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Chinese presence in real estate in South Africa and Mauritius

The proliferating Chinese presence in the foreign real estate business is a pertinent subject of debate the world over. Australia, New Zealand, the United Kingdom and several other countries, fear that Chinese interest in property acquisition in their respective countries is leading to inflated house prices. In the midst of these trends set by the Ultra High Net Worth Individuals (UHNWI) from China, African countries are now emerging as prospective destinations for large numbers of empowered Chinese middle class home-buyers. South Africa and Mauritius distinguish themselves as two of the preferred destinations of this segment. As foreign property ownership mushrooms in the two countries, evaluations indicate that the countries fail in adequately regulating these investments to match their existing socio-economic, environmental and political contexts.

Motivation of Chinese investors

Justifications for the influx of Chinese real estate investors (developers as well as property buyers) comprise of a mix of push factors from the Chinese domestic side and attractive pull factors from the African landside. These are discussed below:

The first rationale is the rapid urbanisation rate in China, which is fuelled by the growth in the Chinese middle class. Over the past 20 years, there has been a yearly increase of at least one per cent in China's urbanisation rate. Composed of approximately 174.08 million households, today's Chinese middle class citizen earns between US\$ 9,000 to US\$ 34,000 yearly, and has an average disposable income of US\$ 4,500. Compared to the long-run benchmarked average of 100 points as disposable income in China, in the year 2000, the ratio of house prices in China to average disposable income was at 130:100. This disbalance is echoed in a 2013 study by the International Monetary Fund (IMF) and Credit Suisse which notes that globally, on a house price to wage ratio, Chinese cities are much more expensive than those in Tokyo, New York, Los Angeles, Sydney, London etc.

Overseas property ownership by Chinese citizens can be traced back to the Reform Era after the late 1970s. At that time, affluent Chinese citizens started buying property overseas. These overseas purchases allowed those who had quickly grown wealthy, to siphon illegally acquired money out of the reach of

Chinese authorities. The high profile case of former Minister of Commerce and Party Secretary of Chongqing Province, Bo Xilai, who owned luxury property in Cannes, is one example. This manoeuvre of money laundering remains popular among certain Chinese citizens today, who see overseas property purchases as an option to flee Xi Jinping's crackdown on corruption.

Another indirect push factor for overseas property acquisition by Chinese investors is the relatively higher labour cost in China. As labour costs increase, multi-national companies (MNCs) and big Chinese companies shift their operations overseas. During the course of this shifting process, these multi-nationals export their senior professionals and high-ranking administrators to new countries hosting their manufacturing plants. Hisense and China Faw Auto Makers, for instance, have moved their manufacturing plants to South Africa.

The expanding taste for luxury tourism among Chinese citizens is yet another reason for growing overseas property acquisitions. Since the 2000s, adventurous Chinese middle class tourists have begun to increasingly visit regions such as the Middle East and Africa. The Chinese government thereafter decided to encourage Chinese private companies in "going-out" tourism investment projects globally. One step in this direction has been the abolition of the US\$ 100 million limit for overseas investment in 2014, which previously needed the approval of the Ministry of Commerce (MOFCOM). The growth of Chinese

tourism simultaneously triggered an increase in overseas real estate investment by Chinese hospitality investors who see market potential in their own sojourning countrymen.

The poor living conditions in Chinese cities are an additional contributing factor to more and more Chinese households looking to invest in another home option overseas. Where basic human requirements such as breathing fresh air has become constricted, Chinese households see moving abroad as a means to equip their children with competitive education, gaining access to better health technologies, and securing an easy life by the time of retirement.

Encouraged by these numerous push factors which have democratised and multiplied Chinese investment in overseas properties, the Chinese government has demarcated real estate as a distinct area of involvement for the China-Africa Development Fund (CADFund). Some of the real estate projects supported by the CADFund are: affordable social housing in Sierra Leone, Zambia, Zimbabwe and Mozambique, the Egypt Suez Special Economic Zone (SEZ) and Lekki Free Trade Zone in Nigeria, as well as other property projects in Accra, Dar-Es-salaam, Luanda, Casablanca, Johannesburg, Nairobi, Cairo and Mauritius - see figure 1 and figure 2.

The South African Case

On 12th February 2015, South African President Jacob Zuma declared that foreigners will henceforth be banned from owning agricultural land in South Africa. This policy proposition brought back to discussion the perpetual concern of authorities regarding foreign ownership of property in South Africa. Ironically, despite the displeasure regarding the proliferation of foreign ownership of property in South Africa, the state does not specifically regulate foreign involvement in the economic activities of the country, nor does it hold a systematised and centralised record of nationality-based property ownership data. The South African property market is open to all investors who have the money (although there is a present proposition to limit foreign

ownership of agricultural land below a particular expanse), without any discrimination—except for some traditional land zones like in KwaZulu-Natal where chieftainship prevails.

