



Chinese Presence in Real Estate in South Africa and Mauritius

Honita Cowaloosur

February 2016



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Preface

This research report is the result of a scholarship programme, Phandulwazi nge China (Xhosa for Knowledge about China), at the Centre for Chinese Studies (CCS). The scholarships offer opportunities for African researchers to spend time at the CCS in order to advance mutual learning and a better exchange on interpretations of political, economic or environmental impact of Chinese engagement in Africa.

The Phandulwazi nge China scholarship targets citizens of African states from academia or the broader civil society with a proven research interest in China-Africa relations. The programme particularly addresses African scholars who are preparing for a stay in China or are returning from a longer stay in China. With the scholarship, African citizens are supported to continue working on China and China-Africa relations and to deepen their analytical work.

This study does not necessarily reflect the views of Open Society Foundation or the CCS, but is solely an expression of the author's view.

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1.1 Introduction

Africanists have spent much of the last decade debating the issue of land-grabs by foreigners in Africa. Discussions have included: the extent to which African farmlands have been acquired to sustain the food and biofuel supplies of foreign countries (Cotula et al, 2009; The Oakland Institute, 2011), while communities on the continent struggled with famine and limited access to power (UNDP, 2012; Laishley, 2014); contentions regarding the displacement of indigenous groups from their homelands to make space for foreign investment projects (Ochalla, 2013); and criticisms of the acquisition of traditional community land by foreigners for commercial use, appropriated without consideration of the sensibilities of local communities (Makunike, 2009).

As media, academics and policymakers argue the pros and cons of foreign land acquisition in Africa, the role of China is regularly mentioned. Amidst theories of neo-colonisation of African countries by China (Straw, 2006; Kortmann, 2006; Mbeki, 2006), the growing Chinese purchases of property and proliferation of land-based investment has fuelled political, economic, social as well as environmental concerns. Between 2003 and 2014, the continent welcomed approximately 157 Greenfield Foreign Direct Investment (FDI) across various sectors. By default, majority of these projects were based on land, which Chinese companies had either bought or leased from their African hosts (Chen et al, 2015). Additionally, real estate has become one of the leading sectors of investment by Chinese actors on the African continent. From 2010 to date, China has invested US\$ 16.78 billion in the real estate sector in Sub-Saharan Africa (American Enterprise Institute, 2016). This is more than double the investment amount that China has brought into the same sector in Sub-Saharan Africa in the previous five years, i.e. from 2005 to 2010 (American Enterprise Institute, 2016).

The surge of Chinese activity in the African real estate realm motivates a structured analysis of the pull and push factors, as well as the impeding consequences of this recent trend. Preliminary statistics from research centres such as the American Enterprise Institute, and media and public discourses highlight South Africa and Mauritius as two of the most popular destinations of Chinese real estate investment. This paper investigates the substantiality of these hypotheses and assesses the impact Chinese real estate activities have on the socio-economic environment of the respective two countries. It also provides policy propositions that would ease these prospective challenges to the two societies.

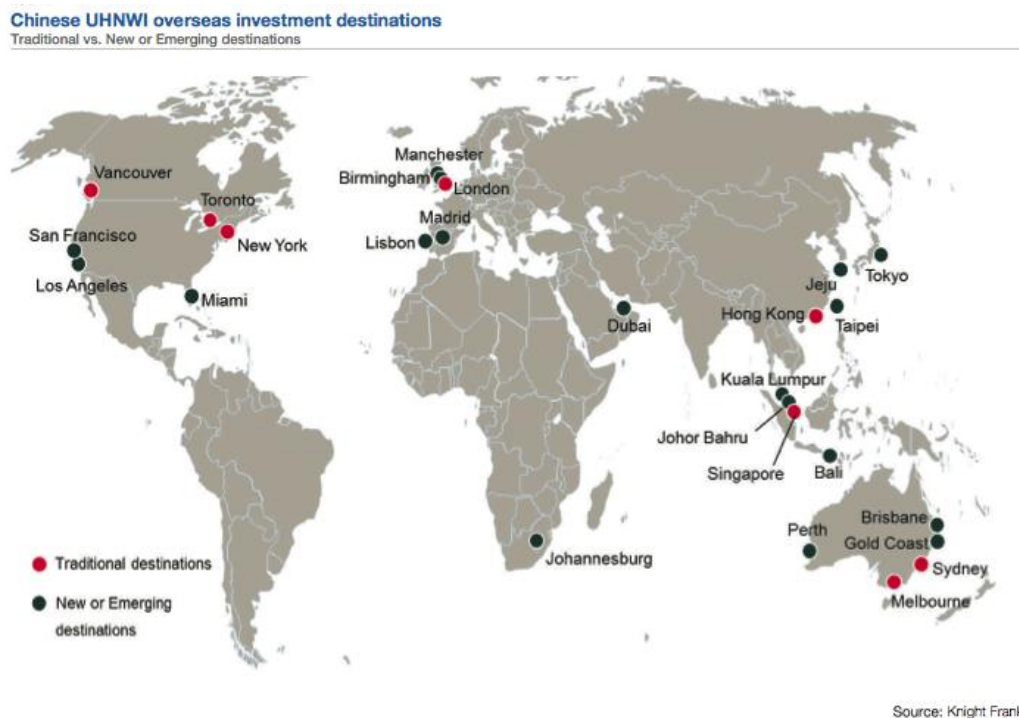
1.2 Research rationale

Although foreign land acquisition for the development of farm, mine, factory, or in the retail sector is a business activity both popular and a globally accepted, this recent trend of property development and acquisition by foreign parties for residential purposes has become a subject of resentment in many countries, especially in Africa (Sheehan, 2014; Keane, 2014; Smith, 2013). This is due to a few factors: firstly, land-based business establishments do not straightforwardly imply permanent occupation of land as compared to residences which mostly entail permanent or long-term presence or ownership (through inheritance); secondly, while land-based business activity generates backward linkages such as employment creation, collaborations with local businesses, networking opportunities, knowledge and technology transfer to the local economy, residential occupation of land produces no backward linkages of

economic consequence¹; thirdly, while business activities, by their nature, have functions and structures which ensure a minimum level of harmonisation and integration with their social surroundings (through their local employees, the corporate social responsibility [CSR] factor, their interaction with local customers and stakeholders etc.), the same involvement is not functionally ascertained in residential acquisitions. Foreigners taking up residence in the host country are under no structural obligation to mingle harmoniously with local surroundings and people.

China has recently taken the global community by surprise with a surging interest in overseas real estate investment. In 2014 alone, “[o]utward real estate investment in the global market by the Chinese hit US\$ 16.9 billion...10 per cent higher than 2013 and a substantial 205 per cent increase from 2012”, observes Matt Whitby, head of research and consulting at Knight Frank property consultants (Knight Frank, 2015).² While trends indicate that the United Kingdom (UK), the United States of America (USA), Canada and Australia are the usual prized destination of these investments, China’s general economic activities give enough reasons to believe that Africa will soon be emerging as one of the new real estate investment destinations. In fact, the 2015 Knight Frank map of Chinese Ultra High Net Worth Individuals (UHNWI) Overseas Investment Destinations gives a glimpse of this as it dots Johannesburg as a prospective investment destination (See Figure 1).

Figure 1 Chinese UHNWI Overseas Investment Destinations



*Source: Chinese Outward Real Estate Investment Globally and Into Australia
(Australian Market Insight April 2015)*

As property consultants track the investment patterns of the UHNWI, they do not account for the large population of middle-income earners in China whose heightened purchasing capacity and globalised jobs grant them the opportunity to occupy luxurious properties overseas. This is in fact one of the newest characteristics of the ambitious and powerful Chinese middle class that Helen Wang, expert in studies on the Chinese middle class, describes in her book *The Chinese Dream* (2012). It is this particular group of Chinese property investors which is the focus of this research report. However, it is to be noted that this group is distinct from the majority of Chinese employees who work on the African continent, most of whom are involved in mining projects, construction sites, factories and low-end retail. Such employees are often based in Angola, Zimbabwe, Zambia, Tanzania, Congo, Nigeria, Algeria, Libya—countries which are also destinations for Chinese mining and power generation activities. These countries house many Chinese employees—but not necessarily in luxurious homes (Human Rights Watch, 2011). In fact, usually Chinese workers live at their workplace in very rudimentary conditions. Picture 1 below shows Chinese workers at their living place while posted on a road construction project in Zambia.

Picture 1 Chinese workers in Africa posing outside their residence in Zambia

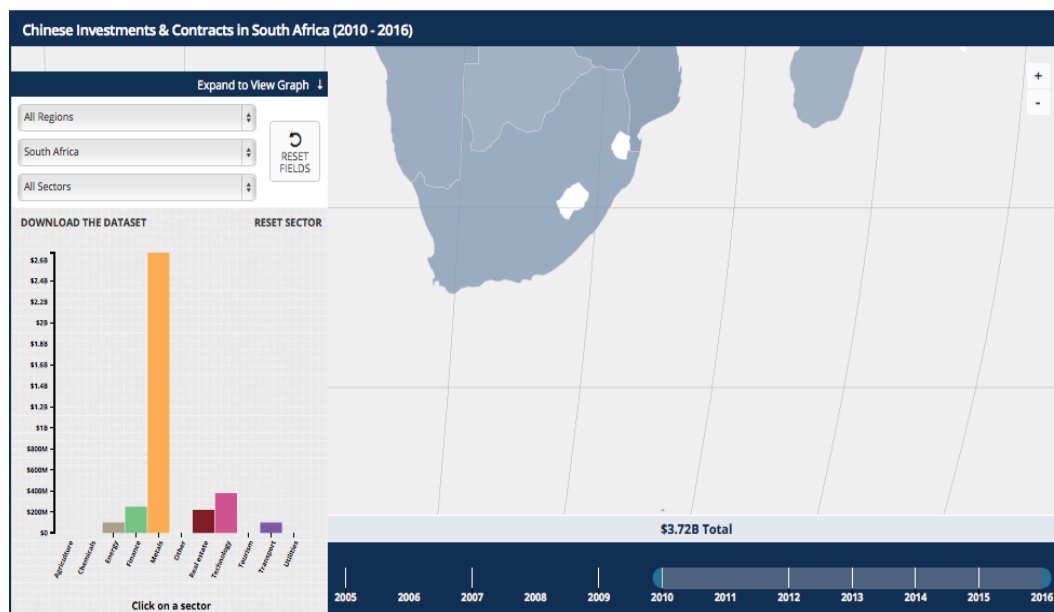


Source: NetEase 2011

Mostly, at the end of their employment contracts, the employees leave their temporary residences and move back to China (Park, 2009). Hannah Postel's (2015) study on Chinese workers in Zambia, for instance, is illustrative of this theory.

