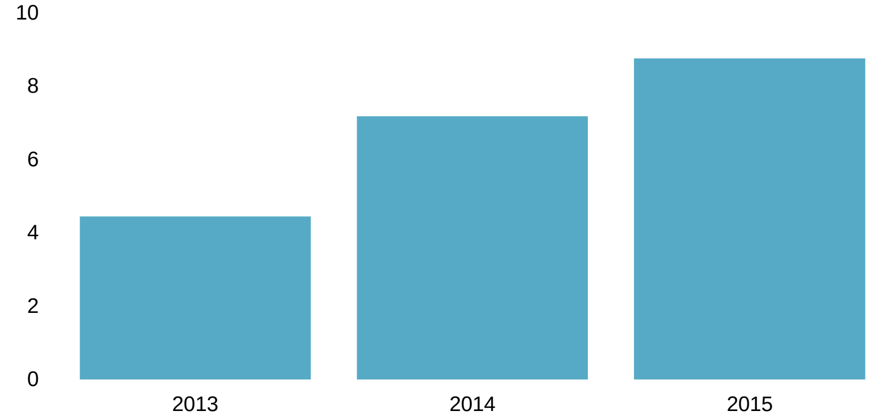
Figure 1

Greater China Investment into Europe, EUR bn



Source: Cushman & Wakefield Research

Greater China Outbound Europe

Record investment in 2015

Weaker growth across Greater China and growing volatility on local stock markets, especially in Mainland China, has led to negative headlines and expectations that outbound investment from Greater China would cool. The reality across Europe in 2015 was a record level of Chinese investment of EUR8.5bn, a 22% increase on 2014 (Figure 2). This reflects continued demand from mainland China, but also growing activity from Taiwanese investors.

Changing the guard ….

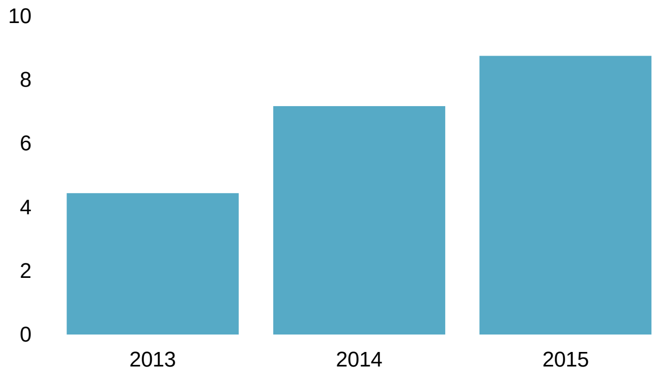
Private developers have historically made up the vast majority of capital flowing from Greater China. 2014 saw growing levels of both sovereign and institutional capital, representing half of activity. In 2015 we saw a more diverse range of active investors, with no single source truly dominant. Private companies had the biggest share at 23%, with institutional, sovereign and capital from listed companies taking a 16-19% share each (Figure 3). Corporates were also active, with a 16% share, supported by Shanghai Jin Jiang International Hotels acquisition of the Louvre Hotels Group from Starwood Capital.

… and driving across borders

Almost all early investment into Europe from Greater China was focussed on the UK, and mostly London. In 2014 over EUR7bn of Greater Chinese capital flowed into Europe. Of this over 80% (EUR5.9bn) flowed to the UK, with 90% of this targeted on London. 2015 marked a sea change in the flow of capital. Just 56% flowed into the UK. London again grabbed the highest share, albeit below 90% as marginally more capital flowed to the regions. France attracted a 27% share (Figure 4), in part supported by Shanghai Jin Jiang International Hotels acquisition. Germany attracted just 4%, with Peripheral markets such as Spain and Italy gaining a share of investment, with Belgium also attracting investment with China Investment Corporation taking a share in a portfolio of shopping centres.

