

Chinese money transfo



By Karen Weise

irms a California suburb



**Photographs
by Damon Casarez**

h, hey! How ya' doin'?" Raleigh Ornelas hollers, leaning out the window of his spotless white pickup truck. He's recognized the man across the street, a developer standing in front of a Tuscan-style mansion under construction. "Where have you been hiding at? I call you, you don't call me."

Ornelas is an informal broker in Arcadia, Calif., a Los Angeles suburb at the foot of the San Gabriel mountains. He's been keeping an eye out for the builder, an Asian man with a slight comb-over who goes by Mark. Ornelas has found two older homeowners who've finally agreed to sell their properties, and he knows that Mark, like all developers here, needs land on which to build mansions for an influx of rich clients from mainland China.

Ornelas rattles off addresses on a nearby street. "Three-eleven, that guy, he's wack," he says, shaking his head. "He wants 2.8." He means million dollars. "And then 354, they want \$2 million."

The lot is 17,000 square feet. "Seventeen for 2 mil?" Mark asks, incredulous.

"I know," Ornelas says. "They're going crazy."

A year ago the property would have gone for \$1.3 million, but Arcadia is booming. Residents have become used to postcards offering immediate, all-cash deals for their property and watching as 8,000-square-foot homes go up next door to their modest split levels. For buyers from mainland China, Arcadia offers excellent schools, large lots with lenient building codes, and a place to park their money beyond the reach of the Chinese government.

The city, population 57,600, projects that about 150 older homes—53 percent more than normal—will be torn down this year and replaced with mansions. The deals happen fast and are rarely listed publicly. Often, the first indication that a megahouse is coming next door is when the lawn turns brown. That means the neighbor has stopped watering and green construction netting is about to go up.

This flood of money, arriving from China despite strict currency controls, has helped the city build a \$20 million high school performing arts center and the local Mercedes dealership expand. "Thank God for them coming over here," says Peggy Fong Chen, a broker in Arcadia for many years. "They saved our recession." The new residents are from China's rising millionaire class—entrepreneurs who've made fortunes building railroads in Tibet, converting bioenergy in Beijing, and developing real estate in Chongqing. One co-owner of a \$6.5 million house is a 19-year-old college student, the daughter of the chief executive of a company the state controls.

Arcadia is a concentrated version of what's happening across the U.S. The *Hurun Report*, a magazine in Shanghai about China's wealthy elite, estimates that almost two-thirds of the country's millionaires have already emigrated or plan to do so. They're scooping up homes from Seattle to New York, buying luxury goods on Fifth Avenue, and paying full freight to send their kids to U.S. colleges. Chinese nationals hold roughly \$660 billion in personal wealth offshore, according to Boston Consulting Group, and the National Association of Realtors says \$22 billion of that was spent in the past year acquiring U.S. homes. Arcadia has become a hotbed of the buying binge in the past several years, and long-standing residents are torn—giddy at the rising property values but worried about how they're transforming their town. And they're increasingly nervous about what would happen to the local economy if the deluge of Chinese cash were to end.

Back on the street corner, Ornelas and Mark agree to meet for coffee to discuss other deals. Before he drives away, Ornelas asks if the developer wants to speak with a reporter. Mark declines, saying he tries to keep a low profile. "See?" Ornelas says as he

pulls away, leaning toward the passenger seat and raising his eyebrows. "Everything's hush-hush here in Arcadia."