Two destinations of interest to Chinese real estate investors, at the luxurious higher end are South Africa and Mauritius. According to the mid-2013 estimates of the United Nations Population Division (UNPD), South Africa and Mauritius are the two leading countries on the African continent attracting the highest number of Chinese immigrants (Migration Policy Institute, 2013). Chinese real estate investment in South Africa was almost non-existent prior to 2010. However, since 2010, Chinese real estate investment in South Africa amounts to US\$ 220 million. It is the fourth biggest sector of Chinese investment in South Africa, after metals, technology and finance. Figure 2 maps the Chinese investment and contract amounts in each of the sectors of the South African economy between 2010 and 2016

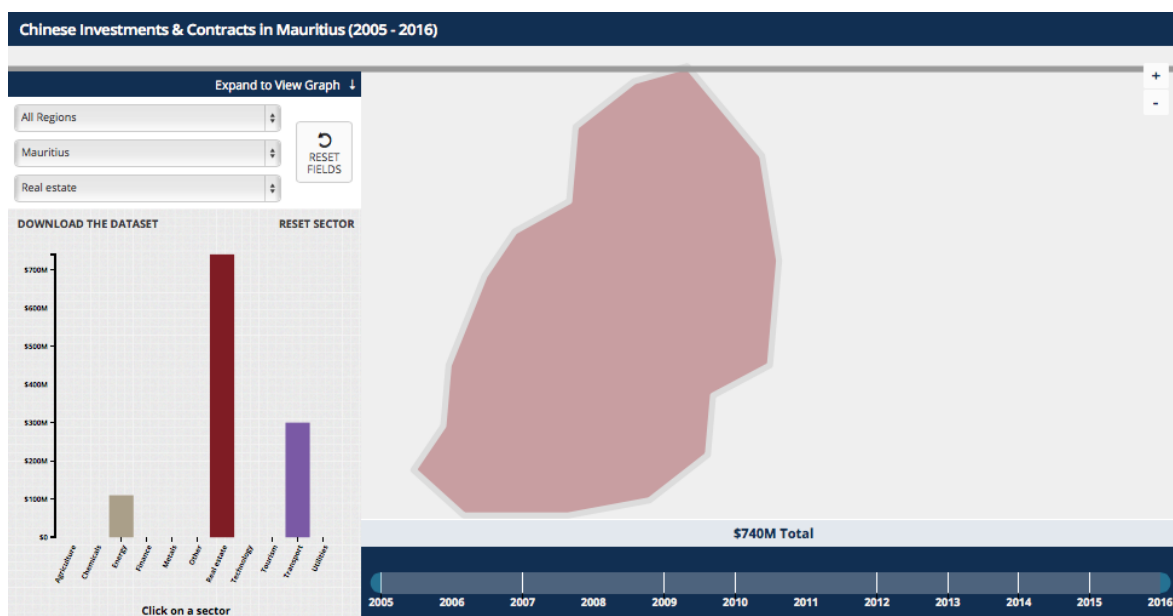
Figure 2 Chinese investments and contracts in South Africa (2010-2016)



Source: American Enterprise Institute (2016)

In the case of Mauritius, from 2005 to now, Chinese investors have injected US\$ 740 million in the real estate sector. It is the leading sector of investment by China on the island, followed by transportation and energy (American Enterprise Institute, 2016). Figure 3 reproduces the map from the China Global Investment Tracker and calculates the money put in by the Chinese in the Mauritian real estate sector from 2005 to now.

Figure 3 Chinese investment and contracts in Mauritius (2005-2016)



Source: American Enterprise Institute (2016)

This recent surge in Chinese real estate investment in these two countries is a particularly interesting phenomenon of study as it is indicative of a nascent demand for luxury in Sub-Saharan Africa by a section of middle-income earners from a developing country. An investigation of this activity will allow us to understand various peculiar dynamics in play in this scenario: who are the clients interested in the purchase of luxury residences in these regions of Sub-Saharan Africa?; who are those developers willing to invest in luxury real estate in these places?; why is the rise in Chinese real estate activity specific to these two countries?; where in these two countries are these luxury residential developments happening; and, what are its impacts on the local community? More generally, this paper provides an insight into the rise of the Chinese urban middle class, and its global repercussions.

1.3 Structure of paper

This paper begins with an exploration of the push factors which encourage increasing numbers of Chinese buyers to venture overseas in order to invest in real estate development, buy a new residence, a second home or a holiday home. In the second section, this paper discusses the trends in Chinese real estate presence in South Africa, against a background of the historical land management issues in the country. The paper then moves on to a discussion of the situation in Mauritius, whereby pull factors working in favour of the Chinese real estate endeavours are identified. The concluding part of the paper reflects on the impact Chinese real estate activities have on the socio-economic environment of the two countries and draws some policy proposals that would ease these prospective challenges between the two societies.

2. Why are more and more Chinese actors investing in real estate overseas?

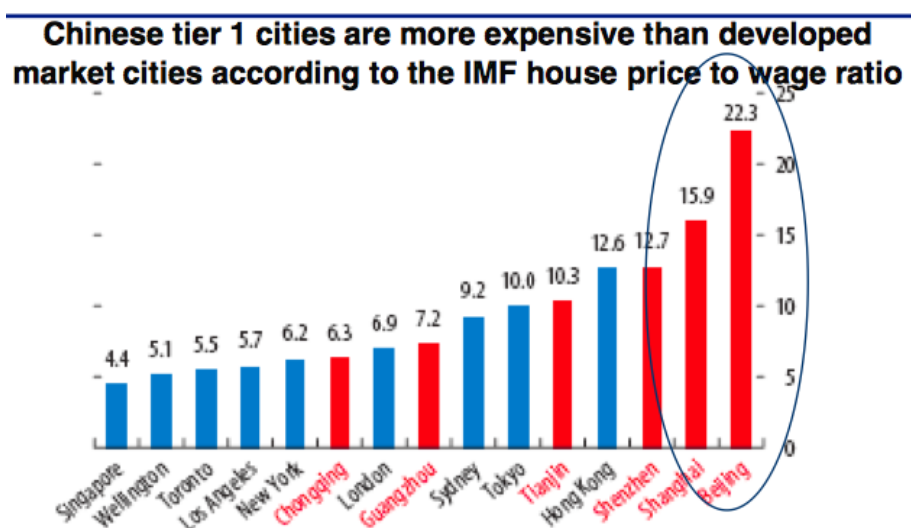
The Chinese preference for property investment is not something new. With a developing financial system, Chinese citizens, as well as companies, remain reluctant to invest in intangible products such as insurance and stocks—so much so that even insurance companies dread exploring risk diversification strategies and reportedly invest mainly in property (Wildau, 2015; Evans-Pritchard, 2015). In this sense, property investment by Chinese households is largely a cultural attribute and not exclusively a calculated economic phenomenon. But why is it that Chinese property investment has gone overseas in such unprecedented numbers, and, why now?

The first obvious-seeming rationale is the rapid, and almost uncontrollable, urbanisation rate in China, which is fuelled by the growth in the Chinese middle class. Professor Zeng Guo, (Interview, November 2015), an urbanisation specialist based at Renmin University, states that over the past 20 years, there has been a yearly increase of at least one per cent in the urbanisation rate in China. “Every year, there are about 10 to 20 million rural farmers who move to cities”, he says. “Currently, the urbanisation percentage in China is 55. In the next ten years, it will reach its ceiling of 65 per cent.” These figures denote a prominently high ratio of the Chinese population living in cities. However, while there is a marked growth in the leading cities of Beijing, Shanghai, Shenzhen and Guangzhou, a study by McKinsey states that by the year 2022, the proportion of people living in those cities will be less compared to the population of new emerging urban hubs such as Foshan, Chengdu, Wuhan, Chongqing, Leshan, Ziyang,

Youngzhou, and Yulin—tier-two and tier-three cities³, which will be the destination points of many middle class Chinese.

Composed of approximately 174.08 million households, the middle class of present day China earns between US\$ 9,000 to US\$ 34,000 yearly (Barton et al, 2013), and has an average disposable income of US\$ 4,500 (Trade Economics, 2015). Compared to the long-run benchmarked average of 100 points as disposable income in China, in 2015, the ratio of house prices to disposable income was at 50:100. However, this slump in house prices only took place post-2006. Prior to this, in the year 2000, the ratio of house prices in China to average disposable income was at 130:100. Though the current ratio of 50:100 indicates an affordability of houses in China, this affordability is relative. House prices in cities such as Beijing remain the most expensive in the world. A study by the International Monetary Fund (IMF) and Credit Suisse in 2013 note that globally, on a house price to wage ratio, the tier-one cities of China are much more expensive than Tokyo, New York, Los Angeles, Sydney, London etc. (IMF/Credit Suisse 2013). Figure 4 showcases this analysis of the IMF and Credit Suisse.

Figure 4 Cost of living in global cities (calculated on a house price to wage ratio)



Source: IMF/Credit Suisse 2013

For a quick comparison: while the per square meter property price in San Francisco is at an average of US\$ 12,900, and at a price to wage ratio of 13:29, one square meter in Beijing costs the same but at a price to wage ratio of 33:23. The situation is such that very few people can afford a house in the cities with the wage and disposable income they have. *International Business Times* quotes a study conducted by the University of International Business and Economics in Beijing which reveals, “that less than 25 per cent of college-educated, employed professionals aged 34 and under were homeowners” (Floracruz, 2015).

Forecasts further hint that in the year 2020, the Chinese urban middle class will be made up of nearly 271.32 million households, who would still be earning within the bracket of US\$ 9,000 to US\$ 34,000 (Barton et al, 2013). Their predicted disposable income will be US\$ 5,710 (Trade Economics, 2015). This is only US\$ 1,210 more to spend than in 2015, when comparatively, by 2020, the house prices in China are forecast to increase by 2.74 per cent (Trade Economics, 2015). Therefore, the per square meter price of an apartment in a city in China will be about US\$

14,543.46. Coupled with inflation, these imbalanced figures predictably still keep a high number of middle class Chinese on the margins of urban house ownership. Those who are now using the government's credit and lending facilities and are able to afford a home, nevertheless, do not get properties whose value makes justice to the price they pay for it.

