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REAL ESTATE FLIPPING 101

Vancouver flips now involve blocks, buildings and sale contracts



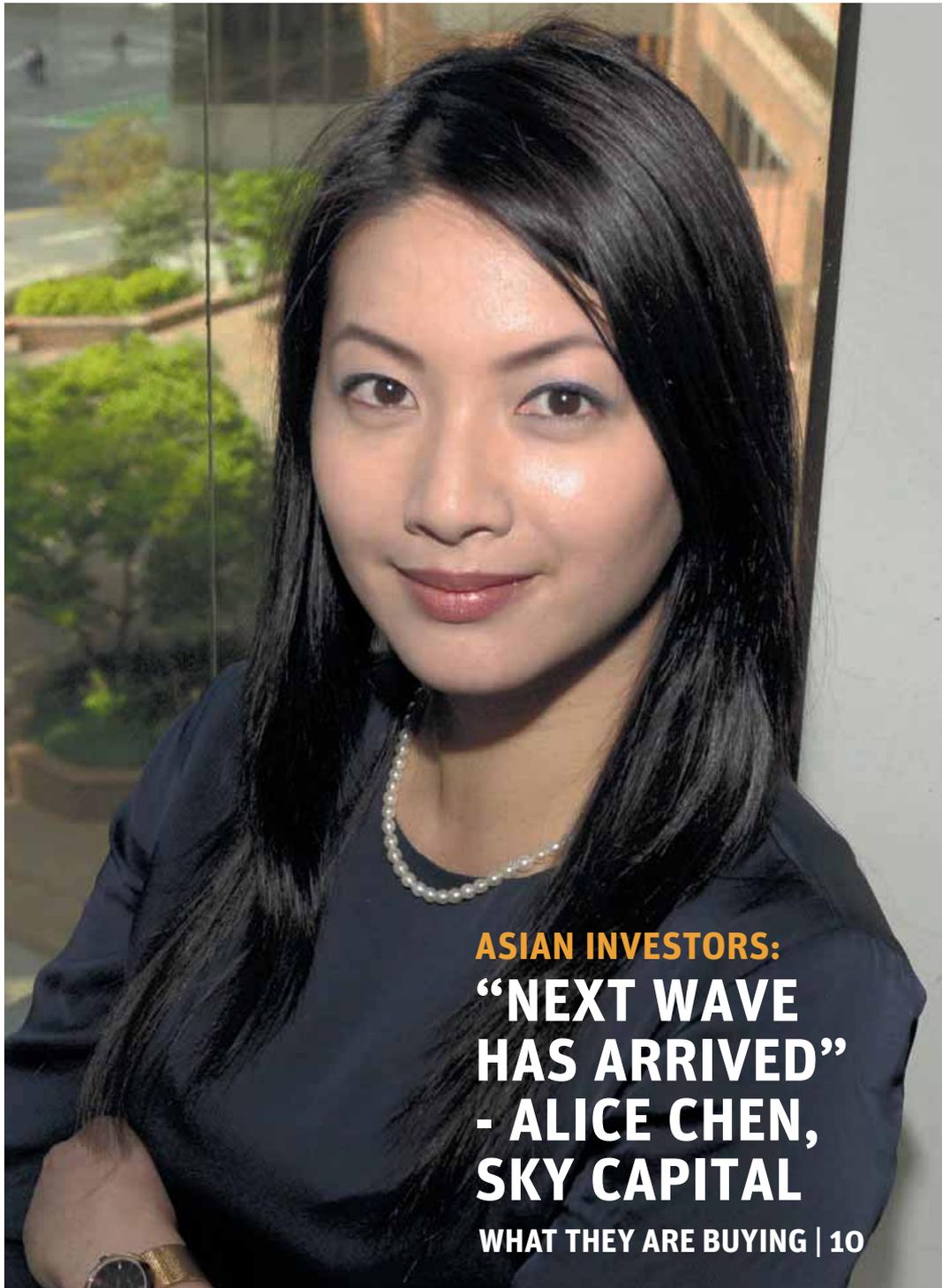
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ASIAN INVESTORS:

“NEXT WAVE HAS ARRIVED” - ALICE CHEN, SKY CAPITAL

WHAT THEY ARE BUYING | 10

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Immigrant investors' "next wave" different, stronger

COVER | Deep-pocketed entrepreneurs are looking beyond real estate to small and medium businesses as they gain traction – and comfort – in B.C.

