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China Outbound Real Estate Investment into Europe

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Chinese Investment in Europe Real Estate Market

- Favored Target Locales in Europe
- Why Europe?
- European Sector Investment Prospects in 2014
- Representative Chinese Investor

Chinese Investment in European Real Estate Market

- Chinese Investment in European Property Triples in 2013
- Chinese Investors purchased €3.05 billion of commercial properties across Europe in 2013

  (Source: Real Capital Analytics)

Representative Chinese Investor

Investor	Representative Case
Sovereign Wealth Fund	**China Investment Corp** Purchased the Chiswick Park business estate in west London from Blackstone for around €917 million
Insurance Company	**Ping An Insurance** Purchased the Lloyd's Building in London for €304 million
Developer	**Greenland Group** Purchased the Ram Brewery mixed development site in South West London
State Administration of Foreign Exchange	**Gingko Tree** China's most active buyer in Europe's real estate markets in 2013, acquiring 16 properties for €1.82 billion.

Favored Target Locales in Europe

Source: Real Capital Analytics

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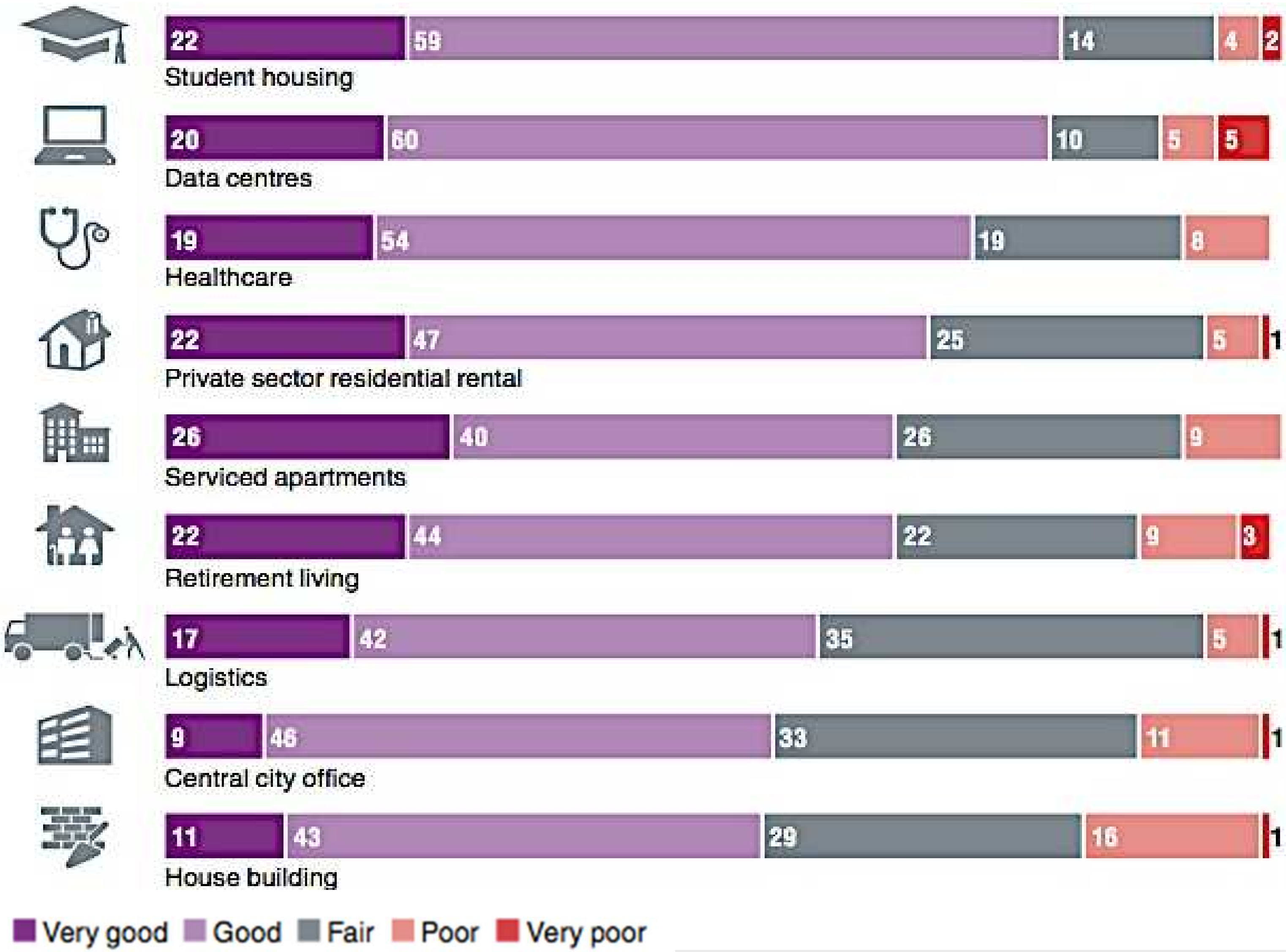
Why Europe?

