

The Chinese Buyers' Club: Economic Shifts and Cultural Idiosyncrasies Guide a Fast-Growing Segment of the Condo Market

By Chris Pomorski | 3/27/14 2:52pm



Brokers Juan and Li Chen, from left, have capitalized on booming Chinese demand for New York real estate. (Sasha Maslov)

It is not unheard of in certain towns on Long Island's rarified Gold Coast—in Brookville and Manhasset, for example—for postal agents to allow the removal of the number four from property records, doorways and mailboxes. Where the swap will cause no undue confusion, the fours are often replaced with eights. The postal agents do this by request and the homes involved tend to be palatial. Once quite unthinkable, such requests have lately grown more common.

The uptick arises from an influx of Chinese residents whose estimable wealth, education and cosmopolitan sensibilities have done nothing to mitigate their belief that the number eight connotes prosperity and that four suggests death.

Prosperity, naturally, is to be wooed—death avoided. And New York real estate agents worth their salt have learned to act accordingly.

In 2011, in Nassau County five homes were sold for more than \$10 million. Four were sold to buyers from China. Of those, Shawn Elliott sold three.

The proprietor of Shawn Elliott Luxury Homes, a real estate brokerage specializing in Long Island mansions, Mr. Elliott estimates that today more than 50 percent of houses traded on the Gold Coast that cost \$5 million or more go to Chinese buyers. To service the demand, his firm now maintains dedicated phone lines manned by Mandarin-speaking representatives—a practice not uncommon among New York City agencies.

Fair Housing laws make precise figures difficult to calculate—or at least for residential brokers to acknowledge. But buyers from mainland China and Hong Kong account for about 25 percent of the city's international market, or 8 percent overall. As a function of total residential sales in 2013, that puts their contribution at nearly \$3 billion.

Numbers like those will elicit near-childish giddiness from brokers, and there is reason to believe that the well is far from dry. According to a January analysis by the Hurun Report, a group devoted to tracking China's wealthy, 64 percent of mainland Chinese with personal wealth of \$1.6 million or more had emigrated or planned to do so, with the U.S. being their favored destination.

Tallies from U.S. Citizenship and Immigration Services, an agency within the Department of Homeland Security, further bear that out: Last year, the office received a record number of applications for the EB-5 visa program, which allows foreigners to live here provided they sink a minimum of \$500,000 into job-creating endeavors. (Mr. Elliott has facilitated EB-5-eligible Chinese investments in franchises like Dunkin Donuts, and in factories and hotel construction, among other things.) In 2013, Chinese nationals received 6,895 EB-5 visas, comfortably outdistancing any other group.

In some neighborhoods, postmasters have become used to the sight of Mr. Elliott, a middle-aged, rosy-cheeked man whose wide-legged suits and roundish physique make a pleasant, slightly nostalgic advertisement for suburban affluence.

He has been having house numbers changed, he told me, for about three years.

“I think I was the first,” he speculated. “So the reaction was kind of like: ‘Seriously?’ Now when I walk in, they know exactly why I’m there.”



Long Island homes listed by Shawn Elliott. (Shawn Elliott Luxury Homes)

That the last three decades have seen vast wealth produced in China is not news. Freed (relatively-speaking) from harsh economic restraints and spurred by massive infrastructure initiatives, manufacturers, entrepreneurs, real estate developers and financiers led growth that had, by the end of 2012, helped to create a total of more than 700,000 residents with investable assets of at least \$1.6 million, more than twice the extant number in 2008.

Why, then, are so many newly minted millionaires eager to flee the land that lined their pockets at such depth and speed?

For one, the conditions that produced wild growth have lately run up against moderating—in some cases unsettling—correctives. And there is also the fact that the preferences of hungry strivers often differ from those of established executives perched atop healthy nest eggs.

According to a report last August issued jointly by Bain & Company and China Merchants Bank, between 2011 and 2013, wealth preservation and children’s education replaced wealth creation and quality of life as primary concerns among China’s moneyed classes. And though the Chinese economy continues to gain—at a rate of 7.7 percent last year—it is doing so significantly slower than during peak boom years, when it saw double-digit percentage growth.

Chinese banks have always offered very low interest rates on savings accounts, which have at times failed to outpace inflation.

“Simply parking money in an account is not very attractive,” Kenneth Pomeranz said recently. “And there is a feeling that the domestic real estate market is overheated and that there will be a correction.”