By **JEN ST. DENIS & WI STAFF**
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Oil and gas. Hotels and resorts. Malls, retirement homes and condos. Farmland and aquaculture.

What are Chinese investors interested in? All of the above, according to Vancouver-based deal-makers who say interest in adding British Columbia assets to business portfolios will continue to grow over the next few years.

And, experts say, the death earlier this year of Canada's Immigrant Investor Program will have near zero effect on the investor action.

"It's just recently that I've started to see the next wave of investment interest, in the mergers and acquisitions space," said **Alice Chen**, managing director of **Sky Capital Group**. "They're wanting to invest in or buy out small and medium-sized businesses."

Chen, who was formerly a corporate lawyer specializing in mergers and acquisitions, started **Export Ventures Group** in 2010. The business helped B.C. wineries export their wine to China and other Asian markets.

About two years ago, she began to see a switch: the Chinese importers didn't just want to buy B.C. wine – they wanted to own the winery.

Chen recently started Sky

Capital to meet the demand. The company acts as a project manager to guide deals through from start to finish, from bringing the buyer and seller together to head-hunting bilingual executives to manage the acquired business.

She has since helped put together deals involving a winery and several hotels.

"There are a lot of small and medium-sized enterprises (SMEs) [in B.C.] wanting to either find a successor because people are retiring, or they're wanting to also internationalize by taking in a foreign partner so the strategic investment can help them open up a market in China," Chen said.

A decade ago, Chinese investors looking to invest in B.C. were mostly focused on natural resources, said **John McDonald**, executive director of strategic investments at the B.C. **Ministry of International Trade**. Much of the investment came from China's large state-owned enterprises.

That's changed. "Now we're seeing SMEs as well as private entrepreneurs looking at a vast array of different opportunities across the industrial spectrum, from manufacturing to agriculture to mining and forestry, as well as retail and service," McDonald said.

The Chinese government has been encouraging businesses to make foreign investments through its internationalization policy, said McDonald and Chen.



Cameron Muir, chief economist of the BC Real Estate Association: death of Immigrant Investor Program will have little effect on foreign investment.

| BC REAL ESTATE ASSOCIATION

Chinese policy-makers hope this push will help to diversify the Chinese economy.

Lily Wang, a partner at **Borden Ladner Gervais**, agreed that Chinese investors are diversifying into just about every sector. She's received inquiries about agricultural land, pharmaceutical companies and mining, and continues to hear interest in liquefied natural gas.

Commercial real estate continues to be a mainstay.

"I've seen hotels, resorts, and people buying blocks and blocks of current residential areas, trying to rezone them and develop them," Wang said.

The typical investor is deep-pocketed and has already built a sizable business – and fortune – in China.

"These are all super-successful



Alice Chen, managing director of Sky Capital: Chinese investors are increasingly willing to diversify beyond real estate.

| DOMINIC SCHAEFER

business people in China, with huge business empires in China," Wang said.

Chen agreed, describing her clients as "tycoons". "They probably don't have to work for three generations," she said.

Some of Chen's clients have

I've seen hotels, resorts and people buying blocks and blocks of current residential areas, trying to rezone them and develop them.

LILY WANG, PARTNER,
BORDEN LADNER GERVAIS.



relocated their families to the Lower Mainland. Being exposed to Canadian life can encourage investors to try their hand at unfamiliar business ventures.

Chen believes that Chinese investors will start to invest in businesses that don't have a real estate component. She's currently sourcing a food processing business for a client, a trend she expects to grow in response to worries about the quality and safety of food in China.

While B.C. is seen as a stable and friendly place to invest, Chen said, the province's business community needs to learn more about the Chinese business people doing deals here.

"In doing so we will propel ourselves forward to become a truly internationalized commercial centre such as Singapore, New York, Shanghai and London," Chen said.

