INSIGHT

USD73bn investment bonanza by 2019

Chinese Insurance Outbound Capital

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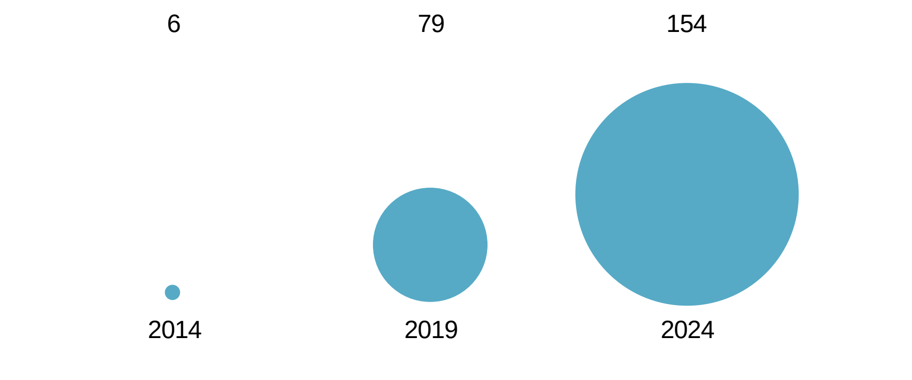
Contents

- Chinese insurance companies have only been allowed to invest in real estate since 2009. Further deregulation in 2012 allowed investment in overseas markets and today overseas investment can be up to 15% of total asset value.
- Current holdings of investment properties for all Chinese insurance companies totals USD13.4bn, an allocation of 0.8%. Just under half of this (USD6bn) we estimate is held overseas. The top five insurers have an allocation of under 2% underscoring the potential for rapid growth.
- Allowing a full allocation could see an additional USD240bn deployed. Practically we foresee average allocations rising to near 5% by 2019, equivalent to an additional USD73bn of investment. This could increase by a further USD75bn by 2024.
- Whilst the initial wave will be led by the larger insurance companies, we expect smaller sized companies to follow as they build teams to invest directly.
- With current premiums per capita in China well below those of established western economies, we foresee much of the growth coming through growing premiums and assets under management than pure increases in allocations.
- Investment will spread from New York and London to leading gateway cities which regularly witness transactions in excess of USD100m including Berlin, Washington DC, Paris, San Francisco, Sydney, Singapore and Tokyo.
- Reflecting their desire to grow holdings we see investment spreading to a broader range of geographies and assets as well as increased development.

Figure 1

Growth in real estate holdings 2014-2024, USD bn



Source: Cushman & Wakefield Research

Author

Cristine Lai
Capital Markets Research, APAC
+852 2507 0181
cristine.yt.lai@cushwake.com

Contact

Nigel Almond
Head of Capital Markets Research
+44 (0)20 3296 2328
nigel.almond@cushwake.com

Regulatory environment

Relaxation of rules allow expansion

Chinese insurance companies were first permitted by the China Insurance Regulatory Commission (CIRC) to invest in domestic real estate and infrastructure for investment purposes in October 2009. Prior to that, they were only allowed to own properties for self-use.

Since then, successive deregulation has expanded Chinese insurers' investment scope in real estate. In October 2012 domestic insurers were permitted to invest overseas in 45 countries, though they currently hold assets in fewer than ten countries. Today, regulations allow up to 30% of total assets to be invested in real estate and infrastructure, with overseas investment not exceeding 15% of total asset value.

Real estate holdings

Dominance of Top 15

CIRC industry figures reveal that total assets under management (AUM) by all insurance firms in the country reached USD1,652bn at the end of 2014. Around three quarters of that (USD1,256bn) was accounted for by just fifteen insurers (Figure 2). In fact the top five insurers alone account for nearly 60% of AUM (Table 1).