A massive construction boom attended overall economic expansion and vacancies are rampant, while condo prices in Beijing can outdo those in Manhattan. “We’re talking about a country with a very high savings rate,” continued Mr. Pomeranz, a professor of Chinese history at the University of Chicago and author of *The Great Divergence: China, Europe, and the Making of the Modern World Economy*. “For many years, people have been plowing back a lot of profits into their businesses. Now, if they think the economy is going to be leveling off, or at least growing more slowly, they may be deciding they want to put money somewhere else.” New York real estate, of course, tends to be a pretty solid bet.

The threat of indictment or fine for corruption has generated an additional (and rather persuasive) incentive for Chinese emigration. “You have a situation where a lot of money was made, and an awful lot of it was made by private companies with close ties to government,” Mr. Pomeranz said. Because private citizens cannot own land, real estate developers, for example, require long-term land leases; Chinese manufacturing contracts often rely on government enterprises and public projects.

High-profile prosecutions last year of figures like Liu Zhijun, the former minister of railways, and of one-time Chongqing party chief Bo Xilai, meanwhile emphasized invigorated anti-corruption efforts. Mr. Liu received a suspended death sentence for taking some 64.6 million yuan—\$10.5 million—in bribes. Mr. Bo, too—whose wife was convicted of murdering English businessman Neil Heywood—was found guilty of receiving bribes worth millions of dollars, garnering a life term.

Many lesser offenders—and even those who haven’t done anything wrong—also have cause for concern. “Lots and lots of people have gotten rich that have ties to the state bureaucracy in one way or another,” Mr. Pomeranz told me. Some fear the loss of ill-gotten gains, while others may simply be nervous about the questionable dealings of business partners. “Or they may be in a gray area. Rules in some cases were vague. Or rules were sufficiently unrealistic that everyone was violating them.”

Anti-corruption campaigns also represent opportunities for score-settling, and frequently create arenas in which blame caroms off some to settle unfairly on others: “The fact that someone is swept up in an anti-corruption campaign does not necessarily mean that that someone has does something unsavory.”



The Touraine condo building, at 132 East 65th Street, reflects the tastes of many Chinese buyers.

Juan and Li Chen are 28-year-old twin sisters and brokers at the Siderow Residential Group, a midsize agency based near Grand Central Station. Li began working as a broker last May, aiming at first to complete perhaps one rental deal per month. But using Weibo and Siba, which equate roughly with Twitter and Tumblr, Li swiftly developed a few hundred Chinese clients, many of them buyers. And Juan got her license and joined Siderow in August to help with the work load.

Born in 1985 outside Chengdu, a city of some 14 million in the Sichuan province, Li and Juan arrived in the United States in 2007 with an educational exchange program. They came of age during a period in which only-

children predominated—the one-child policy was only recently loosened—and they consider that being constantly in each other’s company gave them a social advantage.

“Many Chinese people are very shy,” Juan told me. “They are not sure who are the right people to know. I love to talk to people.”

The sisters’ paternal grandmother was a domineering woman who took exception to her son’s failure to produce a male heir. Soon after Li and Juan were born, their father ceased working, grew depressed and began drinking heavily. He left the family when they were 7 and died two years later.

With their mother forced to work at low-paying jobs—she would eventually open a restaurant where Li and Juan washed dishes—and no funds available for child care, the sisters spent a lot of time playing on construction sites. The development boom was on, and in a pinch, the architects and builders that make up one branch of the family became babysitters.

The sisters watched as old structures were torn down and replaced with modern monuments of steel, marble and glass—a pattern that repeated itself across the country. It was to such buildings that the newly wealthy moved, raising children among doormen and luxury hotel-style amenities—the same amenities Li and Juan’s clients now seek in New York apartments.

“They are used to very good service,” Li said of her buyers, many of whom are still in college or graduate school and have access to family money. “They don’t want old. They want a gym, huge windows. They will not walk up even to the second floor. There must be an elevator.”

Quaint Village apartments with exposed brick get little traction with these buyers, whose average budgets hover around \$1.5 million. “They don’t like a small space. They don’t like a lack of sunlight.” Ditto for Soho lofts: “They say, ‘I feel like I am living in an old factory!’” They have a point.

Last March, *Time* reported that a woman from China had purchased a \$6.5 million apartment for her 2-year-old daughter in the famously grand One57 condominium building, speculating that the little girl would one day attend Columbia, NYU or Harvard. If not exactly typical, the deal was nonetheless emblematic of an increasing tendency among wealthy Chinese to purchase New York homes for young children. “Chinese education is heavily oriented towards standardized test taking,” Ken Pomeranz said. “The competition is very intense, and people are starting to wonder if that’s what they want for their kid.”

Parents often arrive in New York versed in the hierarchies of local school systems. Shawn Elliott has arranged tours and introductions to principals and guidance counselors, providing translators as needed.