Challenges

Vancouver foreign real estate investment, meanwhile, is shifting from finished projects to development, with parties from as far afield as Beijing showing an interest in the city.

"We have seen many immigrants that have come here and they are buying development land, and they are now talking about developing," **George Wong**, principal of **Magnum Projects**

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Ltd., remarked earlier this year. "That's going to make the Vancouver market even more vibrant."

But those new entrants face significant challenges in Vancouver's sophisticated market, said **Shaadi Faris**, vice-president of Vancouver-based **Intergulf Development Group**.

"There is definitely an interest from investors, often that have real estate experience elsewhere but realize that they don't here," he said.

The lack of expertise - familiarity with municipal processes, in-house teams that can steer projects to completion and a track record of completing projects without delays - can pose problems that more established developers don't face, Faris said.

"You'll never find a hole in the ground that's an Intergulf project that didn't come through," he said, referring to projects that ran into trouble and failed to complete in 2007-08.

Yet in the wake of those experiences, **Gary Powroznik**, managing director of Vancouver advisory firm **G-Force Group**, said many companies opt to find ways to avoid creditor protection and receivership. He hasn't seen an increase in troubled projects, but he also doesn't believe every project works out perfectly.

"If they can afford to eat the troubled projects, they'll eat it - they'll just take less or merge it into the rest of what they

do," Powroznik said. "Some of this stuff is just looked after informally."

Investor program

The death in February of the federal Immigrant Investor Program caused some quaking in Vancouver's luxury housing market, but a close look at the program shows it was little used by wealthy foreigners and nearly worthless to the federal and participating provincial governments.

The typical hard cash generated for Canada through each applicant was just \$20,000, research shows.

Under the former Canadian rules, principal applicants worth a minimum of \$1.6 million had to lend the Canadian government \$800,000, interest-free, for five years. They and family members could then apply for citizenship.

After freezing the program for two years, Ottawa killed it in the Feb. 11 federal budget. Tens of thousands of Chinese millionaires in the queue had their applications scrapped and their application fees returned.

Yet government statistics show that the number of immigrant investors into B.C. peaked at 5,875 in 2008 and had declined to 2,644 in 2012, when the freeze came into effect. This includes applicants, their spouses and dependants.

"The total of added [B.C.] households is estimated at between 900 and 1,000 households since 2001," according to the **BC Real Estate Association (BCREA)**.

Cameron Muir, chief economist with the BCREA, said the program's death is a yawner. "The only impact we foresee is less pressure on the inventory of detached houses in Vancouver's west side, Richmond and Vancouver," he said.

An analysis of the Immigrant Investor Program prepared for clients by Vancouver immigrant and business lawyer **Jeffrey Lowe of Lowe and Company** shows that the program offered scant value to Canadian taxpayers.

As Lowe's report details, the immigrant's \$800,000 loan was allocated between six provinces, each of which had to guarantee the return of the monies in five years. This basically restricted them to investing in low-yield five-year Government of Canada bonds.

Therefore, the \$800,000 translates into about \$12,000 per year or \$60,000 over the five-year period. Plus **Citizenship and Immigration Canada** paid a commission of 5 per cent for help in marketing the funds. According to Lowe's research, the net benefit to Canada for each applicant was about \$20,000, and this was shared among six provinces. ■

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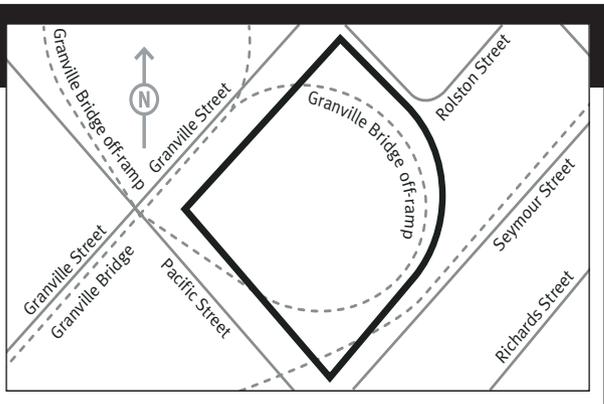
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