



Century Bridge's residential development in Xian, China

## Texas guanxi

Century Bridge has launched an ambitious platform to invest in middle-class housing across China, but the real story of this bi-cultural firm is the series of personal connections that led to its formation and current approach to business. **By David Snow**

The next time you find yourself at a large residential development in a tier II city in China, you might be startled to see a 56-year-old, six-foot-three *lao wai* (foreigner) strolling the site and quizzing construction workers in Texas-twanged Mandarin. That would be Tom Delatour, chief executive officer of Century Bridge Capital, former Robert Bass protégé and a work-permit holding, permanent resident of the People's Republic of China since 2008.

You might be even more startled to learn that, as recently as 2006, the Dallas native didn't speak a word of Chinese and hadn't yet been to the country. Over his impressive career, Delatour had been too busy learning and teaching real estate investment to pick up Mandarin. But as the mid-2000s property bull-run gained momentum, Delatour increasingly was of the opinion that US real estate was not a market he wanted to be in. His search for alternative opportunities led him to become interested in China in the most Chinese of ways – through a series of personal connections, or *guanxi*.

The firm that Delatour and his partners subsequently founded is now investing across China in middle-class housing by partnering with local development companies.

Beijing- and Dallas-based Century Bridge already has two investments under its belt – a 2.3 million-square-foot residential project in Xian and a similar 2.9 million-square-foot project in Chongqing.

Given the cultural, legal, financial and linguistic hurdles Delatour and team had to leap to get to this point, it is remarkable to hear him describe what he likes about China's middle-class residential opportunity – its simplicity. Century Bridge invests in “cold-shell delivery” projects – literally empty concrete dwellings that usually are sold directly to upwardly mobile Chinese families. “If you build middle-class housing that the middle class can afford, it's like selling pancakes. They really go fast,” says Delatour.

No one has studied the risks of property development in China more than the partners of Century Bridge. They believe a focus on middle-class housing in second-tier cities helps to mitigate the risks of both big-city housing bubbles and economic policy reversals.

Indeed, the bureaucratic complexities of doing business in China receive much attention from the Western press. To this, Delatour counters with his intensely researched hypothesis that

nevertheless is based on a simple premise: the Chinese government may well change the rules of the game in other economic sectors, but it has a vested interest in promoting middle-class homeownership; it therefore will favour policies that protect and encourage those who provide this stabilising asset, including those that do so with foreign capital and business practices.

A recent regulatory announcement from China's National Development and Reform Commission seems to support this view. In March, the economic planning authority issued a new rule requiring that residential property developers publicly disclose all pricing information. The rule is part of the government's efforts to keep the growth of housing prices under control and to protect home buyers.

### The Texas connection

The existence of Century Bridge is powerful proof that study-abroad programmes lead to real cultural and economic progress. You might say that the firm's genesis was in 1985, when a Chinese student named Jeffrey Jia began living in the Austin home of James Gressett and family while doing coursework toward a PhD in Sociology at the nearby University of Texas. Today, Dr. Jia is a managing director and Gressett is a co-founder of Century Bridge. Jia, in turn, was friends with Deng Wei, a former real estate professional with The Carlyle Group who is now president of Century Bridge.

The University of Texas *guanxi* didn't stop there. As the co-founder of the university's Real Estate Finance and Investment Center, Delatour came into contact with students from around the world, including Deng Jianli, who arrived in Austin in 2001. "He and I started talking about China," says Delatour. "That was the first time I'd had any exposure to the country other than what I'd read in newspaper articles."

Jianli also is now a managing director at the firm. The friendships Delatour developed with Jianli and other students from China in effect turned Delatour into a student of the China opportunity. He left the Bass organisation in 2004 (see A Bass influence, opposite page) and, he says, "spent 2005 trying to figure out what I wanted to do when I grew up."

Delatour increasingly became engrossed with all things Chinese, pouring through history books and speaking with "everybody I could" about the country. When he finally made his first visit to China in 2006, Delatour says he was "totally amazed at the infrastructure that was being put in place...the arteries and bloodlines for its economy."

### Middle-class mandate

Delatour saw China's infrastructure investment as a government mandate to grow the middle class. He was impressed with the growth of the largest cities, Beijing and Shanghai, but after much research decided the better middle-class resi-

dential play was in middle-tier cities, where speculation and competition were less but demand for affordable housing was still surging.

Jeff Tucker, a Beijing- and Dallas-based managing director at Century Bridge who spends a significant amount of time in China, says the most attractive elements of the second-tier city, middle-class housing opportunity were in place for the firm's first two investments – these took place in markets with little speculative demand but "double-digit" per-capita GDP growth rates. "The migration of people from rural to urban areas is primarily in tier II cities," he notes.

Like Delatour, Tucker had many "wow" moments during his first visit to China. He says he was struck at the dynamics and sheer size of the markets he saw, especially in tier II cities. "I went to Xian, which I had never heard of, and it has 8.5 million people," says Tucker. "This has a psychological effect. I thought, 'How can there be a city this big and I've never heard of it?' But there are many of these cities that are north of five million people. They all have higher GDP growth than the country average, and about 50 percent of home buyers in these cities pay cash. Even the ones that use a mortgage have to put down 20 percent to 30 percent."

### Cultural immersion

By 2007, Delatour was spending "60 to 65 percent" of his time in China, and in 2008 he received his work permit and relocated to Beijing. As he built the firm, he threw himself into the study of Mandarin Chinese, assiduously avoiding the Western expatriate community to minimise time spent speaking English.

