The Sydney Morning Herald

SE Business

HD **Flood of China cash to sow the seeds of a hundred towers**

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WC 2,292 words

PD 11 October 2014

SN The Sydney Morning Herald

SC SMHH

ED First

PG 8

LA English

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COVER STORY

Will the flow of housing investment money be a problem or a solution for Australia? Simon Johanson evaluates.

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In a sleek black display room in downtown Melbourne, Adrian Sum is getting ready to launch construction of his first joint-venture Australian apartment project.

Mr Sum controls the purse strings of one of China's largest property developers, and the striking 63-level, 633-unit high-rise Eq Tower is state-owned Sino Ocean Land 's first development foray outside the People's Republic.

It's a "defining moment for Melbourne", the tower's website states. That may be truer than the marketeers realise.

By Mr Sum's standards, Eq is small. His Beijing-based company's average property project is 10 times Eq's size, with the largest reaching 1 million square metres, roughly the size of eight full city office blocks.

Happy but not satisfied with his initial investment, Mr Sum is already on the lookout for more Australian assets. He also has a $200 million mandate to seed an office fund over the next year and, with joint-venture partner ICD Property, is eyeing other opportunities in Sydney.

"Because the Chinese capital is huge and the direction to go overseas is quite clear, that means that this will accumulate," Mr Sum says.

He's not the only one. A new Chinese entrant, Sichuan-based Xiang Xing Group, this week spent $35 million buying a development-ready site in Melbourne's Southbank.

Another huge state-owned enterprise, Shanghai-based Greenland Holding Group , already has four projects on its books worth $1.4 billion.

Its signature $600 million tower on the former Sydney Water Boardsite will become the city's tallest residential building.

In North Ryde, China's richest woman, 33-year-old heiress Yang Huiyan, is heading up Country Gardens' $500 million project, and Fuxing Huiyu Real Estate has launched apartments worth $550 million in Parramatta.

Chinese investors are aggressively lifting their Australian residential and commercial real estate investment at a time when the Reserve Bank is warning bubbly property markets could be hit with a price correction.

Alarmed by the property frenzy in Sydney, Melbourne and parts of Brisbane, the Reserve Bank hit the headlines two weeks ago, putting banks on notice they were being monitored and potentially facing tougher controls, so-called macro-prudential tools or constraints on lending. It was reacting to momentum that has been building since this time last year, when it issued another warning about the explosive growth of self-managed superannuation funds' property debts and the risk they posed to the country's financial system.

That, in turn, kicked off a familiar bubble debate which has played out over the intervening 12 months. "No housing bubble here, says Hockey", a 2013 headline read.

Foreign investment has become an even greater force in driving up prices over the past six months, the property industry believes.

The October Australian Property InstituteProperty Directions survey found 96 per cent of Sydney respondents felt foreign investment was a significant driver, up from the 88 per cent it registered in May.

Australia's buoyant property market shows no sign of abating, pushed by fierce competition and local and international investors' enthusiasm.

All 159 apartments in Lend Lease's first release of Sydney's Barangaroo development sold out at an early Saturday morning launch in August, including the penthouse, which went for $10.5 million to an Australian expat living in Geneva.

Spurred by a record 15-month run of historically low interest rates, Australian dwelling values rose 9.3 per cent over the 12 months to September. Sydney's homes rose 4.3 per cent and Melbourne's 8.1 per cent over the same period, RP Data figures show.

Investors paused for breath in August, housing finance data shows, with loans falling slightly by 0.9 per cent. But debt for new dwellings continued its upward trajectory, rising a healthy 2.5 per cent.

Adding to the Reserve's headache will be the latest housing debt data. It shows the average Australian household's ratio of debt to disposable income, or the proportion of wages spent servicing mortgages, has hit a record high.

Some property observers maintain the current frothy market is not an evolution but a revolution that is here to stay. With the world's wealth funnelling in, it is not difficult to see why.

