

HD Real **estate** prices soar Down Under

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Go to any **residential property** auction on Sydney's lower or upper north shore and the chances are the majority of bidders will be Asian, **Chinese** in particular.

In Australia's two biggest cities, Melbourne and Sydney, **Chinese** buyers are said to be at the forefront of a real **estate** boom that no sign of slowing down.

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This has raised concerns in some quarters that local buyers are being unfairly priced out of the market by the sheer weight of money pouring into Australia from Asia, and in particular **China**. It is being argued that overseas **Chinese** buyers have distorted the **residential** real **estate** markets in Sydney and Melbourne, pushing prices up and keeping young people out of the market.

But is it right to blame one particular **group** for pushing up the price of **property**?

"No," says Chris Curtis, managing director of Curtis Associates, a Sydney-based **property** advisory and buyer's agent. He says much of the negative commentary is "misinformed" and in some cases "xenophobic".

"The problem is the lack of transparency and data, not only regarding **Chinese** but all foreign buyers."

The most reliable source of information when it comes to foreign investment in Australia is the Foreign Investment Review **Board** (FIRB), but even the government body has its limitations.

Earlier this year, when commenting on an Australian government inquiry into foreign investment in **residential** real **estate**, Curtis said: "It beggars belief that in the entire FIRB annual report for 2013, there exists just one table identifying the ethnicity of some foreign buyers. In those circumstances, it is unsurprising that there exists such disinformation in the media."

A "vast gulf" exists in Australia between public and anecdotal perceptions regarding the levels of foreign investment and the picture painted by information from the FIRB and other relevant Commonwealth agencies, such as the Australian Bureau of Statistics.

Stories that have made headlines include the reported **sale** of the Sydney mansion Altona to a **Chinese** businessman in May last year for around \$50 million, a record for the city. However, such sales are not a fair reflection of the overall market.

According to FIRB data for the financial year ended June 30, 2013 (latest available data), **Chinese** spent A\$5.92 billion (\$5.21 billion) on **property**, of which A\$1.96 billion was in **residential** real **estate**. Total turnover in the **residential property** sector for the period totalled A\$275 billion, of which **Chinese** investment was under 1 percent. A "drop in the ocean", Curtis calls it.

Misinterpretation of facts

Chinese investment in the overall real **estate** market in Australia increased by 44 percent for the financial year ending June 30, 2013, Curtis says, "which was paltry in comparison to 100 percent and 101 percent increases recorded over the same period by Canada and South Korea respectively".

"Yet you'll struggle to find a headline ranting about marauding Canucks dispossessing Australian first home buyers," he adds.

One **property** analyst, who asks not to be identified, says: "One of the problems trying to determine the extent of overseas buying is that the body overseeing foreign investment in Australia, the FIRB, is grossly understaffed."

According to the FIRB, there are about 9 million private dwellings in Australia, of which between 500,000 and 600,000 are **sold** each year. Of that number an estimated 20,000 may have to seek approval from the **board**.

The problem facing the FIRB is that it only has a staff of eight people handling foreign investment in **residential property**. It told the inquiry into foreign investment in **residential** real **estate** that if the job is to be done properly, it would need a full-time staff of at least 80 people.

"I think it's fair to say almost all the public commentary around **residential** real **estate** buying by foreigners has an Asian component to it," Brian Wilson, chairman of the FIRB, told the inquiry.

"Very often, where we might get a call that says 'a **Chinese** has bought this house and my daughter wasn't able to do so' and when it's investigated (we find) yes, they're of **Chinese** background but they're a citizen - they live here," Wilson said.

"I think quite a lot of the commentary is based upon either lack of knowledge of the facts or an inadvertent misinterpretation of the facts."

Wilson reminded the inquiry that about one in 10 citizens or permanent residents had at least one Asian parent and had as much right as anyone to **buy property**. He said there were not the same concerns about people of Greek and Italian extraction buying homes.

The FIRB rules allow foreign non-residents to **purchase** off-the-plan housing in a bid to boost supply, but precludes them from purchasing established homes. By contrast, temporary residents are allowed to **purchase** established homes, but are required to sell them within three months of leaving Australia.

The FIRB has also admitted that it is incapable of monitoring whether a foreign temporary resident has **sold** his home within three months of departing Australia, and therefore unable to enforce the rule.

Monika Tu, whose **company** Black Diamondz **Property** Concierge mainly handles wealthy **Chinese** clients, says: "Our clients are buying because they are moving here to live. They are high-net-worth people who are seeking a new home here in Sydney."

Tu's clients are not interested in purchasing flats in the suburbs, she says, but in spending A\$5 million to A\$10 million plus on waterside properties with harbor views or views of the city.

"They are buying a lifestyle and are making a commitment to Australia," she says. "It's not just an investment."

The rise in domestic house prices in Australia, while marginally affected by **Chinese** investors, is a result of low interest rates, increased affordability and domestic investors, not foreigners, said Deutsche Bank economist Phil O'Donaghue in a research note.

"The point that gets lost in this debate very often is that nobody focuses on the rules, which are pretty clear for a foreign investor. The principle that guides the FIRB policy is that foreign investment should increase the housing stock," O'Donaghue said.

Brokerage CLSA, in a report titled The Magic Dragon: **Chinese** Investment and Oz Housing, says Australia has now become "an important destination for **Chinese** investment in **residential property**".

It says there are a number of drivers behind the growing interest, the most important of which has little to do with simple investment choices.

"A key reason is increasing emigration options, by having **property** in the preferred destination country," the report says. "Diversifying investment portfolios is another important motive."

"The **Chinese** want housing for their student children and a home, if they are eventually able to emigrate."

Changing global market

In addition, **China** Reality Research's Dare to Dream report identifies why **Chinese** are looking to emigrate: 64 percent cite their children's education and 42 percent want a clean environment.

Credit Suisse says **Chinese** buyers are spending A\$5.4 billion a year on Australian properties, with much of it concentrated in Melbourne and Sydney, although there is growing interest in the northeastern state of Queensland.

"While Australia has some of the most unaffordable housing in the world, further strong **Chinese** demand can push prices even higher," the financial services **firm** says in a note. "The emergence of the global **property** investor means that valuation methods like house price to local income ratios are becoming obsolete."

Residents of central London have known this for some time, the report says, adding that this includes well-paid investment bankers struggling to **buy** in a market where many of the owners are wealthy individuals from the Middle East, North Africa and other parts of Europe.

The Credit Suisse report warns Sydney residents that they may be headed for the same fate.

"While the differences in recent house price and wage inflation in Sydney have not been as extreme as London just yet, we think the two cities have plenty in common," the report says.

"In both cities **property** rights are protected. Both cities are in transparent democracies and within an overnight flight away from less democratic countries with less transparent governments.

"And both the UK and Australia have their borders open to new immigrants, especially if they are rich," the report adds.

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