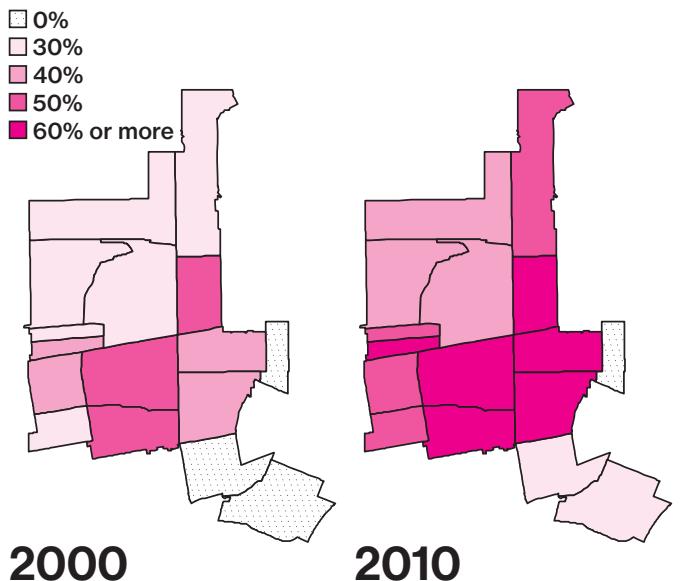
For almost a century after its founding in 1903, Arcadia was white and conservative. In the late 1930s more than 90 percent of the city's property owners signed agreements, circulated by the Chamber of Commerce, to sell only to white buyers. Its Santa Anita racetrack held about 19,000 Japanese Americans as they were relocated to internment camps during World War II. In the early 1980s an influx of immigrants from Taiwan arrived, drawn in large part to the great public schools. A second wave came from Hong Kong after the 1989 Tiananmen Square protests. The city's Asian population grew from 4 percent in 1980 to 59 percent in 2010. There were tensions at first—a letter in a local newspaper praised a proposed ban on non-English storefronts, writing, "Please leave your Asian signs in the old country and get Americanized." Over time, the new residents got involved in civic life, joining the Rotary Club, entering local government, and opening businesses such as Din Tai Fung Dumpling House, a Taiwanese restaurant tucked in the corner of a strip mall.

Arcadia has no real downtown, only low-rise commercial stretches lined with real estate offices and *boba* tea shops; Din Tai Fung is the closest thing there is to a central hub. Hostesses with walkie-talkies manage the hourlong wait of people clamoring for plump soup dumplings and pork buns. It was here, a decade ago, that Ornelas broke into Chinese real estate. Leaving lunch one day, he spotted a Ferrari parked outside. "Boy, that's a beautiful car," he said. The owner was Chinese and asked Ornelas if he wanted to take it for a drive. Ornelas squeezed in and took a quick spin. As he returned, a white man walked by and made a racial slur about the owner.

"I said, 'Leave the guy alone,'" Ornelas recalls. The talk escalated into a fistfight, which ended badly for the heckler. Ornelas is a Vietnam veteran who spent years bare-knuckle boxing for cash while working as a longshoreman. "The Chinese guy goes, 'I'm a stranger. Why did you stick up for me?' I said, 'We're all equal in this world, man.'" After that, Ornelas says, "I just met people from him, and then I got into different developers."

Ornelas matches them up with sellers. He swings by garage sales to chat up owners, and as he drives Arcadia's streets, he looks for signs a homeowner may need money. On a blistering

Arcadia's Asian population



Ornelas matches sellers with developers. Deals happen fast; many aren't listed publicly

hot day in July, he goes scouting through the city's foothills. "The roof is popping in that one there," he says, pointing to an older ranch house. "This one, they put a new roof on, but the house is in bad shape." Ornelas stops at a corner lot, where a property is under construction. "Look at how big that house is," he says. "Ooof. Gigantic."

As Ornelas tells it, last year the real estate website Zillow had estimated the property's value at \$1.2 million when he, on behalf of a developer, offered the owner \$1.5 million. The owner's brother, who worked in law enforcement, called Ornelas to ask if he was laundering money. "I told him, 'That's what the house is worth to me; you know? And he kind of investigated to see if it was dirty money. Everything was on the uppy-up, so he sold it to us.'" Where Ornelas's tales can be checked against public records, they stand up—Zillow did make the lower estimate, the house did sell for \$1.5 million, and the owner's brother is a sergeant with the county sheriff's department. (The lawman didn't respond to a request for comment.)