Economic instability has the potential to exacerbate the problem. In September 2015, it was reported that a dip in the Shanghai and Shenzhen stock markets sent Chinese investors in a frenzy, re-directing funds back into property investment, causing house prices in tier-two cities to rise by 135 per cent (Evans-Pritchard, 2015). This resurgence of interest in real estate investment is likely to repeat the 2003-2012 investment speculation boom that created house price hikes across China, as well as encouraging an over-supply of houses in regions which has led to the rise of "ghost cities".⁴ For example, residential complexes in the rich coal city of Ordos in Inner Mongolia famously failed to attract buyers after the decline in coal prices in 2010. There is also the well-documented case of the Kangbashi Development, extending over 25 kilometres (kms) in Dongsheng district, which is largely unoccupied. In the case of Ordos, the irony is that while the population of the city is 1.05 million, there were more apartments than the population. These are now ghost cities.

With a forecasted inflation rate of 4.51 per cent in the next five years (Trade Economics, 2015) and the adjacent costs (such as the extra-fees payable by those not having the specific city *hukou*⁵ of where they live) which comes with property purchase in an urban city, acquisition of residences in Chinese cities will consistently remain a draining financial commitment for a large number of middle class citizens. Therefore, there is an increased likelihood that instead of investing in property in China, middle class Chinese people who have some savings, along with the rich, would prefer investing in overseas real estate markets where there is more investment security, lesser adjacent costs, and where they will also get properties which better correspond to the amount of money they will be putting in their purchase. While the USA and Europe remains accessible only to the UHNWI of China, countries such as Australia, South Africa and Mauritius—which are safe, have open property market with relatively weaker currencies —are increasingly attractive to growing section of the Chinese middle class (Zhao and Chang, 2012).

Professor Guo, nonetheless, sees no direct correlation between urbanisation, the rising property prices in China, and the increasing interest in overseas real estate investment by Chinese investors. He claims that during the Reform Era (i.e. starting in 1978), a diversification of social strata took place: a small segment of people escalated to riches, and a high population of Chinese locals were elevated to middle-income status. It was at that time that affluent Chinese citizens started buying property overseas. While it was a safe and reliable investment, these overseas purchases also allowed Chinese businessmen and officials, who had quickly grown wealthy, to siphon illegally acquired money out of the reach of Chinese regulations and authorities. The high profile case of, former Minister of Commerce and Party Secretary of Chongqing Province, Bo Xilai and his luxury property in Cannes is one example (Gang et al, 2014). In fact, this manoeuvre of money laundering still remains popular among some Chinese individuals who see overseas property purchases as an option to flee Xi Jinping's crackdown on corruption (Global Times, 2014; Coonan, 2014; Leung, 2015).

Guo continues:

"[M]ultinational companies (MNCs) and banks have learned that getting access means knowing whose palms to grease. Many firms have taken to hiring the children of senior government officials, sometimes even paying their tuition

at Western universities. Meanwhile, officials have taken advantage of loose financial controls and a lack of transparency to safeguard their illicit profits. Many officials hold a number of Chinese passports, often under different names but with valid visas, and use them to travel abroad and stash their money in foreign bank accounts."

As some corrupt Chinese officials and businessmen benefit from these junket trips and paid education for their children, they often choose to buy a second home in the country to which they regularly travel in order to house their families on their frequent visits (Jones, 2014). While being a means to evade wealth regulations, affluent Chinese also covet overseas property ownership as a status symbol. Owning a residence in another country reflects their desire for an international lifestyle, as abroad, they have quicker access to services and products which are not as easily available in their domestic surroundings (Juwai, 2015).

Another indirect push factor for overseas property acquisition by Chinese investors is the relatively higher labour cost in China. As the labour cost— hence overall production costs— increase, MNCs and big Chinese companies shift their operations overseas. During the course of this shifting process, Chinese multinationals also export their senior professionals and high-ranking administrators to the new countries hosting their manufacturing plants. Though the junior and manual workers are recruited from amongst the locals of the new host country, the higher positions are maintained by Chinese officials who eventually shift base to these new countries for a long term (Park, 2012; China-Africa Reporting Project, 2013). Imperatively, this migration calls for the development, purchase or rental of new residences for the Chinese professionals. Professor Guo talks about the case of Nokia. Nokia closed its one square km factory which employed 10,000 Chinese workers in China, and shifted to Vietnam. Similarly, Hisense and China Faw Auto Makers have moved their manufacturing plants to South Africa (Wonacott, 2014).

The expanding taste for luxury tourism among Chinese citizens is yet another reason for growing overseas property acquisitions. It is in light of the growth in Chinese luxury tourism (Jing Daily, 2014; UNWTO, 2013; The Economist 2014) that the Chinese government issued the first white paper on luxury tourism in 2012. According to Professor Wei Min who researches Chinese tourism at the Chinese Academy of Social Sciences (Interview, November 2015), the government did so particularly in order to strategise, following the escalating trends of outbound tourism by the Chinese middle class households. As she traces the evolution in Chinese outbound tourism, she observes that in the early years, popular destinations were the nearer countries of South East Asia, such as Hong Kong, Macau, Thailand, Taiwan and Singapore. It then extended to Japan and Australia, to eventually reach Europe, America. It is only recently—around early 2000s—that adventure has taken Chinese middle class tourists to the Middle East and Africa. Wei Min considers the travelling middle class Chinese as more a result of cultural curiosity and openness rather than purely a matter of improved economic means. However, as Chinese citizens increasingly get comfortable with alien cultural interactions, they seek new experiences via new methods of tourism such as cruises, safaris, visits to international festivals, food and wine tourism etc. The Chinese government consequently encourages Chinese private companies in "going-out"⁶ with tourism investment projects. 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). Studies conducted after that period revealed the following:

China's outbound investment in real estate jumped 17 per cent during the first half of 2014... Overall Chinese outbound investment in property rose to US\$ 5.4 billion from January to the end of June, with commercial investment accounting for nearly US\$ 4 billion of that total... The biggest change came from residential investments, which increased 84 per cent compared to the same period last year, to reach US\$ 1.5 billion during the period (Cole, 2014).

Another report further notes:

China's continued velocity and buying preferences will shape the future of hotel real estate for some time to come. In 2015, Chinese capital is expected to represent some US\$ 5 billion in global hotel investment, making it among the top three exporters of capital globally along with the US and the Middle East (Hotel Investment Outlook, 2015:11).

The growth of Chinese tourism, therefore, simultaneously triggered the increase in overseas real estate investment by the Chinese hospitality investors who see market potential in their own sojourning countrymen.

Though a seemingly abstract intervening factor, the poor living conditions in Chinese cities are a contributing factor to more and more Chinese households looking to invest in another home option overseas. Browne (2014) writes:

The elite are discovering that they can buy a comfortable lifestyle at surprisingly affordable prices in places such as California and the Australian Gold Coast, while no amount of money can purchase an escape in China from the immense problems afflicting its urban society: pollution, food safety, a broken education system.

Hurun's latest report on Immigration and Chinese High Net Worth Individuals (HNWI) echo similar concerns as the push factors of Chinese emigration (Hurun Institute, 2015).⁷

Quality of education, environment, and food safety remain the three main motivations for Chinese emigration. The US is the most popular emigration and overseas realty destination for Chinese HNWIs... 58 per cent of overseas property investors do so to purchase residences, 27 per cent for investment and 5 per cent for vacationing. The average amount invested stood at 5.07 million RMB.

While USA and Europe remain the primary choices of the HNWI of China, Chen Zhiyu, a partner at *Beyour.API*, an Australian consultancy firm specialising in emigration and property investment, declares that there is also interest from the not-so-affluent Chinese people to shift to greener pastures due to problems such as pollution (Yang, 2014).

The profile of those choosing to leave has also changed, said Chen. The majority of their clients are now younger, often couples in their 30s with young children, who are not so wealthy. "They want to provide their offspring a better environment by moving," he noted.

The living and health conditions and provisions in Chinese cities are in fact the last straw towards favouring emigration. Where basic human requirements such as breathing has become constricted, Chinese households see moving abroad as a means to equip their children with competitive education, access better health technologies, and secure an easy life at retirement.

Encouraged by these numerous push factors which have democratised (by extending involvement to private companies and to individuals of all classes) 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). Founded at the 2006 Forum on China-Africa Cooperation (FOCAC), CADFund is an off-shoot of the China Development Bank (CDB) and has been set up with the objective to support Chinese investment and business ties in Africa. On 12 September 2013, Liu Jianguo, Senior Executive Director at the Agriculture & Real Estate department of the CADFund, shed light on the arrangements that the Chinese government had established in order to help Chinese real estate involvement in Africa. He was interacting with a gathering in Mauritius and enumerated a few projects supported by CADFund: 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. While it is obvious that the social housing projects were intended to cater for local Africans, the remaining projects, such as free trade zones and more luxurious developments—which are greater in number and which would also be predictably more lucrative investments—are tacitly, if not exclusively, open to foreigners. In fact, expansive investment in luxury residential development is a strategy which corresponds to CADFund’s objective of working on the basis of market principles with the aim of making profitable business. Unlike in the past, where the CDB functioned purely as a policy bank, CADFund reflects the new principles of CDB—a policy bank which invests on market principles and prioritises profitability (Chen Jia, 2015).

Picture 2 Examples of affordable housing projects in Africa, Mozambique (top) and Sierra Leone (bottom) supported by CADFund





Source: Liu, 2013

Picture 3 Examples of luxury property investments in Egypt (left) and Mauritius (right) supported by CADFund



Source: Liu, 2013

These details of the Chinese overseas investment in real estate underscores efforts by individuals or businesses in order to secure a nice house or in order to generate high profits, respectively. At no point in their motivations or actions in the context of overseas property acquisition, did Chinese investors suggest a primary consideration for their host country's community or socio-economic development. In fact, it is the government of these host countries who often seek public legitimisation of foreign property ownership in the country through an inflated discourse where they equate this phenomenon to employment creation and other ambitious developmental outcomes (Nino Zama of Gauteng Provincial Government quoted by SAInfo Reporter, 2015; Bignoux, 2013). To what extent the developmental discourse accompanying foreign property ownership is true, is debatable. The following sections will discuss the particular case of Chinese real estate investment in the two countries in Africa which are popular destinations for Chinese tourists and immigrants, and also rank highly in global ease of doing business rankings. Their relevance to this study is exacerbated by the recent influx of Chinese real estate development and acquisitions happening in both countries, and also because of the corresponding policy frameworks that these countries have established to

interact with foreign ownership of property in their territories. Their success or failure at nurturing positive developmental impacts on the socio-economic conditions of their nations will be assessed.