The only source of information for nationality-based property ownership in South Africa can be derived from the data held by regional Valuation Departments—which nevertheless, can only identify foreign individuals who have purchased property in a particular region through a nationality-wise filter. Foreign investors who have bought property in South Africa via companies or trusts are not identifiable. The latter category form the larger part of foreign property ownership in South Africa.

In the absence of nationalised data sets on this subject, surveys of property agents in Cape Town and results of evaluations of the patterns in individual purchases by foreigners in the Cape Town Metropolitan area, reveal some preferences and rationales behind Chinese ownership of luxury properties in South Africa:

There are a larger number of freehold properties sold to Chinese buyers as compared to sectional title properties. The higher price of these freehold properties and their prestigious locations reveal that Chinese buyers purchasing property in Cape Town are mostly doing so by choice rather than as a requirement for job placements in South Africa. The choice of neighbourhoods such as Newlands, Chapman's Peak, Durbanville, Sunset Beach and others signal that the motivation behind these purchases are mostly to cater for the quest of a luxury lifestyle rather than for necessity.

There has been an increase of interest in property acquisition by Chinese buyers since 2012. This interest is most prominent regarding sectional title apartments. From 2012 to 2015, 38 properties were sold to overseas Chinese buyers in Century City. This accounted for 15.7 per cent of the overall sales for that period for Property World, a property agency. Similarly, Bond Street Property confirms the preference of Chinese buyers for properties in the luxurious Century City. For instance, the senior

Figure 1. Examples of affordable housing projects in Mozambique



- Mozambique affordable house project
- Partnering with Fund for House (FFH), Mozambique;
- Total investment US\$880m, first phase 319 hecter, 10,000 units,
- With School, shopping center, hospital, ect.
- Start ed in Jan, 2012

Figure 2. Examples of luxury property investments in Mauritius



employees of Hisense reside in Century City's Island Club, while the junior staff mostly live in Parklands. The example of Hisense legitimises the hypothesis that increasingly, luxury property purchases by Chinese buyers in South Africa flow from intra-company transfers.

Chinese real estate investment in South Africa happens partly by default and trickles down from investment occurring in other sectors. In Beijing, the majority of visa applications are requests for intra-company transfers. The Chinese citizens prefer the intra-company transfer visa as they skip the verification step implied in General Worker's visa which requires the employer to prove that there is no local South African who can do the particular job. Only recently, have there been a number of demands coming in for permanent residence from Chinese citizens. These demands for Permanent Residence flow from the previous long term visas enjoyed by Chinese people who already have had long term intra-company transfer visas, general workers visas, student visas and business visas in South Africa.

The quest for affordable luxury and lifestyle has also brought Chinese commercial property developers and businesses to South Africa. One such example is the recent acquisition of shares of Val de Vie Wine Estate by Perfect China. Perfect China's partnership with Val de Vie will not merely be limited to wine tourism but will also include development of stay-on facilities. Another property investment project in South Africa is the Zendai Modderfontein Smart City project which will be developed on 1,600 ha bought from African Explosives and Chemical Industries (AECI). Its masterplan envisages the development of "30,000 [to]... 50,000 housing units of different types and sizes...ultimately housing about 100,000 residents".

A rise in the number of Chinese residents also translates into an increase in demand for, and supply of, Chinese goods. Traders—often Chinese immigrants to South Africa themselves—import products from China in order to distribute to local Chinese and the South African population. As the cheap price and wide range of goods that they import gain popularity, several Chinese traders have co-operatively set up mall-style units called compendium malls. Currently, there are three in Cape Town: Sable Square, Ottery, and Parow. These malls are occupied almost exclusively by Chinese traders and developed by Chinese property developers. These malls have recently incorporated residential accommodation in their compounds, or nearby, in order to house their workers and businesspeople. Foreign property ownership—particularly Chinese property ownership in South Africa — appears to further attract Chinese immigrants to the country.

Chinese Real Estate Investment in Mauritius

In 2011, Mauritius was the leading African country in which China was investing in real estate, and sixth in the world (after Bahamas, the USA, Australia, South Korea and Saudi Arabia).

Judging by the size of the island, its location, resources, and market size, at first glance, this investment destination seems peculiar, both for Chinese real estate developers and Chinese buyers.

Official figures on foreign purchases of property in Mauritius are not made available, since this activity is closely regulated by key authorities who fear that its dissemination may cause social unrest and resentment among locals. Although Chinese investors are not the sole foreigners investing in real estate properties in Mauritius, they demarcate their presence as they engage more in the development of properties, with the intention to sell rather than to reside. A few of the early examples are *Le Meritt Genesis* and *Le Meritt Ellipsis* apartment blocks, which involved Beijing Construction Engineering Group as the contracting partner, and that of the Mauritius JinFei Trade and Economic Co-operation Zone Ltd. The stalemate status of the latter two projects is telling of the cautiousness required in dealing with ambitious Chinese real estate investment projects in Mauritius.