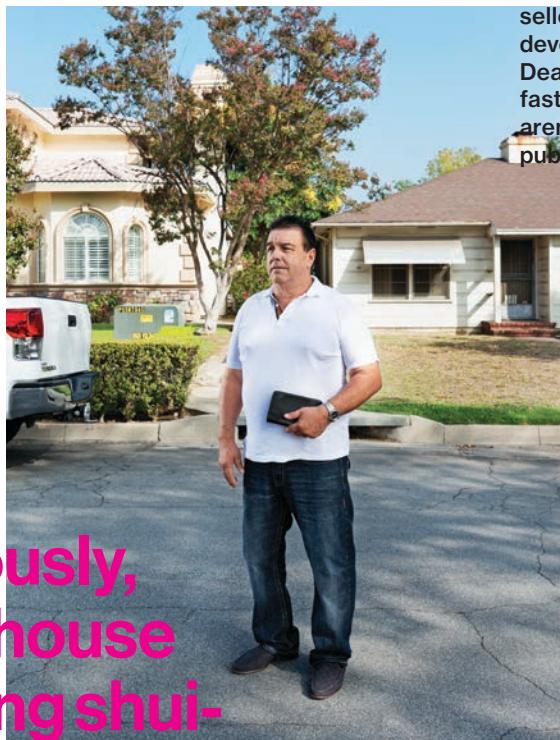
Next, Ornelas drives over to one in a string of construction sites in the city's Upper Rancho neighborhood, where large lots line curving streets shaded by gracious oak trees. At the site, buzz saws blare, and stacks of plywood lie on a concrete foundation. Richard Smith, the sun-tanned owner of a construction company working on seven homes in Arcadia, walks over to talk shop. Smith is building the 11,000-square-foot home for a developer who expects to sell it, he says, for \$8 million to \$9 million. Smith grew up in Arcadia, and his company has only Asian clients. They have certain preferences. "Obviously, if your house isn't feng shui-friendly, it's like we're not even going to have a conversation," he says. That means minding the number of stairs, the directions rooms face, and how materials line up. "And understanding the value of water, that's probably one of my key strengths," he says. "If you go to any successful businessman in China, or even here, they generally will have a picture of water behind their desk." He whips out his phone and swipes to photos of a project with a waterfall cascading off the top of a gazebo and into a backyard pool.

Smith says many of the newest buyers in Arcadia don't speak English. "They've just come here," he says. "They're on that EB—what's it called?" He means the EB-5 visas that the U.S. grants to foreigners who plow at least \$500,000 into American development projects. Congress created the program in 1990 to spur investment, and demand for the visas has grown recently. This year, for the first time, the government gave away the annual allocation of 10,000 visas before the year was over, with Chinese nationals snapping up 85 percent. Brokers in the area say it's the most common way buyers are coming to town. "Once they obtain residency, they want to bring their family over and get the United States education," says real estate agent Ricky Seow. "They can start a new life in California."

Taillights whiz by as 19-year-old Cheng Qianrong heads east along the freeway that runs from Los Angeles International Airport toward Arcadia, in a video she posts in June to her 22,000 Instagram followers. Later that night she stands in a marble kitchen, points a gold iPhone at a mirror, and, with a hip to the side, snaps a picture of her reflection, writing, "I'm finally home."

A sophomore studying business at the University of Oregon, Cheng, who goes by Heli in the U.S., is a minor social media celebrity in China. In selfies, her long, straight hair and wide-eyed gaze make her look younger than she is. Her followers

"Obviously, if your house isn't feng shui-friendly, it's like we're not even going to have a conversation"



express awe for her style and gush at photos of her enjoying a smoothie; posing with stuffed animals; and smiling with a birthday cake made to look like a stack of Tiffany boxes.