3. Chinese real estate investment in South Africa

On 12 February 2015, as he delivered his State of the Nation Address in Cape Town, South African President Jacob Zuma declared that foreigners will henceforth be banned from owning land in South Africa. Though President Zuma in the details of his speech thereafter refined his target to agricultural land only, this policy proposition nonetheless brought back to discussion the perpetual concern of South African authorities regarding foreign ownership of property (agricultural or non-agricultural) in South Africa.

Zuma had initially evoked this proposition on 8 January 2011 at the 99th anniversary of the African National Congress (ANC). *Star Africa* (2011) quoted him saying:

In order to have more land available for land reform and restitution, government is looking at three forms of land holding [...] These are state land that can only be held through leasehold, freehold with limited extent on private land, and foreigners will be allowed to lease land but ownership will revert to South Africans.

But even before that, in 2007, the promulgation of the Integrated Coastal Management Bill⁸ had already placed foreign ownership of luxury properties on the coast under scrutiny. A business report by the Oxford Business Group (2008) makes the following point:

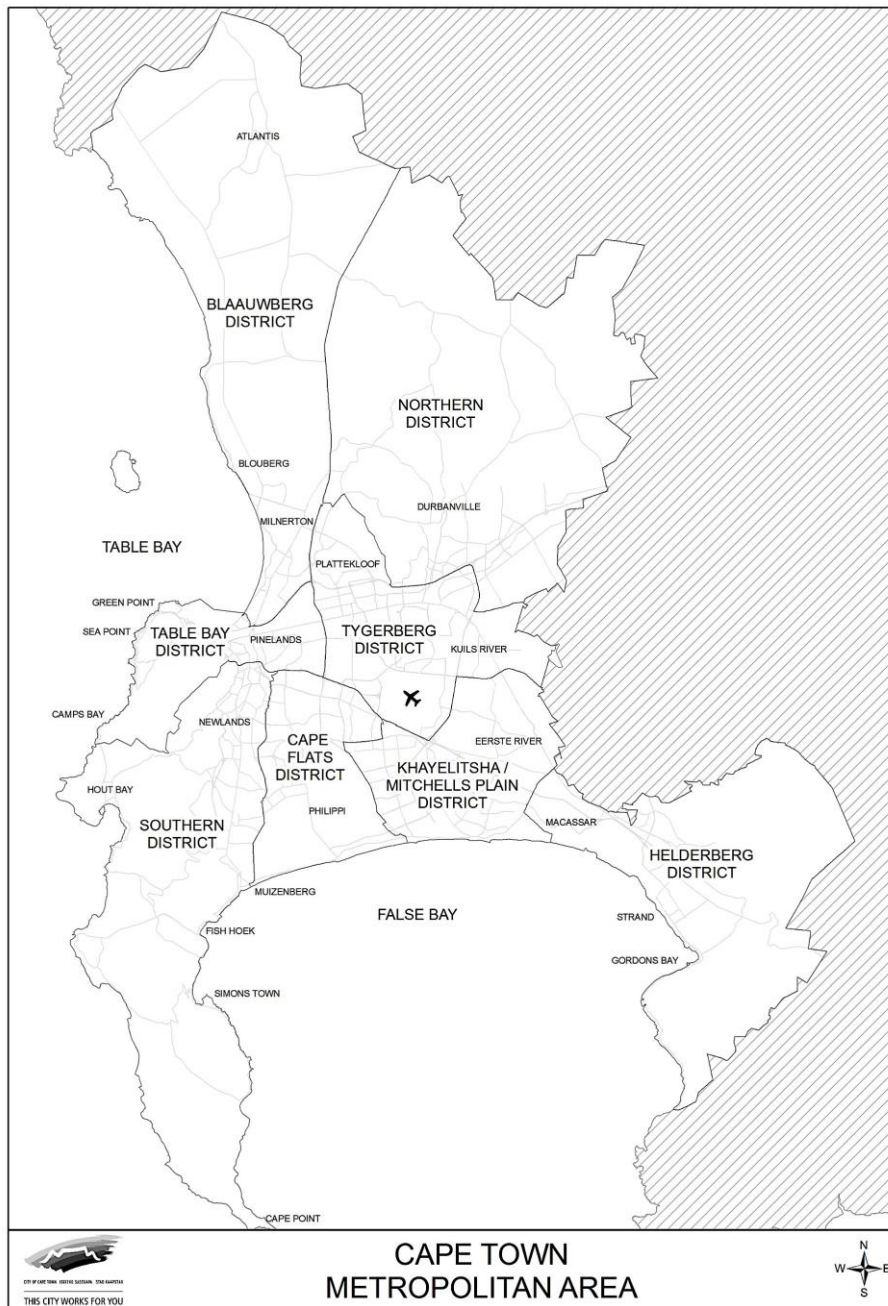
Although there were no restrictions on land ownership by non-South Africans as of early 2007, the newly drafted Integrated Coastal Management Bill has threatened the transferability of desirable property along the nation's coastlines. The bill aims to limit private developments along the coast in order to preserve biological diversity and maintain public access to beaches. Despite the fact that foreigners own only 1.5-2 per cent of property in South Africa, foreign ownership has become an issue.

In spite of all the displeasure regarding the proliferation of foreign ownership of property in South Africa—further aided by the depreciation of the Rand since 2011—it is ironic that South Africa 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 (Interview, Deeds Office Pretoria, 2015; Interview, City of Johannesburg, 2015). Lodene Willemse, analyst at the Centre for Regional & Urban Innovation & Statistical Exploration at Stellenbosch University, South Africa, (Interview, October 2015) refers to the case of foreign entrepreneurs in Johannesburg and explains that locals and foreigners are subjected to the same procedures and fees for obtaining trade licenses in South Africa. This freedom of economic activity extends to all sectors of the economy—including real estate. Professor Pienaar from the South African Research Chair in Property Law at Stellenbosch University (Interview, September 2015) confirms that the South African property market is open to all investors who have the money, without any discrimination—except for some traditional land zones like in Kwa-Zulu Natal where chieftainship prevails.

In the case of company investments in real estate projects—or any other business project in South Africa—the only primary level of regulation comes at the initial stage where the foreign investor submits their proposal, indicating the preferred area of investment to their local embassy, after which the embassy relays the project to the relevant ministry, and a compromise is reached thereafter. The Economic Counsellor and First Secretary at the South African Embassy in Beijing (Interview, September 2015) underline that South Africa has a defined list of priority areas for investment to which they adhere to, and that the Department of Trade and Industry (DTI) oversees each and every project submitted to them for approval. It works with a Joint Working Inter-Ministerial Group to determine whether to proceed with the project or not. The list of possible investment areas open to foreigners is posted on the website of DTI. A look through the list reveals that, in fact, it does not exempt foreigners from participation in any economic activities (Department of Trade and Industry, 2015).

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 (Valuation Department, Interview, December 2015). As confirmed by Yolanda Abrahams, Head of Corporate Data at the Valuation Department, City of Cape Town, the latter category form the larger part of foreign property owners in South Africa. In the absence of regulatory techniques to monitor foreign property ownership in South Africa, it becomes difficult to pin down whether, firstly, foreign ownership of property is a myth or fact; secondly, what is the composition of this group of foreign owners; and thirdly, what is the impact of foreign property ownership on the local socio-economic, political and environmental situation. Nonetheless, in the absence of nationalised data sets on this subject, surveys across property agents in Cape Town, and results of individual purchases by foreigners in the Cape Town Metropolitan area shed some light on basic trends of Chinese ownership of luxury properties in South Africa. Figure 5 is a map of the discussed Cape Town Metropolitan area.

Figure 5 Map of the Cape Town Metropolitan area



Source: City of Cape Town

Analysis of data sets of Chinese individuals owning properties in the Cape Town Metropolitan area reveals the following:

(i) there are more Chinese individuals who own freehold properties as compared to the number owning sectional title properties⁹;

(ii) the first Chinese property purchase happened in 1991. It was the acquisition of a freehold property in the Table View area¹⁰. It was only in 2003 that a proper first wave of a handful of property investors flowed in from China. They then concentrated on freehold properties in

areas of Parklands¹¹, Camps Bay¹², Loevenstein¹³, and sectional title properties in Kenilworth¹⁴ and Vredeklouf¹⁵;

(iii) the average purchase price of sectional properties by Chinese individuals in the Cape Town Metropolitan area is US\$ 66,929, while the average purchase price of freehold properties in the same area is US\$ 114,686.

(iv) the most expensive acquisitions have been of freehold properties in Newlands¹⁶, Chapman's Peak¹⁷, Durbanville¹⁸, Sunset Beach¹⁹, Eversdal Heights²⁰, and Rondebosch²¹. Except for the Rondebosch properties which were purchased in 2007, the remaining high priced properties were bought in the last five years only. Freehold properties in Newlands are only challenged in price by sectional title acquisitions in Mouille Point²². The expensive sectional title properties purchased by Chinese individuals in Cape Town remain around Century City²³, Stellenbosch Farms²⁴, and Royal Ascot²⁵.

(v) out of 125 sectional title properties bought by Chinese individuals in Cape Town, only six were acquired prior to 2010. The remaining 119 were all bought after 2010.

(vi) throughout the last two decades, Parklands, and later Century City, have been consistent destinations of choice for Chinese individuals in Cape Town.