- Attractive pricing
- Good development opportunity
- Markets retain transparency and liquidity
- Higher yields - recovery and growth
- Less restrictive visa policy compared with US and other countries

European Sector Investment Prospects in 2014



Source: *Emerging Trends Europe 2014* survey

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Outbound Investment Regulatory Environment in China

- New NDRC Rules on Outbound Direct Investments
- New SAFE Rules on Cross-Border Security
- Flexible foreign exchange control regime in the FTZ
- Relaxed Investment Curbs for Insurance Companies

New NDRC Rules on Outbound Direct Investments

In April 2014, the National Development and Reform Commission ("NDRC") promulgated the *Measures for Approval and Recordation Filing of Overseas Investment* Projects, which replaced the decades-old approval system.

- Filing for ODI Projects
  - All ODI projects involving investment of less than US$1 billion, other than projects involving designated "sensitive regions" or "sensitive industries", are subject to a filing procedure with NDRC or provincial governments.

- Clarity on timeframes
  - The new NDRC rules provide the NDRC with 20 business days to review an application for an ODI approval for transactions over US$1 billion and only 7 business days for an ODI filing application for transactions under US$1 billion.

New SAFE Rules on Cross-Border Security

- In May 2014, the State Administration of Foreign Exchange ("SAFE") promulgated new rules, which replaced a number of existing regulations and substantially relaxed the current PRC regulatory regime for granting and taking cross-border security.
- Major Changes
  - "Outbound Security" or "Nei Bao Wai Dai" - the security provider is onshore and both of the debtor and beneficiary are offshore
  - "Inbound Security" or "Wai Bao Nei Dai" - the security provider is offshore and both of the debtor and beneficiary are onshore
  - No prior approval requirements; post-signing registration required for Outbound Security and Inbound Security only
  - "Parent - subsidiary" requirement for guarantor and debtor in an Outbound Security and quantitative financial ratios of guarantor and debtor repealed
  - No prior SAFE approval to enforce Cross-border Security
  - Chinese individuals expressly allowed to provide Outbound Security

New SAFE Rules on Cross-Border Security

- Case: Greenland
  - The first application of the new SAFE rules on cross-border security;
  - The debt, guaranteed by Greenland Holding Group Co., includes $400 million of notes due in 2019 at 285 basis points more than US Treasuries and $600 million of 10-year debentures at a spread of 341.2 basis points;
  - The guarantee structure should enable the offshore subsidiary to obtain lower funding costs than it could without a guarantee.

- Market Expectation
  - With these new types of guarantees, we expect transactions by Chinese corporates to increase even further. Other Chinese companies, particularly those that are incorporated onshore and have substantial offshore investments, will follow Greenland's move.

Flexible foreign exchange control regime in the FTZ

The Shanghai Pilot Free Trade Zone ("FTZ"), established in September 2013, as the first special trade zone in China, is designed to be a testing ground of reform and opening up policies that, if proved successful, will likely be replicated in other Chinese cities.

- Overseas Investment Filing System
  - Overseas investment filing system is consistent with the new NDRC rules;
  - The FTZ administration committee is the competent filing authority.
- Flexible Foreign Exchange Control Regime
  - The SAFE released a set of detailed foreign exchange guidance rules introducing more flexibility into the foreign exchange control regime in the FTZ;
  - Outbound investments by an entity established in the FTZ can now be processed with commercial banks directly without requiring approval by the SAFE.

Flexible foreign exchange control regime in the FTZ

- Case: Canaan Capital
  - The first overseas real estate investment fund;
  - Incorporated in the FTZ, Canaan Capital is focused on overseas real estate investment for Chinese investors;
  - CCB Elite Capital (a leading real estate investment management firm in China) is the founder and majority shareholder of Canaan Capital; Canaan Capital also benefits from its strategic partner, Shanghai Overseas Chinese Exit-Entry Service Co., Ltd., a top immigration investor services company since 2002.
  - By combining the real estate investment expertise of CCB Elite Capital and the immigration investor services of Shanghai Overseas Chinese Exit-Entry Service Co., Ltd., Canaan Capital is uniquely placed to meet the requirements of both the fund and immigrant investors.

Relaxed Investment Curbs for Insurance Companies

In January 2014, the China Insurance Regulatory Commission ("CIRC") promulgated the Notice on Strengthening and Improving the Regulation over the Percentages of Various Uses of Insurance Funds, which further increased the ceiling of real estate investment from 20% to 30% of total assets of insurance companies.

- Case: Ping An Insurance
  - In July 2013, Ping An Insurance Group Co., China's second largest life insurer, bought the Lloyd's building, an iconic building in London, for around £ 260 million.
- Case: China Life Insurance
  - In June 2014, China Life Insurance Co., China's largest insurer, together with Qatar Holding has bought 10 Upper Bank Street, a building in Canary Wharf, for £ 795 million.