In late 2013, Cheng and her mother, Wang Jun, bought a 9,000-square-foot house with a pool and spa in Arcadia for \$6.5 million. According to an L.A. property filing, Wang's husband is Cheng Qingtao. He's CEO of China Huayang Economic & Trade Group, one of the first state-owned companies set up by the central government, which still owns a majority stake. Heli's two-story chateau-style home is only a few miles from one owned by her aunt, who's married to Cheng's older brother, Cheng Qingbo. Qingbo was the first private owner of railroads in China and, by 2013, was the country's 257th-richest person, worth an estimated \$1.06 billion, *Hurun* says. In June, Shanghai police arrested Qingbo for allegedly duping people into investments, including a project that, *China Business News* says, didn't exist.

For most Arcadians, it would be hard to know if Heli owned the house next door. A member of one homeowners association estimates that about 20 percent of the new purchases sit empty, and for those who don't speak Mandarin, language barriers have made it hard to share more than a wave with neighbors. For many sales, public records provide no way to understand who the new owners are. A recorded deed may show just an English transliteration of a buyer's name, with no signature. Some public documents provide small clues: a second address in a luxury condo near Tiananmen Square; a seal if a document has been notarized at the U.S. Embassy in Guangzhou; a husband who relinquishes rights to the land to his wife; or a signature in Chinese characters.

Some of those clues match up with public documents in China. A mile north of the Chengs, Fu Youhong and Zhang Jian, a couple who founded a pharmaceutical distributor in

China before starting a business converting agricultural waste into energy, bought a \$3.5 million home advertised as a “spectacular brand-new French Normandy Estate.” Pesticide manufacturer Huifeng International USA got into the boom early, in 2012, and for \$3.4 million bought a house with a grand circular staircase and Swedish sauna. The company says the property is used as an office for its trading business and not as a personal home. And a \$3.2 million property in one of Arcadia’s rare gated communities was sold to a woman from Guangzhou named Zeng Fang, who runs a network of immigration sites, one of which, baby-usa.net, tells Chinese mothers they can deliver babies at Arcadia Methodist Hospital.

A few miles south, another new house, this one with Tuscan styling and Moorish window treatments, sold last year to a woman named Jin Liping. Her husband, Du Jianming, is the owner of one of China’s largest private builders of steel structures. His company has built bridges in Shanghai and connecting railways on the Tibetan Plateau. His wife bought the 8,000-square-foot house in Arcadia for \$4.8 million in September 2013, around the same time the couple faced financial pressures at home. They lost three lawsuits in China related to unpaid loans, but their home in California looks in peak condition, with little red ribbons tied around the topiary by the front door.

A goldenrod-yellow house on South 6th Avenue belongs to Tao Weisheng and Du Xiaojuan, who develop homes and run hotels in Chongqing. Tao is known in China for collecting calligraphy and paintings—and for reportedly paying bribes to bureaucrats. According to state-run media, in 2004, Tao and a business partner paid a local official’s gambling debt at a Macau casino. The official had given them a land certificate they needed for a loan. In 2010 the court found the official guilty of taking a bribe and gave him a suspended death sentence. The prosecutor didn’t charge Tao and his partner. The homeowners or their representatives declined to comment or did not respond to interview requests.

Lately, groups of Chinese investors have pooled their money to buy Arcadian homes, which often aren’t occupied. More than 400 residents showed up at a community meeting with the police department this spring, in part concerned about a spate of burglaries targeting empty mansions. When there are leaks or other problems with a property, even the city struggles to identify who’s responsible. “Who do we contact? Where do we contact them?” says Jim Kasama, the community development administrator for the city’s building department. “Sometimes it’s not that easy.”

Arcadia is on track to bring in record revenue this year. In the fiscal year ended in June, fees from building permits and development reached \$7.9 million, a 72 percent increase from the previous year. Its quiet streets are busy with gardeners blowing leaves and laborers laying roofs. This summer, the high school updated its gym and cafeteria. For a generation of older homeowners, the boom has created one hell of a nest egg. The Great Recession hit many retirees hard, but now they’ve sold and moved to cheaper places a few miles away. As Smith, the contractor, says, “They still live close, but they’ve got 2 million bucks in their bank account.”