Picture 4 Camps Bay



Source: Author (2015)

Picture 5 Example of an advert for a property in Camps Bay

SOUKOP
Property Group

AT/APARTMENT IN Camps Bay R 17 900 000

BEAUTIFUL LOCK UP AND GO

Bedrooms 3 Bathrooms 3 Garages 2 Parkings 0

- Breath-taking panoramic views, with exceptional finishes & design.
- Guest bathroom
- Open plan living, dining, kitchen, study nook and entertainment areas all open up onto the expansive deck overlooking the Atlantic Ocean and surrounding mountains.
- Gas fireplace
- Laundry room
- Splash pool / Jacuzzi

Property#4 web ref 10287358

Rates R 5 600

GEMMA SOUKOP
061 742 6664
gemma@soukop.co.za

SOUKOP PROPERTY GROUP
CAMPBAY
campsbay@soukop.co.za

Source: Author (2015)

Picture 6 Buildings at Century City

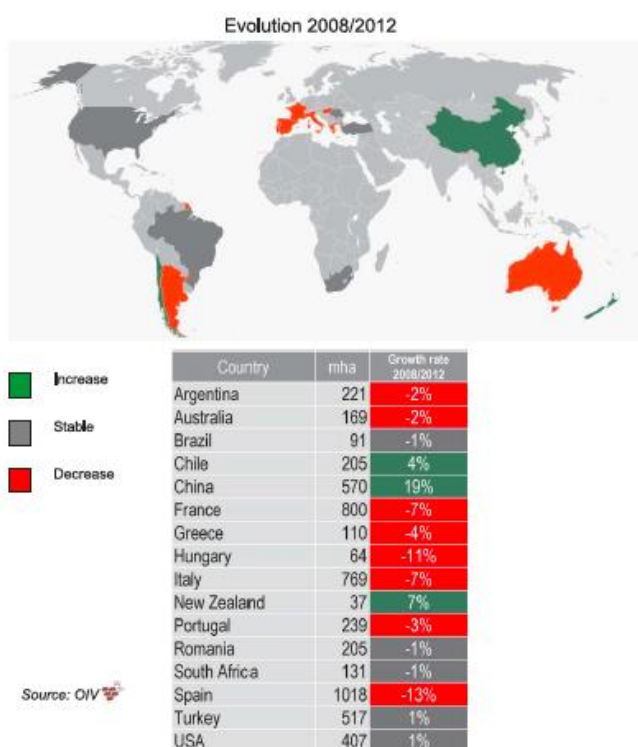


Source: Author (2015)

These patterns are indicative of a certain number of rationales which elucidate the motivations and preferences of Chinese property buyers in South Africa, and in Cape Town specifically. The 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 who are purchasing property in Cape Town are mostly doing so by choice rather than as a requirement for their job placements in South Africa. The choice of 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. This in fact confirms the analysis that Juwai²⁶ (2015) conducted of the Chinese property consumers whereby they note that “[S]urveys of luxury consumers’ interests show that waterfront properties, vineyards and wineries, among other features and property types, are scoring high in popularity stakes”. With increasing interest in products of high taste and reflective of a certain kind of socio-economic status, Chinese individuals are taking interest in Cape Town, its coastal regions and its wine lands. Figure 6 below which shows a steady increase in vineyards growth rate in China is symbolic of the correspondingly growing interest in experiencing the authentic wine lands of South Africa.

Figure 6 Global map of surfaces under vines in 2012

Surface under vines in 2012



Source: International Wine Organisation 2013 Report

While these are observations from the macrocosmic picture of Chinese property acquisition in the Cape Town Metropolitan area over time, the experiences of specific property agents operating in Cape Town are telling too. Brian Usher, Sales Director at Property World shared that “since 2012, we have noticed an increase in the number of enquiries for property purchases from the Chinese community” (Interview, October 2015). These are mostly regarding sectional title apartments, he adds. Though not all enquiries have resulted in purchases, 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. Similarly, Pieter Muller from Bond Street Property, confirms the preference of Chinese buyers for properties in the luxurious Century City. He refers to the case of Hisense and explains how the senior employees of Hisense reside in Century City’s Island Club, while the junior staff mostly live in Parklands. While it is claimed that 95 per cent of their 600 employees are local South Africans (Wonacott, 2014), the remaining five per cent, who are the Chinese high-ranking officers, settle in South Africa on a long-term or permanent basis. Hisense’s factory itself is based in Atlantis, which is 52kms away from Century City. Island Club, which is a posh residential complex of Century City, also has a school nearby to which the Chinese residents send their children. The example of Hisense legitimises the hypothesis that increasingly, luxury property purchases by Chinese in South Africa flow from intra-company transfers.

Picture 7 Island Club apartments, Century City



Source: Island Club Hotels and Apartments, 2015

Chinese real estate investment in South Africa happens partly by default and trickles down from investment occurring in other sectors such as manufacturing. This view is supported by officers from the visa section of the South African embassy in Beijing. The South African officer in charge of visa procedures in Beijing shares that the majority of visa applications coming to their office are requests for intra-company transfers (Interview, September 2015). In fact, there has been a recent increase in demand for intra-company transfer visas as more and more Chinese companies envisage shifting some of their operations to South Africa. The officer clarifies that the Chinese prefer the intra-company transfer visa as they skip the verification step implied in a General Worker's visa which requires the employer to prove that there is no local South African who can do the particular job. He further shares that only recently, has there been a number of demands coming in for permanent residence from the Chinese. 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. Yoon Park (2012), also denoted this upcoming wave as she wrote:

While most Chinese in Africa are there only temporarily — as contract labourers and professionals — there are a growing number of Chinese migrants choosing to remain in Africa to explore greater economic opportunities. Recent research in southern Africa indicates that, although many Chinese migrants plan to eventually return to China, many in South Africa and Lesotho have already stayed years beyond their original plans.

This new phenomenon at the South African embassy in Beijing indicates that indeed, there is reason for the newfound interest among the Chinese to permanently occupy residential properties in South Africa.

While these are glimpses of individual Chinese buyer trends in South Africa, the quest for affordable luxury and lifestyle have also brought Chinese commercial property developers and business persons to South Africa. One such example is the recent acquisition of shares of Val de Vie Wine Estate by Perfect China. According to news reports, the “purchase also includes a 25 hectares (ha) wine farm with 21 ha of vineyards and the historic manor house dating back to 1783” (Phakathi, 2013). Denisha Reddy, First Secretary at the South African embassy in Beijing (Interview, September 2015) further elucidates that 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. It plans to target high-end tourism. Another property investment project by a Chinese company 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) for ZAR 1 billion. The developer of this project is Shanghai Zendai Property Ltd, a Chinese company listed on the Hong-Kong Stock Exchange. The Smart City will be developed over the next 15 to 20 years and will be divided into phases. The first phase will comprise of 300 residential units. Overall, its masterplan envisages the development of “30,000 [to]... 50,000 housing units of different types and sizes... ultimately housing about 100,000 residents” (Du Wenhui, Chief Operating Officer quoted by SAInfo Reporter 2015). These will be accompanied by:

schools... and...will include nine functional zones, the central business district, international conference and exhibition centre, an entertainment centre, silver industry and retirement industry, international residential community, education and training centre, sports Centre, trade and logistic park and light industry park (Peter, 2014).

In the face of scepticism regarding the focus on large scale residential development in Zenda Modderfontein, the economic department of the South African embassy in Beijing emphasises that the construction of these residential units are in fact based on existing demand for property in that area, and that it is closely monitored by the local government of Johannesburg. Considering the location of Modderfontein²⁷ and the expansiveness of this particular project, it is expected that the property prices thereof would be above average, and therefore could easily count as luxurious properties. Figure 7 locates Modderfontein in relation to Pretoria and Johannesburg.

Figure 7 Location of Modderfontein



Source: Weather Forecast.com 2016

This hypothesis finds leverage from the description of the residential community posted on its website which says:

The residential community, situated on the northern edge of the site, covers a land area of approximately 370 ha and is planned as an international community complex composed of various types of residential and related offerings; i.e. apartments, shops, offices, and hotels. This is planned as a large-scale international neighbourhood with accessibility, extensive facilities and a multi-cultural atmosphere.

Who are then the prospective buyers of these futuristic residential spaces? Chairman Zikhang Dai's statement somewhat answers this question as he states that "[t]he development... will become a hub for Chinese firms investing in Sub-Saharan Africa" (Zikhand Dai quoted by SAInfo Reporter, 2015). It is, therefore, clear that the prime target market for these developments are Chinese investors who already have a business in the region or envisage to expand in the region. This overt focus on the Chinese clientele indicates that firstly, property investors are aware of a certain domestic trend in China which presupposes that there will be a wave of Chinese

investment in Sub-Saharan Africa; and secondly, that this Chinese investment will be of the type which would require Chinese investors and professionals to immigrate to Sub-Saharan Africa, or to adopt the region as a second home. As Zikhang Dai claims that Modderfontein will accommodate those who will be functioning across Sub-Saharan Africa, (and not South Africa exclusively), it is right to assume that the model of Chinese property development and acquisition in Africa is centred on primary concerns for security, accessibility and lifestyle choices. By this it is meant that, Chinese investors who have activities anywhere across the African continent prefer a safe, accessible and up-market location as their residential base. Even if it requires frequent short travels within the continent, Chinese investors and professionals prefer choosing locations such as South Africa as a base for themselves, or for their families which move with them.

Although the extent of Chinese property ownership in South Africa, along with general foreign property ownership, is not alarming, and is estimated to be less than 5 per cent, it is the pace at which it is increasing and the domestic political context in South Africa presently which generates concern over this phenomenon. The escalating sales of sectional title properties to Chinese citizens, and projects such as Zendai Modderfontein which promise to cater to such demands, along with an increase in request for Permanent Residence permits shows, that indeed, South Africa is becoming one of the upcoming destinations for foreign property buyers from China and elsewhere. While it is an economically beneficial addition to the economy, it is the current socio-economic situation of the country which threatens the harmonious welcoming of such foreign assimilation. The xenophobic riots of 2015 reflect the malaise which is brewing among South Africans who see foreigners as a threat to their benefits and opportunities. However, the recent politico-economic upheavals following Zuma's dismissal of two consecutive finance ministers (along with the incessant Rand depreciation) has diminished investors' trust in the South African economy and may potentially bring the influx of Chinese properties to a halt, even if only temporarily (England 2015; 2016).

Pieter Muller from Bond Properties also draws attention to one of the adjacent effects of increasing Chinese property ownership in South Africa. 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 the local Chinese and also to the rest of the South African population. As the cheap price and wide range of goods that they import from China gain popularity, several Chinese traders have co-operatively set up mall-style units called compendium malls. These are huge buildings with several storeys within which each trader or retailer is allocated a small space where they sell their goods. Harrison (2015), traces this proliferating phenomenon across Johannesburg. He lists 18 Chinese malls in Johannesburg. Pieter Muller identifies three in Cape Town: Sable Square, Ottery, and Parow.

