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Chinese double real estate bet



David Devine expects a wave of Chinese investment in property to come. Photo: Robert Rough



by Matthew Cranston

Metro Property Development, founded by property identity David Devine, plans to book a \$24 million profit in just over six months by selling a site to Chinese real estate giant R&F Properties.

The Hong Kong-listed, Guangzhou-based R&F is in due diligence to pay \$46 million, more than twice the \$22 million Metro paid for the former TAFE college in south Brisbane last December.

The deal, which is set to go unconditional this month, shows how capital flowing out of Asia, particularly China and Singapore, into Australia is quickly moving from the booming cities of Melbourne and Sydney to the undervalued Brisbane market.

Mr Devine declined to comment on the deal but told the *Financial Review Sunday* program he expected a wave of Chinese investment in property to come. He predicted the foreign capital would contribute to an oversupply of apartment stock in Australia.

The RBA has been monitoring the impacts offshore capital could have on the competitiveness of Australian banks looking to lend to local developers. Local developers have restrictions on how much they can borrow and how many apartments they can sell to overseas buyers, whereas the offshore-backed developers do not.

The Australian Taxation Office has also been monitoring the impacts of offshore capital on local developer's decisions to sell out.

In comments unrelated to Metro's potential property deal, the ATO's Deputy Commissioner Tim Dyce said last week the tax office had begun auditing property developers carrying out activities which conflict with their stated purpose of capital investment.

"A growing number of property developers are using trusts to suggest a development is a capital asset to generate rental income and claim the 50 per cent capital gains discount," Mr Dyce said.

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the sale of property which they had held for development and not as a long term investment.

"The developer might be saying "We have had a nice little bit of interest from overseas for this property so we might take a nice little capital gain," but the developer would have to prove to the tax office the true intention of the property," she said.

"The developer would have to make sure there was never any marketing for a development or that there were never any internal minutes documenting an intention to develop."

There is no suggestion Mr Devine's Metro would look for a capital gain concession if it sold its site.

Dozens of mainly Asian-backed buyers have been picking up residential development sites all along the eastern seaboard rapidly changing the dynamics of development and the pricing of apartments and buyer demographics. The competition has priced out Australian listed developers such as Mirvac.

The R&F deal with Metro is the first major Chinese purchase in Brisbane following several Singaporean listed companies buying in the city in the last few weeks.

Tycoon Koh Wee Seng's Singapore-listed Aspial Corporation, the developer of Melbourne's Australia 108 project, is closing in on an inner city site owned by SEQ Water for \$25 million. At the same time, Singapore-based hotel and resorts operator Banyan Tree snapped up the Newman government's prime residential property site atop the Kangaroo Point cliffs facing Brisbane city for about \$15 million.

Mr Devine's Metro is also expected to see the Chinese R&F Properties buy one of its Kangaroo Point properties for \$19 million and market sources indicate the Chinese group is set for even further acquisitions in the Brisbane market.

The move by R&F, which has more than 20 years experience in property development, reflects the growing level of Chinese capital flowing out of the country.

Several offshore funds set up in overseas countries to buy property in Australia have been used as natural hedges against local currency or property markets.

Investec's Australia Property Fund, listed on the Johannesburg Stock Exchange, acts as a natural currency hedge for South African investors.

The Australian Financial Review

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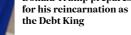
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