With so many homes vacant and language barriers prevalent, distrust is building. There are strange rumors—local officials on the take; bridal studios as fronts for massage parlors—and stranger truths. Just steps from the Arcadia police station, a local TV news reporter uncovered a hotel being used for birth tourism. A member of one homeowners association says a developer told the local board at various meetings that three separate homes he was building were all for his own family. When the board called him on it, he said his wife couldn’t decide which one she wanted.

“The growth we’re experiencing isn’t typical,” Kasama says. “It’s not like we have new subdivisions. It’s the houses that are growing.” The city’s homeowners associations can do only so much—three years ago, the city changed a regulation that limits their ability to cap the size of houses.

Neighborhood disputes are getting intense. Dong Chang, a local dermatologist who told the Rotary Club that he left Taiwan in the early 1970s with “two bags of rice and a frying pan,” is suing the developer building a mansion next door for cutting down an old oak tree on his property. He’s seeking about \$280,000, saying the harm was “intentional, fraudulent, oppressive, malicious, and despicably done.”

Then there’s the cannon incident. That battle went down on West Las Flores Avenue, on a block with a mix of older homes and newer construction, including a house owned by David Tran, the Huy Fong sriracha magnate. A family moved into a new home in 2008 and flanked the front walkway with two waist-high lion statues, the “fu dogs” that guard imperial Chinese palaces. A few years later, a developer named Ricky Tang began building his own home across the street. Tang didn’t care for the lions, but their owners refused to remove them. In January 2011, according to city records, Tang mounted two replica cannons on top of a construction trailer in the front of his lot, aiming back at the lions. A red sign reading “Cannon against dogs” in Chinese hung from each cannon. “The neighbor across the street took offense,” Kasama says. “He felt they looked threatening.” Soon a city-owned Prius pulled up, lights flashing, with an official entreating Tang to take down the weaponry. He acquiesced after a month of haggling. Tang didn’t respond to a request for comment.

Mary Garzio, a widow who’s Tang’s neighbor, calls him “a very nice man.” She says he’s been wooing her to sell her 73-year-old house for \$3 million in cash. He brings over fruit and says she can live rent-free until she gets settled elsewhere. “He says, ‘You’re a good neighbor, Mary. I don’t want you to leave, but I want your home.’”

Arcadia’s Chinese buyers may have made their wealth in different ways, but they face a common problem: getting their cash to America. China controls the flow of its currency, restricting residents from converting more than \$50,000 in yuan into foreign denominations each year. At that pace it would take half a lifetime for a couple to buy a \$4 million home.

Jeff Needham, a senior vice president at HSBC, says it’s most common for buyers to transfer money from personal or business accounts they already have in Hong Kong, which doesn’t impose caps. “In most of our buyer situations, they have funds outside China already that they have accumulated over years,” he says, adding that the bank verifies the source of the funds.

It’s trickier for those without accounts in Hong Kong. Chen Ping, a local broker, says there’s a common workaround. “We

Make way for mansions

Typical number of annual teardowns near Arcadia

South Pasadena	1 or 2 homes
San Marino	5 or 6
Monrovia	20
Temple City	50 to 70
Arcadia	150*