Picture 8 Example of a China Mall in South Africa (Sable Square, Cape Town)



Source: SA Commercial Prop News, 2012

What is interesting in the case of these malls is that these are occupied almost exclusively by Chinese traders, and are even developed by Chinese property developers. Moreover, as Harrison (2015) notes, the latest trend is that these malls are incorporating residential accommodation in their compounds or nearby in order to house their workers and businesspeople. Therefore, foreign property ownership—particularly Chinese property ownership in South Africa—as a chained-reaction, attracts further Chinese settlers to the country. Lodene Willemse (Interview, September 2015) also supports this theory. She explains how Chinese business persons residing in South Africa usually invite their relatives to join them in South Africa. They do not pay the person but offer him or her, accommodation, food and a training opportunity at their shops. At the end of a couple of years, either the person becomes in charge of the shop or moves on to open his or her own shop.

4. Chinese real estate investment in Mauritius

In 2011, Mauritius was the leading African country where China was investing in real estate and sixth in the world (after Bahamas, the USA, Australia, South Korea and Saudi Arabia) (The Heritage Foundation, 2011). Judging by the size of the island²⁸, its location, resources,²⁹ and market size, at first glance, this investment destination seems unwise, both for Chinese real estate developers and Chinese buyers. Mauritius is approximately 2,000kms away from the African continent and has a population of 1.2 million. Why would a Chinese investor therefore buy or develop property in Mauritius?

Official figures on foreign purchases of property in Mauritius are not made available since this activity is closely regulated by key authorities. It is feared that the dissemination of information regarding foreign property purchases might cause social unrest and resentment among locals (Business Mega.mu, 2013). Nonetheless, Mauritian inhabitants and observers are very much aware of the growing foreign communities settling on the island. There is indignant awareness of the prominent South African population which now occupy the western coast of the island almost exclusively to themselves.³⁰ Therefore, although the Chinese are not the sole foreigners investing in real estate properties in Mauritius, they demarcate their presence as they engage

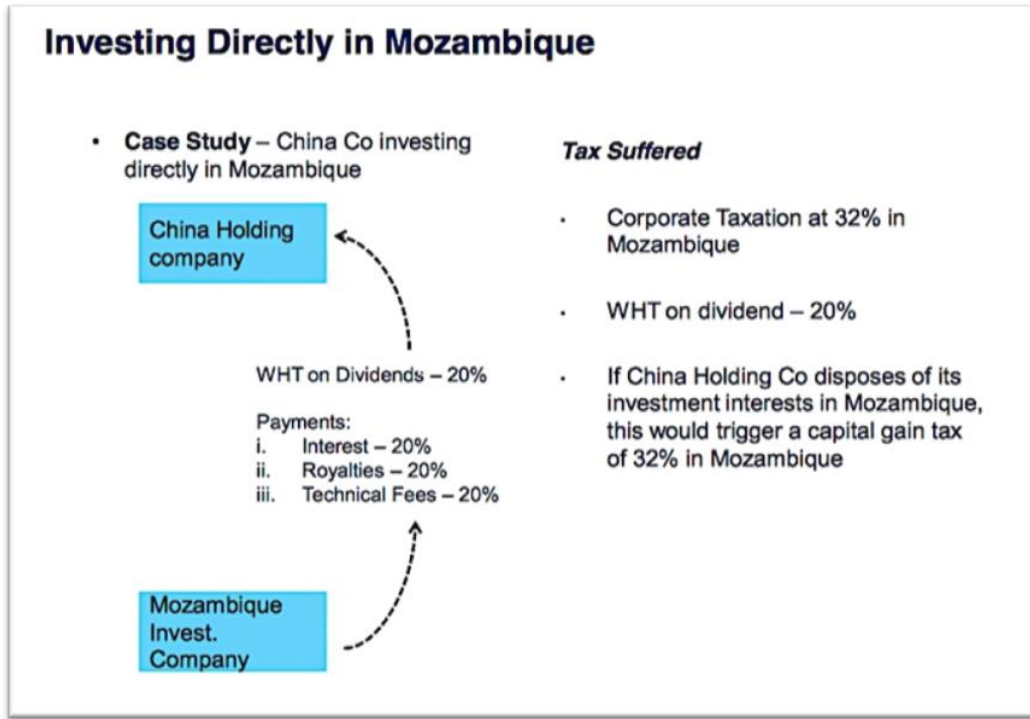
more in the development of properties, with the intention to sell rather than to reside themselves. A few of the early examples are *Le Meritt Genesis* and *Le Meritt Ellipsis*, which involved Beijing Construction Engineering Group as the contracting partner, and that of the Mauritius Jin Fei Trade and Economic Co-operation Zone Ltd. While the two Le Meritt projects were both private projects, JinFei involved the use of public assets; i.e. the Mauritian government invested in JinFei in terms of land and provision of roads and utilities. Ten years since its inception, JinFei still remains undeveloped and the project has been re-appropriated by the Mauritian government. In the case of *Le Meritt Ellipsis*, the construction is half-done but still pending. The stalemate status of the latter two projects are telling of the cautiousness required in dealing with ambitious Chinese real estate investment projects in Mauritius. However, enquiries at Mauritian authorities about how they have planned to evade the mistakes as in the case of JinFei and *Le Meritt Ellipsis* revealed that the Mauritian system was not yet aware and equipped to deal with the risks associated to the peculiar investment model of large scale Chinese property development (Section 1.8 describes this particular model). “We only facilitate investment; if it fails, it is none of our business” was the echoing response of two senior offices at the Mauritian embassy in Beijing, and the Board of Investment, Mauritius (Mauritian embassy in Beijing, Interview, November 2015; Board of Investment, Interview, December, 2015).

Despite the lack of official data and interest from government authorities in a systematic analysis and understanding of the real estate investment scene in Mauritius, residential purchases by overseas Chinese, among other foreigners, is nonetheless a reality. The first reason through which most estate agents explain Chinese purchases of property in Mauritius is because of the sun, sea and sand. The island is picturesque, has a safer living environment than a lot of places on the continent, and is politically stable. It is also home to a Chinese diaspora, therefore, there is an existing sense of identification. As we move beyond this simplistic understanding of the buyers’ rationale, there is a general understanding among property agents in Mauritius that a lot of the Chinese people who have bought residences in Mauritius are those who are high-ranking officers in Chinese MNCs whose activities are spread across Africa (Dinee Properties, Interview, November 2015). Examples of Chinese MNCs active in Africa but headquartered in Mauritius are ZTE, Tianli Spinning Ltd and Huawei. The Regional Manager of Huawei in Mauritius (Interview, October 2011) shares that it is convenient for Chinese companies expanding on the continent to have their headquarters in Mauritius. This is because Mauritius and China have easy visa arrangements as compared to other African countries where it is relatively more difficult for Chinese workers to secure visas. Moreover, Chinese employees of these expanding firms prefer settling their families in a safe environment which is also connected to home through direct flights. Mauritius has nine weekly flight options connecting to China.

This establishment of Chinese headquarters in Mauritius was encouraged by two specific strategies of the Mauritian government. Firstly, there was 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 (Association of Offshore Management Companies, Mauritius, 2001). Secondly, there is the range of Double Taxation Avoidance Agreements (DTAAs) that Mauritius has with 14 African countries (and 10 under negotiation). Under this arrangement, a Chinese company wishing to invest in one of the countries’ 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. Deloitte

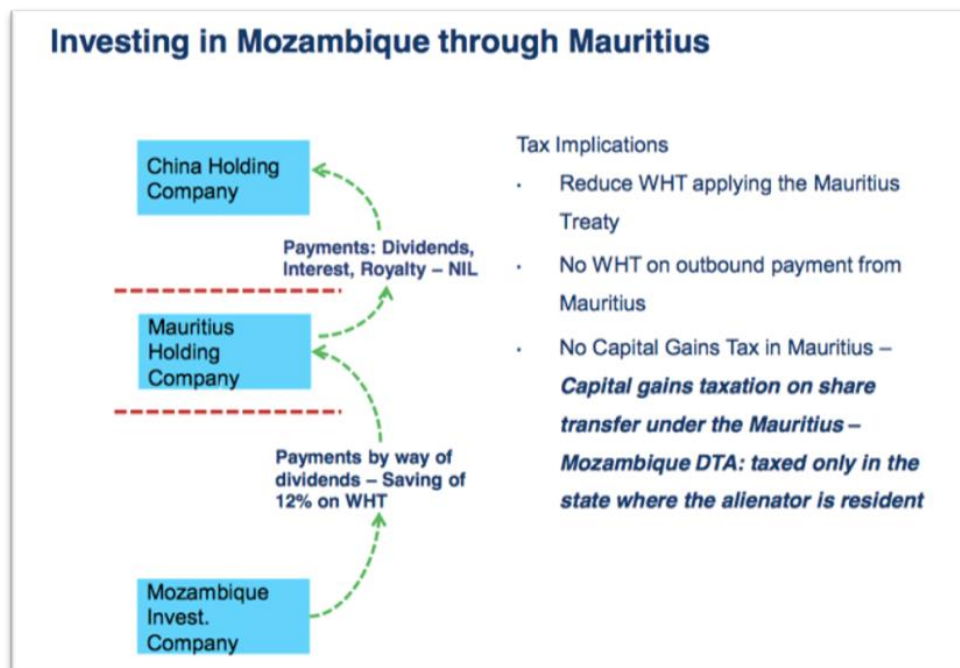
(2013), produces a good demonstration of the benefits derived by the Chinese company when it (i) goes straight to the African country, and (ii) when it invests via Mauritius.