By the end of 2014, the total real estate holdings for the Chinese insurance industry, comprising direct and indirect holdings in domestic and overseas markets, totalled USD13.4bn. This accounted for only 0.8% of the industry's total AUM, well below the existing permitted allocation of 30% and underscores the scope for increased expansion. We estimate that around USD6bn, just under half of their holdings at year end 2014, were held overseas.

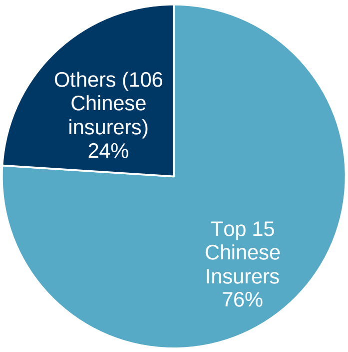
For the leading Chinese insurance companies who have a higher volume of assets under management, the propensity to invest overseas will be greater. Current allocations vary, with some having little or no holdings in investment properties, whilst others have total allocations (domestic and overseas) above 10%.

For the largest five insurers, total allocations remain low and no greater than 2%, and for some below 1%. Over recent years investment activity has increased and this can in part be attributed to the liberalisation of overseas investment which allowed top players to accelerate real estate acquisitions and growth in the value of assets under management.

Recent notable transactions include Anbang Insurance paying a record USD1.95bn in Q4 2014 for the historic Waldorf Astoria hotel in New York, Ping An Insurance buying Tower Place in London for USD520m a year after its pioneer purchase of the Lloyd's of London building in 2013, as well as China Life Insurance acquiring a 70% stake in 10 Upper Bank Street, London for USD445m in Q2 2014.

Figure 2

Chinese Insurers AUM, YE 2014



Source: CIRC, 2014 Insurance groups annual reports

Table 1

Top five Chinese insurers by AUM, YE 2014

Company	AUM (USD bn)	Market Share (%)
China Life Insurance (Group)	374.0	23%
Ping An Insurance (Group)	240.0	14%
CPIC (Group)	123.9	8%
PICC (Group)	112.4	7%
New China Life Insurance Co. Ltd	104.7	6%

Source: CIRC, 2014 Insurance groups annual reports

Future expansion

Exponential growth

Amid increased volatility in equity markets worldwide over recent months, mainland insurers are expected to accelerate their real estate investment strategy with a focus on overseas markets to diversify away from domestic holdings. Not all institutions will make the move into overseas investments, and we expect the largest fifteen insurance companies to take the lead, having the teams and capacity to execute on deals in the direct market. Smaller sized insurance companies will follow as they build teams to invest direct.

Increasing overseas allocations from ca. 1% to 15% will not be easy, being the equivalent of investing over USD240bn. The reality is likely to be more modest, though nonetheless significant. Observations from the growth of other institutional investors, such as the expansion of Canadian pension funds, in global markets does provide a gauge on evolving allocations.

Over the next five years we anticipate allocations to grow from their current levels to near 5% (Figure 3). This is equivalent to an additional USD73bn of investment. By 2024 we expect this exponential growth to continue through a combination of increased allocations, and also growth in assets under management. This could lead to a further USD75bn of investment taking holdings to USD154bn (close to 10%, assuming total AUM remain static).

Although an allocation of 10% is not unrealistic compared to other institutions globally, in reality we would expect growth to come through increased premiums. The existing low insurance penetration (3.2%) and density (USD235)[1] in China compared to other more established markets underscores the potential for further rapid growth. Insurance premiums per capita of USD235 compare to USD2,000-USD9,000[2] in other established economies (Figure 4). This underscores the potential for the continued exponential growth of this industry, which has already seen premiums grow by over 350% in the past ten years[1].

Gateway cities primary target

Leading gateway cities will form the initial focus of activity. Investments to date in London and New York underscore this move. Other leading cities which regularly witness transactions over USD100m will be the primary targets. In Asia Pacific these will include Singapore, Sydney and Tokyo. Activity in Europe will expand to the likes of Berlin, Frankfurt, Munich and Paris. North American markets of Chicago, Los Angeles, San Francisco, Toronto and Washington DC will also be on their list. The focus will be on mainstream sectors – office, retail, industrial, hotels and residential, offering stable long term income streams.

