



## Thornhill Capital Global Newsletter - November 2014

### Chinese take a liking to Pacifico Development in Playas del Coco

Housing in China is expensive. According to the China Real Estate Index System, CREIS, home prices in 100 Chinese cities were up 7.4% in the past year to where the average price for residential housing is now \$1,671 USD per square meter. Correspondingly, since 2008, there's been a tremendous increase in Chinese investing in overseas properties. As world housing prices generally decreased during the world financial crisis, and as domestic properties remained at such a high level, Chinese buyers have taken advantage of depressed global real estate prices.

When Chinese buy real estate they tend to buy trophy, or high end properties. One reason is that they feel these properties will hold their value.

The other, and equally important reason, is that a prestigious property will convey on their Chinese buyer a corresponding amount of social prestige. Image is everything in China and the property they buy is a reflection of the image they want to convey to their peers.

With China's economy averaging 10% growth for the past 30 years, it's estimated that China had, by the end of 2012, about 700,000 affluent Chinese who are capable of investing at least \$1.6 million USD, according to the consulting firm of Bain & Co. Moreover, in a separate study by McKinsey & Company, the number of wealthy Chinese is expected to expand by about 16% per year for the next seven years. Subsequently, with this increased wealth, the foreign investment of choice for wealthy Chinese is real estate.

One Costa Rican development which has taken advantage of China's love for foreign real estate is Pacifico, located in Playas del Coco, Guanacaste. Developed by The Jack Parker Corporation, the company's senior executive for the project has sought out Chinese investors and traveled to China four times in the past year where she visited a number of Chinese companies whose clients have an interest in making overseas real estate investments. Pacifico has also translated its sales and marketing documents, as well as introductory videos, into Mandarin. Even though Pacifico is considered a high-end community its condo prices, ranging from \$285,000 to the \$400,000's is still relatively inexpensive by Chinese standards.

Pacifico has also tailored a lease program specifically for Chinese

investors. As most tend to hold real estate for the long term, meaning that property tends to remain in the family once it's purchased, Pacifico's program allows the investor to purchase the property and then lease it back for a four-year period, thereby providing the investor with a means of maintaining ownership while covering normal residential expenses.

Other countries, such as Cyprus, St. Kitts, Dominica, Portugal, Spain, are also actively pursuing Chinese investors for their sagging real estate markets. However, Chinese investors have shown a preference for high end projects in economically and politically stable environments, such as Costa Rica and Pacifico.

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