Figure 8 Example of the process of a Chinese company investing directly in Mozambique



Source: Deloitte, 2013

Figure 9 Example of a process of a Chinese company investing in Mozambique via Mauritius

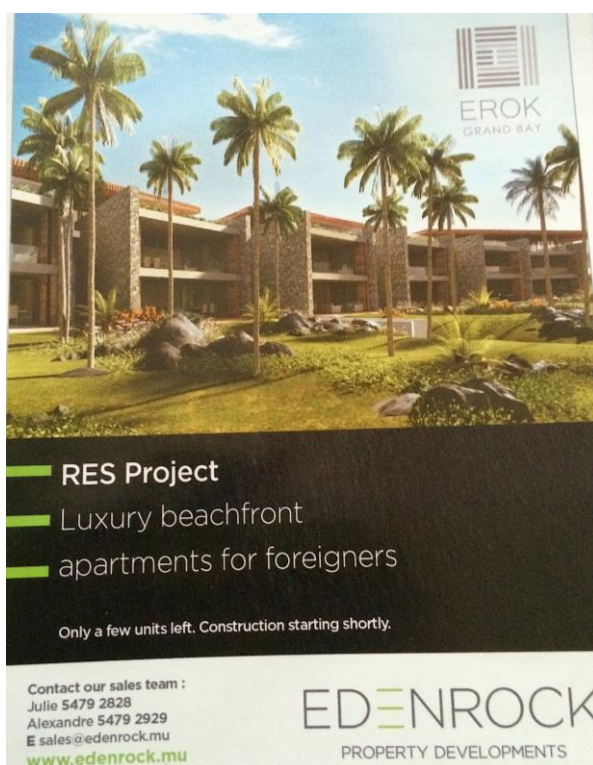


Source: Deloitte, 2013

Following these benefits, numerous global licence Chinese companies have set up base in Mauritius. Similar to the South African case, the purchase of high-end residences by the Chinese buyers therefore follows.

Yet another reason which brings the Chinese to Mauritius to buy luxury properties are the preferential provisions that the Mauritian government extends to foreigners who wish to invest in luxury residences. In 2002, the country started the Integrated Resort Scheme (IRS) under which agricultural land belonging to sugar estates were converted to luxurious integrated residential communities. Through this scheme, a policy arrangement was devised which allowed 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, IRS style property development was democratised and the government came up with the Real Estate Scheme (RES) which allowed smaller owners of land expanses lesser 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.

Figure 10 Example of an advert for an RES project which specifically targets foreigners



Source: L'Express Property, 2015

The Board of Investment (BOI), Mauritius, confirmed the same in an interview in November 2015. With a residence permit in Mauritius, the Chinese investors are eligible for access to various services such as free medical treatment at public hospitals.

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 plans³¹, 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 which was erstwhile given to a Shanxi-based Chinese consortium for the creation of the JinFei zone. JinFei was then described as “the most important single foreign direct investment ever in this country” (Ramgoolam, 2009). It was planned that the project would establish residential spaces, hotels, light manufacturing and pharmaceutical plants, entertainment centres, business centres, leisure facilities, schools and hospitals etc. However, JinFei never took off as the Shanxi promoters had difficulties finding investors to settle in the zone. In 2015, the Government of Mauritius recuperated 151.2 ha of the land, and left 59.8 ha to Chinese parties to develop. According to the BOI, it is now the provincial government of Shanxi who has taken patronage of the development of the Smart City. It will now develop a commercial district, financial centres, hospitality services and high technology industries. There are already a number of residential developments in that part of the land, intended for sale to Chinese investors wishing to invest in the zone.

In the case of the YIHE Smart City project, the BOI explains that the project is based on an idea of work-live-play. The BOI gives us a glimpse of what the project will look like and enumerates components of the YIHE masterplan (Senior Investment Executive at BOI, Interview, December 2015).

Phase one, which is estimated to be an investment of US\$ 27,816,411, will be composed of 808 apartments, one office tower of 19 floors, and one two-storey commercial facility building. Phase two will involve the construction of leisure facilities, a casino, and a five-star resort. Phase three of the project will be completed with the development of luxury villas.

In fact, YIHE is locally and globally known for its specialisation in luxurious residential development. The company is the developer of the YIHE World Island, YIHE Golf Chateau, and YIHE Summer Palace in China, and the Sydney Summer Palace project in Australia. On its website, YIHE describes the Mauritian project in the following words:

The project in Mauritius is very hot for honeymoon resort. The project locates in Mauritius northeastern coast and it takes 30 minutes to Louis, the capital city of Mauritius. The project will contain resort hotels, villas, casino, shopping mall, conference centre, golf courses, education centre, and old village, which is filled with various forms. The first product will give priority to villa that is expected to launch at the end of the year (YIHE Real Estate, 2016).

The skewed focus on residential development in the YIHE project, and the initial expansive residential component of the original JinFei project (Sections 7 and 8 in Figure 10 below designate the expansive residential areas for the management and employees) 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 by the Chinese receives legitimisation from Mauritian authorities who repeatedly identify residential development and management as a leading dimension of the Smart Cities concept. Gaetan Siew, Chairman of the State Land Development Company Ltd, Mauritius, (SLDC) and leader of the Smart Cities project highlights

the focus on luxury residences as he enumerates the list of components and indicators making up Smart Cities which include the following:

- mix of commercial, leisure and *residential uses* that, as a whole, achieves physical and functional integration and creates a pedestrian-oriented urban environment
- a combination of office, light industrial, education, medical and *tourism clusters*
- high technology and innovation cluster
- infrastructure to service green-field sites with roads and inspiring landscaping
- clean technology aimed at carbon and waste reduction, efficient transport
- low-energy-consumption buildings
- digital solutions, urban sensing technologies and big data analytics
- energy production and water management and utilities
- *high-end residential estate*
- *real estate investment management*

The large residential components of each of these upcoming projects triggered criticism as the Opposition leader, Paul Berenger, questioned whether these were Smart Cities or purely rebranded IRS projects (Le Mauricien, 2015). Already, non-governmental organisations and a large section of the Mauritian public have expressed scepticism over the benefits of Smart Cities to the local population. They fear that these Smart Cities might in fact create social divisions (L'Express, 2015).

Figure 11 JinFei Masterplan



Source: JFET Presentation, 2009

Claude Wong So, Chief Executive Officer of the SLDC, Mauritius (Interview, November 2015) states that as Chinese investors grow more aggressive in their investment plans in Mauritius, they show interest in other sectors of the real estate sector. There are three budding projects—the above-mentioned YIHE at Domaine les Pailles, the Island Summer Palace at Roche Noires, and the Imperial Gardens in Phoenix. These three projects indicate a growing interest in Mauritian luxury real estate business among the Chinese. Imperial Gardens is the first inland RES project in Mauritius. A Chinese consortium called City View Development Co Ltd. leads the project. In an interview (December 2015) with the director of the project, he explains that real estate development is a new and interesting area of investment in Mauritius since manufacturing (which has traditionally been a Chinese area of overseas investment) is not profitable in context of the small market and expensive labour conditions of the island. With frequent direct flights between Mauritius and China, more and more Chinese tourists are coming to Mauritius. He quotes around 100,000 Chinese tourists visiting Mauritius yearly. Imperial Gardens consists of 255 apartments over 100,000 square metres. Each building is composed of 17 floors, with two levels of underground parking. Each floor houses two apartments and each apartment has a lift of its own. Imperial Gardens also offers all hotel style facilities such as gymnasium, spas, swimming pools, water features, and a 7/11 shop facility. The price of one flat of 200 square metres is at US\$ 417,246. Imperial Gardens is targeting 80 per cent of foreign buyers, for which the promoters have already joined the BOI on its road shows in France and Beijing in order to attract interest. To date, the director confirms that there is interest from buyers originating mostly from China, France, Madagascar, Reunion, and Kenya. He explains that the Chinese interest comes from their cultural preference to invest in property. They choose Mauritius mainly as a holiday spot.

Figure 12 Snapshots of the masterplan of Imperial Gardens



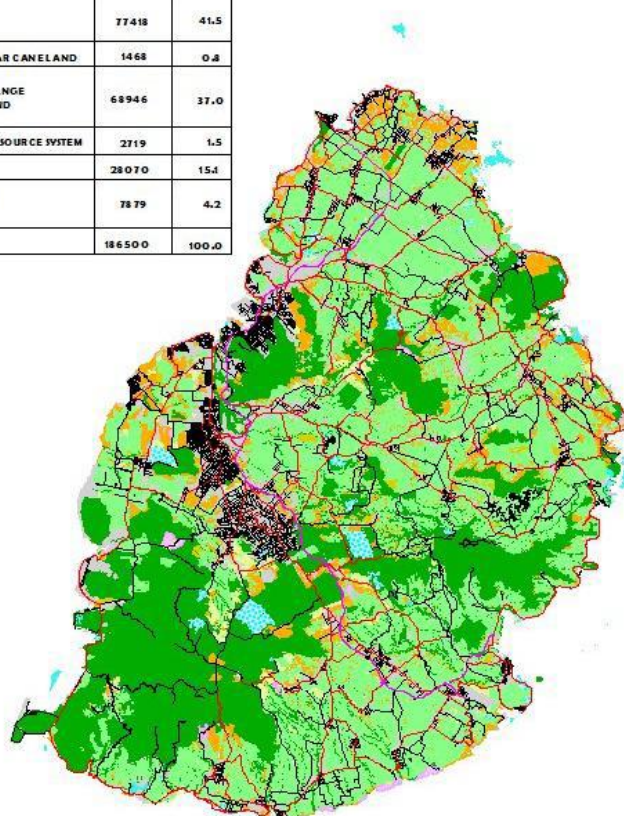
Source: YouTube Imperial Gardens (2013)

While the geographical size of South Africa does not make the increasing influx of Chinese property purchases and residents an environmental problem (with regard to land management), in Mauritius, acquisition of property by foreigners—of which the overseas

Chinese form a large part— has a greater impact. Mauritius is a small island of 186,500 ha, situated in the middle of the Indian Ocean. It relies on external linkages for its food supply. According to the last land use map of Mauritius produced by the Mauritius Sugar Industry Research Institute (MSIRI) in 2011 (from data collected in 2010), 35,949 ha of the country (i.e. 19.3 per cent) are under built-up area (including buildings and roads) while 77,418 ha (i.e. 41.5 per cent) are under sugarcane, food crop cultivation and livestock rearing.