Most estate agents justify Chinese purchases of property in Mauritius because of its pristine environment. As we move beyond this simplistic understanding of the buyers' rationale, we understand that a lot of the Chinese buying residences in Mauritius are those who are high-ranking officers in Chinese MNCs (such as ZTE, Tianli Spinning Ltd and Huawei) whose activities are spread across Africa. It is convenient for Chinese companies expanding on the continent to have their headquarters in Mauritius because Mauritius and China have easy visa arrangements compared to other African countries. Additionally, Chinese employees prefer settling their families in a safe environment which is also connected to home through direct flights.

This establishment of Chinese headquarters in Mauritius has been encouraged by two specific government strategies. Firstly, there is the *2000 Regional Headquarters Scheme* under which a company can establish its headquarters in Mauritius in order to serve a corporation functioning in any of the member countries of a regional organisation of which Mauritius is a member. Secondly, there are a range of Double Taxation Avoidance Agreements (DTAAs) that Mauritius has with 14 African countries (and 10 under negotiation). Under these arrangements, a Chinese company wishing to invest in one of the country's of the continent with which Mauritius has a DTAA, would be better off if it directed its investments through Mauritius to benefit from the exemptions that Mauritian monies are entitled to when dealing with its DTAA partners.

Yet another reason which brings the Chinese investors to Mauritius are the preferential provisions that the Mauritian government extends to foreigners who wish to invest in luxury residences. The 2002 Integrated Resort Scheme (IRS) allows foreigners investing a minimum of US\$ 500,000 in the country

to be entitled to a residence permit. Therefore, through the purchase of one of these luxury villas, most foreigners automatically received residence permits. In 2007, the government came up with the Real Estate Scheme (RES) which allowed smaller owners of land expanses less than 10 ha to develop luxury properties for sale. Though concerned authorities often claim that RES and IRS properties are also accessible to locals, the adverts for most of these developments specifically call out for foreign customers only.

The popularity of these property development schemes is such that in 2015 the government announced the creation of yet another real estate-based Smart City concept. The initial list carries eight Smart Cities plans, two of which will be developed by Chinese consortiums. These are (i) the Riche Terre Smart City, and (ii) the YIHE Smart City project at Pailles. The Riche Terre Smart City Project development will be based on 59.8 ha of land and will comprise of a commercial district, financial centres, hospitality services and high technology industries. There are already a number of residential developments established on the land which are intended for sale to Chinese investors wishing to invest in the zone.

The preferential focus on residential development in the YIHE project, and the initial expansive residential component of the original JinFei project clearly shows that Chinese developers have a tendency to dedicate substantial focus and space to residential development in their investment projects. This preference for residential development is legitimised by Mauritian authorities who repeatedly identify residential development and management as a leading dimension of the Smart Cities concept. The large residential components of each of these upcoming projects have triggered criticism by the opposition party leader, Paul Berenger from Mouvement Militant Mauricien (MMM), who questioned whether these were Smart Cities or purely rebranded IRS projects. Already, non-governmental organisations and a large section of the Mauritian public have expressed scepticism over claims of the benefits of Smart Cities to the local population.

Conclusion

The above trends suggest that over the next five years there will be a marked rise in the presence of Chinese permanent residents in the two countries, and that a primary interest will be in luxury properties. While this development is happening both in a scattered way by individual buyers and in structured ways through Smart Cities, the common factor between the two is the ad-hoc and amateur fashion in which they are met by the host country's administrations.

South Africa already faces historical conflicts over land

management and is still struggling with its land reform and redistribution. The lack of limitations on foreign ownership of residential land access only misses the opportunity for having addressed part of the problem. On the contrary, it leaves a loophole for the multiplication of such acquisitions.

In the case of Mauritius, as Smart Cities develop in a self-contained fashion, they exclude local government in their administration. By focusing on foreign buyers, the Chinese real estate developers are in danger of facing the same situation of stagnation and neglect as faced by JinFei. Similar to JinFei, they risk to experience disinterest on the part of foreign investors which may leave the luxury residences empty, with few locals having the means to afford them. If they are successful in attracting foreign buyers, then the governance structure will create distinct, spatially-contained communities of "haves" and "have-nots".

Recommendations

As South Africa aspires for land reform and redistribution, it is imperative that the state systematically collects data on land ownership. In the specific case of foreign property ownership in South Africa, again in keeping with its historical preoccupation, the South African state should strictly regulate purchases of freehold properties by foreigners. So as not to alienate foreign property investors in this process, the South African government can instead provide for more sectional title property opportunities, similar to Century City, for foreign buyers. The socio-economic situation of the country would benefit from such a differential provision.

The relevant Mauritian authorities need to scrutinise the profile of the investors prior to approving projects. In keeping a finger on the pulse of social unrest sentiment due to increased foreign property ownership on the island, it is suggested that Mauritius establishes functional strategies for social integration in its Smart Cities and other property development projects. To this end, Mauritius should ensure that the governance structure of each of these land-based projects include members of the local government and representatives of the local communities who are selected on a *pro-rata* basis. Currently, as confirmed by the Board of Investment, the governing structures are composed solely of people from private developer companies.

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