Australia's property market is operating in an international context now, says Sam Nathan, a former analyst at Charter Keck Cramer. Sydney and Melbourne are on a par with other global cities where apartment markets, particularly in city centres, are "now driven by geopolitical influences as international developers diversify from their country and market of origin", he says.

London's huge £8 billion ($14.7 billion) redevelopment of the Battersea Power Station is being led by Malaysian firmS P Setia Berhad , which is also building the upmarket Parque apartments at 555 St Kilda Road in Melbourne.

When Australia emerged from the 2008 global financial crisis with a stable economy and one of the strongest property markets in the world, it became a tempting foreign-investment target.

The investment trickle became a flood as prices racheted up in London, and Singapore - amid fears of the island city's housing overheating - introduced restrictions on local and foreign ownership. They were soon followed by Hong Kong adding an extra 15 per cent stamp duty on overseas buyers and Canada cutting its millionaire visa program.

Aided by Australia's liberal foreign-investment rules which allow unlimited sales of new homes, Chinese investors and newly arrived immigrants spent $24 billion on Australian residential real estate over the past seven years, a well-publicised Credit Suisse bank report estimates.

And they will spend nearly double that, another $44 billion, over the next seven, starting with about $5 billion this year, it says.

The home-buying spree does not include other transactions.

Across all other sectors, excluding residential real estate, China last year spent $11.1 billion, second only to its direct investment in America, KPMG and the University of Sydney 's Demystifying Chinese Investment in Australia index shows.

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Most went to buying Victorian electricity assets, gas or mining deals around the country, with commercial real estate taking a relatively small 14 per cent share.

The rise of Asian property investment over the past five years is different to the wave of Japanese capital that washed through the Gold Coast and other Australian regions in the late 1980s, investment bankers CLSA say.

That boom-to-bust cycle saw investment by highly leveraged, yield-chasing Japanese corporations rise from zero to $65 billion in the space of a few years, only to collapse again by 70 per cent in 1992, with billions eventually wiped off their balance sheets.

In Queensland, particularly, the pain was felt for years.

International agency CBRE says the source of global investment flows into Australia has inverted over the past two years, with Asian capital now taking two-thirds of total property investment and other countries one-third.

"The mix in the source of capital to Asia is likely to continue, with more capital emerging from Asian markets and Australia attracting an above-weight share of these flows," its most recent Capital Attraction report says. It is an investment thesis that Mr Sum supports.

For the past two years China's central government has been relaxing requirements for outbound investments that require its approval.

"They know that to invest overseas can sometimes serve as risk management to balance their portfolio. This is not just happening to individuals, the whole country shares in this kind of mentality," Mr Sum says. "It is just the beginning of a long-term vision, this goal to go overseas.

"Even the corporates, like insurance companies, are starting to allocate a certain percentage of their investment portfolio into different overseas markets."

A new raft of easing policies will take effect this week, Savills ' Hong Kong-based research director Simon Smith said this week. They are likely to further spur the flow of money heading overseas looking for better returns.

China has been booming for a decade but is now showing signs of slowing. "Now in our own market, more or less, we have reached certain capacity," Mr Sum says.

Its housing is in oversupply. The number of apartments in Shanghai is expected to double next year to total 1.1 million square metres. One new project in Shanghai's redevelopment precinct is the size of both Melbourne and Sydney's CBDs put together, Mr Smith says.

As a result, house prices, which rose to record highs for five consecutive years, are now experiencing a sharp deceleration.

China's developers are being encouraged to go overseas and get experience with other countries' rules, regulations and cultures, either on their own or in joint ventures. "Their main hurdles are lack of expertise and capability, so they are just dipping a toe in the market. They want to get practice," Mr Smith says, and they can "afford to fail".

The capacity of large Asian firms to self-finance, build and sell Sydney and Melbourne apartments to overseas buyers has radically changed the dynamics of the property market, CBRE's Mark Wizel says.