Figure 13 2010 Land Use map of Mauritius

LEGEND	MAJOR LAND USE	AREA (Ha)	% TOTAL
SUGAR CANE OTHER CROPS LIVESTOCK PRODUCTION (POULTRY, FEEDER)	AGRICULTURE	77 418	41.5
ABANDONED SUGAR CANE LAND	ABANDONED SUGAR CANE LAND	1468	0.8
RESERVES (MOUNTAIN & RIVER) WASTE LAND ROCK HEAP LEISURE (BEACH, PUBLIC GARDEN, ETC)	FOREST, SHRUB, RANGE AND GRAZING LAND	68 946	37.0
WATER BODY & MARSH	INLAND WATER RESOURCE SYSTEM	2 719	1.5
BUILT-UP AREA	BUILT-UP AREA	28 070	15.1
HIGHWAY MAIN ROAD SECONDARY ROAD/PIVOT PARKING	INFRASTRUCTURE	78 79	4.2
TOTAL AREA (Ha)		186 500	100.0



Source: MSIRI, 2011

It is to be noted that this survey by the MSIRI only took into account IRS and RES projects which were already established by 2010 and not thereafter. These land use statistics also exclude the 950.7 ha (Minister of Agriculture, Interview *L'Express*, 2015) which have recently been converted from agricultural to a built area for the Smart Cities.

With the implementation of the Property Development Scheme³² programmes of the BOI, Mauritius capitalised on the sale of strategic coastal land to foreigners mostly—or solely. Along with threatening the food security of the island, these residential projects also generate concerns about social exclusion and disharmony. The properties that are being developed or occupied by overseas Chinese investors are all luxury apartments or bungalows which are inaccessible to locals. This differential and superior treatment enjoyed by foreigners in their own country may create social disharmony among the Mauritians. To what extent have these concerns of social integration been addressed in the new Smart City projects? Gaetan Siew shares that local integration has been taken care of in the conceptualisation of Smart Cities.

“[T]he indicators under evaluation are listed under the ISO 1801 [sic.] and customised by MSB (Mauritius Standards Bureau) for Smart Cities. These are the international norms whereby the technical team will comply”. On its turn, BOI explains that Smart Cities would involve a benevolent structure similar to the IRS. In the case of the IRS projects, the developer has set up a benevolent fund in which US\$ 5,563 is injected after the sale of every residential unit. This money is then transferred to the National Empowerment Foundation (NEF) for social use or invested into community services by the developer itself. While the BOI ascertained that it monitored the social integration element through analysis of audited reports submitted by the IRS developer, documentation on ISO 18001 shows that its focus on occupational health and safety standards would not account for any kind of social integration of the surrounding Mauritian communities in the case of Smart Cities, unless radically transformed and reinterpreted by the Mauritius Standards Bureau (MSB 2015).³³ Additionally, in the case of the Smart Cities, the governance structure being established to administer the daily running of the cities will exacerbate the local-foreigners disconnection. The BOI confirms that the governance structure of each of the Smart Cities will be composed solely of people from the private developer company and would not include any members of the local government.

5. The role of residential development in Chinese investment strategies

The wariness regarding real estate investment by the Chinese in these countries stems from the simple reason that often, the Chinese strategy of investment is such that the investors usually do not have the initial capital they claim for the project. Li Dongya, director at CADFund explains that investors calculate the total capital input based on the rationale of a “snowball development” (Interview, November 2011). This long term strategy is well-denoted through the example of the Tianjin Economic-Technological Development Area (TEDA), one of the first successful SEZs of China located in Binhai in Tianjin Province, China. TEDA's first phase of development was financed by a government loan of US\$ 60.3 million. This loan produced one precinct of commerce and one precinct of residence. Together, they took up a total area of 420 ha. In 1990, TEDA started “developing a stretch of land, making a rational return on it and then using the return to develop new stretches of land” (ENorth, 2004). Therefore, residences and hotels have always been the preferred quick-return investment sectors for Chinese zone projects, especially when going overseas, as it also involves limited risk and requires no knowledge of the relevant local investment sector. While luxury residential property development becomes the safety net of Chinese investors—if the properties find no buyers or get delayed, the eventual development is also delayed, or never takes place.

6. Conclusion

From the findings of this study, there is no doubt that there is an increasing interest by overseas Chinese in residential property development and acquisition in South Africa and Mauritius. The trends in both countries denote that over the next five years, there will be a marked rise in the presence of Chinese permanent residents, and that their interest would mostly gear towards 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 formats of residential proliferation is the unstructured fashion with which they are met from the host country's administrations. South Africa already faces historical conflicts over land

management and is still struggling with its land reform and redistribution. In this context, as Professor Pienaar notes (Interview, September 2015), 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. While the dipping Rand brings more and more Chinese property investors and developers, the wake of an economic crisis triggered by the erratic economic decision-making of Zuma may only bring the faith of existing real estate investors to a stalemate. In the case of Mauritius, as the Smart Cities develop in the self-contained fashion that they are planned, all while excluding local government in their administration and 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. A disinterest on part of foreign investors would leave 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”. In both countries though, it is clear that Chinese developers are convinced of the growing interest among the Chinese middle class in having second home options in places which are more accessible and affordable to them. China has, therefore, moved from the government-led benevolent phase of “China builds in Africa for Africans” and now instead concentrates on a business-led movement of “China builds in Africa for the Chinese”.

End Notes

¹ Except for the creation of low-skilled manual jobs such as security guards, gardeners, and maids. Professor Sheila Bunwaree (Interview, February 2012), a renowned sociologist and activist in Mauritius, makes a similar observation in the context of expansive luxury residential developments, remarking “Mauritius is creating a nation of golf-ball pickers and house helps”.

² Headquartered in London, Knight Frank property consultants offer expert advisory services in global commercial and residential property sales and purchases. The group produces regular reports on global property patterns.

³ Though there is no official definition of what Chinese tier-one, tier-two and tier-three cities etc. are, this classification is roughly based on United Nations’ criteria used to calculate the Human Development Index (HDI). The HDI ranks countries in terms of their achievement level in health, knowledge opportunities, and a standard of living. Similarly, tier-one cities of China are those ranking higher on these criteria. As city classifications are internal to a country, microcosmic dimensions of HDI such as infrastructure, wage scale, influx of investment are further indicators that are considered while ranking cities.

⁴ Ghost cities refer to cities and spaces with unoccupied infrastructure.

⁵ Hukou refers to the system in China whereby citizens are registered and allowed access to a category of benefits depending on whether they live in an urban or rural area. Professor Guo (Interview, November 2015) explains that people from a rural area who wish to move to cities such as Beijing, but who naturally do not have the Beijing hukou have to pay high charges to use certain services. He gives the example of access to schools. See Chan, Kam Win (2010); Cheng, T., & Selden, M. (1994).

⁶ “Going-out” is literally what it means, i.e. taking the company overseas. It is a regular jargon used by MOFCOM.

⁷ The Hurun Report is a publication by the Hurun Research Institute which specialises in research on luxury trends of the Chinese.

⁸ The Water Research Commission of South Africa sets out the objective of the Bill as follows: “The National Environment Management: Integrated Coastal Management Act is the first legal instrument of its kind, in South Africa, dedicated to managing the coastline in an integrated fashion and ensuring the sustainable use of the coast’s natural resources (Water Research Commission, 2013).

⁹ While freehold property ownership refers to complete ownership of the building and the land under which it is build, sectional title property ownership means acquisition of ownership of only a section of a building or of a development area.

¹⁰ The Table View area extends over around 7 km² and is vis-à-vis the Table Mountain. It is a coastal residential area.

¹¹ Parklands suburb is situated next to Table View and extends over approximately 3km². For a complete geographic and demographic profile of Parklands, See City of Cape Town—2011 Census suburb Parklands (2011).

¹² Camps Bay covers 1.68km² on the coast of Cape Town. It is a renownedly affluent region.

¹³ Loevenstein is 15km from the Table Mountain and is close to a nature reserve, Therefore, its flora and fauna are very appealing. It is also close to the wine route. These features of Loevenstein make it a fashionable and up-market residential area. See, SA Venues (2016).

¹⁴ Kenilworth is mostly an English-speaking suburb. It is home to the oldest racecourse of the country and therefore widely visited by foreigners.

¹⁵ Vrededkloof is situated near the wine lands and is home to numerous residential high schools which cater for foreigners.

¹⁶ Newlands is an affluent suburb near Table Mountain. It is home to numerous high schools, football and cricket grounds.

¹⁷ Chapman's Peak is a picturesque area in Cape Town, 15km from Cape Town.

¹⁸ Durbanville is a rural residential area and is near wine farms.

¹⁹ Sunset Beach lies on the coast and is a touristy area.

²⁰ Eversdal Height is a residential area next to Durbanville.

²¹ Rondebosch is an affluent suburb in Cape Town. The University of Cape Town is situated there.

²² Mouille Point is a posh residential area next to the Victoria & Alfred Waterfront. It has plush apartments, promenades, overlooks the ocean, and is surrounded by entertainment and leisure facilities.

²³ Century City was established in 1997 and has developed as an integrated space for residences, offices, entertainment, and shopping facilities. It is an up-market region. See, Century City (2016).

²⁴ Stellenbosch farms is an affluent region and is home to several well-known wine farms.

²⁵ As the name indicates, Royal Ascot is the area nearby the racecourse in Cape Town, and it is very close to the sea and to the Sunset Beach Residential area.

²⁶ Juwai, which literally translates as 'home overseas', is a popular portal for Chinese property buyers. See, Juwai.com (2016)

²⁷ Modderfontein lies in the suburbs of Johannesburg and extends over 27.83km². It is only 14km from OR Tambo International Airport, and connected to Johannesburg city centre which is only 36 km away. It lies by a river which nurtures the Modderfontein Nature Reserve.

²⁸ Mauritius extends over 186,500 hectares.

²⁹ Mauritius has no natural resources. Its main income sources are textile, tourism and financial services sector.

³⁰ The area of Black River and Tamarin are known hot spots for South African communities.

³¹ Although the budget speech mentions eight Smart Cities projects, on 8 December 2015, media was informed that the number of smart cities had reached 17. See L'Express 8th December 2015,, "Smart Cities: Une Menace pour la Securite Alimentaire", p.7.

³² "The Property Development Scheme (PDS), which has replaced the IRS and RES, allows the development of a mix of residences for sale to non-citizens, citizens and members of the Mauritian Diaspora" (Investmauritius.com, 2016).

³³ Gaetan Siew later on emailed the relevant document of the MSB which clarifies that the Smart Cities management is being guided by the ISO/DIS 37101 which oversees the “[S]ustainable development of communities -- Management systems -- Requirements with guidance for resilience and smartness” (MSB, 2015).

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