“The hand-holding that my firm does—the time that we spend to teach the Chinese consumer about the education system, hospitals and health care, insurance, how to get tickets to a show, et cetera—is enormous,” Mr. Elliott said. Trips to Rolls-Royce and Mercedes dealers have been arranged and obscure models procured. Inquiries about private jets are not uncommon.

More so even than with Western clients, Li Chen told me, “With Chinese people, you need to have one-to-one networks.” Her first sale—of a house in Yonkers to a Mrs. Wong—came after spending many hours with the buyer and her husband. She fetched them from the airport and guided them to their hotel, ferried them to restaurants and explained how and when to tip, hail taxis and acquire directions.

Mrs. Wong has since enlisted Siderow to aid in her search for a pair of commercial properties, and Li has visited her—and many others—at home in China, stoking a referral network that relies on face-to-face relationships.

In January, at the request of her blog readers, Li visited the cities of Beijing, Wuhan and her native Chengdu, where the runway smog was so thick that upon landing, she couldn't believe the plane had descended from the clouds. (Deplorable air and water quality are oft-cited motivations for emigration.)

On some occasions, she entered university and office buildings expecting to meet for informal conversations with one or two people and was greeted by dozens of clients, prospective buyers, real estate students, leasing agents and commercial developers. Word had spread, and they were expecting a presentation on the New York market.

On a recent afternoon, I met Li and Juan in Manhattan for tours of several apartments. Before becoming a broker, Li regarded feng shui as a brand of superstition. She gave it little credence. Her clientele, however, largely feels otherwise—some insist on bringing consultants to apartment visits—and she has come to accept it as a comforting influence.

The first unit we saw proved eminently eligible. A one-bedroom condominium asking \$1.5 million with high-end kitchen appointments and 1.5 baths, the apartment had shiny hardwood floors and huge windows, with views to the south, east and west. For many Chinese buyers, southern exposures are non-negotiable, and compasses often emerge from pockets at showings.

The East River was visible from the living room, satisfying a feng shui preference for water views that to some extent explains concentrations of Chinese purchases near the eastern and western edges of Manhattan and in the Financial District.

To Li, the layout looked favorable, too. No support columns impeded movement or sight lines, and the rooms were regularly shaped—the floors untilted and without levels. Were a buyer interested enough to make a second visit, Li said, he might well bring a ball, which he would turn on its side and place in the center of the unit to ensure an even grade. A rolling ball could sink a deal.

In the lobby downstairs, a Chinese man in his late twenties waited to see the unit. Juan and Li speculated that he would like it, though for some status-conscious types, its 38th floor location might be too low. “I had one businessman who wanted to rent only a penthouse,” Li said. “He was on the 30th floor, but he said it's not high enough. He said, ‘I don't want people stepping on my head!’”

Another property, a tiny one-bedroom situated atop a Downtown hotel, was cramped but light-filled and looked onto the Brooklyn Bridge. Li drilled the concierge about neighbors' air rights and concluded that at less than \$1 million, it might make for a sound investment.

A third listing held no promise at all. A \$1.1 million condo in the Financial District, it, too, had a gleaming kitchen and water views. But the unit was irregularly slanted, and ductwork had been built over with boxy protrusions that many Chinese buyers find off-putting.

“We say when there are beams or molding on the ceiling, especially if it's over the bed, that it's like a sword cuts your heart,” Li told me.

Another deal breaker: the building's close proximity of the West Side Highway, whose noise and confrontational aspect promise a flow of less-than-desirable energy.



Li and Juan Chen at the Touraine. (Sasha Maslov)

Months ago, Li designed a Chinese version of her company's name. Phonetically similar to "Siderow," it employs a play on words that might mean "home makes you happy" or "willing to be happy." Done in poetic, slightly antiquated language, the phrase implies a reverence for tradition while also suggesting progress.

"Sometimes, I feel like our life is really dramatic," Juan said.

When the sisters arrived seven years ago from Chengdu, they were \$15,000 in debt and had between them \$100 in cash, which their mother had borrowed from friends. They have since married and bought apartments in Queens. With the proceeds from her real estate sales, Li aims to pay for a master's degree in education from Columbia, where she has been admitted. Her own children won't likely be washing dishes.

"If our mother had our opportunities," Li said, "I think she would have a happier life. But we have been around wealthy people every since we came here. Not every rich child is happy. When children of rich Chinese talk about themselves, it's very difficult for them not to mention what their parents did for them." For some, the very fact of privilege makes it hard to understand who they are.

Sometimes, Juan said, "material things have to come before your dream. That's a hard lesson to learn."

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