

# INTERNATIONAL INVESTMENT IN CHINA... KEY FACTORS TO ACHIEVING GREATER RETURNS



*“International investors are turning to China to seek greater investment, but many are finding those higher returns difficult to achieve. The challenging Chinese legal system, the level of cash equity required, the increasingly competitive debt finance and emergence of domestic competitors are just a few of the hurdles international investors face in the Chinese market.”* Simon Baxter - Partner

EC Harris has found international investors who are successful in China have adapted their investment strategy to build local relationships and respect the Chinese culture. This approach has enabled them to overcome some of the perceived barriers to entry. They have not tried to impose ‘a Western way’ of doing business.

Success lies in spending more time with greater depth on the selection and alignment of; the right partner, the right people, and the right product.

## The Right Partner

It is important for international investors to take time in identifying and understanding their local development partner. The essential common ground needs flexibility from both parties in order to align cultures, expectations, capabilities and objectives. It is also important to recognise remaining differences and how to manage these in an effective partnership.

Imposition of so called ‘international practices and procedures’ will often alienate and demonstrate a lack of sensitivity and even trust in the Chinese market. International investors often find a personal relationship approach to doing business a challenge compared to their normal business practices and corporate governance.

There is also need for local development partners to have a greater understanding of the investment objectives of the deal. Effective local support will integrate both international investors and local development partners through independent insight and knowledge of both parties.

*“It is not sufficient to select a development partner in these more challenging markets based solely upon construction delivery capability. They must demonstrate that they have the skills to understand the deal structure and financial returns required. They must also be able to optimise the product through their local knowledge to meet the demand in an often immature market.”*

Investor

### The Right People

One of the biggest challenges that international investors face is human capital. In China, it is often a lengthy process to build the right internal team with the right skills.

The key to success for international investors is to engage with established partners who will bring in the skills needed to integrate investment strategy with the local market resource base. It is essential that a gap analysis is undertaken as a key component of the team selection to identify the risk and mitigation plan required.

### The Right Product

International investors must bring an understanding of asset class and product to provide tangible intellectual property for the deal.

Once the market positioning has been identified it is essential that the design of the asset reflects the market. Many international investors are over specifying the product design without commensurate payback, therefore reducing the investment returns.

Institutional standards are not as well defined in the Chinese market as in others. It is important to acknowledge where a lack in clarity exists and to not simply default to an international specification.

### In Summary

Property Investment in China does have its inherent challenges. However greater returns can be realised if international investors take a less western approach. The first step will mean allowing sufficient additional time at the front end of the due diligence process to allow alignment of partner, people and product.

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