

# LIMETREE CAPITAL

The private equity fund manager has just launched its first opportunistic vehicle for China, driving into the emerging car parking sector with the aim of building a nation-wide brand

Pan-Asian private equity fund manager Limetree Capital Partners is shifting its focus to a new asset class. Limetree, which invests in under-researched and under-valued real estate, has turned its sights to Chinese car parks, which it sees as an area with high potential.

Investors, it seems, are also interested. Limetree originally aimed to raise \$300m for the China Car Parking Investment Fund this year, but ended up being well over-subscribed, raising \$339m in total.

Capital for the first closing came primarily from the firm's existing investors: US institutions, endowments and European family offices.

Limetree now has to decide where to place the money over a four-year investment term. In charge of that task is Mark Cho, who joined Limetree seven months ago from Deutsche Asset and Wealth Management (formerly RREEF), where he was country head of real estate for China.

He joins his former colleague James Goulding, who was Asia chief executive of Deutsche Asset Management before launching Limetree in 2006. The fund manager now manages three private equity

funds, the others being its Asian Emerging Beachfront Land Investment Funds I and II, which have invested in coastal land in emerging markets in countries including Australia, Sri Lanka, Thailand and Indonesia.

The \$341m Asian Beachfront Land Fund II was closed in 2009 and although no deadlines have been set, a third beachfront fund is also in the pipeline.

In total, Limetree now has \$900m in capital commitments, building on its core base of creating opportunistic funds, with offices in Shanghai, Bangkok and Hong Kong.

The China car parking fund will consider a range of investments including building new parking lots and buying existing developments.

It will look across a range of different projects, including public transport hubs, central business districts, retail and offices, and public facilities such as hospitals.

## First opportunistic step into China

The fund is Limetree's first China-focused opportunistic fund and while car parks are not a new sector in China, as an investment class it remains under-explored (see box).

At eight years, the fund's term is longer than that of most Chinese vehicles, but with the fund projected to target returns of 20% or more, the prospect is attractive.

"Investors do understand the risks and returns with this asset class," says Cho. "The return will be derived from both cash income as well as from capital appreciation." He adds: "The idea is to build a brand and parking services across China."

Limetree is not the only investor to be attracted by this opportunity. China Resources Capital, the financial services division of state-owned China Resources Group, and Dutch pension fund asset manager APG established a \$265m car park fund last year, each committing \$120m, alongside investments from Macquarie Capital and car park manager Wilson Parking Hong Kong.

However, Limetree wants to take a "one-stop shop" approach to car parking. Whereas APG and China Resources will outsource car park management, Limetree will act as both investor and operator, having set up a company to manage and improve the car parks it invests in, called WePark (Huibo) Car Park Management.

## AUTO INDUSTRY MOTORS AHEAD IN CHINA

China became the first country to sell in excess of 20m vehicles last year, with nearly 22m passenger and commercial vehicles sold – a 14% increase on 2012.

Volkswagen replaced General Motors as the top auto seller in China for the first time since 2003, while Ford's sales grew by 49% and Japan's Toyota enjoyed a record year.

According to the China Association of Automobile Manufacturers, car sales in the first half of 2014 show no signs of slowing down, with sales among the top 10 auto companies up 10.7% year-on-year, to 10.5m vehicles.

Nonetheless, car ownership is still low in the country, with less than 100 cars for every 1,000 people – far lower than in markets such as Europe and Japan, which have around 600 vehicles for every 1,000 people.

Foreign manufacturers are all targeting further growth, while subsidies from the government provide a huge further boost to domestic car manufacturers.

Figures from McKinsey suggest China's luxury car ownership market will surpass that of the US by 2020, with the country becoming the world's biggest consumer.

With plenty of room for growth in auto

markets, authorities are concerned about having the infrastructure to cope with the weight of traffic on already crowded roads.

The government's current five-year plan calls for at least 186,000 miles of new roads to be built by 2015; the country is home to 20% of the world's population but still has just 5.6% of its roads.

Private car parking spaces are rare, particularly in cities, where much of the population lives in high-rise towers. China has five times fewer parking bays per car than the West and as a result, illegal street parking is rife.

“We want our brand to add a sign of quality for buildings. A parking lot becomes your second lobby; when you go into a parking lot it’s your first point of interaction, when you leave it’s your last point. That should be really important”

Mark Cho, Limetree Capital

Limetree also has opportunities to work with local partners, local government and to diversify the offering to potentially include auxiliary services such as coffee shops or retail. At this stage Cho doesn’t want to rule any options out.