Language learning in mid-life is not new to Delatour – he taught himself French in his 40s. But Chinese was much more difficult. He can now speak with fluency (conversations with cab drivers were an important milestone, he says) and can read roughly 3,000 Chinese characters. He is nevertheless modest about his linguistic achievements: "I am functional in Chinese, but it's embarrassing to admit how hard I have studied the language."

Still, there is clearly some linguistic competitiveness among Century Bridge *lao wai*. "My pronunciation is better than his, but his vocabulary outstrips mine," says Tucker of Delatour. Delatour cemented his local credentials last November when he married a Shanghai-born, Western-educated woman, who previously had been his lawyer. The two converse in Mandarin whenever possible, and Delatour reckons that his ability to understand the thick Beijing accent at times surpasses that of his wife.

Other members of the Delatour family also have come to China. After switching his major at the University of Texas to Chinese, Delatour's son moved to Beijing to absorb the culture, as well as to perfect his language skills.



**Delatour:** immersed in the culture



**Tucker:** dispelling myths

## Mixed management

Despite Delatour's embrace of all things Chinese, Century Bridge is a study in bi-cultural investing. The firm's founding partners are from the West, but its investment professionals in Beijing are Chinese as are its development partners in China, most of whom have never worked with foreigners before. Furthermore, in taking advantage of the Chinese residential opportunity, the firm is adopting the best business traditions of both China and the US – a strategy that has required some education on both sides of the cultural divide.

Indeed, Tucker says he spends a great deal of time “dispelling myths and explaining recent press articles and how what they report may or may not affect us.”

Even those who have visited China may not be familiar with trends beyond the mega-cities. “People go to Shanghai and Beijing and they think they've seen China,” says Tucker. “There's lots of talk of a bubble, so I need to explain the nuances. In tier I cities, there is a lot of speculative demand for properties. But even speculation is different in China, where there aren't a lot of places for people to put money.” As a result, many put it in property.

By contrast, Tucker says he often finds himself revealing the mysteries of Western investors to local Chinese development partners. In particular, Chinese developers are often surprised at the intense attention paid to details of contractual agreements.

Although Century Bridge usually seeks to be the minority investor in the projects it backs, it imposes strict controls that are uncommon in China. One example is the firm's control of the “chop,” or bank seal that allows the holder to withdraw money. “We're the only ones that can sign checks” for projects, adds Delatour.

In addition, Century Bridge seeks to structure its contracts so that any disputes are referred to international arbitration in Hong Kong. But Tucker adds: “Nobody wants to get into a legal battle in China – the developers don't and we don't.”

Another more interpersonal form of control comes in the form of a Century Bridge representative at all its development sites. “We have our own employee with the construction team watching everything daily,” says Delatour. “I want to know about every problem. For us, a small deal might be two million square feet. If you are going to do a development of that size, you will have problems. It's the nature of the beast. If you say there've been no problems, I don't care who you are, you're a liar!”

Within the firm, Century Bridge has sought to hire Chinese professionals, who understand local language and business practices but were educated in the West and therefore able to absorb and interpret Western standards of fiduciary duty. In other words, they must be both bilingual and “bi-cultural.”

However, the cultural education continues at Century Bridge. Delatour says he sometimes needs to prod his junior Chinese team members to join fully in the firm's debates, even if it means challenging Delatour. “In Chinese culture, if you have 20 people in the room, usually only the boss speaks,” he says. “If the boss forgets a fact or says something that is mistaken, usually no one will correct him. I want a culture where even the lowest-level person can say, ‘Gee boss, yesterday you

said three plus three is six and today you said it was seven.’ Communication has been the biggest thing to get people comfortable with.”

As he builds a new life and a new firm in China, Delatour says he is finding a warm reception from the locals, whether they are casual acquaintances or potential business partners. In addition to being eager to join with an internationally connected investor, many local developers are intrigued with Delatour on a purely human level. “I know a lot of people think I'm old, and they're surprised to see someone like me speaking the language, although clumsily,” he says. “If you're asking me whether the local developers find me to be obnoxious, well, they've been kind enough not to let me know.” □

## A Bass influence

Delatour is taking lessons from his time at Bass and applying them to his new firm

Century Bridge CEO Tom Delatour worked for Robert Bass' eponymous investment firm from 1988 to 2004 and is one of several high-profile investors to have once been mentored by the renowned Texas investor. Other former Bass protégés include TPG co-founder David Bonderman and Colony Capital founder Thomas Barrack.

In fact, Delatour's tenure with Bass overlapped with that of Bonderman for four years. Of Bonderman, Delatour says: “He is one of the most unusually talented people I've ever met.”

Delatour says the key to Bass' track record at spotting and developing investment talent is his success at offering a true partnership culture. “Bob is a very good manager of highly motivated people,” he explains. “He created a structure where there was total alignment of interest between senior and mid-level people. I used to always say that I worked for Bob Bass, but he treated me like a partner. He used to say, ‘I just have a portion of my net worth at risk, but all my people have multiples of their own net worths at stake. They may not sleep at night, but I sleep like a baby.’”

With Bass, Delatour helped develop a real estate investment programme that targeted assets offered by the Resolution Trust Corporation in the wake of the US savings and loan crisis. “The Bass organisation had brilliant guys who really understood the big picture,” continues Delatour. “But they really understood that the devil's in the details. There was a very strong execution background.”

More importantly, it is these Bass approaches to partnership culture, detail and execution that Delatour hopes to use in building his China platform, Century Bridge.