*PROJECTION FOR 2014. DATA: ESTIMATES COMPILED BY THE CITY OF ARCADIA

Sales frenzy in one suburb, 2011-14

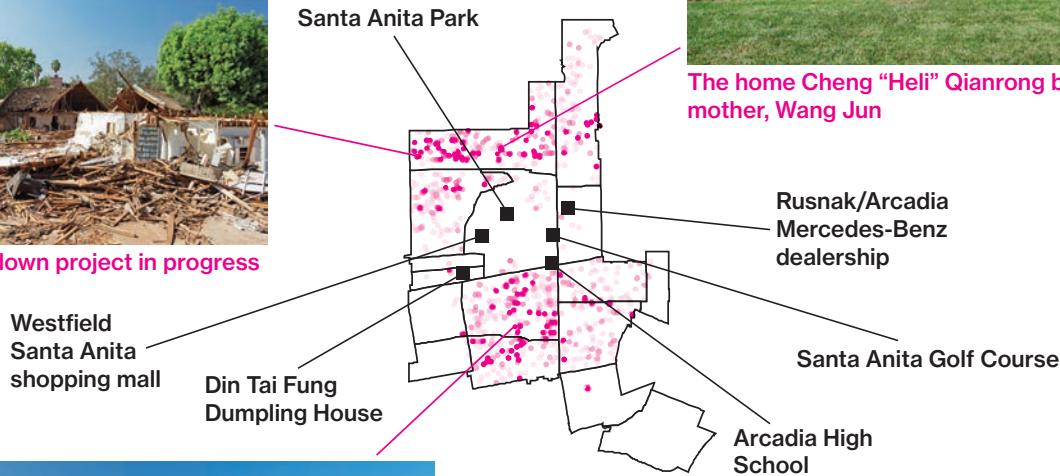
- \$1 million to \$2 million homes
- \$2 million to \$3 million homes
- \$3 million and above homes



The home Cheng "Heli" Qianrong bought with her mother, Wang Jun



A recent teardown project in progress



Stone lions (small, by door) set off a feud in the neighborhood

Chinese nationals hold \$660 billion in personal wealth offshore; they spent \$22 billion on U.S. homes in the past year

call it 'head-count wiring,' she says. Buyers line up other people—friends, family, or, if need be, paid strangers—to each transfer a share. "I once had a customer who bought a \$1.9 million house in Arcadia who said, 'Not a problem. I have more than enough head counts,'" Chen says. Many buyers have legitimate ways to wire the funds, says broker Imy Dulake, but "there is no way we can have this much cash coming in legally."

When they can't get enough money through, property records show many get mortgages to buy the homes, often putting at least 40 percent down. Others buy with all cash and later take out home-equity loans, freeing up funds for other investments in the U.S. without going through the rigmarole of getting money across the Pacific again. Dozens of Chinese homeowners in Arcadia have loans from HSBC and East West Bancorp, both of which have branches in China. HSBC's Needham says the bank gives "premier" clients a discounted rate, and it can underwrite loans in the U.S. based on international credit scores and assets overseas. East West didn't respond to requests for comment.

Even as they fret about their town, longtime Arcadians worry about a sudden end to the money. What happens if the U.S. limits visas, the Chinese government clamps down, or the émigrés pick

another place to park their cash? "How high we go, we can't foresee, because we never know the policy changes," real estate agent Seow says. This summer, after an exposé on China Central Television, the Bank of China ended a government program that quietly let some customers convert an unlimited amount of yuan into dollars and transfer it overseas. And President Xi Jinping's anticorruption campaign has raised the specter of a larger slowdown. "I was in escrow on a property before this crackdown, and oh my God, they could not get their money out" of China, broker Dulake says. The sale fell through.

Stig Hedlund lives on the block with the cannons, in a house built in 1937 by his grandfather, a civil engineer who laid out many of the city's roads when everything was still alfalfa fields. Now Hedlund is wondering if he should leave. He's received nice offers for his house,

like when a broker and a couple drove up his driveway unannounced in a black Mercedes one Sunday morning; the broker knocked on the front door, saying the couple wanted to buy his home. He'd like to wait until his last son graduates from college, but he fears his "five-year plan" will make him miss the boom. When he reads news about recent protests in Hong Kong, he wonders how China's response will ripple across the mainland. "If a communist government starts putting the kibosh, isn't it more incentive to get money out of the country?" he asks. Or would a crackdown mean he blows his chance to sell? It's a question central to Arcadia's gardeners and construction workers, the car salesmen and the *boba* tea makers, who all rely on the money surging out of China. For now, Hedlund figures he can wait a little longer. He hears Ornelas just brokered a sale down the street for \$2.8 million. —*With reporting from Bloomberg News* **B**

DATA: BLOCKSHOPPER