Figure 2

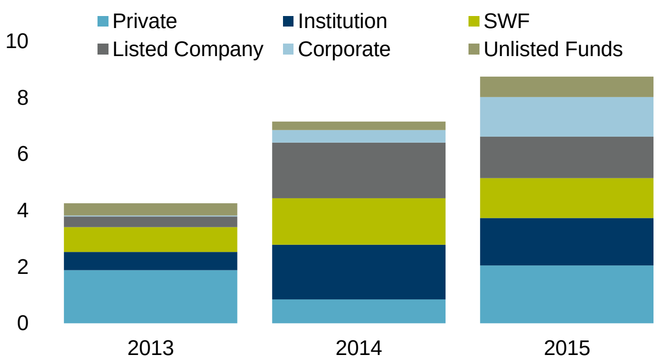
Greater China Investment in Europe, EUR bn



Source: Cushman & Wakefield Research

Figure 3

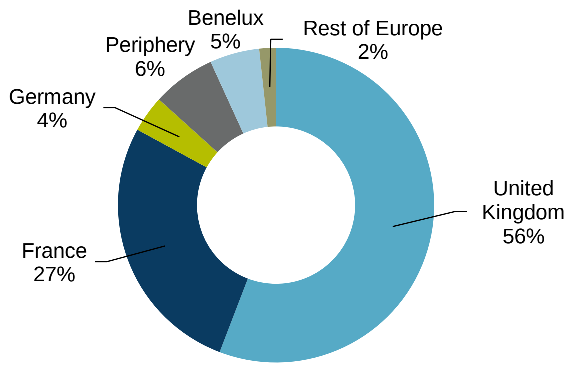
Investment by investor type, EUR bn



Source: Cushman & Wakefield Research

Figure 4

Investment by country, 2015



Source: Cushman & Wakefield Research

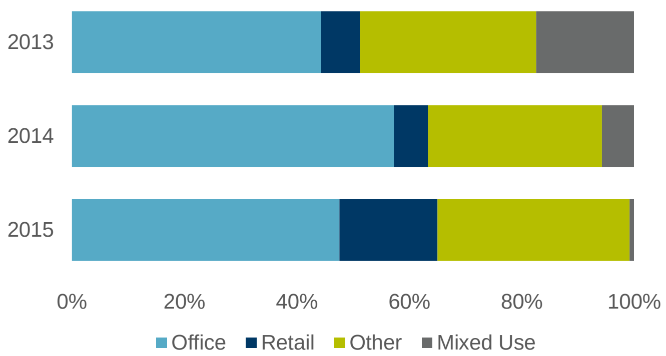
Greater China Outbound Europe

Broader mix of sectors

Whilst offices, hotels and residential have been the typical focus of capital from Greater China, 2015 saw a broader mix of investments (Figure 4). Offices still dominated, with a 48% market share, but reflecting CIC's investment and other institutional deals into shopping centres and retail parks, retail grew its share to 17% of the total, compared with a 6% share in 2014. This is a clear and welcome change in strategy and will pave the way for further investment activity into the retail sector. Other sectors, predominantly hospitality represented a further third of activity

Figure 5

Investment by property type



Source: Cushman & Wakefield Research

More fire power to come

Despite continued uncertainties and volatility in markets at home there is little sign that the Chinese dragon is running out of puff, with plenty more firepower to come. Indeed uncertainties at home are expected to drive further investment overseas as investors seek to diversify their holdings and spread their risk. With Chinese insurers, in particular, growing their overseas footprint, we expect Europe to share the spoils of ca EUR70bn of global spending power[1]. This may offset sovereign investment which may be curtailed by domestic sentiment. Private companies and investors may seek to diversify away like their institutional peers.

In line with trends last year we see a broader focus in terms of both geographies, with Germany gaining a greater share among Greater China buyers. We also see continued shift into other sectors, with more investment into retail, as well as growing demand for logistics, which has seen limited investment to date. Offices as well as alternative uses – hotels, leisure and residential – in particular will remain in focus.

Whilst some institutional money will continue to seek core, long income assets, competition for such assets is set to remain strong. Therefore we expect some investors, especially those with an existing footprint on the market, to consider value-added opportunities in order to see greater value and enhanced returns.

[1] See Cushman & Wakefield Insight, Chinese Insurance Outbound Capital, 24 November 2015

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