"The motivation of the developer and apartment buyer are aligned," Mr Wizel says. "The part that nobody really saw was the explosion of interest from mum and dad Chinese investors, who are buying apartments off-the-plan with the same level of aggression and vigour as the developers are buying land."

Overseas property is a prized asset for wealthy Chinese keen to park their money and mitigate the economic and political risk of having it tied up in the People's Republic.

Vancouver, London, Sydney and now Melbourne are the cities of choice. Feeding their desire is a passion for property that even surpasses Australia's love of realty.

An astonishing 10 million of China's newly minted top-income families aspire to emigrate here, CLSA estimates in an August report, Chinese Investment and Oz Housing.

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Chinese nationals were the second-largest group of permanent migrants behind British citizens last year, and made up the largest share of international students, according to Australian government figures.

Servicing just half of that desire would fill Australia's current annual net overseas migration quota for the next 61 years.

"Their motivations aren't always about saving. A lot of Chinese have an end goal to emigrate here," says Joseph Zaja, whose Ausin Group is on target to sell 2000 Australian apartments and new homes to Chinese buyers this year.

"The majority are very conservative. They're buying to diversify their wealth into an established property market and economy such as Australia."

They want clean air, a good education and a solid legal system.

"Chinese residents want to emigrate to English-speaking countries, where there is a strong common law process. A good education system is essential and, as China's pollution problems escalate, a clean environment is becoming more important," CLSA's report says.

"I don't think there's any chance of it ending any time soon," Mr Wizel says.

Forty per cent of Eq Tower was sold to offshore investors, a not uncommon occurrence in today's international market.

They are a big factor even for local developers. Offshore buyers take between 13 and 20 per cent of Meriton's apartments without any direct marketing, Sydney billionaireHarry Triguboff says.

Within two years the proportion of overseas buyers in Australand's developments has risen from 5 to 18 per cent, executive general manager of residential Rod Fehring says. "It's quite a substantial change because Sydney has come alight. It's always been an attractive location for investment and, surprise surprise, the projects that we're producing are attracting offshore interest," he says.

Melbourne's skyline will blossom with another 42 new skyscrapers to cater for demand if the state government approves all current proposals over 25,000 square metres on its books when there are already fears of a big oversupply.

Amid the hum of activity, there are warning signs of overreach.

In echoes of Queensland's previous Asian-led property boom, one of China's largest property developers, Dalian Wanda - headed by the country's richest man, the flamboyant and acquisitive Wang Jianlin - will splash out $1.7 billion on local real estate, starting by developing the Gold Coast's Jewel high-rise and hotel complex.

Mr Jianlin's ambitious international expansion has seen him purchase the US' largest movie chain, AMC Theatres, Sunseeker Yachts and two London high-rises.

Aggressive buying, primarily by overseas developers, has seen Melbourne's CBD land prices triple over six years, Charter Keck Cramer figures show.

But the construction multiplier effect is supporting jobs, building material businesses and white good manufacturers, a sizeable section of the economy.

Some companies which have a strong pipeline of forward projects, such as Lend Lease, Fletcher Building, Mirvac and Goodman, stand to benefit most from the boom. "Goodman may seem like an odd choice for a residential beneficiary, but it has identified that it can develop 35,000 apartments in Sydney and Melbourne, converting from its inner-ring industrial assets," CLSA says.

For Mr Sum's company, Australia is the first stop in its global expansion. "We are not doing the investment decisions in a haphazard or subjective way," he says. "China has reached another stage. They have got to consider overseas investments. It's a new beginning; $200 million is a humble figure but it is talking about our commitment."

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IN i85 : Real Estate Transactions | icre : Real Estate/Construction | ireest : Real Estate

NS ereal : Real Estate Markets | e11 : Economic Performance/Indicators | ecat : Economic News

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AN Document SMHH000020141010eaab0003w

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