Increased development activity

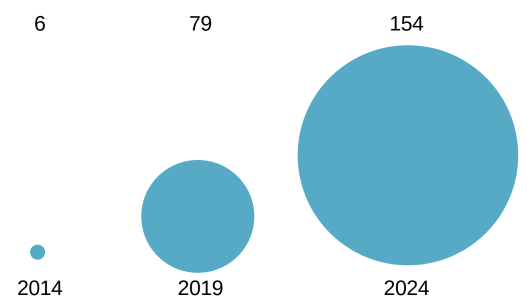
The more sophisticated insurers are expected to move into development projects in major gateway cities. This is likely to be in partnership with domestic developers to benefit from their local knowledge and networks. In a highly competitive market where access to core assets is an increasing challenge, we have already seen initial forays into the development sphere. Tai Ping Insurance has embarked on a residential project in Manhattan, whilst Ping An and China Life are partnering with Tishman Speyer for a mixed-use project in Boston.

Broader horizons

Over the medium to longer term, and with growing experience, we foresee investment diversifying into a second wave of markets. The focus will remain on larger lots, but where the liquidity of such trades is relatively thinner. Markets such as Belgium, Brazil, Italy, Korea, the Netherlands, Spain and Sweden are potential targets. Equally we expect the range of asset types to expand. Alternative sectors such as data centres, healthcare, and more infrastructure related assets – airports, ports and energy farms may also emerge on the radar.

Figure 3

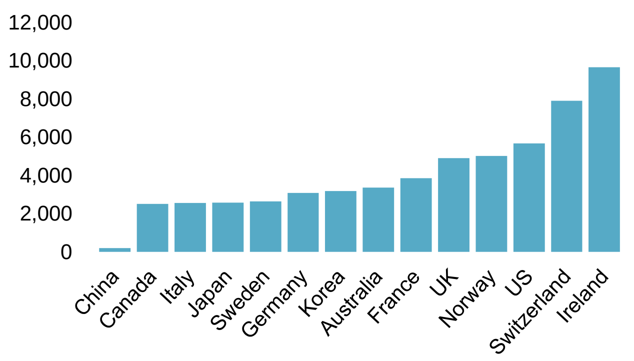
Growth in real estate holdings 2014-2024, USD bn



Source: Cushman & Wakefield Research

Figure 4

Insurance premium per capita, USD, 2013



Source: OECD, CIRC

1 CIRC Annual Report of the Chinese Insurance Market 2015

2 OECD 2013 Statistics

Research
Kevin Thorpe
Chief Economist, Global Head of Research
+1 202-266-1161
kevin.thorpe@cushwake.com

Research
Magali Marton
Head of EMEA Research
+33 (0)1 4964 4954
magali.marton@cushwake.com

Research
Andrew Ness
Head of Greater China Research
+852 2507 0779
andrew.ness@cushwake.com

Research
Dominic Brown
Head of South East Asia / Australia & New Zealand Research
+61 (0)431 947 161
dominic.brown@cushwake.com

Capital Markets
Carlo Barel di Sant'Albano
CEO Global Capital Markets
+44 (0) 20 7152 5846
carlo.santalbano@cushwake.com

Capital Markets
Gary Hollis
Head of Capital Markets Asia Pacific
+65 6293 3228
gary.hollis@cushwake.com

Capital Markets
Noble Carpenter
Head of Capital Markets Americas
+1 212-318-9745
noble.carpenter@cushwake.com

Capital Markets
Jan-Willem Bastijn
CEO EMEA Capital Markets
+31 20 800 2081
janwillem.bastijn@cushwake.com

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EMEA HQ
125 Old Broad Street
London
EC2N 1AR

APAC Research
15/F 1063 Kings Road
Quarry Bay
Hong Kong