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SE Property

HD **Fears visa scheme will inflate values**

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The rapidly growing significant investment visa program is expected to bolster values of **commercial** real **estate**, but some experts fear it could dangerously inflate prices.

The program, now under review by the Abbott government, is expected to hit $1 billion this month, and another $2.6 billion worth of applications have been lodged.

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Investment bank Moelis & **Company** is leading the charge and has more than $100 million committed to its Moelis Australia **Property** Visa Fund.

The fund has bought a shopping centre in South Yarra, Victoria and is circling assets in Western Australia and Queensland.

Moelis managing director Andrew Martin says the scheme will not have an inflationary effect on **commercial** real **estate** values.

"When you look at the percentage of capital coming in from offshore, SIV is still very small," he says. "And ultimately this goes to our track record, so there is no reason why you would overpay for an asset."

Sentinel **Property Group**'s Warren Ebert disagrees.

"What [SIV funds] can do is inflate the assets – they can overpay," Ebert says.

"Just look at the units in Sydney and Melbourne being **purchased** by them – they are crazy prices."

Sentinel has raised $180 million in equity since 2010 from local investors and is steering away from significant investment visa funds because he believes the four-year time frame under the scheme doesn't fit the structure of his vehicles.

Synergy Funds Management, part of Oliver Hume Real **Estate**, expects to raise $40 million over the next 12 months from significant investment visa applicants.

The mortgage fund invests directly in Synergy development projects and syndicates.General manager Michael Burstin says most of the significant investment visa money was going into bonds and not real **estate**, so there was unlikely to be any inflation of prices.

Burstin says many of the real **estate** funds were unattractive to significant investment visa investors because management fees and commissions were very high and because the fund, rather than the investors, decided what assets to hold.

"If they do invest in **property**, they prefer to invest via a private **company** where they have more control, which is also allowed under the SIV scheme," he says.

So far 47 per cent of the successful significant investment visa applicants have invested in Victoria, and 37 per cent in NSW where the state government requires that a minimum of $1.5 million of the required $5 million is invested in state bonds.

Queensland, Western Australia and South Australia have also attracted significant investment visa migrants.Tough competition overseas

Still, the program faces some stiff competition from almost 30 countries. From Ireland and New Zealand to Portugal and Saint-Kitts and Nevis, dozens of similar schemes exist.

In April, Australia reached 174 approvals with a combined investment of $870 million.

Moelis's Martin says the market was very competitive. "Governments have to be constantly responding to this."

Portugal has granted 654 permits with a total of €400 million ($592 million) since its scheme started in 2012.

"It has been a great success so far," First Secretary of the Portuguese Embassy António Gaivão says, "**China**, of course, leads the way with more than 500 permits, but the program has been very well accepted in Russia, Brazil, Angola, South Africa, Lebanon and many others. "Actually, permits have been granted to more than 30 nationalities so far, including New Zealand."

Canada recently closed its long-running Immigrant Investor Program, which enabled 130,000 wealthy people, predominantly from **China**, the Philippines and India, to migrate to Canada.

The scheme has run since 1986 but was shut down by Canada's conservative government because of its "limited economic benefit".

The scheme closed with a waiting list of 59,000 people – most from **China** – who will not have their applications assessed. Canada's program was replaced by two pilot schemes.

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