Parking rates are fairly cheap in China, at RMB4-5 (65-80 cents) per hour and there is usually a big potential to haggle for a better price with the parking attendant.

Cho also sees huge opportunities to embrace newer technologies with this fund, saying the sector “is very manual now. I wouldn’t say it’s backwards, but there are definitely some areas where standards can be improved.”

Mechanised car parks could throw up some interesting opportunities. They require a small amount of land – up to 40% less than traditional car parks – and have low operating costs for the same number of bays.

At unmanned, mechanised parking lots, drivers drive in, park and something resembling a dumb waiter hoists their car up to a designated parking space. It is a concept Cho is interested in exploring.

As China’s motoring industry continues to expand, some local government officials

worry that their cities are reaching breaking point in terms of capacity.

Efforts to reduce the number of cars on the street include a license plate lottery in Beijing, whereby car owners could wait indefinitely without ever being allocated a licence on a random basis.

In Shanghai, the city authorities have introduced a licence registration scheme and it can take around six months for a licence to be approved.

#### Tackling congestion problems

However, Cho remains undeterred by concerns that the government might clamp down on the industry, seeing tackling congestion as the real priority.

“One study suggested that almost 25-30% of cars on the streets in central business districts are driving around looking for parking,” says Cho. “So there is a congestion issue, a parking issue and a pollution issue. For cities where there is a real pain point, we can work with them to find some land or projects where we can collaborate.

“Parking is not that elastic in terms of demand,” adds Cho. “It’s not as if people stop parking if they don’t have jobs; it’s a

pretty basic demand. Given the rates we have it’s really not cost-prohibitive. So I still feel there’s a huge purchasing power and a very strong ability to spend here.”

For landlords, there is also an opportunity to maximise development value. “The more we invest in each car park, we might be able to enhance the attached above-ground real estate values by 5-10%,” says Cho. “Landlords can charge higher rents or see better tenant retention due to the better car parks that we will invest in and operate.

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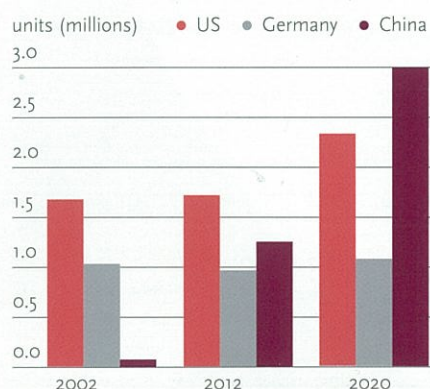
Cho doesn’t rule out the possibility of a second China-focused fund in the future, but for now is focused on the first piece of capital to deploy.

“At the moment I need to put the capital I have smartly and wisely to use, before thinking about other things,” he concludes. “I have my hands full at the moment.”

[www.limetreecapital.com](http://www.limetreecapital.com)

#### Luxury car sales, 2002-2020

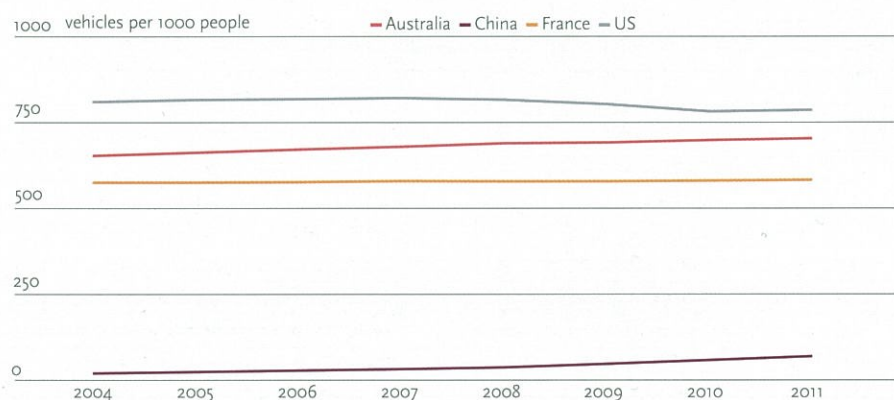
China’s luxury car sales have rocketed since 2002 and are set to overtake those of the US by 2020



Source: McKinsey

#### Motor vehicles per 1,000 people, 2004-2011

China still lags behind other major car markets in terms of number of vehicles per head of population



Source: World Bank