

The Sydney Morning Herald

SE Business
HD **Foreigners chase the Australian dream**
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WC 1,349 words
PD 26 July 2014
SN The Sydney Morning Herald
SC SMHH
ED First
PG 4
LA English
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NEWS FEATURE

Overseas investment in housing has nearly doubled in the past year, writes Eryk Bagshaw.

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In glamorous five-star hotels in Singapore every weekend, **property** investors are lining up to **buy** a slice of the Australian dream.

Cashed-up investors are piling into packed presentations at venues such as the famous St Regis **hotel** about shiny apartments being built from Sydney to Melbourne. Newspaper ads spruiking waterfront developments are commonplace.

"**Buy** where the local Australians are buying," says one ad in Singapore's Straits Times.

Singaporean investors are being lured by a combination of new, prohibitive taxes on second homes in the **island** state, record low interest rates, a strong currency and promises of attractive returns from Australian developers.

"Singaporeans are hungry for Australian **property**," says Adam Sparkes, director of sales at **property** developer Crown **Group** International, which has \$3.5 billion in development sites across Australia.

The Singaporean sales pitch comes amid increased focus on overseas buyers in Australia. This is stoking fears that prices in an already heated market could be pushed up further.

Foreign investment now accounts for about 13 per cent of turnover in the Australian real **estate** market, according to UBS economist Scott Haslam. He says overseas investment in housing nearly doubled in the past year - most of it from **China**.

Even so, there is often confusion about what overseas buyers can do. Under Australia's foreign investment laws, non-residents are permitted to **buy** only newly built dwellings - after gaining Foreign Investment Review **Board** approval.

The latest figures from the **board**, for the 2012-13 financial year, rank Singapore as the fourth-biggest source of foreign funds invested in Australian real **estate**, with about \$2 billion spent. **China** was the biggest, with almost three times that much.

Adam Sparkes expects Singaporeans to make up as much as 10 per cent of its client base by next year, and Singaporean desire for a foothold in the Australian market has spurred it to open an office on the Asian **island**.

"All the right factors are in Singapore," says Brian Eng, a foreign real **estate** manager at Singapore real **estate firm** Jalin. "A strong exchange rate, a robust economy and a love for the Australian lifestyle."

New laws introduced in the city state last year slug a 15 per cent tax on second homes. The tax was designed to prevent first home buyers in Singapore, where land is restricted, from being completely forced out of the market. The rules do not apply to overseas properties.

And while **Chinese** investors may still be the biggest foreign presence in the Australian market, developers and **property** industry executives say Singaporeans are emerging as serious players.

Brian Eng believes it has as much to do with emotional ties as financial incentives.

"Singaporeans have a love affair with Australian properties," Mr Eng says. "They've studied there before, worked in these cities. It reminds them of good times. It's not uncommon for them to stay and work in Australia for 10 years after they have finished their studies."

Still, prospective buyers are also being told to do their due diligence.

Singapore-based **property** author Vina Ip is concerned that the rosy picture painted by Australian developers in glamorous presentations is tainted by rental guarantees and other incentives.

"I always warn people to actually go to see the properties themselves, go for a trip and see where it's located, talk to the landlords and see if the rental return is actually that good," Ms Ip says.

Some ads include location pitches that could best be described as generous.

The presentation for Mirvac's Harold **Park** complex, in Glebe, although not to scale, gives the impression that the **site** of the former harness racing track is bigger than Leichhardt and Annandale combined. It also says it is next to the harbour foreshore but, as most in Glebe know, access to the harbour can be tricky. Another ad on Singapore **property site**, Jalin, for Australand's Botanica complex in Lidcombe, describes it as being in the inner west. By most definitions, Lidcombe falls well to the west of the boundaries of the cosmopolitan suburbs of the inner west.

Offers of exclusive access also abound.

"Only available to Singapore investors through IP Global, exceptional terms" an ad for Brisbane development Newstead Towers read last week - just one of a number of similar offers on the Australian east coast.

Australian properties advertised in Singapore come with guarantees of at least 6 per cent a year rental return and a waiving of stamp duties and legal fees. By most measures, however, such figures represent a premium to the market.

Rental yields in apartments in Sydney and Melbourne ranged from 4.8 to 5 per cent in the March quarter, according to **property** listing business Domain.

"A 6 per cent guarantee would indicate a top-up from the developer," says Domain senior economist Andrew Wilson.

Tim Lawless, a director of **property** research **firm** RP Data, notes a yield of 6 per cent "is well above market".

"When the guarantee period expires, in all likelihood, the **purchaser** will be left holding an asset on a lower yield," he says.

The developers offering such guarantees, including Kokoda **Property** in central Melbourne, Newstead in Brisbane and their Singaporean agent, Reapfield **Property** Consultants, all refused to comment.

Even so, these risks haven't deterred Singaporean investors.

"In Singapore if you get a 2 to 3 per cent rental return it's considered very lucky," Vina Ip says, making the 6 per cent return on Australian properties look attractive.

But apart from the big-ticket promises of Australian developers and the new, big taxes on investment properties, there are other reasons for the Singaporeans' interest.

Singaporeans seeking to **buy** in Australia can borrow at much lower interest rates than their local counterparts. ANZ's Singapore unit is advertising a standard variable interest rate of 1.17 per cent. By contrast, ANZ Australia's standard variable interest rate sits at 5.88 per cent.

This interest rate differential looks likely to continue, with the Singaporean Central bank setting the cash rate in June at 0.21 per cent, compared with Australia's target of 2.5 per cent. At the same time,

the Singapore dollar and Australian dollar have traditionally traded in a relatively tight range, minimising currency risk.

With Australian banks taking aim at foreign investors, a federal parliamentary inquiry this week raised questions about the checks they are conducting on overseas buyers.

ANZ bank and Macquarie **Group** were asked to provide details to a broader House of Representatives economics committee inquiry into **residential** housing. The banks were asked what steps they took to ensure various foreign investment rules were followed.

While there are concerns that overseas buyers could be pricing out first home buyers, many say this just doesn't reflect reality.

"Most first home buyers **buy** established, rather than new, dwellings; the first home buyer's average **purchase** price of \$328,000 is far below the price point of most foreign **purchases**," UBS's Mr Haslem says.

At the same time Reserve Bank research found that first home buyers' degree of competition with foreign buyers was "likely to be fairly small".

"We're empathetic to the plight of first home buyers," says Jessica Darnbrough, from mortgage broker Mortgage Choice. "But the reality is that, at the end of the day, new properties are a good thing for the construction sector."

New properties aren't just coming from Australian developers. Singapore is bringing its own developers to town, with construction giant Hiap Hoe building two of Melbourne's CBD's largest developments, Marina Tower in Docklands and another on Lonsdale Street in the city.

As long as prohibitive conditions on the **purchase** of second homes remain in Singapore and the economic climate remains favourable, Ms Ip believes Singaporeans will continue to look to Australia as an investment haven, spurred by generous rental guarantees from hungry Australian developers.

"They have no choice but to look overseas," Ms Ip says.

RE singp : Singapore | austr : Australia | brisbn : Brisbane | melb : Melbourne | victor : Victoria (Australia) | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | queensl : Queensland | seasiaz : Southeast Asia

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